



Financing in the rig market

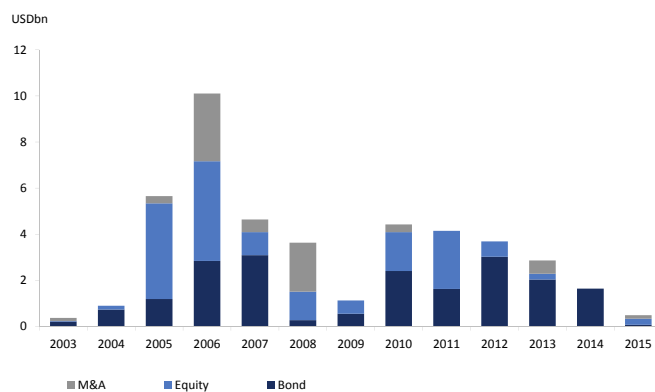
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New floater demand projections vs. August 2015 projection

Private & confidential

Deal activity has slowed to post GFC levels

Pareto Securities rig capital market transactions



► Pareto Securities has carried out capital markets transactions in the rig space of > USD 40bn the past ten years

► Annual average deal volume of USD 4bn

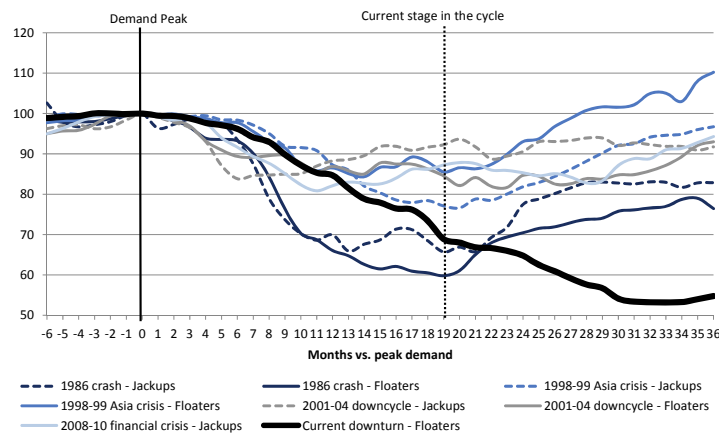
► USD 1bn average past two years

► Moving from bonds to more equity and M&A

Source: Pareto Securities Equity Research

Current downturn (by far) the worst in the history of offshore drilling

Projected demand development vs. previous down cycles as % of pre-crisis high



- ▶ Demand drop of ~47% from pre-crisis high
 - Average in previous downcycles of ~20%
 - 1980s crash at ~34-40%
- ▶ Peak to trough of 31 months, ~38 months to start of the recovery
 - ~15-20 months to trough in previous downcycles, ~20-30 months to start of recovery
- ▶ Demand drop of ~47% from pre-crisis high
 - Average in previous downcycles of ~20%

Source: Pareto Securities Equity Research

But don't underestimate sentiment and momentum!

"I could shoot somebody and I wouldn't lose any voters"

Donald Trump, GOP presidential candidate frontrunner



Source: Oilprice.com, Reuters, Seekingalpha, Factset

Sentiment is improving with the oil price

...and there is a lot of capital looking to get into the energy space

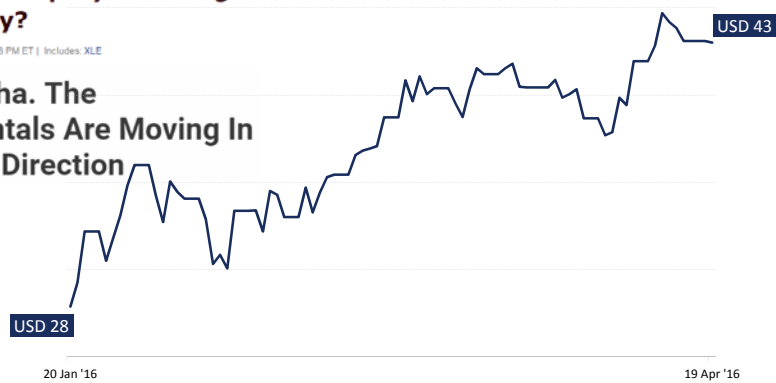
Blackstone forms fund for offshore sector

USD/bbl

Private Equity Doubling Down On Energy?

