
**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): February 26, 2019

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

Delaware
(State or other jurisdiction
of incorporation)

001-13439
(Commission
File Number)

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

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

77041
(Zip Code)

Registrant's telephone number, including area code: (713) 939-7711

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition.

On February 26, 2019, Dril-Quip, Inc. (“Dril-Quip”) reported full year 2018 and fourth quarter 2018 earnings. For additional information regarding Dril-Quip’s full year 2018 and fourth 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 February 26, 2019, Dril-Quip posted the Q4 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	Press Release issued February 26, 2019.
99.2	Q4 2018 Supplemental Earnings Information Presentation.

SIGNATURE

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

DRIL-QUIP, INC.

By: /s/ Jeffrey J. Bird

Jeffrey J. Bird

Vice President and Chief Financial Officer

Date: February 26, 2019

Dril-Quip, Inc. Announces Fourth Quarter and Full Year 2018 Results

HOUSTON – February 26, 2019 / GlobeNewswire – Dril-Quip, Inc. (NYSE: DRQ) today reported operational and financial results for the fourth quarter and full year 2018.

Key highlights included:

- Increased fourth quarter 2018 revenues to \$97.3 million, above the high end of the guidance range of \$80 – \$90 million
- Recorded strong non-project bookings of \$87 million in the fourth quarter of 2018
- Reported a net loss of \$74.9 million, or \$2.09 loss per diluted share in the fourth quarter of 2018, which includes a total of \$94.2 million in charges comprised of non-cash impairment charges (\$85.5 million) and restructuring charges (\$8.7 million)
- Generated net cash provided by operating activities of \$12.9 million and free cash flow of \$6.5 million in the fourth quarter of 2018
- Grew Adjusted EBITDA to \$7.0 million in the fourth quarter of 2018
- Reported cash on hand of \$418.1 million and maintained clean balance sheet with no debt as of December 31, 2018
- Achieved approximately \$16 million of targeted \$40 – \$50 million of annualized cost reductions in 2018
- Completed \$100 million share repurchase program in October 2018

Blake DeBerry, Dril-Quip's President and Chief Executive Officer, commented, "I am proud of the successes and achievements that we have made operating in a difficult environment this past year. In the fourth quarter of 2018, we recorded better-than-expected revenue, benefitted from incremental costs savings from our worldwide initiative to reduce expenses and improve efficiencies, and increased our Adjusted EBITDA to \$7.0 million from \$0.8 million in the third quarter. Of particular importance, we generated strong free cash flow of \$6.5 million in the fourth quarter compared with \$3.1 million in the prior quarter, marking the 24th quarter in a row of generating free cash flow despite the sharp industry downturn we have faced over the last several years."

"We also experienced our strongest non-project bookings quarter in four years. Our backlog at year-end 2018 grew to \$270.0 million, an increase of \$63 million from year-end 2017, and we remain cautiously

optimistic that we will see backlog progressively trend upward in 2019. We are seeing international drilling activity continuing to increase as well as our quote activity. In October 2018, 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 previously announced an ultimate target of \$40 million to \$50 million of total annualized cost savings from our Company-wide initiatives to reduce expenses and improve efficiencies and are pleased to report we are ahead of plan, having realized annualized savings during the fourth quarter of approximately \$16 million. Our cash position remained strong at over \$418 million at year-end 2018, and our balance sheet remains debt-free. In short, we have worked hard executing on our long-term strategy and operated well through this downturn.”

“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 to our valued customers around the world. For the first quarter of 2019, we expect our revenue to be between \$90 million and \$100 million, which is consistent with our results for the second half of 2018. We will remain keenly focused on implementing our cost savings initiatives to lower costs and maximize margins. Dril-Quip is poised financially and operationally to capitalize on an improving market and deliver profitable growth and meaningfully add value to our shareholders.”

In conjunction with today’s release, the Company posted a new investor presentation entitled “4th Quarter 2018 Supplemental Earnings Information” to its website, www.dril-quip.com, on the “Events & Presentations” page under the Investors tab.

Operational and Financial Results

Revenue, Cost of Sales and Gross Operating Margin

Consolidated revenue for the fourth quarter of 2018 was \$97.3 million, an increase of \$4.1 million compared to the third quarter of 2018. Revenues for the fourth quarter of 2018 exceeded the high end of

the Company's guidance range of \$80 to \$90 million primarily due to increased product sales in Asia Pacific. For the full year 2018, revenue was \$384.6 million, a year-over-year decrease of \$70.9 million, driven by a decrease in product revenues of \$86.0 million due to the reduction in demand for offshore exploration and production equipment, especially subsea equipment, as a result of sustained low oil prices. This was partially offset by an increase in service and rental revenues year-over-year of \$15.3 million, largely due to increased technical advisory assistance as customers draw down on product purchased in prior quarters.

Western Hemisphere revenue for the fourth quarter of 2018 decreased from the prior quarter by \$1.0 million, or 2%, primarily driven by low activity levels in Brazil offset by additional project activity in North America. Eastern Hemisphere revenue increased by \$1.1 million, or 4%, in the fourth quarter compared to the prior quarter due to increased activity in Norway and Africa. Asia-Pacific revenue for the fourth quarter increased sequentially by \$4 million, or 47%, due to increased customer sales offset by lower aftermarket activity.

Cost of sales for the fourth quarter of 2018 was \$68.7 million, an increase of \$3.0 million compared to the prior quarter. For the full year of 2018, cost of sales was \$271.5 million, a reduction of \$33.9 million, or 11%, compared to full year 2017 cost of sales of \$305.4 million.

Gross operating margin for the fourth quarter of 2018 was 29%, in line with the third quarter of 2018. For the full year of 2018, gross operating margin was 29%, which was slightly less than full year 2017 gross operating margin of 33%.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the fourth quarter of 2018 was \$25.0 million, a reduction of \$6.5 million compared to third quarter of 2018, primarily due to the execution of the first phase of Dril-Quip's transformation project. For full year 2018, SG&A expenses decreased by approximately \$12.3 million, or 11%, to \$104.0 million from \$116.3 million in 2017. The year-over-year reduction was primarily due to lower employee costs, lower insurance costs and favorable foreign exchange impacts.

Net Income, Adjusted EBITDA and Free Cash Flow

For the fourth quarter of 2018, Dril-Quip reported a net loss of \$74.9 million, or \$2.09 loss per diluted share. During the quarter, the Company recorded non-cash long-lived asset, inventory and goodwill impairment charges of \$85.5 million as a result of the Company's updated assessment of current market conditions, as well as restructuring charges totaling \$8.7 million comprised of severance and implementation expenses associated with its cost savings initiatives.

Adjusted net loss for the fourth quarter was \$1.5 million (\$0.04 loss per diluted share), after excluding \$2.07 per share related to the impairment and restructuring charges, and other items. For the full year 2018, Dril-Quip reported a net loss of \$95.7 million (\$2.58 loss per diluted share) compared to a net loss of \$100.6 million (\$2.69 loss per diluted share) in 2017. Adjusted net loss for the full year 2018 was \$23.5 million (\$0.63 loss per diluted share) compared with adjusted net income of \$9.8 million (\$0.26 earnings per diluted share) in calendar 2017.

Adjusted EBITDA totaled \$7.0 million for the fourth quarter of 2018, compared to \$0.8 million in the third quarter of 2018. For the full year 2018, Dril-Quip generated Adjusted EBITDA of \$17.4 million compared to Adjusted EBITDA of \$60.5 million for 2017.

Free cash flow for the fourth quarter of 2018 totaled \$6.5 million, as compared to the \$3.1 million generated in the third quarter of 2018. For the full year 2018, free cash flow totaled \$13.4 million compared with \$80.4 million in 2017.

