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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 8-K**

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**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 25, 2018**

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

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**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**

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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.

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**Item 2.02 Results of Operations and Financial Condition.**

On October 25, 2018, Dril-Quip, Inc. ("Dril-Quip") reported third quarter 2018 earnings. For additional information regarding Dril-Quip's third quarter 2018 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 25, 2018, Dril-Quip posted the Q3 2018 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	<a href="#">Press Release issued October 25, 2018.</a>
99.2	<a href="#">Q3 2018 Supplemental Earnings Information Presentation.</a>

**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

Vice President and Chief Financial Officer

Date: October 25, 2018

**Dril-Quip, Inc. Announces Third Quarter 2018 Results**

- Generated \$93.3 million of revenue, above the high end of guidance range of \$80 - \$90 million
- Reported a net loss of \$10.4 million, or \$0.28 loss per diluted share, including restructuring costs of \$3.7 million
- Incurred an adjusted net loss of \$7.4 million excluding restructuring costs, or \$0.20 loss per diluted share
- Generated net cash provided by operating activities of \$9.1 million
- Reported cash on hand of \$424.1 million as of September 30, 2018
- Completed \$100 million share repurchase program in October 2018
- Maintained clean balance sheet with no debt as of September 30, 2018
- Progressed Sea Lion Phase I to frame agreement
- Achieved \$13.5 million of targeted \$40 - \$50 million of annualized cost reductions

HOUSTON - October 25, 2018 / GlobeNewswire - Dril-Quip, Inc. (NYSE: DRQ) today reported operational and financial results for the third quarter of 2018.

Blake DeBerry, Dril-Quip's President and Chief Executive Officer, commented, "In the third quarter, Dril-Quip generated positive Adjusted EBITDA of \$0.8 million. We continue to believe that we are operating at the bottom of the current cycle and that backlog will trend upward over the next 18 months. Our cash position remained strong at \$424.1 million as of September 30, 2018, which, coupled with our debt-free balance sheet, positions us to continue executing our long-term strategy. We entered into a Front End Engineering and Design (FEED) contract and Frame Agreement with Premier Oil Exploration and Production Limited in relation to the subsea production systems for the Sea Lion Phase 1 Development located offshore the Falkland Islands. We are excited that Premier has chosen Dril-Quip to be their trusted provider of subsea equipment for Sea Lion and that Dril-Quip's scope of work for the project is progressing according to plan. We will continue to support Premier as they work towards FID and sanctioning for this project. The current estimated value of the equipment portion of the scope of work is \$207 million.

"As we look to the future, we will leverage our technologically innovative products, first-class service and strong balance sheet to provide the equipment and support for major projects around the world. We are seeing international drilling activity continuing to increase as well as our quote activity, and we are closely monitoring several significant opportunities.

"Looking to the fourth quarter of 2018, our expectation is that the Company's revenue will be between \$80 million and \$90 million, which is consistent with our prior guidance at the end of the second quarter. The Company's backlog was \$260.9 million and \$249.0 million as of June 30, 2018 and September 30, 2018, respectively.

"Last quarter we announced a target of \$40 million to \$50 million of annualized cost savings to be fully completed by the end of 2019. This effort will focus on streamlining our cost base for the current environment and provide leverage and agility as we ultimately recover from the trough. During the third quarter, we recorded a charge of \$3.7 million as we executed the first phase of our target. We expect this first phase to deliver \$13.5 million of annualized savings, and we expect the impact of those savings to positively impact the fourth quarter by \$3.4 million. These savings should help offset any impact from potentially lower revenue in the fourth quarter."

In conjunction with today's release, the Company posted a new investor presentation entitled "3<sup>rd</sup> Quarter 2018 Supplemental Earnings Information" to its website, [www.drill-quip.com](http://www.drill-quip.com), in the Events & Presentations section under the Investors link.

#### **Third Quarter Segment Review and Financial Discussion**

Consolidated revenue was down \$1.6 million quarter-on-quarter, essentially flat with prior quarter and slightly above Company guidance.

Western Hemisphere revenue decreased sequentially by \$0.8 million, or 1%, primarily driven by light book and bill business in North America.

Eastern Hemisphere revenue increased sequentially by \$2.1 million, or 9%, from increased activity levels in Norway.

Asia-Pacific revenue declined sequentially by \$3.0 million, or 27%, on light book and bill activity in the quarter and current backlog deliveries being extended into future quarters.

Net loss was \$10.4 million, resulting in a \$0.28 loss per diluted share. The Company recorded a tax benefit due to the recognition of certain tax deductions. Adjusted net loss was \$7.4 million, or \$0.20 per diluted share, after excluding \$0.08 per share related to the restructuring charges.

Adjusted EBITDA decreased sequentially by \$0.8 million. The Company recorded expenses in the third quarter for bad debt related to prior work in Brazil and West Africa. The net impact of these charges was \$1.8 million and reduced the Company's Adjusted EBITDA for the quarter. Additionally, the Company incurred \$3.4 million in extra cost during the quarter as the first phase of the cost reduction program was not initiated until September.

#### **Balance Sheet**

Dril-Quip's cash on hand as of September 30, 2018 was \$424.1 million, which together with the asset-based lending (ABL) facility that the Company executed on February 23, 2018, resulted in approximately \$480 million of available liquidity. Liquidity remained strong despite completing approximately \$71 million in additional share repurchases during the third quarter. This very attractive liquidity position provides both financial and operational flexibility through the current downturn and allows the Company to quickly capitalize on opportunities when the market rebounds. This robust cash position also allows management and the Board to continue to execute on Dril-Quip's long-term strategy of investing in research and development, supporting the anticipated upturn, opportunistically returning cash to shareholders, and pursuing complementary acquisitions.

