

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): October 26, 2023

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.)

2050 West Sam Houston Parkway S., Suite 1100
Houston, Texas
(Address of principal executive offices)

77042
(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))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 par value per share	DRQ	New York Stock Exchange

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 October 26, 2023, Dril-Quip, Inc. (“Dril-Quip”) reported third quarter 2023 earnings. For additional information regarding Dril-Quip’s third quarter 2023 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 October 26, 2023, Dril-Quip posted the third quarter 2023 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:

Exhibit No.	Description
99.1	Press Release issued October 26, 2023.
99.2	Third Quarter 2023 Supplemental Earnings Information Presentation.
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

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/ Kyle F. McClure
Kyle F. McClure
Vice President and Chief Financial Officer

Date: October 26, 2023

DRIL-QUIP, INC. ANNOUNCES THIRD QUARTER 2023 RESULTS

*Third quarter revenue increased 31% sequentially
Cash from operations of \$26.8 million
Successfully completed the acquisition of Great North*

HOUSTON, October 26, 2023 — Dril-Quip, Inc. (NYSE: DRQ), (the “Company” or “Dril-Quip”), a developer, manufacturer and provider of highly engineered equipment, service, and innovative technologies for use in the energy industry, today reported operational and financial results for the third quarter of 2023.

Third Quarter Highlights

- Revenue of \$117.2 million increased 31% sequentially and 33% year-over-year
- Net Loss of \$7.0 million decreased \$10.5 million sequentially and \$20.3 million year-over-year
- Adjusted EBITDA of \$12.4 million increased \$3.6 million sequentially and increased \$5.3 million year-over-year
- Gross Margin of 27.0% increased 32 basis points sequentially and increased 154 basis points year-over-year
- Cash provided by operations of \$26.8 million, an increase of \$25.8 million year-over-year
- Free cash flow of \$21.4 million increased \$20.3 million sequentially and \$30.6 million year-over-year
- Net Bookings of \$46.5 million decreased 36% sequentially and 25% year-over-year
- Remain on track to complete footprint optimization initiatives by year end 2023
- Awarded wellhead tender with Petrobras supporting their pre-salt well development project worth up to \$28 million
- First delivery of XPak De™ liner hangers for exploration projects in Africa
- Participation in a geothermal project in New Zealand through our connector product line
- Successfully completed the acquisition of Great North which contributed \$15.5 million to third quarter revenue

“Our third quarter delivered strong revenue, both from the addition of Great North, as well as growth driven by key deliveries to customers in markets such as Brazil, the Middle East, and West Africa. After closing on the Great North acquisition in early August, results for that business this quarter were in line with expectations, and we are excited about its continued growth trajectory,” said Jeff Bird, Dril-Quip’s President and Chief Executive Officer. “Free cash flow was very strong this quarter, the highest since 2017, as we improved overall working capital and received a long-awaited U.S. tax refund.”

“More recently, capacity constraints in the offshore rig market are introducing headwinds. Multiple customers have delayed product orders and service deliveries due to rig availability delaying drilling schedules, with latest estimates pushing some activity to spring of 2024. This directly impacted the bookings figure in the third quarter, as well as, our mix of Subsea Product and Subsea Service revenue, in comparison to our expectations. The lower Subsea Service revenue ultimately drove lower profitability in the third quarter. Our view that we are in the early innings of a multi-year offshore upcycle and that Dril-Quip’s portfolio is well-positioned for growth remains unchanged. We look forward to updating investors on our 2024 outlook and updates to our strategic initiatives on our year-end earnings conference call in February 2024.”

In conjunction with today’s release, the Company posted a new investor presentation entitled “Q3 2023 Investor Presentation” to its website, www.dril-quip.com, on the “Events & Presentations” page under the Investors tab. Investors should note that Dril-Quip announces material financial information in Securities and Exchange Commission (“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 release.

Operational and Financial Results

Revenue, Cost of Sales and Gross Operating Margin

Consolidated revenue for the third quarter of 2023 was \$117.2 million, up \$27.6 million from the second quarter of 2023 and up \$29.1 million compared to the third quarter of 2022. The increase in revenue was primarily driven by the acquisition of Great North in the third quarter which contributed \$15.5 million in the quarter and an increase of \$11.3 million in our Subsea Products segment as key customer deliveries were made in growing international offshore markets. Well Construction revenues increased \$16.2 million sequentially, from \$21.4 million to \$37.6 million, primarily driven by the acquisition of Great North as well as large bore liner hanger growth in offshore Brazil and West Africa. Subsea Services segment revenue increased 6% year-over-year to \$23.7 million, and Subsea Products segment revenue increased 15% compared to the prior year to \$55.9 million.

Cost of sales for the third quarter of 2023 was \$85.6 million, an increase of \$19.9 million sequentially and year-over year. Gross operating margin for the third quarter of 2023 was 27.0%, up from 26.7% for the second quarter of 2023 and up from 25.4% year-over-year. Gross margins increased year-over-year, driven by incremental leverage on higher sales in Well Construction and Subsea Products.

Selling, General, Administrative, and Engineering Expenses

Selling, general and administrative (“SG&A”) expenses for the third quarter of 2023 were \$27.0 million, an increase of \$4.9 million compared to the second quarter of 2023 and an increase of \$4.6 million year-over-year. SG&A increased sequentially and year-over-year primarily due the addition of Great North expenses and an increase to the bad debt reserve due to higher activity. Engineering and product development expenses were \$3.1 million for the third quarter of 2023, a decrease of \$0.1 million from the second quarter of 2023 and an increase of \$0.4 million year-over-year. The year-over-year increase is attributed to increased testing and qualification activities related to specific international customer requirements.

Net Income, Adjusted EBITDA and Free Cash Flow

For the third quarter of 2023, the Company reported net loss of \$7.0 million, or a loss of \$0.21 per share. This compares to net income of \$3.5 million, or \$0.10 per share, for the second quarter of 2023 and a net income of \$13.3 million, or \$0.39 per share, in the prior year period.

Adjusted EBITDA totaled \$12.4 million for the third quarter of 2023 compared to \$8.8 million for the second quarter 2023 and \$7.0 million in the prior year period. The increase in adjusted EBITDA sequentially and from the year ago period can be attributed to increased revenues and the acquisition of Great North in the third quarter of 2023.