Cost Saving Initiatives

In 2018, Dril-Quip began the implementation of a full business transformation centered around a structured approach to improve cost performance across the entire Company. The sustainable cost-saving initiatives are focused on optimizing and improving the Company's infrastructure across manufacturing,

supply chain, SG&A, engineering and R&D and is expected to result in continuing Adjusted EBITDA improvements of \$40 to \$50 million annually. This reorganization will allow Dril-Quip to maintain its global presence in key markets, while supporting an integrated supply chain model which will create more flexibility in meeting the needs of its customers. Some examples of the progress made to date include labor workforce reductions, supplier renegotiations, reducing and rationalizing global footprints, and optimizing operational activities. At the end of 2018, Dril-Quip had achieved approximately \$16 million of annualized costs savings, and the Company will continue to provide updates on its progress throughout 2019. Dril-Quip expects to have annualized savings in place by year-end 2019 of approximately \$50 million. In addition to the savings in the fourth quarter, the Company plans to achieve its target through additional organizational realignment and footprint rationalization in 2019. Supply Chain efforts, underway and longer-term in nature, will only start to be realized in 2020 and will build on Dril-Quip's current 2019 initiatives.

Balance Sheet

Dril-Quip's cash on hand as of December 31, 2018 was \$418.1 million, which together with the asset-based lending (ABL) facility resulted in approximately \$470.3 million of available liquidity. Liquidity remained strong despite completing approximately \$100 million in share repurchases during 2018. This very attractive liquidity position provides both financial and operational flexibility and allows the Company to quickly capitalize on opportunities as market conditions improve. This robust cash position also allows 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 fourth quarter of 2018, the Company repurchased approximately \$19.1 million, or 376,583 shares of common stock at an average price of \$50.60 per share. These purchases completed the authorized amount of \$100 million under the repurchase plan which acquired a total of 1,991,206 shares at an average price of \$50.22 per share. The Company retired all of the shares repurchased as of December 31, 2018.

Conference Call

As previously announced, the Company will hold a conference call to discuss its 2018 results and 2019 outlook tomorrow, Wednesday, February 27, 2019, at 8:00 a.m. Central Time (9:00 a.m. Eastern Time). Interested parties may participate by dialing (855) 477-6935 (domestic) or (409) 983-9701 (international). The confirmation code is 6978094. The call will also be webcast and will be available on Dril-Quip's website at www.dril-quip.com on the "Events and Presentations" page under the "Investors" tab. An audio replay of the call will be available on Dril-Quip's website approximately 2 hours following its conclusion.

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 completing the strategic restructuring, anticipated revenues, costs, cost synergies and savings, possible acquisitions, new product offerings, share repurchases and expectations regarding operating results, are based upon certain assumptions and analyses made by the management of the Company in light of its experience and perception of historical trends, current conditions, expected future developments and other factors. These statements are subject to risks beyond the Company's control, including, but not limited to, the volatility of oil and natural gas prices and cyclical nature of the oil and gas industry, project terminations, suspensions or scope adjustments to contracts, uncertainties regarding the effects of new governmental regulations, the Company's international operations, operating risks, and other factors detailed in the Company's public filings with the Securities and Exchange Commission. Investors are cautioned that any such statements are not guarantees of future performance and actual outcomes may vary materially from those indicated.

Non-GAAP Financial Information

Adjusted Net Income, Adjusted Diluted EPS, Free Cash Flow, and Adjusted EBITDA are non-GAAP measures.

Adjusted Net Income and Adjusted Diluted EPS are defined as net income (loss) and earnings per share, respectively, excluding the impact of foreign currency gains or losses as well as other significant non-cash items and certain charges and credits.

Free Cash Flow is defined as net cash provided by operating activities less net cash used in the purchase of property, plant and equipment.

Adjusted EBITDA is defined as net income excluding income taxes, interest income and expense, depreciation and amortization expense, non-cash gains or losses from foreign currency exchange rate changes as well as other significant non-cash items and items that can be considered non-recurring.

The Company believes that these non-GAAP measures enable it to evaluate and compare more effectively the results of our operations period over period and identify operating trends by removing the effect of its capital structure from its operating structure. In addition, the Company believes that these measures are supplemental measurement tools used by analysts and investors to help evaluate overall operating performance, ability to pursue and service possible debt opportunities and make future capital expenditures. Adjusted Net Income, Adjusted EBITDA and Free Cash Flow do not represent funds available for our discretionary use and are not intended to represent or to be used as a substitute for net income or net cash provided by operating activities, as measured under U.S. generally accepted accounting principles.

See tables below for additional information concerning non-GAAP financial information, including a reconciliation of the non-GAAP financial information presented in this press release to the most directly

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

SOURCE: Dril-Quip, Inc.

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

Dril-Quip, Inc.

Comparative Condensed Consolidated Income Statement

(Unaudited)

	Three months ended		Twelve months ended	
	December 31, 2018	September 30, 2018	December 31, 2018	December 31, 2017
	(In thousands, except per share data)			
Revenues:				
Products	\$ 66,042	\$ 63,246	\$ 265,052	\$ 351,132
Services	19,411	17,541	72,414	61,945
Leasing	11,882	12,470	47,160	42,392
Total revenues	<u>97,335</u>	<u>93,257</u>	<u>384,626</u>	<u>455,469</u>
Costs and expenses:				
Cost of sales	68,675	65,630	271,499	305,394
Selling, general and administrative	25,025	31,566	104,039	116,251
Engineering and product development	9,289	10,159	39,422	42,160
Impairment, restructuring and other charges	94,257	0	98,602	60,968
Gain on sale of assets	(1,085)	(14)	(6,198)	(168)
Total costs and expenses	<u>196,161</u>	<u>107,341</u>	<u>507,364</u>	<u>524,605</u>
Operating income (loss)	(98,826)	(14,084)	(122,738)	(69,136)
Interest income	2,075	1,893	8,040	3,564
Interest expense	254	(195)	(291)	(72)
Income tax provision (benefit)	(21,585)	(2,028)	(19,294)	34,995
Net income (loss)	<u>\$ (74,912)</u>	<u>\$ (10,358)</u>	<u>\$ (95,695)</u>	<u>\$ (100,639)</u>
Earnings (loss) per share	<u>\$ (2.09)</u>	<u>\$ (0.28)</u>	<u>\$ (2.58)</u>	<u>\$ (2.69)</u>
Depreciation and amortization	\$ 9,346	\$ 8,724	\$ 35,312	\$ 40,974
Capital expenditures	\$ 5,378	\$ 8,059	\$ 32,061	\$ 27,622
Weighted Average Shares Outstanding	35,891	36,923	37,075	37,457

Comparative Condensed Consolidated Balance Sheets

(Unaudited)

	December 31, 2018	September 30, 2018	December 31, 2017
	(In thousands)		
Assets:			
Cash and cash equivalents	\$ 418,100	\$ 424,053	\$ 493,180
Other current assets	434,881	473,397	515,369
PP&E, net	274,123	292,677	284,247
Other assets	65,406	102,632	107,009
Total assets	<u>\$ 1,192,510</u>	<u>\$ 1,292,759</u>	<u>\$ 1,399,805</u>
Liabilities and Stockholders' Equity:			
Current liabilities	\$ 82,258	\$ 68,262	\$ 99,911
Long-term debt	0	0	0
Deferred taxes	2,466	3,211	3,432
Other long-term liabilities	11,624	30,030	2,001
Total liabilities	96,348	101,503	105,344
Stockholders' equity	1,096,162	1,191,256	1,294,461
Total liabilities and stockholders' equity	<u>\$ 1,192,510</u>	<u>\$ 1,292,759</u>	<u>\$ 1,399,805</u>

Unaudited Non-GAAP Financial Measures

	Three months ended					
	December 31, 2018		September 30, 2018		December 31, 2017	
	Effect on net income (after-tax) (1)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share
(In thousands, except per share amounts)						
Adjusted Net Income and EPS:						
Net income (loss)	\$ (74,912)	\$ (2.09)	\$ (10,358)	\$ (0.28)	\$ (71,492)	\$ (1.90)
Adjustments (after tax)						
Reverse the effect of foreign currency	(156)	0.00	32	0.00	3,505	0.10
Add back impairment and other charges	67,569	1.88	0	0.00	0	0.00
Less one-time tax adjustments	0	0.00	0	0.00	66,622	1.77
Restructuring costs, including severance	6,894	0.19	2,959	0.08	1,598	0.04
Gain on sale of assets	(857)	(0.02)	(11)	(0.00)	0	0.00
Adjusted net income (loss)	<u>\$ (1,462)</u>	<u>\$ (0.04)</u>	<u>\$ (7,378)</u>	<u>\$ (0.20)</u>	<u>\$ 233</u>	<u>\$ 0.01</u>

