Borr Drilling

Borr Drilling Limited (BDRILL) Announces Results for the First Quarter 2019

Hamilton, Bermuda, May 29, 2019: Borr Drilling Limited ("Borr", "Borr Drilling" or the "Company") announces unaudited results for the three months ended March 31, 2019

Highlights in the first quarter 2019

- Operating revenues of $51.9 million, EBITDA* of negative $15.3 million and net loss of $56.4 million for the first quarter of 2019
- Technical utilisation for the operating rigs was 99.1% in the first quarter of 2019
- Purchased a KFELS Super B Bigfoot jack-up newbuild, the "Thor", from BOT Lease Co., Ltd. for a cash consideration of $122.1 million, financed by a $120 million bridge loan facility from two commercial banks
- Awarded two 18-month contracts for two premium newbuild jack-up rigs with Pemex in Mexico, under an integrated services model with our principal shareholder Schlumberger, with scheduled commencement mid-2019
- Secured $160 million revolving credit and guarantee lines facility from two commercial banks
- Took delivery of the premium jack-up rig "Njord" from PPL Shipyard including delivery financing of $87.0 million

Subsequent events

- Received final credit approved commitments for financing in the total amount of $645 million
- Completed the successful activation/reactivation and commencement of contracts for the premium jack-ups Gerd, Groa, Natt, Odin and Ran
- Secured contract for premium jack-up "Mist" for an approximate six-month program in Malaysia
- Entered into agreement to sell three standard jack-up rigs for non-drilling activities, two of which were sold in May 2019, and the third expected to be sold early 2020 with total net cash proceeds of $9 million

Management Discussion and Analysis

Consolidated Statement of Operations (Financial Performance & Operating Results)

On average, 9.1 rigs were operating during the first quarter of 2019 (first quarter 2018: 1.9 rigs), generating operating revenues of $51.9 million compared to operating revenues of $10.6 million in the first quarter of 2018, where only two rigs had commenced operations and the Paragon acquisition had been effective for three days. Due to the difference in activity level between first quarter 2019 and first quarter 2018, the Management Discussion and Analysis below will focus on comparing first quarter 2019 figures to fourth quarter 2018 figures.

Three months ended March 31, 2019

Operating revenues were $51.9 million for the three months ended March 31, 2019 ($53.5million for the three months ended December 31, 2018), a decrease of $1.6 million. The decrease was partly due to extended standby rates on our North Sea rigs due to poor weather conditions, and the "Mist", the "C20051" and the "Prospector 5" all ending their existing contracts during the period. The "C20051" has subsequently been sold, whereas the other two units have commenced new contracts. This decrease was partly offset by a full quarter of operations for the "Prospector 1".

Total operating expenses were $109.9 million for the three months ended March 31, 2019 ($105.8 million for the three months ended December 31, 2018), an increase of $4.1 million. Total operating expenses consists of rig operating and maintenance expenses, depreciation, amortisation, impairment, general and administrative expenses, and restructuring costs.

* The Company uses certain financial information calculated on a basis other than in accordance with accounting principles generally accepted in the United States (US GAAP) including EBITDA. EBITDA as used herein represent net loss adjusted for: depreciation and impairment of non-current assets, amortization of contract backlog, net financials, gain from bargain purchase and income tax expense. EBITDA is included as a supplemental disclosure because the Company believes that the measure provides useful information regarding the Company's operational performance. For a reconciliation of EBITDA to net loss, the most comparable U.S. GAAP financial measure, please see Note 25 to the Company's unaudited condensed consolidated financial statements.

Rig operating and maintenance expenses, including stacking costs, were $57.1 million for the three months ended March 31, 2019 ($59.5 million for the three months ended December 31, 2018), a decrease of $2.4 million. The decrease was primarily driven by reduced operational costs on the three rigs completing their contracts in the quarter and certain non-recurring expenses that were recorded in the fourth quarter 2018 and not repeated in first quarter 2019, partly offset by reactivation costs of $7.6 million related to the “Ran” being reactivated from warm stacking for the commencement of its 11 month contract in the North Sea.

