Corrected Transcript

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Valaris Ltd. (VAL)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Valaris First Quarter 2025 Results Conference Call. Today, all participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that today's event is being recorded.

I would now like to turn the conference over to Nick Georgas, Vice President, Treasurer, Investor Relations. Please go ahead, sir.

Nick Georgas
Vice President - Treasurer & Investor Relations, Valaris Ltd.

Welcome everyone to the Valaris first quarter 2025 conference call. With me today are our 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. Earlier this week, we issued our most recent fleet status report, which provides details on our rig fleet, including new contract awards.

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

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

Thanks, Nick, and good morning and afternoon to everyone. During today's call, I'll begin with the review of our performance for the quarter and highlight some of our recent commercial successes. I'll then provide an update on the offshore drilling market before discussing our approach to contracting and prudent fleet management, which are focused on driving long-term value creation for our shareholders. I'll then hand the call over to Matt, who will provide a more detailed perspective on our recently awarded contracts and the broader floater and jackup markets, along with additional color on our contracting outlook. After that, Chris will walk through our financial results and guidance, and then I'll finish with some closing remarks.

To begin, I want to highlight a few key points. First, we delivered another strong quarter to start the year, continuing our track record of providing safe and efficient operations for our customers and we generated meaningful EBITDA and free cash flow. Second, we are successfully executing our commercial strategy by securing attractive, long-term contracts for our high specification fleet. Since our last conference call just two months ago, we've added more than $1 billion in new contract backlog, including work for drillships offshore West Africa and across all of the major shallow water markets where our rigs operate.

While macroeconomic uncertainty has increased recently, we remain actively engaged with customers for additional contracting opportunities in 2026 and beyond. Third, we continue to expect that offshore production will play a vital role in meeting the world's energy needs and will remain a core component of our customers' portfolios. Given our high-quality fleet and operational performance, we're well-positioned to secure additional contracts that, along with our prudent fleet management, will further support our earnings and cash flow.

Starting with operations, we delivered fleet wide revenue efficiency of 96% during the first quarter, continuing our track record of providing safe and efficient operations for our customers. This excellent operational performance translated into strong financial results with adjusted EBITDA of $181 million in the first quarter, up from $142 million in the prior quarter. And we generated $74 million of adjusted free cash flow. On the safety front, we were honored to receive the 2024 Best Safety Performance Award for jackup rigs from the IADC North Sea Chapter, a great recognition of the team's commitment to safe operations. We also had several rigs achieve notable safety milestones with VALARIS 121 reaching two years without a recordable incident, while VALARIS 144 and Mad Dog each marked one year recordable free. These achievements are testament to our people and their dedication, hard work and commitment to delivering safe and efficient operations for our customers.

Delivering safe and efficient operations is our core business. It keeps our people safe, helps to make us the preferred partner for our customers, and drives value creation for our shareholders. Customers award work to contractors with strong track records in these areas, especially those that can deliver complex drilling solutions with high specification assets. Our recent contracting success underscores this dynamic. Since our February conference call, we've secured new contracts and extensions with associated contract backlog of approximately $1 billion. A standout amongst these is the two-year contract for drillship VALARIS DS-10. This award increased our backlog by approximately $350 million at a strong day rate and reaffirms our customers' preference for an established drilling contractor like Valaris that can provide a high specification rig with advanced technology and reliably deliver complex offshore program. This contract enhances our strategic position in West Africa, a key deepwater market where we've built a strong reputation and we continue to see several additional long-term opportunities in the region with start ups in the second-half of 2026 or 2027.

As we've mentioned before, we are focused on bookending the whitespace for our drillships with near-term availability. Based on ongoing discussions, we are confident that we will be able to announce further progress on these efforts in the near future. We've also added meaningful backlog across our shallow water fleet, securing recent jackup contracts in the Middle East, the North Sea, Australia and Trinidad. With 80% of our active jackup fleet operating in these four locations, we benefit from scaled positions that allow us to deliver excellent service and build long-term customer relationships.

