



# DRIL-QUIP, Inc.

**Q3 2017 Supplemental Earnings Information**

# 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, forecasts, plans and objectives, including revenue and other projections, acquisition opportunities, 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 Measure**

We calculate Adjusted EBITDA to evaluate and compare the results of our operations from period to period by removing the effect of our capital structure from our operating structure. We calculate Free Cash Flow as net cash provided by operating activities less net cash used in the purchase of property, plant, and equipment. These measurements are used in concert with net income and cash flows from operations, which measures actual cash generated in the period. In addition, we believe that Adjusted EBITDA and Free Cash Flow 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 metrics do not represent funds available for our discretionary use and is not intended to represent or to be used as a substitute for net income, as measured under U.S. generally accepted accounting principles. The items excluded from Adjusted EBITDA, but included in the calculation of reported net income and net cash provided by operating activities, are significant components of the consolidated statements of income and must be considered in performing a comprehensive assessment of overall financial performance. Our calculation of Adjusted EBITDA and Free Cash Flow may not be consistent with calculations used by other companies.

# DRQ Overview



- Leading manufacturer of highly engineered drilling and production equipment
  - Onshore and offshore uses
  - Particularly well suited for use in deepwater and harsh environments
- Strong financial position
  - Strong balance sheet with no debt
  - \$473 million cash on hand as of 9/30/2017
  - Historically superior margins to peers
- Technically differentiated products & 1st class service
- Experienced management team



# Products & Services



- Subsea equipment
- Downhole tools & liner hangers
- Surface equipment
- Rig equipment
- Services – technical advisory, rental tools and reconditioning



# Q3 2017 Highlights and Recent Key Items



- Generated \$100 million of revenue, consistent with general guidance
- Increased gross margin percentage to 37.1%, up 550 bps sequentially, partially driven by the ongoing cost savings initiatives
- Reported a Net Loss of \$29.3 million, or \$0.78 loss per diluted share, including an after tax \$31 million impact from one-time charges, foreign currency and tax benefits
- Adjusted diluted earnings per share, excluding after tax one-time charges, foreign currency and tax benefits, was \$0.05 per share
- Generated \$36.0 million of Net Cash Provided by Operating Activities
- Grew cash on hand to \$473 million at September 30, 2017
- Maintained strong balance sheet with no debt at September 30, 2017
- Revenue in Q4 expected to be in line with Q3 revenue
- Early indications of potential new projects for 2018 and beyond

**Executing Our Forward Focused Strategy While Maintaining  
Strong Balance Sheet With No Debt**



# Market Outlook

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- Oil price and offshore rig environments remain uncertain into 2018, however Dril-Quip is seeing early signs of increased activity in some markets
- Offshore spending will remain suppressed as operators delay FIDs in favor of reduced spending and shorter cycle investment options
- Operators willing to progress projects may face financing challenges
- Competitive pressure on offshore projects that do progress is expected

Well Positioned with Strong, Debt-Free Balance Sheet and Robust Cash to Endure Lower for Longer Environment

# Operating Plan in Current Environment



- Evaluate and adjust cost base to fit current market conditions
- Continue to generate free cash flow
- Target positive EPS, excluding charges, fx
- Execute forward focused strategy

