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Valaris Ltd. (VAL)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Valaris Second Quarter 2023 Results Conference Call. All participants will be in listen only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] please note this event is being recorded. I would now like to turn the conference over to Darin Gibbins, Vice President of Investor Relations and Treasurer. Please go ahead.

Darin Gibbins

Vice President-Investor Relations & Treasurer, Valaris Ltd.

Welcome everyone to the Valaris second quarter 2023 conference call. With me today, our President and CEO Anton Dibowitz, Senior Vice President and CFO Chris Weber 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 defined forward-looking statements. Unless 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 gap in 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. Then I'll comment on the outlook for the offshore drilling market

and our fleet strategy, including an update on our plans for newbuild drillships VALARIS DS-13 and DS-14. Finally, I'll provide an update on our share repurchase program and reiterate our capital returns philosophy. After that, I'll hand the call over to Chris to discuss our financial results and guidance.

In the second quarter, we continued to deliver strong operational performance, achieving revenue efficiency of 97%. Our success as a company is driven by our people, and I want to thank the entire Valaris team offshore and onshore for their ongoing commitment and efforts in delivering excellent performance for our customers. One of the hallmarks of Valaris is our project execution. And during the second quarter, VALARIS DS-17 departed the shipyard ahead of its contract with Equinor Offshore Brazil, which is expected to commence this month following customer acceptance. This marks our fifth floater reactivation in the past 18 months and builds on a proven track record of project execution. VALARIS DS-17 is one of the higher specification drillships in the global fleet today and will be the first rig to deploy NOV's RTX robotic system offshore, reducing the need for personnel in the red zone. VALARIS DS-17 also became only the second rig in the world after VALARIS DS-12 to receive ABS' enhanced electrical system notation EHS-E. The rig's electrical system is designed to optimize power plant performance, enabling operations on fuel generators and reducing emissions. These targeted upgrades help to improve the safety and efficiency of the rig and exemplify our company's purpose of providing responsible solutions that deliver energy to the world.

Now, turning to our financial performance for the quarter, we generated adjusted EBITDA of \$15 million and EBITDAR adding back one time reactivation costs of \$59 million. Chris will provide further details on our financial results and guidance a little later.

Turning our attention to the market. The outlook for our industry in Valaris remains very positive. Spot Brent Crude has recently moved back above \$80 per barrel and five year forward prices remain above \$65 per barrel. A level at which more than 80% of undeveloped offshore reserves are estimated to be profitable. The support of commodity price and attractive breakevens for most offshore projects provide customers with the confidence to invest in long cycle offshore projects and further growth in both offshore upstream CapEx and offshore project sanctioning are expected in 2024. The constructive macro environment and increased upstream spending have led to increases in contracting and tendering activity across both floaters and jackups.

Active utilization for sixth and seventh generation drillships has on average exceeded 90% for more than 12 months. Looking at forward demand, we expect leading edge day rates to continue on an upward trajectory from the current levels in the mid to high for 400s. Recent fixtures and tenders with increased durations, lead times and day rates provide further evidence that we are in a strong and sustainable upcycle. Improvement in ultra-deepwater demand continues to be geographically widespread with new long-term opportunities appearing in West Africa, the Mediterranean, Brazil and the Gulf of Mexico over the past several months.

These include opportunities with durations of five plus years. Also, for the first time in many years, some customers are seeking to secure offshore rigs beyond the scope of the currently sanctioned projects and are contracting rigs for start dates into 2026. These are all positive signs that demonstrate both the confidence that our customers have in the economics of their offshore projects and a recognition of the increasing scarcity of high spec floaters. Across the Golden Triangle, East Africa and the Mediterranean we currently see 25 to 30 opportunities for ultra-deepwater floaters with expected duration of greater than one year that are anticipated to commence over the next few years. This represents an increase from the 22 to 25 opportunities we referenced on our first quarter call, demonstrating the strong and growing pipeline of future demand. We have seen recent opportunities appear in the Mediterranean and West Africa for work commencing in 2024 and 2025 that are likely to require incremental rigs in Brazil. There are three ongoing opportunities with Petrobras, each requiring multiple

rigs and further visibility of future demand with IOCs. We anticipate that this demand will result in several incremental additions to the rig fleet offshore Brazil.

In the Gulf of Mexico, supply and demand continues to be balanced and we expect to see sufficient future demand to keep the rigs in this region occupied. In total, we anticipate that 12 to 15 of these opportunities will need to be met by either incremental reactivation of stacked and stranded newbuild rigs or active rigs moving regions, which we don't expect to see a lot of as many rigs due to complete contracts over the next few years will likely be retained by the existing customer. While demand is increasing, the pool of available rigs is shrinking. And we believe that 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. However, three of these eight rigs are either contracted or have been selected for future work and are expected to be contracted soon. 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, with increasing demand and constrained supply tightening the market. Further, recent developments around increased contract duration, lead times and day rates all point towards a strong and sustained upcycle. On the jackup side of the business, demand continues to steadily increase, and the number of contracted jackups recently moved above 400 for the first time since mid-2015.