#### **Share Repurchases**

On July 26, 2016, the Board of Directors authorized up to \$100 million in share repurchases with no set expiration date. During the third quarter of 2018, the Company repurchased approximately \$71 million, or

approximately 1.4 million shares, of common stock at an average price of \$50.93 per share as part of ongoing efforts to create value for shareholders. The repurchase plan was completed in October 2018 by repurchasing the remaining \$19.1 million value in shares. The Company retired all of the shares repurchased on October 16, 2018.

#### **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 market conditions, anticipated project bookings, expected timing of commencing new project work, anticipated revenues, costs, cost synergies and savings, possible acquisitions, new product offerings, 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 cyclicality 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.

Trevor Ashurst, Manager of Investor Relations, (713) 939-7711



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

	Three months ended		
	September 30, 2018	June 30, 2018	September 30, 2017
(In thousands, except per share data)			
<b>Revenues:</b>			
Products	\$ 63,246	\$ 64,719	\$ 75,885
Services	30,011	30,142	24,461
Total revenues	<u>93,257</u>	<u>94,861</u>	<u>100,346</u>
<b>Costs and expenses:</b>			
Cost of sales	65,630	69,443	63,050
Selling, general and administrative	31,566	23,739	27,985
Engineering and product development	10,159	10,526	10,379
Impairment and other charges	—	—	60,968
Gain on sale of assets	(14)	(5,099)	9
Total costs and expenses	<u>107,341</u>	<u>98,609</u>	<u>162,391</u>
Operating income (loss)	(14,084)	(3,748)	(62,045)
Interest income	1,893	2,275	957
Interest expense	(195)	(151)	(12)
Income tax provision (benefit)	(2,028)	1,418	(31,840)
Net income (loss)	<u>\$ (10,358)</u>	<u>\$ (3,042)</u>	<u>\$ (29,260)</u>
Earnings (loss) per share	<u>\$ (0.28)</u>	<u>\$ (0.08)</u>	<u>\$ (0.78)</u>
Depreciation and amortization	<u>\$ 8,724</u>	<u>\$ 9,001</u>	<u>\$ 9,518</u>
Capital expenditures	<u>\$ 7,078</u>	<u>\$ 9,034</u>	<u>\$ 6,627</u>

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

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	(In thousands)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 424,053	\$ 493,180
Other current assets	473,397	515,369
PP&E, net	292,667	284,247
Other assets	102,642	107,009
Total assets	<u>\$ 1,292,759</u>	<u>\$ 1,399,805</u>
<b>Liabilities and Stockholders' Equity:</b>		
Current liabilities	\$ 68,262	\$ 99,911
Long-term debt	—	—
Deferred taxes	3,211	3,432
Income Taxes	28,029	—
Other long-term liabilities	2,001	2,001
Total liabilities	<u>101,503</u>	<u>105,344</u>
Stockholders' equity	1,191,256	1,294,461
Total liabilities and stockholders' equity	<u>\$ 1,292,759</u>	<u>\$ 1,399,805</u>

**Dril-Quip, Inc.**  
Unaudited Non-GAAP Financial Measures

**Adjusted Net Income and EPS:**

	September 30, 2018		Three months ended June 30, 2018		September 30, 2017	
	Effect on net income (after-tax)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share
Net income (loss)	\$ (10,358)	\$ (0.28)	\$ (3,042)	\$ (0.08)	\$ (29,260)	\$ (0.78)
(In thousands, except per share data)						
Adjustments (after tax):						
Reverse the effect of foreign currency	32	—	(1,703)	(0.05)	308	0.01
Add back restructuring costs	2,959	0.08	—	—	35,876	0.96
Less gain on sale of assets	(11)	—	(4,028)	(0.11)	—	—
Less one-time tax adjustments	—	—	—	—	(6,075)	(0.16)
Add back severance payments	—	—	—	—	942	0.03
Adjusted net income (loss)	<u>\$ (7,378)</u>	<u>\$ (0.20)</u>	<u>\$ (8,773)</u>	<u>\$ (0.24)</u>	<u>\$ 1,791</u>	<u>\$ 0.06</u>

**Adjusted EBITDA:**

	September 30, 2018	Three months ended June 30, 2018		September 30, 2017
		(In thousands)		
Net Income (Loss)	\$ (10,358)	\$ (3,042)	\$ (29,260)	
Add:				
Interest (income) expense	(1,698)	(2,124)	(945)	
Income tax expense (benefit)	(2,028)	1,418	(31,840)	
Depreciation and amortization expense	8,724	9,001	9,518	
Restructuring costs	3,745	—	—	
Impairment and other charges	—	—	60,968	
Gain on sale of assets	(14)	(5,099)	—	
Foreign currency loss (gain)	41	(2,155)	380	
Severance costs	—	—	1,163	
Stock compensation expense	2,366	3,611	3,694	
Adjusted EBITDA	<u>\$ 778</u>	<u>\$ 1,610</u>	<u>\$ 13,678</u>	

**Free Cash Flow:**

	September 30, 2018	Three months ended June 30, 2018		September 30, 2017
		(In thousands)		
Net cash provided by operating activities	\$ 9,141	\$ 12,078	\$ 36,035	
Less:				
Purchase of property, plant and equipment	(7,078)	(9,034)	(6,627)	
Free Cash Flow	<u>\$ 2,063</u>	<u>\$ 3,044</u>	<u>\$ 29,408</u>	

# DRIL-QUIP®



3<sup>rd</sup> Quarter 2018  
Supplemental Earnings Information

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

# Cautionary Statement

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## 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, 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. 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 21-22.

