

The Offshore Rig Market: A Whole New Ballgame

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Agenda

The good news

The bad news

A lesson from the past?

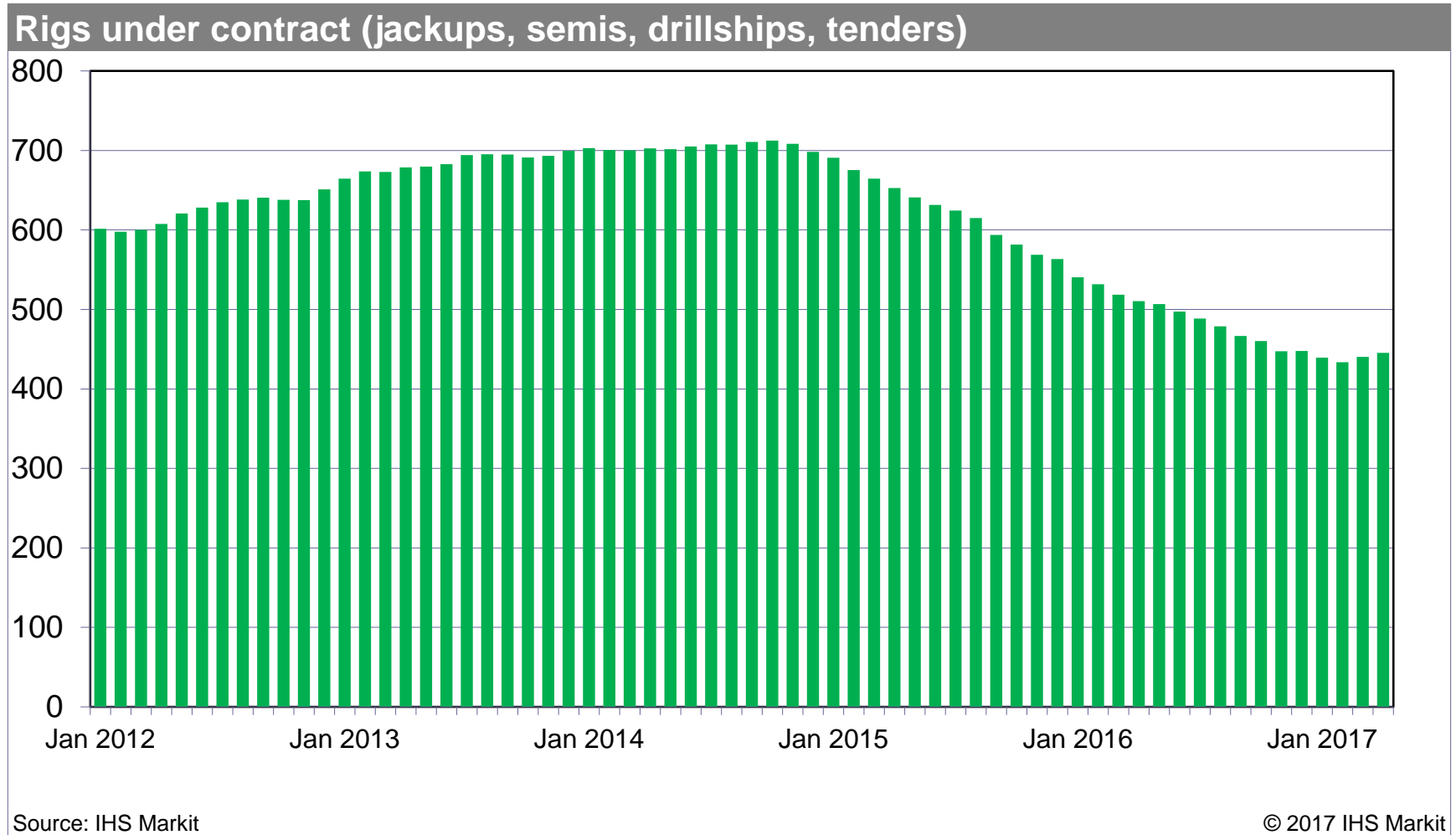
What's different this time

What to expect

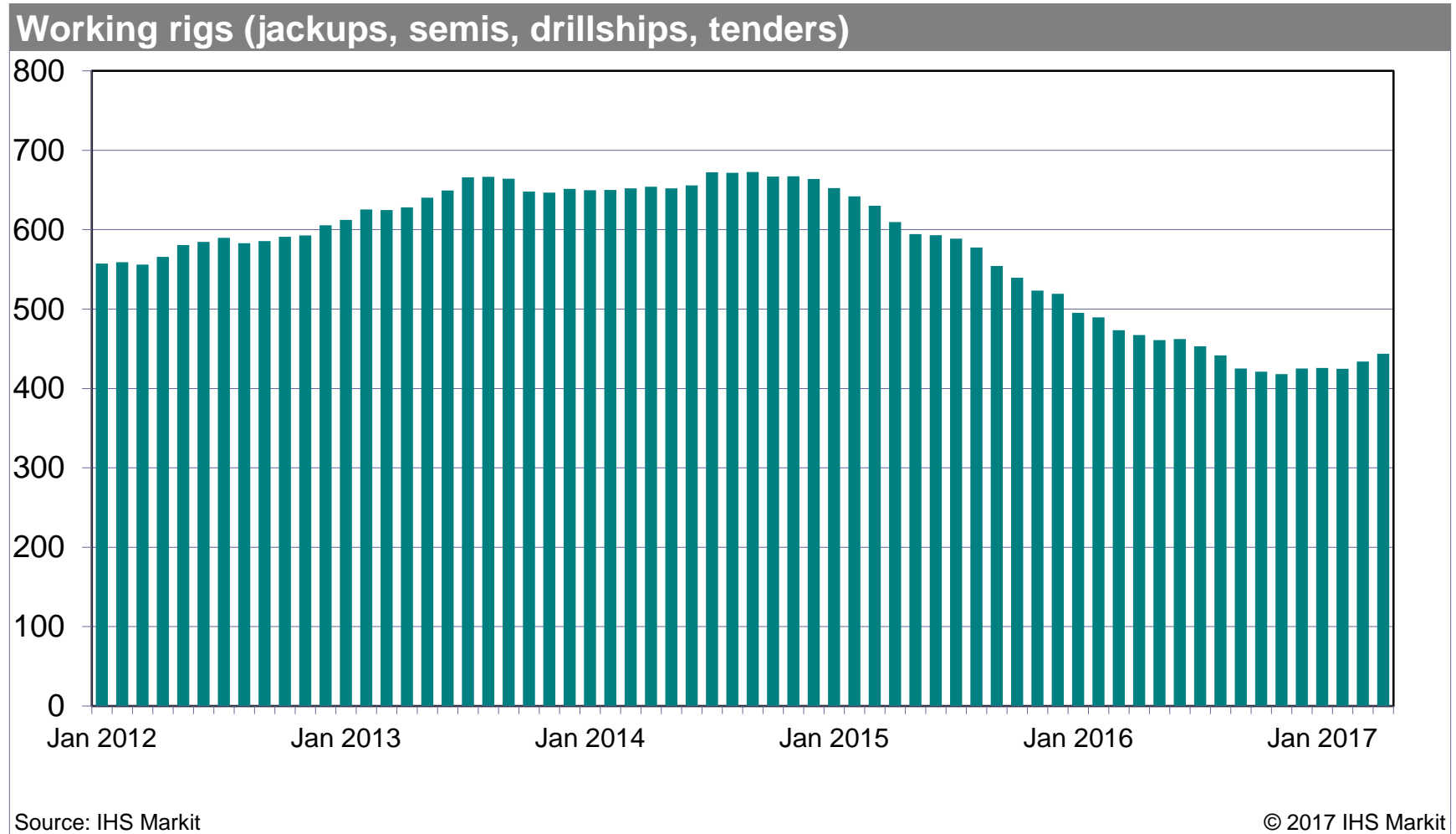
Finally some good news:

- Demand for all types of offshore rigs appears to have stopped falling
- Backlogs have stabilized
- New fixture day rates have (?) reached a plateau
- No more rigs are being ordered
- Newbuild deliveries have slowed to a trickle
- At most a handful of the 'Sete Brasil Rigs' will be completed

Looks like an uptick for rigs under contract!

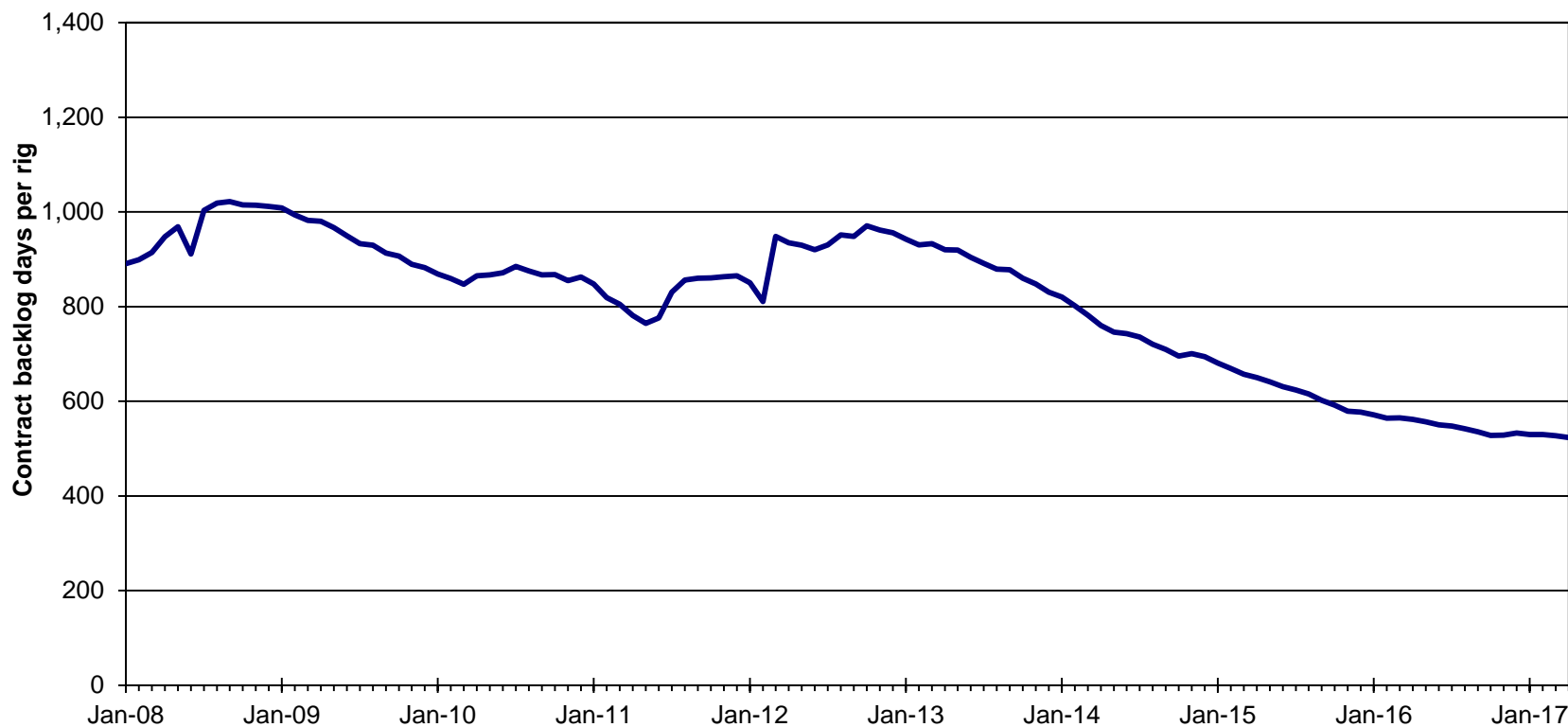