As a result, active utilization for jackups is above 90%, with both average and leading edge day rates continuing to trend upwards. As evidenced by our recent fixture offshore Australia at a rate of \$180,000 per day. Over the past 18 months, demand growth for benign environment jackups has primarily been driven by the Middle East, with Saudi Arabia, Qatar and the UAE all increasing their rig counts. More recently, we have also seen a return of longer duration opportunities in Southeast Asia, including in Malaysia, Thailand and Vietnam, which will help to absorb supply in this region. While the outlook for benign environment jackups continues to be strong, the outlook for the harsh environment jackup market in the North Sea continues to be challenging in the second half of this year and through the end of 2024.

In the UK, while regulators are looking at ways to make the current tax regime more appealing to operators, it has not yet been sufficient to promote an increase in activity and we continue to see opportunities being delayed. Fortunately, some of our North Sea rigs, such as VALARIS 92, 120, 122 are contracted into 2025 and beyond. We will continue to seek attractive opportunities for our high spec harsh environment jackups in other regions such as our recent contract for VALARIS 247 offshore Australia. While on completion of its current contract in the UK North Sea later this year, the rig will mobilize to Australia for a two well contract undertaking a CCS project that is expected to commence late in the first quarter of 2024. The operating day rate for this contract is \$180,000 a day and we will receive a mobilization and demobilization fee that covers all the moving and operating costs while the rig is in transit. We see strong demand for high specification rigs such as the VALARIS 247 and we anticipate there will be follow-on work in the region beyond its initial contract.

Jackup opportunities in Norway continue to be very limited, exemplified by a tender that was recently deferred into 2025. As a result, we do not expect any of our end class rigs to be working offshore Norway during 2024. On the supply side, 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 jackup fleet is more than 30 years of age, with limited, useful lives remaining. Out of the approximately 90 jackups that are currently idle, we count only 10 that are less than 30 years of age have been stacked for less than three years and are within the top half of global fleet rankings.

As a result, we believe that many of these stacked rigs will never return to the active fleet. Further, excluding ARO's newbuild program, there are only 18 newbuild jackups remaining at shipyards, and 13 of these rigs are Chinese shipyards, many of which are expected to enter the local supply in China. In summary, we continue to

see a strong and improving market for modern high specification jackups in regions such as the Middle East, Southeast Asia and Latin America. However, the harsh environment jackup market in the North Sea in Norway continues to disappoint, and we do not expect to see any meaningful improvement in 2024.

Our fleet strategy remains unchanged and focused on driving long-term shareholder value. Earlier this week, we were proud to announce a new long term contract for VALARIS DS-7 offshore West Africa, which is anticipated to be one of the key basins for floater demand over the next several years. This most recent award represents the seventh contract awarded to one of our high quality stacked floaters since mid-2021 and speaks volumes about our demonstrated track record of project execution, when reactivating rigs and delivering operational excellence for our customers.

We will continue to be 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. The VALARIS DS-7 is a prime example of this approach, and Chris will provide further details that highlight the compelling economics of this contract during his prepared remarks. As part of our fleet strategy, we want to have a critical mass of rigs in priority basins to benefit from economies of scale. Following the completion of our ongoing reactivations, we will have 11 floaters working across the Golden Triangle with four offshore Brazil, four offshore Africa and three in the Gulf of Mexico.

At the beginning of the year, I stated that I was optimistic about being able to secure contracts for two of our stacked drillships in 2023. We have now delivered on that seven months into the year and we see good opportunities for at least one more to be contracted by the end of the year. Following the contract award to DS-7, we have only one uncontracted drillship remaining the DS-11. Beyond this, our operating leverage to the strong ultra-deepwater floater market is through recontracting our existing active fleet and our attractive purchase options for newbuild drillships DS-13 and DS-14. Based on our contracting progress and the current market view, we intend to exercise the options for both of these rigs.

Both DS-13 and DS-14 are amongst the highest specification assets in the global fleet and are the most technically capable drillships still available at South Korean shipyards per third party rig rankings, they are the only remaining drillships available at the South Korean shipyards with two BOPs and we estimate that it would cost approximately \$50 million to add a second BOP to a ship that is only equipped with one.

We see strong customer interest in these rigs and based on our current market outlook, we believe that most, if not all, of the supply of stacked newbuild drillships in the global fleet will be needed to meet growing future demand based on estimates by third party rig brokers. Shipyard clearing prices for the remaining rigs are likely to be \$300 million or higher when including the cost of a second BOP. By comparison, shipyard prices of \$119 million for the DS-13 and \$218 million for the DS-14 are very attractive, representing a discount of 60% and 30% respectively to the current market rate for a comparable asset.

As a result, we believe the purchase options for both DS-13 and DS-14 represent compelling investment opportunities that would generate attractive returns over their lives. That being said, we will continue to be disciplined in our approach to reactivating rigs and will only reactivate the DS-13 and DS-14 for contracts that are expected to generate a meaningful return on our reactivation costs over the initial firm term.

Moving now to an update on ARO drilling, our unconsolidated 50-50 joint venture with Saudi Aramco. We expect that newbuild rig one will be delivered in September with contract startup expected by the end of October. Newbuild rig two is still expected to be delivered before year end with contract startup anticipated in the first quarter of 2024. ARO continues to progress to financing for the newbuilds, which we expect to be in place prior to

delivery of both rigs. Saudi Arabia is an attractive, growing and sustainable market and ARO is well 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.