Importantly, we had five jackups chartered to our ARO drilling joint venture with lease terms scheduled to expire this year. All five were recently extended for five year terms. ARO is an important partnership for Valaris and we are pleased to share in its contracting success. For Valaris, this leaves us with one rig offshore Saudi Arabia with availability in 2027 and the remaining six contracted into 2030. From our operational performance to our safety accomplishments and our commercial success, I want to thank the entire Valaris team for their focus on execution and a fantastic start to 2025.

Turning now to the broader offshore drilling market. Over the past few weeks, proposed tariffs on international trade and the associated increased costs, as well as the accelerated unwind of production cuts by OPEC+, have introduced new uncertainties for the global economy and our industry. We are staying close to our customers. And while it is early, scheduled programs and ongoing tenders largely appear to be on track. We believe most of the projects our customers are evaluating for near to medium term commencement are expected to be economic well below current commodity prices. According to Rystad, approximately 70% of deepwater programs expected to be sanctioned over the next three years have break-even prices below $50 per barrel equivalent, which compares to a five year forward price in the mid $60 per barrel range.

Offshore production, particularly deepwater, benefits from the combination of large and accessible resource potential, compelling project economics and comparatively low carbon emissions intensity factors that make offshore developments attractive relative to other sources of production. While recent events have created uncertainty, they don't change our expectation that offshore production will continue to play a vital role in meeting the world's energy needs and remain an important part of our customers' portfolios. As we navigate this period of heightened uncertainty, we remain focused on three areas within our control, delivering outstanding operational performance, executing our commercial strategy, and prudently managing our fleet and costs.

As I mentioned earlier, the team has executed well operationally to start the year and we remain laser-focused on operating safely and efficiently for our customers. We are well-positioned to continue executing our commercial strategy and securing attractive contracts by virtue of our high specification fleet. We expect customers will continue to favor seventh generation drillships for longer term development programs, as the combination of technical specifications such as dual derricks with high hookload capacity, high-capacity thrusters and two blowout preventers offer efficiencies that are amplified over multi-well programs.

We believe Valaris has an advantage on these longer term opportunities since 12 of our 13 drillships rank amongst the most technically capable assets in the global fleet and can provide these efficiencies, which are especially important to customers given their focus on optimizing costs.

In addition, customer demand for shallow water jackups is resilient, as the largest customers in this market are national oil companies, which have additional drivers that underpin their needs for ongoing hydrocarbon production, such as funding infrastructure projects and energy security. We have a versatile jackup fleet, that is a strong contributor to our financial performance, and we expect to see year-over-year growth in both operating days and average day rates from this segment during 2025.

In terms of fleet management, our strategy is centered on maintaining a high-quality, efficient fleet, and we will continue to prudently manage our rigs in response to evolving market conditions. To this end, we are actively managing costs for rigs expected to experience idle time between contracts. We recently moved VALARIS DS-12 to Las Palmas after the rig completed its contract in March and we're in the process of reducing the rig's costs as we work to secure its next contract.

We have several other floaters completing contracts later this year. We are willing to be patient to find the right programs for these rigs and will quickly reduce costs during extended idle periods to benefit our cash flow.

Prudent fleet management also extends to our decisions to retire rigs when their expected economic benefit no longer justifies their associated costs. We previously announced our decision to retire a recently active floater VALARIS DPS-5 as well as VALARIS DPS-3 and VALARIS DPS-6 from our fleet. In April, we sold these rigs for recycling and they will now be permanently removed from the global drilling fleet.

Before handing over to Matt, I'd like to briefly recap a few key points regarding the market and our strategy. While there has been a recent increase in macroeconomic uncertainty, we expect offshore production will continue playing a vital role in meeting global energy demand and remain an important part of our customers' portfolios. At Valaris, we remain laser-focused on both operational excellence and commercial execution, given our high-quality fleet and operational performance, we believe we're well-positioned to secure additional contracts which combined with our prudent fleet management, will further support our earnings and cash flow.

With that, I'll now hand the call over to Matt.

Matthew Lyne

Senior Vice President & Chief Commercial Officer, Valaris Ltd.

Thanks, Anton, and good morning and afternoon, everyone. I'm going to start with an overview of our recent contracting success, then provide commentary on our major floater and jackup regions where we operate and finish with an update on our outlook for rigs that have availability in 2025.