# 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

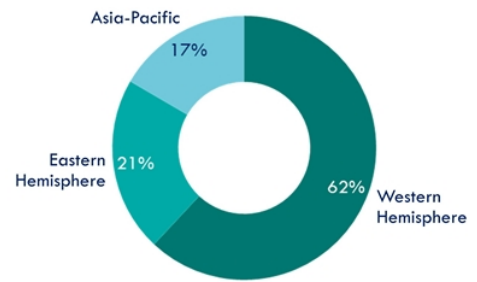
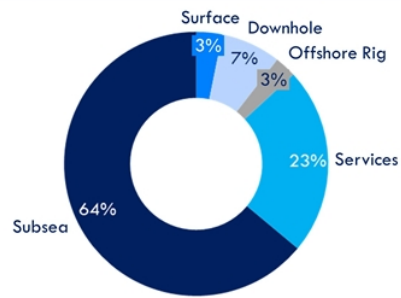
- Reconditioning
- Rental Tools
- Technical Advisory

# Revenue Mix

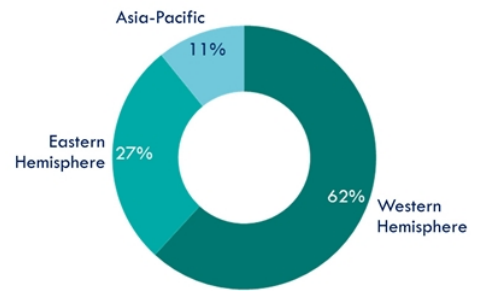
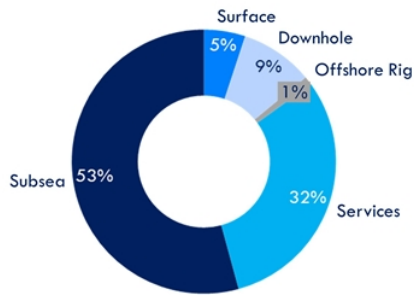
By Product and Service Segment

By Geographic Area

FY 2017  
Total Revenue:  
\$455 million



3Q 2018 YTD  
Total Revenue:  
\$287 million





# Snapshot

## MARKET INFORMATION

Ticker	DRQ
Share Price (10/24/18)	\$42.86
52-Week Range	\$37.35 - \$58.95
YTD Return	-10.1%
Shares Outstanding (mm)	37.6
Market Cap (\$mm)	\$1,610
Enterprise Value (\$mm)	\$1,186

## BALANCE SHEET as of 9/30/2018 (\$MM)

Cash & Cash Equivalents	\$424
PP&E (net)	293
Goodwill	47
<b>Total Assets</b>	<b>\$1,293</b>
ST Debt	-
LT Debt	-
<b>Total Liabilities</b>	<b>\$102</b>
<b>Total Equity</b>	<b>\$1,191</b>

## ENDING BACKLOG



## BALANCE SHEET METRICS (\$MM)

Non-cash Working Capital	\$405
Book Value / Share	\$31.72
Cash / Share	\$11.29
Non-cash WC / Share	\$10.79
Total Debt / Capitalization	0%
YTD Share Repurchases	\$100

## Q3 2018 Highlights

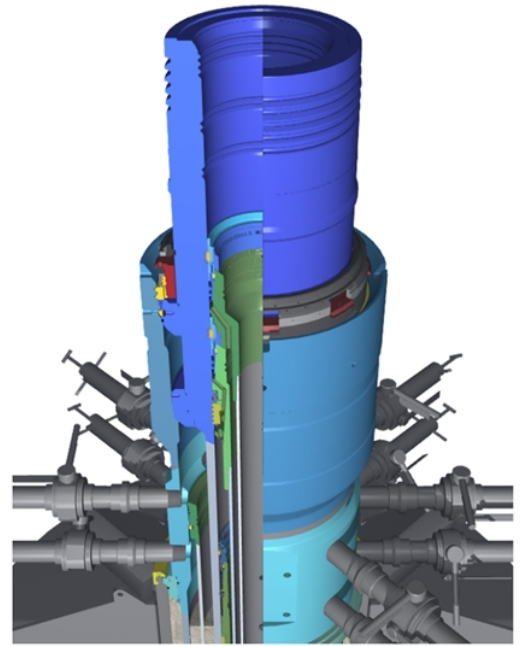
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- Generated \$93.3 million of revenue, above the high end of guidance range of \$80 - \$90 million
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- Completed \$100 million share repurchase program in October 2018
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- Progressed Sea Lion Phase I to frame agreement
- Achieved \$13.5 million of targeted \$40 - \$50 million of annualized cost reductions