Moving now to an update on our share repurchase program. In May, we announced an increase in our share repurchase authorization to \$300 million. Now intend to repurchase \$150 million of shares by year end 2023. We began the repurchase program in May and to-date we have repurchased \$94 million of shares at an average price of \$62. As a result of the recent contract awarded to VALARIS DS-7, which includes a meaningful upfront payment and our continued commitment to returning capital to shareholders we have increased our 2023 share repurchase target from \$150 million to \$200 million. We expect to achieve significant earnings growth and generate meaningful and sustained free cash flow over the next few years. As rigs transition from legacy day rate contracts to higher market rates and reactivated rigs return to work on attractive contracts.

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.

I will conclude by reiterating some of the key points from my prepared remarks. First, we continue to deliver excellent operational performance, evidenced by achieving 97% revenue (sic) [efficiency in the second quarter and 98% through the first half of the year. Second, the outlook for our] industry and Valaris remain very positive with increasing demand and constrained supply tightening the market. Further, we continue to see increases in contract duration, lead times and day rates, all of which point towards a strong and sustained upcycle.

And finally, due to the positive market outlook and strong customer interest in these high spec assets, we intend to exercise the purchase options on newbuild drillships VALARIS DS-13 and DS-14, as we believe that these investments will generate attractive returns as we look ahead we will continue to be disciplined in exercising our operational leverage and laser focused on maximizing long term shareholder value.

I'll now hand the call over to Chris to take you through the financials.

Christopher T. Weber

Chief Financial Officer & Senior Vice President, Valaris Ltd.

Thanks, Anton, and good morning and good afternoon, everyone. Before reviewing our financial results for the second quarter, I would like a moment to explain a recent change we have made to our adjusted EBITDA and adjusted EBITDAR calculations to better reflect the earnings profile of our operations and more closely aligned with the calculation methodology used by our closest offshore drilling peers. Adjusted EBITDA and adjusted EBITDAR are now include amortization associated with deferred mobilization and contract preparation revenues and costs and deferred capital upgrade revenues. We adjusted the calculation methodology in the second quarter and have restated all comparative periods in our second quarter results press release using the new methodology.

Moving now to review of our second quarter results. Adjusted EBITDA was \$15 million compared to \$28 million in the prior quarter and adjusted EBITDAR was \$59 million compared to \$55 million in the prior quarter. The impact of the calculation change on both adjusted EBITDA and adjusted EBITDAR was negative \$2 million in the second quarter and positive \$4 million in the first quarter. Excluding reimbursable items, revenues decreased to \$390 million from \$408 million, primarily due to fewer operating days for the jackup fleet and lower mobilization and demobilization revenues. These were partially offset by an increase in the average day rate for both floaters and jackups.

Jackup revenues decreased primarily due to fewer operating days and lower mobilization and demobilization revenues for the VALARIS 249, which completed its contract offshore New Zealand late in the first quarter and was in transit to its next contract offshore Trinidad during the second quarter. In addition, VALARIS 54, was sold following the completion of its contract late in the first quarter and VALARIS 108 spent most of the second quarter undergoing contract preparation work ahead of its upcoming three-year Bareboat Charter to ARO Drilling. These decreases were partially offset by more operating days for VALARIS 115 and 247, as both rigs commence new contracts after idle periods in the first quarter for contract preparation work and a five-year survey respectively.

Floater revenues increase due to more operating days in a higher average day rate, primarily related to VALARIS DS-12, which commenced a new higher day rate contract in the second quarter after spending part of the first quarter mobilizing for Mauritania to Angola. Excluding reimbursable items, contract drilling expense decreased to \$348 million from \$356 million, primarily due to the lower cost from \$356 million, primarily due to lower costs per rigs that were ideal or between contracts in the second quarter and lower repair and maintenance cost associated with special periodic surveys and contract preparation work. These are partially offset by higher reactivation expense, which increased to \$44 million from \$26 million in the prior quarter. The increase in reactivation expense was due to the commencement late in the first quarter of a reactivation project for VALARIS DS-8 ahead of a three-year contract offshore Brazil. This was partially offset by lower reactivation cost for VALARIS DS-17, which is expected to commence operations this month offshore Brazil.

General and administrative expense increased to \$26 million from \$24 million, primarily due to higher personnel costs and depreciation expense increased to \$25 million from \$23 million in the prior quarter. Other income decreased to \$7 million from \$13 million in the prior quarter. This was primarily due to a \$29 million loss recognized on a refinancing transaction completed in April and a \$6 million increase in interest expense associated with the refinancing transaction, which increased the principal amount of notes outstanding to \$700 million from \$550 million. These were partially offset by \$27 million pre-tax gain recognized in the second quarter on the sale of VALARIS 54.

We had tax expense of \$25 million compared to a tax benefit of \$28 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. Adjusted for discrete items, tax expense increased to \$18 million from \$16 million in the prior quarter.

I'm going to finish my review of second quarter results by commenting on our second quarter performance relative to prior guidance.

