

DRIL-QUIP®

First Quarter 2019 Supplemental Earnings Information

drilquip.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, project bookings, 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.

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



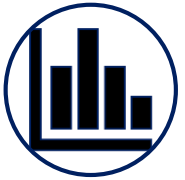
Leading Manufacturer of Highly Engineered Drilling & Production Equipment



Technically Innovative Products & First-class Service



Strong Financial Position



Historically Superior Margins to Peers



Experienced Management Team



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

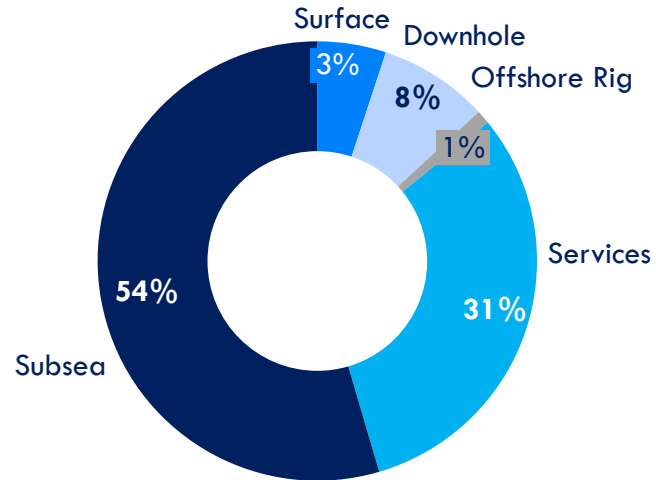
- Wellhead Connectors
- Diverters
- Drilling Risers

Aftermarket Services

- Reconditioning
- Rental Tools
- Technical Advisory

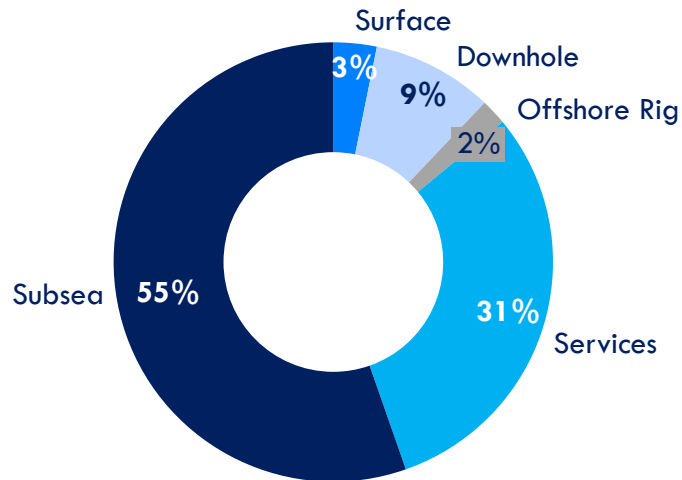
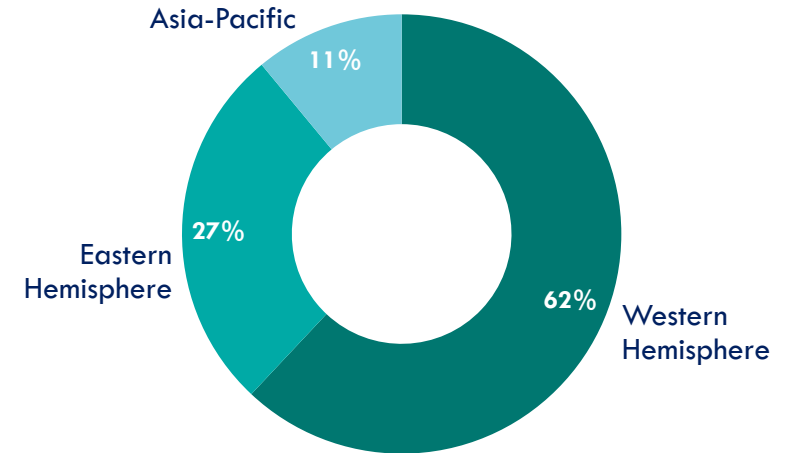
Revenue Mix

By Product and Service Segment

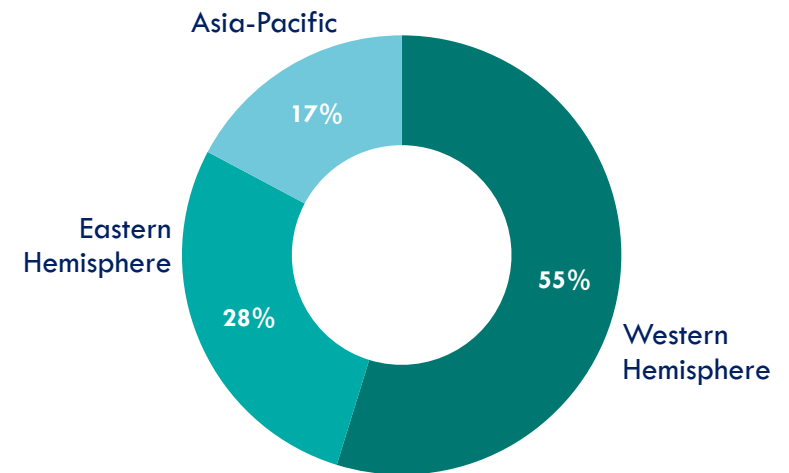


FY 2018
Total Revenue:
\$385 million

By Geographic Area



Q1 2019
Total Revenue:
\$94 million



Snapshot

MARKET INFORMATION

Ticker	NYSE: DRQ
Share Price (4/24/19)	\$44.45
52-Week Range	\$26.62 - \$58.95
YTD Return	48.0%
Shares Outstanding @ 4/25/19 (mm)	36.2
Market Cap (\$mm)	\$1,610
Enterprise Value (\$mm)	\$1,196

BALANCE SHEET as of 3/31/2019 (\$MM)

Cash & Cash Equivalents	\$415
PP&E (net)	270
Goodwill	8
Total Assets	\$1,184
ST Debt	-
LT Debt	-
Total Liabilities	\$88
Total Equity	\$1,095