# Market Update

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

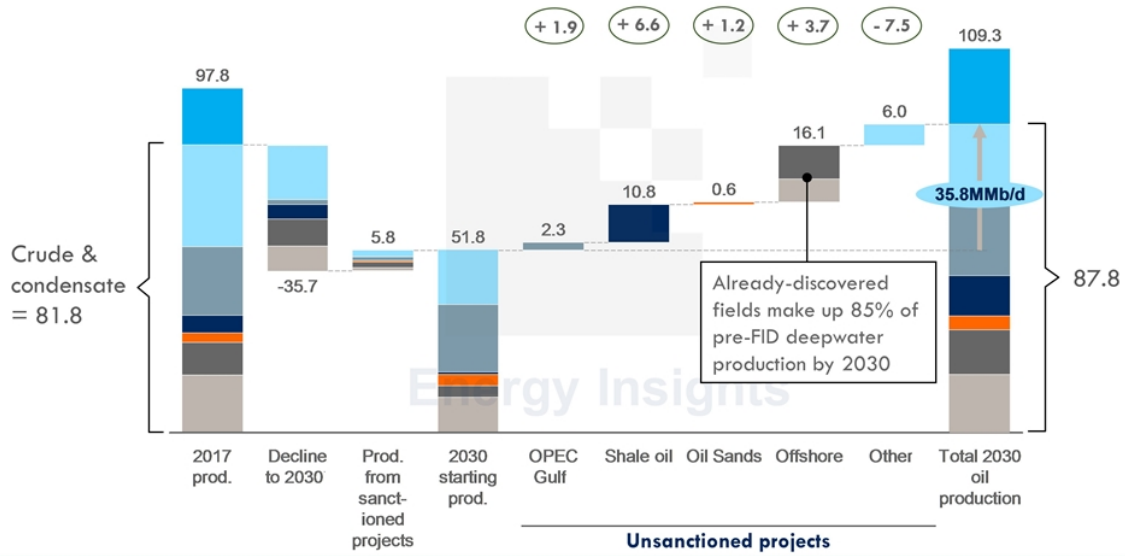


# Global Supply & Demand Through 2030

Global oil supply growth 2017-2030  
mmb/d

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

○ Net change 2017-2030



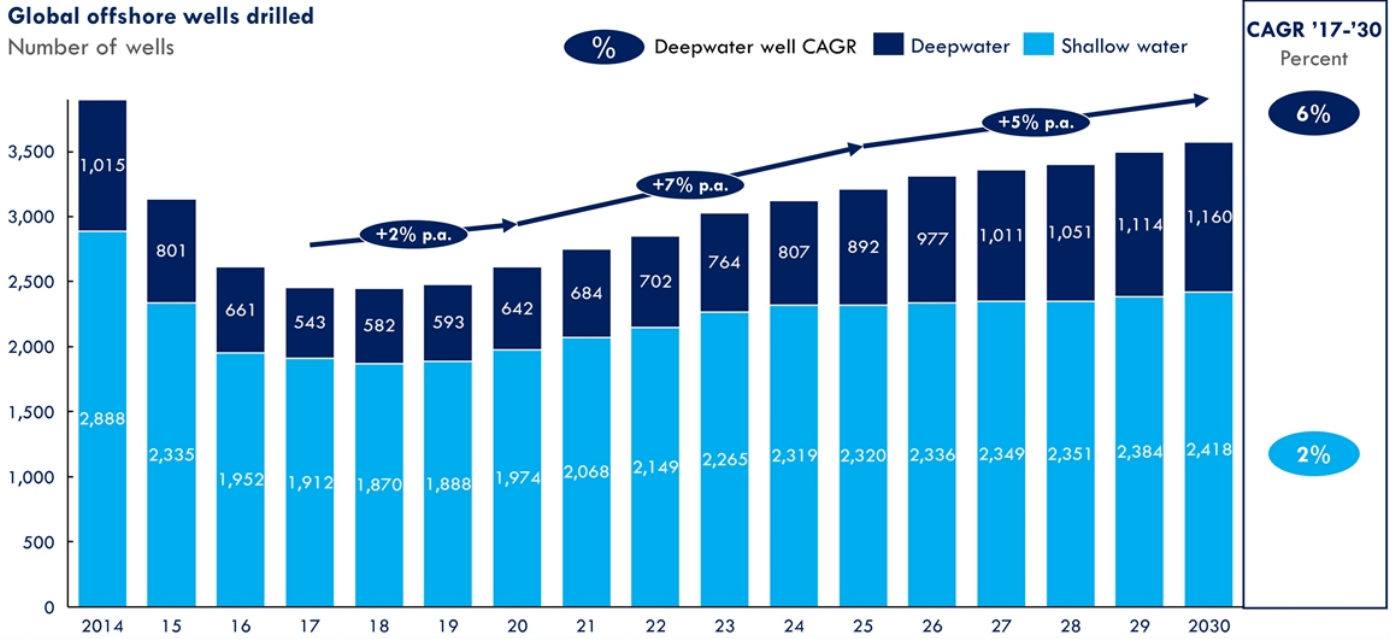
**New Deepwater Project Sanctions Necessary to Satisfy Long-Term Demand**