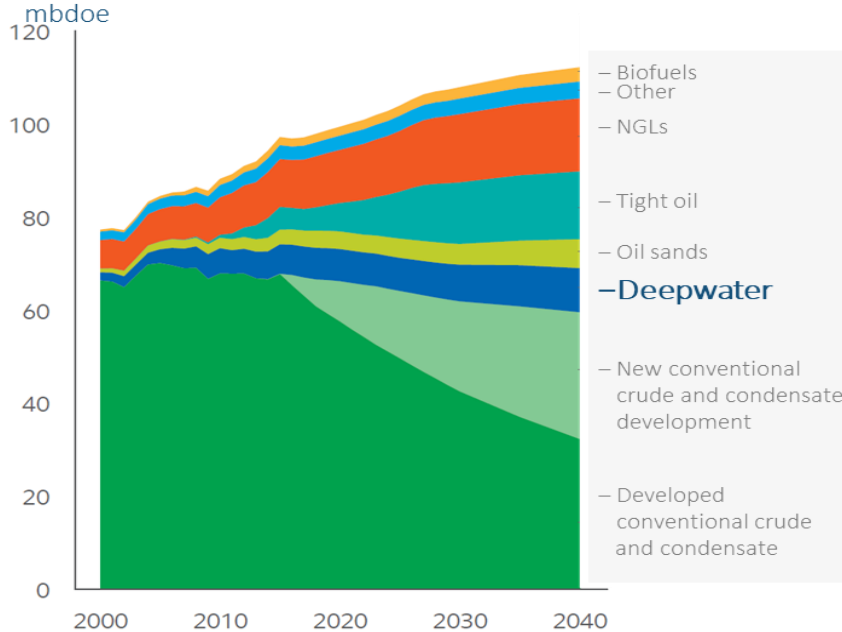


Uncertainty of Oil Prices Negatively Impacting Recent Results

# Deepwater Outlook



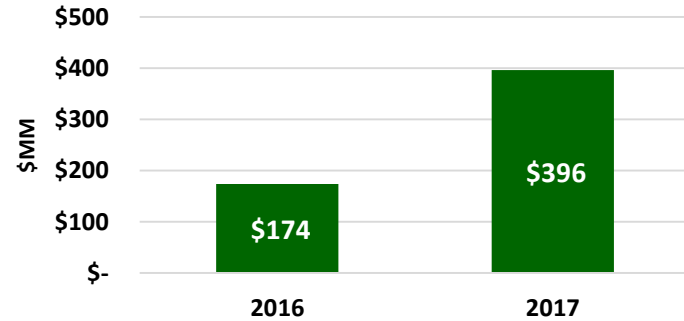
## Liquids Supply by Type



## Value in Deepwater

- Essential to meet growing long-term worldwide demand
- Source of significant production and reserve replacement

### GOM High Bids Submitted



Investment Returning to Deepwater

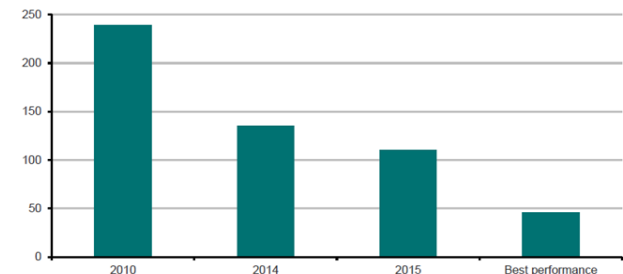


# Increasing Offshore Efficiencies



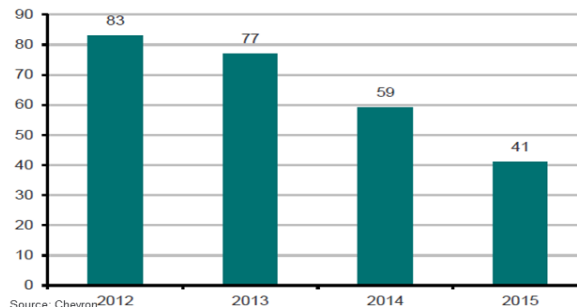
- Significant drilling improvements leading to:
  - More wells being drilled per rig year
  - Fewer rigs needed to drill same inventory
  - Drilling cost reductions improves economics