...and more importantly for rigs at work



Floater backlog has stabilized

All floating rigs -Contract backlog days per rig



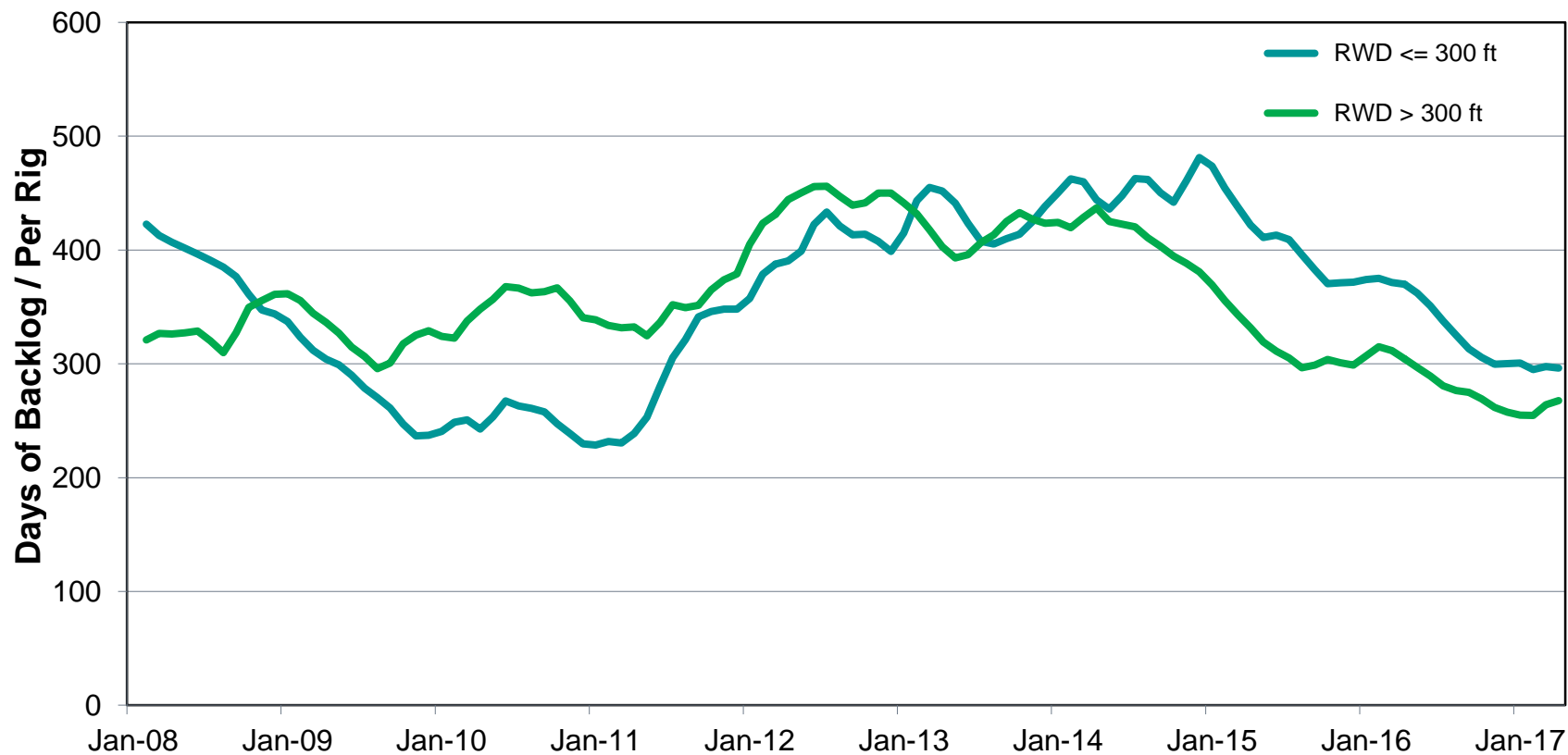
On order and under construction rigs are counted

Source: IHS Markit

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As has jackup backlog

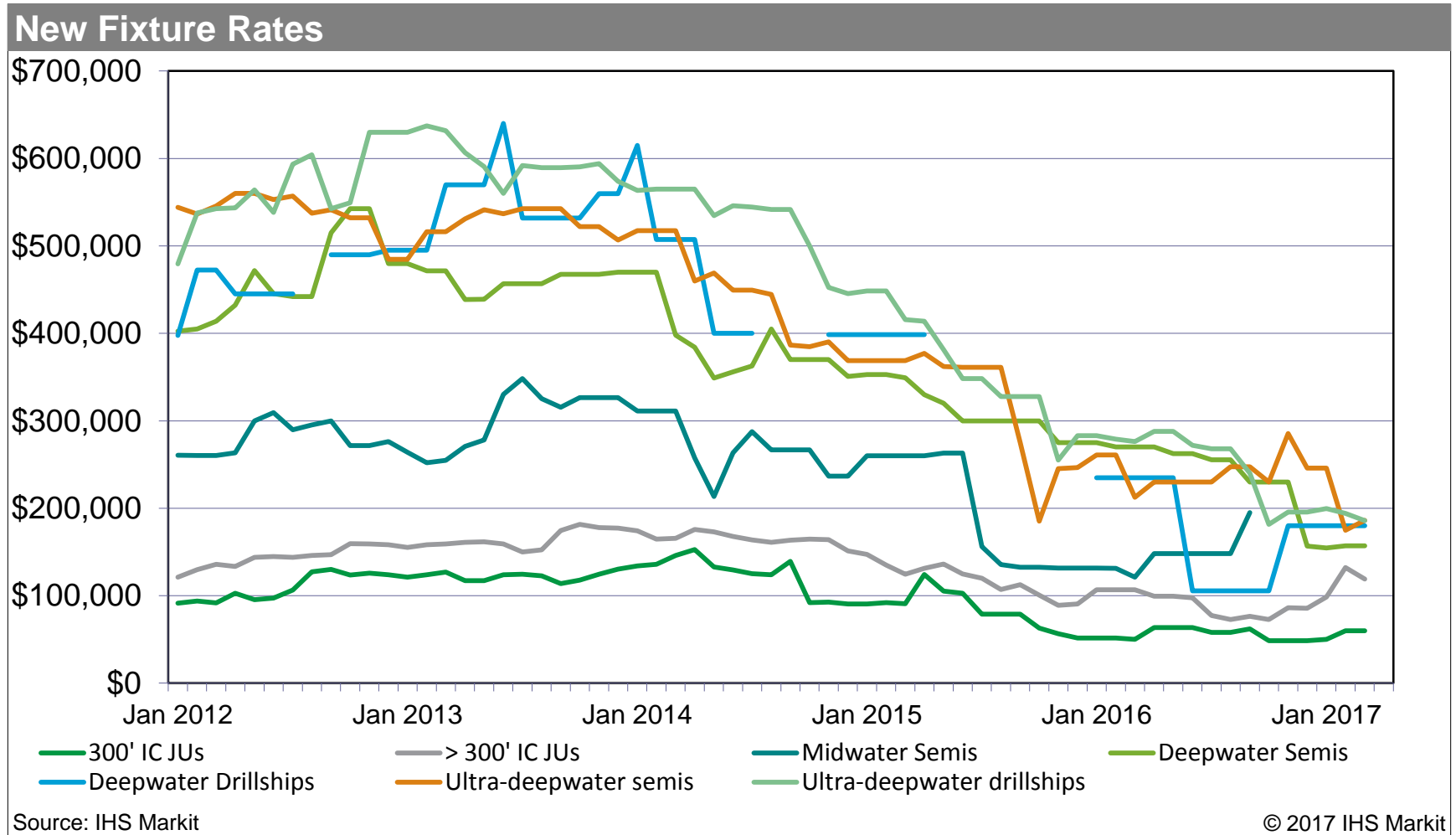
Global jackup backlog days - per rig - by rated water depth