Source: McKinsey Energy Insights

# Evolving View of Timeline for Deepwater Recovery

## Global offshore wells drilled

Number of wells

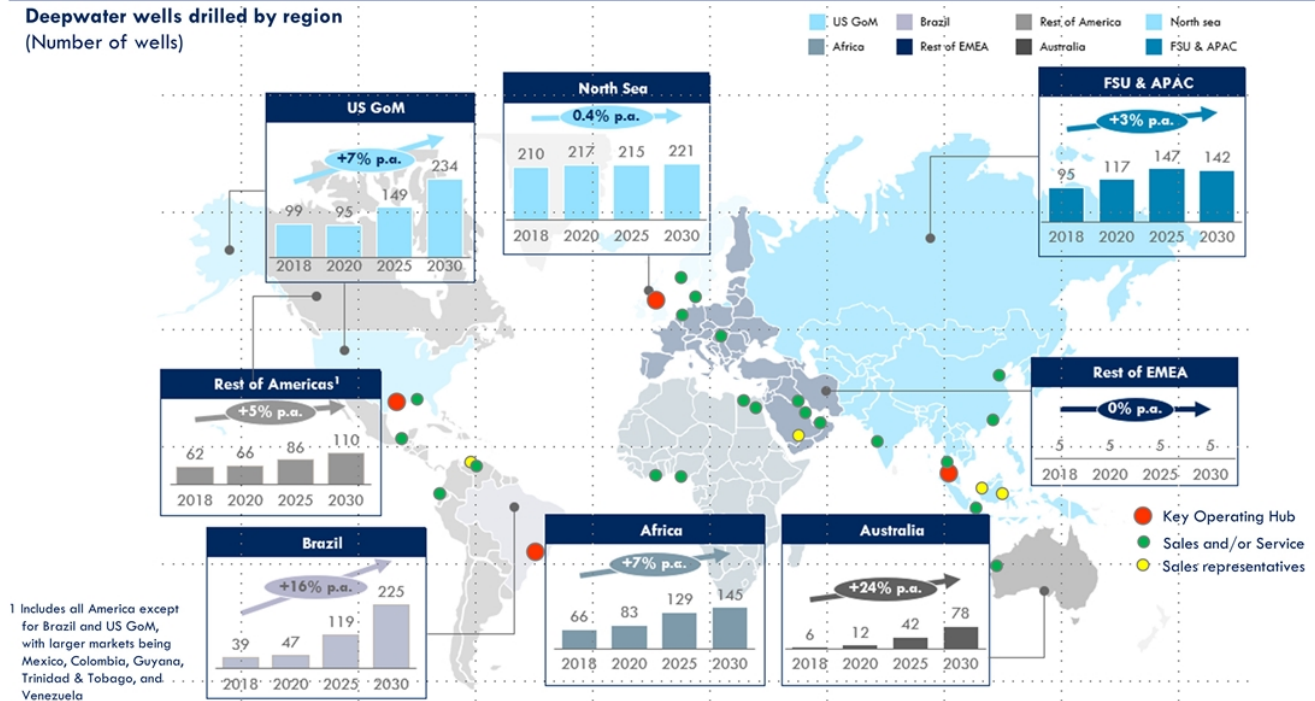


Deepwater Market Recovery Expected to be Gradual Until 2020

Source: McKinsey Energy Insights

# Well-Positioned to Serve Offshore Markets

Deepwater wells drilled by region  
(Number of wells)



Source: McKinsey Energy Insights

# 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

## Supply Chain

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

LEAN Implementation & Advanced Product Quality Planning (APQP)

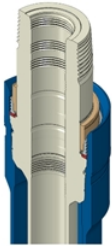
Research & Development

# R&D is Key to Achieving Commercial Excellence

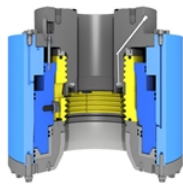
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- Developing innovative products that structurally reduce total installed costs
- Expanding product portfolio to increase markets and market share
- Presented with *OTC Spotlight on New Technology* award for BigBore-Ile Wellhead System, DXe Wellhead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