Depreciation of non-current assets was $23.9 million for the three months ended March 31, 2019 ($23.8 million for the three months ended December 31, 2018).

Impairment of non-current assets was $11.4 million for the three months ended March 31, 2019 ($ nil for the three months ended December 31, 2018). The impairment relates to an anticipated sale of the cold stacked, standard jack-up rig “Eir” for $3.0 million, which is expected to be completed early in 2020 subject to the satisfaction of certain conditions precedent.

Amortisation of contract backlog was $7.4 million for the three months ended March 31, 2019 ($8.5 million for the three months ended December 31, 2018), a decrease of $1.1 million due to the expiration of acquired contracts from the Paragon transaction.

General and administrative expenses were $10.1 million for the three months ended March 31, 2019 ($10.8 million for the three months ended December 31, 2018), a decrease of $0.7 million. This includes $2.0 million ($1.4 million for the three months ended December 31, 2018) of non-cash charges linked to the Company’s long-term share option program.

Other income (expenses) net, was $1.8 million for the three months ended March 31, 2019 (loss of $59.2 million for the three months ended December 31, 2018). The principal items were:

- interest expense of $13.0 million (additionally, interest of $5.8 million was capitalised in the quarter)
- mark-to-market gains on forward contracts relating to marketable securities of $11.5 million, and
- a mark-to-market gain on the Call Spread derivative related to the Company’s convertible bonds of $3.6 million

Income tax expense for the three months ended March 31, 2019 was $0.2 million ($0.5 million for the three months ended December 31, 2018).

Consolidated Balance Sheet

As of March 31, 2019

The Company had total assets of $3,098.4 million as of March 31, 2019 (December 31, 2018: $2,913.7 million). The increase of $184.7 million is primarily a result of the acquisition of the “Thor” at end of March 2019 for a total amount of $122.1 million and delivery of the newbuild “Njord” in January 2019 for $87.0 million, partly offset by the depreciation and impairment of the “Eir”.

Total liabilities as of March 31, 2019, were $1,626.6 million (December 31, 2018: $1,380.2 million). The increase of $246.4 million in the first quarter was mainly attributable to $87.0 million in long-term debt related to the delivery financing for the newbuild “Njord”, the drawdown of $95.0 million on the Company’s revolving credit facilities, drawdown of $60 million on the bridge loan facility related to the acquisition of the “Thor”, offset by a reduction in the liability pertaining to unrealised losses on forward contracts related to marketable securities of $11.5 million.

As of March 31, 2019, total equity was $1,471.8 million (December 31, 2018 $1,533.5 million). The decrease of $61.7 million was largely attributable to the net loss in the first quarter of $56.4 million and the mark-to-market effect of debt marketable securities of $7.3 million.

Consolidated Statement of Cash Flows

Three months ended December 31, 2018

Net cash used in operating activities was $13.9 million for the three months ended March 31, 2019 ($41.3 million for the three months ended December 31, 2018) and is explained mainly by the operating cash loss in the period and interest paid, partly offset by changes in working capital affecting the cash flow positively.

Net cash used in investing activities was $172.1 million for the three months ended March 31, 2019 ($19.2 million for the three months ended December 31, 2018) and primarily relate to payments in respect of newbuilds of $129.0 million, payments and costs in respect of jack-up drilling rigs of $43.9 million that relates mainly to activation costs of newbuilds, offset by net proceeds from sale of marketable securities of $3.3 million and proceeds from sale of fixed assets of $0.6 million.

Net cash provided by financing activities was $153.5 million during the three months ended March 31, 2019 ($90.0 million provided for the three months ended December 31, 2018) and relates to drawdown on the revolving credit facilities of $95 million, and proceeds, net of deferred loan costs, from issuance of short-term debt related to the acquisition of “Thor” of $58.5 million.