Cash provided by operations was \$26.8 million for the third quarter of 2023, an improvement of \$15.5 million sequentially and \$25.8 million year-over-year. Free cash flow was \$21.4 million for the third quarter of 2023, an improvement of \$20.3million sequentially and \$30.6 million year-over-year. The improvement was primarily driven by the receipt of an U.S. tax refund of \$16.8 million and improvements to Days Sales Outstanding in the third quarter, partially offset by an increase in finished goods inventory in anticipation of future growth. Capital expenditures in the third quarter of 2023 were \$5.4 million, the majority of which was related to rental tools bound for work already secured. The company utilized \$92.3M to complete the acquisition of Great North in the third quarter, including transaction and integration-related costs and customary working capital adjustments. Ending cash, cash equivalents and short-term investments as of September 30, 2023, were \$190.0 million. The Company expects free cash flow to be positive in the fourth quarter of 2023.

Share Repurchases

During the third quarter of 2023, the Company did not make any share repurchases. The Company has approximately \$103 million remaining of the current authorization by the Board of Directors. The Company continues to evaluate the amount and timing of its share repurchases as part of its overall capital allocation strategy.

Conference Call and Webcast

Management will host a conference call and a webcast to discuss the financial results on October 27, 2023, at 10:00 a.m. Eastern Daylight Time / 9:00 a.m. Central Daylight Time. The presentation is open to all interested parties and may include forward-looking information.

To access the call, please dial in approximately ten minutes before the start of the call.

Conference Call and Webcast Details

Date / Time: Friday, October 27, 2023, at 10:00 a.m. EDT / 9:00 a.m. CDT

Webcast: <https://www.webcaster4.com/Webcast/Page/2968/49306>

U.S. Toll-Free Dial-In: 888-506-0062

International Dial-In: 973-528-0011

Conference ID: 296785

For those unable to participate in the live call, an audio replay will be available following the call through midnight Friday, November 10, 2023. To access the replay, please call 877-481-4010 or 919-882-2331 (International) and enter confirmation code 49306. A replay of the webcast will also be archived shortly after the call and can be accessed on the Company's website.

About Dril-Quip

Dril-Quip is a developer, manufacturer and provider of highly engineered equipment, service and innovative technologies for use in the energy industry.

Forward-Looking Statements

Statements contained herein relating to future operations and financial results that are forward-looking statements, including those related to market conditions, benefits of the recently completed acquisition, anticipated project bookings, expected timing of completing strategic restructuring, anticipated timing of delivery of new orders, anticipated revenues, costs, cost synergies and savings, possible acquisitions, new product offerings and related revenues, 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 impact of actions taken by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC nations to adjust their production levels, the impact of actions taken by the OPEC and non-OPEC nations to adjust their production levels, risks related to the recently completed acquisition, including the risk that the benefits of the acquisition may not be fully realized or may take longer to realize than expected, that we will fail to successfully integrate the properties and assets into our business and that management attention will be diverted to integration-related issues, the impact of general economic conditions, including inflation, on economic activity and on our operations, the general volatility of oil and natural gas prices and cyclicity of the oil and gas industry, declines in investor and lender sentiment with respect to, and new capital investments in, 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, the impact of our customers and the global energy sector shifting some of their asset allocation from fossil-fuel production to renewable energy resources, and other factors detailed in the Company's public filings with the SEC. 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 (Loss), Adjusted Diluted EPS, Free Cash Flow and Adjusted EBITDA are non-GAAP measures.

Adjusted Net Income (Loss) 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 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, stock-based compensation, non-cash gains or losses from foreign currency exchange rate changes as well as other significant non-cash items and other adjustments for certain charges and credits.

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 (Loss), 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 (“GAAP”).

See “Unaudited Non-GAAP Financial Measures” 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 and should be read together with, and is 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.

Investor Relations Contact

Erin Fazio, Director of Corporate Finance
Erin_Fazio@dril-quip.com

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

	Three months ended		
	September 30, 2023	June 30, 2023	September 30, 2022
	(In thousands, except per share data)		
Revenues:			
Products	\$ 77,603	\$ 55,828	\$ 58,508
Services	27,214	23,733	20,443
Leasing	12,427	10,046	9,190
Total revenues	117,244	89,607	88,141
Costs and expenses:			
Cost of sales	85,603	65,711	65,710
Selling, general and administrative	26,993	22,114	22,431
Engineering and product development	3,061	3,202	2,645
Restructuring and other charges	2,267	(610)	4,101
Gain on sale of property, plant and equipment	(1,027)	(738)	(17,276)
Acquisition costs	5,358	1,134	-
Foreign currency transaction loss (gain)	1,060	(4,812)	(1,901)
Total costs and expenses	123,315	86,001	75,710
Operating income (loss)	(6,071)	3,606	12,431
Interest income, net	(2,312)	(1,979)	(248)
Income tax provision (benefit)	3,275	2,102	(610)
Net income (loss)	\$ (7,034)	\$ 3,483	\$ 13,289
Net income (loss) per share			
Basic	\$ (0.21)	\$ 0.10	\$ 0.39
Diluted	\$ (0.21)	\$ 0.10	\$ 0.39
Depreciation and amortization	\$ 7,899	\$ 7,049	\$ 7,123
Capital expenditures	\$ 5,430	\$ 10,187	\$ 10,283
Weighted Average Shares Outstanding			
Basic	34,132	34,130	33,948
Diluted	34,132	34,490	34,232

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

	September 30, 2023		December 31, 2022
	(In thousands)		
Assets:			
Cash and cash equivalents	\$	181,072	\$ 264,804
Short-term investments		8,911	32,232
Other current assets		519,057	452,988
PP&E, net		211,806	181,270
Other assets		86,722	38,657
Total assets	\$	1,007,568	\$ 969,951
Liabilities and Equity:			
Current liabilities	\$	106,735	\$ 87,555
Deferred income taxes		12,114	3,756
Other long-term liabilities		18,257	6,288
Total liabilities		137,106	97,599
Total stockholders equity		870,462	872,352
Total liabilities and equity	\$	1,007,568	\$ 969,951

Dril-Quip, Inc.

Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) per Share to Adjusted Diluted Earnings (Loss) per Share

Adjusted Net Income (Loss) and EPS:

	Three months ended					
	September 30, 2023		June 30, 2023		September 30, 2022	
	Effect on net income (loss) (after-tax)	Impact on diluted earnings (loss) per share	Effect on net income (loss) (after-tax)	Impact on diluted earnings (loss) per share	Effect on net income (loss) (after-tax)	Impact on diluted earnings (loss) per share
	(In thousands, except per share amounts)					
Net income (loss)	\$ (7,034)	\$ (0.21)	\$ 3,483	\$ 0.10	\$ 13,289	\$ 0.39
Adjustments (after tax):						
Reverse the effect of foreign currency transaction loss (gain)	837	0.02	(3,801)	(0.11)	(1,502)	(0.04)
Restructuring and other charges, including severance	2,036	0.06	(14)	-	3,240	0.09
Gain on sale of property, plant and equipment	(811)	(0.02)	(583)	(0.02)	(13,648)	(0.40)
Adjusted net income (loss)	\$ (4,972)	\$ (0.15)	\$ (915)	\$ (0.03)	\$ 1,379	\$ 0.04