Days per pre-salt well in Brazil



Source: GALP, Petrobras

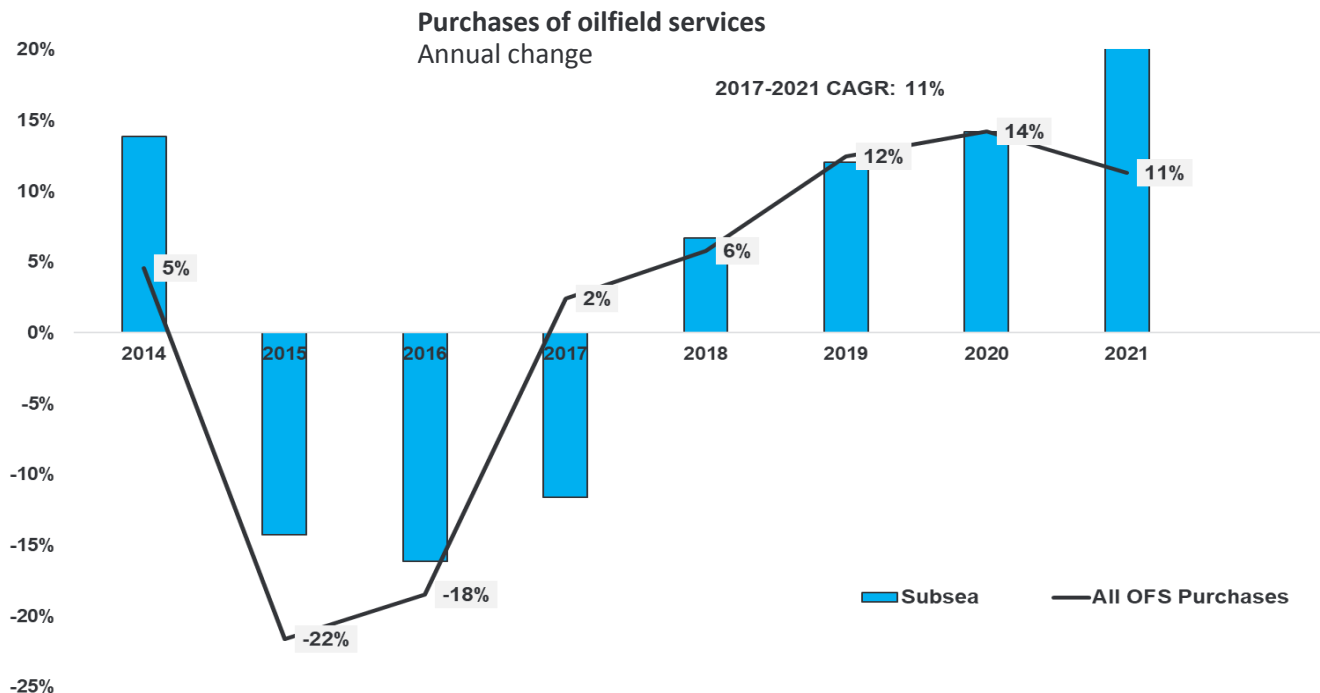
Days per well for Chevron in GOM



Source: Chevron

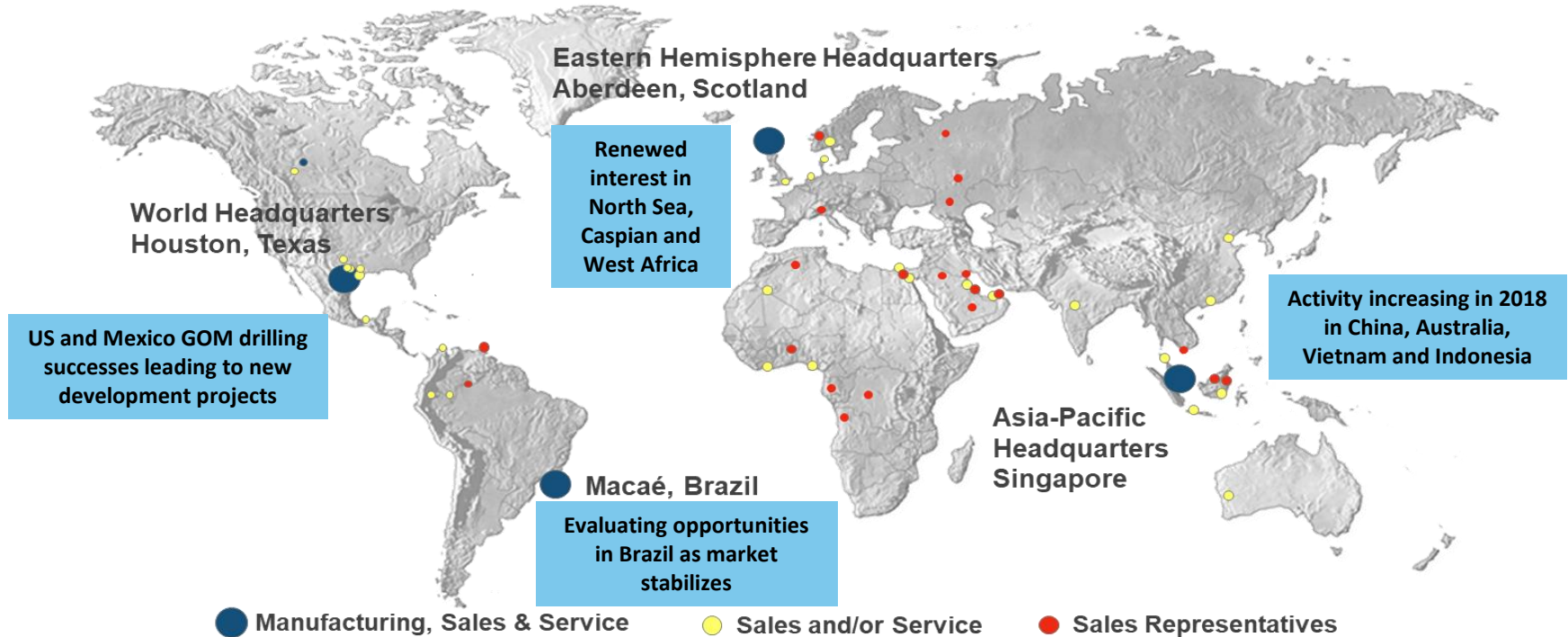
Well count a proxy for Dril-Quip demand

# Looking Past the Trough



Outlook for Subsea Improving After Three Years of Decline

# Preliminary Indications of Interest Provide Encouragement



Focused on Introducing Award Winning Technology Worldwide to Grow Market Share

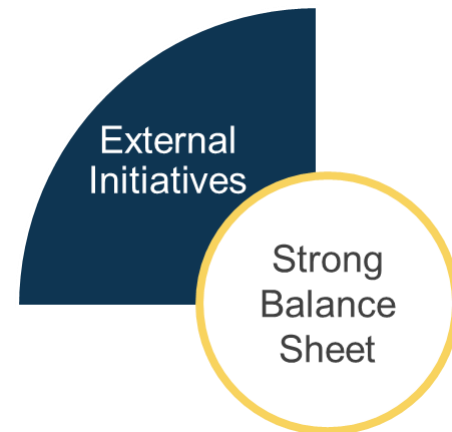
# Forward Focused Strategy



# Acquisition Focus



- Closed two acquisitions in last 12 months (TIW & OPT)
  - Brand recognition and patented technologies for global markets
  - Expanded customer offerings and strengthened liner hanger sales
  - Added presence in U.S. and international onshore market
  - Provider of offshore riser systems and components with focus on products for Floating Production Platforms (TLPs & SPARs)
  - Recently commenced significant footprint rationalization that is expected to save \$8-10 million annualized
- Continuing to focus on inorganic expansion
  - Technically differentiated
  - Increasing share of rig “wallet”
