

# Maersk Drilling

Q3 2021 Trading Statement webcast transcript

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## Participants

### Corporate participants

Jørn Madsen – Chief Executive Officer, Maersk Drilling

Christine Morris – Chief Financial Officer, Maersk Drilling

Michael Harboe-Jørgensen – Head of Investor Relations, Maersk Drilling

### Other Participants

Fredrik Stene – Clarksons Platou Securities

James Thompson – JP Morgan



## Management Discussion Section

### Michael Harboe-Jørgensen – Head of Investor Relations, Maersk Drilling

Good morning and welcome to Maersk Drilling's conference call for the third quarter of 2021. My name is Michael Harboe-Jørgensen, Head of Investor Relations. Joining me on this morning's call we have our Chief Executive Officer, Jørn Madsen, and our Chief Financial Officer, Christine Morris.

Today's trading statement along with supporting documents, including the presentation for this call and our latest fleet status report, have this morning been posted on our Investor Relations website. For the first part of this call, we will present our Q3 performance, after which there will be a question-and-answer session. Please note that this conference call is being recorded and will be made available at our Investor site afterwards.

Before handing over the word to Jørn, let us first see to the formalities on page two. During the course of this call, executive management may make certain forward-looking statements regarding various matters related to our business and company that are not historical facts. Such statements are based upon the current expectations and certain assumptions and are therefore subject to certain risks and uncertainties. Many factors could cause actual results to differ materially. For further information on the risk factors, please see the Annual Report for 2020. I will now turn the call over to Jørn.

### Jørn Madsen – Chief Executive Officer, Maersk Drilling

Thank you, Michael, and welcome to everyone joining our call this morning.

I am proud of the results that Maersk Drilling achieved in the third quarter and am excited to share them with you shortly. Over today's call, I will provide an operational update for the third quarter, including commercial performance, backlog, and the current status of our fleet. I'll also speak to the exciting new announcement that we made during the quarter about Project Greensand. And afterwards, Christine will speak to the sale of Maersk Inspirer, the performance of our two divisions, and conclude with our maintained financial guidance for the remainder of 2021. And following that, we will open up the floor for a Q&A session where Christine and I will take your questions.

But let me start by providing the main highlights from the third quarter. Revenues of 333 million was achieved on the back of a very strong operational performance. Utilisation was 83% for Q3, the

strongest utilisation we have achieved as a listed company. And financial uptime remained high at 99.2%.

As we announced on Thursday last week, we have successfully divested the Maersk Inspirer. Christine will speak to the impact of this transformation later in the call.

Another major achievement during the quarter was the announcement that Maersk Drilling was named the preferred drilling contractor with the right to all drilling work that relates to Project Greensand, the largest carbon capture and storage project in Denmark. I'll speak more about that later in the call.

Turning now to page four for a discussion of the development in revenue and key business drivers. In the third quarter, Maersk Drilling earned total revenues of 333 million, 5% lower than last quarter due to a lower average day rate of 219,000, which was partly offset by 3% higher utilisation across our fleet. Despite the decrease quarter over quarter, this was the second-highest quarterly revenue reported by Maersk Drilling as a listed company, second only to the previous quarter.

The lower average day rate was mainly the result of Maersk Highlander rolling off a legacy contract and commencing an extension at a lower rate starting in August. Utilisation continues to be strong, especially in the international segment, where our only idle rig was Maersk Explorer. Christine will speak more about this when she covers segment performance later in the call. Lastly, financial uptime and customer satisfaction both remained high at 99.2% and 6.6 out of 7, respectively.

So now let's turn to page five, which shows the development of our contract backlog in the third quarter. Adjusting for revenue recognised of 333 million, 52 million of other services, and an addition of 81 million to our backlog, total backlog decreased from 1.6 billion to 1.5 billion at the end of the third quarter.

After the third quarter ended, Maersk Drilling completed the previously announced divestment of Maersk Inspirer, which accounted for approximately 420 million of our reported backlog. Subtracting Maersk Inspirer's contribution, total backlog is approximately 1 billion going into the fourth quarter.