Dril-Quip, Inc.
Reconciliation of Net Income (Loss) to Adjusted EBITDA

Adjusted EBITDA:

	Three months ended		
	September 30, 2023	June 30, 2023	September 30, 2022
	(In thousands)		
Net income (loss)	\$ (7,034)	\$ 3,483	\$ 13,289
Add:			
Interest income, net	(2,312)	(1,979)	(248)
Income tax provision (benefit)	3,275	2,102	(610)
Depreciation and amortization expense	7,899	7,049	7,123
Restructuring and other charges	2,267	(610)	4,101
Acquisition costs	5,358	1,134	-
Gain on sale of property, plant and equipment	(1,027)	(738)	(17,276)
Foreign currency transaction loss (gain)	1,060	(4,812)	(1,901)
Stock compensation expense	2,576	2,566	2,569
Other	309	592	-
Adjusted EBITDA	<u>\$ 12,371</u>	<u>\$ 8,787</u>	<u>\$ 7,047</u>

Dril-Quip, Inc.
Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

Free Cash Flow:

	Three months ended		
	September 30, 2023	June 30, 2023	September 30, 2022
	(In thousands)		
Net cash provided by operating activities	\$ 26,805	\$ 11,282	\$ 1,042
Less:			
Purchase of property, plant and equipment	(5,430)	(10,187)	(10,283)
Free cash flow	<u>\$ 21,375</u>	<u>\$ 1,095</u>	<u>\$ (9,241)</u>



Investor Presentation

Third Quarter 2023

the power of e™

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Forward-Looking Statements

The information furnished in this presentation contains “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements include, but are not limited to, the impact of actions taken by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC nations to adjust their production levels, the impact of the COVID-19 pandemic and the effects thereof, the general volatility of oil and natural gas prices and cyclicality of the oil and gas industry, declines in investor and lender sentiment with respect to, and new capital investments in, 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, the impact of our customers and the global energy sector shifting some of their asset allocation from fossil-fuel production to renewable energy resources, goals, projections, estimates, expectations, market outlook, forecasts, plans and objectives, including revenue and new product revenue, capital expenditures 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

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, stock-based compensation, 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 cash provided by operating activities less 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 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.



About Us

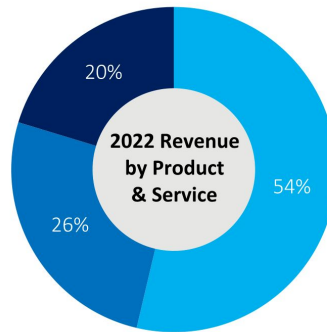


the power of 

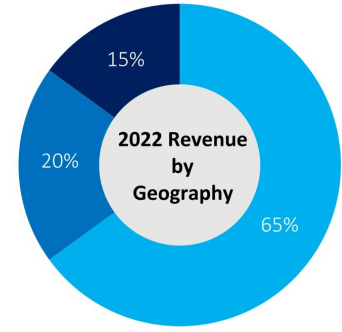
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Dril-Quip, Inc. is a leading developer of innovative technologies for the energy industry, designing and manufacturing best-in-class products for traditional oil and gas, and certain energy transition applications.

\$884 Million	Market Cap ¹
Houston, TX	Headquarters
\$361.9 Million	2022 Revenue
NYSE since 1997	DRQ
Operations	19 Countries
Global Employees	1,356



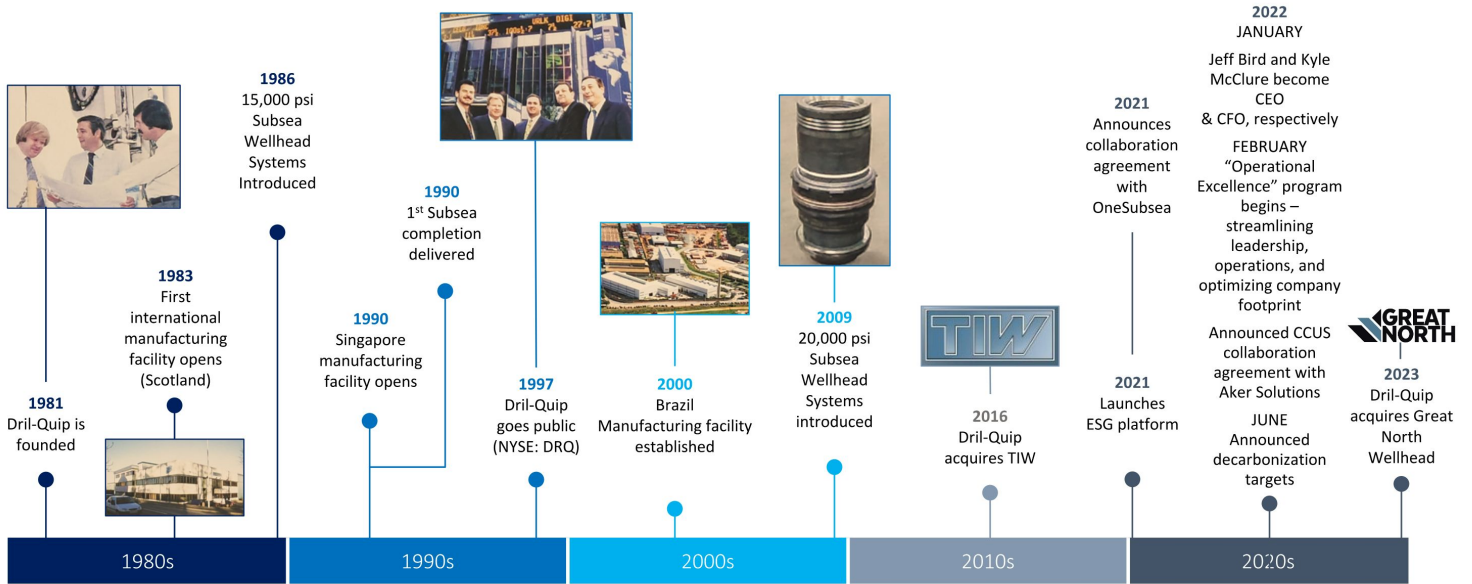
- Subsea Products
- Subsea Services
- Well Construction



- Western Hemisphere
- Eastern Hemisphere
- Asia Pacific

Notes: As of 10/17/23

Our History | Dril-Quip Over the Years



Dril-Quip provides a balanced investment proposition to growth and value investors, supported by a long history of commanding premium valuation.