	Twelve months ended December 31,					
	2018		2017		2016	
	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
Adjusted Net Income and EPS:						
Net income (loss)	\$ (95,695)	\$ (2.58)	\$ (100,639)	\$ (2.69)	\$ 93,221	\$ 2.47
Adjustments (after tax)						
Reverse the effect of foreign currency	(796)	(0.02)	6,733	0.18	(25,555)	(0.68)
Add back impairment and other charges	67,569	1.82	39,629	1.06	0	0.00
Less one-time tax adjustments	0	0.00	60,547	1.62	0	0.00
Restructuring costs, including severance	10,326	0.28	3,548	0.09	5,094	0.14
Gain on sale of assets	(4,896)	(0.13)			0	0.00
Adjusted net income (loss)	<u>\$ (23,491)</u>	<u>\$ (0.63)</u>	<u>\$ 9,818</u>	<u>\$ 0.26</u>	<u>\$ 72,760</u>	<u>\$ 1.93</u>

<u>Adjusted EBITDA:</u>	<u>Three months ended</u>		
	<u>December 31, 2018</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Net Income (Loss)	\$ (74,912)	\$ (10,358)	\$ (71,492)
Add:			
Interest (income) expense	(2,329)	(1,698)	(572)
Income tax expense (benefit)	(21,585)	(2,028)	66,955
Depreciation and amortization expense	9,346	8,724	8,743
Restructuring costs, including severance	8,726	3,745	2,130
Long-lived asset, inventory and goodwill impairments	85,531	0	0
Gain on sale of assets	(1,085)	(14)	0
Foreign currency loss (gain)	(197)	41	4,327
Stock compensation expense	3,509	2,366	3,793
Adjusted EBITDA (1)	<u>\$ 7,004</u>	<u>\$ 778</u>	<u>\$ 13,884</u>

<u>Adjusted EBITDA:</u>	<u>Year ended</u>		
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Net Income (Loss)	\$ (95,695)	\$ (100,639)	\$ 93,221
Add:			
Interest (income) expense	(7,749)	(3,492)	(3,009)
Income tax expense (benefit)	(19,294)	34,995	22,647
Depreciation and amortization expense	35,312	40,974	31,857
Restructuring costs, including severance	13,071	5,170	5,476
Long-lived asset, inventory and goodwill impairments	85,531	60,968	0
Gain on sale of assets	(6,198)	0	0
Foreign currency loss (gain)	(1,007)	8,292	(31,764)
Stock compensation expense	13,459	14,270	12,217
Adjusted EBITDA (1)	<u>\$ 17,430</u>	<u>\$ 60,538</u>	<u>\$ 130,645</u>

<u>Free Cash Flow:</u>	<u>Three months ended</u>		
	<u>December 31, 2018</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Net cash provided by operating activities	\$ 12,896	\$ 9,141	\$ 33,258
Less:			
Purchase of property, plant and equipment	(6,394)	(6,002)	(8,059)
Free Cash Flow	<u>\$ 6,502</u>	<u>\$ 3,139</u>	<u>\$ 25,199</u>

	<u>Year ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net cash provided by operating activities	\$ 45,503	\$ 107,993	\$ 246,522
Less:			
Purchase of property, plant and equipment	(32,061)	(27,622)	(25,763)
Free Cash Flow	<u>\$ 13,442</u>	<u>\$ 80,371</u>	<u>\$ 220,759</u>

DRIL-QUIP

4th Quarter 2018 Supplemental Earnings Information

dril-quip.com | NYSE: DRQ

Cautionary Statement

Forward-Looking Statements

The information furnished in this presentation contains "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements include goals, projections, estimates, expectations, market outlook, forecasts, plans and objectives, including revenue and new product revenue and other projections, bidding and service activity, acquisition opportunities, forecasted supply and demand, liquidity, cost savings, and share repurchases and are based on assumptions, estimates and risk analysis made by management of Dril-Quip in light of its experience and perception of historical trends, current conditions, expected future developments and other factors. No assurance can be given that actual future results will not differ materially from those contained in the forward-looking statements in this presentation.

Although Dril-Quip believes that all such statements contained in this presentation are based on reasonable assumptions, there are numerous variables of an unpredictable nature or outside of Dril-Quip's control that could affect Dril-Quip's future results and the value of its shares. Each investor must assess and bear the risk of uncertainty inherent in the forward-looking statements contained in this presentation.

Please refer to Dril-Quip's filings with the SEC for additional discussion of risks and uncertainties that may affect Dril-Quip's actual future results. Dril-Quip undertakes no obligation to update the forward-looking statements contained herein.

Use of Non-GAAP Financial Measures

Adjusted Net Income, Adjusted Diluted EPS, Adjusted EBITDA and Free Cash Flow are non-GAAP measures. Adjusted Net Income and Adjusted Diluted EPS are defined as net income (loss) and earnings per share, respectively, excluding the impact of foreign currency gains or losses as well as other significant non-cash items and certain charges and credits. Adjusted EBITDA is defined as net income excluding income taxes, interest income and expense, depreciation and amortization expense, non-cash gains or losses from foreign currency exchange rate changes as well as other significant non-cash items and items that can be considered non-recurring. Free Cash Flow is defined as net cash provided by operating activities less net cash used in the purchase of property, plant and equipment. We believe that these non-GAAP measures enable us to evaluate and compare more effectively the results of our operations period over period and identify operating trends by removing the effect of our capital structure from our operating structure and certain other items including those that affect the comparability of operating results. In addition, we believe that these measures are supplemental measurement tools used by analysts and investors to help evaluate overall operating performance, ability to pursue and service possible debt opportunities and make future capital expenditures. These measures do not represent funds available for our discretionary use and are not intended to represent or to be used as a substitute for net income or net cash provided by operating activities, as measured under U.S. generally accepted accounting principles. Non-GAAP financial information supplements should be read together with, and are not an alternative or substitute for, our financial results reported in accordance with GAAP. Because non-GAAP financial information is not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measure can be found on slides 22, 23 and 24.

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

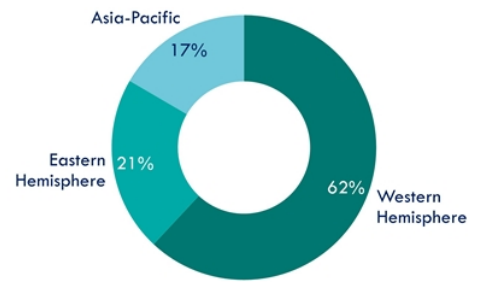
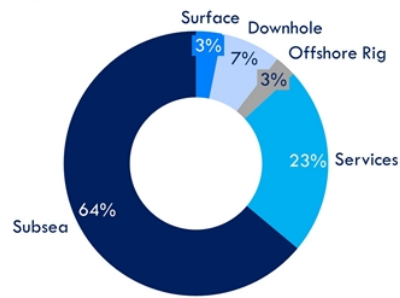
- Reconditioning
- Rental Tools
- Technical Advisory

Revenue Mix

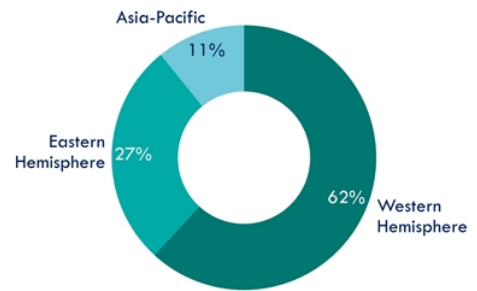
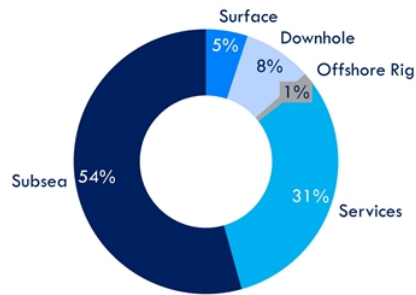
By Product and Service Segment