Source: IHS Markit

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The day rate decline seems to have ended

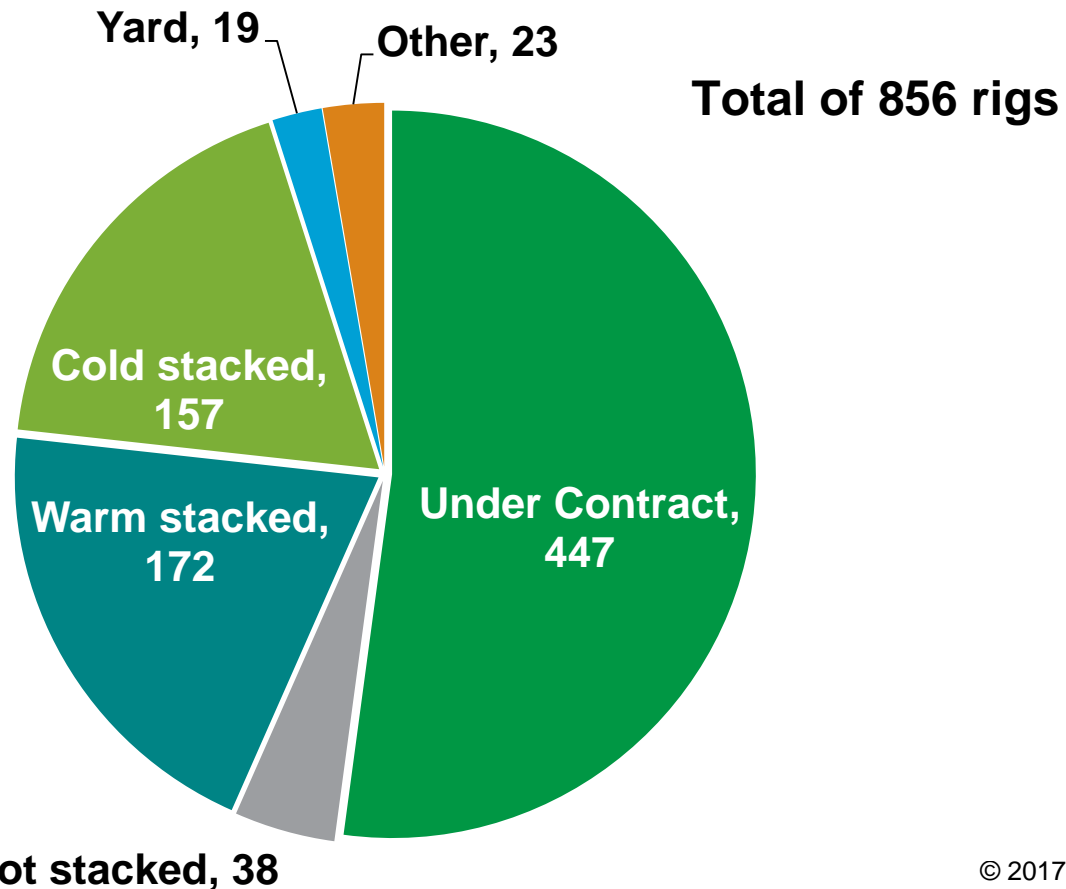


But unfortunately there's also some bad news:

- The huge over-supply of all rig types persists
- Attrition is not solving the problem (at least not yet)
 - Jackup attrition never really got going for IC rigs
 - Floater attrition has slowed
- Hard to believe that earned day rates have stopped falling

Almost half the fleet is uncontracted

Current Status of the Global Offshore Rig fleet (jackups, semis, drillships and tenders)