Since our last conference call, we've signed new contracts and extensions that have increased our total backlog to more than $4.2 billion, a nearly 20% increase from our previously reported backlog of $3.6 billion. These awards included backlog additions of approximately $400 million for our floaters and $600 million for our jackups. As Anton mentioned, we secured a new contract for one of our high specification drillships VALARIS DS-10 that contributed to these additions. Further, the customer for the DS-9 recently exercised an option to extend the rigs contract to another six months, and this contract is now expected to run to mid-2026.

Turning to jackups, offshore Australia and Trinidad, we continue to secure work for our rigs at solid day rates, reflecting customers' preference for established drilling contractors with high spec assets in these attractive niche markets. In Trinidad, we are set to grow our presence following a recent multiyear contract award for VALARIS 117 that is expected to commence in the third quarter of 2026. This will bring our footprint in the region to three jackups joining the VALARIS 118 and VALARIS 249. Notably, the VALARIS 118 recently drilled a successful exploration well at the Frangipani Field, highlighting Trinidad's renewed focus on boosting gas production as a cornerstone of the country's long-term economic growth. In our North Sea operating region, we added two years of work commencing in late 2025 VALARIS 248. Lastly, as Anton noted, we were successful in extending bareboat charters for five of our jackups offshore Saudi Arabia. We look forward to these rigs continuing their operations into 2030 with our JV partner ARO Drilling.

Turning now to commentary on the major floater and jackup regions where we operate. As Anton mentioned, while uncertainty has increased recently, we are staying close to our customers. And while it's early, scheduled programs and ongoing tenders largely appear to be on track. Following recent awards, we are monitoring approximately 25 floater opportunities, each with a duration of at least one year and with expected startups scheduled for 2026 or 2027. With long-term contracts typically awarded at least nine months before their planned commencement, we anticipate additional contract awards across the industry as we progress through the year.

Offshore Africa remains the most active area for future floater opportunities. We are currently tracking approximately 10 long-term programs with expected start dates in 2026 or 2027, including projects offshore Nigeria, Ivory Coast and Mozambique. There is one rig currently operating offshore Nigeria and we expect to see growth in this market with two multiyear programs with IOCs presently in the tendering phase. Activity offshore Egypt has picked up over the past year, due in part to exploration success on projects drilled by two Valaris drillships, along with regulatory reforms to streamline licensing and environmental approvals.

There is one tender currently in process and based on customer discussions, we understand additional contracting opportunities are under consideration. Looking ahead to 2027 and beyond, we are seeing increased activity in Mozambique and Namibia. In Mozambique, with ENI recently receiving government approval. Its Coral North project is now pending final investment decision approval. Meanwhile, TotalEnergies is progressing its development plan for the Venus project offshore Namibia, which could generate between 6 to 8 rig years of work.

Brazil remains the largest market for benign environment floaters and we expect Petrobras's rig count will remain stable in the near to medium term. As we anticipated on our last call, Petrobras has issued a new multiyear tender, targeting one or more high specification rigs for work on the Búzios field starting in late 2026 or early 2027. We continue to expect that Petrobras will issue an additional tender later this year, which coupled with the Búzios tender, should extend the work scopes of several rigs offshore Brazil to the end of this decade. Beyond Petrobras, we see upside potential from IOC activity such as Shell's Gato do Mato project, which recently received its final investment decision approval.

Elsewhere in South America, we recently saw multiyear contracts awarded for TotalEnergies' two rig requirement offshore Suriname. Given Suriname's proximity to Guyana and the increasing exploration and development activity in the region, we believe demand in Suriname has the potential to grow in the coming years. In the US-Gulf, we expect the market to remain balanced, with demand largely met by the existing supply of rigs in the region. Outside of the Golden Triangle, we see five separate drillship programs planned offshore India and Southeast Asia, representing a combined expected firm term of more than eight years.

Turning to the jackup market. Utilization for the global marketed fleet stood at a solid 90% at the end of the first quarter. Although this marks a decline from 94% in early 2024. This reduction in global utilization has led to some downward pressure on day rates in certain benign environment regions, particularly those where rigs leaving Saudi Arabia have been competing for work. That said, other key benign environment markets where we operate, such as Australia and Trinidad, have remained largely insulated from these dynamics and day rates in these regions have held firm as demonstrated by our recent contract awards in the mid-to-high 100,000s.