Leader in Design & Manufacturing

Manufacturer of highly engineered drilling & production equipment



Footprint in Key Offshore Drilling Markets

Competing in attractive long-term growth markets



Organizational Alignment

Small, self-contained teams that share a common strategy and control of own destiny



Strong Financial Profile

Continued progression on key organic initiatives that will drive profitable growth



Attractive Balance Sheet

One of very few oilfield service companies with balance sheet optionality

Dril-Quip is well positioned to serve the needs of the global energy industry with major manufacturing facilities in the United States (Texas), Canada, Scotland, Brazil and Singapore; and service facilities in Australia, Ecuador, Mexico, Norway, China, Egypt, Saudi Arabia Ghana, and Qatar.



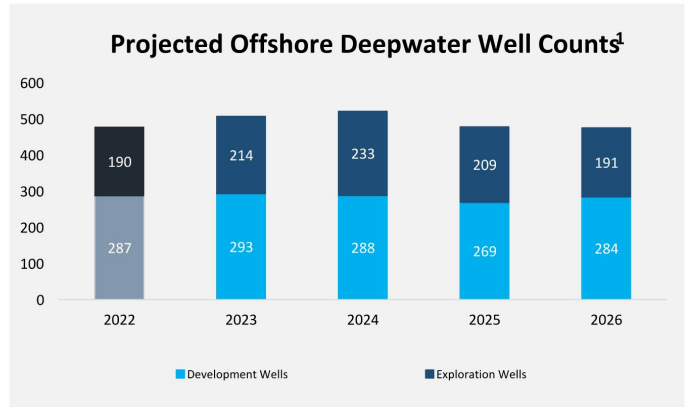
- Engineering, Manufacturing, Sales & Service
- Sales and/or Service
- Sales Representatives

Our products are used by major integrated, independent, and foreign national energy companies throughout the world, and we are known for solving customers' most challenging problems with equipment that performs reliably, safely, and cost-effectively in deepwater, harsh environments, and severe service applications.



Increasing tender volume and average quote value remains above pre-pandemic levels

- Compelling supply and demand fundamentals in traditional energy requirements and energy transition needs
- Supportive commodity prices and stability favorable for durable investment
- Oil & Gas demand is strong and showing resilience in uncertain economic conditions regionally
- International Energy Agency forecast Oil & Gas demand growth of 2.0 million barrels per day to 101.9 million total barrels per day in 2023
- Tight supply, modest production growth and growing demand indicate ongoing investment
- Energy security spurring investment, projects, partnerships, and increased offshore exploration
- Focus on decarbonization supporting R&D and ongoing investment across the space



Notes: ¹Based on exploration drilling forecast combined with tree forecasts from Rystad Energy

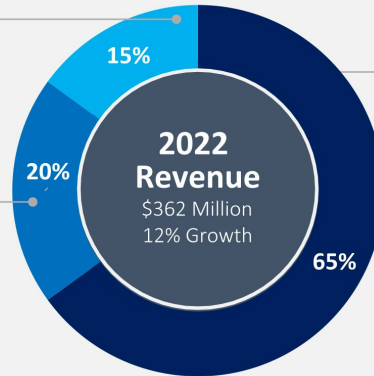
Dril-Quip is well positioned to capitalize on a constructive offshore market with strong growth trends in Brazil, the Middle East, Norway, Latin America, and in reemerging markets such as West Africa.

Asia-Pacific

- Represented 15% of total revenue for FY 2022
- Upswing in activity in the region, particularly in Middle East, is expected to drive demand for subsea products and well construction

Eastern Hemisphere

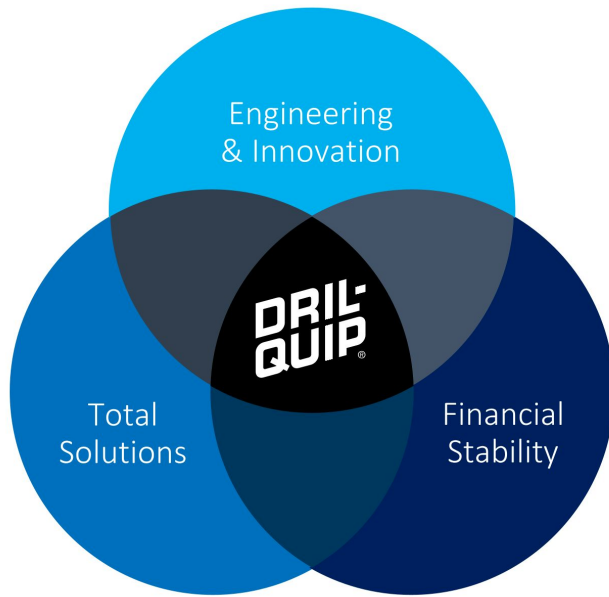
- Represented 20% of total revenue for FY 2022
- Long-term CCUS potential through our partnership with Aker Solutions
- Activity in Norway is seeing an uptick in demand due to energy security concerns



Western Hemisphere

- Represented 65% of total revenue for FY 2022
- Strong growth in Brazil from Petrobras, which plans to invest \$78 billion between 2023 – 2027 with plans to drill ~350 wells
- Guyana and Suriname in the early stages of development for DRQ with follow on orders expected in 2023 and beyond

Notes:
 1. Western Hemisphere includes North and South America
 2. Eastern Hemisphere includes Europe and Africa
 3. Asia-Pacific includes Pacific Rim, Southeast Asia, Australia, India, and the Middle East



- **Highly engineered, innovative solutions** designed to withstand the harshest environments, saving customers time and money
- Award-winning drilling and production products and services are utilized to **provide total solutions for field developments**
- Long operating history and a clean balance sheet with zero debt provides **strong financial stability**

Focusing on core growth markets globally.

1 **Brazil Growth – Subsea Wellheads & Liner Hangers**

2 **Latin America Expansion – Great North Wellheads**

3 **Saudi Arabia Growth – Liner Hangers & Great North Wellheads**



Driving organizational culture of continuous productivity improvement.

