

DRIL-QUIP

THIRD QUARTER 2019 SUPPLEMENTAL EARNINGS INFORMATION

CAUTIONARY STATEMENT

Forward-Looking Statements

The information furnished in this presentation contains “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements include goals, projections, estimates, expectations, market outlook, forecasts, plans and objectives, including revenue and new product revenue and other projections, project bookings, bidding and service activity, acquisition opportunities, forecasted supply and demand, forecasted drilling activity and subsea investment, liquidity, cost savings, and share repurchases and are based on assumptions, estimates and risk analysis made by management of Dril-Quip 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 in the appendix.

Use of Website

Investors should note that Dril-Quip announces material financial information in SEC filings, press releases and public conference calls. Dril-Quip may use the Investors section of its website (www.dril-quip.com) to communicate with investors. It is possible that the financial and other information posted there could be deemed to be material information.

DRIL-QUIP INVESTMENT HIGHLIGHTS



Leading Manufacturer of Highly Engineered Drilling & Production Equipment



Technically Innovative Products & First-class Service



Strong Financial Position



Historically Superior Margins to Peers



Experienced Management Team

PRODUCTS & SERVICES

SUBSEA EQUIPMENT

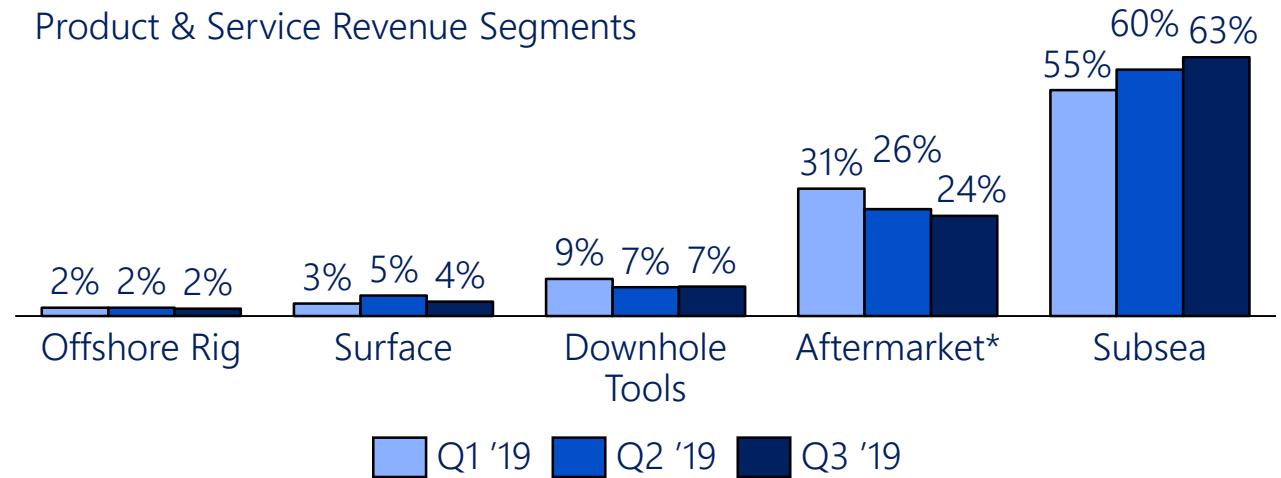
SURFACE EQUIPMENT

DOWNHOLE TOOLS

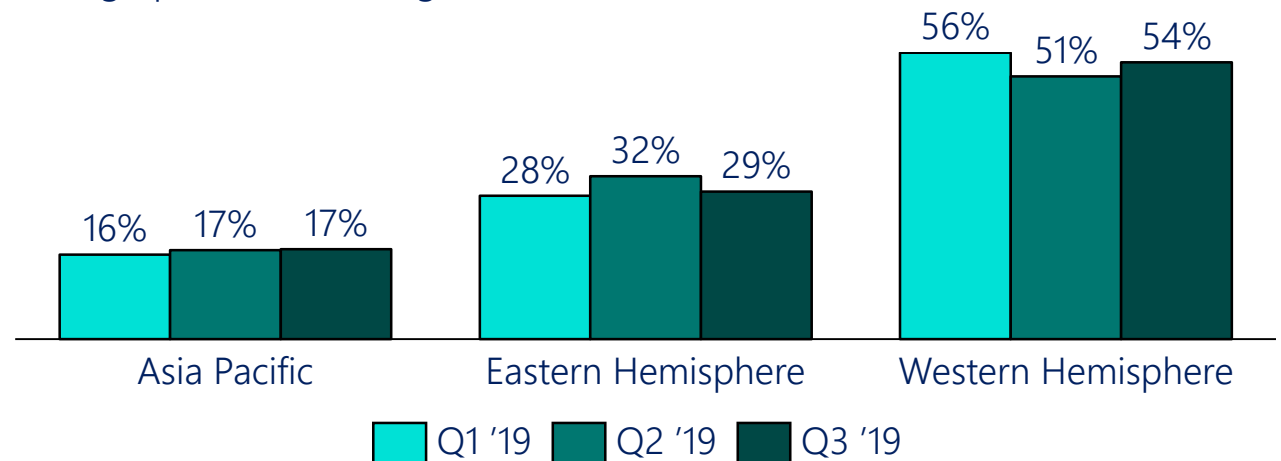
OFFSHORE RIG EQUIPMENT

AFTERMARKET SERVICES

Product & Service Revenue Segments



Geographic Revenue Segments



*Aftermarket revenue includes both Services and Leasing revenue

Q3 2019 HIGHLIGHTS

- Increased revenue to \$108 million, which is at the high end of the guidance range of \$100 - \$110 million
- Recorded product bookings of \$92 million, which is at the high end of the guidance range of \$75 - \$95 million
- Received several orders for new technology products amounting to ~22% of product bookings for Q3 2019
- Reported net loss of \$1 million, or \$0.04 loss per diluted share
- Grew Adjusted EBITDA to \$15 million, a quarter-over-quarter increase of 14%
- Captured \$14 million of additional annualized cost savings with approximately \$11 million related to the lease of the forge facilities and equipment to AFGlobal Corp.; the full impact of the forge lease is expected to reach \$13 million over the course of the lease
- Total annualized cost savings have increased to approximately \$43 million since Q3 2018
- Maintained clean balance sheet with no debt and cash on hand of \$413 million as of 09/30/2019

