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Hi, everyone. Welcome to the Ensco presentation. I'm happy to introduce Carl Trowell, CEO. Carl joined Ensco in June 2014 as CEO and President. Prior to taking the helm at Ensco, he held senior roles at Schlumberger after beginning his career as a petroleum engineer with Shell. And just a reminder, there will not be a breakout after the presentation so we'll leave time for about two or three questions at the end of this presentation. So again, no breakout after this.

Carl Trowell:

Thank you and thanks to the Barclays team for inviting us back in. So today I have to start with the obligatory forward-looking statement and you can refer to our website if you want to have any more details on this. There will be things I discuss today that are forward-looking.

My plan today is really to discuss around two key things; the path to offshore recovery and why invest in Ensco at this particular point. I'm going to -- there's clearly some prepared things in the slides, and I'm going to try and add a little bit more color and anecdotal evidence to the discussion here because I think we are seeing a lot of things that you are not seeing from the outside in how the market is evolving. And I'm going to try and give you a little bit more color to that.

So compared to being here a year ago, we are, I think, at the beginning, now, of an up cycle. We have seen, first of all, the jackup market globally enter a recovery phase and now we think that that is pretty broad-based, and bar a major down leg in the oil price we continue to see the global jackup market begin to recover over the next few years. And we're at a pretty critical turning point for the floater market.

The path to recovery is made up really of three key areas. The first one is that there is increasingly, now, a meaningful call on offshore production. And I'm going to show you a few figures around why we believe this. But I think that this is now starting to be more accepted than it was over the last couple of years where the under-investment in E&P CapEx over the last few years is now starting to have a meaningful effect. Geopolitics are beginning to bite and people are realizing that the days of geopolitics not influencing the oil prices has gone. And the other is that gradually I think there is a dawning realization that U.S. onshore shale is not the panacea for all the world's global supply problems.

Against that backdrop, now where we are coming close to having 12 months of oil prices, Brent oil prices, over $60, we're starting to see an inflection in customer demand and the number of tenders that we see today in house has stepped up significantly over the past two quarters. And rig utilization on the back of that is poised now to start to begin to move a bit higher. So for the first time probably in four years that I've been to this conference, I can stand here and say when we look forward we are definitely seeing an improving environment. Whereas before it was always going down and we could not see the path to recovery, we can clearly see that. And as I've already stated, within the jackup market we believe that's already well in recovery phase.

So if we look now at why there is an increasing call on offshore oil and gas production, it's driven by several factors. The first one is that capital expenditures in offshore E&P, and in E&P in general, have been at record lows, multi-decade low points of investment. And that is beginning to now have an effect on decline rates and supply. So I give you a data point. Any one particular time. 40% to 50% of jackups globally are working on infield production, as in maintaining existing production on existing fields, not on new projects. And a lot of that work went away. So up to 250 jackups, about four years ago, were working on maintaining production on shallow water fields. That has largely fallen off. The globe has been -- world production has been able to keep up with that for a few years, but now it's beginning to have an effect. And despite oil prices doubling since the 2016 lows, we've not seen that manifest yet in increased E&P CapEx.

That problem is blatantly obvious to our major customer base, who are now beginning to be concerned about reserves and production in the out years. And we are beginning to see that the under-investment in exploration is also paying -- is having an effect. As a consequence to this, outside of just the U.S. if you look at OECD inventory levels, they are now beneath the five-year average whilst, at the same time, we have a forecast for increasing global demand and geopolitical problems in places like Iran and Venezuela.

The consequence of all of this is, as you see on the slide, is that if you look at even relatively modest expectations for global supply requirements in 2025, we need to see 13 million barrels a day of oil production added on top of current production and then a further 24 million to make up for the decline rates on existing fields. That's both onshore and offshore. In the offshore, that decline rate is beginning to pick up pace as a consequence of the lack of investment on infield drilling that I mentioned earlier on. Timely investment is required now and the price signal from the oil price to trigger increased E&P investment has to start happening now if we're not going to see a supply dislocation sometime in the early 2020s. What I can tell you from customer conversations is that this is beginning to drive investment strategy for a lot of our major customers globally. And it's very relevant for a lot of the E&P companies and the national oil companies, which make up quite a large base of our global footprint.

So what this means is that both sanctioned and unsanctioned offshore projects are required to help bridge the production gap from a global energy supply point of view. What they are also required is that the big IOCs and our big customer base require this to be able to replenish their future production and reserves so they can maintain dividend payments and things like that in the future. So the conversations we are now having with our customers are fundamentally different than they've been for the last four years and we are now seeing them accelerate programs and begin to consider investment from 2019 onwards at levels way above what we've seen for about the past four years.

