MARINEMONEYOFFSHORE

2013 REFINANCING DEAL OF THE YEAR

The editorial staff of

Marine Money Offshore recognizes:

Pacific Drilling

for its $2 billion multi-tranche corporate financing

May 2014

REFINANCING DEAL OF THE YEAR: ONWARD AND UPWARD

$2 billion multi-tranche corporate financing for Pacific Drilling

Winners: Goldman Sachs and Citi as leads, Barclays and Deutsche as co-leads, ABN AMRO, Credit Agricole CIB, Credit Industriel et Commercial, ING, NIBC, Nordea, Scotiabank, Skandinaviska Enskilda Banken, Standard Chartered

Counsel: Baker Botts, Vinson & Elkins

There are many factors to consider in choosing Deal of the Year Award winners. Achieving a first for an industry or bank, or a transformation for a company, are accomplishments that frequently catch the attention of our judges. But the primary criterion is always the delivery of superior value for the client. So when the client calls up and says the execution was "phenomenal", we take note.

Pacific Drilling (NYSE: PACD) went from an aspiring drilling company in early 2011, with one rig under operation and two contracts in place, to being a meaningful operator by the end of 2013 with five rigs under operation, and a $2.9 billion contract backlog. Its capital structure underwent a parallel transformation during this time period, with a constant need to educate banks and investors and keep them believing in the next chapter of the company's story.

In 2010, PACD raised $1.5 billion in sponsor equity and closed a $1.8 billion project financing. In 2011, the company closed a $600 million private equity placement in Norway in March, followed by a NYSE IPO of just $50 million "to gain visibility and liquidity for its shares." In 2012, PACD again chose the Norway to New York path, this time in the bond market. In February 2012 the company issued $300 million in 3-year senior unsecured bonds in the Norwegian market with Pareto, RS Platou and DNB. These received shadow ratings of BB-/B and bears interest at 8.25%. Then in November 2012 PACD went to the US 144A market for a private placement of senior secured notes to fund the remaining construction payments due on the Pacific Khamsin. Goldman Sachs, Deutsche Bank, Citi, DNB, ABN Amro, Credit Agricole, Global Hunter, Scotiabank,