ENDING BACKLOG



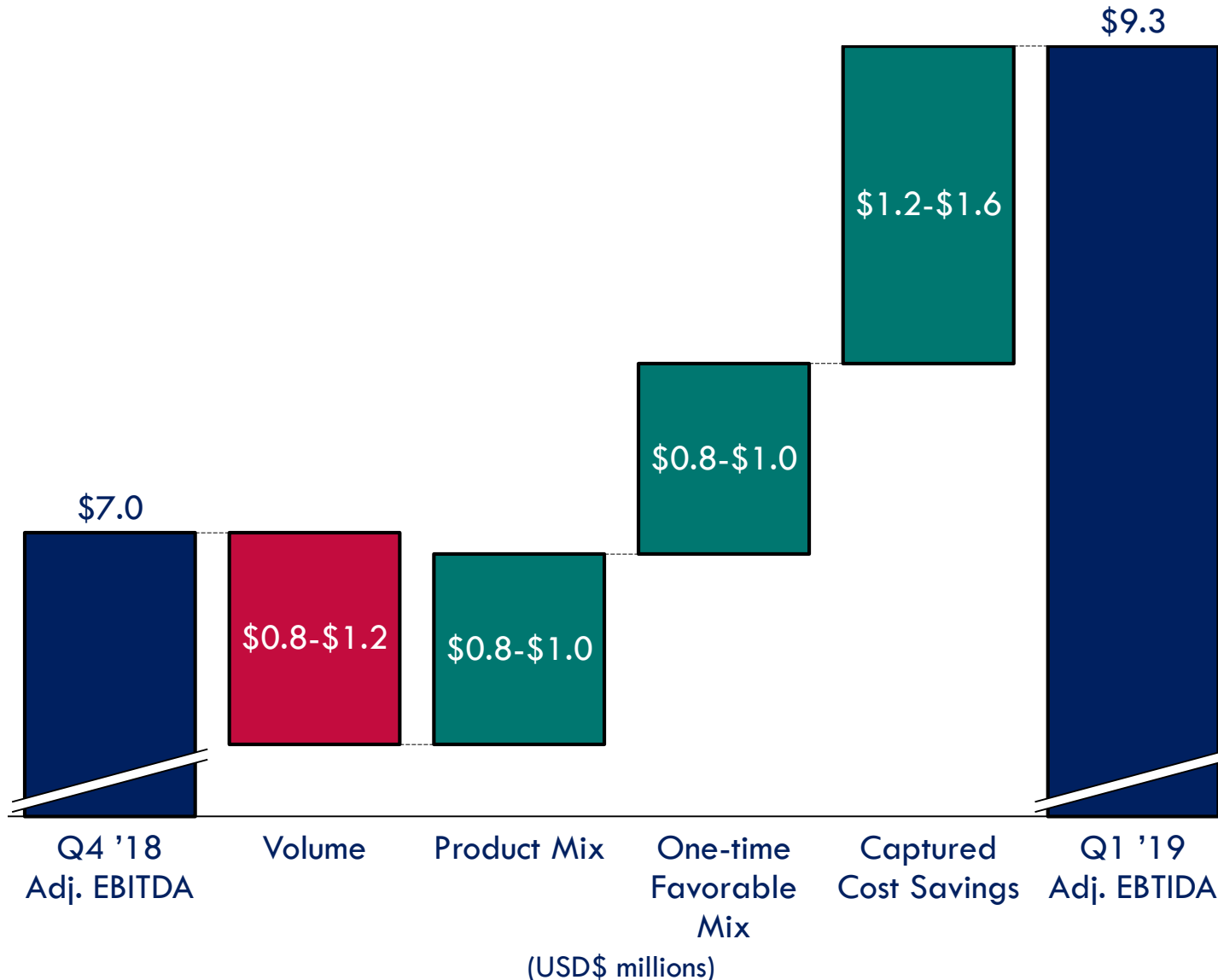
BALANCE SHEET METRICS (\$MM)

Non-cash Working Capital	\$358
Book Value / Share	\$30.24
Cash / Share	\$11.45
Non-cash WC / Share	\$9.88
Total Debt / Capitalization	0%
Total Share Repurchases 2019 to Date	\$1.1

Q1 2019 Highlights

- Recorded revenue of \$94.3 million, near the midpoint of the guidance range of \$90 – \$100 million
- Increased non-project bookings to \$99 million, which is the second consecutive quarter of strong bookings
- Received several significant new orders to supply new technology products
- Generated net cash provided by operating activities of \$0.8 million and negative free cash flow of \$2.7 million, which includes \$5 million of payments related to restructuring. Exclusive of these payments, free cash flow was positive \$2.3 million
- Grew Adjusted EBITDA to \$9.3 million
- Captured \$8 million of additional annualized cost reductions in Q1 2019, increasing total annualized savings to ~\$24 million

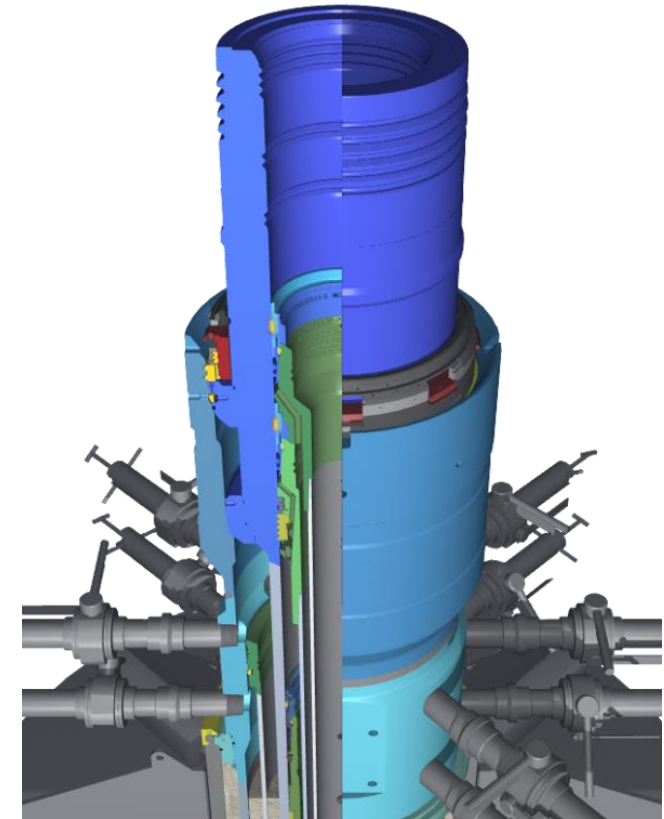
Adjusted EBITDA Analysis



- Quarter-over-quarter increase in Adjusted EBITDA partially due to favorable product mix
- Transformation efforts resulted in additional cost savings in Q1 '19
 - Achieved annualized savings of \$8 million in Q1 '19
 - Full effect of these savings to be realized in Q2 '19

