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Valaris Ltd. (VAL)

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MANAGEMENT DISCUSSION SECTION

Darin Gibbins

Vice President-Investor Relations & Treasurer, Valaris Ltd.

Welcome everyone to the Valaris First Quarter 2023 Conference Call. With me today are President and CEO, Anton Dibowitz; Senior Vice President and CFO, Chris Weber; Senior Vice President and CCO, Matt Lyne, and other Members of our Executive Management Team. We issued our press release, which is available on our website at valaris.com.

Any comments we make today about expectations are forward-looking statements and are subject to risks and uncertainties. Many factors could cause actual results to differ materially from our expectations. Please refer to our press release and SEC filings on our website that define forward-looking statements and list risk factors and other events that could impact future results. Also, please note that the company undertakes no duty to update forward-looking statements.

During this call, we will refer to GAAP and non-GAAP financial measures. Please see the press release on our website for additional information and required reconciliations. As a reminder, yesterday, we issued our most recent Fleet Status Report, which provides details on contracts across our rig fleet. An updated Investor Presentation and ARO Drilling Presentation will be available on our website after the call.

Now, I'll turn the call over to Anton Dibowitz, President and CEO.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

Thanks, Darin. And good morning and afternoon to everyone. During today's call, I will start by providing an overview of our performance during the quarter. I'll then comment on the refinancing we recently executed, along with an update on our capital allocation strategy. Finally, I'll provide commentary on the outlook for the offshore

drilling market and discuss our fleet strategy. After that, I'll hand the call over to Chris to discuss our financial results and guidance.

During the first quarter, we achieved strong revenue efficiency of 99%, and I commend the entire Valaris team for their dedication to delivering excellent performance for our customers. The outlook for our business remains strong and we recognize that the success of our operations depends upon the skills and expertise of our employees. We continue to invest in our people in order to recruit, train, and retain the best talent in our industry. In addition to the initiatives I've mentioned on previous conference calls, such as our new hire orientation and BOLD offshore leadership training, we are partnering with ICM Group and Robert Gordon University in Aberdeen to provide innovative and high-quality training to our employees, including a course on enhanced well control.

I also want to acknowledge that our people work in a hazardous industry. Keeping our employees and all those who work with us safe is always our number one priority. And any incident that impacts the brave men and women that work in our rigs is personal to me and all of us at Valaris. We're proud of the safety systems, processes, and culture we've built at Valaris and we will continue to understand, share, and learn when incidents occur to help protect all of the individuals who work on our rigs.

Turning to our financial performance for the quarter. We generated adjusted EBITDA of \$24 million and adjusted EBITDAR adding back one-time reactivation costs of \$51 million. Adjusted EBITDA and EBITDAR were better than our prior guidance, largely due to the timing of projects, and consequently, our full year 2023 guidance remains unchanged. Chris will provide more detailed update on our guidance a little later.

On our fourth quarter conference call, we outlined an objective to enhance our capital structure, and last month, we completed a refinancing transaction that achieves the same, including the addition of a \$375 million revolving credit facility. We're very pleased to have secured a new money revolver during a challenging time in the banking sector, and this is a testament to the strength of our business and its outlook. The refinancing increased our liquidity by almost \$500 million, enhancing our capital allocation flexibility, including our ability to return capital to shareholders.

Given the strong outlook for our business and our commitment to returning capital to shareholders, we have increased our share repurchase authorization from \$100 million to \$300 million, and we intend to repurchase \$150 million of shares by the end of the year. We have consistently stated our commitment to the return of capital and we're excited to start executing on this. As we look to the future, our business should begin generating meaningful and sustained free cash flow as rigs under legacy contracts are re-contracted at current market rates, reactivated rigs go on contract and reactivation spend ramps down.

Our philosophy on what to do with this future free cash flow is simple: we intend to return it all to shareholders, unless there is a better or more value-accretive use for it. This philosophy is consistent with our value-driven approach to capital allocation and our goal of maximizing long-term shareholder returns.

We recently published our 2022 Sustainability Report. We've continued to develop our overall sustainability program this year, including with respect to emissions, setting a target to reduce Scope 1 emissions intensity per active day by 10% to 20% by 2030 compared to a 2019 baseline. We believe our targeted range is achievable based on technologies that exist today and in collaboration with our customers, and we may increase the target as new technologies become available. We are committed to making continued progress on our sustainability journey and we have a strong framework in place to advance our efforts.