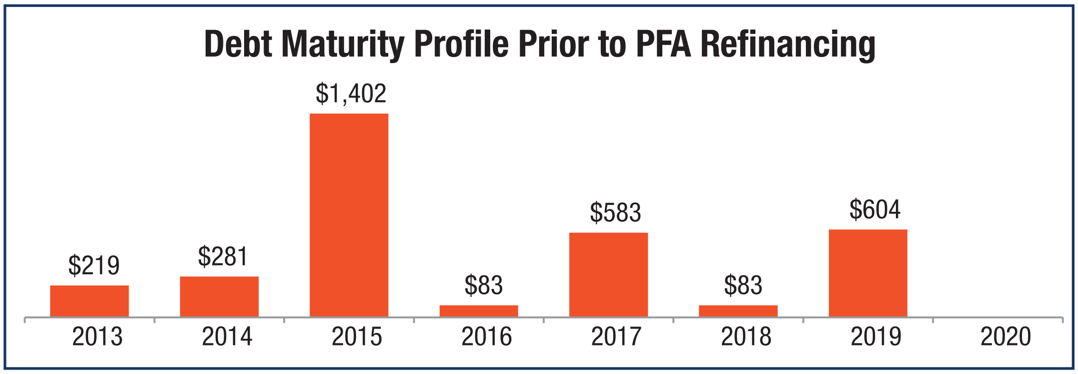


FIGURE 1

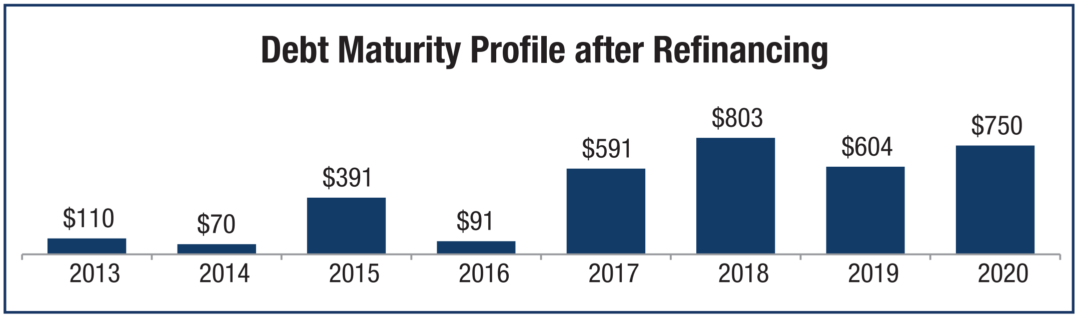


FIGURE 2

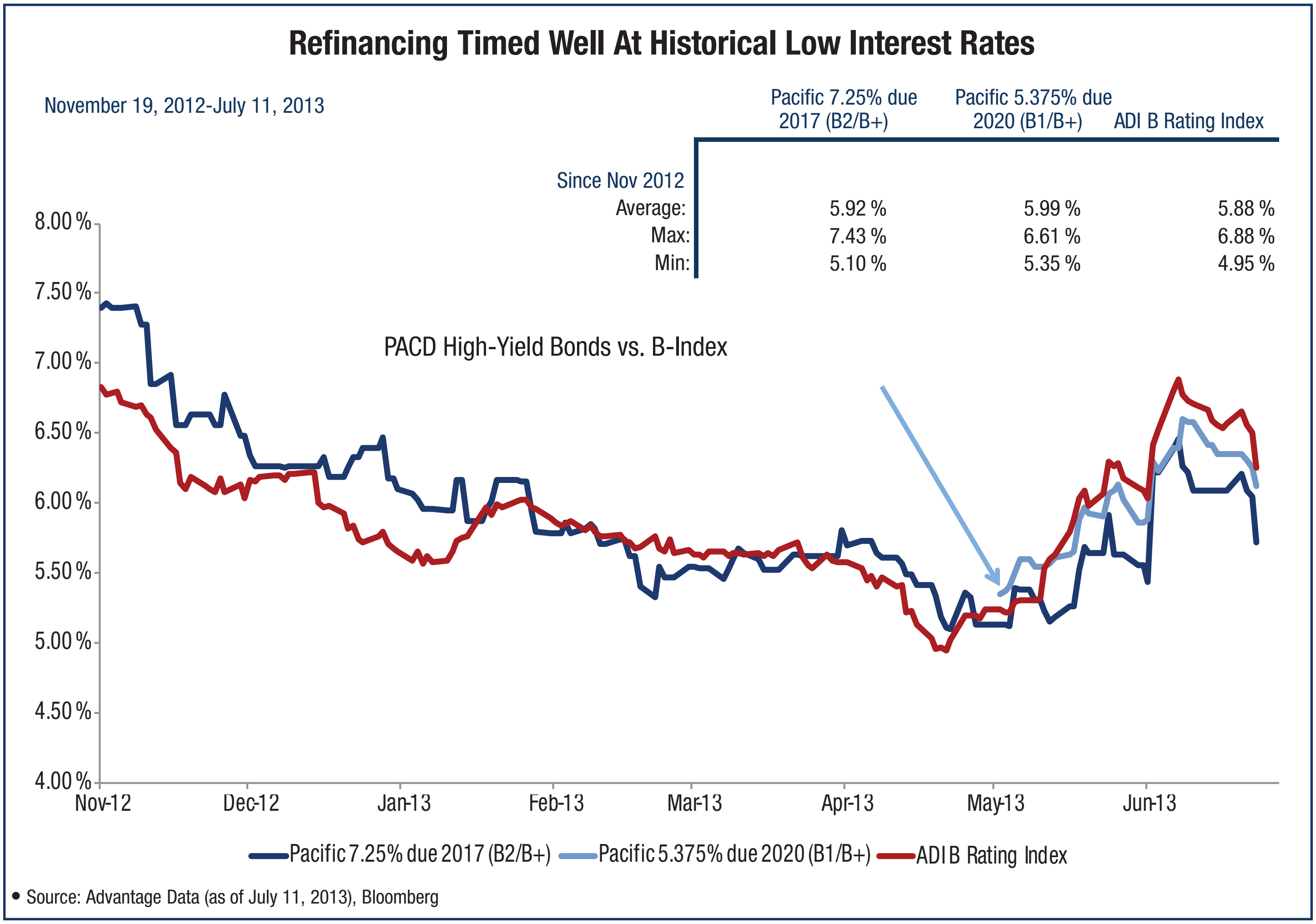


FIGURE 3

Simmons, and Standard Chartered acted as arrangers on the issue. The coupon of 7.25% translated to a yield of 7.375% based on pricing at 99.483% of par. The bonds were rated B3/B+.

Throughout this period, PACD made significant progress forming relationships with and developing visibility among different groups of banks and investors. By mid-2013, the company had successfully taken delivery of five rigs after starting almost from scratch, and built relationships with equity and bond investors in both the Norwegian and US markets. However they still faced some challenges. For example, their debt maturity profile looked like figure 1 when they really wanted to make it look more like figure 2.

They achieved this significantly extended debt maturity profile, together with locked in historically low interest rates averaging 5.2% for 5.5 years, prepayable debt in capital structure, release of PFA restricted cash of $150 million and the removal of multiple restrictive covenants all in one fell swoop with their $2 billion multi-tranche