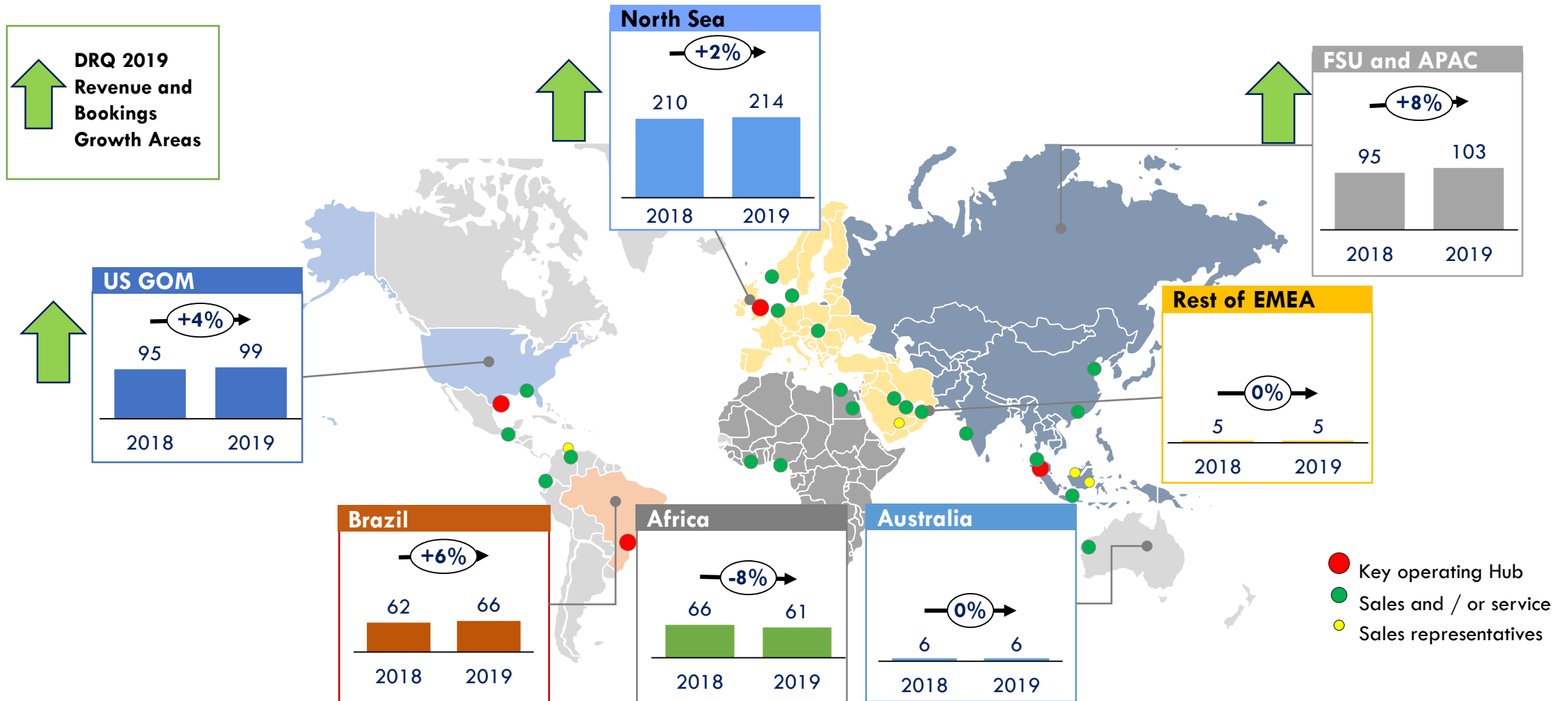
Market Update

- Q1 2019 was the strongest non-project bookings quarter since 2014
- Encouraging signs of bidding and service activity
- Grew backlog to \$304 million as of 3/31/2019
- Q2 2019 product bookings expected to be between \$75 - 95 million
- Received \$25 - \$35 million order from BP to supply subsea wellhead systems with optionality around BigBore Ile™ wellhead system
- In early Q2 2019, received an initial order for a 20K development in the GOM that combines several new technology products, including the BigBore Ile™ wellhead system, Badger™ connector system and DXe™ profile
- Extended the Ca Rong Do (CRD) Letter of Award with Repsol to 12/31/2019
 - CRD remains in backlog but not included in 2019 revenue guidance
- Backlog excludes Sea Lion Phase I, which is estimated at >\$200 million