BigBore-Ile  
Wellhead



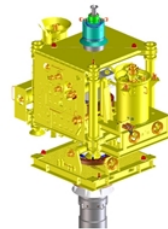
DXe Wellhead  
Connector



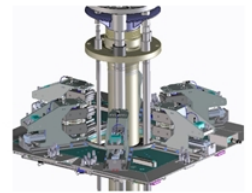
HorizontalBore  
Subsea Tree



Concentric  
Monobore Tree



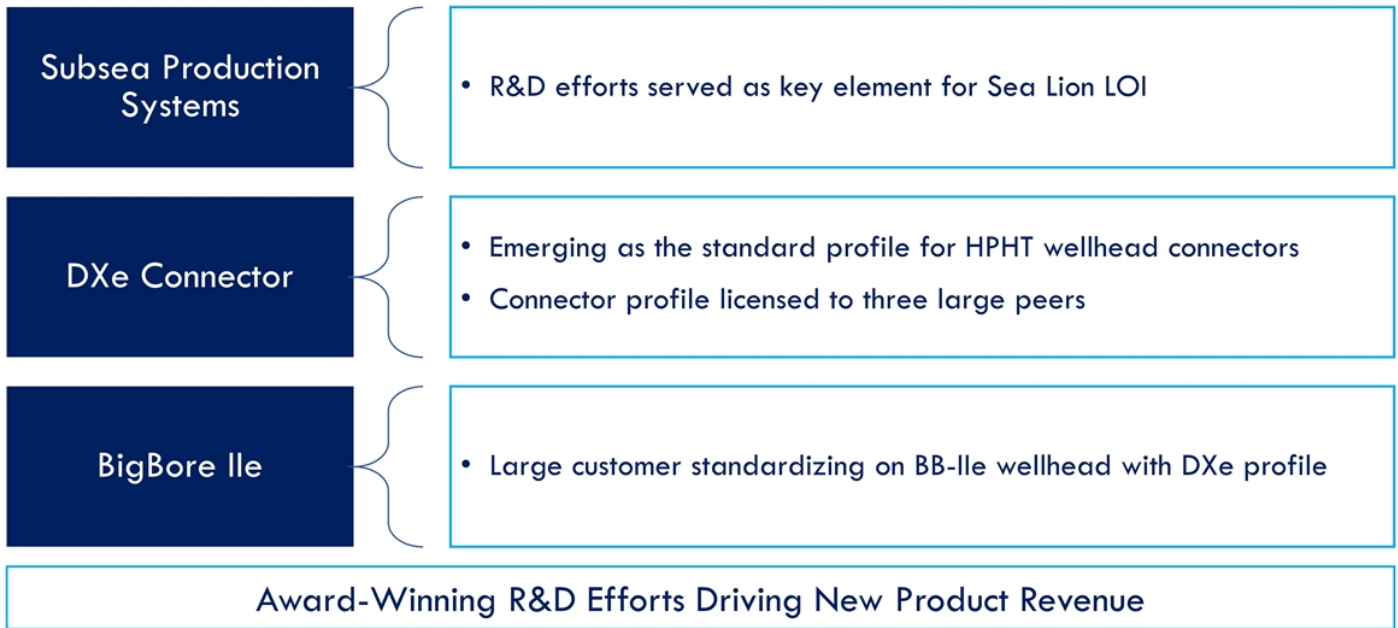
HFRe Hands-Free  
Drilling Riser





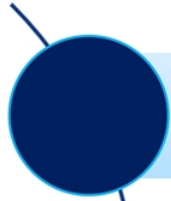
# Executing on Commercial Excellence

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

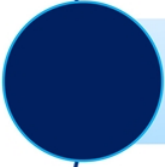


# Overview of the Business Transformation

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**EBITDA Improvement** – \$40-50 million by YE2019 in run rate enhancement across all elements of cost structure



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



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

Structured Approach to Improve Cost Performance Across All Areas

# Sustainable Cost-Saving Initiatives

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

### Manufacturing

- Optimize footprint
- Implement lean practices
- Improve operational discipline

### Supply chain

- Improve sourcing practices
- Consolidate supply base

### SG&A

- Optimize G&A functions
- Leverage global footprint

### Engineering and R&D

- Rationalize structure and support levels

## Significant progress to date

- \$11 million reduction in labor workforce
- \$1+ million in supplier renegotiations
- \$1 million reduction in rented facility footprint
- \$0.5 million run-rate plus \$2 million one-time benefits optimization
- Over 70 quick win initiatives in implementation

**Full transformation pipeline: 350+ initiatives**

Expecting \$15+ Million of Recurring Cost Savings in Place by the End of 2018

# Liquidity Allocation Strategy

## SOURCES

(\$ millions)

Internal Cash	424
ABL Credit Facility	56
<b>Available Liquidity</b>	<b>480</b>

### Notes

- Balances as of September 30, 2018
- ABL put in place on February 23, 2018
- Shelf registration statement filed on February 27, 2018 for general planning purposes

## POTENTIAL USES

(\$ millions)

Support R&D	50 – 100
Fund Upturn & Key Projects	150 – 200
Pursue Complementary Acquisitions	50 – 100

Liquidity in Place to Support Growing Market Share

# 2018 Outlook & 2019 Targeted Cost Savings

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Q4 2018 Revenue  
\$80 - \$90 million

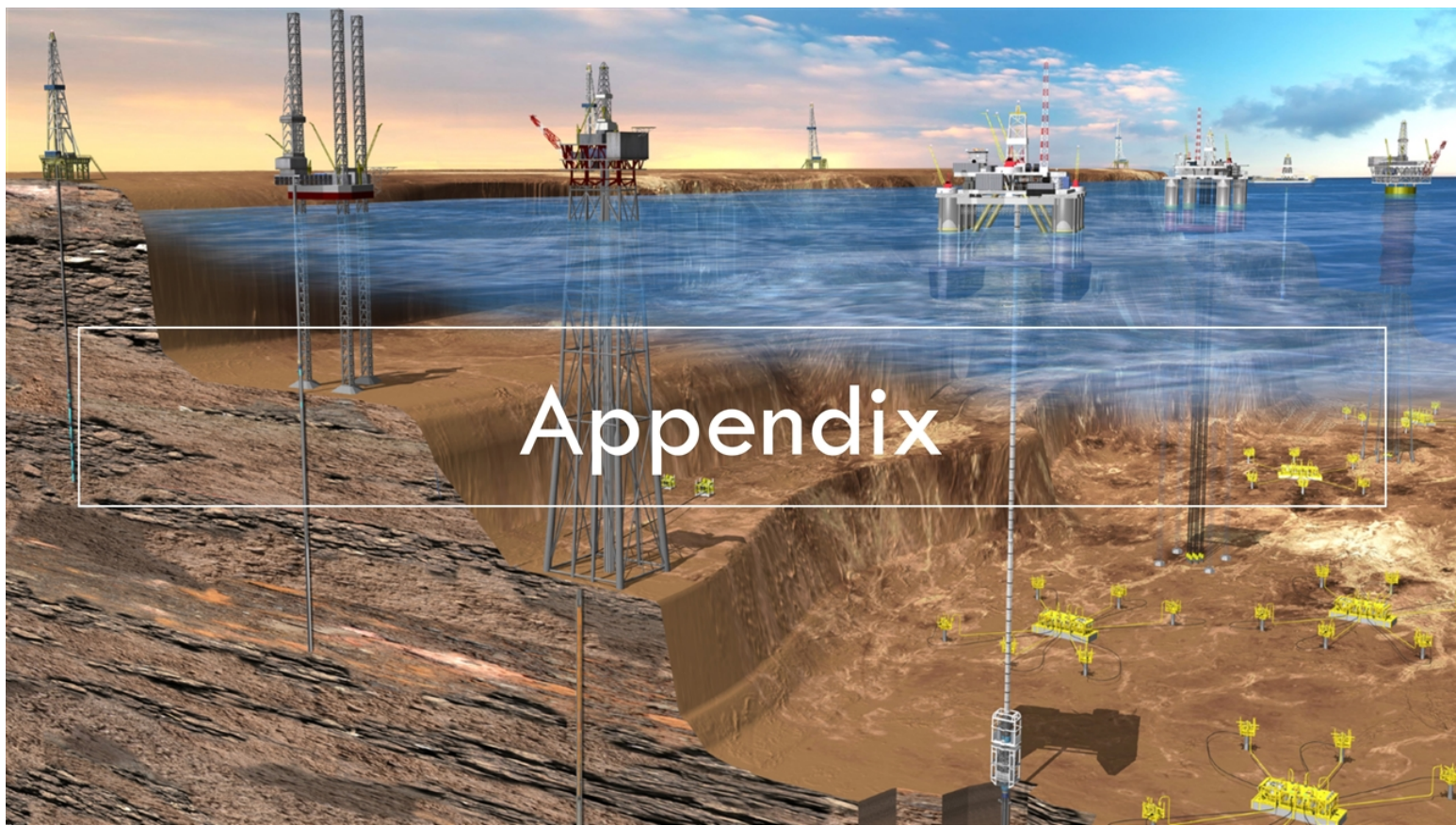
Full-year 2018  
Revenue  
\$365 - \$375 million

