

DRIL-QUIP

INVESTOR PRESENTATION
APRIL 2020

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, Inc. (“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 Securities and Exchange Commission (“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

EBITDA, 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. EBITDA is defined as net income excluding income taxes, interest income and expense, and depreciation and amortization expense. 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 (“GAAP”). Non-GAAP financial information supplements and should be read together with, and is 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. Information on Dril-Quip’s website is not part of this presentation.

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



Results Driven Management Team

PRODUCTS & SERVICES

SUBSEA EQUIPMENT

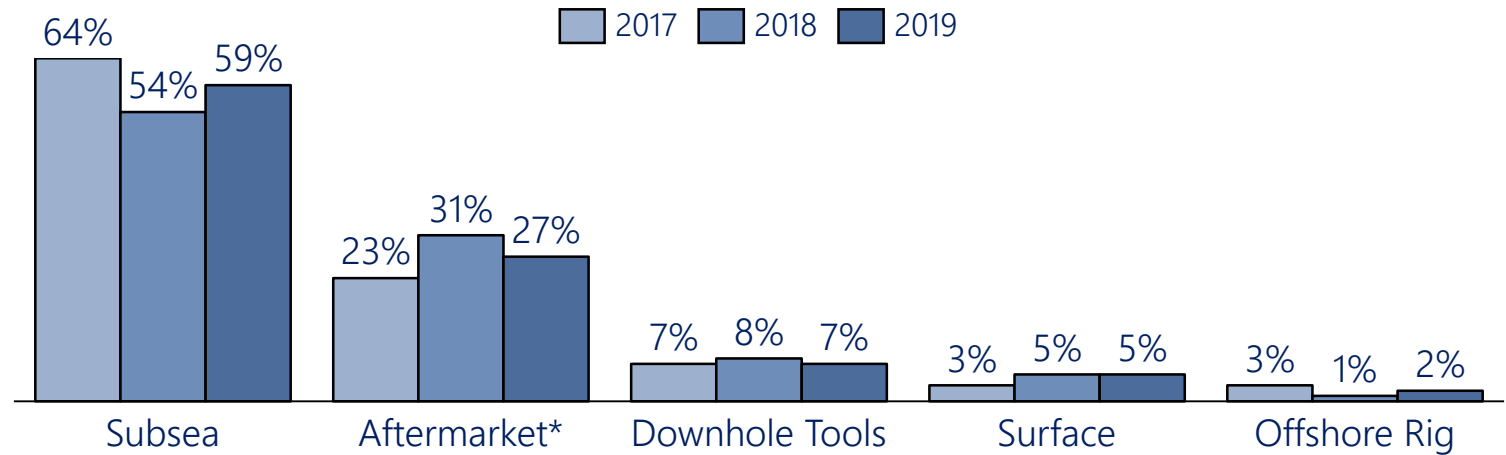
SURFACE EQUIPMENT

DOWNHOLE TOOLS

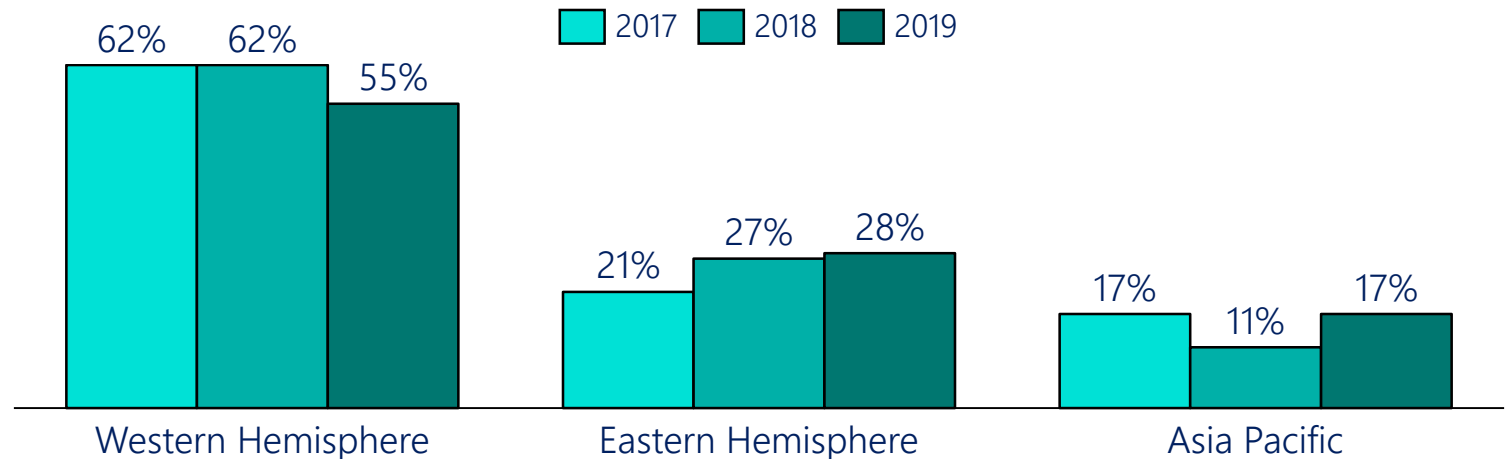
OFFSHORE RIG EQUIPMENT

AFTERMARKET SERVICES

Product & Service Revenue Segments*

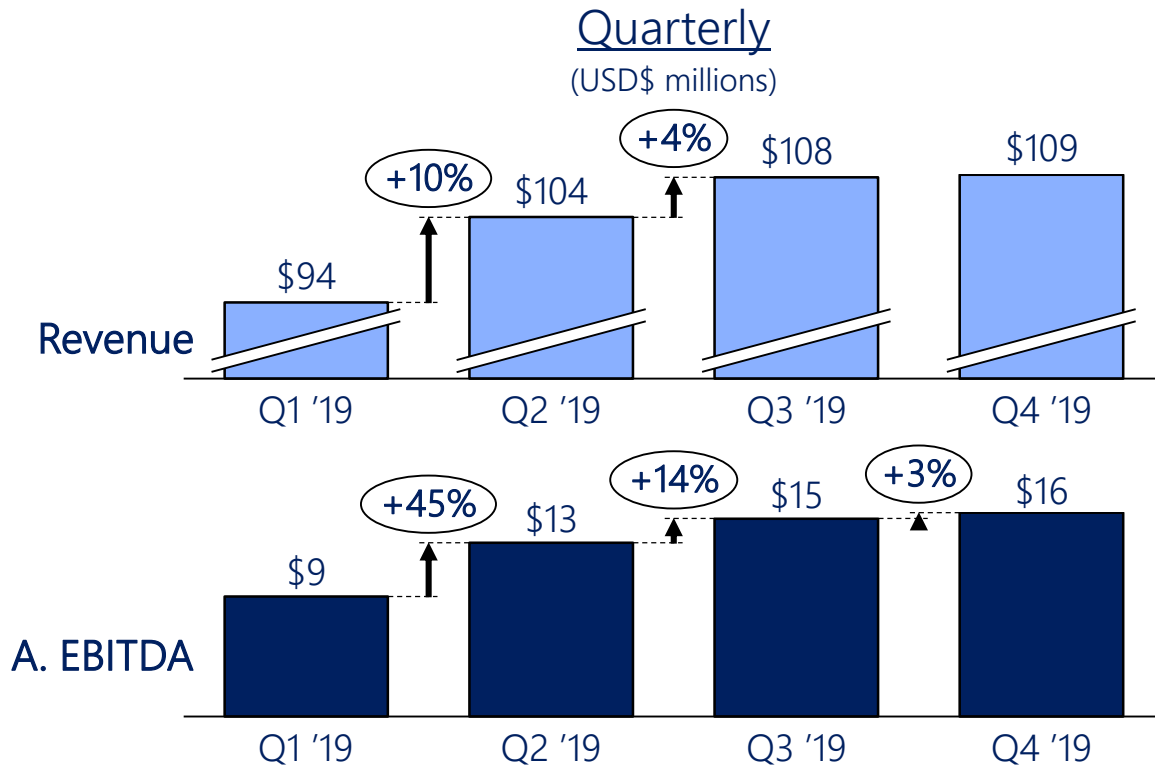


Geographic Revenue Segments

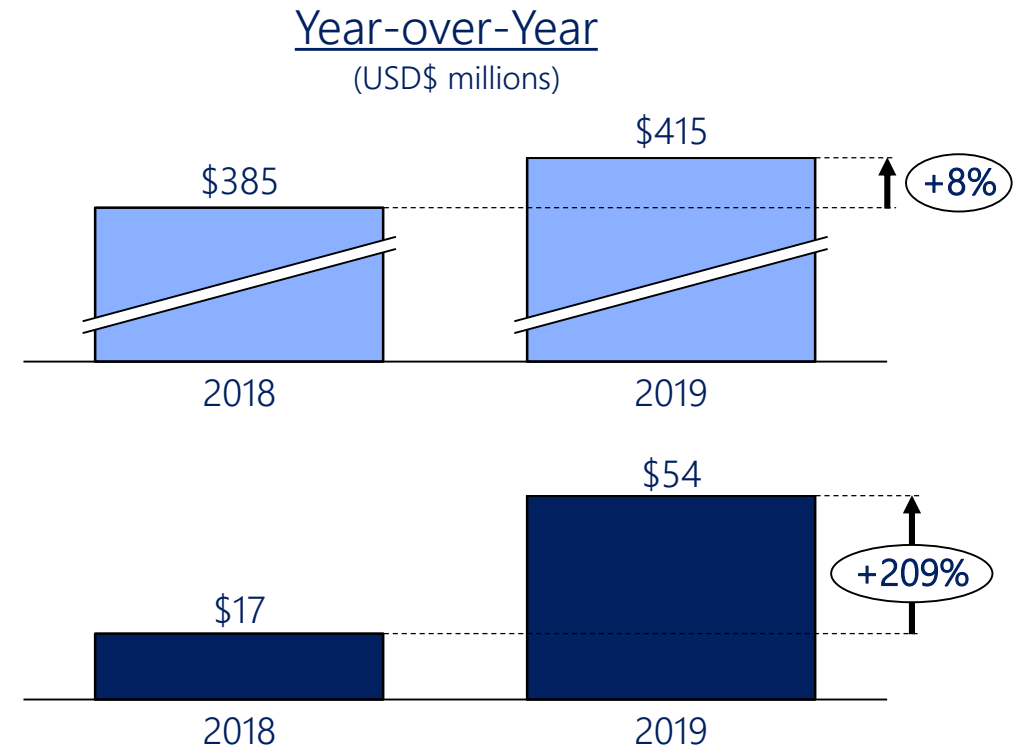


*Aftermarket revenue includes both Services and Leasing revenue