Our second quarter EBITDA was better than our prior guidance, primarily due to higher than expected utilization, as well as lower rig operating expenses which benefited from lower crew costs and repair and maintenance expense. Before I get into details of our go forward guidance, I want to flag that our third quarter and full year 2023 guidance is impacted by two discrete items. One, the change to our EBITDA calculation methodology, and two, the recently announced contract for VALARIS DS-7 and associated reactivation cost that falls into this calendar year. To help folks isolate the impact of these two changes. We've added a slide to the appendix of our investor presentation that lays out the impact of these items on third quarter and full year 2023 EBITDA, EBITDAR and CapEx.

The investor presentation will be available on our website shortly after the end of today's call. A key thing to note is that but for the impact of these discrete changes, the midpoint of our full year 2023 adjusted EBITDA guidance would have been unchanged, and the midpoint of our full year adjusted EBITDAR guidance would have increased

by \$15 million. For third quarter 2023 we expect total revenues to range from \$475 million to \$485 million as compared to \$415 million in the second quarter. Revenues are expected to increase, primarily due to contract startups for VALARIS DS-17 VALARIS 121 and VALARIS 249, which are all idled during the second quarter and higher average day rate for both floaters and jackups as several rigs commence new contracts. We expect that contract drilling expense will be \$395 million to \$405 million as compared to \$374 million in the second quarter, primarily due to VALARIS DS-17 commencing its contract, more operating days for the jackup fleet and an increase in reactivation expense. Reactivation expense is expected to increase to approximately \$55 million from \$44 million in the prior quarter, primarily due to the commencement of the VALARIS DS-7 reactivation and a ramp up in spend associated with the DS-8 reactivation project, partially offset by the wind down of the VALARIS DS-17 reactivation project. The DS-7 reactivation is expected to account for approximately \$20 million of reactivation expense in the third quarter.

General and administrative expense is expected to be approximately \$27 million, up slightly from \$26 million in the prior quarter, mostly due to higher personnel costs. The change in EBITDA calculation methodology is expected to have a \$10 million positive impact on adjusted EBITDA and adjusted EBITDAR in the third quarter. Taking these items together, adjusted EBITDA is expected to increase to \$50 million to \$55 million compared to \$15 million in the second quarter and adjusted EBITDAR is expected to be a \$105 million to a \$110 million compared to \$59 million in the second quarter.

Moving now to an update on our full year 2023 guidance. We currently expect revenues to be \$1.8 million to \$1.83 billion, which is at the lower end of our previously provided guidance range. This is primarily due to the continued softness we are seeing for harsh environment jackups in the North Sea. Fewer operating days for VALARIS DS-17, which is expected to commence its contract a little later than previously anticipated following its reactivation, and fewer operating days for VALARIS DPS-5 following the change and the customers drilling program that will lead to some time spent off rate as the rig moves between customers and operating locations. While we are expecting lower revenue on the VALARIS DPS-5 versus our prior guidance, the fact that we are able to fill most of the rigs availability in the second half of the year on short notice with two separate contracts from the US Gulf is a real testament to the strength of the market and our strong customer relationships.

Contract drilling expense is expected to be in the range of \$1.52 billion to \$1.54 billion, which is in line with our prior guidance. Despite our current revenue guidance coming down a bit. This result is due to an expected increase in reactivation expense of approximately \$55 million, with approximately \$40 million due to the reactivation of VALARIS DS-7 and the remainder due to slightly higher than anticipated costs on VALARIS DS-17 and VALARIS DS-8. These incremental reactivation costs are expected to be offset by lower operating expenses across the fleet due to fewer rig operating days, particularly in the North Sea, as well as lower crew and repair and maintenance expense.

General and administrative expense is expected to be approximately \$105 million, which is at the low end of our prior guidance range. The change in the EBITDA calculation methodology is expected to have a benefit of approximately \$25 million on full year EBITDA and EBITDAR. Taken together, these items move full year guidance slightly lower for adjusted EBITDA to a range of \$175 million to \$195 million and higher for adjusted EBITDAR to a range of \$330 million to \$350 million.

Moving now to capital expenditures. Second quarter CapEx was \$71 million compared to \$56 million in the prior quarter. Second quarter CapEx included \$44 million for maintenance CapEx enhancements and upgrades and \$27 million for reactivation and contract specific CapEx for VALARIS DS-8 and DS-17. Third quarter CapEx is expected to be \$100 million to \$110 million with roughly half going towards maintenance CapEx enhancements

and upgrades and the other half going toward reactivation and associated contract specific CapEx, including \$10 million for DS-7. We anticipate that our full year CapEx will be in the range of \$310 million to \$350 million.

This is at the lower end of our previously guided range, primarily due to timing of reactivation and enhancement spend that is expected to push from the fourth quarter into 2024, partially offset by an additional \$20 million related to the DS-7 reactivation project. This CapEx guidance does not include assumed expenditures for exercising our options to purchase drillships VALARIS DS-13 and DS-14. Exercising the options on both rigs would increase 2023 CapEx by approximately \$370 million. The incremental CapEx covers the purchase price of the rig and cost to prepare the rig to be moved from South Korea to Las Palmas, where they would be stacked alongside VALARIS DS-11.

