Borr Drilling Limited (BDRILL) Announces Third Quarter 2018 Results

Hamilton, Bermuda, November 21, 2018: Borr Drilling Limited ("Borr" or the "Company") announces results for the three and nine months ended September 30, 2018

Highlights in the third quarter 2018

- Operating revenues of US$49.7 million, EBITDA* of negative US$10.3 million and net loss of US$39.1 million
- Technical utilisation for the operating rigs was 99.2%
- The premium jack-up rig "Prospector 5" and the standard jack-up rig "C20051" commenced its new contracts in the quarter
- Secured contract for the premium jack-up rig "Ran" for a 14 wells campaign of approximately 11 months duration in the North Sea
- Started activation of three newbuild jack-up rigs and reactivation of the "Ran"
- Took delivery of the premium jack-up rigs "Groa" in July and "Gyme" in September from PPL Shipyard
- Realised gain of US$9.2 million from the sale of forward contracts in a listed offshore drilling company

Subsequent events

- Secured two firm contracts for the newbuild premium jack-up rigs "Groa" and "Gerd" with Exxon in Nigeria, adding backlog of 48 months excluding options
- Secured contract for the newbuild premium jack-up rig "Natt" with First E&P in Nigeria, adding total backlog of 24 months excluding options
- Secured two firm contracts for the premium jack-up rig "Norve", adding total backlog of approximately 12 months
- Secured firm contract for the premium jack-up rig "Mist", adding total backlog of approximately three months
- Realised US$16.0 million in cash proceeds from sale of forward contracts in a listed offshore drilling company
- Completed the sale of the standard jack-up rig "L1112" ("Ed Holt") in October 2018 for retirement from the international jack-up rig fleet
- Decision to start activating four additional newbuild jack-up rigs
- Took delivery of the premium jack-up rig "Natt" in October from PPL Shipyard

Management Discussion and analysis

Consolidated Statement of Operations (Financial Performance & Operating Results)

Three months ended September 30, 2018

Operating revenues were US$49.7 million for the three months ended September 30, 2018 (US$ nil for the three months ended September 30, 2017). On average, 8.6 rigs were operating during the third quarter 2018.

Total operating expenses were US$91.2 million for the three months ended September 30, 2018 (US$24.9 million for the three months ended September 30, 2017). Total operating expenses consists of rig operating and maintenance expenses, depreciation, amortisation, general and administrative expenses, and restructuring costs.

Rig operating and maintenance expenses, including stacking costs, were US$45.7 million for the three months ended September 30, 2018 (US$9.4 million for the three months ended September 30, 2017), an increase of US$36.3 million compared to the three months ended September 30, 2017. The increase is primarily driven by operating expenses of US$36.9 million for the operating rigs during the third quarter 2018, including US$1.6 million relating to amortisation of mobilisation 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 less: depreciation and impairment of non-current assets, amortisation 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.

Depreciation and impairment of non-current assets, including amortisation of contract backlog, were US$31.2 million for the three months ended September 30, 2018 (US$8.0 million for the three months ended September 30, 2017). Depreciation in the third quarter 2018 increased by US$13.5 million compared to the third quarter 2017 as a result of a larger fleet of jack-up rigs. In addition, US$9.7 million was recognised as amortisation of revenue backlog from the Paragon acquisition.

General and administrative expenses were US$9.7 million for the three months ended September 30, 2018 (US$7.5 million for the three months ended September 30, 2017).

Restructuring costs were US$4.6 million for the three months ended September 30, 2018 (US$ nil for the three months ended September 30, 2017) and relates to a cost accrual for vacating excess Paragon offices with remaining lease obligations.

Net financial income was US$4.5 million for the three months ended September 30, 2018 (US$15.3 million for the three months ended September 30, 2017). The financial items for the third quarter 2018 relate to realised and unrealised gain on forward contracts of US$9.2 million and US$3.5 million, respectively, interest expense net of capitalised interest of US$5.2 million, negative fair value adjustment of the Call Spread derivative related to the convertible bonds of US$1.7 million, and other financial expenses of US$1.4 million. The Call Spread derivative is recorded at fair value in the financial statements on a quarterly basis until maturity.