2019 REVENUE AND ADJUSTED EBITDA PROGRESSION



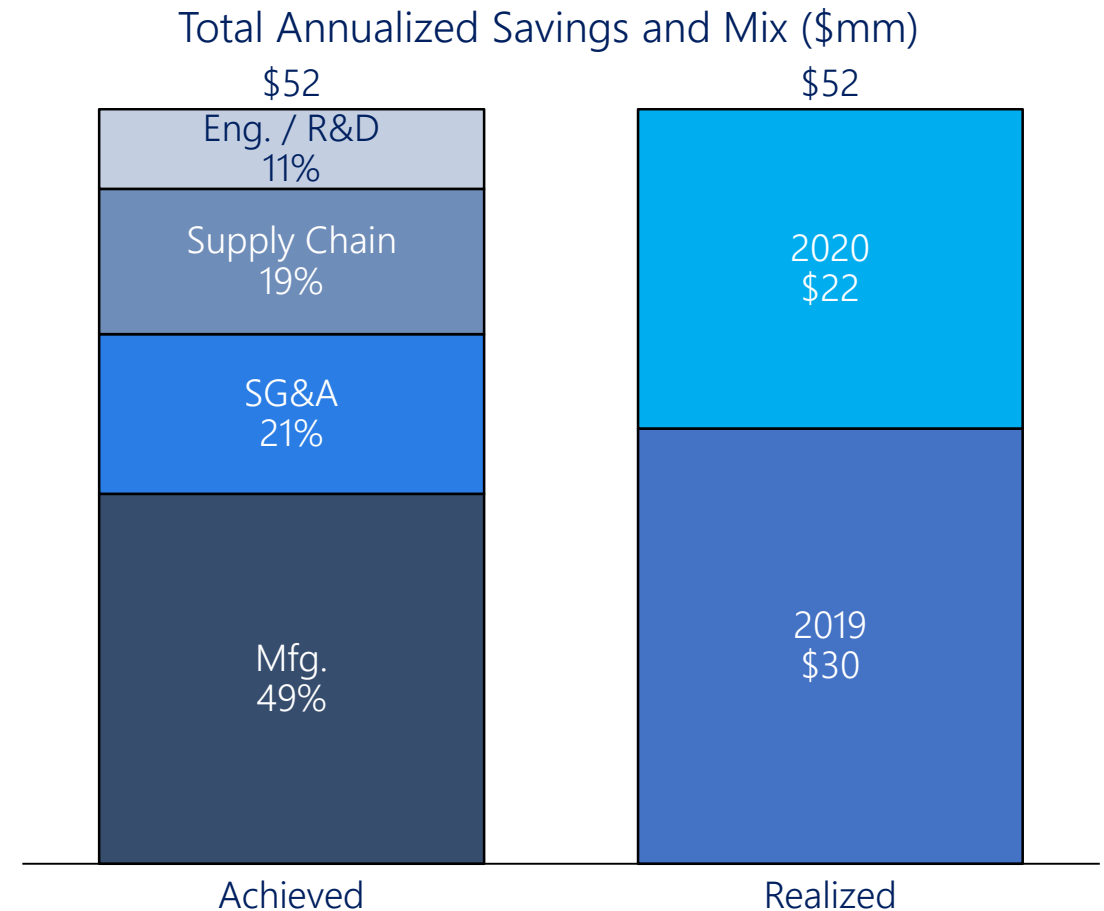
- Q4 '19 favorable incrementals muted by negative mix



Transformation Philosophy Now Part of Operating DNA

2019 OPERATIONAL TRANSFORMATION & LEAN IMPLEMENTATION

- Footprint rationalization
- Integrated supply chain
- LEAN as a way of doing business
- Leads to continuous EBITDA improvement