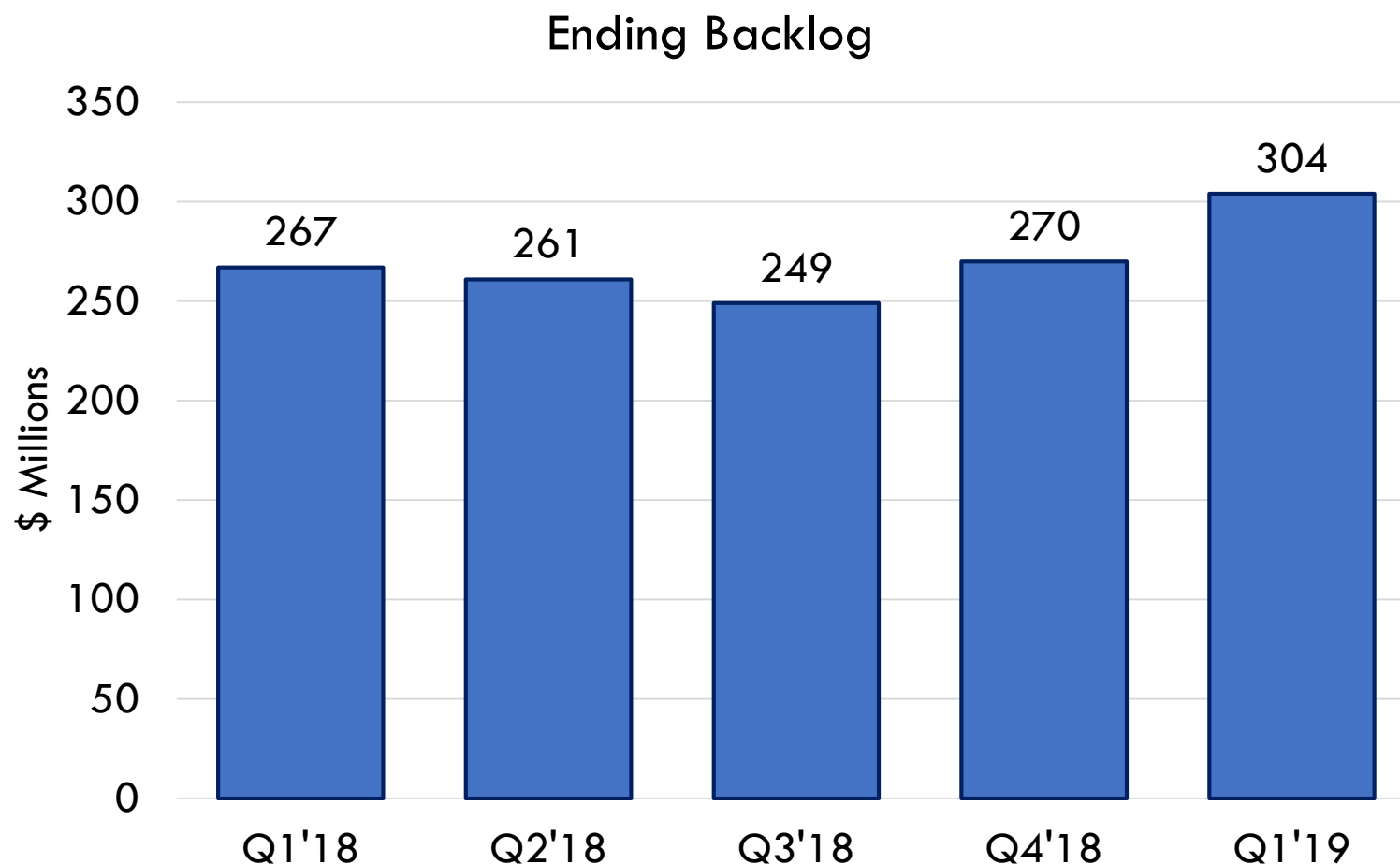


Well-Positioned to Serve Offshore Markets

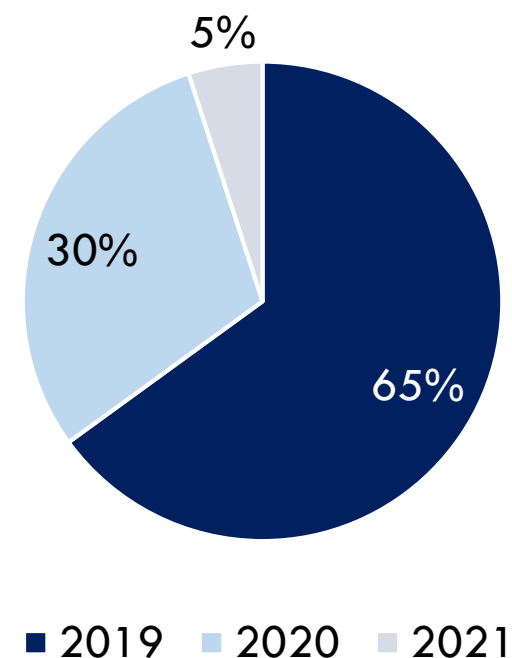
Deepwater wells drilled by region (number of wells)



Improving Backlog



Backlog Conversion To Future Revenue



Increased Q1'19 Non-Project Bookings to \$99 million, the Highest Level Since 2014

Note: The backlog data shown above includes all bookings as of March 31, 2019, including contract awards and signed purchase orders for which the contracts would not be considered enforceable under ASC 606.

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)

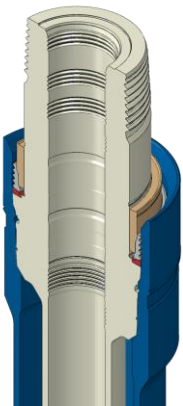
Research & Development

R&D is Key to Achieving Commercial Excellence

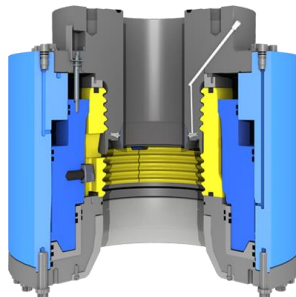
- Developing innovative products that structurally reduce total cost of ownership
- Expanding product portfolio to increase markets and market share
- Presented with *OTC Spotlight on New Technology* award for new products:
 - 2017 – BigBore IIe Wellhead System (BB IIe) & DXe Wellhead Connector
 - 2018 – HFRe Hands-Free Drilling Riser
 - 2019 – *Double Expansion XPak Liner Hanger*



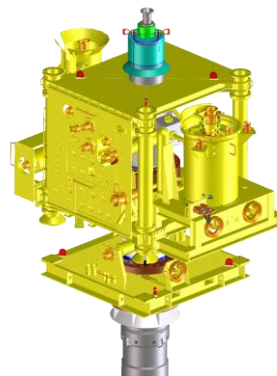
BigBore IIe
Wellhead



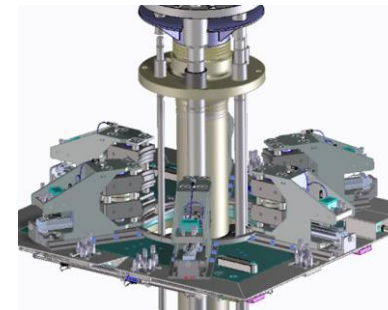
DXe Wellhead
Connector



Concentric Monobore
& HorizontalBore Trees



HFRe Hands-Free
Drilling Riser



Double Expansion
XPAK Liner Hanger



Executing on Commercial Excellence

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

Subsea Production Systems

- R&D efforts served as key element for Sea Lion LOI & Frame Agreement
- Installation of 1st deepwater VXT Concentric Bore Tree expected in 2019