I would now like to take a moment to provide further details around the recently awarded contract for VALARIS DS-7. This is a great contract win for Valaris, providing an opportunity to return whenever high quality stacked drillships to work offshore West Africa, which is expected to be one of the key basins for floater demand over the next several years. The economics for this contract are compelling and we expect to generate a meaningful return on a reactivation cost over the initial contract term.

The total contract value of \$364 million, which includes a meaningful upfront payment due at contract commencement implies an effective day rate of \$428,000 per day. It's worth noting that this contract does not include provision of any additional services or MPD, which typically increase daily operating costs by approximately \$40,000 to \$60,000 per day. In addition, our operating costs in West Africa are generally at least \$20,000 per day lower than in other areas of the Golden Triangle.

As a result, we expect that this contract will generate rig level annualized EBITDA of \$95 million to \$100 million and it will contribute meaningfully to our expected earnings growth in 2024 and beyond. Reactivation cost for VALARIS DS-7 is expected to be approximately \$90 million, plus approximately \$10 million of additional contract specific and other upgrades for a total project cost of roughly \$100 million. The \$90 million of reactivation cost is higher than our previously guided cost range, primarily because we need to purchase more capital equipment and inventory compared to our prior reactivation. This is due to us consuming most of our excess capital spares and inventory on completed and ongoing reactivation projects. Given the attractive drilling contract, which includes the meaningful upfront payment I mentioned earlier, we expect to pay back on the reactivation project cost, including the contract specific upgrades to be less than one year. We also expect to earn a very attractive internal rate of return over the firm contract period.

Now I'll move to a brief overview of ARO drilling financials. As a reminder, ARO is not consolidated in the financial results to Valaris. ARO EBITDA decreased to \$17 million from \$28 million in the prior quarter, primarily due to out-of-service time and increased costs associated with planned maintenance on one of ARO's owned rigs, ARO's third quarter EBITDA is expected to increase to \$20 million to \$22 million from \$17 million in the second quarter, primarily due to VALARIS 108 commencing its three year lease contract and fewer out-of-service days. ARO's full year 2023 EBITDA is expected to be approximately \$100 million to \$110 million, which is \$10 million lower than prior guidance, primarily due to delayed startups for new build rigs 1 and 2.

Moving now to our financial position and capital structure. At the end of the second quarter, we had cash and cash equivalents of \$787 million, plus restricted cash of \$18 million, providing a total cash balance of \$805 million. Our total cash balance decreased by \$39 million during the quarter, primarily due to payments for share repurchases and net capital expenditures and an increase in working capital, partially offset by net proceeds from a refinancing transaction completed in April. The increase in working capital was primarily due to two large invoices outstanding at quarter end for capital upgrades on VALARIS DS-17 and mobilization for VALARIS 249,

both of which have now been received. As discussed on our first quarter conference call we completed a refinancing transaction in April, resulting in the private placement of \$700 million of senior secured second lien notes due in 2030 with a coupon of 8.375%. We use 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. The revolver was undrawn as of June 30, 2023.

To conclude my prepared remarks I want to make a few comments on our capital allocation framework that is focused on three priorities. First, we want to maintain a conservative balance sheet with low leverage. In a recent refinancing and revolving credit facility transaction, enhanced our capital structure and provided us greater flexibility around capital allocation. Second, we will continue to pursue attractive investments and strategic growth opportunities, including investments in our fleet, such as our recent and ongoing drillship reactivations that are intended to generate meaningful returns and maximize future earnings and free cash flow. To be clear, we will continue to be disciplined in exercising our operational leverage and will only reactivate rigs for opportunities that are expected to provide a meaningful return over the initial contract term. And third, we are committed to returning capital to shareholders. As demonstrated by the increase in our 2023 share repurchase target from a \$150 million to \$200 million that we announced in conjunction with the DS-7 Contract Award. The DS-7 Drilling Contract includes a meaningful upfront payment and requires a low level of contract specific upgrades in the reactivation scope. These positive factors increase our flexibility to return capital to shareholders and we are acting on it.

As we look to the future, our business should begin generating meaningful and sustained free cash flow as rigs under legacy contracts are recontracted 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.

We've now reached the end of our prepared remarks. Operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] At this time, we will pause momentarily to assemble our roster. The first question is from Eddie Kim of Barclays. Please go ahead.

Edward Kim

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. So the comments around your intention to exercise both purchase options on the DS-13, DS-14 is obviously very strong on a confidence in the market outlook. You were very clear about not reactivating these rigs, so securing attractive contracts for them. Just based on the conversations you're having now, is it possible we could see one of these rigs securing a contract and begin – beginning the reactivation process even later this year? Or do you expect the reactivation for both these rigs to be more of a 2024 event?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Hi, Eddie. Thanks. I think you've got it exactly right. We make a clear distinction about the compelling value of taking these assets, given where we're similar assets, especially given that they have two BOPs of trading versus what we've been very clear about is being disciplined about reactivating a rig. DS-11, which is our only remaining drillship that is stacked right now that could put the market is a very, very similar assets to the DS-13 and the DS-14. So these are all, almost sister rigs, similar specifications. Ultimately, the decision as to, which to put to work first is going to come down to a combination of what the customers are looking for. You know, everything else being equal, I say given, given the fact that the investment we're making them the DS-13 and the DS-14 would like to put one of those rigs to work earlier. But we're just going to need to see what the opportunity is, where it is in the world, have the discussions with the customers. We have had customer's visits on these rigs already, they're in fantastic shape. I was out there looking at them myself recently. So we'll just have to see how it plays out.