  - Leveraging current employees to reduce rig headcount for customers

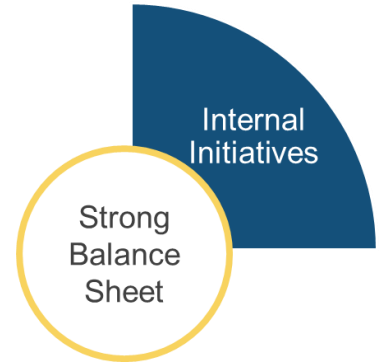


Targeting \$125 million in “Acquisition” Revenue by 2021

# Executing Our R&D Strategy



- Structurally reduce customer costs while expanding product and service offerings to generate higher revenues per well
- Developing technologically advanced products increases market share
- 2017: Introducing four significant new products
  - “BigBore-IIe” Wellhead System (won 2017 OTC Spotlight award)
  - “DXe” Wellhead Connector (won 2017 OTC Spotlight award)
  - “HorizontalBore” subsea tree
  - “Badger” high performance specialty casing connector
- Established new High Pressure, High Temperature (HPHT) center in Singapore



Targeting \$100 million in New Product Revenue by 2021



# Product Optimization & Integration



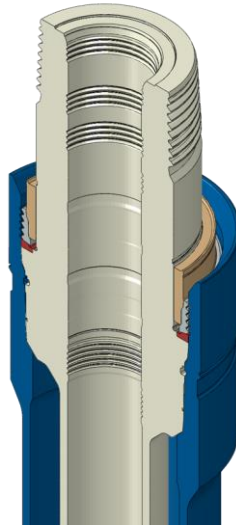
## BB-IIe Wellhead System

### Product Description

- 2.0 MM lockdown per casing string
- Casing weights up to 2.5 MM lbf
- Qualified dynamic metal to metal sealing
- Qualified up to 20 ksi @ 35°-350°
- Qualified to 17D 2nd Edition
- Simpler and easier to install, saves 5 trips in hole