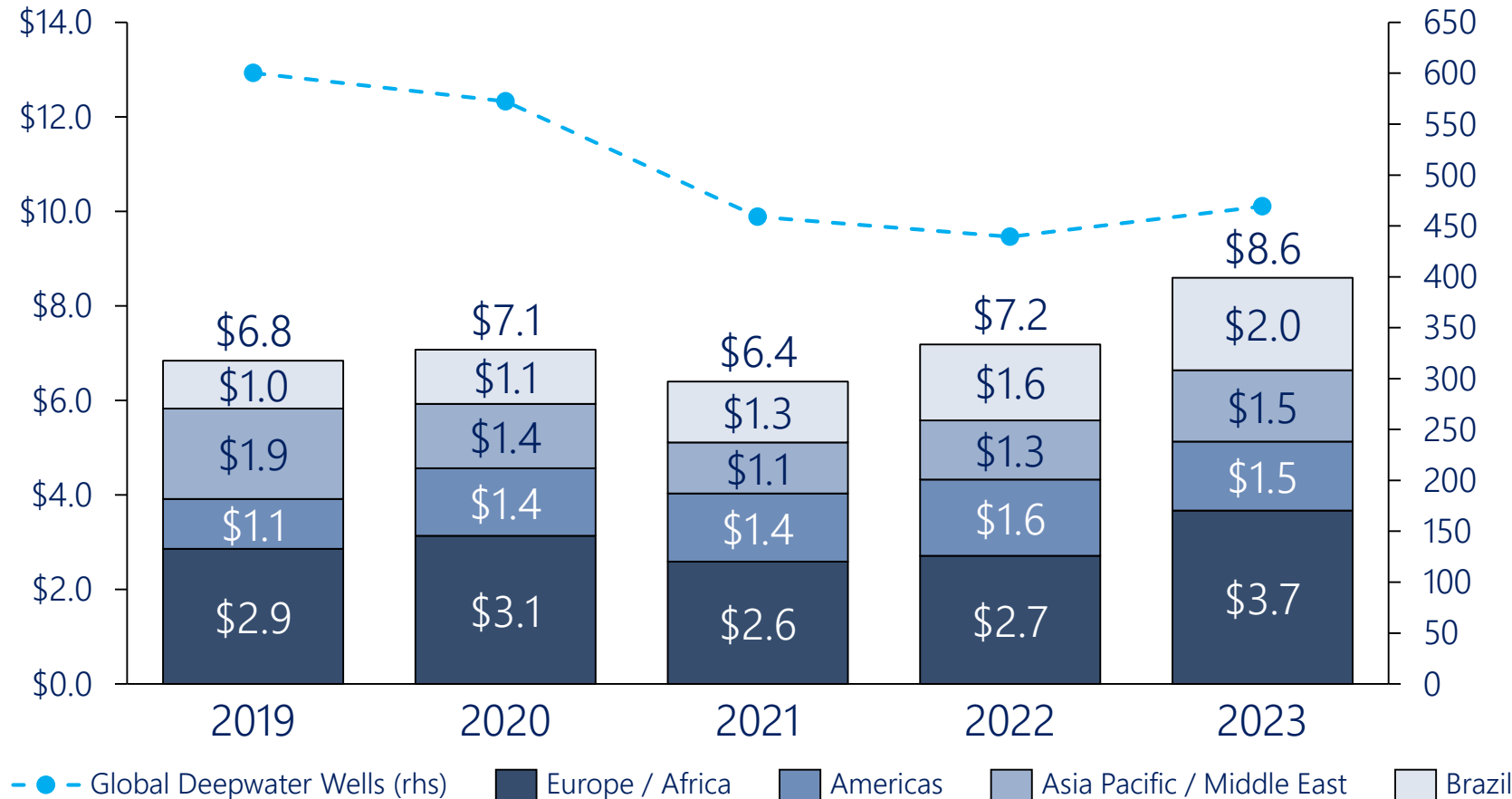


Leveraging Transformation Playbook to Further Cost Optimization

LOWER OUTLOOK FOR SUBSEA INVESTMENT

Subsea Equipment Spend (\$bn)

Deepwater Wells



2019 – 2023 CAGR

Americas (excl. Brazil)	8%
Europe / Africa	6%
Asia Pac. / Middle East	-6%
Brazil	18%
Total (excl. Brazil)	3%

Requires Immediate Response to Address Lower Market Activity

RESPONSE TO COVID-19

Implemented Business Continuity Plan

- Focused on the health and safety of all employees and contractors
- Staggered shifts in our manufacturing and after market operations
- Working from home where practical
- Self-quarantine of offshore service personnel on departure and return

Ensuring Customer Needs Are Being Fulfilled

- Managing through supply delays and logistical disruptions
- Maintaining service technician support for customers

UTILIZING TRANSFORMATION PLAYBOOK TO ADDRESS LOWER ACTIVITY

Executed Immediate Cost Containment

Hiring Freeze, Compensation Curtailment, Elimination of all Discretionary Spend

Placed All Non-Essential Capital Expenditures on Hold

Maintenance Capex Only

Conducting Commercial Review of all R&D Projects

No Incremental R&D Planned

Reevaluating Operating Model

Targeting Further Cost Leverage

Further Optimization of Costs Underway – Maintain Focus on Free Cash Flow

CAPITAL ALLOCATION



Daily Operations

- \$100M - \$150M required to support daily operations



Capital Expenditures

- Lowered 2020 Capex to be flat year over year at \$10M - \$15M
- Focus only on Maintenance Capex