Sep. 4, 2015 12:28 PM ET | Includes: XLE

Forget Doha. The Fundamentals Are Moving In The Right Direction

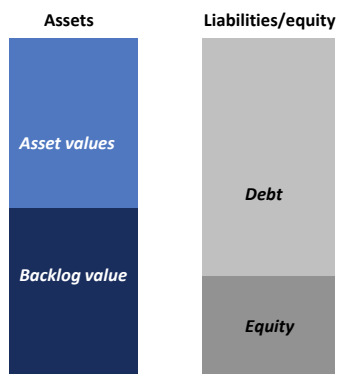


Source: Oilprice.com, Reuters, Seekingalpha, Factset

Capital structures in the drilling industry

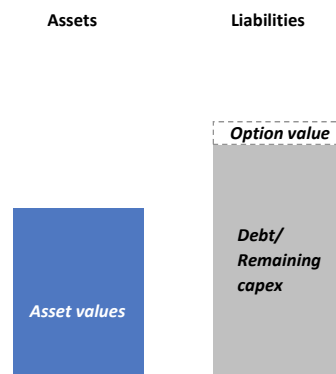
A backlog makes all the difference

Rig(s) with a solid backlog



Quite a few sources of capital

Rig(s) with no backlog



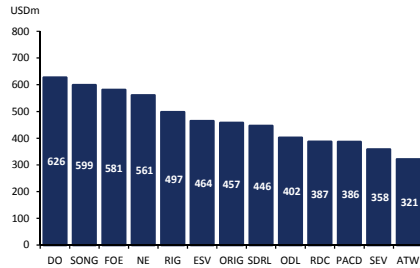
A little more tricky

Source: Pareto Securities

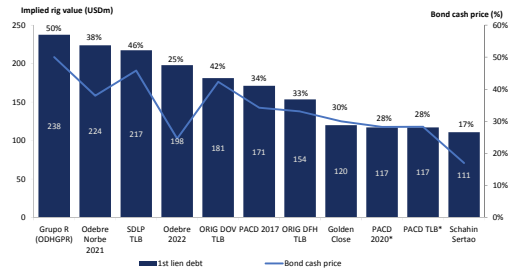
As evidenced by market pricing

Implied ultra deepwater values through equity and bonds

Equity year end 2016E implied values



Year end 2018E

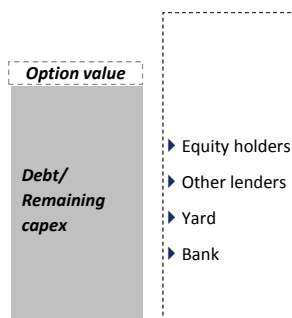


Source: Pareto Securities Equity Research

Capital sources for single assets or companies with no backlog

Work it out with existing stakeholders before raising new capital

Equity/liabilities Stakeholders



Solutions need to involve existing stakeholders

- ▶ Everyone is an "equity" owner
- ▶ Everyone needs to hurt a little
- ▶ Fresh capital demands a fresh start

Available solutions

Banks: Bankruptcy or debt restructuring

- ▶ Create sustainable structure - grease the wheels with new equity
- ▶ Vantage restructuring → lowest breakeven in industry

Yards: Shared ownership, marketing agreements

- ▶ Maximise upside together or separately
- ▶ Sembcorp – NADL deal – ownership according to capital spent
- ▶ Marketing and sales efforts continue

Source: Pareto Securities Equity Research

The equity markets are open

At today's prices in sustainable structure

▶ Look at dry bulk sector for inspiration

- Reduces risk
- Extends the runway
- Consolidation play

Ticking the boxes:

- ✓ Realistic price expectations
- ✓ Sustainable capital structure
- ✓ Backlog
- ✓ Commercial platform
- ✓ Young average fleet age (value adjusted)

Ensco raises capital

- ▶ Ensco raised USD ~530m overnight last Friday
- ▶ ~12% discount to last close
- ▶ Implied values of USD 500m/rig
- ▶ Analyst upgrades

Source: Pareto Securities Equity Research

Solid demand for direct lending and mezzanine financing

Credit funds are moving in as banks retreat

▶ Banks are reluctant to lend and have tightened terms

- 1) Increased capital cost 2) rising non-performing loans 3) currency effects 4) strategic decisions

▶ “Standard bank structure” may not work in this market

▶ Solid demand from global, Hong Kong and Singapore based funds

- ✓ Improved cash flow (e.g. longer profile, cash sweep or initial grace period)
- ✓ Structure flexibility / higher leverage
- ✓ New source of capital (please banks)

Ticking the boxes:

- ✓ Realistic price expectations
- ✓ Backlog
- ✓ Young average fleet age (value adjusted)

Source: Pareto Securities Equity Research

Sale and leaseback market is very active

Blending investor equity and debt for an optimal financing

- ▶ *Reduces dependency on troubled bank market*
- ▶ *Improved security package and flexibility for investor(s) lead to more attractive terms*
- ▶ *Solid demand from syndication and international and Chinese funds*
- ▶ *Pareto Securities has a unique approach to this market*

- ✓ *Improved cash flow (e.g. longer profile, cash sweep or initial grace period)*
- ✓ *Structure flexibility / higher leverage*
- ✓ *New source of capital (please banks)*