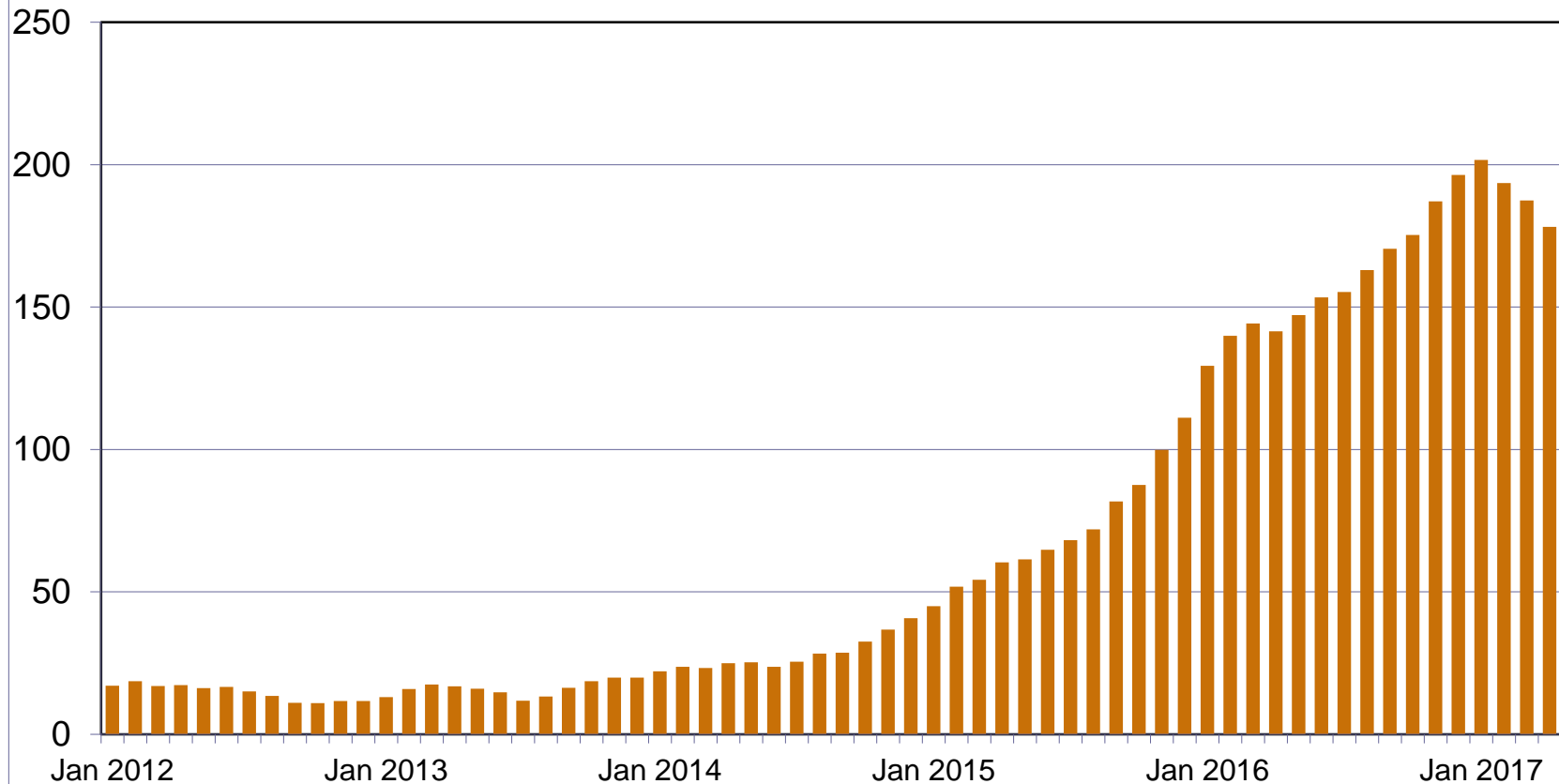


Source: IHS Markit

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Do contractors really expect to put more than 170 (warm-stacked) rigs back to work in the near future?

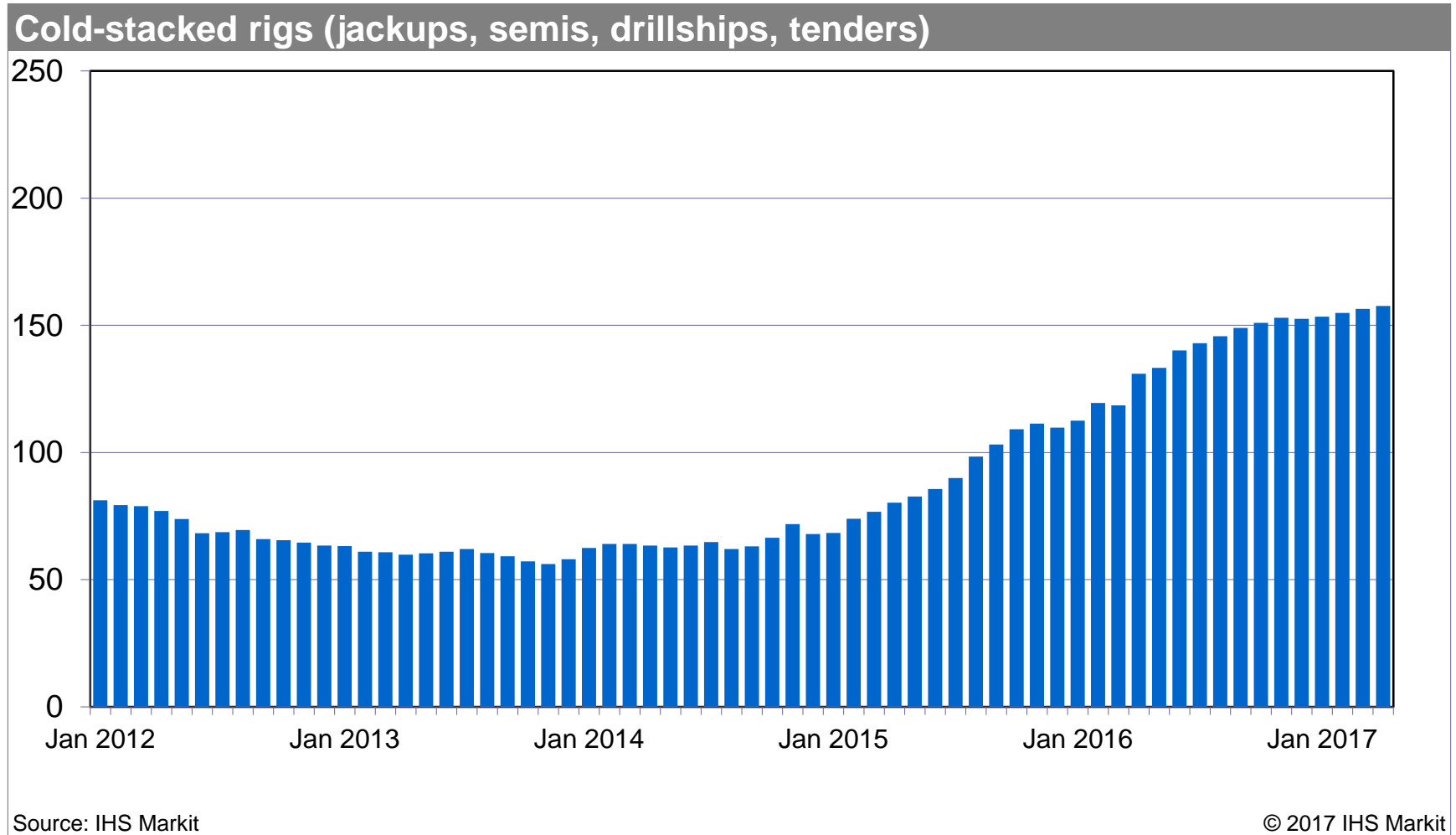
Warm-stacked rigs (jackups, semis, drillships, tenders)