Turning our attention to the market. The outlook for our industry and Valaris remains very positive. Demand for hydrocarbons continues to increase with the IEA forecasting that oil and gas demand will increase by 2 million barrels per day, to approximately 102 million barrels per day in 2023, primarily driven by increased demand from China and other non-OECD countries, as well as continued growth in air traffic.

Meanwhile, additional supply cuts announced by OPEC+ are expected to tighten the supply/demand balance over the course of the year, resulting in a supportive commodity price environment. This supportive commodity price and attractive breakeven for most offshore projects are expected to lay the foundation for continued increase in upstream CapEx. According to Rystad, offshore exploration and production spending is anticipated to increase by approximately 15% in 2023, with further growth forecasted in 2024 and 2025.

The constructive macro environment and increased upstream spending have led to increases in contracting and tendering activity across both floaters and jackups. The number of contracted benign environment floaters has steadily increased from the lows in the late 2020 and early 2021, and has recently returned to pre-COVID levels. As a result, we have seen active drillship utilization increased from approximately 75% to around 95% over the past couple of years. And the average day rates have more than doubled over this period from approximately \$200,000 to more than \$400,000 today.

While the rate change has moderated recently, the current day rate range for new fixtures is healthy, generally in the low- to mid-400s. While some fixtures will be outside this band and not every fixture will be higher than the last, the average continues to move steadily higher. Improvement in ultra-deepwater demand has been geographically widespread, and based on customer conversations we anticipate that many rigs due to complete contracts over the next few years will likely be retained by their existing customer.

Across the Golden Triangle, East Africa and the Mediterranean for ultra-deepwater floaters, we currently see 20 to 25 opportunities with expected duration of greater than one year that are anticipated to commence over the next couple of years. We anticipate that 12 to 15 of these opportunities will need to be met by either incremental reactivations of stacked and stranded newbuild rigs or active rigs moving regions, which we do not expect to see a lot of. We currently see the majority of these incremental opportunities offshore Africa and Brazil.

Offshore Africa, we see opportunities in several basins, including: Angola, Namibia, Mozambique, and the Mediterranean. In Brazil, further tenders are expected, and consequently, we anticipate that the contracted rig count will continue to grow over the next 12 to 18 months. There are also a few incremental opportunities in the Gulf of Mexico. We've seen very few ultra-deepwater floaters leaving this region, indicating that demand is expected to remain strong.

We're also beginning to see signs that customers are planning for the longer term. Average contract durations and lead times for future opportunities are increasing, and some customers are starting to engage in conversations about longer-term contracts to ensure that they have access to high specification drillships for their future drilling plans, including for some projects that are not yet sanctioned. This is a positive sign for future market conditions.

While demand is increasing, the pool of available rigs is shrinking. Following the recent announcement by a competitor to potentially use a further two of their stacked drillships for non-drilling activities, we believe there to be no more than 10 competitive rigs remaining amongst the stacked drillship fleet. There are a further eight newbuild drillships remaining at South Korean shipyards, including VALARIS DS-13 and DS-14, and a number of these are aligned with established drilling contractors.

Further, we currently believe it is highly unlikely that we will see another floater newbuild cycle, given high build costs, long lead times, and limited shipyard availability. In summary, the outlook for the ultra-deepwater market is very positive. On the jackups side of the business, the number of contracted jackups has increased by approximately 15% from lows in early 2021 and is at the highest level since mid-2015. As a result, active utilization for jackups is approximately 90% and day rates are in the low to mid \$100,000, with leading-edge rates continuing to trend upwards.

We believe that many of the jackups that are currently idle are not competitive, either due to their age or length of time stacked. One third of the current jackups fleet is more than 30 years of age, with limited useful lives remaining. Out of approximately 100 jackups that are currently idle, we count only 17 that are less than 30 years of age, have been stacked for less than three years, and are within the top half of the global fleet rankings. As a result, we believe that many of these stacked rigs will never return to the active fleet.

On the supply side, excluding ARO's newbuild program, there are only 18 newbuild jackups remaining at shipyards, and 13 of these rigs are at Chinese shipyards, many of which are expected to only enter the local supply in China. While the outlook for benign environment jackups continues to be strong, the North Sea jackup market remains challenging, and we do not expect to see a meaningful recovery until 2024. As a result, we are continuing to market some of our harsh environment jackups for work outside of the region.