corporate financing that included a high yield bond, term loan B and revolving credit facility led by Goldman Sachs, Citi, Deutsche Bank and Barclays. The three-tranche refinancing of this type is reportedly an industry first for high yield territory. In addition, the transaction achieved a complete, overnight and positive change in the financial risk profile of the company.

The US bond issue six months earlier proved important to the deal, having given PACD an opportunity to establish credibility with US bond investors as well as to apply lessons learned from the Khamsin bonds in making presentations to the rating agencies. In the end PACD achieved a B1/B+ rating for the high yield bond and term loan B and a BB- for the revolving credit facility.

The banks successfully capitalized on the tension between the different tranches and markets and opportunistically timed the transaction to benefit from an unprecedented low interest rate environment while outperforming peer yields, as shown in figure 3 and figure 4.

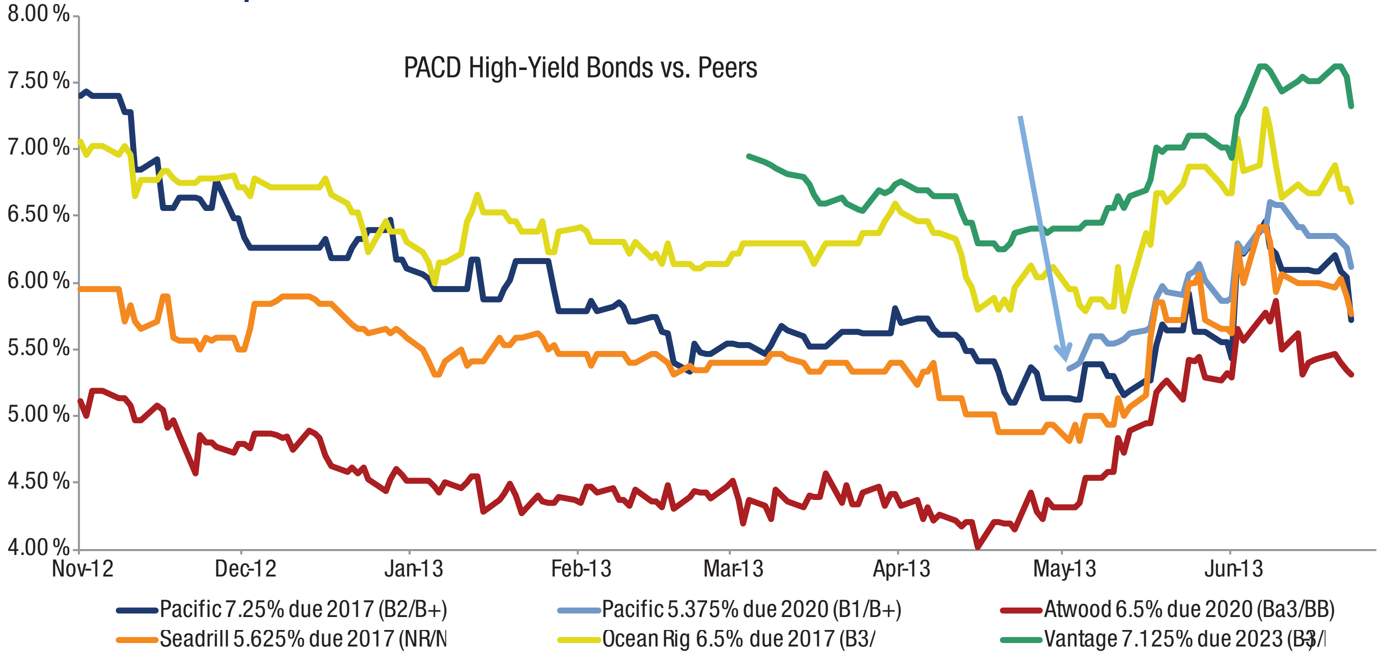
All this was done quickly and efficiently, with two months from the initial bank beauty contest to the launching of the deal with investors.