Footprint & Business Unit Restructuring

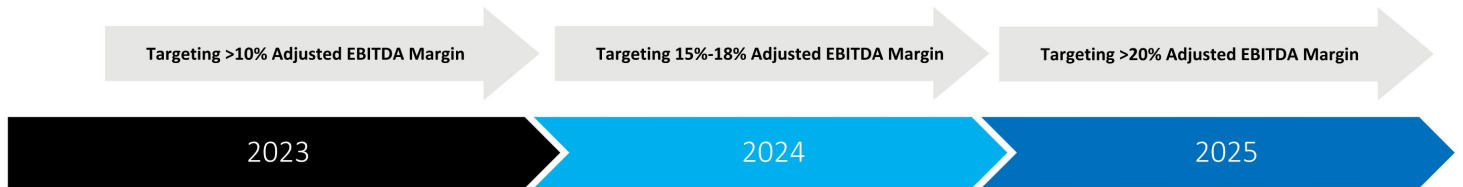
\$5 million expected annual savings

Wellhead Manufacturing Investment

\$10 million expected annual savings

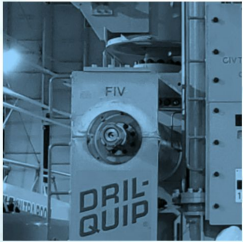
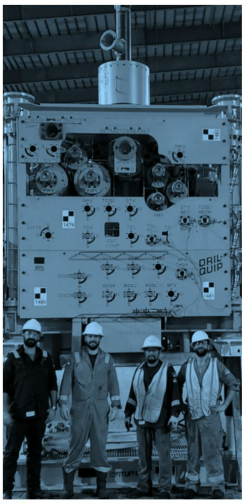
Best Cost Region Supply Chain

\$10 million - \$15 million expected annual savings





Strategic Operating Products & Services



the power of 

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Dril-Quip is in the process of streamlining operations and leadership around more focused and integrated product and service lines in a manner that aligns with the strategy.



Market leader in subsea wellhead equipment and technology, manufacturing highly engineered, *field-proven products with wide array of deepwater drilling* equipment and technology that meets the requirements for *harsh subsea environments*



Provider of *high-level aftermarket support* and technical services with field technicians that support the *full lifecycle management* of regulatory and industry standards, as well as offering clients *comprehensive industry training programs*



Drilling, completions and productions solutions provider for *onshore and offshore* markets, supplying *consumable and rental well construction* products for the global energy market and offering highly experienced personnel with *extensive operational knowledge and engineering expertise*

Business supported by Dril-Quip's expansion into high-growth decarbonization opportunities in our Energy Transition offering longer term.

Wide range of innovative products serving the energy industry, even in the harshest environments.

SUBSEA EQUIPMENT

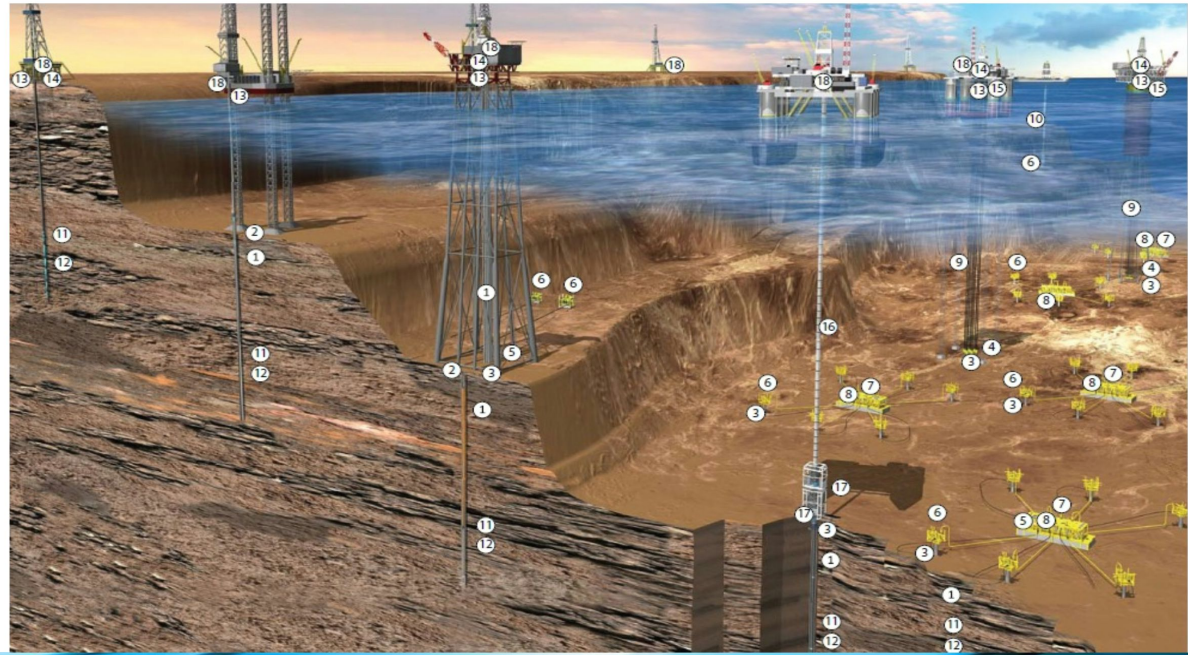
- ① Specialty Connectors
- ② Mudline Suspension
- ③ Subsea Wellheads
- ④ Tie-Back Connectors
- ⑤ Template Systems
- ⑥ Subsea Trees
- ⑦ Control Systems
- ⑧ Subsea Manifolds
- ⑨ Production Risers
- ⑩ Completion Risers
- ⑪ Liner Hangers
- ⑫ Downhole Tools

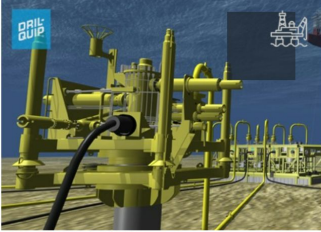





SURFACE EQUIPMENT

- ⑬ Surface Wellheads
- ⑭ Surface Trees
- ⑮ Riser Tensioners

OFFSHORE RIG EQUIPMENT

- ⑯ Drilling Risers
- ⑰ BOP Stack Connectors
- ⑱ Diversers



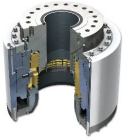
PRODUCTS & SERVICES		EXPOSURE	PRIMARY MARKETS
SUBSEA PRODUCTS	 <ul style="list-style-type: none"> • Subsea Wellheads • Specialty Connectors & Associated Pipes • Subsea Production Systems • Mudline Hanger Systems • Production Riser Systems • Dry Tree Systems • Subsea Manifolds 		<ul style="list-style-type: none"> • U.S. Gulf of Mexico, Mexico, Brazil, Trinidad & Tobago • United Kingdom, Norway • Saudi Arabia, Ghana • China, Indonesia, Australia
WELL CONSTRUCTION	 <ul style="list-style-type: none"> • Liner Hangers & Expandable Liner Systems • Multi-frac Well Connectors • Conventional Wellhead • Thermal Wellhead • Specialty Well Construction • Completion Packers • Safety & Kelly Valves • Rental & Service 		<ul style="list-style-type: none"> • Canada • Deepwater Gulf of Mexico • Latin America <ul style="list-style-type: none"> – Brazil – Ecuador – Mexico • Saudi Arabia • Namibia
SUBSEA SERVICES	 <ul style="list-style-type: none"> • Technical Advisor Assistance • Leasing of Subsea Equipment • Reconditioning • Storage & Maintenance • Rental Tools 		<ul style="list-style-type: none"> • U.S. Gulf of Mexico, Mexico, Brazil, Trinidad & Tobago • United Kingdom, Norway • Saudi Arabia, Ghana • China, Indonesia, Australia

Manufacturer of highly engineered, field-proven products with a wide array of deepwater drilling equipment and technology that meet the requirements for harsh subsea environments.