DXe Connector

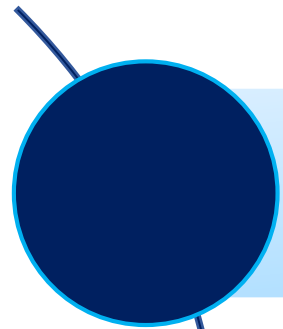
- Received first order for wellhead system specifying the DXe profile
- Emerging as the standard profile for HPHT wellhead connectors
- Connector profile licensed to three large peers

BigBore IIe

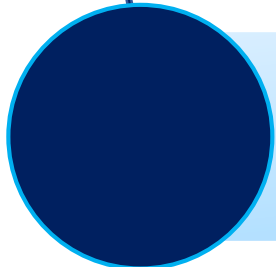
- Recently received award from BP that includes optionality for BB IIe
- Large customer standardizing on BB IIe wellhead with DXe profile
- First customer conversion to BB IIe profile in 2019

Award-Winning R&D Efforts Driving New Product Revenue

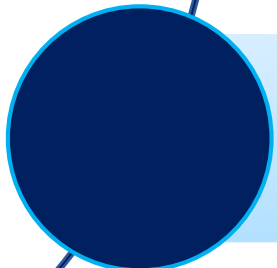
Overview of the Business Transformation



EBITDA Improvement – \$40-50 million in run rate enhancement across all elements of cost structure by year-end 2019



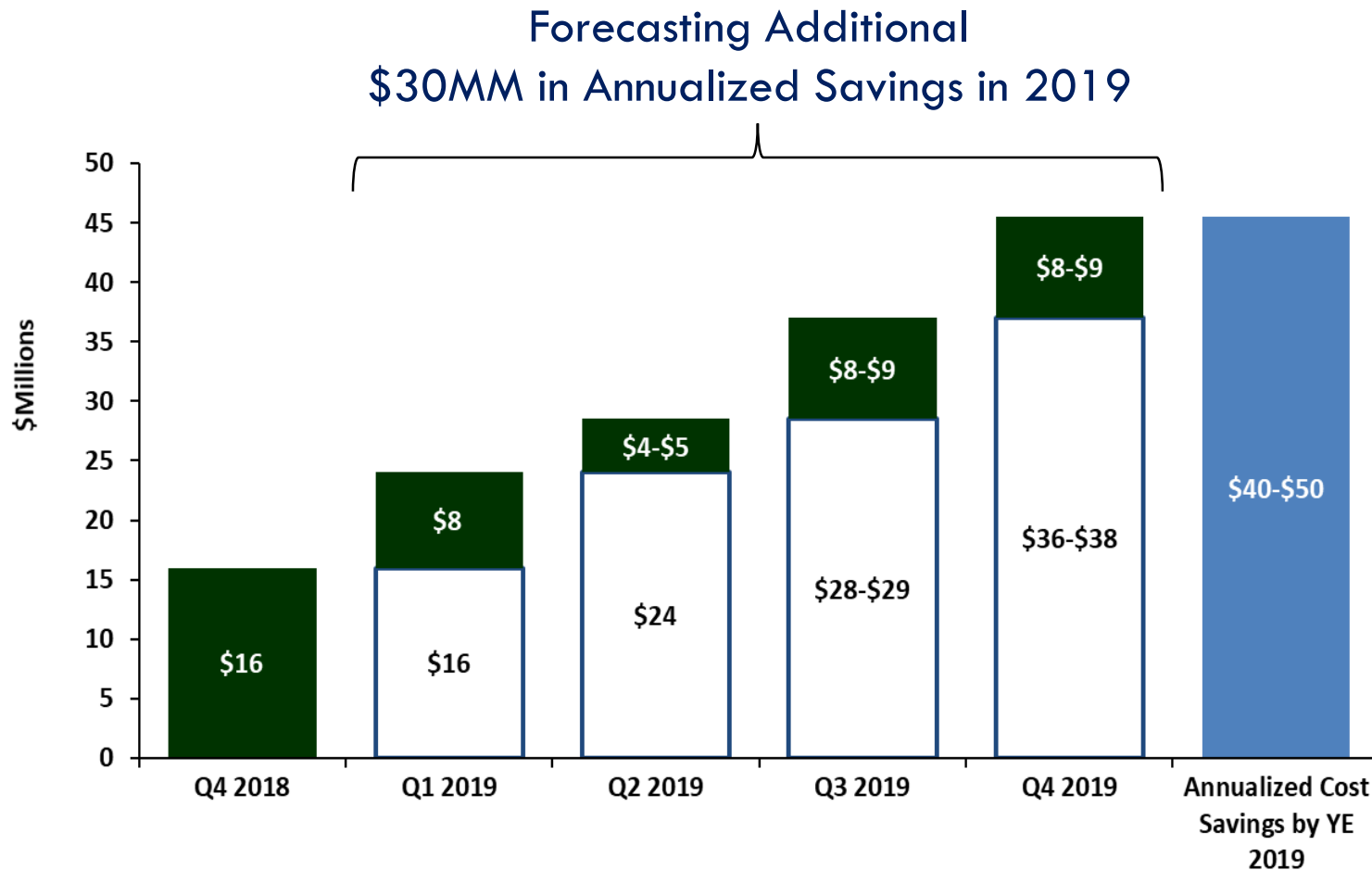
Broad Workforce Engagement – including distributed initiative ownership and frontline idea generation



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

Structured Approach to Improve Cost Performance Across All Areas

Accelerating Annualized Cost Savings in 2019



- **Building on 2018 annualized savings of \$16 million**
 - Q1'19 additional savings of \$8 million
 - Q2'19 focused on additional organizational realignment
 - Q3'19 and Q4'19 focused on footprint rationalization and supplier optimization
 - Mid to late Q3'19 rationalization of Forge
- **2020+ focused on integrated supply chain and procurement realignment projects; additional savings above the \$40 - \$50 million expected**

Annualized Cost Savings Captured to Date Exceeding Expectations

Sustainable Cost-Saving Initiatives

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

Manufacturing

- Optimize footprint
- Implement lean practices
- Improve operational discipline

Supply chain

- Improve sourcing practices
- Consolidate supply base
- Realization begins in 2020