Edward Kim

Analyst, Barclays Capital, Inc.

Q

Okay. Okay. Understood. And then just my follow-up is, I mean, just with the DS-7 reactivation is now your seventh floater reactivation and you're far less, I guess, available capacity than you did 18 months ago. So in that context, could you just update us on your latest thoughts on M&A, whether for specific assets or even a corporate acquisition, is this something you're still considering? Or are you content at this point with finding good contracts for the DS-11, DS-13 and DS-14, as you mentioned?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Yeah, Eddie, absolutely. I mean, I think we've been very clear that this is an industry that needs to continue to consolidate. We continually look at the market about consolidation opportunities. We're very comfortable with having a high specification fleet, gives us competitive advantage, and we wouldn't want to see that being diluted. If there is an M&A opportunity that makes sense based on the synergies that can be generated from that transaction, we would absolutely look at it, but we also have plenty of opportunity to grow our business. So I think we put a slide in the investor deck that will be coming out. You know, our first focus is rolling out our high spec fleet that we have on order. You know, we have three re-activations that are coming to coming to market and we'll be earning day rates over – before the middle of next year. We have three legacy contracts in the next 12 months

that we need to roll from legacy contracts to market clearing rates and then some beyond that. So it's a combination of both. We're, we are very comfortable with 00:41:22 organic growth, taking 13 and 14 in growing up business that way but if there are opportunities that make sense on the M&A side, we will absolutely execute on those.

Edward Kim

Analyst, Barclays Capital, Inc.

Q

Got it. Got it. That makes sense. Great. Thanks to the color, Anton. I'll turn the call.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Thanks, Eddie.

Operator: The next question is from David Smith of Pickering Energy Advisors. Please go ahead.

David Smith

Analyst, Pickering Energy Partners LP

Q

Hey, good morning and thanks for taking my question.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Good morning.

David Smith

Analyst, Pickering Energy Partners LP

Q

Congratulations on the DS-7 contract. Very strong economics there. I did want to switch over to the jackups and I've been seeing some very strong jackup rates in multiple regions outside the North Sea, including a couple you recently announced in Australia. I just want to make sure I didn't miss a beat. How would you characterize leading edge rates for the modern standard and heavy-duty fleets?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Yeah, I think you have that right. I mean, obviously, the North Sea has been, we've been probably pretty forthright and transparent about that. The North Sea, especially the UK side, continues to disappoint. But we have a high spec fleet that, that can find opportunities, other places and we're actively doing that. You know, leading edge rates on the jackup market as well is more geographically diverse. The different markets operate, operate slightly differently. We're obviously very proud to see the 247 going to, going to work in Australia on a CCS project which is a growing part of our business and will be a growing part of our business going forward at a leading edge rate of 180. You know, we have a couple of additional contracts in Australia at 150 and above. I, Southeast Asia is starting to catch up a little bit. So I think you're definitely well into the hundreds. You know, not going to sit here and say that every contract that signed is going to be at those leading edge rates. So there is there is there is a range, depending on what market you're in, which is also dependent on kind of operating costs and kind of what the local supply demand position is in those markets. But, well into the hundreds.

David Smith

Analyst, Pickering Energy Partners LP

Q

Certainly I appreciate it. And they do seem a lot higher than they were last year. And, where I'm going is, as we think a little further ahead, for the jackups leased to ARO, several of those leases expire late 2024 through 2025. And I just wanted to take a close look at those might have options, the option for extension rate of not if those ranges were to stay with ARO, how should we think about the relationship between potential new leases versus leading edge rates?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Okay. I think Saudi Arabia is that is a long-term sustainable market with long-term work. So there is a balance to be had. I think there's plenty of work to be done in Saudi through those leased rigs. And Saudi rates have continued to increase as have the other, rates around the world. So we're a little way away from talking about the future of those rigs. But I think there are attractive opportunities in Saudi. It is, the largest jackup market for high spec jackups in the world. So the market that, many people say will drill the last well in the world. So having a strong presence as we have through ARO, both through the owned leased, the leased rigs, and the point during newbuild program is a great position for us to be in. So we'll look at the opportunities and you know, and do as we do find what makes sense.

David Smith

Analyst, Pickering Energy Partners LP

Q

Thanks very much. I'll get back in queue.

Operator: The next question is from Kurt Hallead of Benchmark. Please go ahead.

Kurt Hallead

Analyst, The Benchmark Co. LLC

Q

Hey, good morning everybody.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Good morning, Kurt.

Christopher T. Weber

Chief Financial Officer & Senior Vice President, Valaris Ltd.

A

Good morning, Kurt.