In the North Sea, we anticipate increased competition for upcoming work, particularly toward the end of the year, driven by an uptick in available units following an operator's decision to prioritize activity in other basins. While this may result in increased idle time across parts of the North Sea fleet, our rigs in the region have strong contract coverage and we see several opportunities beginning in late-2025 and the first-half of 2026. Many of these opportunities are for plug and abandonment or new energy projects, which have become an increasing source of customer demand recently and we believe our rigs are well-positioned to meet this demand.

I'll now provide an update on the outlook for our rigs, starting with our floater fleet. Since our last call, we secured a contract for one of our drillships with near-term availability with VALARIS DS-10 being awarded a multiyear contract offshore West Africa with an expected commencement in mid-2026. This leaves us with three drillships with 2025 availability that we need to secure contracts for, VALARIS DS-12, VALARIS DS-15 and VALARIS DS-18. We're actively engaged in discussions with several customers regarding opportunities for these rigs with potential start dates in 2026 and 2027. And as Anton mentioned, we expect to announce further progress on these efforts soon. As we have stated previously, our focus remains on securing attractive long-term contracts for these high spec assets. And we are prepared to be patient in order to place them on the right programs.

Turning to our two semisubmersibles operating offshore Australia, MS-1 is expected to complete its current contract in the third quarter and the follow-on opportunity we are targeting has now shifted into the first-half of 2026. DPS-1 is also expected to continue working into the third quarter of this year and visible opportunities for a dynamically positioned rig like DPS-1 are currently expected to begin in the second-half of 2026.

Moving to shallow water, we have strong contract coverage across our jackup fleet for the remainder of 2025, bolstered by recent contracting success across our key shallow water markets, including the Middle East, the North Sea, Australia and Trinidad. We have just three jackups operating in benign environments with some availability in the second-half of the year. VALARIS 247 in Australia, VALARIS 106 in Indonesia and VALARIS 110 in Qatar. In the North Sea, we have limited availability for our nine active jackups in the region with six months of uncontracted time across two rigs. While we are actively engaged in discussions to secure work for all these rigs, they could incur idle time later this year if we are unsuccessful.

In summary, I'm extremely pleased with our recent contracting success that has contributed to significant backlog additions. We continue to have constructive engagement with customers around their future programs, and our focus remains on building backlog by securing attractive, long-term contracts for our active fleet to further support our earnings and cash flow.

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

Christopher T. Weber

Chief Financial Officer & Senior Vice President, Valaris Ltd.

Thanks, Matt, and good morning and afternoon, everyone. In my prepared remarks today, I'll begin with an overview of our first quarter results. Then I'll walk you through our outlook for the second quarter, followed by an update on our full-year guidance for 2025. Starting with our first quarter results. Total revenues were $621 million, up from $584 million in the prior quarter and adjusted EBITDA was $181 million, up from $142 million in the prior quarter. Adjusted EBITDA increased in the first quarter, primarily due to more operating days and higher average daily revenue for the floater fleet.

The increase in operating days was primarily due to VALARIS DS-4 commencing a new contract offshore Brazil late in the fourth quarter, partially offset by VALARIS DS-12, completing a contract offshore Egypt in mid-March. The increase in average daily revenue was primarily driven by VALARIS DS-15, commencing a new higher day rate contract offshore Brazil late in the fourth quarter. EBITDA exceeded our guidance primarily due to strong operating performance and fewer out-of-service days than anticipated.

Our first quarter results included an $8 million non-cash loss on impairment associated with our decision to retire three semisubmersibles, VALARIS DPS-3, VALARIS DPS-5, and VALARIS DPS-6 during the quarter. We also incurred tax expense of $194 million. Our first quarter tax provision included $167 million of discrete tax expense, primarily attributable to the establishment of a valuation allowance on deferred tax assets in connection with our decision to retire the three semis. As a result of these items, we reported a net loss of $39 million in the first quarter. Adjusted for discrete tax expense, net income was $128 million.