On page six, you will find a full fleet deployment overview reflecting all contracts signed to date.

As the majority of our floater fleet is well contracted into 2022, I'll take this time to speak to the rigs that are set to roll off contract in the coming months or have just recently rolled off contracts.

Starting with the CJ70s in the North Sea. This week, Maersk Drilling was awarded a contract with Total Energies for the jack-up rig, Maersk Interceptor to provide accommodation services in the Danish North Sea. The contract is expected to commence in the first half of 2022 and has a firm duration of eight months. This contract allows us to reactivate the rig and I'm pleased to see the rig going back to work. Continuing with CJ70s, it's our expectation that Maersk Integrator and Maersk Intrepid will find work in the North Sea and potentially outside of Norway in 2022 at market rates. However, we cannot rule out that both rigs could see idle time prior to securing contracts. This is due to a forecasted oversupply of jack-ups in Norway in 2022 relative to demand.

As we mentioned in our market commentaries throughout the year, demand for Norwegian jack-ups in 2022 is expected to be subdued, however, we remain confident that these rigs will return to the Norwegian market starting in 2023, where demand is forecasted to normalise.

Moving on to our harsh environment jack-ups that operate outside of Norway, Maersk Resolute is currently in the yard in Esbjerg doing minor repair work after successfully completing its contract for Dana in the Dutch North Sea. We are confident that the rig will go back on contract already during 2021 in the same area.

Maersk Resilient and Maersk Resolve are both still operating on their current contracts with NAM and INEOS, respectively, in the U.K. North Sea, and after completing their respective contracts during the coming months, we are confident that both rigs will find new work in the North Sea. However, we cannot rule out the possibility of some idle time prior to securing new contracts.

And finally, Maersk Highlander is currently idle after completing its contract with Total in the U.K. North Sea and the rig is now being ramped down to warm stack level. We've been in customer dialogues regarding the unit, but we will wait until something more substantial materialises and postpone its upcoming SPS to preserve cash.

Generally, the North Sea jack-up market outside of Norway has seen an increase in activity and the demand for North Sea jack-ups is expected to moderately increase during the rest of 2021 and into

2022. Our commercial pipeline contains several opportunities, particularly in the U.K. and Netherlands, and we expect to be able to secure additional work for idle jack-ups in these regions.

Turning now to floaters. All seven of our deep-water units were on rate at the start of the fourth quarter and are generally well contracted into next year. The Maersk Explorer is currently warm stacked and without a contract. We continue to pursue different opportunities for the rig. However, since the rig is landlocked in the Caspian Sea, they are limited.

And finally, Maersk Voyager is set to complete its contract with Total in West Africa in January. The West African market is still struggling with COVID-19, and for this reason we could foresee idle periods for the rig in the beginning of 2022. Afterwards, we expect Voyager to return to work in the area, and we are currently pursuing different opportunities for its employment.

Turning to more general market comments. The global floater market showed an uptick in activity during the third quarter and given current tenders and bilateral discussions with our clients, we expect demand for floaters to increase further in 2022. We continue to be well positioned towards these opportunities with our high-end rigs and our solid operational track record.

So before turning the world over to Christine, let's turn to page seven for an important update concerning Maersk Drilling's involvement in Project Greensand, the largest carbon capture and storage project in Denmark. As announced to the market on October 14th, Maersk Drilling has entered into a framework agreement and now has a right to all drilling work involved in Project Greensand until the end of 2027. Rigs will be assigned based on availability, with individual contracts based on market rate terms.

Project Greensand is the most mature carbon capture and storage project inside Denmark, where CO<sub>2</sub> will be captured onshore and transported to sea to be injected into discontinued oil and gas reservoirs beneath the Danish North Sea. The project recently moved on to Phase 2 where the first on-site injection test is expected to commence offshore at the end of next year.

While Project Greensand is still in the early stages, Maersk Drilling's core capabilities are perfectly suited for carbon capture and storage. There are still technological, financial, and regulatory hurdles to overcome, but carbon capture and storage has a clear potential to effectively benefit the climate and Maersk Drilling is happy to be at the forefront of this exciting new market.