As of March 31, 2019, the Company’s cash and cash equivalents and restricted cash amounted to $58.8 million ($91.3 million at December 31, 2018). Total available free liquidity (cash and cash equivalents excluding restricted cash, plus available amounts under credit facilities) at the end of the first quarter was $164.4 million, including undrawn amounts under credit facilities of $135.0 million. This compares to available free liquidity $97.9 million at the end of the fourth quarter 2018. $34.0 million was transferred from restricted cash to cash and cash equivalents in the first quarter of 2019 mainly as a result of an amendment to the DNB Revolving Credit Facility no longer requiring cash collateral of $25.0 million and less cash required in margin account for forward contracts for shares.

Outstanding shares

As of March 31, 2019, the Company had a share capital of $5,326,403.27, divided into 532,640,327 shares. The Company held 7,298,572 of its own shares in treasury at the end of the first quarter 2019 at an average price of NOK 31.72 per share, or $26.2 million in total.

Fleet development

On January 30, 2019, the Company took delivery of the “Njord”, the ninth premium jack-up rig it has acquired from PPL Shipyard and the final premium jack-up rig to be delivered pursuant to the agreement with PPL Shipyard. The final instalment for the jack-up rig was financed by the delivery financing of $87.0 million established with the yard, which is non-amortising over a term of five years.

On March 29, 2019, the Company completed the purchase of the KFELS Super B Bigfoot jack-up newbuild “Thor”, constructed at Keppel FELS, for a total consideration of $122.1 million from BOT Lease Co., Ltd. The original ordering price for the rig was approximately $240 million. The Company took delivery of the rig from the yard on May 9, 2019.

In the second quarter of 2019, the Company entered into an agreement to sell the three standard jack-up rigs ”Baug”, “Eir” and “C20051”. The rigs have been sold for purposes related to non-drilling activities and will be retired from the international jack-up rig fleet. Net proceeds from the sales will be approximately $9.0 million, whereof $6.0 million were received in May 2019 at the definitive transfer of ownership of the “Baug” and “C20051”, and the remaining $3.0 million is expected within first quarter 2020 at the definitive transfer of ownership of the “Eir”, subject to certain conditions precedent. The transaction resulted in the Company recording an impairment of $11.4 million in the first quarter 2019 for the “Eir”. The Company also expects to recognise a gain on the sale of the “Baug” and the “C20051” of approximately $3.0 million in the second quarter 2019. These divestments bring the total number of rigs being divested and retired from the international jack-up rig fleet to 30 by the Company, including those of Paragon, since the beginning of 2018.

The Company is, as of the date of this report, the owner of 22 premium (delivered in 2001 and after) jack-up rigs, four standard jack-up rigs (built before 2001) and one semi-submersible. Furthermore, the Company has contracts for delivery of eight rigs from yards before the fourth quarter of 2020. When all newbuild rigs have been delivered, the fleet will consist of 34 rigs, whereof 30 are premium (28 built after 2010).

Operations

The standard jack-up rig “C20051” concluded its contract with Total in the Netherlands in March 2019. Subsequent to the quarter end, the Company entered into an agreement to sell the rig to a buyer who will use the rig for non-drilling purposes, and the rig will leave the international jack-up drilling fleet.

The premium jack-up “Odin” commenced its contract with PanAmerican Energy in Mexico in April 2019, for an estimated duration of nine months.

The premium jack-up rigs “Gerd” and “Natt” commenced their contracts in Nigeria with Exxon and First E&P, respectively, in mid-April 2019, each for firm period of two years plus options.

The premium jack-up rig “Ran” commenced its contract with Spirit Energy in the North Sea in April 2019, for an estimated duration of 11 months.

The premium jack-up “Groa” was activated successfully and commenced its contract with Exxon in Nigeria in May 2019 for a firm duration of two years plus options.

The premium jack-up rig “Mist” concluded its contract with Kris Energy in Thailand in late February 2019. The Company has since entered into a contract with Vestigo Petroleum in Malaysia for a 12 wells firm plus 3 well option, that will commence on May 30, 2019. The estimated duration of the firm program is six months.