By Geographic Area

FY 2017
Total Revenue:
\$455 million



FY 2018
Total Revenue:
\$385 million



Snapshot

MARKET INFORMATION

Ticker	DRQ
Share Price (2/25/19)	\$37.51
52-Week Range	\$26.62 - \$58.95
YTD Return	-21.4%
Shares Outstanding @ 12/31/18 (mm)	36.3
Market Cap (\$mm)	\$1,360
Enterprise Value (\$mm)	\$942

BALANCE SHEET as of 12/31/2018 (\$MM)

Cash & Cash Equivalents	\$418
PP&E (net)	274
Goodwill	8
Total Assets	\$1,193
ST Debt	-
LT Debt	-
Total Liabilities	\$96
Total Equity	\$1,096

ENDING BACKLOG



BALANCE SHEET METRICS (\$MM)

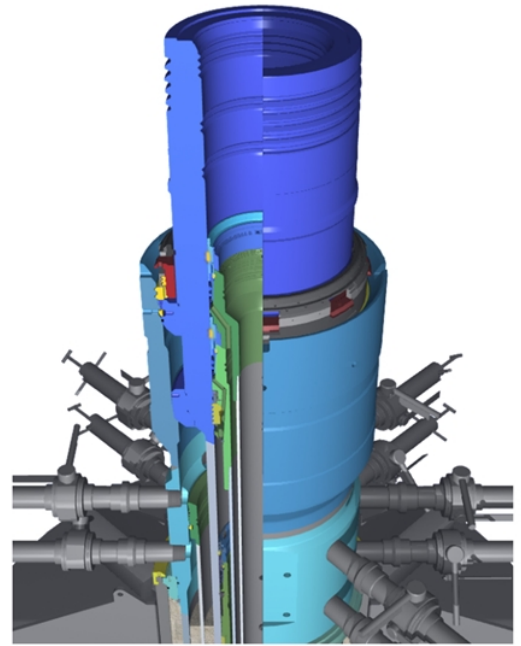
Non-cash Working Capital	\$353
Book Value / Share	\$30.24
Cash / Share	\$11.53
Non-cash WC / Share	\$9.73
Total Debt / Capitalization	0%
2018 Share Repurchases	\$100

Q4 2018 Highlights

- Increased revenue to \$97.3 million, above the high end of guidance range of \$80 - \$90 million
- Recorded strong non-project bookings of \$87 million
- Reported a net loss of \$74.9 million, or \$2.09 loss per diluted share, including impairment and restructuring charges of \$94.2 million
- Generated net cash provided by operating activities of \$12.9 million and free cash flow of \$6.5 million
 - 24th quarter in a row generating positive free cash flow
- Grew Adjusted EBITDA to \$7.0 million
- Reported cash on hand of \$418.1 million as of December 31, 2018
- Maintained clean balance sheet with no debt as of December 31, 2018
- Achieved \$16 million of targeted \$40 - \$50 million of annualized cost reductions in 2018
- Completed \$100 million share repurchase program in October 2018

Market Update

- Q4 2018 produced the strongest non-project bookings quarter in 4 years
- Signs of increased bidding and service activity; oil price & rig environments improving but remain uncertain
- Signed frame agreement in Q4 2018 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

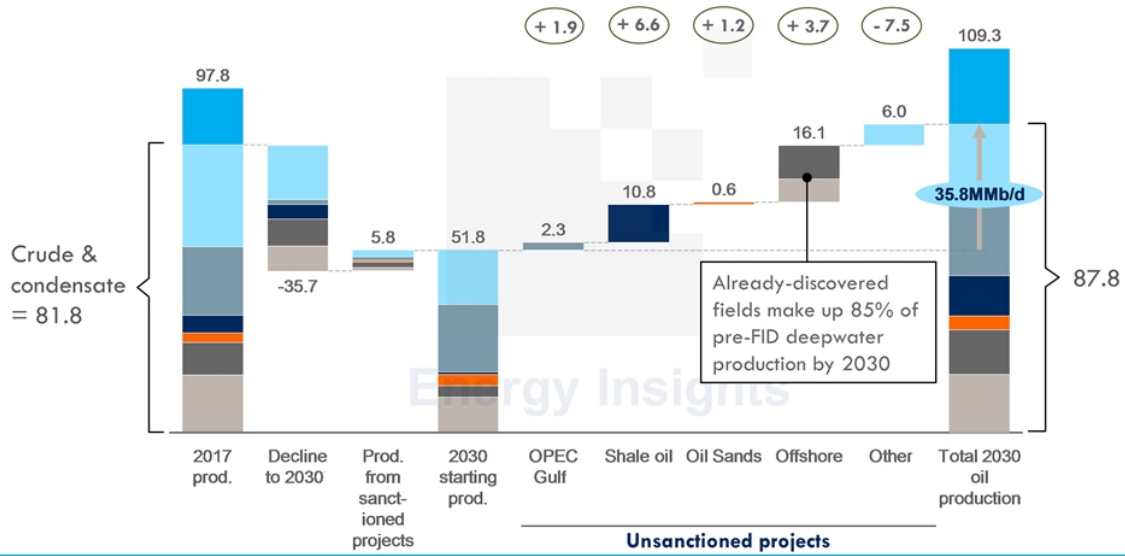


Global Supply & Demand Through 2030

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



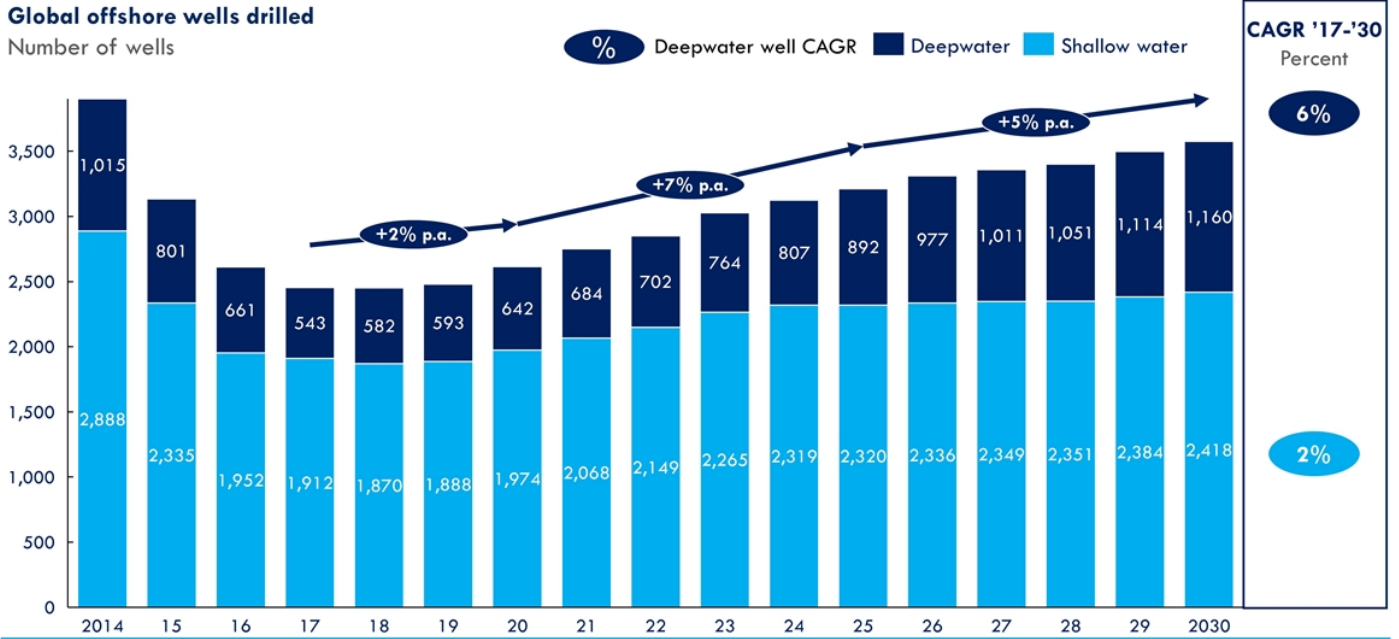
New Deepwater Project Sanctions Necessary to Satisfy Long-Term Demand