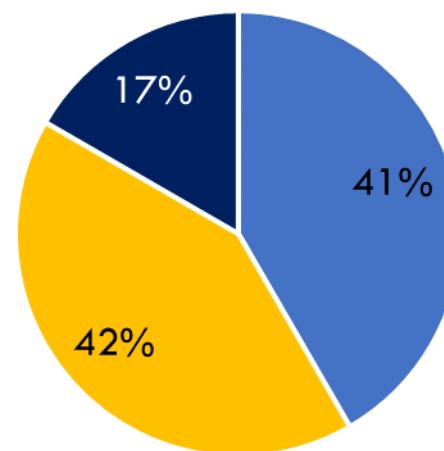
SG&A

- Optimize G&A functions
- Leverage global footprint

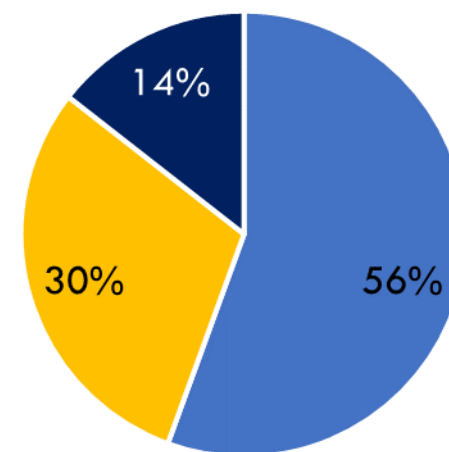
Engineering and R&D

- Rationalize structure and support levels

Q4'18 - Q1'19
Captured \$24MM
Annualized Savings



Beginning 2020
Forecasting \$40 - \$50MM
Annualized Savings



■ Mfg ■ SG&A ■ Eng / R&D

Note: Charts above depict the percent of stated annualized savings

On Track to Realize Annualized Savings Target for 2019

Liquidity Allocation Strategy

SOURCES

(\$ millions)

Internal Cash	\$415
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ABL Credit Facility Capacity	40
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Available Liquidity	\$455
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Notes

- Balances as of March 31, 2019
- 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; \$1.1 million in repurchases year-to-date

POTENTIAL USES

(\$ millions)

New Share Repurchase Plan	\$100
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Fund Upturn & Key Projects (Increasing Order Trend)	150 – 200
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Pursue Complementary Technology Tuck-in Acquisitions	50 – 100
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Restructuring Charges	10 – 15
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**Liquidity in Place to Support Increased Activity,
Despite Growing Cash Demands – Targeting Full-Year Free Cash Flow Positive**

2019 Outlook & Targeted Cost Savings

Est. Q2 2019
Revenue:
\$90 - \$100 million
(at high-end of range)

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

Adj. EBITDA Growth
Benefiting from
Cost Savings Actions

Est. Q2 2019
Bookings:
\$75 - \$95 million

Cost
Savings Expected
in 2019:
\$30 million

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

Targeting Positive
Full-Year Free Cash
Flow

Streamlining Structural Cost Base for Current and Future Environments



The image is a 3D digital rendering of an offshore oil and gas field. The upper portion shows a wide view of the ocean with several large offshore platforms and drilling rigs. The platforms are complex structures with cranes and various equipment. The water is a deep blue, and the sky is a mix of blue and orange, suggesting a sunset or sunrise. The lower portion of the image, separated by a white rectangular frame, provides a detailed view of the seabed. It shows the intricate network of pipes, valves, and structural supports that connect the platforms to the ocean floor. The seabed is depicted with realistic textures of sand, rock, and geological formations. The word "Appendix" is centered over the white frame in a large, white, sans-serif font.

Appendix

Income Statement

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

	Three months ended		
	March 31,2019	December 31,2018	March 31,2018
	(In thousands, except per share data)		
Revenues:			
Products	\$ 65,434	\$ 66,042	\$ 71,045
Services	18,476	19,411	17,463
Leasing	10,407	11,882	10,665
Total revenues	94,317	97,335	99,173
Costs and expenses:			
Cost of sales	69,376	73,436	73,485
Selling, general and administrative	24,544	24,380	27,547
Engineering and product development	3,617	5,173	4,418
Impairment, restructuring and other charges	2,396	94,257	-
Gain on sale of assets	(13)	(1,085)	-
Total costs and expenses	99,920	196,161	105,450
Operating income (loss)	(5,603)	(98,826)	(6,277)
Interest income	2,006	2,075	1,797
Interest expense	(121)	254	(2)
Income tax provision (benefit)	2,333	(21,585)	2,901
Net income (loss)	\$ (6,051)	\$ (74,912)	\$ (7,383)
Earnings (loss) per share	\$ (0.17)	\$ (2.09)	\$ (0.20)
Depreciation and amortization	\$ 8,356	\$ 9,346	\$ 8,241
Capital expenditures	\$ 3,527	\$ 5,378	\$ 10,571

Balance Sheet

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	<u>(In thousands)</u>	
Assets:		
Cash and cash equivalents	\$ 414,808	\$ 418,100
Other current assets	428,532	434,881
PP&E, net	270,424	274,123
Other assets	69,965	65,406
Total assets	<u>\$ 1,183,729</u>	<u>\$ 1,192,510</u>
Liabilities and Stockholders' Equity:		
Current liabilities	\$ 70,729	\$ 82,258
Long-term debt	-	-
Deferred taxes	2,332	2,466
Other long-term liabilities	15,263	11,624
Total liabilities	88,324	96,348
Stockholders' equity	1,095,405	1,096,162
Total liabilities and stockholders' equity	<u>\$ 1,183,729</u>	<u>\$ 1,192,510</u>

Non-GAAP Financial Measures

Adjusted Net Income and EPS:

	Three months ended					
	March 31, 2019		December 31, 2018		March 31, 2018	
	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)	\$ (6,051)	(0.17)	\$ (74,912)	\$ (2.09)	\$ (7,383)	\$ (0.20)
Adjustments (after tax)						
Reverse the effect of foreign currency	(556)	(0.02)	(156)	-	1,059	0.03
Add back impairment and other charges	-	-	67,569	1.88	-	-
Restructuring costs, including severance	2,396	0.07	6,894	0.19	474	0.01
Gain on sale of assets	(13)	(0.00)	(857)	(0.02)	-	-
Adjusted net income (loss)	\$ (4,224)	\$ (0.12)	\$ (1,462)	\$ (0.04)	\$ (5,850)	\$ (0.16)