Finally, first quarter CapEx totaled $100 million coming in below guidance due to timing as certain spend shifted to later in the year. During the quarter, we generated $156 million of cash flow from operations and $18 million from asset sales, which includes proceeds from the sale of VALARIS 75 in January. This was partially offset by capital expenditures, resulting in $74 million of adjusted free cash flow. Cash and cash equivalents were $454 million at quarter end, and our revolving credit facility remains fully available, which together provides us with total liquidity of approximately $830 million.

Moving now to our second quarter outlook. We expect total revenues in the range of $570 million to $590 million, compared to $621 million in the first quarter. Revenues for the second quarter are expected to decrease primarily due to idle time for VALARIS DS-12 after completing a contract offshore Egypt in the first quarter, lower amortized revenues related to VALARIS DS-17 completing the initial firm term of its contract offshore Brazil and out-of-service time for jackups including VALARIS 106 and VALARIS 248, which are undergoing 20 year surveys. These items are expected to be partially offset by a full quarter of operations for VALARIS 144, after commencing a long-term contract offshore Angola late in the first quarter and the VALARIS 249 returning to work following out-of-service time for repairs during the first quarter.

We expect contract drilling expense of $395 million to $410 million in the second quarter, down from $415 million in the first quarter. Second quarter contract drilling expense is expected to decrease primarily due to lower expense for VALARIS DS-12, as we proactively reduce cost while the rig is in Las Palmas awaiting its next job. Lower amortized expense for VALARIS DS-17 and lower expense for jackups undergoing major shipyard upgrade projects in the second quarter, during which costs will be capitalized. These items are expected to be partially offset by higher costs for VALARIS 144, which commences new contract late in the first quarter.

Our second quarter revenue and contract drilling expenses are both expected to include around $35 million to $40 million of reimbursable items. We anticipate second quarter G&A expense will increase to approximately $28 million from $24 million in the first quarter. Adjusted EBITDA is expected to be $140 million to $160 million compared to $181 million in the first quarter. Total CapEx in the second quarter is expected to be $100 million to $110 million. This includes ongoing fleet maintenance spend, 20 year surveys for VALARIS 106 and VALARIS 248 and some carryover from the first quarter, primarily related to the VALARIS 144 upgrade project. Partially offsetting this CapEx is approximately $10 million of cash proceeds for the sale of the three retired semis for recycling, which we received in April.

Turning to our financial guidance for full-year 2025. We are reiterating our EBITDA guidance with a narrowed range. Previously, we had forecasted adjusted EBITDA of $480 million to $580 million for 2025. We are reaffirming the midpoint at $530 million. However, based on our recent contracting success, strong first quarter performance and current outlook for the remainder of the year, we now expect a narrowed range of $500 million to $560 million. In terms of guidance for specific line items, as a reminder, total revenues are expected to be $2.15 billion to $2.25 billion. After securing the extensions for five ARO leased rigs, this revenue guidance is nearly 99% contracted at the midpoint. Contract drilling expense is expected to be $1.5 billion to $1.6 billion, and G&A expense is anticipated to be $110 million to $115 million.

Turning to CapEx. We now expect full-year 2025 capital expenditures of $375 million to $415 million. This is an increase from our prior guidance as recent contracting success now means we will have some shipyard days for ARO leased rigs pulled forward into the fourth quarter of 2025 from 2026. As I mentioned on our last call, we expect to receive $75 million in upfront customer payments this year to offset contract specific upgrades.

Lastly, with respect to tariffs, we are actively engaging with suppliers and taking proactive steps to mitigate their impact. Given our international footprint and global supply chain network, our volume of direct imports into the US is relatively small. As a result, our tariff exposure is driven more by indirect impacts from suppliers that manufacture or assemble goods in the US. While this is a very fluid situation based on what we know today and our mitigation efforts, we believe our full year guidance accounts for the potential impact of tariffs.

This concludes my review of our financial results and guidance. I'll now hand the call back to Anton for some closing remarks.

Anton Dibowitz

President, Chief Executive Officer & Director, Valaris Ltd.