### Market Opportunity

- Substantial well cost savings for operator
- Ability to convert existing customer inventory
- Differentiating Technology



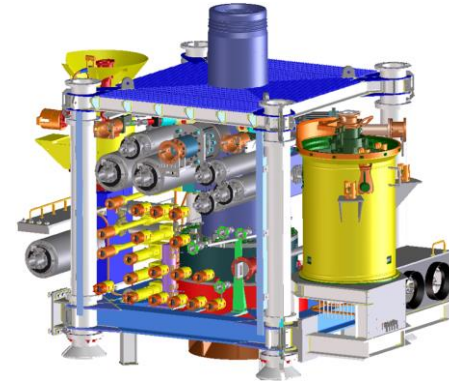
## Horizontal Bore Subsea Tree

### Product Description

- 5-1/8" x 2-1/16" 10,000 psi Horizontal Subsea Tree
- Temperature Rating : 0-300°F
- 10,000 ft. Maximum Water Depth
- 11 Downhole Functions (9 hyd. + 2 elec.)
- Size = 5m x 5m, Approx. Weight = 45 Tonnes

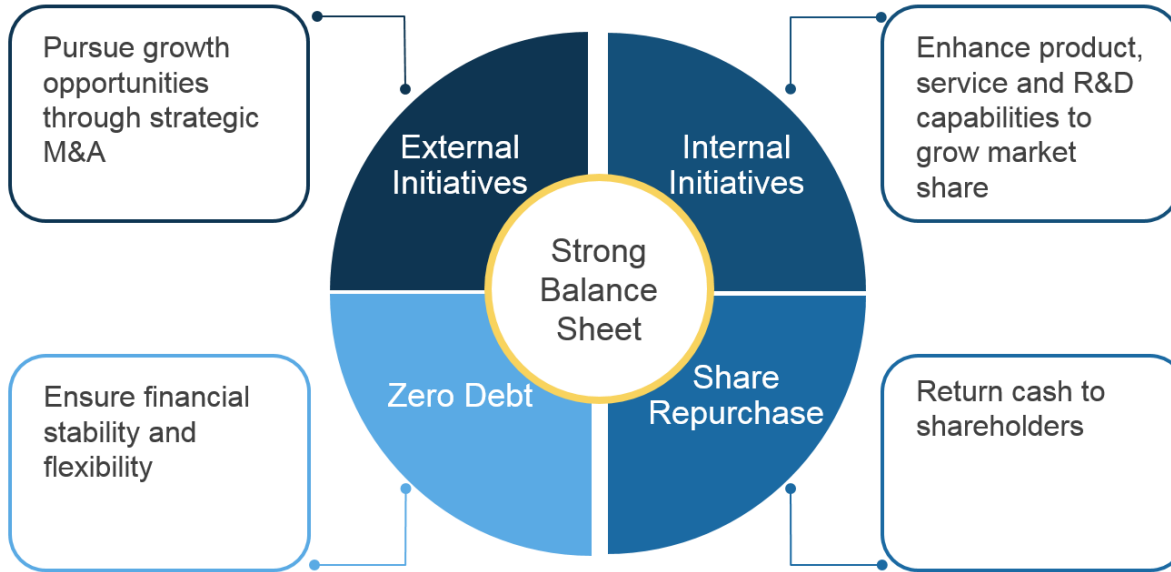
### Market Opportunity

- Double addressable tree market
- Standardized tooling for all Trees



New Products Designed to Increase Markets and Market Share

# Forward Focused Strategy



Targeting \$225MM Revenue in 2021 From Acquisitions and R&D  
Supported by Strong Balance Sheet with More Opportunities Expected

# DRQ - Investment Highlights

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- Leading manufacturer of highly engineered drilling and production equipment
- Technically differentiated products – R&D momentum
- Strong balance sheet
- Historically superior margins to peer group
- Experienced management team