This concludes my prepared remarks and I'll now hand over the call to Christine. So, take it away, Christine.

**Christine Morris – Chief Financial Officer, Maersk Drilling**

Thank you, Jørn, and welcome to those of you who are joining us on the call this morning.

Before I cover the performance of our two divisions, I will update you on the sale of Maersk Inspirer, which I'm pleased to say has been successfully completed. Details of the transaction can be seen on page eight.

As announced to the market on Thursday last week, the combined drilling and production unit, Maersk Inspirer, has been sold to Havila Sirius for a price of 373 million in an all-cash transaction that significantly deleverages our balance sheet. As part of the transaction, Repsol has assumed responsibility for the daily operation of the rig on behalf of Yme licence, leasing the rig from Havila Sirius, and 60 employees have been transferred from Maersk Drilling to Repsol.

As part of the Transitional Services Agreement, Maersk Drilling will deliver systems and logistics for a period of up to 12 months until Repsol can fully takeover. Additionally, to ensure operational continuity, Maersk Drilling will deliver drilling management services for up to 12 months against the payment of a management fee, which is not included in the proceeds from the sale.

The impact of the sale on our balance sheet will be as follows. Per the terms of Maersk Drilling's term loan agreement, the sale triggers a simultaneous loan repayment of 80 million. Net of taxes to be paid in 2022, cash is expected to improve by approximately 260 million, while net debt is expected to be reduced by approximately 340 million. Lastly, the sale is expected to bring Maersk Drilling below its target leverage ratio of 2.5 times net debt to EBITDA.

Now, turning to the performance of our two divisions, I will start with harsh environment jack-ups in our North Sea division on page nine. As a reminder, the performance of the benign jack-up, Maersk Convincer, working offshore Brunei for Shell, is not included in either of the two divisions, but is included in the aggregated performance as covered by Jørn.

In the third quarter, revenue in the North Sea division was 171 million, 2% lower compared to the prior quarter. As you can see from the smaller right-hand charts, revenue was negatively impacted by a lower average day rate, which was the result of Maersk Highlander rolling off its legacy contract and commencing a contract extension with Total in August at a lower day rate. This was partially offset by an increase in utilisation from 69% to 77% driven by Maersk Reacher commencing a new contract with Aker BP in Norway in August. Financial uptime remained high for the third quarter at 99.4%.

Taking a longer-term perspective, while revenue decreased sequentially in our North Sea segment, it has meaningfully improved from historic lows observed in Q3 of last year. At the same time, utilisation in our North Sea division has increased significantly to 77%, the highest it has been since the fourth quarter of 2019.

So, let's move on now to the performance of our international floater division on page ten. Revenue in the third quarter decreased by 8% to 155 million compared to the previous quarter. As you can see from the right-hand charts again activity, both in terms of contracted days and utilisation, were down quarter-over-quarter. This was solely due to Maersk Explorer, which spent the entire third quarter warm stacked after completing its previous contract in May.

Outside of Maersk Explorer, all seven of our deep-water floaters were contracted for the entire third quarter. This is not only a strong commercial achievement, but also a remarkable operational milestone made possible by the reactivation of four deep-water units with three new customers earlier this year.

Financial uptime remained high for the third quarter at 99%, strong operational performance across our active floater fleet.

While revenue and key business drivers decreased quarter-over-quarter, the recovery in our international floater division since the third quarter of last year can be clearly seen in both revenue and utilisation. Since Q3 2020, revenue from the segment has almost doubled, while utilisation has increased substantially from a low of 48%.

Looking forward, our deep-water fleet is well contracted for the remainder of the year and into 2022, providing visibility for continued high utilisation.

Turning now to page 11 for a summary of our contract backlog. As mentioned by Jørn, our total backlog amounted to 1.5 billion at the end of the third quarter. This figure does include approximately 420 million of backlog associated with Maersk Inspirer. Accounting for the backlog lost from the sale of Inspirer, approximately 269 million is planned for execution for the remainder of 2021, which equates to a forward contract coverage of 72%.