Ticking the boxes:

- ✓ *Realistic price expectations*
- ✓ *Backlog*
- ✓ *Young average fleet age (value adjusted)*

Source: Pareto Securities Equity Research

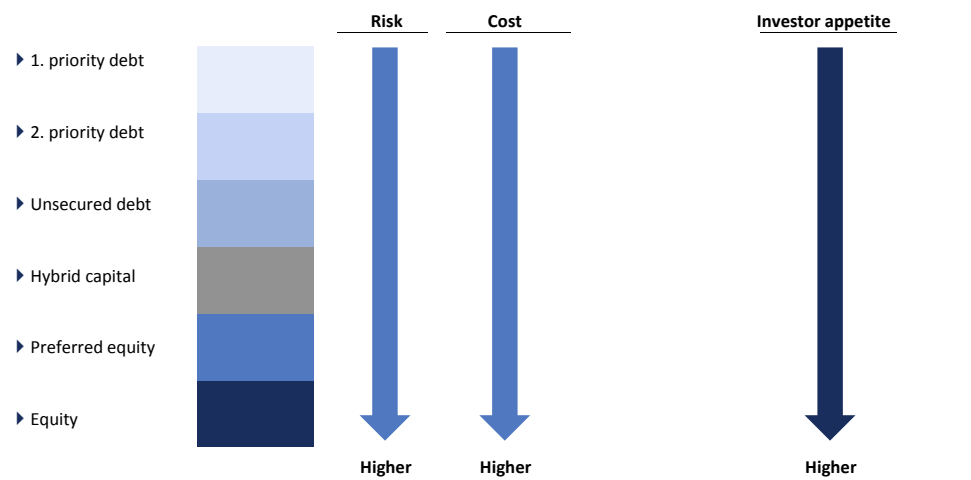
Questions?



Appendix

The risk and cost of capital is higher than in a normalised market

Sources of capital - in order of priority



Finding agreement with existing stakeholders

West Rigel case study

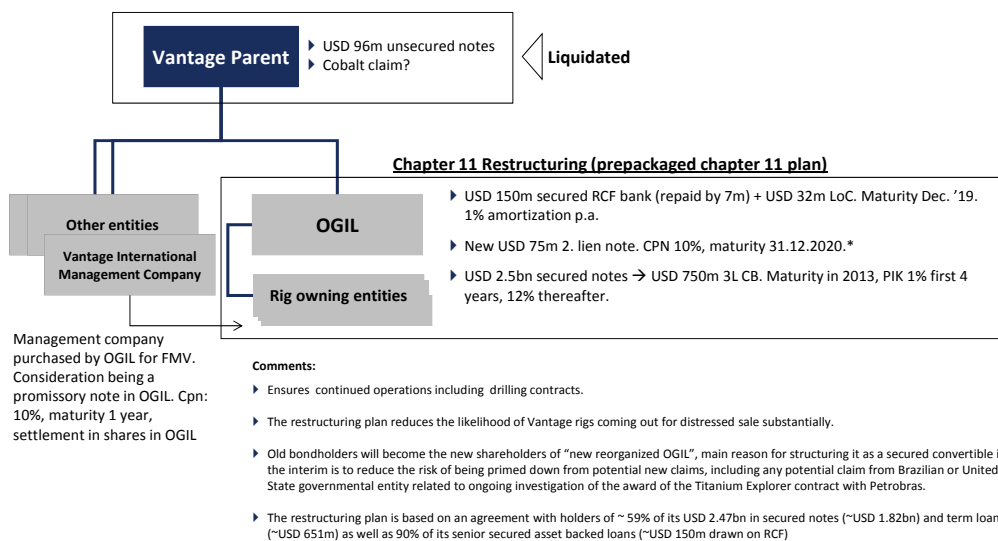
West Rigel substantially completed at Jurong



- ▶ Seadrill/NADL and Sembcorp have agreed to a standstill until June 2016
- ▶ If no acceptable employment is secured and the rig is not sold, the companies will create company for joint ownership of the unit to be owned 23% by NADL and 77% by Jurong
- ▶ NADL will continue to market the Unit for the Joint Asset Holding Company for an acceptable drilling contract while JSPL will continue to market the Unit for sale at an acceptable price
- ▶ With the 23% ownership reflecting the 20% initial instalment (plus some project management cost), the deal essentially removes the remaining capex for Seadrill/NADL while Jurong avoids potentially having to pay back the initial instalment as a result of late delivery

Source: Pareto Securities Equity Research

Vantage restructuring in short



*Backstopped by Alliance Bernstein, Anchorage Capital, GoldenTree, Kingthhead, Renegade Swish, Wingspan, and York. Secured noteholders and term loan holders will have pro-rata subscription rights into the new senior secured 2. Lien notes.
Source: Pareto Securities

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