The Brent oil prices have recently risen above $70 a barrel and they've remained above $60 a barrel for 10 consecutive months. The spot rate is less important to our customers than that kind of average background rate. And why this is important is because of the cash recharge that it's had to a lot of our customers. And so now, for the first time in many years, our customers are able to justify going and investing in their asset base from their existing cash flows, which they've not been in a position to do for several years. And the number of offshore project sanctioning is beginning to increase and has doubled since 2016 levels. And this is especially driven because, now, on the back of several years of really re-engineering projects and driving cost out, most offshore basins now are economic at full cycle cost at current oil prices. And if you look at the production levels and the reserves add, this is one of the few places where particularly the big international companies can go and move the needle.

The other point I'll double down on is that just tracking new FID awards and sanctions does not give you an indication as to how many new tenders are coming for offshore drilling rigs because today probably the largest number that we're getting in house is coming from infield drilling to increase production on existing fields, not just new developments. And in fact, that's the leading part where the market picks up first.

So how is this manifesting itself? So you can see on the two graphs here, the top one shows the number of new contract awards worldwide. And you can see how we've been stepping up from a low in 2015. The rate in 2018 now of new contracts coming in and new contract awards is well within the normal five-year range of a normal cycle. So after three or four years of very low activity, the actual tendering activity is now up at what would be pretty normal for a cycle. What hasn't quite yet happened is that that has translated into term, as in contract days, but that is beginning to happen.

On the bottom slide, you see the number of new tenders for offshore rigs worldwide. That's increased 50% since the end of last year. So just again to reiterate that and put it in context, the number of tenders and inquiries we now have in house is up 50% just from the beginning of this year. We are also seeing things land on our desk that we didn't see coming even four weeks ago, and that's very unusual. Usually because of our global footprint and interaction with our clients, we have a six- to nine-month lead time of understanding when new contracts are going to be coming. Our clients are moving so fast now in the current price environment and wanting to try and capture current pricing positions that we're seeing things come in at very short notice that we didn't even know was going to arrive.

So it's a fundamentally different marketing and tendering position from the last four or five years. Now it's not like the lights are coming on. It's not going to change overnight. And some of these inquiries and tenders will not necessarily pass the sanctioning of the investment committees of our clients. But a significant number of these are going to turn into new work. Most of it is for 2019 and 2020, but we are even seeing tenders come now for 2021, where customers who do have work that they know that they want to award are trying to accelerate those and get them into the current pricing environment.

The other thing that is happening, which is helping on the recovery story, is the real supply of rigs is still continuing to reduce. We are still seeing attrition even in a gradually improving market. And a large reason for that is because the older, less capable rigs have been driven out of the market. They've been driven out because clients don't want them. They have options on younger rigs. But also the investment case to keep a lot of these rigs alive doesn't make sense. And so we're seeing quite significant attrition.

We see at least 50, probably up to 75, additional floaters that will leave the marketed fleet over the next year or two. We also see about 150 jackups leaving the competitive market. And the way this is manifesting itself is that utilization and day rates for better and younger rigs are beginning to increase whilst they're actually going down for the older assets. The clients are choosing this and capital allocations do not make sense for older rigs and therefore ourselves and our competitors are not willing to put further dollars into assets we don't believe are going to be working within a year to two years' time.

The uncontracted new builds in China, particularly for the jackups, are not materializing in the market. They are not competitive at this point. And there is probably a significant number of them will never make the competitive market for companies like ourselves, and many of them will never leave the shipyards. We are assuming that a relative number of these make the marketplace, but they're going to be as gradual transition and replacement of the older fleet rather than a tsunami of extra supply coming.

As a consequence of all of this, and for those of you who were in Transocean's presentation it's surprising how similar our assessments are, due to the -- even including the new builds that are going to come to market, but allowing for the attrition of the older rigs, we think that the global marketed deepwater fleets, the floaters, is going to be somewhere about 200 rigs, plus or minus 20, depending on how quickly the market comes back and in what sectors. And for the global jackup market, we think it's going to be closer to 400, plus or minus about 20 rigs. That is quite a significant step down in the truly global marketed fleets for both floaters and jackups within the next two to three years. Combined with an increasing tender activity, this is why we think the path to recovery is happening now and we're at the beginning of an up cycle.

How this is manifesting itself in global utilization, you can see on the graph. And you can see the orange line, which is the important one. This is the utilization for the marketed fleet, not the theoretical fleet, if you go to the rig databases. You will see that there is about a 15 percentage point difference between the two and that the marketed fleet is beginning to pick up, and the trajectory to get over 80% utilization is well within sight now as we look forward into 2019 and 2020. It's different for the jackups. I think it will get there for the jackups first before it does the floaters. But we now do see that route forward.