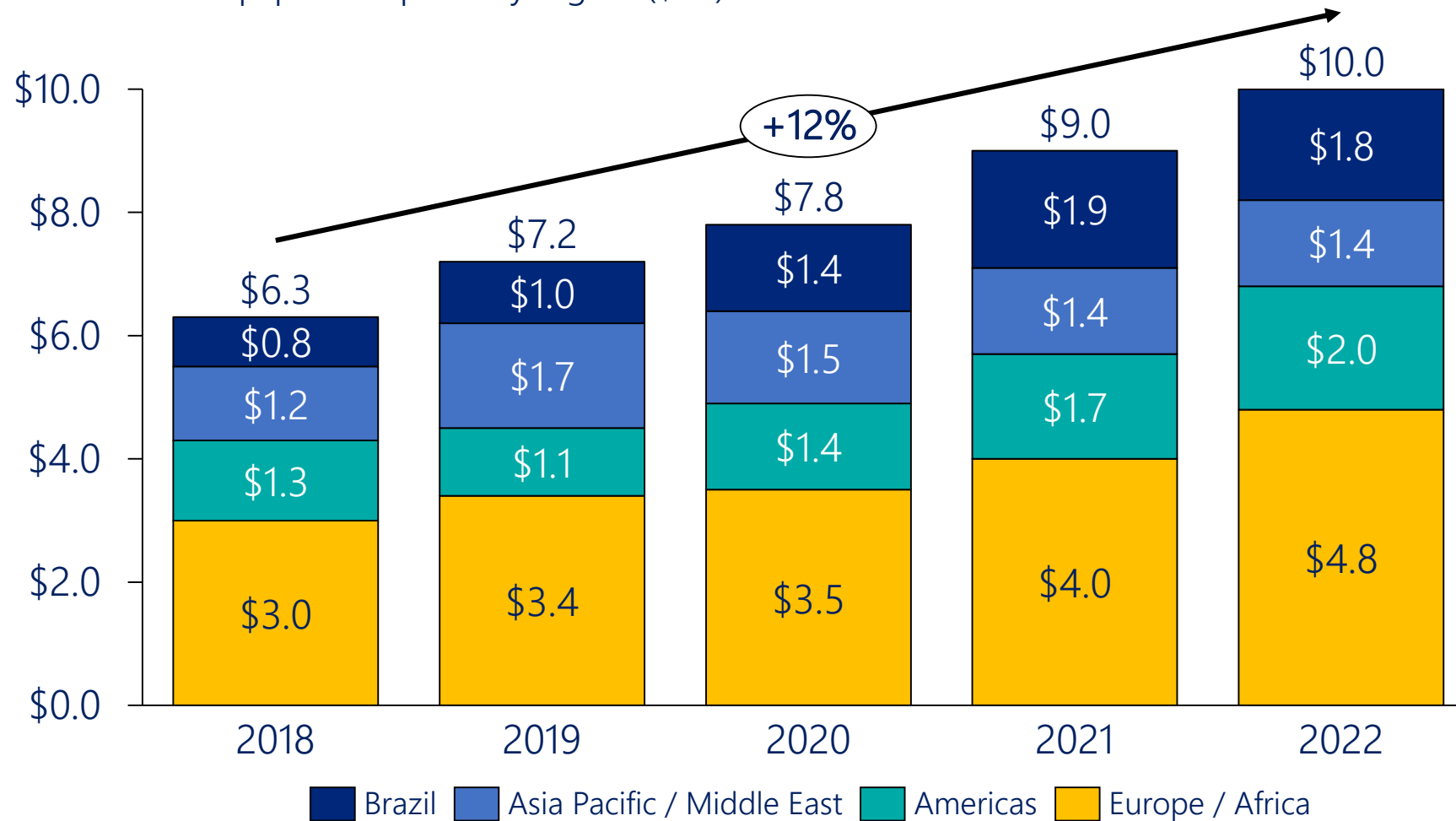
MARKET UPDATE

- Backlog of \$251 million as of 09/30/2019 after recording \$92 million of product bookings in Q3 and removing \$82 million related to award termination for CRD project
- Expect Q4 2019 product bookings to remain between \$75 - \$95 million
- Doubled addressable Subsea Production Systems (SPS) market as a result of focused R&D efforts on subsea trees
- Awarded contract to supply wellheads for upcoming drilling campaign for an IOC in Brazil
- Premier's Sea Lion Phase I project progressing with regulatory review and approval processes while advancing senior financing discussions



IMPROVING OUTLOOK FOR SUBSEA INVESTMENT

Subsea equipment spend by region (\$bn)