Contracting opportunities in the UK North Sea through the remainder of 2023 are generally short-term in nature. However, we do expect to see an improvement in our North Sea financial results in the second half of the year, as jackups return to work following special survey projects conducted in the first half of the year, and several rigs commence new contracts at higher day rates. Our fleet strategy remains unchanged and focused on driving long-term shareholder value. Our priority is to ensure that the active fleet remains highly utilized.

Recently, we secured work for drillship DS-12, offshore West Africa that will bridge most of the gap between its current contract offshore Angola to a longer-term project offshore Egypt that is expected to commence in the fourth quarter. We also announced a three-year contract for VALARIS DS-8 offshore Brazil, for which the rig will be reactivated. This represents the sixth contract awarded to one of our preservation stacked floaters since mid-2021.

Following the reactivation of VALARIS DS-8 and DS-17, we will have 10 floaters working across the Golden Triangle, including four offshore Brazil. Our other two drillships in Brazil, Valaris DS-4 and DS-15, are both expected to finish the current contracts in mid-2024, leaving them well-positioned to roll on to higher day rate contracts in a region where we expect to see continued growth.

We have proven our ability to win work for and reactivate our preservation stacked assets, and we see attractive opportunities to commence reactivation of at least one additional drillship in 2023. We will remain disciplined in exercising our operational leverage by only returning stacked rigs to the active fleet for opportunities that provide meaningful returns over the initial firm contract.

In addition to our stacked fleet, we have options to take delivery of newbuild drillships VALARIS DS-13 and DS-14 by yearend 2023. Both drillships are amongst the highest specification assets in the global fleet, and both have two BOPs, which remains a preference for customers globally. The \$119 million shipyard price of VALARIS DS-13 is clearly very attractive. And based on our current market outlook, we expect to exercise the option for this rig. The \$218 million price for VALARIS DS-14 is more in line with recent market transactions for other similar assets. We will continue to evaluate this against other uses of capital.

Finally, we continue to regularly assess our fleet for retirement and divestiture candidates. In April, we closed the previously announced sale of 40-year-old jackup VALARIS 54 for approximately \$29 million after we completed its contract with Saudi Aramco. We will continue to take a rational and returns-focused approach to fleet management, including opportunistic divestitures if we believe they are value accretive.

Moving now to an update on ARO Drilling, our unconsolidated 50/50 joint venture with Saudi Aramco. We continue to expect that newbuild rigs 1 and 2 will be delivered this year. ARO continues to make progress and financing for the newbuilds, and we expect project funding to be secured prior to delivery. We continue to expect that neither Valaris nor Aramco will need to provide any additional financing to ARO to fund the newbuild program.

I'm also pleased to announce that Mohamed Hegazi has been appointed as CEO of ARO Drilling, replacing Derek Kent, who will be retiring following the handover period. Mohamed brings to the role strong leadership skills, oilfield service and capital markets experience, as well as extensive knowledge of working in the Middle East. Saudi Arabia is an attractive, growing and sustainable market, and ARO is attractively positioned with its 20-rig newbuild program. The delivery and startup of the first two newbuilds will mark an important milestone in the growth story of ARO.

I look forward to working with Mohamed, who has the right skills and experience to take ARO forwards as we chart its next chapter of growth and value realization. I would also like to thank Derek for his significant contributions to ARO, Valaris and its predecessor companies, and we wish Derek the very best for his retirement.

I will conclude by reiterating three of the key points from our prepared remarks. First, we continue to deliver strong performance, achieving revenue efficiency of 99% and winning new contracts and extensions with associated contract backlog of approximately \$820 million in the first quarter. Second, the outlook for our industry remains very positive. Demand growth, combined with more constrained rig supply is expected to continue to tighten the market. And third, our recently completed refinancing has increased our liquidity by almost \$500 million, enhancing our capital allocation flexibility.

As a result of the strong business outlook and our increased liquidity, we're planning to return capital to shareholders through our upsized share repurchase program. As we look ahead, we will continue executing our strategy of being focused, value-driven and responsible in order to deliver meaningful value to all our stakeholders.

I will now hand the call over to Chris to take you through the financials. Chris?