The premium jack-up rig “Prospector 5” has entered into a contract with Neptune in the North Sea that commenced in the end of May 2019, for an estimated duration of six months.

The premium jack-up rigs "Grid” and “Gersemi” were awarded contracts for nine offshore development wells under an integrated services model with Pemex in Mexico, expected to commence in mid-2019 for a period of approximately 18 months. Further, under this project, we will leverage on our strategic collaboration with our partner and principal shareholder, Schlumberger, to provide comprehensive oilfield services and deliver an end-to-end well solution to our customer.

The Company currently has a marketed fleet of eight unemployed modern rigs in the water, of which seven are newbuilds coming straight from the yard. One further rig is scheduled to be delivered later this year while seven more rigs are scheduled for delivery from the yards in 2020.

	Total	**Operating / Committed**	**Available**	**Cold Stack**	**Under Construction**
Premium Jack-Ups	30	12	8	2	8
Standard Jack-Ups	4	3		1†	
Total Jack-Ups	**34**				
Semi - Submersible	1	1			
Total Fleet	**35**	**16**	**8**	**3**	**8**

The Company will have 13 rigs in operations; five in the North Sea, two in the Middle East, four in West Africa, one in Malaysia and one in Mexico. Based on existing contracts, the Company expects, to have 16 rigs operating by end of July 2019.

The technical utilisation for the fleet was 99.1% in the first quarter of 2019 and 98.9% year to date 2019.

† Incl. Eir, which is under sales agreement, expected to be concluded early 2020, subject to conditions

Borr Drilling

Corporate Development, Investments and Financing

In March 2019, the Company secured additional financing consisting of a $100 million revolving credit facility and a $60 million credit line for issuance of guarantees with maturity in May 2020 with two international commercial banks. In addition, the Company has entered into a supplemental agreement to its $200 million revolving credit facility, allowing the Company to issue guarantees of up to $30 million secured by the rigs that are mortgaged under the loan agreement, freeing up approximately $25 million that was classified as restricted cash at year end 2018.

In connection with the purchase of the ”Thor” in the end of March 2019, the Company entered into a $120 million senior secured term loan facilities agreement, consisting of two facilities (Facility A and Facility B) of $60 million each. The facilities mature on September 30, 2019. As of March 31, 2019, Facility A had been fully drawn down and Facility B was fully drawn down on May 9, 2019.

As referred to in the Company’s fourth quarter 2018 report, the Company initiated efforts to secure overall, long-term financing, and had received an indicative term sheet for a bank loan facility of $500 million. Since the date of the report, the Company has received final credit approved commitments in the total amount of $645 million from five lenders. The finalisation of these financing arrangements is subject to normal documentation procedures, and it is anticipated that they will all be drawable on or before June 30, 2019. The new long-term facilities of $645 million will replace all the Company’s short-term credit facilities of a total amount of $510 million, and also enable the Company to fully finance the remaining newbuilding program and activate further rigs. The Company will after the new financing has been implemented, have no debt facility maturities before 2022.

We hold forward contracts for marketable securities in Ensco Rowan PLC with unrealised losses of $23.6 million at March 31, 2019, recorded in the balance sheet under Unrealized loss on forward contracts. We also hold marketable securities which are investments in Oro Negro debt securities. These had accumulated unrealized losses of $12.9 million as at March 31, 2019. Borr has since its inception realised incremental cash proceeds of approximately $40 million from investments in offshore industry related equities and debt. The creditors of Oro Negro gained possession of the rigs in May, which should lead to a revaluation of the Company’s bonds. We will look opportunistically on monetising these two investments, when market values better reflect the values of the underlying assets. This is not a core part of the strategy of the Company, and we have no plans for further investments in marketable securities.