Wellheads

- Field-proven wellhead system specially designed to meet the many challenges of working in shallow or deep-water environments and shallow or ultra-deep well applications



Connectors & Surface Equipment

- Specialty connector suite of products that meet the varying casing challenges faced across well applications
- Solutions focused surface and capital drilling equipment that offer the appropriate balance of technology and economy



Subsea Production Systems

- Innovative drilling and production products providing comprehensive field development solutions
- Production Trees, Manifolds, Connection & Control Systems, Production PLEM's, PLET's, Flowline Jumpers

Initiatives & Accolades

- 673 patents
- Tier 1 wellhead provider
- Executing collaboration agreements
- Targeting shallow water and CCUS opportunities through SBTe offering

Provider of high-level aftermarket support and technical services with field technicians that support the full installation and lifecycle management of regulatory and industry standards, as well as offer industry training programs.



Aftermarket Capabilities

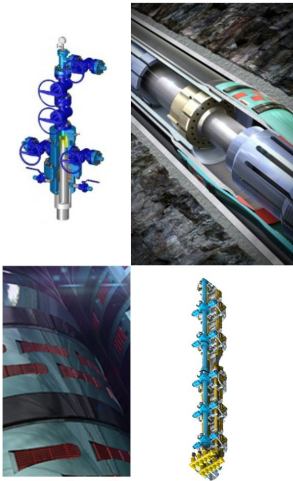
- Partners with customers throughout the lifecycle including full installation, strip-down, inspection, testing, assembly capabilities
- In-house machining capabilities for manufacturing and repairing from the smallest components to full subsea tree blocks
- Comprehensive engineering, project, and back-office support functions for seamless and continuous customer support
- Ability to serve customers and projects in the harshest environments

Initiatives & Accolades

- Highly reactive support for equipment installation
- Global network of trained technicians and specialized tooling
- Dedicated facilities for refurbishment and rework

Our Business | Well Construction Profile

Well Construction provides solutions for onshore and offshore markets, supplying consumable and rental products for the global energy market and offering highly experienced personnel with extensive expertise.



Expandable Liner Hangers – XPak™ & Big Bore XPak De®

- Features innovative liner top anchor/sealing device, providing unmatched reliability
- Robust system suitable for HTHP and challenging applications
- Established technology with limited competitors

Conventional & Thermal Wellhead Products

- Technical, engineered-to-order wellheads used in heavy oil and thermal production locations

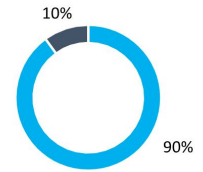
Rental Completion Solutions

- Multi-Well Frac Connector™
- Missile Frac Solution
- Dart & Frac Ball Launchers

Casing Hardware & Well Services

- Providing accessories to liner hanger operations & long-string cementing
- Well intervention and slot recovery
- Tubular Running Services

**Splits inclusive of Great North Wellhead
2023 Proforma Impact*



■ International Onshore* ■ Deepwater

Initiatives & Accolades

- 388 patents
- Gaining share in key markets (Brazil, Canada, Namibia, US, Mexico)
- Converting from conventional to expandable liner hangers
- Focus on expanding presence in Saudi Arabia
- Integrating Great North into portfolio and expanding reach internationally

20

Helping our customers adapt and evolve to the Energy Transition, while positioning DRQ to support these long-term, robust opportunities.

Positive reduction of carbon footprint

- Measurement/audit of carbon footprint across our product portfolio
- Next generation Power of e™ incorporating Green by Design™

Carbon conscious R&D

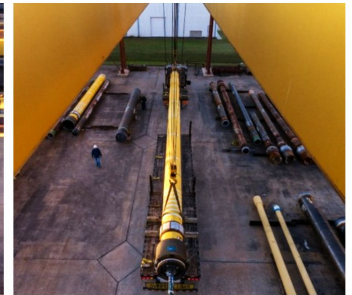
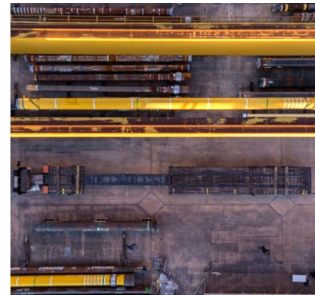
- Measurement of carbon footprint reduction per project
- Carbon footprint decision metric incorporated across operations
- Next generation Power of e™ incorporating Green by Design™ innovation philosophy

Low Carbon Solutions

- Focus on CCUS markets
- Positive impact to carbon footprint through innovative technology application
- Develop adjacent markets to derive value

eVolving industry

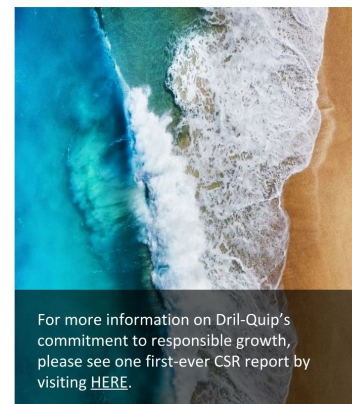
- Less steel/materials
- Less transportation
- Efficient operations
- Effective manufacturing
- Increased competitiveness
- Lower carbon footprint



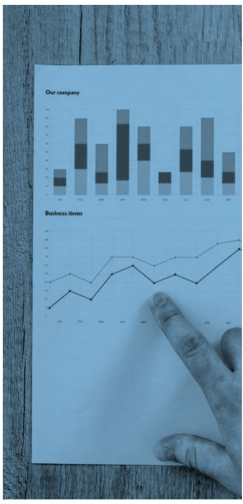
At Dril-Quip, we believe technological innovation is key to improving energy efficiency and providing people around the world with universal access to reliable, affordable, clean energy. By doing so, we seek to stimulate economic growth and enhance the standard of living for all, improving health and creating employment opportunities globally.

With an “A” rating from MSCI ESG, Dril-Quip’s approach to developing products that align with our commitment to UN Sustainable Development Goals (SDGs) is straightforward:

- We continuously **engage** with customers to understand their strategic priorities around energy efficiency and carbon emission reduction.
- We **invest** heavily in R&D as innovation has been central to technologies we have been bringing to the marketplace since 1981 and incorporate the evaluation of climate change risks and opportunities in our R&D processes.
- We **innovate** based on customer feedback and continuously improve our product portfolio.
- We **empower** customers to minimize health and safety risks while reducing their carbon footprint.
- We **support** our local communities by fostering the availability of clean, affordable energy to all.