Thanks, Chris. Before we open the line for questions, I'd like to recap a few key points from today's prepared remarks. First, we delivered another strong quarter to start the year, continue our track record of providing safe and efficient operations for our customers, and we generated meaningful EBITDA and free cash flow. Second, we're successfully executing our commercial strategy by securing attractive, long-term contracts for our high specification fleet. Over the past two months, we've added more than $1 billion in backlog, including new work for drillships offshore West Africa and across all our major shallow water markets. While macroeconomic uncertainty has increased recently, we remain actively engaged with customers for additional contracts and opportunities in 2026 and beyond. And third, we continue to expect that offshore production will play a vital role in meeting the world's energy needs and will remain a core component of our customers' portfolios. Given our high quality fleet and operational performance, we're well-positioned to secure additional contracts that, along with our prudent fleet management, will further support our earnings and cash flow. We thank our employees for their focus and dedication and our customers and investors for their continued support.

That concludes 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] And today's first question comes from David Smith with Pickering Energy Partners. Please proceed.

Dave Smith Q

Analyst, Pickering Energy Partners

Hey, good morning. Thank you for taking my question.

Anton Dibowitz A

President, Chief Executive Officer & Director, Valaris Ltd.

Good morning, Dave.

Christopher T. Weber A

Chief Financial Officer & Senior Vice President, Valaris Ltd.

Good morning, Dave.

Dave Smith Q

Analyst, Pickering Energy Partners

Just regarding the 2025 floater opportunities that you're tracking with the 2026 and 2027 start dates, could you wager your guess on the percentage that require seventh-gen drillships? And how do you think operators evaluate the relative pricing for this performance difference of an average of seventh-gen ship relative to the average sixth-gen? And, yeah is there a natural pricing premium that we expect should persist regardless of the overall market rate structure?

Anton Dibowitz
President, Chief Executive Officer & Director, Valaris Ltd.

A

Absolutely. I can start and then maybe Matt can add if he has anything to add. Look, I think what's this one part of it is where our seventh-gens preferred or needed on the program. But as much as that, you can see a clear differentiation between the utilization of seventh and sixth-gen rigs. So they do provide efficiency. What amount of efficiency depends on what program are they drilling, especially important for long-term development programs, where you're drilling multiple wells. You're going to really get the benefit out of it. But clearly the benefit that we see is that seventh-gens are going to have an advantage. Seventh-gens operated by drillers that can deliver complex drilling solutions, increasingly MPD or similar operations are going to be advantaged as we go through those opportunities. Matt, I don't know if you have any.

Matthew Lyne
Senior Vice President & Chief Commercial Officer, Valaris Ltd.

A

Yeah. I think an example and you could probably spend quite a bit of time working through it and not all sixth-gens are the same but hookload is a big difference, the -- which allows customers to design their wells with either fewer or longer casing strings, which certainly cuts down on their cost. And those are some of the benefits that you get from the seventh-gen fleet. Things like dual BOPs, more common on far more common on seventh-gens than you would find on sixth-gens, but not entirely exclusive, so.

Anton Dibowitz
President, Chief Executive Officer & Director, Valaris Ltd.

A

I think the overwhelming theme that cuts through it all is in everything but a completely undersupplied markets where there is a lack of available capacity, customers are given the choice, are going to choose the highest spec asset because it gives them more optionality and efficiency.

Dave Smith
Analyst, Pickering Energy Partners

Q

Okay.

Matthew Lyne
Senior Vice President & Chief Commercial Officer, Valaris Ltd.

A

And then when you talk to the -- sorry, I just want to answer your last call. You asked the very beginning your question what the proportionality of the 2025 opportunities we're tracking. And I would say the overwhelming majority are drillship-related. There are some we described it as floater opportunities. There are some that aren't necessarily drillship-related, but the overwhelming majority are drillships. And you would find that of those opportunities, customers would be likely to prefer seventh-gen assets.

Dave Smith
Analyst, Pickering Energy Partners

Q

Perfect. I appreciate the color. Thank you. And a follow-up, if I may. We've seen some large contract awards recently with very significant performance bonus elements. Wanted to ask if you're seeing interest from customers and similar incentive structures. And if so, how are you thinking about balancing the risk and reward of efficiency linked pricing?

Anton Dibowitz
President, Chief Executive Officer & Director, Valaris Ltd.