R&D

- High-grading R&D projects to focus on "Quick Wins"
- Elimination of incremental R&D results in further reduction of R&D expense



Pursue Strategic Acquisitions



Share Repurchase

- \$50M remaining under new \$100M share repurchase plan approved by Board in Q1 2019
- Balancing share repurchase with annual free cash flow generation

Strong Balance Sheet with Liquidity in Place to Achieve Strategic Objectives



MORE DETAILED PLANS TO BE ROLLED OUT
AT Q1'20 EARNINGS RELEASE

APPENDIX

INCOME STATEMENT

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

	Three months ended		Twelve months ended	
	December 31, 2019	September 30, 2019	December 31, 2019	December 31, 2018
(In thousands, except per share data)				
Revenues:				
Products	\$ 78,762	\$ 81,851	\$ 303,279	\$ 265,052
Services	19,082	17,884	72,018	72,414
Leasing	10,610	8,492	39,509	47,160
Total revenues	108,454	108,227	414,806	384,626
Costs and expenses:				
Cost of sales	75,741	76,023	295,007	293,573
Selling, general and administrative	21,444	27,962	96,782	101,090
Engineering and product development	4,798	3,754	17,329	20,297
Impairment, restructuring and other charges	435	546	4,396	98,602
Gain on sale of assets	(28)	(280)	(1,511)	(6,198)
Total costs and expenses	102,390	108,005	412,003	507,364
Operating income (loss)	6,064	222	2,803	(122,738)
Interest income	1,347	1,906	7,940	8,040
Interest expense	(166)	(26)	(314)	(291)
Income tax provision (benefit)	(155)	3,412	8,709	(19,294)
Net income (loss)	\$ 7,400	\$ (1,310)	\$ 1,720	\$ (95,695)
Earnings (loss) per share:				
Basic	\$ 0.21	\$ (0.04)	\$ 0.05	\$ (2.58)
Diluted	\$ 0.21	\$ (0.04)	\$ 0.05	\$ (2.58)
Depreciation and amortization	\$ 8,865	\$ 8,304	\$ 34,020	\$ 35,312
Capital expenditures	\$ 2,881	\$ 4,022	\$ 11,501	\$ 32,061
Weighted Average Shares Outstanding:				
Basic	35,873	35,559	35,839	37,075
Diluted	36,101	35,559	36,152	37,075

BALANCE SHEET

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

	<u>December 31, 2019</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
	(In thousands)		
Assets:			
Cash and cash equivalents	\$ 398,946	\$ 413,102	\$ 418,100
Other current assets	481,543	465,617	434,881
PP&E, net	258,497	259,423	274,123
Other assets	67,579	67,493	65,406
Total assets	<u>\$ 1,206,565</u>	<u>\$ 1,205,635</u>	<u>\$ 1,192,510</u>
Liabilities and Equity:			
Current liabilities	\$ 96,940	\$ 96,533	\$ 81,539
Deferred Income taxes	4,150	2,259	2,466
Other long-term liabilities	14,774	14,171	12,343
Total liabilities	115,864	112,963	96,348
Total stockholders equity	1,090,701	1,092,672	1,096,162
Total liabilities and equity	<u>\$ 1,206,565</u>	<u>\$ 1,205,635</u>	<u>\$ 1,192,510</u>

NON-GAAP FINANCIAL MEASURES

Adjusted Net Income and EPS:

	December 31, 2019		Three months ended September 30, 2019		December 31, 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)	\$ 7,400	\$ 0.21	\$ (1,310)	\$ (0.04)	\$ (74,912)	\$ (2.09)
Adjustments (after tax):						
Reverse the effect of foreign currency	355	0.01	(903)	(0.03)	(156)	-
Add back impairment and other charges	-	-	-	-	67,569	1.88
Restructuring costs, including severance	344	0.01	432	0.01	6,894	0.19
Gain on sale of assets	(22)	-	(221)	(0.01)	(857)	(0.02)
Adjusted net income (loss)	<u>\$ 8,077</u>	<u>\$ 0.23</u>	<u>\$ (2,002)</u>	<u>\$ (0.07)</u>	<u>\$ (1,462)</u>	<u>\$ (0.04)</u>