Income tax expense for the three months ended September 30, 2018 was US$2.0 million (US$ nil million for the three months ended September 30, 2017).

Nine months ended September 30, 2018

Operating revenues were US$111.4 million for the nine months ended September 30, 2018 (US$ nil for the nine months ended September 30, 2017).

Gain on disposals was US$17.5 million for the nine months ended September 30, 2018 (US$ nil for the nine months ended September 30, 2017). The company sold 17 rigs jack-up rigs during the second quarter for total proceeds of US$35.2 million.

Total operating expenses were US$247.4 million for the nine months ended September 30, 2018 (US$42.7 million for the nine months ended September 30, 2017). Total operating expenses consists of rig operating and maintenance expenses, depreciation, amortisation, general and administrative expenses, and restructuring costs.

Rig operating and maintenance expenses, including stacking costs were US$120.6 million for the nine months ended September 30, 2018 (US$14.8 million for the nine months ended September 30, 2017), an increase by US$105.8 million primarily driven by operational expenses for the contracted rigs, including US$10.2 million in amortisation of mobilisation costs.

Depreciation, amortisation and impairment of non-current assets, including amortisation of contract backlog, was US$71.4 million for the nine months ended September 30, 2018 (US$12.5 million for the nine months ended September 30, 2017). The increase of US$58.9 million is mainly a result of a larger fleet of jack-up rigs. US$15.7 million were recognised as amortisation of revenue backlog from the Paragon acquisition in the period presented.

General and administrative expenses were US$23.5 million for the nine months ended September 30, 2018 (US$15.4 million for the nine months ended September 30, 2017). The increase was primarily a result of a larger organization, additional offices due to more rigs in operations and the Paragon acquisition.

Restructuring costs were US$31.9 million for the nine months ended September 30, 2018 (US$ nil for the nine months ended September 30, 2017). This relates to termination payments and close-down costs as a result of the Paragon acquisition.

Net financial income was US$2.2 million for the nine months ended September 30, 2018 (US$16.4 million for the nine months ended September 30, 2017). The financial items relate mainly to realised and unrealised gain on forward contracts of US$9.2 million and US$8.8 million, respectively, offset by change in unrealised loss on the Call Spread of US$8.8 million, interest expense net of capitalised interest of US$5.2 million and other financial expenses of US$2.3 million.

Income tax expense for the nine months ended September 30, 2018 were US$2.0 million (US$ nil million for the nine months ended September 30, 2017).

Consolidated Balance Sheet

The Company had total assets of US$2,790.5 million as of September 30, 2018 (June 30, 2018: US$2,652.2 million). Total assets increased by US$138.3 million compared to June 30, 2018, primarily as a result of the delivery of the two newbuildings “Groa” and “Gyme”.

As of September 30, 2018, total equity was US$1,652.0 million compared to total equity of US$1,698.3 million on June 30, 2018.

Total liabilities as of September 30, 2018, were US$1,138.5 million (June 30, 2018: US$953.9 million). The increase of US$184.6 million is mainly attributable to US$174.0 million in long-term debt related to the delivery financing for the two newbuildings “Groa” and “Gyme”.

Consolidated Statement of Cash Flows

Three months ended September 30, 2018

Net cash used in operating activities were US$3.0 million for the three months ended September 30, 2018 (US$17.7 million used in operating activities for the three months ended September 30, 2017) and is explained mainly by the operating cash loss in the period and paid interest, partly offset by a positive change in working capital.

Net cash used in investing activities were US$13.9 million for the three months ended September 30, 2018 (US$22.3 million used in investing activities for the three months ended September 30, 2017). The investment activities primarily relate to purchase of marketable securities of US$9.7 million and payments and costs in respect of plant and equipment of US$2.5 million.

Net cash used in financing activities were US$7.4 million during the three months ended September 30, 2018 (US$8.4 million for the three months ended September 30, 2017) and relates to purchase of treasury shares.

