Leadership
Dealmakers of the Year
OFFSHORE IS BACK
OFFSHORE DEAL OF THE YEAR 2018

Transaction:  Borr Drilling Limited, USD250m Private Placement of Shares, for Acquisition of Paragon Offshore Limited

INTRODUCTION
While we don’t subscribe to the modern belief that “everyone should get a trophy,” we would like to acknowledge how difficult the offshore market has been for the last several years, and to recognize the fact that almost any deal that was concluded in 2018 was worthy of note, if not necessarily an award. In healthier days, bank debt made up, by far, the largest category of nominations. This year, while entries spanned an array of deal types, restructuring and mergers and acquisitions or, most often, a combination of the two, claimed the lion’s share. If nominations tell us something about the state of the industry, this year’s submissions can be seen as positive news. The healthier companies that result from successful restructurings are both better positioned to survive on their own as well as to take part in consolidation. And, whether acquirer or acquired, consolidating supply is crucial for rationalizing supply, improving utilization and ultimately rates, increasing values, and attracting new investment.

While there was only one winner, several transactions were potential game changers in their respective sectors, and relied on the skill and vision of the companies and their advisors. Among these, Transocean’s acquisition of a restructured Ocean Rig, a restructured Tidewater’s acquisition of a restructured Gulfmark, and Shearwater’s acquisition of Schlumberger’s Marine Seismic Acquisition Business all stood out. Also significant were other transactions including, but not limited to, acquisitions by Seacor Marine Holdings, Transocean/Hayfin, Odfjell, Northern Drilling, Noble and Borr’s acquisition of five newbuild jack-ups from KFELS. Each of them were opportunistic and boosted belief in a market recovery. The successful restructuring of Pacific Drilling was another significant achievement, while the restructuring of Seadrill was an accomplishment of truly epic proportion.

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BORR BACKGROUND
Borr Drilling was initially incorporated in Bermuda on August 6, 2016 by the Tor Olav Troim-controlled Magni Group, under the name Magni Drilling Limited. The company was conceived as a vehicle that could take advantage of distressed asset prices in the offshore jackup market, and establish itself as a leading operator of premium jack-ups ahead of a presumed offshore recovery. The journey from concept to reality was lightning fast. Borr listed on the NOTC four months later with a USD155m market cap, immediately acquiring two premium jack-ups from Hercules Offshore. Soon after, Borr raised USD800m to acquire 15 rigs (including 11 premium jack-ups) from Transocean and in October 2017 raised another USD650m to acquire nine more premium jack-ups from PPL. The Paragon transaction was the next step in Borr’s rapid development.

THE WINNING TRANSACTION
On February 22, 2018, Borr
Drilling made a binding tender agreement to purchase all outstanding shares in post Chapter-11 Paragon Offshore Limited, including 32 rigs (31 jack-ups and one semi-sub) for a total acquisition price of USD232.5m. Paragon’s assets included two high end jack-ups (Prospector 1 and 5) as well as 21 older stacked units. To fund the purchase, Borr, with the support of its bankers, announced on March 23, 2018, the successful completion of an equity offering through the subscription and allocation of 54,347,827 new shares, each at a subscription price of USD 4.60 per share, raising gross proceeds of USD 250 million. The equity offering was divided into two tranches. Tranche 1 consisted of 46,707,500 new shares, and tranche 2 consists of 7,640,327 new shares. Following completion of the offering, Borr’s outstanding and issued share capital increased by USD 543,478.27 to USD 5,326,403.27, divided by 532,640,327 shares with a nominal value of USD 0.01 per share. Magni Group and related parties subscribed for USD 20m. The deal required no road show, was oversubscribed, and closed quickly. Geographically, Norway was the largest buyer at 46%, The UK was second at 37%, with the US and others at 16% and 1% respectively. The deal was bought by long only fund at 49%, hedge funds at 46%, and HNWI/Family Offices at 5%.

“It was easy,” said one of the investment bankers who worked on the transaction. Needless to say, these are words rarely uttered in the current climate, and are also testament to the fact that there is capital available for so-called “good projects.” If it was easy, part of the reason was that the sum of the parts of Paragon offered more value to start-up Borr than to incumbent market players.