Kurt Hallead

Analyst, The Benchmark Co. LLC

Q

Thanks for all that great detail. I really appreciate it. So, yeah, you're what are your one of your larger competitors yesterday talk about the prospect for you know leading-edge range for 6, 7, 10 drillships getting into the high \$500,000 a day sometime in 2024. Obviously, you're in a very good position to potentially capture that with those two drillships plus the stacked asset that you have. So just wondering if you can kind of give everybody here on the call some insights as to how you think about pricing strategy going forward and what – how you think your assets are potentially positioned to kind of being that leading edge rate discussion.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Oh, I think we have we have on average, high spec fleet, a lot of high spec fleets in the, 50% in the in the top quartile, especially when you look on the ship side and the 13 on the 14 we exercise, those options we'll add to that. The, the floater and drillship market continues to, to move higher, I think I appreciate the comments on the DS-7. I think it's important for people to remember that not all markets are the same and not all contracts are the same. So the DS-7 is there's already a high spec rig. It doesn't require any significant upgrades or for this rig to go to work. And West Africa is generally a low cost operating jurisdiction. And you know, as many tenders in West Africa are these all kind of long cycle, long duration tenders, these rigs that rig was bid kind of in January of this year and was a leading edge rate at the time it was bid. But rates continue to extend. As said on our – my prepared remarks I think day rates are in the kind of mid to high 400s and as supply/demand continues to tighten up I think it's going to continue to progress from there. You know that the pacing of that is always somewhat debatable. But we've seen a clear progression in day rates, through the 300s into the 400s and low 400s earlier in the year, in the mid to high, 400s where we are now and we see, most bids going out. And now I think we'll continue to progress higher as the supply demand balance tightens.

Kurt Hallead

Analyst, The Benchmark Co. LLC

Q

So yeah, I appreciate that. So maybe in a different context, right we've got the DS-13 and DS-14 and you got a reference, these prospects of getting very positive, economic returns on those assets. What sort of day rate would you need over what duration to get those objectives that you think you need to get?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Look, I think there's a balance, right? We run our fleet as a portfolio. And I reference I think it was to Eddie's question earlier about, having rigs rolling off to be able to leverage it into an upmarket. But there needs to be some balance. It's great to see increasing durations in this market and for us seeking some balance between now some very long term opportunities that are out there and building a baseload of long term backlog is important. So, not every – not every rig, needs to be treated equally and having a significant fleet. One of the advantages of scale, being able to take a commercial approach where you get some long term contracts at what today are very attractive rates generating north of \$90 million of EBITDA on a rig a year and balance that with some opportunism if you want to call it that and having some assets available to really kind of cherry pick and set at leading edge rates. So, we're just going to – we have the 11 and now we're looking at 13 on the 14. So, three more opportunities plus the rigs that we're rolling and we will take a portfolio approach. You know, I think that's all – all I want to say about that.

Kurt Hallead

Analyst, The Benchmark Co. LLC

Q

Okay. That's fair enough. So to just one more, if I may, right. So your reference, you got, I think your comment was 12 to 15 of incremental rig demand and a number of these rigs were going to require deactivation of some idle assets or potentially some of the stranded newbuilds. So kind of when you roll through that dynamic, right. How many idle assets do you think that incremental demand will wind up absorbing?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

I would say 12 to 15. I mean, we talked about the number of rigs that are still attractive at the yards. You know, we may see some rigs rolling from one part of the world to another, although that's not how we see the market playing out. Most rigs that are on contract with a customer are working in a base and continue to be to be extended and I think we as most of our competitors will look at, obviously, one of the considerations is not to have

significant whitespace. We you know, we try to minimize the time between contracts because there is an economic cost to moving a rig from on one region, even if you're being compensated, a portion switching contract. So we balance that between the alternative opportunities that are available to meet – to move the rig. So, definitely there is a demand, as we see it right now and what the projections say for as demand continues to increase, I think we went from 15 to 20 of – 20 to 25, 25 to 30 you know that we're tracking right now that's kind of five incremental opportunities in the upside and the downside since our first quarter call and that number continuous to increase. So demand continuous to increase, you know the market continuous to tighten. And I think there's a good projection that, all of the attractive high spec ships like DS-11 the DS-13 and the DS-13 and some portion of the, realistically reactivatable or at an economic cost need to come to market to meet the future demand from our customers.

Kurt Hallead

Analyst, The Benchmark Co. LLC

Got it. Okay, thanks so much. I really appreciate it.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

Thanks.

Operator: And the final question today is from Fredrik Stene of Clarksons Securities. Please go ahead.

Fredrik Stene

Analyst, Clarksons Securities AS

Hey Anton, Chris and team. I hope you are well and thanks for all the color today so far. I wanted to circle a bit back to the jackup site to finish it up here. It seems like the North Sea market, as you say, is quite subdued both this year and the next. And I think you said that the M-Class don't expect that to work in Norway in 2024 at least. But on the other hand, I think if you look in the same regions between the floaters, we have definitely seen a tightening there now with very, very large part of the fleet moving out of the regions, which is, I guess kind of my question is twofold. First, now that there seems to be a shortage of semi subs in Norway in at least 2025. Are you seeing any kind of new inquiries from your customers for projects that could just either use a large jackup or a semi. That's the first part and secondly are you able to give more color broadly on where you potentially see the most opportunities for your North Sea jackup fleet outside of the North Sea. In other words, where do you think you could potentially move some of your assets to reduce idle time? Thanks.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

Thanks. Good questions. Look, I'll start with some overall comment. I mean, we've been quite transparent that the North Sea continues to be challenging second half of this year and through the end of 2024. In the UK, especially, regulators are looking to ways to make the current tax regime more appealing to operators. But it really hasn't been sufficient to do that to promote getting back to work. That being said, we do have a number of rigs, the VALARIS JU-92, VALARIS JU-120 and VALARIS JU-122 that are contracted well into 2025.