Non-GAAP Financial Measures

Adjusted EBITDA:

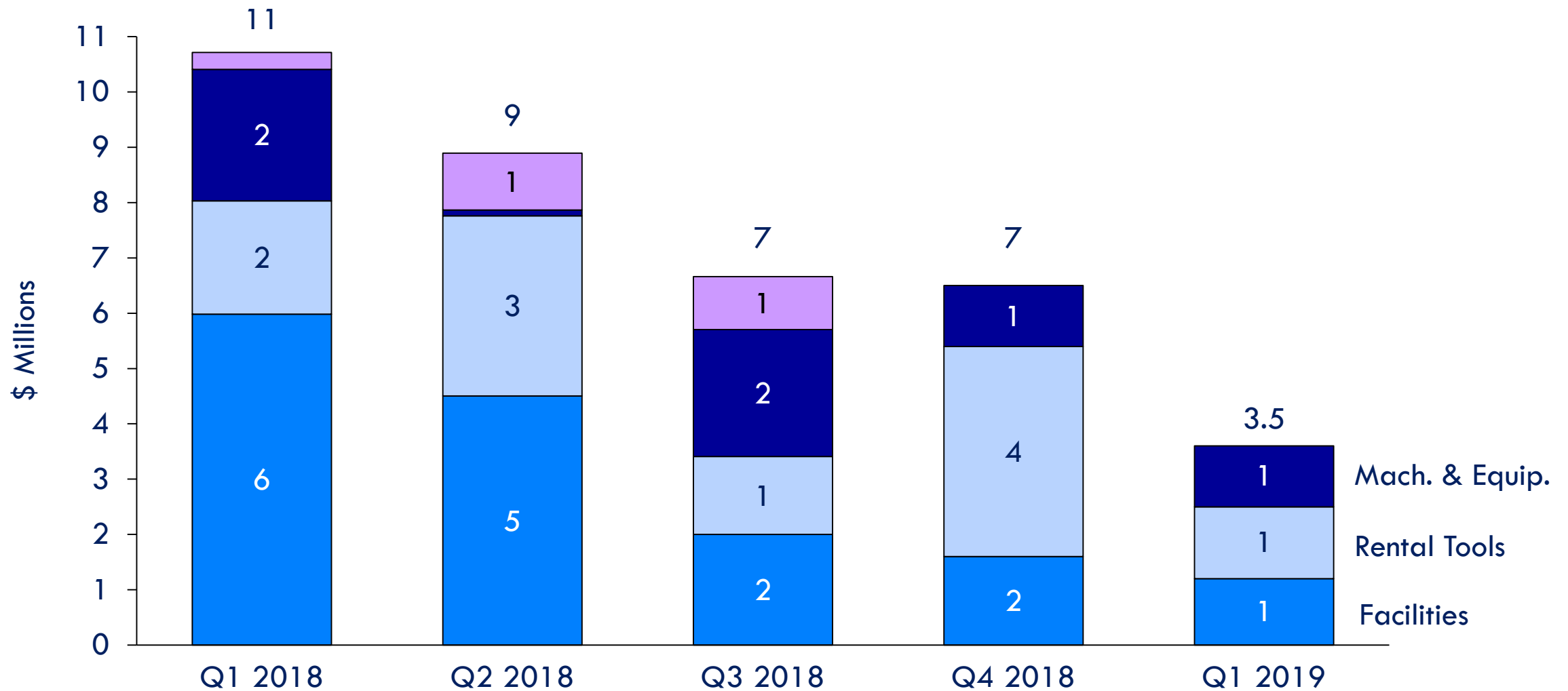
	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
	(In thousands)		
Net Income (Loss)	\$ (6,051)	\$ (74,912)	\$ (7,383)
Add:			
Interest (income) expense	(1,885)	(2,329)	(1,795)
Income tax expense (benefit)	2,333	(21,585)	2,901
Depreciation and amortization expense	8,356	9,346	8,241
Restructuring costs, including severance	2,396	8,726	600
Long-lived asset, inventory and goodwill impairments	-	85,531	-
Gain on sale of assets	(13)	(1,085)	-
Foreign currency loss (gain)	(704)	(197)	1,304
Stock compensation expense	4,862	3,509	3,974
Adjusted EBITDA (1)	\$ 9,294	\$ 7,004	\$ 7,842

Non-GAAP Financial Measures

Free Cash Flow:

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
		(In thousands)	
Net cash provided by operating activities	\$ 838	\$ 12,896	\$ 11,388
Less:			
Purchase of property, plant and equipment	(3,527)	(6,394)	(10,571)
Free Cash Flow	<u>\$ (2,689)</u>	<u>\$ 6,502</u>	<u>\$ 817</u>