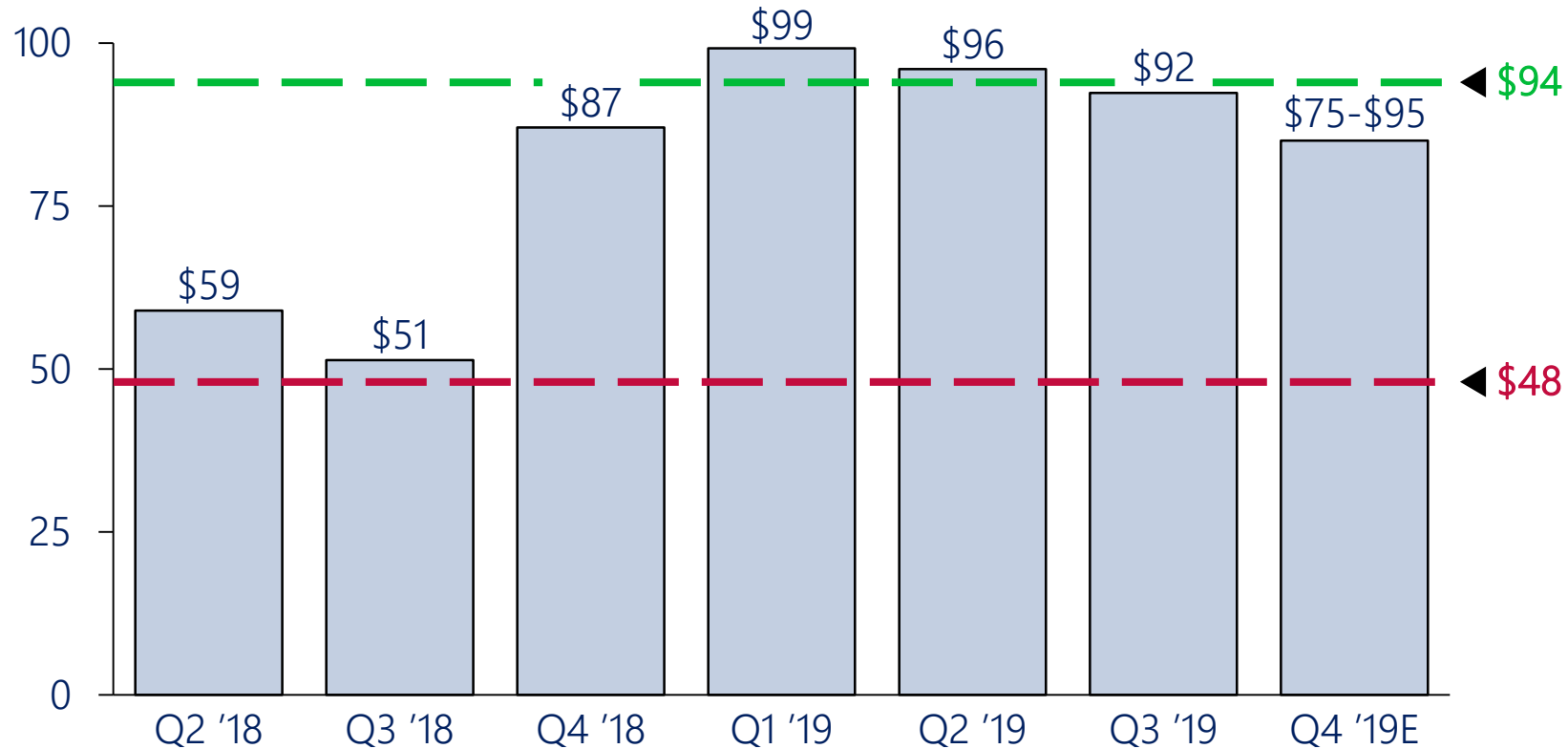


| 2018 – 2022 CAGR | |
|-------------------------|-----|
| Brazil | 22% |
| Asia Pac. / Middle East | 4% |
| Americas (excl. Brazil) | 11% |
| Europe / Africa | 12% |
| <hr/> | |
| Total (excl. Brazil) | 11% |

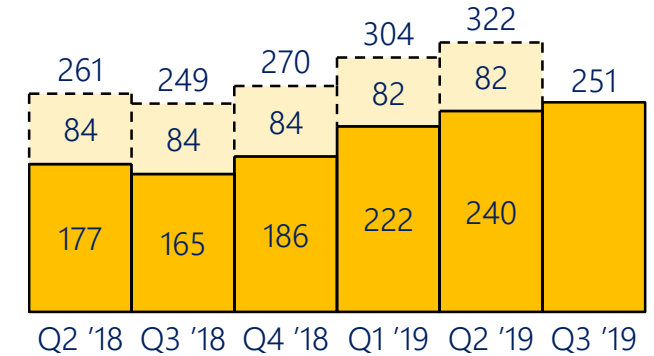
Product Portfolio Optimized to Capture Increased Well Spend

FAVORABLE BOOKINGS TREND CONTINUES

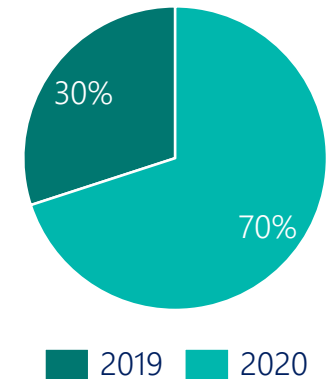
Product Bookings (\$mm)



Ending Backlog (\$mm)



Estimated Backlog Conversion to Revenue as of Q3 '19



STRATEGIC PRIORITIES

























Commercial Excellence

- Commercialization of research & development
- Transformation of sales organization

Transformation & LEAN Implementation

- Footprint optimization
- Integrated supply chain
- LEAN as a way of doing business