Christopher T. Weber

Chief Financial Officer & Senior Vice President, Valaris Ltd.

Thanks, Anton, and good morning and afternoon, everyone. I'm going to start with a review of our first quarter results. Adjusted EBITDA was \$24 million compared to \$54 million in the prior quarter, and adjusted EBITDAR was \$51 million compared to \$75 million in the prior quarter.

Excluding reimbursable items, revenues decreased to \$408 million from \$413 million, primarily due to lower utilization for the harsh environment jackup fleet, partially offset by higher average day rates for the floater fleet. Jackup revenues decreased primarily due to lower utilization for North Sea fleet, including expected idle time for all three of our N-class jackups, as well as VALARIS 121 and 247. Floater revenues increased primarily due to higher day rates for VALARIS DPS-5 and DS-12, which commenced new higher day rate contracts during the quarter. This was partially offset by lower utilization, primarily related to VALARIS DS-12, which mobilized from

Mauritania to Angola during the quarter prior to commencing operations for another customer. Excluding reimbursable items, contract drilling expense increased to \$356 million from \$333 million, primarily due to increased repair and maintenance costs associated with planned special periodic surveys and higher reactivation costs, which increased to \$26 million from \$21 million.

General and administrative expense of \$24 million and depreciation expense of \$23 million were largely in line with the prior quarter. Other income was \$13 million compared to other expense of less than \$1 million in the prior quarter. This was primarily due to foreign currency exchange gains compared to losses in the prior quarter and an increase in interest income due to a higher interest rate on the ARO shareholder notes receivable, as well as an increase in interest from short-term deposits. We had a tax benefit of \$28 million in the quarter compared to tax expense of \$10 million in the prior quarter. The first quarter tax provision included \$44 million of discrete tax benefit, primarily attributable to the favorable resolution of uncertain tax positions relating to prior years. Adjusting for discrete items, tax expense increased to \$16 million from \$13 million in the prior quarter.

I want to wrap up my review of first quarter results by revisiting Anton's comments on our first quarter performance relative to prior guidance. Our first quarter EBITDA was better than our guidance and this was largely due to the timing of anticipated projects shifting from the first quarter to subsequent quarters in 2023. These projects included both survey related and reactivation work, and the shift in timing benefited the first quarter in the form of fewer out-of-service days and lower repair and maintenance and reactivation expense.

Moving now to our second quarter 2023 outlook. We expect total revenues to range from \$400 million to \$410 million as compared to \$430 million in the first quarter. Revenues are expected to decrease primarily due to idle time for VALARIS 249 and 108, both of which have recently completed contracts and are preparing for their next contracts as well as the sale of VALARIS 54. VALARIS 249 is currently in transit from New Zealand to Trinidad ahead of its expected contract startup in June. We are receiving a lump sum mobilization fee and a day rate during the mobilization period. However, these revenues will be amortized over the contract period rather than recognized in the quarter. VALARIS 108 completed its contract with Saudi Aramco in April and will undergo contract preparation work ahead of a three-year contract with Saudi Aramco that is expected to commence in the third quarter. Valaris will bareboat charter the rig to ARO for this contract.

VALARIS 54 completed its contract in March and we closed the previously announced sale of the rig in April, so the rig is no longer part of the fleet. The impact of these contract completions and the rig sale are anticipated to be partially offset by contract startups VALARIS 115 and 247 and higher average day rates for both the floater and jackup fleets.

We expect that contract drilling expense will be roughly flat with the first quarter on lower revenues, primarily due to higher reactivation expense as the DS-8 reactivation project ramps up further and due to some survey-related costs shifting into the second quarter.

General and administrative expense is expected to increase to \$26 million to \$28 million from \$24 million in the prior quarter, mostly due to higher personnel costs and professional fees. Adjusted EBITDA is expected to be roughly breakeven compared to \$24 million in the first quarter and adjusted EBITDAR is expected to be \$35 million to \$40 million compared to \$51 million in the first quarter.

Now looking to full year 2023 guidance, as Anton mentioned earlier, our full year 2023 guidance remains unchanged with adjusted EBITDA expected to range from \$180 million to \$220 million and adjusted EBITDAR expected to be \$280 million to \$320 million.