On February 27, 2019, the Board of Directors of the Company appointed Alexandra Kate Blankenship as director of the Company and Georgina Sousa as director and company secretary. Ms. Blankenship has served on a number of boards of directors since 2005, including Frontline Ltd., Seadrill Ltd., Golden Ocean Group Limited, Archer Limited, and is a member of the Institute of Chartered Accountants in England and Wales. Ms. Sousa was employed by Frontline Ltd. as Head of Corporate Administration from February 2007 until December 2018. She has served as director and secretary on a number of boards, including Frontline Ltd., Ship Finance International Limited, North Atlantic Drilling Ltd. and Golar LNG Limited. Ms. Sousa is a Bermuda citizen and resides in Bermuda.

Market

During the first quarter of 2019, global jack-up drilling rig fleet utilisation has continued its upward trend. Global competitive jack-up rig utilisation stood at 79% at the end of March 2019, an increase of one percentage point quarter-on-quarter, and at 81%% at the date of this report. Similar to the trend noted during all recent quarters, the improvement in competitive jack-up utilisation has been driven by increasing utilisation of modern jack-up rigs (built after year 2000) which was at 83% at the end of March 2019, an increase of two percentage points quarter-on-quarter and a further two percentage points increase to 85% at the time of this report. In the standard jack-up segment, competitive utilisation has remained flat quarter-on-quarter despite additional reductions to the competitive fleet due to retirements and cold stacking. In some regions, such as the North Sea, Middle East and West Africa, competitive utilisation for modern units is well above 90%, which continues to drive pricing higher, as experienced by Borr in recent fixtures.

According to data from IHS, the number of new mutual jack-up rig years contracted in the first quarter 2019 was approximately 70, which represents an increase of over 150% compared to the same period in the previous year. It is noteworthy as well that the average duration of the contracts awarded in the first quarter 2019 was of 1.2 years, almost double the figures from the same period last year which stood at 0.7 years. We believe this reflects an increasing level of confidence of our customers in their shallow water portfolio and a higher sense of urgency in securing rig time as available supply reduces, particularly for modern units.

The jack-up market bottomed out in 2017 at 298 units contracted. The increase in the activity is illustrated by the fact that as of today there are 347 units currently contracted, and this number is expected to increase to 370-380 units by the end of the year, with further activity increases forecasted for 2020 according to a reputable broker. The contracted number of jack-up rigs at the peak in 2014 was more than 440 units.

Currently, there are only approximately 41 uncontracted jack-ups built in 2001 or after, out of which the Company estimates less than 25 are being actively marketed and owned by drilling contractors capable of competing in international markets. For rigs built in 2010 or after, availability is even tighter with a total of 29 rigs available, out of which the Company estimates less than 15 are being actively marketed and owned by drilling contractors capable of competing in international markets, eight of these units are owned by Borr.

Following recent tenders, the international drilling operators are now at, or very close to full utilisation, meaning the competitive situation is greatly improved. It is interesting to note that several of the recent contract awards have been awarded to players which currently do not have available rig capacity. This means the contractors either have to target a rapidly reducing number of rigs stranded at shipyards in China or try to source rigs in the open market. Borr Drilling has been approached by several such contractors.

During the first quarter of 2019, seven units were retired from the worldwide jack-up rig fleet. The Company maintains its view that a significant number of the approximate 70 jack-up rigs that are older than 30 years and uncontracted will remain uncompetitive and unlikely to return to the active fleet in the near future, or at all. For modern rigs, contracted rig count stand at 234 representing an increase of approximately 41 rigs since 2014. A reverse trend has been observed in the standard jack-up rig segment, where contracted rig count has nearly halved since 2014 to current levels of 113.

It is a very interesting observation that the jack-up activity in the big oil producers like Saudi-Arabia, UAE, China and Qatar today are significantly higher than when oil prices were above $100/bbl in 2014. Based on current tender activity, it is expected that this growth will continue. The areas where jack-up rig activity is down, namely Mexico and South East Asia, a significant impact on oil production has been observed. Mexican oil production is down from 2.5m bbl/day to 1.6m bbl/day. To counter this decline, jack-up rig activity has recently been dramatically increased in both areas.