DEEPENING MARKET PENETRATION

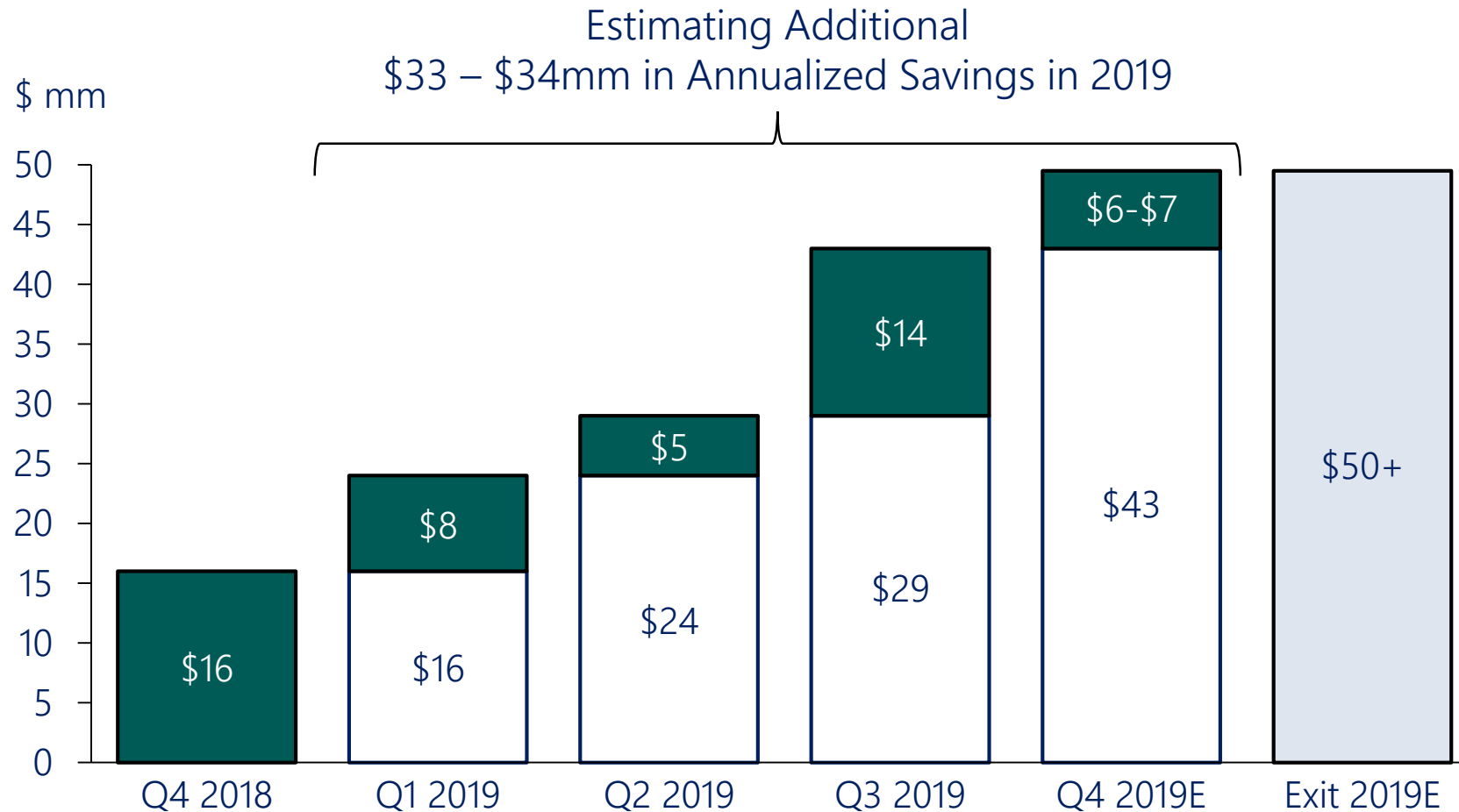
| | Expanding Scope with Existing Customers | New Customer Relationships |
|---|--|---|
| SPS |     |   |
| Wellheads |   |        |
| Connectors |    |       |
| Focused Sales Efforts Resulting in Increased Scope and Customer Mix | | |

FORGE OPERATIONS LEASE TO AFGLOBAL

Entered Into
Agreement with
AFGlobal Corp.
to Assume Forge
Operations

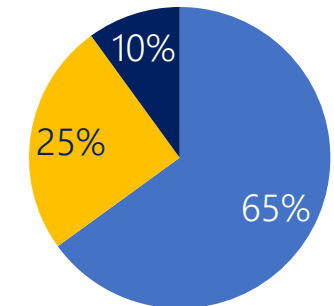
- Lease of Forge, Heat Treat, Rough Machining, and Mechanical Lab facilities and equipment with option to buy
- Effective October 1, 2019
- Will continue to support Dril-Quip's manufacturing demand for forgings
- Contributes approximately \$11 million annually towards transformation target
 - Full impact expected to be \$13 million over course of the lease
 - Helps to achieve overall cost savings target of \$40 – \$50 million