Looking to the second half of the year, we anticipate a meaningful improvement in results driven by VALARIS DS-17, commencing its contract with Equinor offshore Brazil this summer, improvement in the North Sea as jackups return to work following special survey projects and several rigs commence new contracts at higher day rates and contributions from the VALARIS 115, which is idle for almost the first four months of the year as it completed its special survey and upgrade project before commencing a four-year contract last month.

Moving now on to capital expenditures. First quarter CapEx was \$56 million compared to \$54 million in the prior quarter. First quarter CapEx included \$24 million for maintenance CapEx and \$32 million for enhancements and upgrades, the majority of which was related to reactivation, primarily DS-17. Second quarter CapEx is expected to be \$80 million to \$90 million, is composed of \$25 million to \$30 million of maintenance CapEx and \$55 million to \$60 million of enhancement and upgrade CapEx, with approximately 70% of this amount for reactivation and associated contract-specific CapEx.

Our full year CapEx guidance remains unchanged at \$320 million to \$360 million. This CapEx guidance does not include any assumed expenditures for exercising our options to purchase drillships, VALARIS DS-13 and DS-14.

I also want to remind folks that we expect to receive customer reimbursements of approximately \$27 million this summer related to client-specific capital upgrades for VALARIS DS-17. This will represent the second customer reimbursement for capital expenditures on this project, as we previously received \$27 million at the end of last year.

Now moving to ARO Drilling's financials. As a reminder, ARO is not consolidated in the financial results of Valaris. ARO EBITDA decreased marginally to \$28 million from \$29 million in the prior quarter. Increased revenues due to a higher average day rate were offset by increased contract drilling expense, primarily due to higher bareboat charter expense.

ARO's second quarter EBITDA is expected to decrease to \$21 million to \$23 million from \$28 million in the first quarter, primarily due to out-of-service time and planned maintenance costs for one of ARO's owned rigs. ARO's full year 2023 EBITDA is expected to be approximately \$110 million to \$120 million, which is unchanged from prior guidance.

Now to wrap up, I want to make a few comments on our financial position and capital structure. At the end of the first quarter, we had cash and cash equivalents of \$823 million, plus restricted cash of \$22 million. Our total liquidity increased by \$96 million during the quarter, primarily due to EBITDA generated in the quarter and positive changes in working capital, including a \$46 million CARES Act refund. We still have a further \$19 million outstanding related to the CARES Act. However, the timing of this receipt is uncertain.

Last month, we completed a refinancing transaction, resulting in the private placement of \$700 million of senior secured second lien notes due 2030 with a coupon of 8.38% (sic) [8.375%]. We used a portion of the net proceeds to fund the redemption of all of our \$550 million of senior secured first lien notes due 2028. In addition, we secured a five-year revolving credit facility permitting borrowings of up to \$375 million, which is secured on a first lien basis by the same assets to secure the new second lien notes.

We are pleased to have secured this new revolver during a challenging time in the banking sector, especially since it has a covenant package that provides meaningful operational and capital allocation flexibility. We're excited to work more closely with our new bank group and believe their support is a testament to the strength of our business outlook.

As Anton mentioned, we've increased our share repurchase authorization from \$100 million to \$300 million. At this time, the full \$300 million authorization is available for repurchases and we intend to repurchase \$150 million of shares by year-end. As we look to the future, our business should begin generating meaningful and sustained free cash flow as rigs under legacy contracts are re-contracted at current market rates. Reactivated rigs go on contract and reactivation spend ramps down.

To reiterate Anton's earlier comment, our philosophy on what to do with this future free cash flow is simple. We intend to return it all to shareholders unless there's a better or more value accretive use for it. As we look ahead, we will continue executing on our focused, value-driven and responsible strategy to drive meaningful value for all our stakeholders. We've now reached the end of our prepared remarks.

Operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] In the interest of time, we ask that you please limit yourself to one question and one follow up. [Operator Instructions] Today's first question comes from Kurt Hallead with Benchmark. Please go ahead.

Kurt Hallead

Analyst, The Benchmark Co. LLC

Q

Thank you. Very good morning, everybody.

Christopher T. Weber

Chief Financial Officer & Senior Vice President, Valaris Ltd.

A

Good morning.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Good morning, Kurt.