As of September 30, 2018, the Company’s cash and cash equivalents and restricted cash amounted to US$61.8 million (US$156.4 million at September 30, 2017). Total available free liquidity at the end of the third quarter was US$210.6 million, including undrawn revolving credit facility of US$170.0 million. This compares to available free liquidity US$224.0 million at the end of the second quarter.

Outstanding shares

As of September 30, 2018, the Company had a share capital of US$5,326,403.27, divided into 532,640,327 shares.

On August 28, 2018, the Board of Directors approved a share repurchase program for the Company’s shares, to be purchased in the open market and limited to a total amount of US$20,000,000. The share repurchase program is set to expire on December 30, 2018. During the third quarter, the Company purchased 1,700,000 of its own shares at an average price of NOK 35.41 per share, or US$7.37 million in total. Following these purchases, the Company held 4,170,000 of its own shares in treasury at the end of the third quarter 2018 at an average price of NOK 35.1 per share, or US$18.1 million in total.

Borr Drilling

Fleet development

On July 23, 2018, the Company took delivery of the "Groa", the sixth premium jack-up rig from PPL Shipyard PTE Ltd. in Singapore ("PPL Shipyard").

On September 11, 2018, the Company took delivery of the "Gyme", the seventh premium jack-up rig from PPL Shipyard.

On October 10, 2018, the Company took delivery of the "Natt", the eight premium jack-up rig from PPL Shipyard.

In October, the Company decided, based on the strong increase in tender activity and direct negotiations, to activate a further four newbuilds, bringing the total number of newbuilds being activated to seven. Of these seven rigs, five are from PPL Shipyard and two from Keppel FELS. Three rigs remain warm stacked at PPL Shipyard.

Subsequent to the end of third quarter 2018, the Company sold the standard jack-up rig "L1112" ("Ed Holt"), and the rig has been retired from the international jack-up rig fleet. Net proceeds from the sale is approximately US$2.2 million, resulting in a gain of US$1.1 million. This is the 27th jack-up rig to be divested and retired from the international jack-up rig fleet by Borr and Paragon combined since the beginning of 2018.

The Company is, as of the date of this report, the owner of 20 premium (delivered in 2001 and after) jack-up rigs, six standard jack-up rigs (built before 2001) and one semi-submersible. Furthermore, the Company has contracts for delivery of nine rigs from yards until the fourth quarter 2020. When all newbuild rigs have been delivered the fleet will consist of 36 rigs, whereof 29 are premium (27 built after 2011).

Operations

In August 2018, the premium jack-up rig "Prospector 5" was reactivated and commenced operations in the UK under a one HPHT well program of approximately six months. This program will further expand the Company's experience in delivering complex wells in the North Sea and leverage on the rig's MPD ready state.

The premium jack-up rig "Prospector 1" concluded its contract with Orange-Nassau Energy during August 2018. The rig has a new commitment with Tulip Oil in the Netherlands starting in the fourth quarter of 2018 with an estimated duration of approximately 150 days.

The standard jack-up rig "C20051" concluded its contract with Perenco in the UK in late-August 2018 and subsequently commenced operations with Total in the Netherlands in mid-September 2018 under a four workover wells program with an expected duration of approximately 60 days, excluding options.

The standard jack-up rig L1112 (Ed Holt) concluded its contract in India in late September and was subsequently sold in October 2018.

On September 12, 2018, the Company announced that it had entered into letters of agreement and intent for four premium jack-up rigs and were in advanced negotiations on one premium jack-up rig for contracts with a total expected duration of approximately seven years. Since this announcement, the company has successfully entered into firm contracts for all five rigs. This includes a 14 wells (approximately 11 months) contract for the premium jack-up rig "Ran" in the North Sea commencing in the second quarter of 2019, a five well program for the "Mist" in Thailand commencing in the fourth quarter of 2018, a two year contract for the premium jack-up rig "Natt" in Nigeria with First E&P commencing in the first quarter of 2019 and two year contracts each for the premium jack-up rigs "Gerd" and "Groa" in Nigeria with Exxon commencing in the first and second quarter of 2019, respectively.

In November 2018, the Company signed the contract for the previously announced letter of intent for the "Norve" for an anticipated ten months program commencing in the third quarter 2019. Additionally, the Company entered into a contract for the rig for approximately 60 days in the second quarter of 2019, which effectively makes the rig fully utilised in 2019 and into mid-2020.