OPTIMIZING COST STRUCTURE

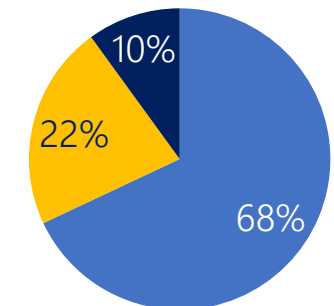


Annualized Savings Mix

Q4 '18 – Q3 '19
\$43 million captured



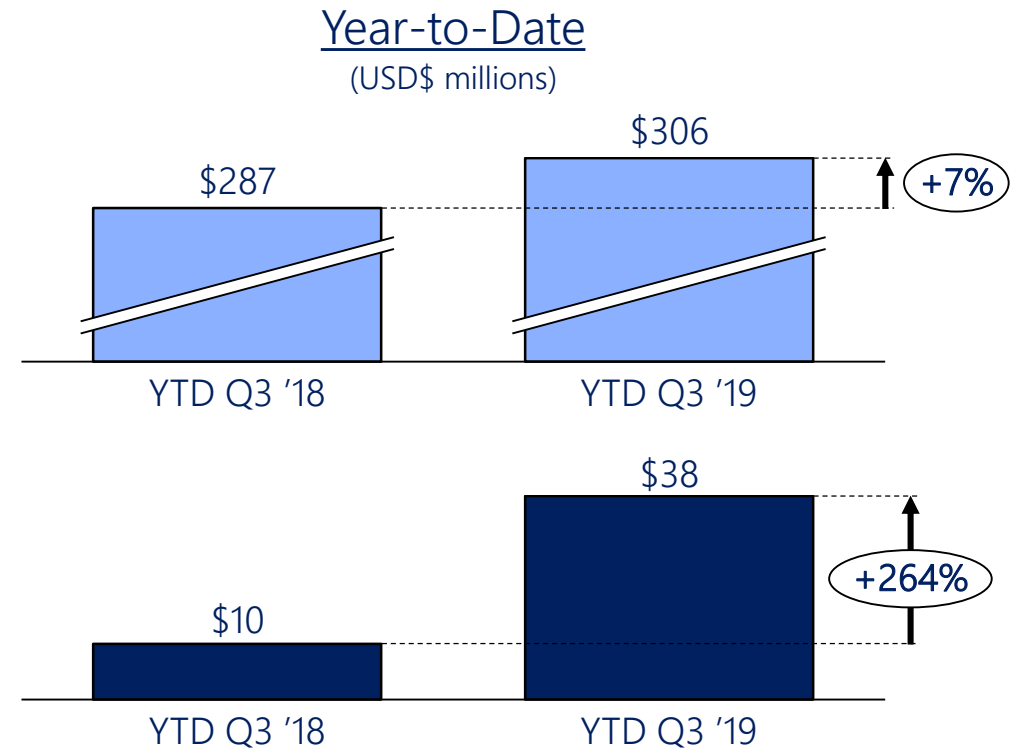
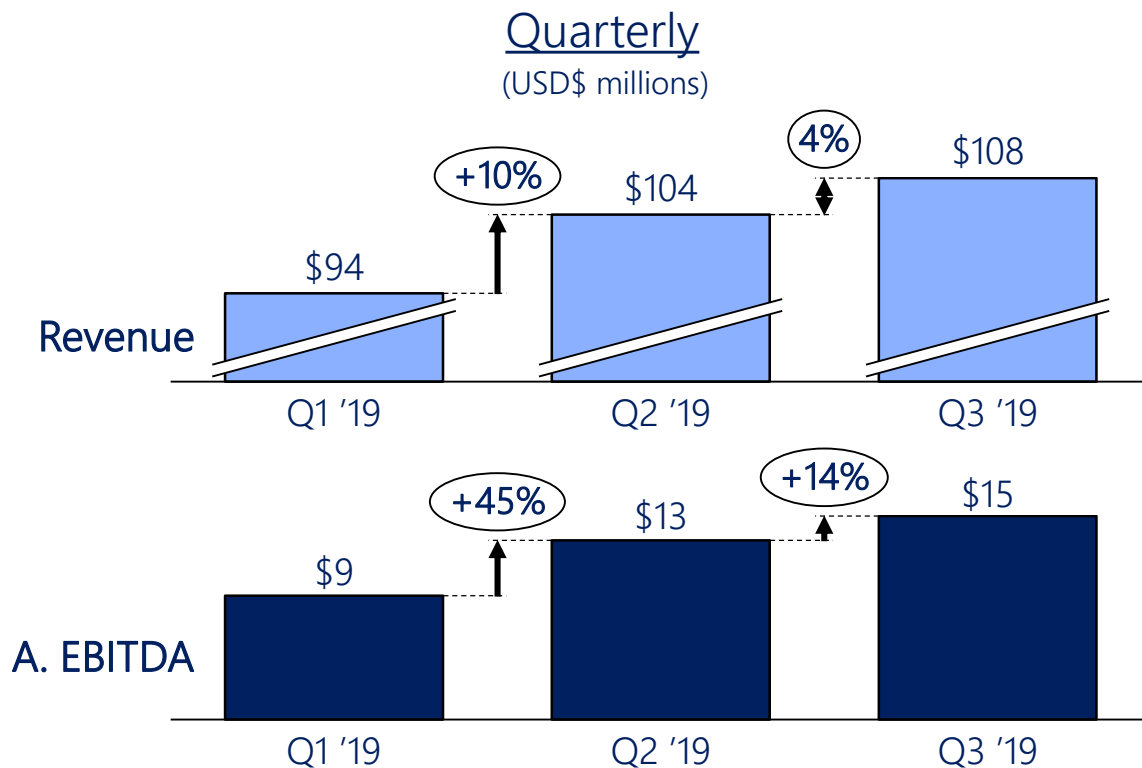
Beginning 2020
Forecasting \$50+ million