Source: McKinsey Energy Insights

Evolving View of Timeline for Deepwater Recovery

Global offshore wells drilled

Number of wells

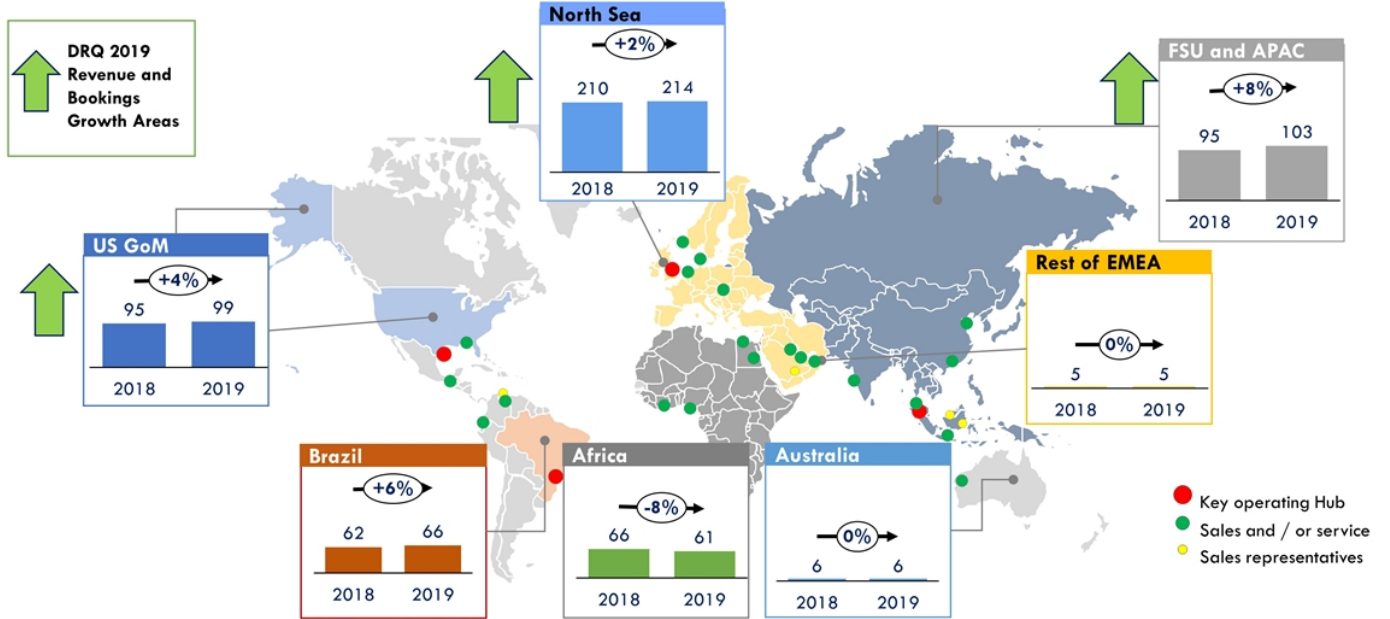


Deepwater Market Recovery Expected to be Gradual Until 2020

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

Integrated Supply Chain

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

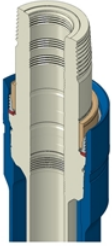
LEAN Implementation & Advanced Product Quality Planning (APQP)

Research & Development

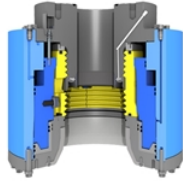
R&D is Key to Achieving Commercial Excellence