The Company has 14 committed jack-up rigs in total at the date of this report. The Company has nine rigs in operations; four in the North Sea, two in the Middle East, two in West Africa and one in South East Asia, and additionally another five premium jack-ups contracted, all of which are expected to commence operations between December 2018 and second quarter of 2019. During the first half of 2019, we anticipate our operating rig count to be up to 14 rigs and see upside potential to these numbers for the second half of 2019 as we continue to experience increased jack-up tendering activity and customer interest in our fleet.

The technical utilisation for the fleet was 99.2% in the third quarter of 2018 and 99.2% year to date since the acquisition of Paragon.

Corporate Development, Investments and Financing

In July 2018, the Company purchased the last remaining shares in Paragon, and is consequently the sole shareholder.

In September 2018, the Company sold forward contracts for shares in a listed drilling company and realised a profit of US$9.2 million in the third quarter of 2018, and held forward contracts with an unrealised gain of US$13.2 million at the end of third quarter 2018. After end of third quarter 2018, the Company sold additional forward contracts resulting in realised gain and cash proceeds of approximately US$16 million, bringing the total realised gain from sale of forward contracts to US$25 million.

In order to increase liquidity in the trading of the Company's shares further, the process for exploring a listing of Borr's shares on an additional, recognised international stock exchange continues with the target of completing the listing around mid-2019.

Market

During the third quarter of 2018, global jack-up fleet utilisation has continued its upward trend driven primarily by increasing utilisation of modern jack-up rigs. Global competitive jack-up rig utilisation stood at 75% at the end of September, an increase of one percentage point quarter-on-quarter.

Jack-up rigs built after 2010 have experienced a similar increase in competitive utilisation which stood at 78% at the end of September 2018, an increase of two percentage points quarter-on-quarter and over five percentage points year-to-date. In some regions competitive utilisation is above 90%, which is starting to drive pricing higher. We continue to notice operators' preference for modern units as evidenced by jack-ups built after year 2000 receiving approximately 70% of the total backlog awarded year-to-date, and the inclusion of age restrictions in various recent tenders.

The number of new jack-up rig fixtures in the third quarter 2018 was 55, and in line with Q2 2018 levels. The Middle East and North Sea remained the most active regions, a trend expected to continue considering the outstanding rig tenders in these regions. Fixing activities in South East Asia continues to gain momentum and nearing levels experienced in the Middle East during the quarter. This increase has been mainly driven by contracts awarded to regional drilling contractors. As such regional contractors start to experience higher utilisation levels, and we anticipate that this will lead to improved opportunities for the international drilling contractors, as evidenced by Borr's recent success in securing continued work for its premium jack-up rig "Mist" in Thailand.

During the third quarter 2018, on the back of strong oil prices, operators have continued to display increasing levels of confidence in their future offshore programs. This has translated into a noticeable acceleration in tendering activities and direct negotiations across all regions. As reported by IHS, there are currently over 75 outstanding jack-up tenders equating to a total of 122 rig years on offer, a number that represents an increase of 106% since the beginning of the year. Most of these tenders are for projects commencing within the next 12 months. The combination of accelerating contracting activities, increasing number of tenders and our continued discussions with our customers provide support to our view that jack-up rig utilisation levels are expected to continue to improve at an accelerated pace as we move into 2019. The recent set-back in oil price might, if continued, lead to a slower trajectory of the recovery. However, this is not likely to significantly impact the current outstanding tenders which to a large extent have been initiated in an oil price environment that is lower than today.

During the third quarter of 2018, four units have been retired from the worldwide jack-up rig fleet. 35 jack-up rigs have been retired year-to-date which is higher than attrition in 2016 and 2017 combined. We maintain our view that a significant number of the over 100 jack-up rigs that are more than thirty years old and uncontracted will remain uncompetitive and unlikely to return to the active fleet in the near future, or at all. In addition, 52 jack-up rigs have been cold stacked for more than two years. Taking into consideration the assumed cost of reactivating these old units, we are of the opinion that these rigs are not economically marketable in current environment.