Outlook

Eighteen months ago, Borr had no rigs in operations, negative cash-flow and limited operational track record. Today, the Company has 16 rigs operating or commencing operation shortly, mainly with major oil companies and NOCs. The Company has been established as one of the world's leading operator of modern, high-specification jack-ups, with a strong operational track record. The Company expects to generate positive operating cash-flow in the third quarter 2019 and has now received commitments for a solid long-term financing.

Borr announced at the end of March 2019 the signature of four LOIs for long-term contracts. Two of these LOIs, were later converted to final contract awards with Pemex. The two other LOIs, which were awarded after an eight-month tender process were meant to start operations in first quarter 2020. The LOIs were later withdrawn and the contracts were awarded to a local drilling operator. The Company was disappointed with this outcome, but is based on current discussions and bidding processes, highly confident that alternative work can be secured within the next months. The Board remains committed to the comments given in the fourth quarter 2018 report, that a major part of our open capacity should be contracted before the end of 2019.

The Board is pleased with the strategic decision to stay focused on the high-spec jack-up market. Today, the Board sees four clear fundamental factors which favours the jack-up market:

1. More than 40% of the fleet is more than 30 years old
2. The number of rigs contracted in key oil producing areas such as Saudi Arabia, UAE, China and Qatar, are significantly higher than when the oil price was $100/bbl in 2014.
3. The complexity of the wells has led to a strong increase in the need for high specification assets, represented by the fact that 234 modern units are working today vs 193 in 2014.
4. Recent contract awards support an EV/EBITDA of approximately 6x, significantly better than the floater market

With its current positive cash-flow from contracted units, the new long-term financing arrangement, and with significant upside from its 16 unemployed rigs, the Company believes it has potential to generate significant free cash-flow in the years to come. The Company has already used the current downcycle to acquire what it believes is a unique group of modern assets at distressed prices and have no further plans or needs for significant expansion or fleet renewal. The free cash-flow from operations is therefore available for dividend distribution and debt reduction.

The Board is encouraged by the fundamental strengthening of our market and are hopeful that this over time will be reflected in the Company's share price development.

Disclaimer

The information in this communication is for informational purposes only and shall not constitute, or form a part of, an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities.

Forward looking statements

This announcement includes forward looking statements. Forward looking statements are, typically, statements that do not reflect historical facts and may be identified by words such as "anticipate", "believe", "continue", "estimate", "expect", "intends", "may", "should", "will" and similar expressions and include expectations regarding industry trends including activity levels in the jack-up rig industry, trends in oil prices, the suitability of our fleet in the existing environment, utilization levels, delivery of newbuilds, investments in securities, dividends and distributions, contract backlog and contract terms, expected completion of sales of rigs the Company has agreed to sell, expected business environment in 2019 and 2020 including expected offshore spending, expected contracting and operation of our jack-up rigs in 2019 and 2020 and expectation of contracting at favourable rates, expected funding needs, expected execution of further financing agreements in furtherance of the term sheets discussed herein and other non-historical statements. The forward-looking statements in this announcement are based upon various assumptions, many of which are based, in turn, upon further assumptions. Although Borr Drilling Limited believes that these assumptions are reasonable, they are, by their nature, uncertain and subject to significant known and unknown risks, contingencies and other factors which are difficult or impossible to predict and which are beyond our control. Such risks, uncertainties, contingencies and other factors could cause actual events to differ materially from the expectations expressed or implied by the forward-looking statements included herein. In addition to the important factors and matters discussed elsewhere in this report, important factors that, in our view could cause actual results to differ materially from those discussed in the forward looking statements are included in our most recent annual report.

The information, opinions and forward-looking statements contained in this announcement speak only as of the date hereof and are subject to change without notice.

About Borr Drilling Limited

Borr Drilling Limited is an international drilling contractor incorporated in Bermuda in 2016 and listed on the Oslo Stock Exchange from August 30, 2017. The Company owns and operates jack-up rigs of modern and high specification designs and provides services focused on the shallow water segment to the offshore oil and gas industry worldwide.

Please visit our website at: www.borrdrilling.com

May 29, 2019
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