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

BigBore-Ile
Wellhead



DXe Wellhead
Connector



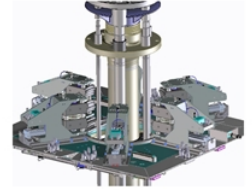
HorizontalBore
Subsea Tree



Concentric
Monobore Tree

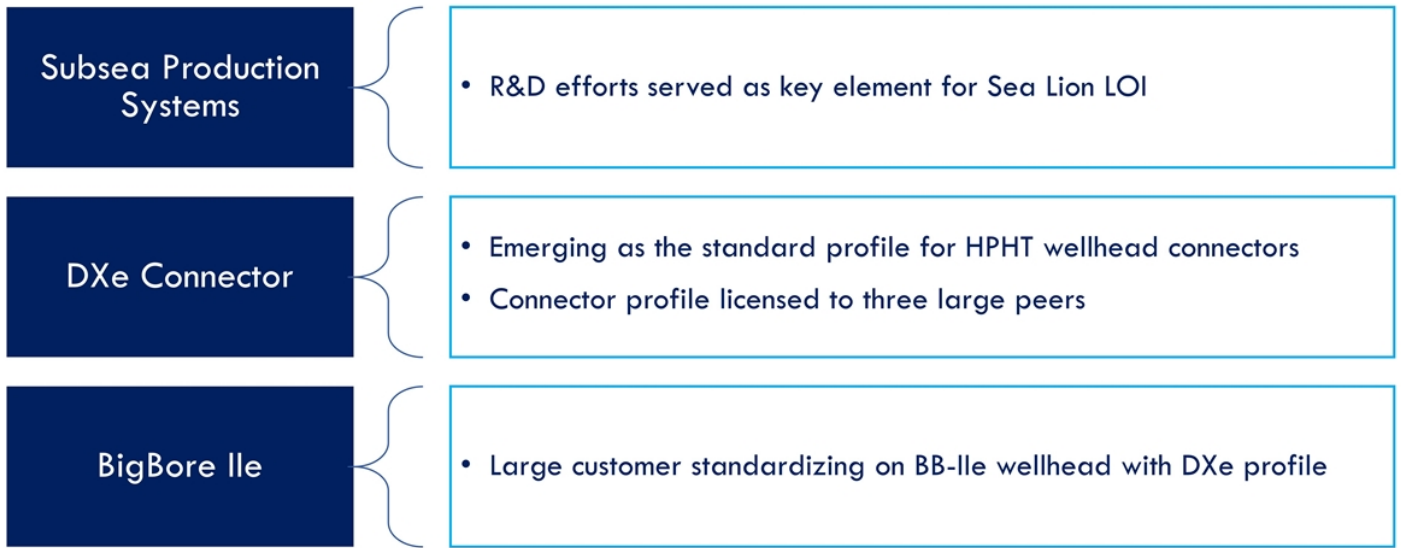


HFRe Hands-Free
Drilling Riser



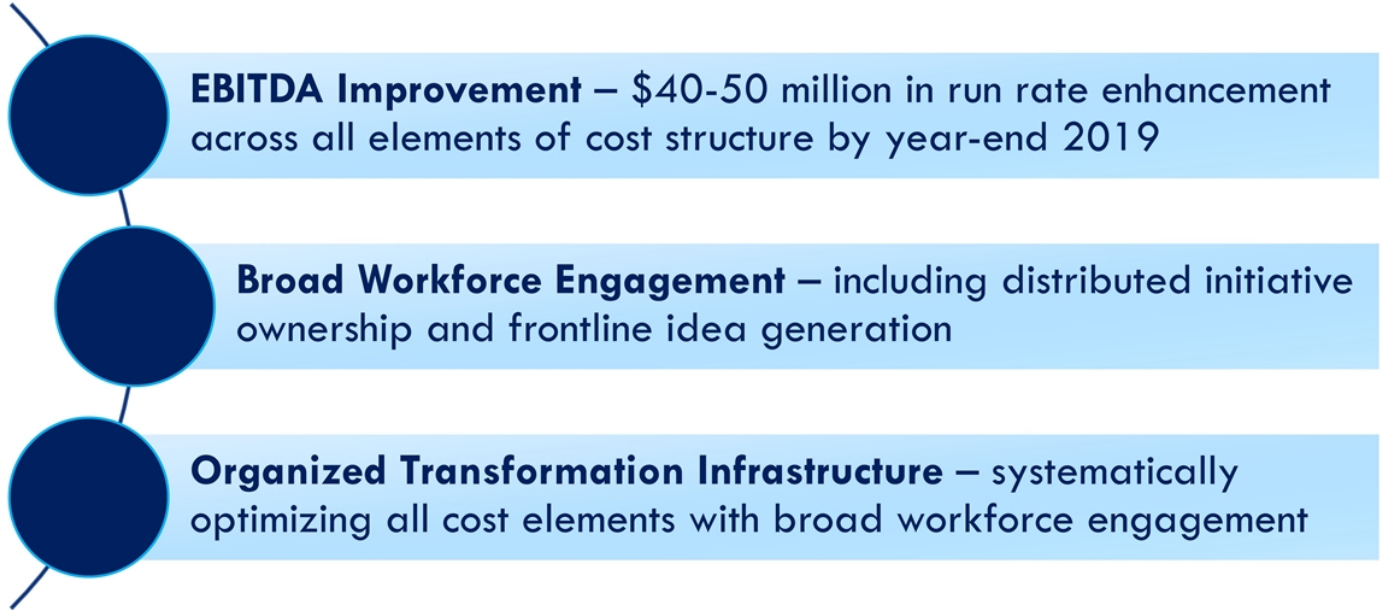
Executing on Commercial Excellence

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



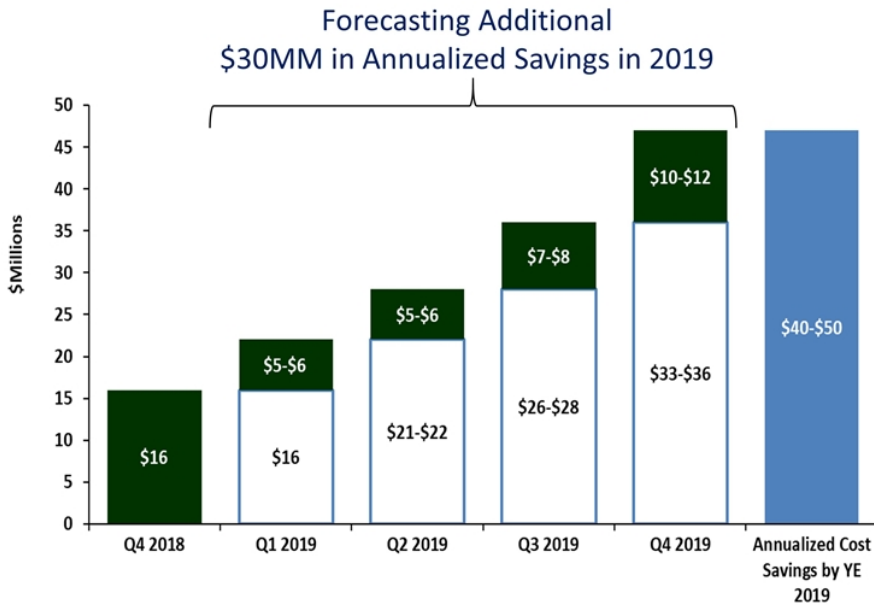
Award-Winning R&D Efforts Driving New Product Revenue

Overview of the Business Transformation



Structured Approach to Improve Cost Performance Across All Areas

Expanding Annualized Cost Savings in 2019



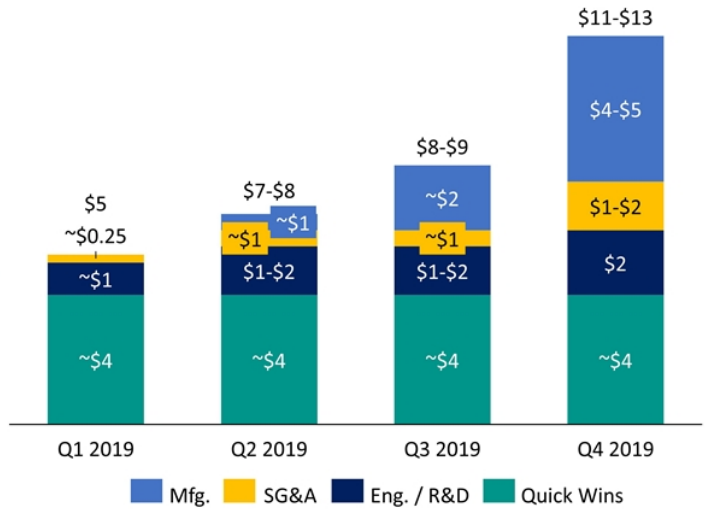
- **Building on 2018 annualized savings of \$16 million**
 - Q4'18 focused on quick win initiatives
 - Q1'19 and Q2'19 focused on additional organizational realignment
 - Q3'19 and Q4'19 focused on footprint rationalization and supplier optimization
- **2020+ focused on integrated supply chain and procurement realignment projects; additional savings above the \$40 - \$50 million expected**

Sustainable Cost-Saving Initiatives

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

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

Cumulative Transformation Impact: Workstream By Quarter (\$mm)



Q4 2019 quarterly savings ~\$12 million, meeting annualized goal of ~\$50 million

On Track to Realize Additional \$30+ Million Annualized Savings in 2019

Liquidity Allocation Strategy

SOURCES

(\$ millions)

Internal Cash	\$418
ABL Credit Facility Capacity	52
Available Liquidity	470

Notes

- Balances as of December 31, 2018
- ABL put in place on February 23, 2018
- Shelf registration statement filed on February 27, 2018 for general planning purposes
- New share repurchase plan approved by Board on February 26, 2019

POTENTIAL USES

(\$ millions)

New Share Repurchase Plan	\$100
Fund Upturn & Key Projects	150 – 200
Pursue Complementary Technology Tuck-in Acquisitions	50 – 100

Liquidity in Place to Support Increased Activity During Upturn

2019 Outlook & Targeted Cost Savings

Est. Q1 2019 Revenue:
\$90 - \$100 million

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

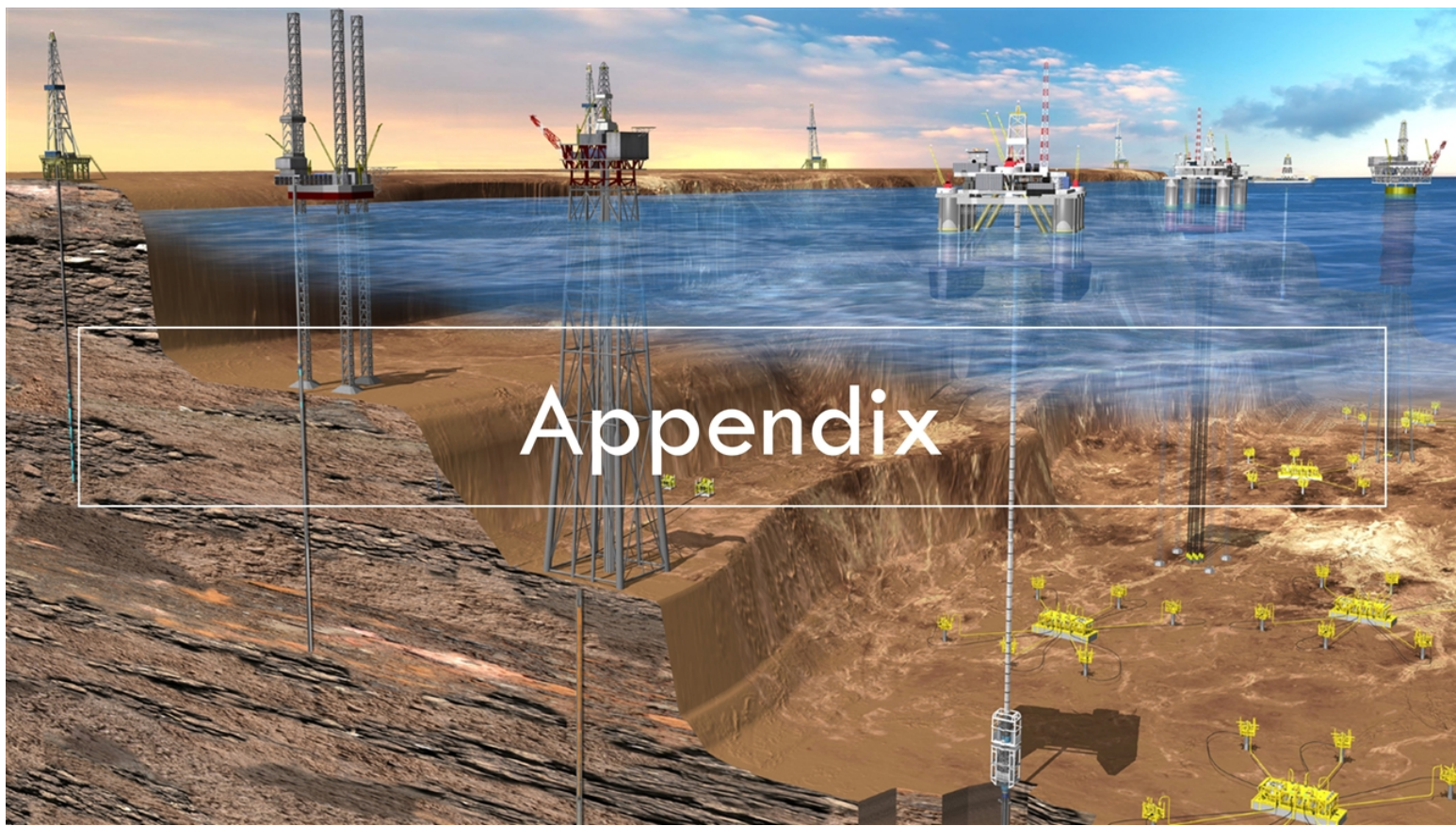
Adj. EBITDA Growth
Benefiting from
Cost Savings Actions