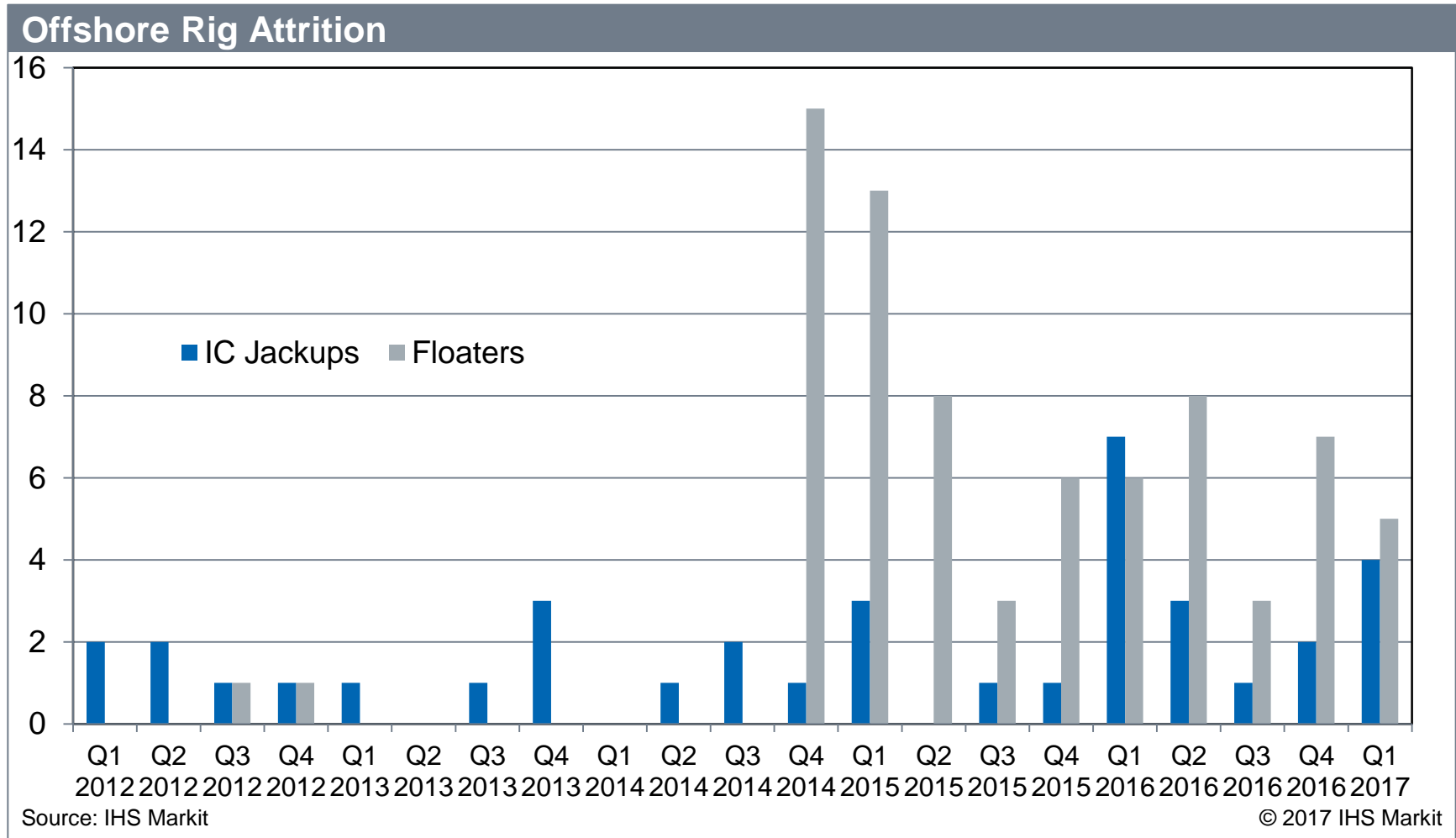
Source: IHS Markit

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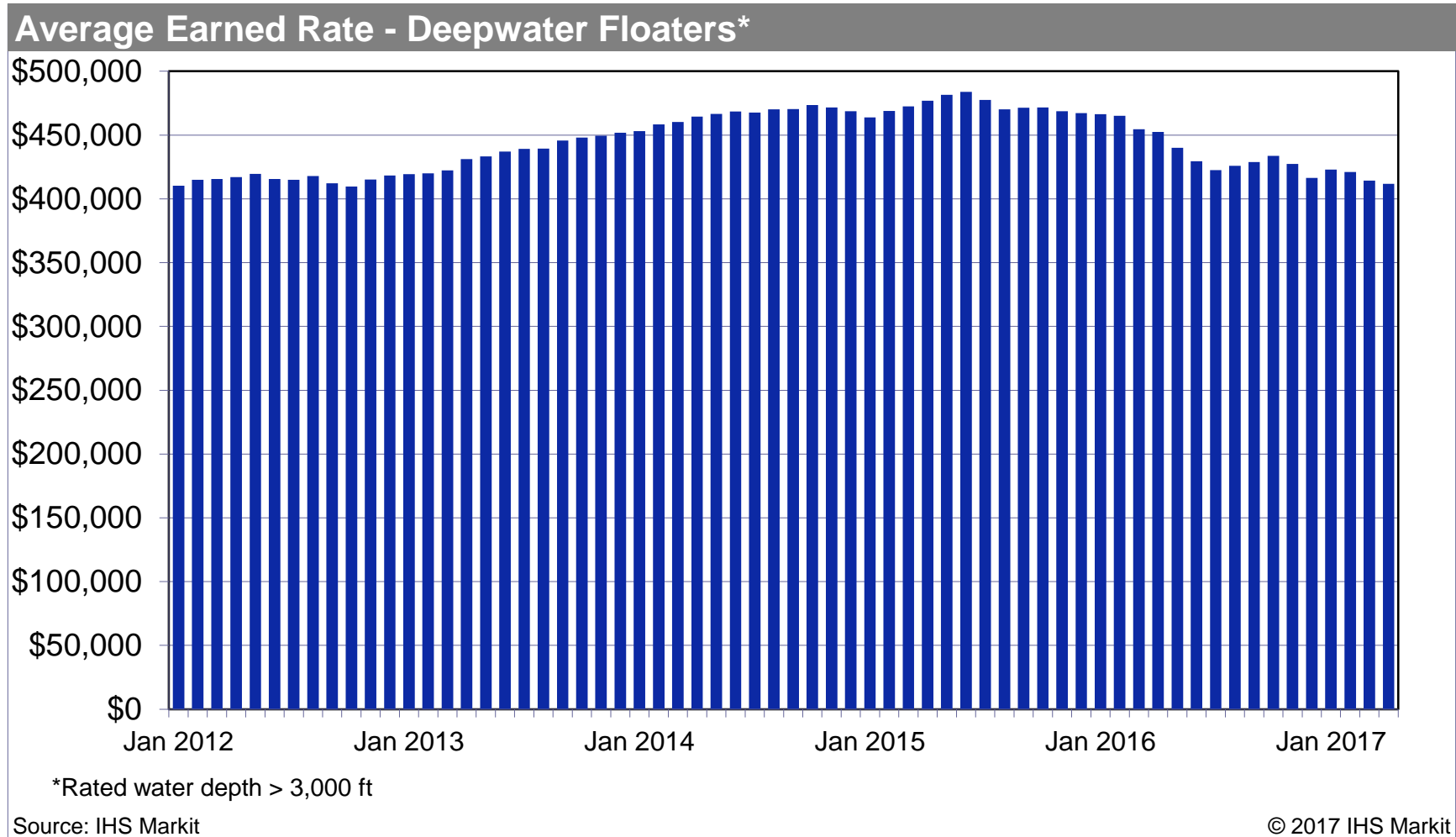
...while the pile of cold-stacked rigs keeps growing