Financial Performance



Ongoing upcycle in the offshore market continues to create strong demand.

- Second consecutive quarter of positive cash flow from operations and positive free cash flow; highest quarterly free cash flow amount since 2017 of \$21.4 million
- First delivery of XPak DE™ liner hangers for exploratory projects in West Africa
- Participation in a geothermal project in New Zealand through our connector product line
- Remain on track to complete footprint optimization initiatives by year end 2023
- Successfully completed the acquisition of Great North which contributed \$15.5 million to third quarter revenue

Third Quarter
Revenue \$117.2 Million +33% YoY
Net Loss \$7.0 Million -\$20.3 Million YoY
Adjusted EBITDA \$12.4 Million +\$5.3 Million YoY
Bookings \$46.5 Million -25% YoY
Gross Margin 27.0% +154 BPs YoY

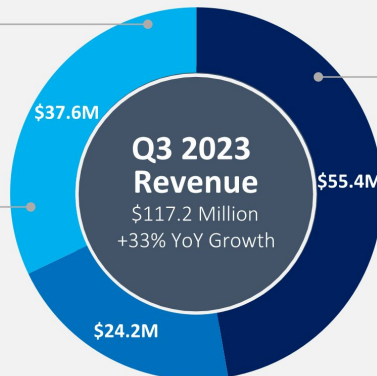
New operating segments effective in 2023 provide better visibility into Dril-Quip’s business and align financial reporting with the Company’s internal operating structure.

Well Construction

- 117% YoY growth
- Includes: Liner Hangers & Expandable Liner Systems, Onshore Wellheads, Specialty Downhole Tools, Safety & Kelly Valves, and Rental & Service

Subsea Services

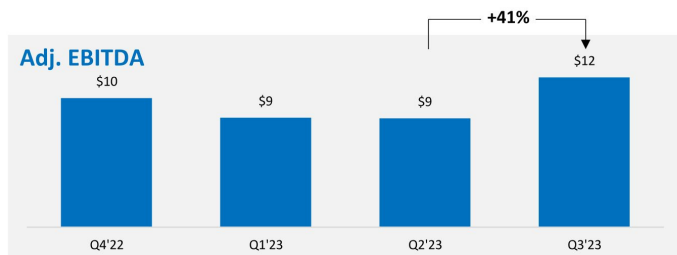
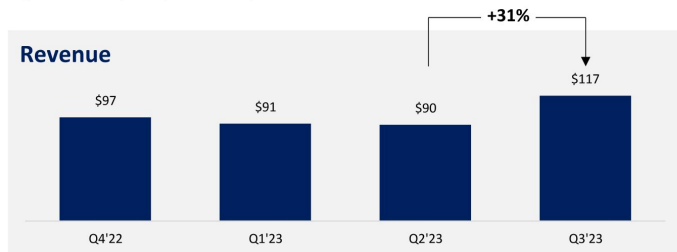
- 6% YoY growth
- Includes: Technical Advisor Assistance, Leasing of Subsea Equipment, Reconditioning, Storage & Maintenance, and Rental Tools



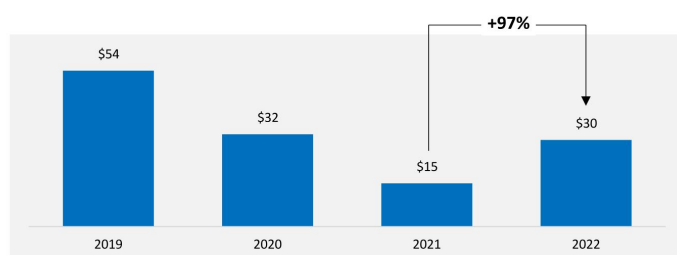
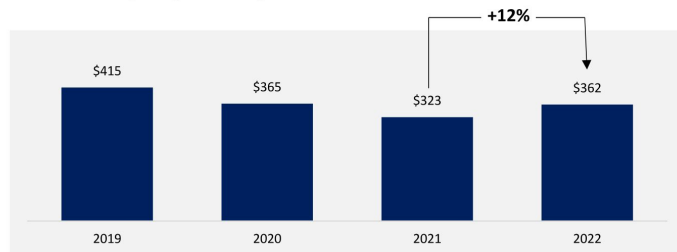
Subsea Products

- 15% YoY growth
- Includes: Subsea Wellheads, Specialty Connectors & Associated Pipes, Subsea Production Systems, Mudline Hanger Systems, Production Riser Systems, Dry Tree Systems, and Subsea Manifolds

Quarter (USD\$ millions)



Full Year (USD\$ millions)

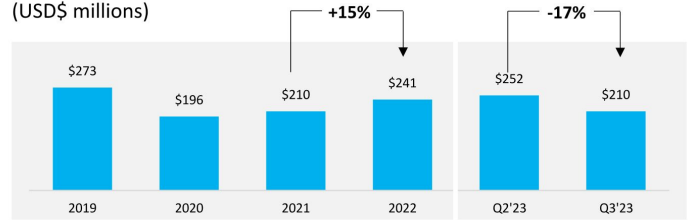


Note: Sum of components may not foot due to rounding. Adjusted EBITDA is a non-GAAP measure. See appendix for reconciliation to GAAP measure.

- Backlog for Q3'23 decreased 17% compared to Q2'23 and decreased by 1% year-over-year as capacity constraints in the offshore rig market are introducing headwinds
- Dril-Quip currently has ~70 open MSAs
- Subsea Products book-to-bill ratio of 0.3x for the third quarter of 2023.

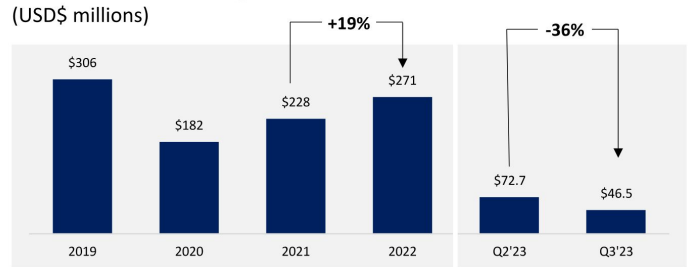
Historical Backlog Trends

(USD\$ millions)



Historical Booking Trends

(USD\$ millions)



Strong balance sheet with ample liquidity and zero debt provides flexibility to support our growth strategy.



¹: As of September 30, 2023

Demonstrating financial discipline in the pursuit of high-return opportunities that support long-term growth, while preserving our balance sheet strength and financial flexibility.