Projecting Continued
Positive Free Cash Flow
in 2019

Realized Cost
Savings Expected
in 2019:
\$30 million

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

Streamlining Structural Cost Base for Current and Future Environments



Appendix

Income Statement

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

	Three months ended		Twelve months ended	
	December 31, 2018	September 30, 2018	December 31, 2018	December 31, 2017
	(In thousands, except per share data)			
Revenues:				
Products	\$ 66,042	\$ 63,246	\$ 265,052	\$ 351,132
Services	19,411	17,541	72,414	61,945
Leasing	11,882	12,470	47,160	42,392
Total revenues	97,335	93,257	384,626	455,469
Costs and expenses:				
Cost of sales	68,675	65,630	271,499	305,394
Selling, general and administrative	25,025	31,566	104,039	116,251
Engineering and product development	9,289	10,159	39,422	42,160
Impairment, restructuring and other charges	94,257	0	98,602	60,968
Gain on sale of assets	(1,085)	(14)	(6,198)	(168)
Total costs and expenses	196,161	107,341	507,364	524,605
Operating income (loss)	(98,826)	(14,084)	(122,738)	(69,136)
Interest income	2,075	1,893	8,040	3,564
Interest expense	254	(195)	(291)	(72)
Income tax provision (benefit)	(21,585)	(2,028)	(19,294)	34,995
Net income (loss)	\$ (74,912)	\$ (10,358)	\$ (95,695)	\$ (100,639)
Earnings (loss) per share	\$ (2.09)	\$ (0.28)	\$ (2.58)	\$ (2.69)
Depreciation and amortization	\$ 9,346	\$ 8,724	\$ 35,312	\$ 40,974
Capital expenditures	\$ 5,378	\$ 8,059	\$ 32,061	\$ 27,622
Weighted Average Shares Outstanding	35,891	36,923	37,075	37,457

Balance Sheet

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

	December 31, 2018	September 30, 2018	December 31, 2017
	(In thousands)		
Assets:			
Cash and cash equivalents	\$ 418,100	\$ 424,053	\$ 493,180
Other current assets	434,881	473,397	515,369
PP&E, net	274,123	292,677	284,247
Other assets	65,406	102,632	107,009
Total assets	\$ 1,192,510	\$ 1,292,759	\$ 1,399,805
Liabilities and Stockholders' Equity:			
Current liabilities	\$ 82,258	\$68,262	\$ 99,911
Long-term debt	0	0	0
Deferred taxes	2,466	3,211	3,432
Other long-term liabilities	11,624	30,030	2,001
Total liabilities	96,348	101,503	105,344
Stockholders' equity	1,096,162	1,191,256	1,294,461
Total liabilities and stockholders' equity	\$ 1,192,510	\$1,292,759	\$ 1,399,805

Non-GAAP Financial Measures

Adjusted Net Income and EPS:

	Three months ended					
	December 31, 2018		September 30, 2018		December 31, 2017	
	Effect on net income (after-tax) (1)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share
(In thousands, except per share amounts)						
Net income (loss)	\$ (74,912)	\$ (2.09)	\$ (10,358)	\$ (0.28)	\$ (71,492)	\$ (1.90)
Adjustments (after tax)						
Reverse the effect of foreign currency	(156)	0.00	32	0.00	3,505	0.10
Add back impairment and other charges	67,569	1.88	0	0.00	0	0.00
Less one-time tax adjustments	0	0.00	0	0.00	66,622	1.77
Restructuring costs, including severance	6,894	0.19	2,959	0.08	1,598	0.04
Gain on sale of assets	(857)	(0.02)	(11)	(0.00)	0	0.00
Adjusted net income (loss)	\$ (1,462)	\$ (0.04)	\$ (7,378)	\$ (0.20)	\$ 233	\$ 0.01

Adjusted Net Income and EPS:

	Twelve months ended December 31,					
	2018		2017		2016	
	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)	\$ (95,695)	\$ (2.58)	\$ (100,639)	\$ (2.69)	\$ 93,221	\$ 2.47
Adjustments (after tax)						
Reverse the effect of foreign currency	(796)	(0.02)	6,733	0.18	(25,555)	(0.68)
Add back impairment and other charges	67,569	1.82	39,629	1.06	0	0.00
Less one-time tax adjustments	0	0.00	60,547	1.62	0	0.00
Restructuring costs, including severance	10,326	0.28	3,548	0.09	5,094	0.14
Gain on sale of assets	(4,896)	(0.13)			0	0.00
Adjusted net income (loss)	\$ (23,491)	\$ (0.63)	\$ 9,818	\$ 0.26	\$ 72,760	\$ 1.93

Non-GAAP Financial Measures

Adjusted EBITDA:

	Three months ended		
	December 31, 2018	September 30, 2018	December 31, 2017
	(In thousands)		
Net Income (Loss)	\$ (74,912)	(10,358)	(71,492)
Add:			
Interest (income) expense	(2,329)	(1,698)	(572)
Income tax expense (benefit)	(21,585)	(2,028)	66,955
Depreciation and amortization expense	9,346	8,724	8,743
Restructuring costs, including severance	8,726	3,745	2,130
Long-lived asset, inventory and goodwill impairments	85,531	0	0
Gain on sale of assets	(1,085)	(14)	0
Foreign currency loss (gain)	(197)	41	4,327
Stock compensation expense	3,509	2,366	3,793
Adjusted EBITDA (1)	\$ 7,004	\$ 778	13,884

Adjusted EBITDA:

	Year ended		
	December 31, 2018	December 31, 2017	December 31, 2016
	(In thousands)		
Net Income (Loss)	\$ (95,695)	\$ (100,639)	\$ 93,221
Add:			
Interest (income) expense	(7,749)	(3,492)	(3,009)
Income tax expense (benefit)	(19,294)	34,995	22,647
Depreciation and amortization expense	35,312	40,974	31,857
Restructuring costs, including severance	13,071	5,170	5,476
Long-lived asset, inventory and goodwill impairments	85,531	60,968	0
Gain on sale of assets	(6,198)	0	0
Foreign currency loss (gain)	(1,007)	8,292	(31,764)
Stock compensation expense	13,459	14,270	12,217
Adjusted EBITDA (1)	\$ 17,430	\$ 60,538	\$ 130,645