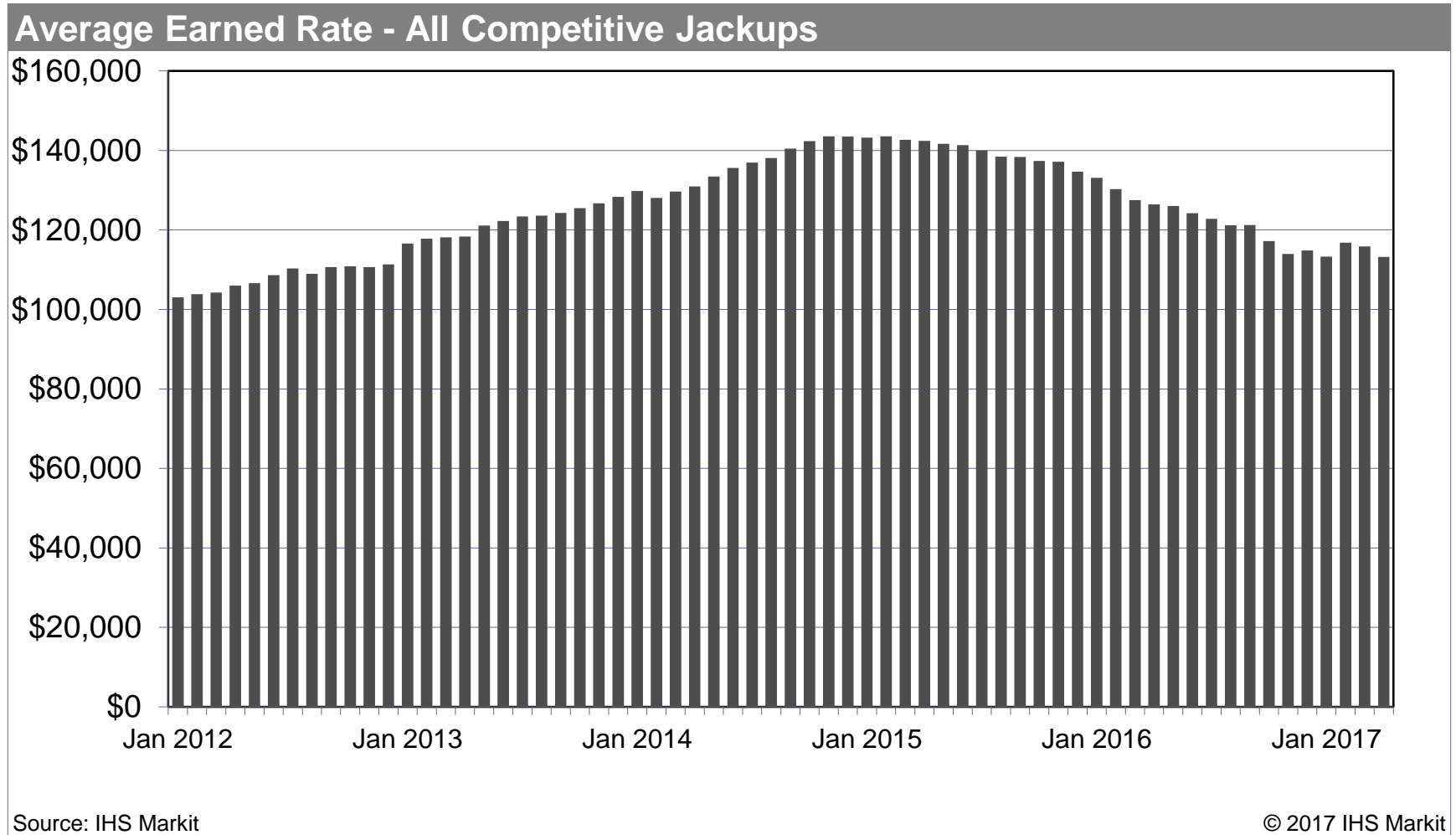
Floater attrition has slowed and for IC jackups it is still negligible



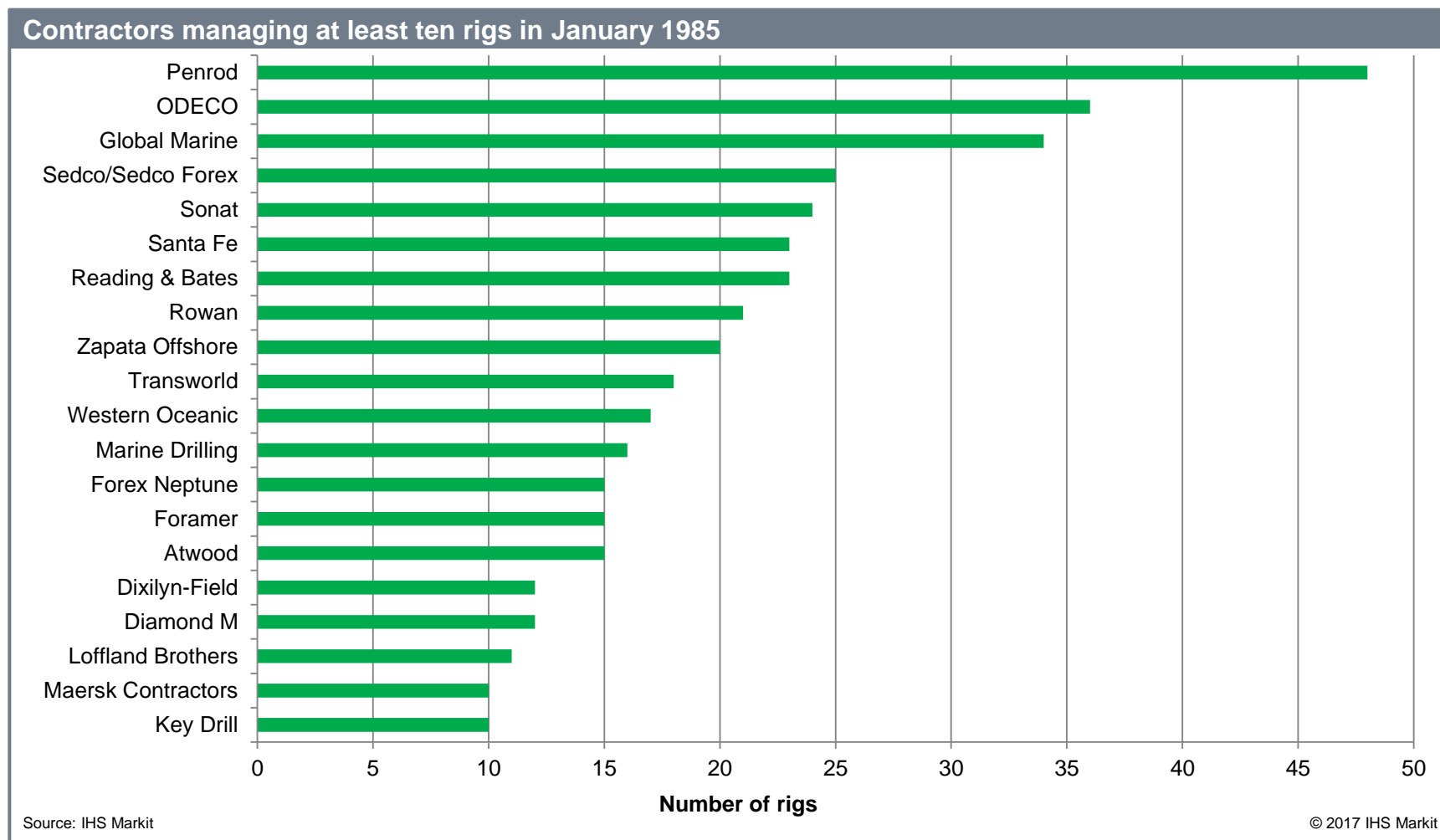
Average earned rate for deepwater rigs still appears high, but falling