Adjusted Net Income and EPS:

	2019		Twelve months ended December 31, 2018		2017	
	Effect on net income (after-tax)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share	Effect on net income (after-tax)	Impact on diluted earnings per share
(In thousands, except per share amounts)						
Net income (loss)	\$ 1,720	\$ 0.05	\$ (95,695)	\$ (2.58)	\$ (100,639)	\$ (2.69)
Adjustments (after tax):						
Reverse the effect of foreign currency	(1,287)	(0.04)	(796)	(0.02)	6,733	0.18
Add back impairment and other charges	-	-	67,569	1.82	39,629	1.06
Less one-time tax adjustments	-	-	-	-	60,547	1.62
Restructuring costs, including severance	3,473	0.10	10,326	0.28	3,548	0.09
Gain on sale of assets	(1,194)	(0.03)	(4,896)	(0.13)	-	-
Adjusted net income (loss)	<u>\$ 2,712</u>	<u>\$ 0.08</u>	<u>\$ (23,491)</u>	<u>\$ (0.63)</u>	<u>\$ 9,818</u>	<u>\$ 0.26</u>

NON-GAAP FINANCIAL MEASURES

Adjusted EBITDA:

	Three months ended		
	December 31, 2019	September 30, 2019	December 31, 2018
	(In thousands)		
Net income (loss)	\$ 7,400	\$ (1,310)	\$ (74,912)
Add:			
Interest (income) expense	(1,181)	(1,880)	(2,329)
Income tax expense (benefit)	(155)	3,412	(21,585)
Depreciation and amortization expense	8,865	8,304	9,346
Restructuring costs, including severance	435	546	8,726
Long-lived asset, inventory and goodwill impairments			85,531
Gain on sale of assets	(28)	(280)	(1,085)
Foreign currency loss (gain)	449	(1,143)	(197)
Stock compensation expense	(25)	7,663	3,509
Adjusted EBITDA	\$ 15,760	\$ 15,312	\$ 7,004

Adjusted EBITDA:

	Year ended		
	December 31, 2019	December 31, 2018	December 31, 2017
	(In thousands)		
Net income (loss)	\$ 1,720	\$ (95,695)	\$ (100,639)
Add:			
Interest (income) expense	(7,626)	(7,749)	(3,492)
Income tax expense (benefit)	8,709	(19,294)	34,995
Depreciation and amortization expense	34,020	35,312	40,974
Restructuring costs, including severance	4,396	13,071	5,170
Long-lived asset, inventory and goodwill impairments		85,531	60,968
Gain on sale of assets	(1,511)	(6,198)	-
Foreign currency loss (gain)	(1,630)	(1,007)	8,292
Stock compensation expense	15,721	13,459	14,270
Adjusted EBITDA	\$ 53,799	\$ 17,430	\$ 60,538

NON-GAAP FINANCIAL MEASURES

Free Cash Flow:

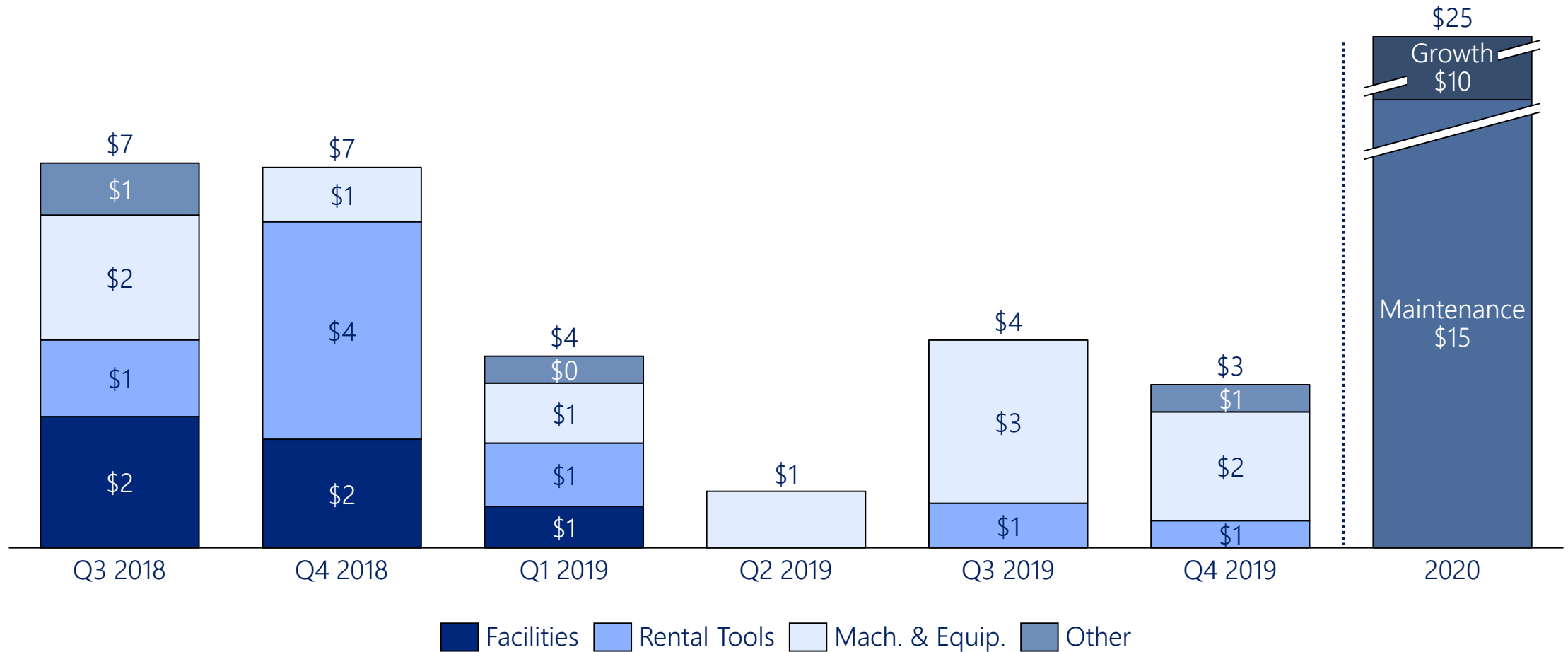
	Three months ended		
	December 31, 2019	September 30, 2019	December 31, 2018
	(In thousands)		
Net cash provided by operating activities	\$ 8,054	\$ (4,026)	\$ 12,896
Less:			
Purchase of property, plant and equipment	(2,881)	(4,022)	(6,394)
Free cash flow	<u>\$ 5,173</u>	<u>\$ (8,048)</u>	<u>\$ 6,502</u>

Free Cash Flow:

	Year ended December 31,		
	2019	2018	2017
	(In thousands)		
Net cash provided by operating activities	\$ 14,678	\$ 45,503	\$ 107,993
Less:			
Purchase of property, plant and equipment	(11,501)	(32,061)	(27,622)
Free cash flow	<u>\$ 3,177</u>	<u>\$ 13,442</u>	<u>\$ 80,371</u>

CAPITAL EXPENDITURES

Currently Reviewing
2020 Growth Capex



Targeting to Keep Capex Flat at \$10-\$15 Million

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

NYSE: DRQ

MARKET INFORMATION	
Ticker	NYSE: DRQ
Share Price (at close: 4/2/2020)	\$ 32.11
52-Week Range	\$23.91 - \$56.71
YTD Return	-31.5%
Shares Outstanding @ 12/31/2019 (mm)	35.9
Market Cap (\$mm)	\$ 1,152
Enterprise Value (\$mm)	\$ 753
BALANCE SHEET METRICS (@ 12/31/2019) (\$MM)	
Non-cash Working Capital	\$ 385
Book Value / Share	\$ 30.40
Cash / Share	\$ 11.12
Non-cash WC / Share	\$ 10.72
Total Debt / Capitalization	0%
Total Share Repurchases in 2019	\$ 26.6



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)