Well-Positioned to Navigate the Industry Downturn



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# Income Statement



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

	Three months ended		
	September 30, 2017	June 30, 2017	September 30, 2016
	(in thousands, except per share data)		
Revenues:			
Products	\$ 75,885	\$ 102,092	\$ 101,277
Services	24,461	25,830	22,363
Total revenues	100,346	127,922	123,640
Costs and expenses			
Cost of sales	63,050	87,549	77,633
Selling, general and administrative	27,994	31,179	12,504
Engineering and product development	10,379	10,308	10,570
Impairment and other charges	60,968	-	-
Total Costs	162,391	129,036	100,707
Operating income (loss)	(62,045)	(1,114)	22,933
Interest income	957	1,070	945
Interest expense	(12)	(18)	(1)
Income tax provision (benefit)	(31,840)	(77)	4,864
Net income (loss)	\$ (29,260)	\$ 15	\$ 19,013
Earnings (loss) per share, diluted	\$ (0.78)	\$ -	\$ 0.51
Depreciation and amortization	\$ 9,518	\$ 12,881	\$ 7,592
Capital expenditures	\$ 6,627	\$ 8,089	\$ 5,013

# Balance Sheet



	Three months ended		
	September 30, 2017	June 30, 2017	September 30, 2016
	(in thousands)		
Assets:			
Cash and cash equivalents	\$ 473,045	\$ 436,987	\$ 423,497
Other current assets	519,444	587,908	633,214
PP&E, net	286,560	314,610	323,149
Other assets	158,415	127,408	81,544
Total assets	1,437,464	1,466,913	1,461,404
Liabilities and Stockholders' Equity			
Current liabilities	69,283	86,250	101,480
Long-term debt	-	-	-
Deferred taxes	2,188	2,345	3,500
Total liabilities	71,471	88,595	104,980
Stockholders' equity	1,365,993	1,378,318	1,356,424
Total liabilities and stockholders' equity	1,437,464	1,466,913	1,461,404

Working Capital Initiatives Should Yield Results in 4Q 2017



# Non-GAAP Financial Measures



## Adjusted EBITDA

	Three months ended		
	September 30, 2017	June 30, 2017	September 30, 2016
	(in thousands)		
Net Income (Loss)	\$ (29,260)	\$ 15	\$ 19,013
Add:			
Interest (income) expenses	(945)	(1,052)	(944)
Income tax expense (benefit)	(31,840)	(77)	4,864
Depreciation and amortization expense	9,518	12,881	7,592
Impairment and other charges	60,968	-	-
Foreign currency loss (gain)	380	3,689	(5,478)
Severance costs	1,163	305	-
Stock compensation expense	3,694	3,567	3,188
Adjusted EBITDA <sup>1</sup>	\$ 13,678	\$ 19,328	\$ 28,235

<sup>1</sup> Adjusted EBITDA for the three months ended September 30, 2017 and June 30, 2017 include net losses related to TIW Adjusted EBITDA of approximately \$1.0 million and \$1.5 million, respectively.

## Non-GAAP Financial Measure

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# Non-GAAP Financial Measures