A

Absolutely. It's a great question. The first thing I'll say is, yeah, absolutely. This is part of drilling contracts. We have bonus schemes in our current contract portfolio. We've done them in the past, although not at the scale that the last two awards that you've seen. We're open to these type of arrangements. The performance incentives, they generally -- the different ways to do the performance scheme, but they're generally targeted to drilling the well ahead of the customers' AFB or reducing the number of days. And sometimes these are difficult to negotiate because it can cut both ways. So, I mean, we have a certain amount of control over how we execute our operational efficiency and of course, we're very proud of that delivering 96%-plus uptime and great operational efficiency for our customers.

But there's a lot that goes into drilling a well and a lot of other services. So it can get complicated, this becomes an all-in-one. So what you actually realize from a bonus may not be directly relational to the work that you're doing on the well. That being said, they work best in long-term development programs where you're drilling a number of wells. So, you start to understand the geology and the wells get progressively more efficient as you go along. Not every customer likes them. Some customers or would like to entertain this kind of structure. I don't see this becoming the norm. I think some customers will and you've seen some who have done it and they continue to do well look for these. We're very open to that. And some customers just aren't interested in based on how they run their business. But, there's an opportunity to do it, we're absolutely open to it and it can make sense in certain circumstances.

Dave Smith
Analyst, Pickering Energy Partners

Q

Great. Really appreciate it. And great quarter, great backlog additions. I'll turn it over. Thank you.

Anton Dibowitz
President, Chief Executive Officer & Director, Valaris Ltd.

A

Thanks.

Operator: And our next question comes from Greg Lewis with BTIG. Please go ahead.

Gregory Lewis
Analyst, BTIG, LLC

Q

Yeah. Thank you and good morning and thanks for taking my questions and appreciate there may be things you can or cannot say about the contracts that are out there that are going to come in 2026 and 2027, but just as broadly as we look across those opportunities, any sense for kind of how many of those – and you mentioned to David's question around the hookload making a difference. Any kind of sense for how many of these potential 2025 opportunities may require rig upgrades?

Matthew Lyne
Senior Vice President & Chief Commercial Officer, Valaris Ltd.

A

I think it's a – as you said, I think you called it right, difficult to provide specifics on individual opportunities. What we are seeing is – and this kind of fits well with our fleet, given the number of rigs that we have with MPD and dual BOPs, is that you're looking for customers who want maximum flexibility to design their well and change as they go. So a lot of opportunities are having MPD at the base. So for contractors like us where we have those assets and existing assets, it can become a real benefit. And so as those systems continue to evolve, we continue to evolve our technology to match that. So that'd be one example that you're seeing as potential upgrades.

Anton Dibowitz
President, Chief Executive Officer & Director, Valaris Ltd.

A

I think the question is generally before you start a lot of times. That's a good percentage of the time before you start a new contract, the customer will want some kind of upgrades, some kind of stuff. And that's great for us because they often pay the CapEx associated with it and we get a better rig out of it. And that's certainly the kind of deal that we try to see. The number of contracts, if you're making a reference to the recent awards, the number of contracts that require significant CapEx upgrades, I don't think that's the norm either. There are plenty of contracts and where customers and part of the reason why we're very – we're fortunate to have a high spec seventh-gen fleet is that these rigs can drill a lot of the programs that are out there without needing significant upgrades. So it does depend on what market you're in. It does depend on the customer. But, from a commercial perspective, we certainly seek to get reimbursement from that in the contracts that we can do.

Gregory Lewis
Analyst, BTIG, LLC

Q

Okay, great. And then my other question is around the subsea tieback market. I mean, clearly, Gulf of Mexico is not a huge market for Valaris. But just as we think about the move lower in day rates with a tieback well where the cost of drilling the well can be upwards of 50% or higher of the cost of getting the oil out of the well. Given the pullback in day rates and some of this whitespace, has that kind of generated any maybe increased interest on the surface as we kind of look at this, the next few quarters are going to be kind of spotty in the US-Gulf. Could we see some subsea tieback opportunities kind of pop up here over the next few quarters or is it the move lower and the rates hasn't really generated any increased drilling demands.

Anton Dibowitz
President, Chief Executive Officer & Director, Valaris Ltd.