Adj. EBITDA Near  
Breakeven for Q4  
2018 Due to Realized  
Cost Savings Actions

Annualized Cost  
Savings in place by  
Q3 2018  
\$13.5 million

Annualized Cost  
Savings in place by  
YE2019  
\$40 - \$50 million

Streamlining Structural Cost Base to Operate in Current Environment



# Income Statement

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

	Three months ended		
	September 30, 2018	June 30, 2018	September 30, 2017
	(In thousands, except per share data)		
<b>Revenues:</b>			
Products	\$ 63,246	\$ 64,719	\$ 75,885
Services	30,011	30,142	24,461
<b>Total revenues</b>	<b>93,257</b>	<b>94,861</b>	<b>100,346</b>
<b>Costs and expenses:</b>			
Cost of sales	65,630	69,443	63,050
Selling, general and administrative	31,566	23,739	27,985
Engineering and product development	10,159	10,526	10,379
Impairment and other charges	—	—	60,968
Gain on sale of assets	(14)	(5,099)	9
<b>Total costs and expenses</b>	<b>107,341</b>	<b>98,609</b>	<b>162,391</b>
Operating income (loss)	(14,084)	(3,748)	(62,045)
Interest income	1,893	2,275	957
Interest expense	(195)	(151)	(12)
Income tax provision (benefit)	(2,028)	1,418	(31,840)
<b>Net income (loss)</b>	<b>\$ (10,358)</b>	<b>\$ (3,042)</b>	<b>\$ (29,260)</b>
<b>Earnings (loss) per share</b>	<b>\$ (0.28)</b>	<b>\$ (0.08)</b>	<b>\$ (0.78)</b>
<b>Depreciation and amortization</b>	<b>\$ 8,724</b>	<b>\$ 9,001</b>	<b>\$ 9,518</b>
<b>Capital expenditures</b>	<b>\$ 7,078</b>	<b>\$ 9,034</b>	<b>\$ 6,627</b>

# Balance Sheet

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

	September 30, 2018	December 31, 2017
	(In thousands)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 424,053	\$ 493,180
Other current assets	473,397	515,369
PP&E, net	292,667	284,247
Other assets	102,642	107,009
<b>Total assets</b>	<b>\$ 1,292,759</b>	<b>\$ 1,399,805</b>
<b>Liabilities and Stockholders' Equity:</b>		
Current liabilities	\$ 68,262	\$ 99,911
Long-term debt	—	—
Deferred taxes	3,211	3,432
Income Taxes	28,029	—
Other long-term liabilities	2,001	2,001
<b>Total liabilities</b>	<b>101,503</b>	<b>105,344</b>
Stockholders' equity	1,191,256	1,294,461
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,292,759</b>	<b>\$ 1,399,805</b>



# Non-GAAP Financial Measures

Dril-Quip, Inc.  
Unaudited Non-GAAP Financial Measures

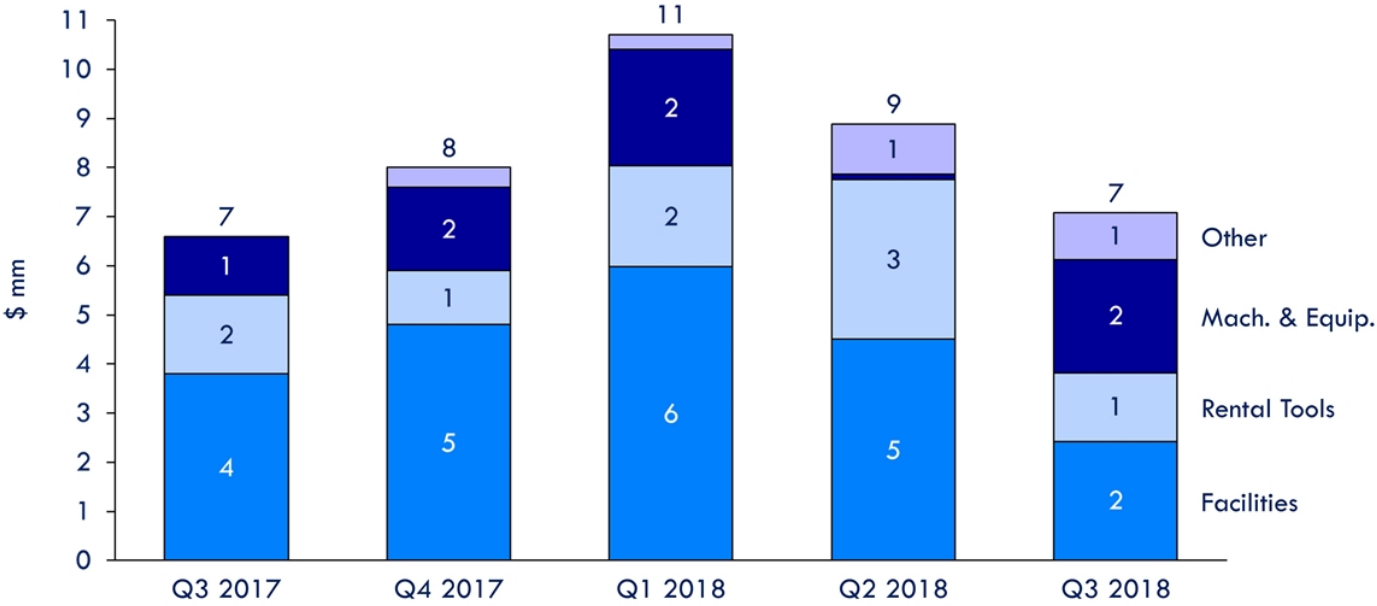
<u>Adjusted Net Income and EPS:</u>	Three months ended					
	September 30, 2018		June 30, 2018		September 30, 2017	
	Effect on net income (after-tax)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share
	(In thousands, except per share data)					
Net income (loss)	\$ (10,358)	\$ (0.28)	\$ (3,042)	\$ (0.08)	\$ (29,260)	\$ (0.78)
Adjustments (after tax):						
Reverse the effect of foreign currency	32	—	(1,703)	(0.05)	308	0.01
Add back restructuring costs	2,959	0.08	—	—	35,876	0.96
Less gain on sale of assets	(11)	—	(4,028)	(0.11)	—	—
Less one-time tax adjustments	—	—	—	—	(6,075)	(0.16)
Add back severance payments	—	—	—	—	942	0.03
Adjusted net income (loss)	\$ (7,378)	\$ (0.20)	\$ (8,773)	\$ (0.24)	\$ 1,791	\$ 0.06