EXPANDING THE OPERATIONAL PLATFORM

As a new company, the Paragon acquisition offered Borr more than quality assets at attractive prices. “By integrating a very capable operating platform, Borr will be qualified based on the historical track record to tender, win contracts and operate in most jurisdictions,” commented CEO Simon Johnson at the time. Paragon’s older jack-ups were working in the North Sea, India and the Middle East at the time, with four additional jack-ups under contract or committed, including Prospector 5. Paragon was an approved bidder for Saudi Aramco, and current and former customers included Total, Centrica, Pemex, Petrobras, Winershall, Oranje-Nassua Energie, GDF Suez, ONGC, Talisman, Marathon Oil and Abu Dhabi Oil Co. Ltd. (Japan.) “With the five-year track record, we gain with this transaction, we are well positioned to win work with key jack-up clients…and are better positioned to capitalize on the start of the next upturn cycle in the jack-up market,” said Johnson. As a start-up with a growing number of quality assets, but without a built-out platform, the Paragon acquisition instantly offered increased credibility, a developed operating system, and more.

CONSOLIDATING TO MARKET LEADERSHIP

Following completion of the transaction, Borr controlled 16 of the 37 premium jack-ups available in the market from international operators, and was the world’s largest premium jack-up rig operator with a fleet of 24 premium jack-ups built after 2000. At the time, this meant that, in terms of overall assets, the Borr Drilling team had taken the company from 0 to 49 (total 58 with 9 recycled) rigs in 15 months. The Paragon transaction marked the company’s fourth acquisition over that time period — and a remarkable execution of its vision.

DRIVING ATTRITION/RATIONALIZING SUPPLY

And, while building a formidable fleet is one part of consolidation, addition by subtraction is essential to the industry’s recovery, as well as the company’s prospects. “As almost 50% of the global rig fleet is more than 30 years old, responsible owners should take steps to rationalize their fleets and consolidate the fragmented market. Borr wants to be at the forefront of this initiative. As communicated, Borr will focus on operating modern, high-spec assets” said Chairman Tor Olav Troim at the time. The Paragon acquisition gave Borr the opportunity to take rigs out of the market, both through recycling and by sales. Borr earmarked nine of the Paragon rigs for recycling. Soon after, it announced that it had sold another 14 of the old jack-ups
to a non-drilling company. Plans were for 13 to be demobilized as drilling rigs and targeted for MOPU-orientated work, while the remaining unit was allocated to development work for a specific life of field project. Most importantly, none of the rigs will re-enter the international jack-up drilling market post transaction.

Enhancing the Economics
Valuing only the assets associated with the transaction is an inexact science. Some estimates valued the two modern assets alone at nearly half the face value of the transaction. At the time, Borr stated that cumulatively, its drilling fleet’s “acquisition cost of ~USD 115m per rig stands out as one of the lowest entry points ever.” Even more value was unlocked in the divestment of the 14 rigs, which was expected to contribute up to USD16 million in profit to Borr’s Q2-2018 results — and more still in savings for the direct stacking cost for sold and recycled rigs. Otherwise costing around USD35m yearly, these were reduced to zero with the delivery of the last unit. Add to that Paragon’s worldwide portfolio of spares and tools and the fact that several of the rigs from the transaction got contract extensions, and the deal gets even better.

Attracting Investment
Investment is a key element to recovery, and has been scarce in the offshore sector. Borr has been a notable exception. The USD250m contributed to total gross proceeds of USD 1.9bn raised through four private placements over the previous 15 months. As a newco, without legacy issues, Borr was perfectly placed to capitalize on an attractive entry point in a cyclical industry on a historically resilient asset class. An experienced management team not only told the story — they bought into it. At the time of the acquisition, Borr and its main sponsors had invested USD630m in the company representing a 29% ownership stake.

Positioning for the Next Cycle
In its acquisition of Paragon Offshore Limited, Borr Drilling improved its operational platform, consolidated its leading position in the premium jack-up market, took a leadership role in reducing the fleet and, better positioned itself to capitalize on the much-anticipated recovery in the offshore market. Borr’s ability to tell the story, its conviction as demonstrated by board member investment, and its superior execution make it stand out. At the time of the deal, Borr felt the window on further acquisitions was closing. “We have explored a lot of different opportunities, but see today few additional assets to be acquired. Borr is now close to the finish line in building the leading jack-up drilling company both in terms of operations and assets.” We know today that there was one more deal for Borr to execute in 2018. Value is decided initially by investor demand and, later, by return on investment. We believe we will look back and see great value created through this transaction.

Source: Borr Drilling