Kurt Hallead

Analyst, The Benchmark Co. LLC

Q

So Anton, you mentioned that there is a good prospect that you could activate another idle drillship -- drillship this year. Just wondering if you might be able to just kind of remind us what cost you may incur in doing that. And give us some perspective on what impact that could have on the EBITDA guidance range you just reiterated?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

I'll let Chris start with reactivation costs, and then maybe I'll come back afterwards on kind of opportunities and how we see it. Go ahead.

Christopher T. Weber

Chief Financial Officer & Senior Vice President, Valaris Ltd.

A

Yeah. So from a cost perspective, we've been talking about a guidance range of \$65 million to \$75 million. We're probably at the top end of that range right now around \$75 million. From an EBITDA impact, it would really depend on when that reactivation project started. So – but yeah, again, with probably two-thirds of that \$75 million being expensed and [ph] a third (00:30:13) being CapEx, there would be EBITDA hit in the year if we start another reactivation project.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Okay. As far as the opportunities, I think if you look at what I said about the market, a lot of the rigs that are on contract with folks are being recontracted by the same customer in the same basin. We're seeing -- we talked about the number of opportunities -- incremental opportunities. We're seeing come to market, which are really opportunities for either reactivated rigs, stacked drillships or otherwise some of the stranded assets at the yards. So we feel comfortable that there's going to be an opportunity for at least one reactivation. How we think about it, there is pressure on pricing, but with day rates where they are, in the kind of low to mid 400s and opportunities to be outside that range as the market continues to tighten, we'll continue to follow our philosophy which we've been clear on from the start is that we will seek to get the reactivation and a meaningful return on those reactivation costs under the initial firm contract, and we believe that that's very much achievable where the market is right now.

Kurt Hallead

Analyst, The Benchmark Co. LLC

Q

All right. That's great color, really appreciate it. That's it for me.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Thanks.

Operator: The next question comes from Eddie Kim with Barclays. Please go ahead.

Edward Kim

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. So one of your major peers just an hour ago talked about their expectation to see leading edge day rates exceed \$500,000 a day by the end of the year, which seems to contrast with your comments that day rates have moderated recently. So could you just comment on where you expect leading edge day rates to be by year-end? Would you expect us to reach that \$500,000 mark or based on what you're seeing to that level be pushed out into sometime next year?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Eddie, that's a good question. And I think part of it depends on how you define day rates, effective the day rate, clean day rate, ex-mobilization and where the trend is going. I think maybe we should take a step back and see what's happened with day rates over the last period. So over the last couple of years, day rates have more than doubled from the low-200s to the mid-400s. And I'd say, the general clearing range, if you look at contracts that are being signed today are in kind of low to mid-400s. That's not to say that they aren't going to be fixtures outside that band. Some maybe a little lower and some significantly higher depending on the contracts.

I mean, we did a contract that had a – if you divide the total contract value over the working days in the contract, that was north of \$600,000 a day last year. So I think it depends on how you classify the day rate. What I can say is that the day rates continue to grind higher. I think there's been some, let's say, concerns, some talk in the market about the fact that not every fixture is higher than the last fixture. I wouldn't read too much into that. When you look at where fixtures are going over time, those -- the day rates in the market continue to grind higher. And yes, I think it's a real possibility that we'll see day rates as the market continues to tighten, trend above \$500,000 a day. I think it depends on what contract, what market, where you're positioning your rigs in your portfolio, whether you're rolling an existing rig, which is already attractively placed in the market and you're comfortable taking some baseload contract duration and generating significant cash flow, whether you're talking about reactivating a rig where we're going to be more disciplined on it, and I think others are as well in recovering those costs and you expect the higher effective day rates on that contract in order to bring another asset into the market. So I hope that provides some color.

Edward Kim

Analyst, Barclays Capital, Inc.

Q

Yeah. I appreciate that clarification. Thank you for that comprehensive response. Just my follow-up is on kind of global recession concerns, which seems to be at the forefront of people's minds these days. You painted a bullish outlook for the broader market with many opportunities over the next 12 months to 18 months, particularly in Brazil and West Africa. But based on your conversation with customers, is there an oil price at which you would expect customers to pull back on activity? I mean, I understand most of these customers are very long-term focused, but any kind of color on recent customer conversations would be great.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Yeah. I think you hit the nail on the head in the fact that our customers are longer-term focused. We didn't see a massive spike in activity or customers' requirements when Ukraine happened and oil prices spiked. What they really focused on is longer-term prices, kind of the three- and five-year strip. And when oil prices are \$60, \$70, above \$70, \$70 a barrel, they're focused on replacing reserves after years of underinvestment and the need for energy, which continues to grow. I think [indiscernible] (00:35:38), global demand for oil and gas continues to grow, and the resources are needed, and our customers are making record profits, they see attractive opportunities and a need to replace reserves.