In the end, the $750 million 7-year high yield senior secured

Refinancing Executed While Outperforming Peers

November 19, 2012-July 11, 2013

	Pacific 7.25% due 2017 (B2/B+)	Pacific 5.375% due 2020 (B1/B+)	Atwood 6.5% due 2020 (Ba3/BB)	Seadrill 5.625% due 2017 (NR/NR)	Ocean Rig 6.5% due 2017 (B3/B)	Vantage 7.125% due 2023 (B3/B)
Since Nov 2012						
Average:	5.92%	5.99%	4.68%	5.52%	6.44%	6.82%
Max:	7.43%	6.61%	5.87%	6.41%	7.29%	7.62%
Min:	5.10%	5.35%	4.02%	4.81%	5.79%	6.25%



• Source: Advantage Data (as of July 11, 2013), Bloomberg

FIGURE 4

bonds priced with a coupon of 5.375% and a covenant-lite structure. The bonds were 4.9x oversubscribed, with demand totaling $3.7 billion. The $750 million 5-year term loan B priced at L+350 basis points, with a LIBOR floor of 1%, 1% in annual amortization and a covenant-lite structure. The term loan was 4.4x oversubscribed with demand totaling $3.3 billion.

The $500 million revolving credit facility had a $200 million sublimit for cash drawings priced at L+325 basis points with a $300 million unfunded sublimit for Letters of Credit and Temporary Import Bonds priced at L+225 basis points and covenants governing net debt to EBITDA and minimum liquidity. Standard Chartered acted as the fronting bank for the issuance of Nigerian Temporary Importation Bonds as part of the revolving credit facility. This facility which was a restructure of a previous deal, allowed PACD to extract considerable value from its existing assets.

All three tranches share in collateral pari passu with a payment priority to the revolving credit facility lenders. Goldman Sachs acted as left lead for the high yield bonds and global coordinator, while Citi acted as left lead on the term loan B and revolving credit facility. Barclays and Deutsche Bank came in as co-leads while ABN AMRO, Credit Agricole, CIC, ING, NIBC, Nordea, Scotia, SEB and Standard Chartered acted as co-managers.

It should be noted that shortly prior to this massive refinancing that occurred in June of 2013, Pacific Drilling also closed a new $1 billion senior secured credit facility to finance the construction of two drillships with a five-year maturity, L+350 basis point pricing and a $500 million commercial tranche. This was provided by Citi, DNB, ABN, ING, SEB, Standard Chartered, GIEK and Eksportkreditt Norge. This deal essentially set the stage for the refinancing and was also a strong contender for a Deal of the Year Award, but in the end it was the $2 billion multi-tranche facility that introduced a more investment grade approach to the company's debt structure, eliminating project finance debt and ongoing related legal cost and providing a long-term solution for working capital, cash management and temporary import bonding requirements and meeting all expected financing requirements through 2014.