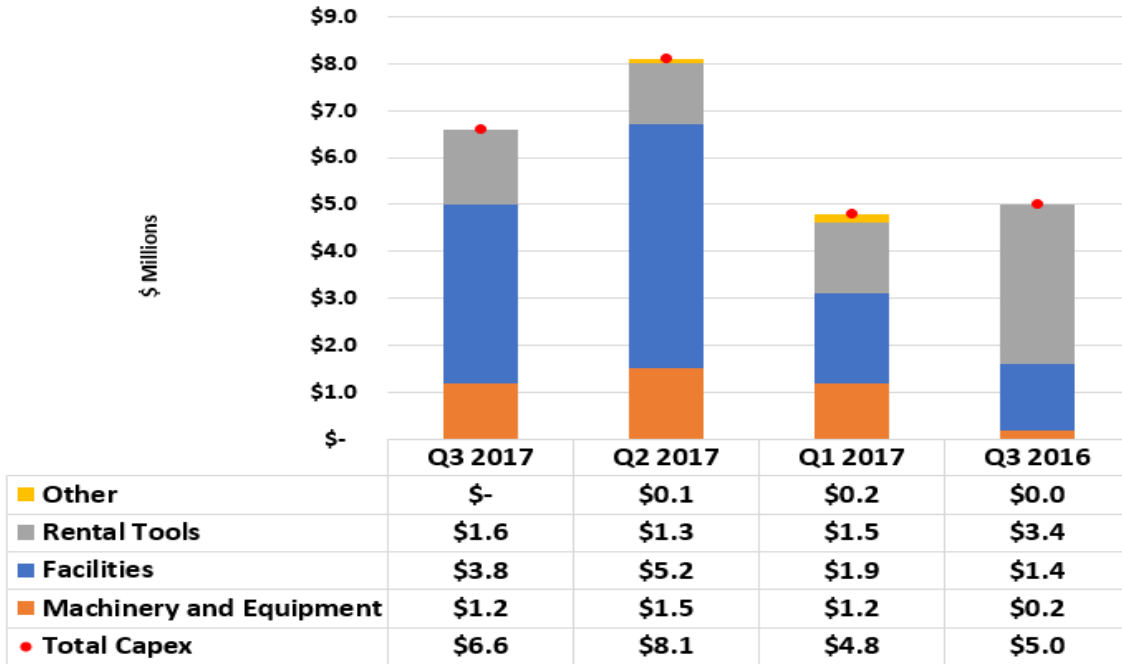
## Free Cash Flow

	Three months ended		
	September 30, 2017	June 30, 2017	September 30, 2016
	(in thousands)		
Net cash provided by operating activities	\$ 36,035	\$ 27,224	\$ 58,633
Less:			
Purchase of property, plant and equipment	(6,627)	(8,089)	(5,013)
Free Cash Flow	\$ 29,408	\$ 19,135	\$ 53,620

## Non-GAAP Financial Measure

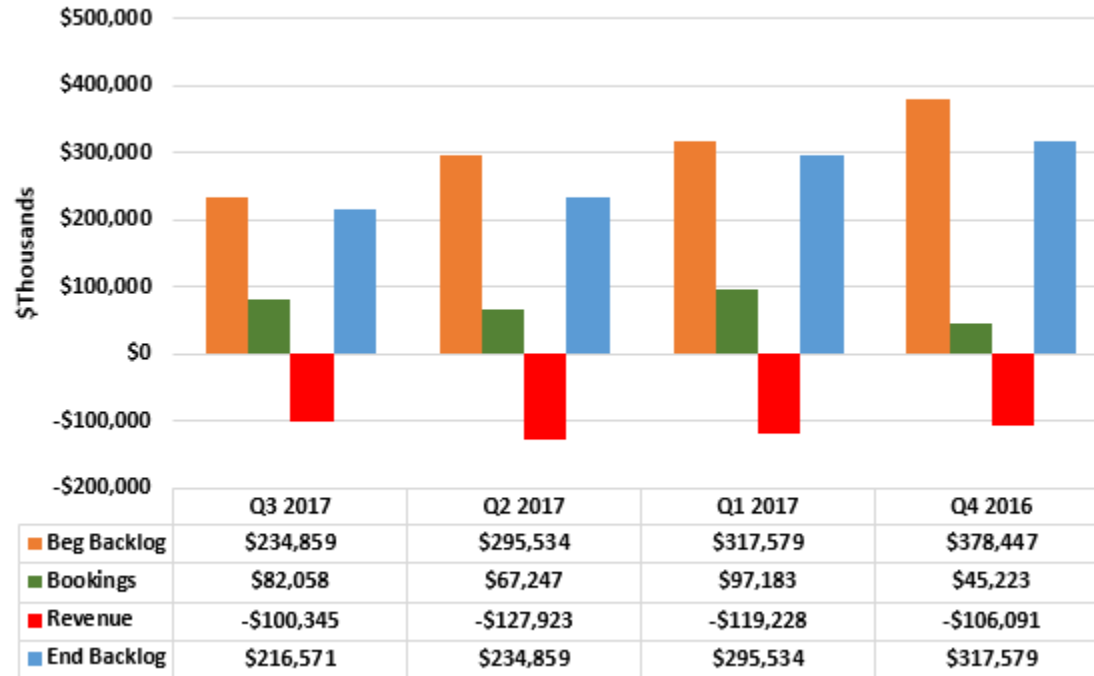
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# Capital Expenditures



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

# Backlog



- 70-80% of backlog expected to convert to revenue in 12 months or less
- Bookings require shorter lead times due to available capacity and inventory on hand
- Weakening of oil prices is placing downward pressure on bookings

Bookings include cancellations of \$36.8 mm for Q4 2016, \$3.5 mm for Q1 2017, \$2.8 mm for Q2 2017 and \$0.1 million for Q3 2017.