So, yes, it is a volatile macro market with geopolitical events and potential recession, but in our conversations with our customers, that does not change their plans and what they need to do to replace reserves to produce in the long-term, and that's what they're definitely more focused on. I made some comments in my prepared remarks that, given continued tightening in the market, we're starting to have conversations with customers for the first time in a long time about potentially contracting rigs beyond their sanctioned projects, because they realize that they want to have access to attractive drillships, especially for the long-term. And that they're going to continue drilling for a significant period of time and thinking about securing some of that capacity for the longer-term, even beyond the current program that a rig may be on. And I think that's a really good sign for our customers' confidence in the market and where it's going, and a good signpost for our industry.

Christopher T. Weber

Chief Financial Officer & Senior Vice President, Valaris Ltd.

A

Yeah. And I would just add, our customers are focused on the structural supply deficit and offshore is very attractive from an economic perspective. They're meaningful size of finds from a production growth perspective,

and they're least carbon-intensive barrels, and productivity on US land is going down. So, they're focused on the long-term.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

I will say there is a – the market is volatile, geopolitical and economic, and that's one of the reasons we want to continue to have a disciplined and prudent capital structure, low levels of leverage, make sure that we have liquidity available to continue to execute on being focused on value driven for the long-term.

Edward Kim

Analyst, Barclays Capital, Inc.

Q

Got it. Great. Thank you for all that color. I'll turn it back.

Operator: [Operator Instructions] The next question today is from David Smith with Pickering Energy Partners. Please go ahead.

David Smith

Analyst, Pickering Energy Partners LP

Q

Hi. Thanks. Good morning, and congratulations on the refinancing and being in a position to upsize and execute the buyback.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Thanks, Dave.

David Smith

Analyst, Pickering Energy Partners LP

Q

So, assuming you exercise the option to purchase the DS-13, can you remind me on how to think about the timing between when that option is exercised and when that rig could actually be on location to start a contract?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Timing wise, I would think about both the DS-13 and the DS-14 much like a reactivation of one of our preservation staked assets. We've talked about reactivations, given our assets being around 12 months, that's stretched out from kind of six to nine months a year ago. That's what we're planning on the current reactivations we have going on, in DS-17 and the DS-8, and we're on schedule with both of those assets, and I think about the DS-13 and the DS-14 in kind of the same in the same realm.

David Smith

Analyst, Pickering Energy Partners LP

Q

Appreciate that. And the related follow-up is, wanted to ask how you think about the marketing strategy for one of your stacked drillships versus securing a contract for the DS-13 or DS-14? And maybe should we think about those targeting separate opportunities, maybe where the DS-13 would fill more challenging demand?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Look, obviously, everything else being equal, we'd like to get a longer-term contract when we're looking for a contract for the DS-13 and the DS-14. And we've been clear on kind of the order that we think about these things is keep the active rigs continuously utilized, look at attractive high-spec preservation staked assets and the options, and there are options come after that. But I also think we need to differentiate and kind of divide the discussion about the purchase price and the reactivation costs and putting those rigs to work. And when you see that at trading prices, where stranded assets have traded in the low- to mid-200s of the deals that have been done, both the DS-13 and DS-14 have to two BOPs, which not a lot of assets that are stranded at the yards have, an additional kind of \$50 million expenditure, think about it that way. On a pure steel price basis, the DS-13 is less than half of where these assets are trading at the market. So, it is a very attractive option and that's why we say we seek to exercise that option. DS-14 is close to attractive versus where assets have been trading, but it is an option and we will continue to evaluate that against other uses of capital.

David Smith

Analyst, Pickering Energy Partners LP

Q

Much appreciated. I'll circle back.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Thanks.

Operator: There are no further questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Darin Gibbins for any closing remarks.

Darin Gibbins

Vice President-Investor Relations & Treasurer, Valaris Ltd.

Thanks, MJ, and thank you to everyone on the call for your interest in Valaris. We look forward to speaking with you again when we report our second quarter 2023 results. Have a great rest of your day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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