Mfg SG&A Eng / R&D

Transformation Efforts Ahead of Schedule; Targeting High-End of Range

ADJUSTED EBITDA PROGRESSION

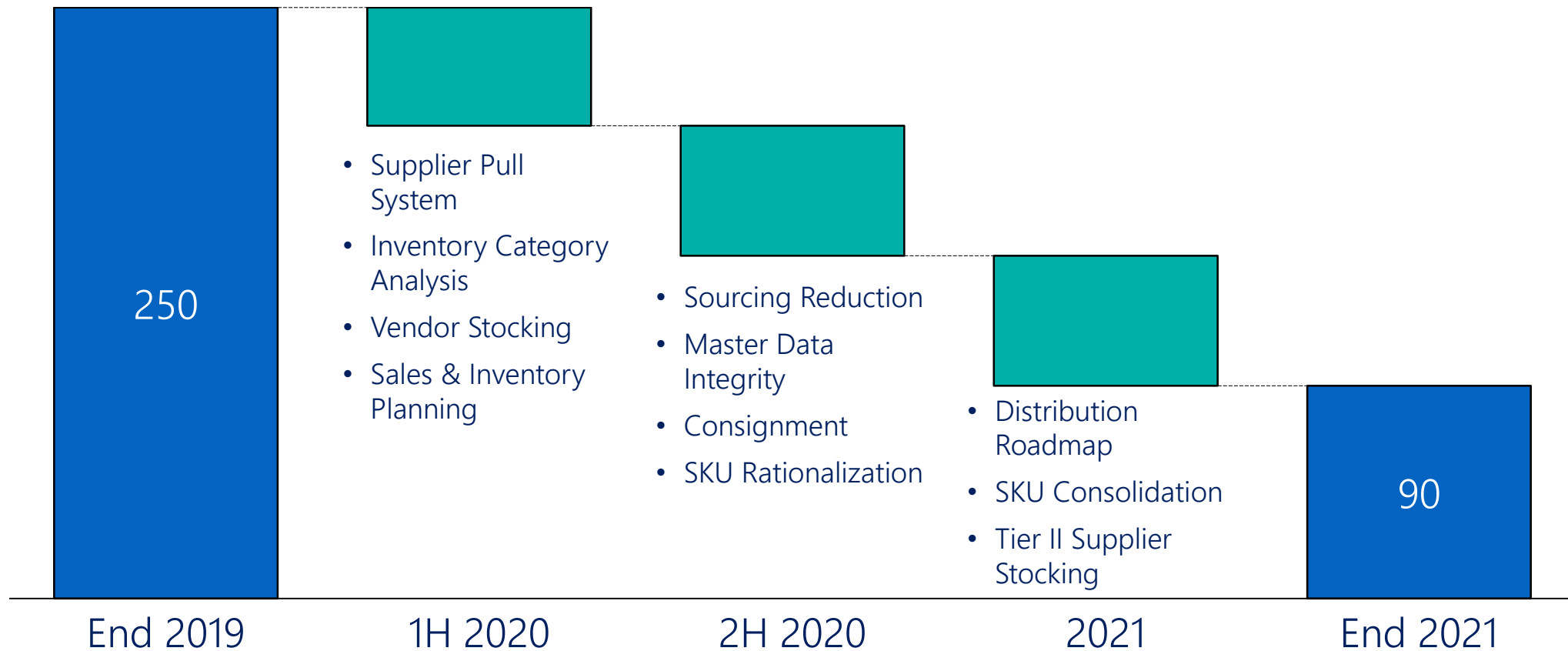


- Favorable incrementals muted by negative mix
- Out of period adjustment offset by earn out contingency release

Transformation Savings Favorably Impacting Profitability

INVENTORY STRATEGY TO 2021

Days Sales of Inventory



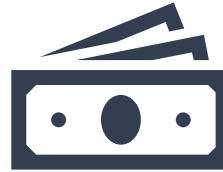
Putting the Tools in Place to Provide Significant Working Capital Reduction

MAINTAINING CAPITAL DISCIPLINE



Capital Expenditures

- 2019E capex of \$10-\$15 million
- Fund key projects & growth opportunities



Share Repurchases

- New \$100 million share repurchase plan approved by Board in Q1 2019
- Repurchased approximately \$5 million YTD as of Q3 2019 under new repurchase plan



Acquisitions

- Smaller, tuck-in in nature
- Complementary, R&D-focused technologies

Liquidity in Place to Support Increased Activity

PERFORMANCE TARGETS

Bookings Q4 '19E: \$75 - \$95 million

Revenue FY 2019E: \$405 - \$415 million

Free Cash
Flow Positive Full-Year Free Cash Flow

FY 2019E Capex: \$10 - \$15 million

APPENDIX

INCOME STATEMENT

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

| | Three months ended | | |
|---|---------------------------------------|---------------|--------------------|
| | September 30, 2019 | June 30, 2019 | September 30, 2018 |
| | (In thousands, except per share data) | | |
| Revenues: | | | |
| Products | \$ 81,851 | \$ 77,233 | \$ 63,246 |
| Services | 17,884 | 16,575 | 17,542 |
| Leasing | 8,492 | 10,000 | 12,469 |
| Total revenues | 108,227 | 103,808 | 93,257 |
| Costs and expenses: | | | |
| Cost of sales | 76,023 | 73,867 | 71,113 |
| Selling, general and administrative | 27,962 | 22,835 | 27,093 |
| Engineering and product development | 3,754 | 5,157 | 5,404 |
| Impairment, restructuring and other charges | 546 | 1,019 | 3,745 |
| Gain on sale of assets | (280) | (1,190) | (14) |
| Total costs and expenses | 108,005 | 101,688 | 107,341 |
| Operating income (loss) | 222 | 2,120 | (14,084) |
| Interest income | 1,906 | 2,680 | 1,893 |
| Interest expense | (26) | - | (195) |
| Income tax provision (benefit) | 3,412 | 3,119 | (2,028) |
| Net income (loss) | \$ (1,310) | \$ 1,681 | \$ (10,358) |
| Earnings (loss) per share | \$ (0.04) | \$ 0.05 | \$ (0.28) |
| Depreciation and amortization | \$ 8,304 | \$ 8,495 | \$ 8,724 |
| Capital expenditures | \$ 4,022 | \$ 1,071 | \$ 7,078 |