This leads me to page 12 for our financial guidance. There have been no changes to the guidance that we last provided in August. Our estimate for EBITDA before special items for full year 2021 is between 290 and 330 million. This guidance range reflects ordinary operational and performance uncertainties. With that said, we do expect to end the year towards the higher end of our guided range. The guidance for 2021 capital expenditures remains unchanged at 110 to 130 million.

This concludes my prepared remarks for today, and with that I will now turn the call back over to Jørn for his final remarks about the quarter.

#### Jørn Madsen – Chief Executive Officer, Maersk Drilling

Thank you, Christine. So in summary, the third quarter of 2021 was one of strong operational performance, delivering revenues of 333 million on the back of a utilisation of 83%, the strongest utilisation that we've achieved as a listed company. The sale of Maersk Inspirer will significantly deleverage Maersk Drilling's balance sheet, bringing it below our target leverage ratio of 2.5, strengthening our financial position considerably. And as the preferred drilling contractor for Project Greensand, the largest carbon capture and storage program in Denmark, we are well positioned at the forefront of this exciting new market.

And with that, I'll open up the floor for your questions. So, over to you, Operator, please.

#### Questions & Answers Section

##### Operator

Thank you.

[Operator instructions]

We have a question from Fredrik Stene from Clarksons Platou. Please go ahead. Your line is open.

### Fredrik Stene – Clarksons Platou Securities

Hey, guys, Fredrik from Clarksons here. And congratulations on another strong quarter. I have a question relating to M&A. I think during your second quarter call you were quite forward-leaning, saying that you would be one of the maybe preferred consolidators, at least a participant in consolidation of the space. I don't hear you talking that much about that today versus the second quarter, but with the sale of the Inspirer completed, you being below the leverage ratio, et cetera, has anything changed on that front, or are you still actively looking for opportunities and wait to be a consolidator or at least take part?

### Jørn Madsen – Chief Executive Officer, Maersk Drilling

Yeah, I think our remarks in the second quarter still stand. We still believe that this industry needs consolidation, and we are definitely prepared to take part in that. And I could have spoken to that, but I would probably have said the same as I did in the second quarter.

### Fredrik Stene – Clarksons Platou Securities

Okay, that's completely fair. One more for me. Just relating to the North Sea market here on the jack-up side. Some or one of your peers yesterday also acknowledged that the market probably wouldn't be as strong in 2022 for jack-up so that you would have some assets going from Norway maybe to the UK to try to find work. But do you have any more colour on the visibility beyond 2022, that is for 2023 and 2024? Do you see programmes and opportunities that would take that balance in favour of you guys again?

### Jørn Madsen – Chief Executive Officer, Maersk Drilling

Yeah, I think we've all along, I think even from Q1 and onwards, been clear that we saw that 22 would be a more soft year for the CJ70s in Norway. And that, of course, still remains to be seen. There still might be work coming up. I mean, oil companies are in the budget season; they are facing a larger cash flow than what they might have expected. So, of course we might see changes, but we just caution the market that we could see a softer 2022.

We are on the other hand more bullish on 2023 where we see that with the customers we talk to, and it's a finite amount in Norway, that we can see there's more projects coming up. The NOAKA project is coming up and other projects are coming in 2023. So, basically, if we take the Norwegian market over a longer period, the CJ70s market has been a fantastic place to be in. It was fantastic when we had the upturn towards 2015 and between 2015 and now it's also been quite much better than what we've seen in other places. The volatility has been much lower, and the dayrates have been sustainably in a much better place.

We will be seeing, as we see it, a small softening over the next year, but then it will be back. The good thing, I think, for us is that when this is happening - well, the other part of our fleet, especially the floater side, is doing better. So, that sort of cushions that softness that we're going to see in 2022.

If that answers your question, otherwise I'm happy to say a bit more.

#### Fredrik Stene – Clarksons Platou Securities

Yeah, no, that's very helpful. That's all for me. Thank you so much.

#### Operator

Thank you. Our next question is from James Thompson of JP Morgan. Please go ahead. Your line is open.