# Non-GAAP Financial Measures

<b>Adjusted EBITDA:</b>	<b>Three months ended</b>		
	<b>September 30, 2018</b>	<b>June 30, 2018</b>	<b>September 30, 2017</b>
	<b>(In thousands)</b>		
Net Income (Loss)	\$ (10,358)	\$ (3,042)	\$ (29,260)
Add:			
Interest (income) expense	(1,698)	(2,124)	(945)
Income tax expense (benefit)	(2,028)	1,418	(31,840)
Depreciation and amortization expense	8,724	9,001	9,518
Restructuring costs	3,745	—	—
Impairment and other charges	—	—	60,968
Gain on sale of assets	(14)	(5,099)	—
Foreign currency loss (gain)	41	(2,155)	380
Severance costs	—	—	1,163
Stock compensation expense	2,366	3,611	3,694
Adjusted EBITDA	\$ 778	\$ 1,610	\$ 13,678

<b>Free Cash Flow:</b>	<b>Three months ended</b>		
	<b>September 30, 2018</b>	<b>June 30, 2018</b>	<b>September 30, 2017</b>
	<b>(In thousands)</b>		
Net cash provided by operating activities	\$ 9,141	\$ 12,078	\$ 36,035
Less:			
Purchase of property, plant and equipment	(7,078)	(9,034)	(6,627)
Free Cash Flow	\$ 2,063	\$ 3,044	\$ 29,408

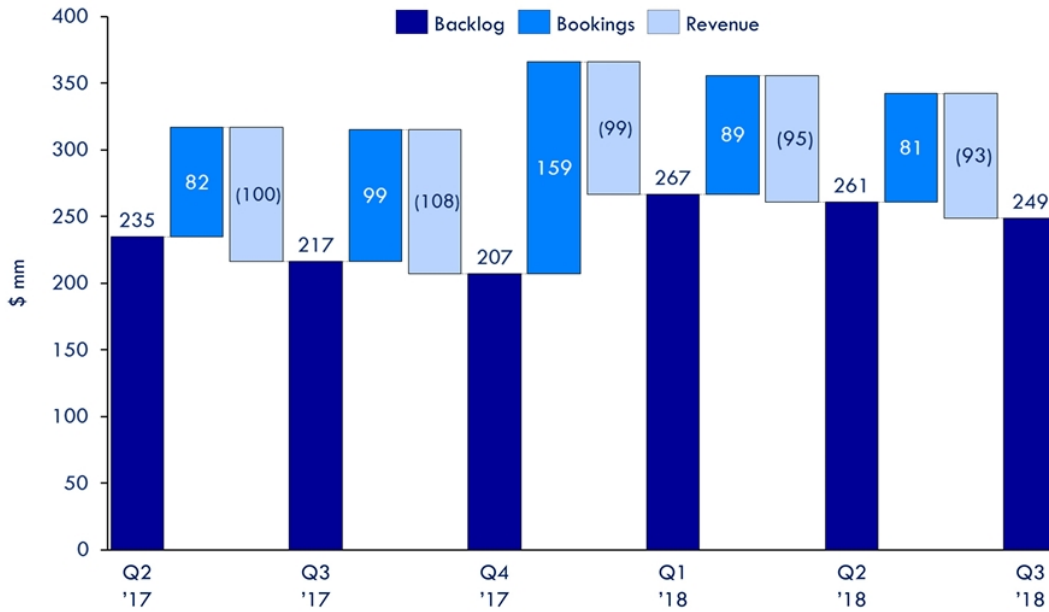
# Capital Expenditures



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

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

# Backlog



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

Note: The backlog data shown above includes all bookings as of September 30, 2018, including contract awards and signed purchase orders for which the contracts would not be considered enforceable under ASC 606.

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

# Financial Metric Definitions

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- **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)