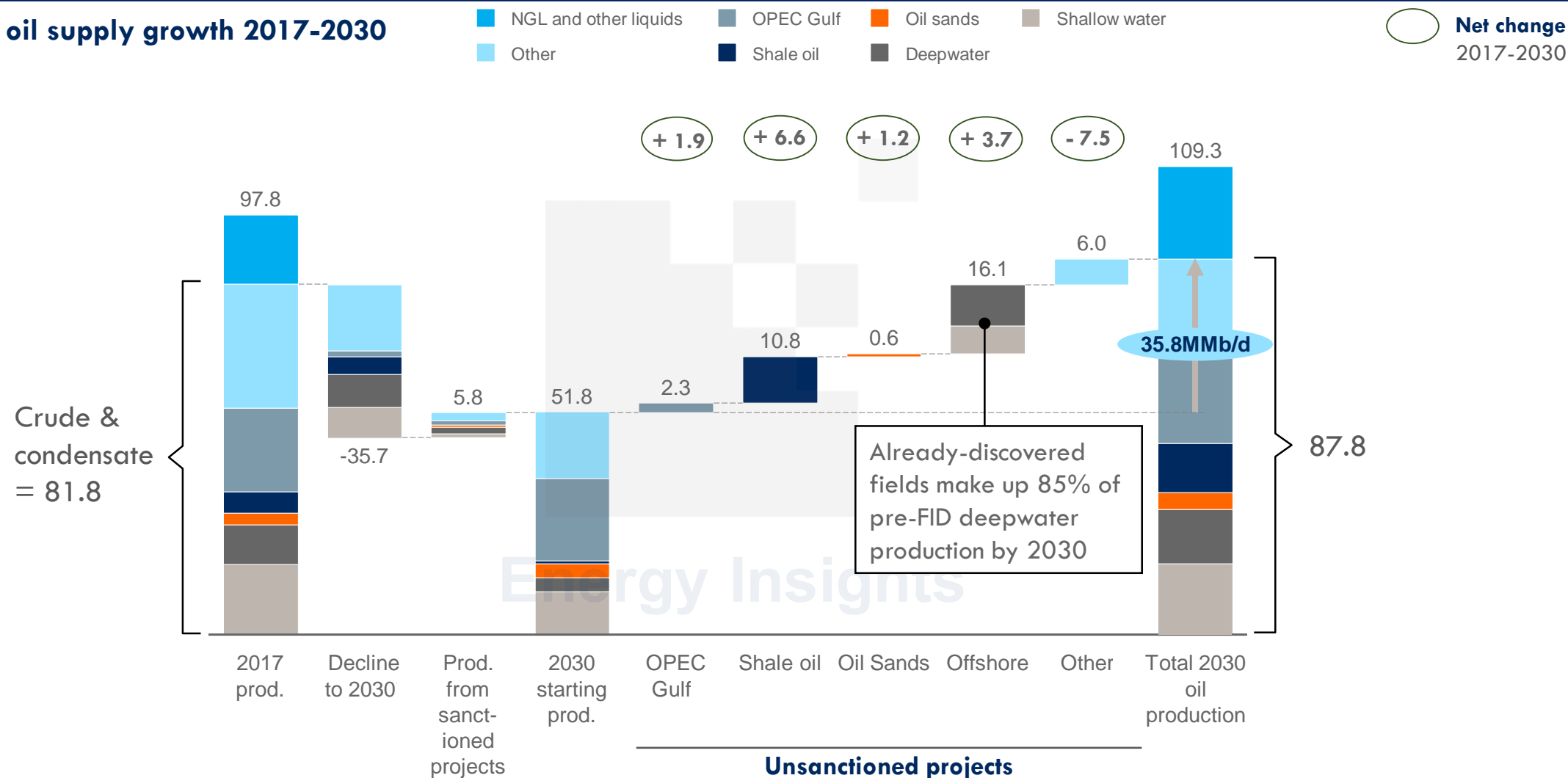
Capital Expenditures



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

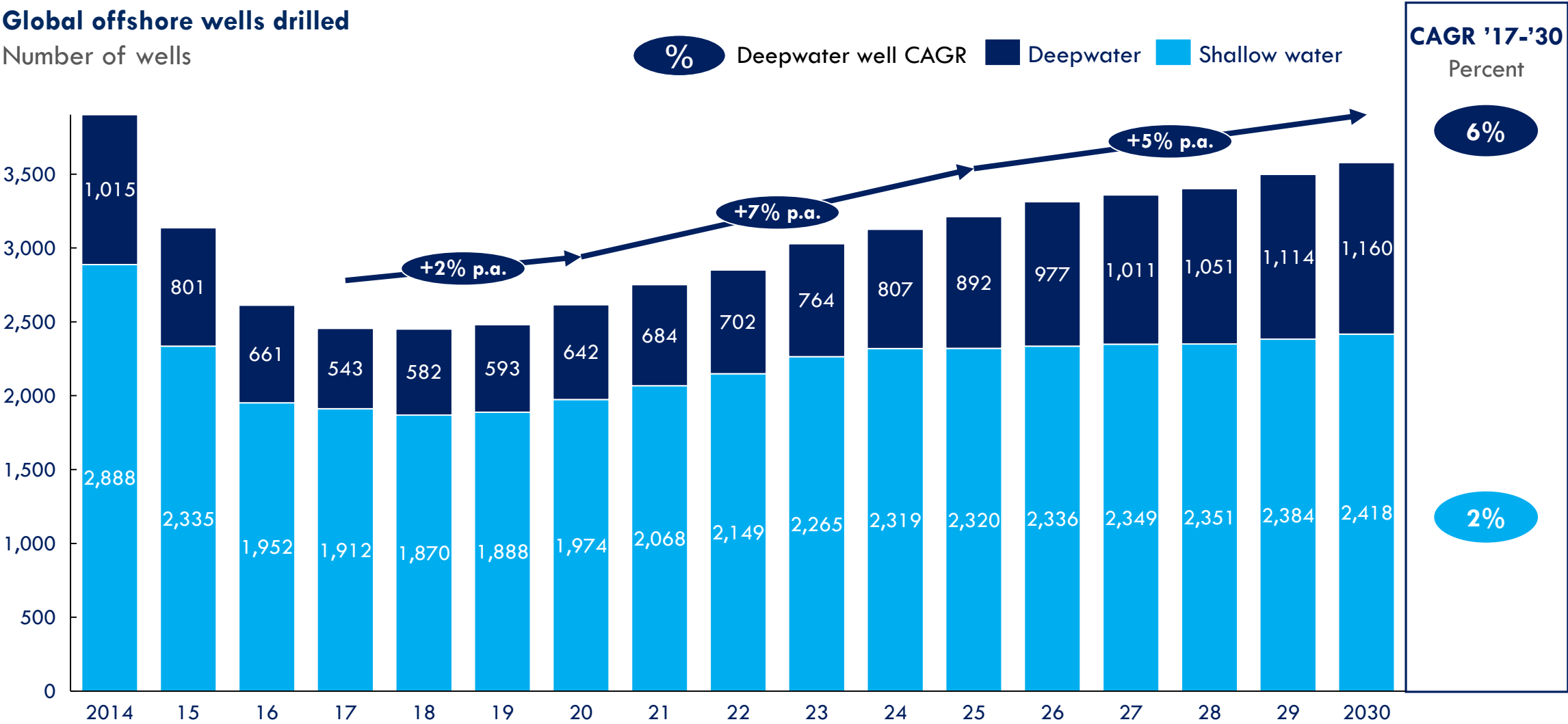
Global Supply & Demand Through 2030

Global oil supply growth 2017-2030
mmb/d



New Deepwater Project Sanctions Necessary to Satisfy Long-Term Demand

Evolving View of Timeline for Deepwater Recovery



Deepwater Market Recovery Expected to be Gradual Until 2020

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)