#### James Thompson – JP Morgan

Great, thank you very much for taking my questions. I guess, firstly, could you maybe just give us some colour in terms of 2022? I mean, you talk about quite a few gaps there and I know you've been flagging it for some time, but clearly can't fill much of that capacity in the first part of next year.

So, I guess it's two parts. One is, how do you feel about kind of consensus, where it sits at this point in time for next year? And then the second part is maybe if you could give some colour really on the kind of the rates and potentially margin differential that you'll see transferring rigs out of Norway into the other parts of the North Sea?

#### Christine Morris – Chief Financial Officer, Maersk Drilling

James, I'll start and then I'll turn it over to Jørn. On the first part of your question, we do not guide for 2022 until we will release our Annual Report for 2021, so I won't comment on consensus, but I'll let Jørn discuss the rate situation across the segments.

#### Jørn Madsen – Chief Executive Officer, Maersk Drilling

And if we look at CJ70s and the option to take them elsewhere, you've just seen that one of the CJ70s is now going into an accommodation job in Denmark and we are in the lucky position, you can say, with the rigs that we have in Norway that they can work in all parts of the North Sea. And we've done that in the past. We moved rigs in and out of Norway. Most rigs in the North Sea cannot work in Norway, so we will of course continue to seek employment for the rigs because it's better that they stay employed, even though it may be at some lower rates. It keeps them warm, but it also of course still contributes to the

financial performance of the company. So, that we will be doing, and we are doing that as you'll see from the contracts that we sign and probably that's also going to happen in 2022.

**James Thompson – JP Morgan**

Okay, thank you. I mean, a couple of other questions. In terms of Greensand, you said that it's going to do some initial injection studies in 2022. Will that require a rig? Will you get work for those initial studies? Will that contribute to sort of financial performance next year? Because I think these are going to be offshore injection studies, yeah?

**Jørn Madsen – Chief Executive Officer, Maersk Drilling**

Yeah, the plan is that they will be drilling in 22 on Greensand, and as we said during the call, we expect to get that work.

**Christine Morris – Chief Financial Officer, Maersk Drilling**

But it's going to be an immaterial contribution to the results because that would be effectively fairly late in the year.

**James Thompson – JP Morgan**

Okay, thank you. And then just in terms of the management fee for the Inspirer, are you able to kind of give us anymore colour in terms of how significant that is? I mean, is it sort of single-digit millions, double-digit millions, type range for the year?

**Christine Morris – Chief Financial Officer, Maersk Drilling**

Yeah, it's low-single digit and we don't disclose separately, but again, it's not a material contributor to the performance.

**James Thompson – JP Morgan**

Okay, thank you very much. I appreciate all those answers. I guess just a final one from me and then thinking sort of longer term and sort of some of the tenders coming up. We are obviously in budgeting season. You made some comments there, Jørn, but could you give us maybe some indications about some of the feedback you're getting from those conversations? Do you feel like your customers are stepping up to increase Capex overall? And can you give us a sense of sort of how material you might think that's going to be in 2022 versus 2021 and maybe longer term?

**Jørn Madsen – Chief Executive Officer, Maersk Drilling**

If we look at the North Sea, I guess what we've seen is that the thresholds that oil companies have had has been fairly low on where they want to breakeven to be \$30 and below we've seen in Norway, and I would suspect, but of course we have to see that in action, that some of the customers with the current oil price and the cash flow they are bringing in might change that, especially for infield wells that can be connected into current infrastructure i.e. where they can collect cash fast. There, we might see a change in 2022, but it remains to be seen. We have to see what they come out with after their budget season.

**James Thompson – JP Morgan**

Okay. All right. Great. Thank you for answering my questions. I'll hand it over.

**Operator**

[Operator instructions]

We have no further questions, so I will pass back for any closing comments.

**Jørn Madsen – Chief Executive Officer, Maersk Drilling**

Okay, so thank you for listening in, and thank you for all your questions. Looking forward to meeting some of you during the coming days and weeks either - well, mostly virtually I guess still. So, have a nice day, and thank you, Operator.

**Operator**

Thank you, you may now disconnect your lines.