BALANCE SHEET

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

| | September 30, 2019 | December 31, 2018 |
|--------------------------------|---------------------|---------------------|
| | (In thousands) | |
| Assets: | | |
| Cash and cash equivalents | \$ 413,102 | \$ 418,100 |
| Other current assets | 465,617 | 434,881 |
| PP&E, net | 259,423 | 274,123 |
| Other assets | 67,493 | 65,406 |
| Total assets | <u>\$ 1,205,635</u> | <u>\$ 1,192,510</u> |
| Liabilities and Equity: | | |
| Current liabilities | \$ 96,533 | \$ 82,258 |
| Long-term debt | - | - |
| Deferred Income taxes | 2,259 | 2,466 |
| Other long-term liabilities | 14,171 | 11,624 |
| Total liabilities | <u>112,963</u> | <u>96,348</u> |
| Total stockholders equity | <u>1,092,672</u> | <u>1,096,162</u> |
| Total liabilities and equity | <u>\$ 1,205,635</u> | <u>\$ 1,192,510</u> |

NON-GAAP FINANCIAL MEASURES

Adjusted Net Income and EPS:

| | Three months ended | | | | | |
|--|--|---|--|---|--|---|
| | September 30, 2019 | | June 30, 2019 | | September 30, 2018 | |
| | 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 amounts) | | | | | | |
| Net income (loss) | \$ (1,310) | \$ (0.04) | \$ 1,681 | \$ 0.05 | \$ (10,352) | \$ (0.28) |
| Adjustments (after tax): | | | | | | |
| Reverse the effect of foreign currency | (903) | (0.03) | (184) | (0.01) | 32 | - |
| Restructuring costs, including severance | 432 | 0.01 | 805 | 0.02 | 2,959 | 0.08 |
| Gain on sale of assets | (221) | (0.01) | (940) | (0.03) | (11) | - |
| Adjusted net income (loss) | <u>\$ (2,002)</u> | <u>\$ (0.07)</u> | <u>\$ 1,362</u> | <u>\$ 0.03</u> | <u>\$ (7,372)</u> | <u>\$ (0.20)</u> |

NON-GAAP FINANCIAL MEASURES

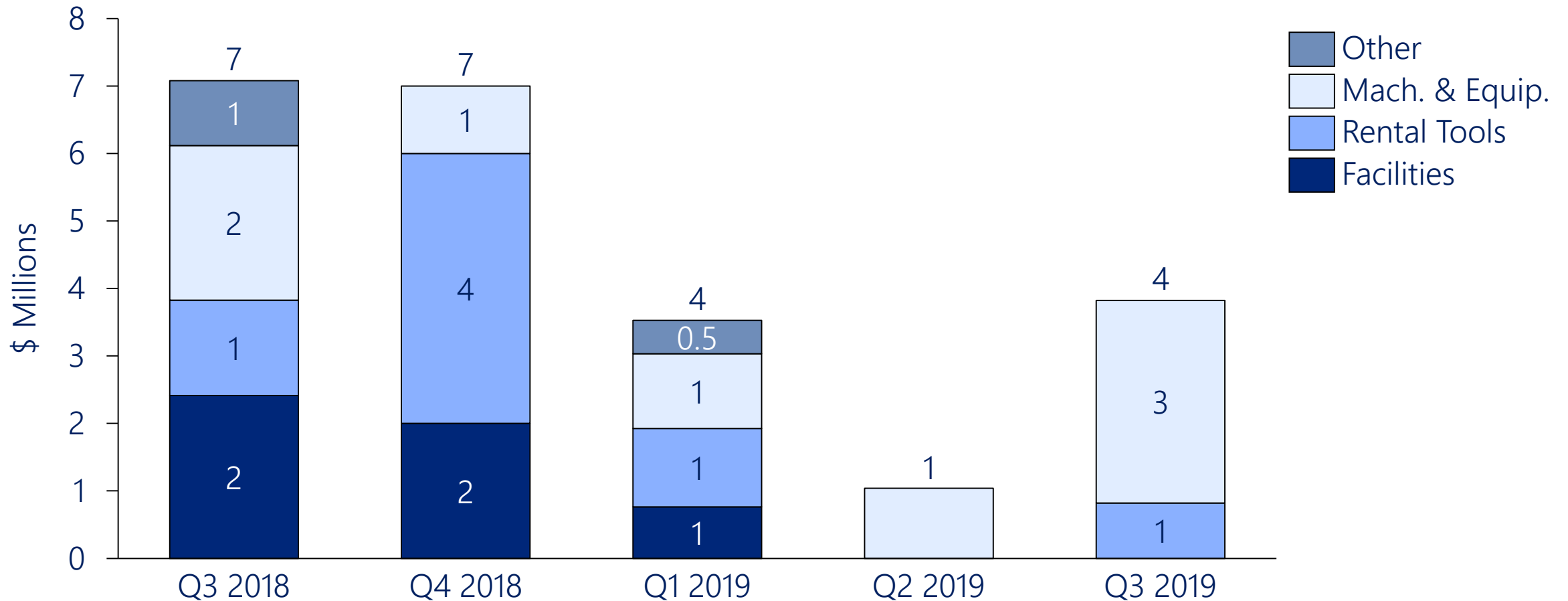
Adjusted EBITDA:

| | Three months ended | | |
|--|--------------------|---------------|--------------------|
| | September 30, 2019 | June 30, 2019 | September 30, 2018 |
| | (In thousands) | | |
| Net income (loss) | \$ (1,310) | \$ 1,681 | \$ (10,358) |
| Add: | | | |
| Interest (income) expense | (1,880) | (2,680) | (1,698) |
| Income tax expense (benefit) | 3,412 | 3,119 | (2,028) |
| Depreciation and amortization expense | 8,304 | 8,495 | 8,724 |
| Restructuring costs, including severance | 546 | 1,019 | 3,745 |
| Gain on sale of assets | (280) | (1,190) | (14) |
| Foreign currency loss (gain) | (1,143) | (233) | 41 |
| Stock compensation expense | 7,663 | 3,221 | 2,366 |
| Adjusted EBITDA | \$ 15,312 | \$ 13,432 | \$ 778 |

Free Cash Flow:

| | Three months ended | | |
|---|--------------------|---------------|--------------------|
| | September 30, 2019 | June 30, 2019 | September 30, 2018 |
| | (In thousands) | | |
| Net cash provided by operating activities | \$ (4,026) | \$ 9,812 | \$ 9,141 |
| Less: | | | |
| Purchase of property, plant and equipment | (4,022) | (1,071) | (7,078) |
| Free cash flow | \$ (8,048) | \$ 8,741 | \$ 2,063 |

CAPITAL EXPENDITURES



Annual Maintenance Capex ~\$10 - \$15 million

NYSE: DRQ

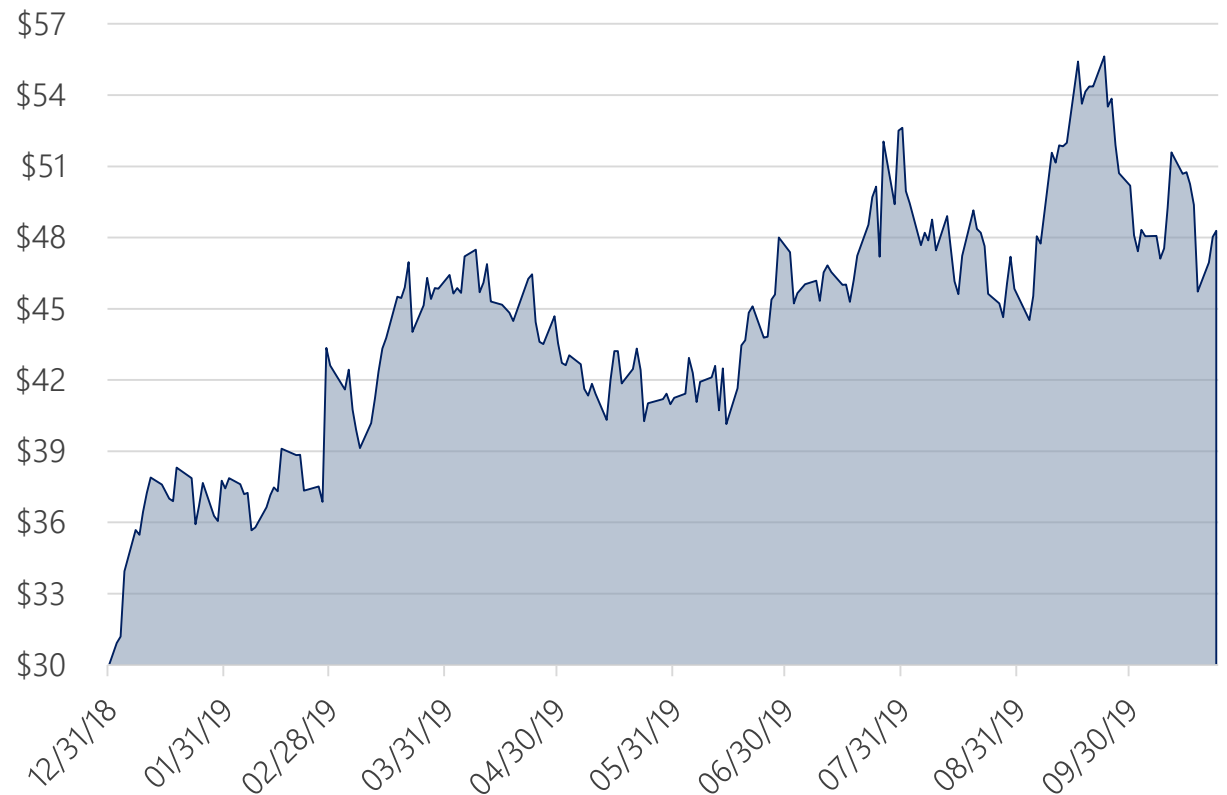
MARKET INFORMATION

| | |
|------------------------------------|-------------------|
| Ticker | NYSE: DRQ |
| Share Price (at close: 10/23/19) | \$48.29 |
| 52-Week Range | \$26.62 - \$56.71 |
| YTD Return | 60.8% |
| Shares Outstanding @ 10/22/19 (mm) | 36.2 |
| Market Cap (\$mm) | \$1,747 |
| Enterprise Value (\$mm) | \$1,334 |

BALANCE SHEET METRICS (\$MM)

| | |
|--------------------------------------|---------|
| Non-cash Working Capital | \$369 |
| Book Value / Share | \$30.20 |
| Cash / Share | \$11.42 |
| Non-cash WC / Share | \$10.20 |
| Total Debt / Capitalization | 0% |
| Total Share Repurchases 2019 to Date | \$2.0 |

DRQ Closing Share Price (USD\$/sh)



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)