1 High Return Organic Investments	2 Disciplined M&A	3 Preserve Financial Flexibility	4 Shareholder Returns
<ul style="list-style-type: none"> • Prioritize investment into high ROI projects • Support organic growth initiatives • Manufacturing, R&D, etc. 	<ul style="list-style-type: none"> • Technology bolt-ons to enhance existing business • Deals of scale that align with selective M&A criteria • Diversifying end-market exposure with energy adjacent opportunities 	<ul style="list-style-type: none"> • Working capital to support operations growth • Free cash flow generation focused • Continue to maintain strong balance sheet 	<ul style="list-style-type: none"> • Focused on delivering sustainable, long-term growth • Return cash to shareholders as appropriate

Primary considerations for disciplined M&A



STRATEGIC CRITERIA

- Increases scale of operations
- Expanded geographic footprint
- Aligns with DRQ core competencies



FINANCIAL CRITERIA

- Above average long-term growth projections
- Capable of delivering consistently high margins
- High return on capital



ACQUISITION TARGETS


- Technology bolt-ons to enhance existing business
- Deals of scale that align with selective M&A criteria
- Diversifying end-market exposure with energy adjacent opportunities

Revenue	\$115 million - \$125 million
Bookings	\$75 million - \$100 million
Adj. EBITDA	Margins of 14% - 16%
Capex	~ \$10 million
FCF	Greater than \$0



Appendix

dril-quip.com | NYSE: DRQ

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Management | Result Driven Management Team



Jeffrey J. Bird
President and
Chief Executive Officer



Kyle F. McClure
Vice President and
Chief Financial Officer



Stephen J. Chauffe
Vice President —
Well Construction



John Mossop
Vice President —
Technology and
Energy Transition



Mahesh R. Puducheri
Vice President —
Chief Human
Resources Officer



Mark Tripsa
Vice President —
Integrated Supply Chain



Don M. Underwood
Vice President —
Subsea Products



James C. Webster
Vice President, General
Counsel and Secretary



Bruce Witwer
Vice President —
Subsea Services

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

	Three months ended		
	September 30, 2023	June 30, 2023	September 30, 2022
	(In thousands, except per share data)		
Revenues:			
Products	\$ 77,603	\$ 55,828	\$ 58,508
Services	27,214	23,733	20,443
Leasing	12,427	10,046	9,190
Total revenues	117,244	89,607	88,141
Costs and expenses:			
Cost of sales	85,603	65,711	65,710
Selling, general and administrative	26,993	22,114	22,431
Engineering and product development	3,061	3,202	2,645
Restructuring and other charges	2,267	(610)	4,101
Gain on sale of property, plant and equipment	(1,027)	(738)	(17,276)
Acquisition costs	5,358	1,134	-
Foreign currency transaction loss (gain)	1,060	(4,812)	(1,901)
Total costs and expenses	123,315	86,001	75,710
Operating income (loss)	(6,071)	3,606	12,431
Interest income, net	(2,312)	(1,979)	(248)
Income tax provision (benefit)	3,275	2,102	(610)
Net income (loss)	\$ (7,034)	\$ 3,483	\$ 13,289
Income (loss) per share			
Basic	\$ (0.21)	\$ 0.10	\$ 0.39
Diluted	\$ (0.21)	\$ 0.10	\$ 0.39
Depreciation and amortization	\$ 7,899	\$ 7,049	\$ 7,123
Capital expenditures	\$ 5,430	\$ 10,187	\$ 10,283
Weighted Average Shares Outstanding			
Basic	34,132	34,130	33,948
Diluted	34,132	34,490	34,232

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

	September 30, 2023	December 31, 2022
(In thousands)		
Assets:		
Cash and cash equivalents	\$ 181,072	\$ 264,804
Short-term investments	8,911	32,232
Other current assets	519,057	452,988
PP&E, net	211,806	181,270
Other assets	86,722	38,657
Total assets	\$ 1,007,568	\$ 969,951
Liabilities and Equity:		
Current liabilities	\$ 106,735	\$ 87,555
Deferred income taxes	12,114	3,756
Other long-term liabilities	18,257	6,288
Total liabilities	137,106	97,599
Total stockholders equity	870,462	872,352
Total liabilities and equity	\$ 1,007,568	\$ 969,951

Dril-Quip, Inc.
Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) per Share to Adjusted Diluted Earnings (Loss) per Share

	Three months ended					
	September 30, 2023		June 30, 2023		September 30, 2022	
	Effect on net income (loss) (after-tax)	Impact on diluted earnings (loss) per share	Effect on net income (loss) (after-tax)	Impact on diluted earnings (loss) per share	Effect on net income (loss) (after-tax)	Impact on diluted earnings (loss) per share
	(In thousands, except per share amounts)					
Net income (loss)	\$ (7,034)	\$ (0.21)	\$ 3,483	\$ 0.10	\$ 13,289	\$ 0.39
Adjustments (after tax):						
Reverse the effect of foreign currency transaction loss (gain)	837	0.02	(3,801)	(0.11)	(1,502)	(0.04)
Restructuring and other charges, including severance	2,036	0.06	(14)	-	3,240	0.09
Gain on sale of property, plant and equipment	(811)	(0.02)	(583)	(0.02)	(13,648)	(0.40)
Adjusted net income (loss)	<u>\$ (4,972)</u>	<u>\$ (0.15)</u>	<u>\$ (915)</u>	<u>\$ (0.03)</u>	<u>\$ 1,379</u>	<u>\$ 0.04</u>

Dril-Quip, Inc.
Reconciliation of Net Income (Loss) to Adjusted EBITDA

	Three months ended		
	September 30, 2023	June 30, 2023	September 30, 2022
	(In thousands)		
Net income (loss)	\$ (7,034)	\$ 3,483	\$ 13,289
Add:			
Interest income, net	(2,312)	(1,979)	(248)
Income tax provision (benefit)	3,275	2,102	(610)
Depreciation and amortization expense	7,899	7,049	7,123
Restructuring and other charges	2,267	(610)	4,101
Acquisition costs	5,358	1,134	-
Gain on sale of property, plant and equipment	(1,027)	(738)	(17,276)
Foreign currency transaction loss (gain)	1,060	(4,812)	(1,901)
Stock compensation expense	2,576	2,566	2,569
Other	309	592	-
Adjusted EBITDA	<u>\$ 12,371</u>	<u>\$ 8,787</u>	<u>\$ 7,047</u>

Dril-Quip, Inc.
Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

	Three months ended		
	September 30, 2023	June 30, 2023	September 30, 2022
	(In thousands)		
Net cash provided by operating activities	\$ 26,805	\$ 11,282	\$ 1,042
Less:			
Purchase of property, plant and equipment	(5,430)	(10,187)	(10,283)
Free cash flow	\$ 21,375	\$ 1,095	\$ (9,241)

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 & Short-Term Investments / 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)



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