A

I'm not sure I'd link the two. I mean, coming into the – over the last couple of quarters, I think, our view has consistently been that there's going to be some whitespace in 2025 across the industry that needs to be worked through and the predominance of the programs Gulf of Mexico and internationally are in 2026 and beyond. And we don't think that's changed. And we don't think that recent changes, although there's been increase in macro uncertainty, we certainly haven't seen any change in behavior from our customers.

Generally, the programs that we're tracking on that timeline still continue to be there. There will always be a opportunistic operator, and I mean that in a positive sense where a well may pop up potentially during 2025. I don't think that's directly rate driven because I – we've talked about going into this whitespace area where there would be a wide variety of rates as we work through this whitespace. And I don't think there's been a significant or material change in those rates because the term contracts that are being fixed are generally starting with a four. There is going to be some variety in those programs. But, no, I don't see that.

Gregory Lewis
Analyst, BTIG, LLC

Q

Okay. Super helpful. Thank you very much. Thanks.

Operator: The next question is from Eddie Kim with Barclays. Please proceed.

Edward Kim
Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Just wanted to ask about the five-year extensions on five of your jackups in Saudi. Could you comment at all on the pricing levels on these extensions? Were they sort of in-line with the prior contracts or were they at a discount to prior levels, just given the more challenged environment today in light of the Saudi rig suspensions over the past year-and-a-half. And separately, do you think these contracts are an indication from Saudi that the period of rig suspensions is now behind us or do you expect there could still be more to come?

Anton Dibowitz
President, Chief Executive Officer & Director, Valaris Ltd.

A

To your first question, I think based on the way you asked that, you realize that unfortunately, we're not able to disclose day rates on these contracts as we don't have customer approval. What I will say is the rates are above the historic rates, and I would describe them, some people have done the calculation based on the backlog and I think, those folks are pretty smart and kind of narrowing in on where it is. But I would describe these as solid contracts and we're very proud of the job that AROs done and we've done with them to secure 25 years of backlog on those rigs, so very, very, very comfortable with them.

Look, as far as the future on Aramco and their plans, look, I can't -- what I can say is ARO is an integral part of the infrastructure and a key partner for Aramco, we're continue with our building program at IMI to bring new capacity to market. We're very pleased to have a JV with Saudi Aramco and now with this -- with these fixtures from a Valaris perspective, we have one lease rig rolling in 2027 and the rest of the fleet rolling into 2030. And we're very pleased about that.

Edward Kim
Analyst, Barclays Capital, Inc.

Q

Got it. Thanks for the color. My second question is just kind of a bigger picture question on offshore FIDs. I mean, to-date, I don't think we've seen -- and based on your comments, you haven't seen or heard of offshore FIDs or programs getting pushed back. But I mean, Brent, today, as we sit here is at $61. Is there a Brent price level at which you think some offshore FIDs could start to get pushed back? Is that $55, $50, just any thoughts there?

Anton Dibowitz
President, Chief Executive Officer & Director, Valaris Ltd.

A

First you're going to be clear, we have not and we are in ongoing discussions with our customers. We're in in-tender processes. Yes, you are absolutely correct. We have not seen today any programs getting pushed based on the programs we're looking at, especially the long-term opportunities are 2026, 2027 and beyond. These are long cycle developments about production to be delivered ongoing towards the end of the decade and we have not seen a pushback. Obviously, there is increased in macro uncertainty, but that's how we see it today. What I will say about pricing is, the programs that we drill offshore are large resources. And the economics are compelling. They're compelling well below current where the five-year strip is on Brent and where it's trading today. And offshore is advantaged versus other sources of production, particularly for that reason. And I think that's why you haven't seen a significant change in our customer behavior.

Edward Kim
Analyst, Barclays Capital, Inc.

Q

Got it. Understood. That's very helpful. Thank you. I'll turn it back.

Operator: Thank you. This does conclude today's question-and-answer session. I would now like to turn the conference back over to Nick Georgas for any closing remarks.

Nick Georgas

Vice President - Treasurer & Investor Relations, Valaris Ltd.

Thanks, Chris, and thank you to everyone on today's call for your interest in Valaris. We look forward to speaking with you again when we report our second quarter 2025 results. Have a great rest of your day.

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