Total number of jack-ups under contract are as of today 325, up from the trough of 299 in January 2017. The contracted number of jack-up rigs at the peak in 2014 was 420 units. The number of land based and offshore drilling rigs operating in Saudi Arabia is currently 153, which is 14 rigs more than before oil prices collapsed in 2014. Saudi production has in the same period increased by 1 mbd to 10.7m. The number of offshore rigs operating in Mexico is currently 19, while the activity levels in 2014 peaked at 52 units. Mexican production has in the same period fallen by 0.8 mbd to 1.7 mbd. These developments illustrate that in order to maintain or grow oil production, you need to increase rig activity. This is partly caused by the fact that the reservoirs become deeper and more complex and need higher drilling intensity.

The third quarter of 2018 saw Brent crude oil price averaging slightly above US$75/bbl and occasionally exceeding the US$80/bbls mark. Major oil companies have reported strong cash-flow numbers. According to Rystad, global oil companies will have a free cash flow in 2018 after investments of US$590 billion, up 100% y/y and the highest level in real terms since 1979. We maintain our view that falling reserve levels, lower project breakeven costs and strong free cash flow performance will lead to increased investments by our customers.

Outlook

In the third quarter of 2018, the Company announced successful commitments for three of its newbuild jack-up rigs and its North Sea based jack-up rig “Ran” for estimated commencement of operations in the first quarter of 2019. On the back of these commitments and promising tendering activity, the Board decided in October 2018 to start the activation for additional four newbuild rigs. In addition, the Company sees increased lead time in the delivery of critical equipment for the rigs to be activated, currently around six months. Due to the above, the Board thinks it is vital to make the necessary preparations and to be in a position to have rigs ready on short notice when contracting opportunities arise.

Customers’ focus on modern equipment continues, and we see introduction of age limitations on rigs for participation in several tenders, including large multi-year multi-rig tender processes. This effectively limits a large part of the available jack-up rig fleet from participating in the tenders. We also see previously announced multi rig tenders being upsized to more rigs than previously anticipated, where we believe our newbuild rigs will be highly suitable.

Solid operational performance, a strong safety record, and a unique fleet of modern jack-up rigs are key factors in the conversations with existing and potential new clients and in building the credibility of Borr Drilling Limited. This has paid off in six more contracts of total 88 months of backlog since the second quarter 2018 report, bringing the Company’s total backlog up to approximately US$350 million as of the date of this report. The technical utilisation for the fleet from the date of the Paragon acquisition is 99.2%, which demonstrates the result of the strong operational focus and is a testament of how far the Company has progressed in becoming the leading operator for high spec jack-up rigs. The company remains committed to only focusing on the high spec jack-up market.

At the end of the third quarter, the Company had US$210.6 million of available liquidity. In addition, the Company has unencumbered assets comprising 8 premium rigs and 6 standard rigs, whereof five are on contract.

The board pays strong attention to the company’s current negative cash-flow and works actively with the management to further reduce the cost base. At the same time the company have a strong balance sheet and low acquisition cost, which gives us a good opportunity to be patience and act rationally in a market, that might show short-term volatility. The underlying recovery of the jack-up market is supported by two strong fundamentals;

1) More than 40% of the fleet if more than 30 years old
2) Shallow water offshore production has significantly lower cash-break even than the marginal shale oil production and also lower cost and shorter pay-backs than deep water developments.

Supported by the enquiries we today see in the market and the strong focus on modern equipment, we see a good likelihood that we in the next 6 months will be able to contract the 4 rigs currently under activation as well as further units at attractive rates. The increased activity will to a large extent be focused around markets in the Middle East, West Africa, Mexico and the North Sea.

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, and contract backlog 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

November 21, 2018
The Board of Directors
Borr Drilling Limited
Hamilton, Bermuda

Questions should be directed to:
Svend Anton Maier: Chief Executive Officer, Borr Drilling Management DMCC
+ 971 4 448 7501

Rune Magnus Lundetræ: Chief Financial Officer, Borr Drilling Management DMCC
+ 971 58 864 3915