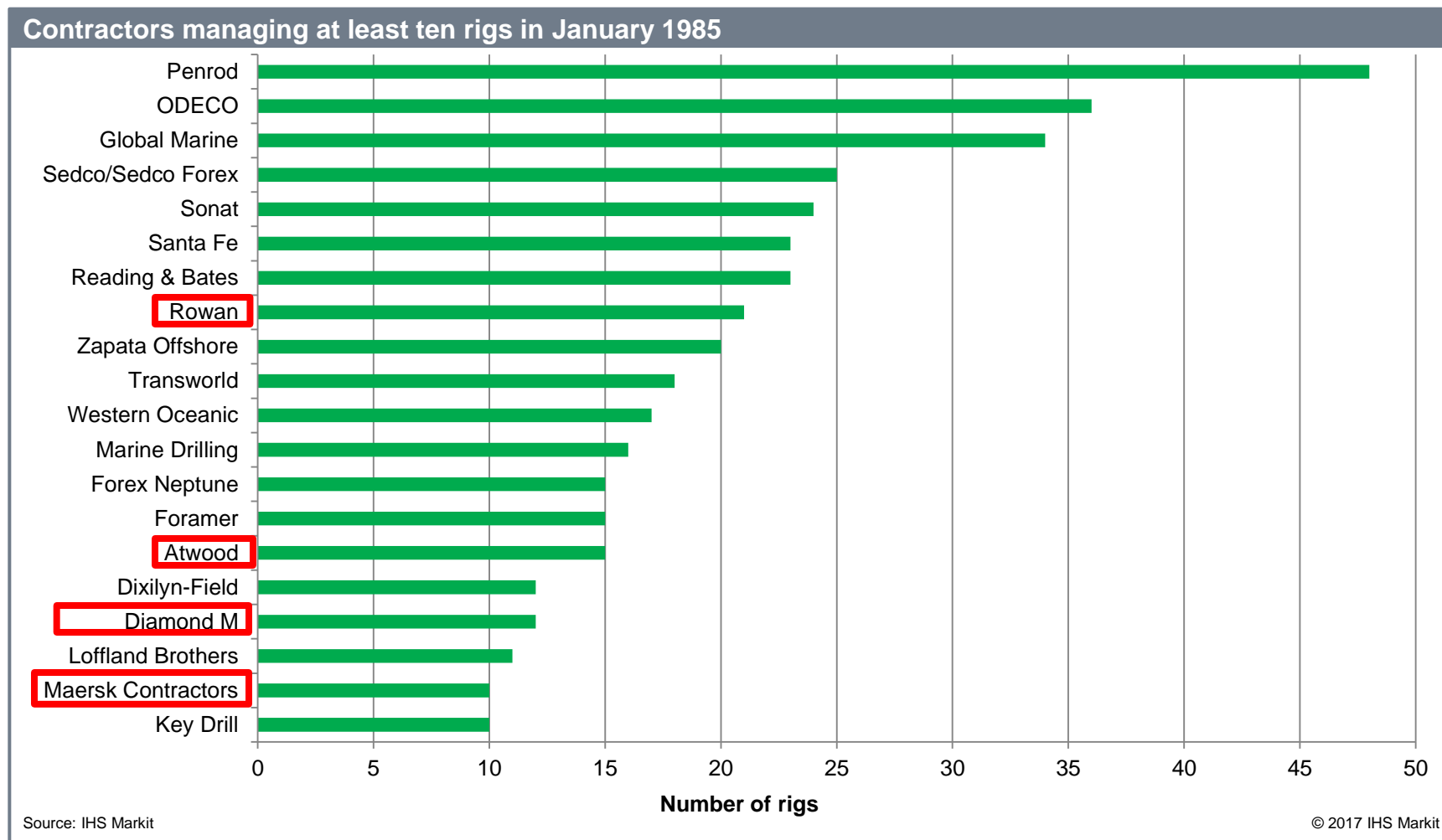
For jackups the available data may be misleading....



How many of these names do you recognize?



As we don't have unlimited time...



Dangerous to think it's just another industry cycle

- Oil and gas are finite commodities
 - There's less out there than before
 - Look what has happened to the US Gulf jackup market when oil was at \$100
- Imagine the impact of another Macondo
- Or an arctic spill of almost any magnitude
- Is peak demand now just around the corner?

Operators now have a choice

- Shale oil and gas is soaking up operator discretionary investments
 - Limited exploration risk
 - Predictable costs
 - No longer just for the independents
- In the US particularly attractive
 - Zero political risk
 - Likely decreasing environmental issues under current administration
- And now signs of spreading internationally to a significant degree
 - Argentina says \$6-8 billion will be invested in Vaca Muerta this year...
 - ...rising to \$20 billion per year from 2020

But some good news

- Most majors are exiting from oil sands
- Falling discovery volumes must eventually cause supply problems
- Offshore fracking could be a game changer
- Costs will probably never be this low again so no better time for
 - Commitment wells
 - Exciting exploration prospects
 - P&A work

A whole new ball game

- Rig Contracts – “firm” is not an appropriate adjective
- Construction contracts – completion no longer means payment and delivery but looking for a place to stack the rig
- Forget day rates for now – it’s all about utilization
- New entrants will have an ‘unfair’ advantage
- Expect more local content requirements
- Longer term the outlook for day rates is ~~challenging~~ horrendous for two reasons
 - Far too much competition (do we really need 173 players?)
 - Operators can’t/won’t pay more unless oil prices rise

Thank you

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