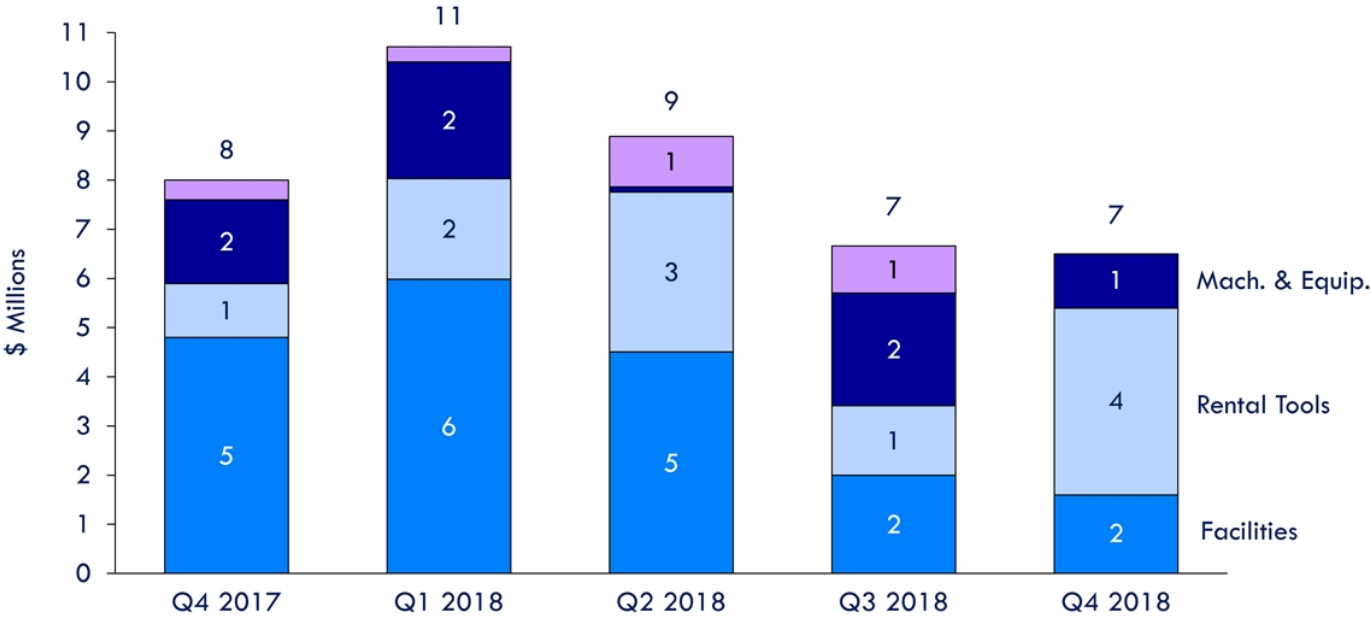
Non-GAAP Financial Measures

Free Cash Flow:

	Three months ended		
	December 31, 2018	September 30, 2018	December 31, 2017
	(In thousands)		
Net cash provided by operating activities	\$ 12,896	\$ 9,141	\$ 33,258
Less:			
Purchase of property, plant and equipment	(6,394)	(6,002)	(8,059)
Free Cash Flow	\$ 6,502	\$ 3,139	\$ 25,199

	Year ended December 31,		
	2018	2017	2016
	(In thousands)		
Net cash provided by operating activities	\$ 45,503	\$ 107,993	\$ 246,522
Less:			
Purchase of property, plant and equipment	(32,061)	(27,622)	(25,763)
Free Cash Flow	\$ 13,442	\$ 80,371	\$ 220,759

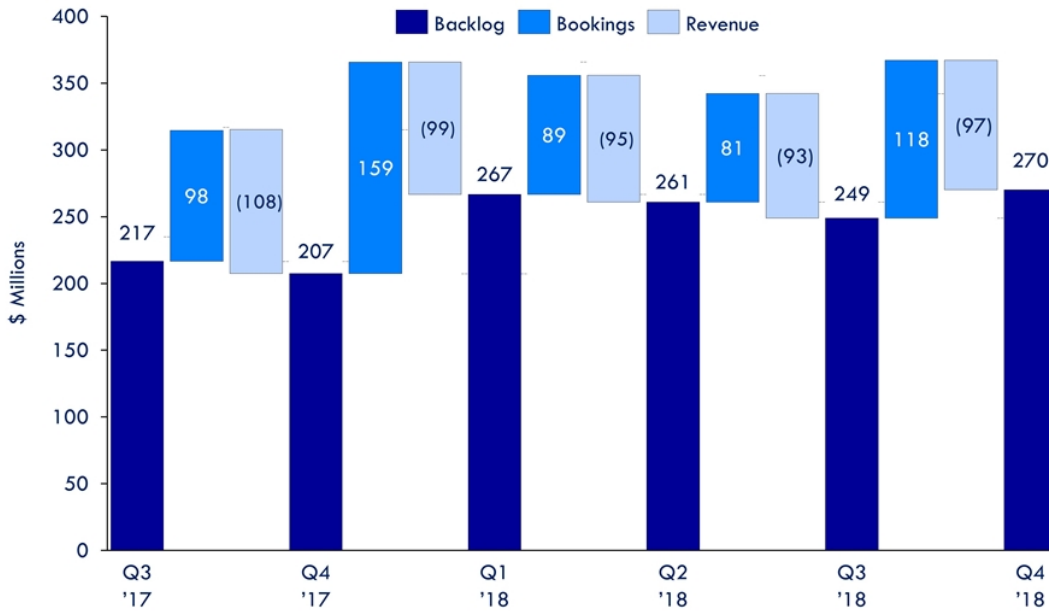
Capital Expenditures



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

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

Backlog

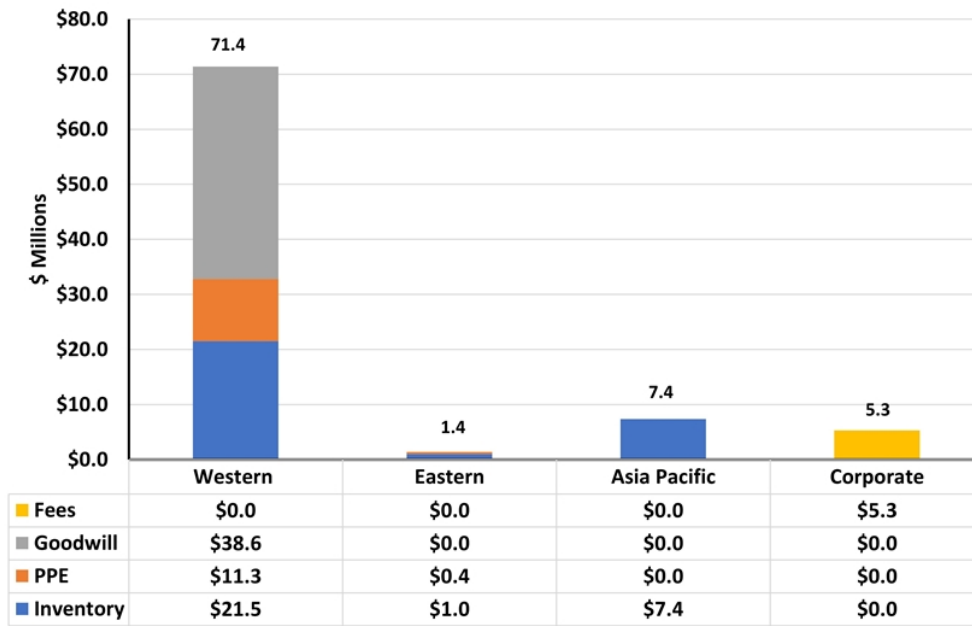


- 70% – 80% of year-end 2017 backlog expected to convert to revenue in twelve months or less
- Bookings require shorter lead times due to available capacity and inventory on hand

Note: The backlog data shown above includes all bookings as of December 31, 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.

Summary of Impairment Charges



As part of the strategic transformation project:

- Certain inventory, plant, property and equipment have been identified as not part of DRQ's future
- Aligning book values with expected future organizational structure
- Goodwill, PPE and Inventory charges are non-cash

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)