There is work available, but it's generally shorter term. There is growing CCS work in the North Sea. I mean, we worked on Northern Endurance and Porfus in the Netherlands and I think recently been some announcements in the UK back in two additional large scale CCS projects, Acorn and Viking, which is attractive of that market long term. You know, sometimes when people see rigs leaving the area and heading over the horizon to better pastures, it does stir some thought that between regulators and industry that something needs to be done to

retain assets. So there is plenty of work to be done in the area. We just have to see how it plays out. You know, obviously Australia with high spec rigs is one good opportunity for kind of the high spec assets that we operate to operate. There's work in the Middle East where they generally like high spec assets where we could look at in class or other of our high spec rigs as well, those harsh environment rates and work benign environment. It's just a question of finding the right opportunity and a commercial deal where the customers willing to you know as was the case with the VALARIS 247 and compensate for the mobilization. And Southeast Asia is now, kind of coming back and, picking up demand, longer durations, higher day rates there which add that to the mix. So pretty widespread set of opportunities and we will look at what we see in the near-term market versus what's available elsewhere in the world and try to balance that out.

As far as, kind of high spec jackups, in the in the doing some of the work that was done by semisubs. There is a crossover there. There's a potential crossover in water depths between the two, especially for kind of the shallow water harsh environment, which we haven't seen a huge amount of that coming through to the jackup market yet. But, let's see how that that, as you say, the semisub market continues to be extremely tight or undersupplied. So, that may be a factor that we see coming through as we go forward.

Christopher T. Weber

Chief Financial Officer & Senior Vice President, Valaris Ltd.

A

And even just when we think about moving rigs outside the North Sea, I mean, it's been great to see with the one that we're moving to Australia to be able to get that coverage, not just on the move there but on the move back. And that's definitely something that we think about as part of the – it's part of the move.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Which I will say we take as downside protection because we believe that great opportunities for the VALARIS 247 to continue in Australia. But you know, if that doesn't pan out the way we expect, we do have that downside protection of moving it back to the North Sea if we see a recovery there.

Fredrik Stene

Analyst, Clarksons Securities AS

Q

This is – it's super helpful. And actually one more just circling back to your filters and contracting strategy, which you partially touched on. But as you say, VALARIS DS-7 VALARIS DS-7, you've taken off now in a relatively short amount of time. So you call it the overhang or optionality of your stacked fleet. You can be – or you have become more and more comfortable with the cash flow that you'll generate from the rigs that you've already reactivated. So I guess one thing when it comes to reactivation is that you need to get your cost covered, et cetera, and it needs to be a good economic decision on a project basis. But if I guess you can also regardless of whether it's for these 11, 13 or 14 that to take off first, you can afford now to be, a bit more greedy in a way, in the way you approach that. Have you have you in the way that you're going to be these three last assets? Has anything changed there in terms of kind of holding out for a better rates?

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

No. Look, we've been very clear from the beginning, even, when we were talking about bringing the VALARIS DS-4 out a couple of years ago that we you know, we wanted to cover reactivation costs right now as day rates have moved up and we've put additional of these rigs to work, we've, let's call it increased our hurdle rates. We've what we've expected to see a better return on each successive contract become if you want to colloquial say a little more choosy on the contract that we – that we're looking for and being more willing to be more patient on finding

the right contract. And I think you've seen that that I think you've seen that action from us as we've continued to put rigs to work. And yes, you're quite correct. Now, with the 11 being the you know the only remaining rig from our coaled stacked state fleet that's still available, we will, if necessary, be patient and wait for the right opportunity, because we do strongly believe in a in a constructive market. But I think there are great opportunities, with a balance of, opportunistic in having rigs that can roll in a few years and some potential very long-term opportunities that are attractive. And we have seen interest from customers on these rigs.

Christopher T. Weber

Chief Financial Officer & Senior Vice President, Valaris Ltd.

A

And our criteria for turning these on, first is for us to be choosy, right? Which is we've got to earn a meaningful return over that initial firm contract. And so we're only we're only turn these on when we test by those criteria, and we'll wait until we can.

Yeah, we talk about this as the discipline of reactivating them and making sure that we, we get a meaningful return on that. But as the, good commercial practices, as the market gets stronger and we see increasing opportunities, that we have an increasing expectation of what it takes to turn to turn these rigs and put them back into the active fleet.

Fredrik Stene

Analyst, Clarksons Securities AS

Q

All right. Thank you both for the color. I appreciate it. And I wish you both a good day.

Christopher T. Weber

Chief Financial Officer & Senior Vice President, Valaris Ltd.

A

Okay, thanks.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

A

Thanks for the question.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Darin Gibbins for closing remarks.

Darin Gibbins

Vice President-Investor Relations & Treasurer, Valaris Ltd.

Thanks, Kate. 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 third 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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