80% or 85% is somewhat held up by the industry as a key utilization point because everyone says that marketing or pricing begins at that point. The truth is pricing begins a lot before that. We are already seeing pricing begin to move on the jackup fleet in some key markets quite materially, up 30% to 40% in some key markets over the last six months. Because people, like ourselves, when we're bidding are looking ahead 12 to 18 months at the utilization then, not where it is today. And pricing sentiment begins to turn when you feel that you've got another option if you lose the contract in front of you. And that's where we are. At 80% to 85% utilization it isn't that pricing begins to increase; it's that you actually begin to get accelerated and super-pricing at that point. So I think we are beginning to see the route towards over 80% utilization of what is the global marketed fleet.

What is also happening is that there is an increasing pickup in the utilization for higher-end-capacity assets, both in the floater and drillship market and in jackups. What we see today is that the high-end drillship market, depending on how you define it, which is between about 30 and 40 assets depending on exactly how you draw your line, is probably the next market segment to start seeing pricing improvement. We've already seen it for the high-end jackups in markets such as the North Sea, the Gulf of Mexico, Australia and now increasingly in places like Asia Pacific and Africa. And there is just a marked difference. Younger, higher-capacity assets are beginning to increase in utilization whilst the older, 30-, 35-year-old assets, are beginning to go down and leave the market.

If I give you a data point. Currently to go over 80% utilization on the higher-end drillships, as of today, it would only take the award of one more rig to get there. Now the reality is you have some other rigs that are rolling off contract through the rest of this year. And so, as you look forward towards the beginning of 2020, we actually only need to see about 10 more placements for drillships over the next 12 months to cross the 80% utilization rate. This is why some of our competitors are out saying that they think that pricing points are about to move. I'm not sure I would be as aggressive as they are on how quickly they will double, but I do think that the general direction and trajectory is correct, and we do see the high-end drillship market to be one that's got the potential to move next.

We also have 20 rig years of tenders in house today, open tenders, for high-end drillships. What we also have, which we haven't had for almost four years, is now a number of clients coming to direct negotiate awards or extensions. And typically in a more normalized market, we, as a Tier 1 driller, have somewhere between 20% and 30% of our contracts are never open market. They're either direct negotiated and awarded or they're done on a selected one or two contractors being invited to the table to negotiate. We haven't had that for about three years or so and now we're starting to see that again. It's more of an indication that there are customers that are beginning to want to try and lock in term and pricing for work that they know that they're going to have. And of course, for us, that poses a bit of a difficult pricing decision. But we are now much more inclined to hold back on our pricing.

So in this context, why invest in Ensco? Well, I think there's three key points. The first is our fleet structure, which I'm going spend a bit of time on. I think this is probably one of the most misunderstood elements of our company and I'm going to draw your attention to one or two slides in a second. If you take nothing else away, please take away the points around our fleet quality going forward.

The second is our service quality and our relationship with key customers. And we are what we define as a Tier 1 drilling company. That means that we work directly with our big customers to be able to improve their drilling process, to be able to provide value added and, as a consequence of that, to win more than our fair share of the market and at higher prices.

And then the third is our financial position, which our balance sheet and our liquidity position puts us in a very good position to be able to ride through a recovery even if that is relatively protracted.

So on the fleet. Today, this is what Ensco looks like. We have 12 ultra-deepwater drillships, some of the best in the marketplace. We have 12 semisubmersibles, which are highly versatile and flexible. And many of these have combined DP and mooring systems so they can work in what we call a hybrid mode, which are particularly suitable around existing infrastructure. And we have 35 premium jackups.

This is the slide I'd like to put some emphasis on, which is that over the last few years through the downturn, we have made significant changes to our fleet structure and we've been undertaking what is a pretty major renewal of the fleet. We have had eight new builds added to the fleet structure and we acquired 11 assets through the acquisition of Atwood, which closed after this conference last year. In the meantime, we've taken 30 of the older rigs and less capable rigs out of our fleet. So today, we've more than doubled the number of assets in our fleet, which are the youngest, leading-edge rigs in the global fleet.

Now sometimes when you're looking at Ensco from outside, because we're a very big company that's present in jackups, in semis and in drillships, it's sometimes difficult to get your arms around what that means especially since we have about 59 assets and they are a range of ages. And we do have some older rigs there. We have some older jackups that are working on work-over operations, for example, for Saudi Aramco, or some older floaters that are working on production projects in, for example, the Mediterranean. But if you take -- about 68%, close to 70% of our fleet are sixth-gen or better, are younger jackups. So that means that effectively 40 of our rigs are some of the best in the world. So even if you take 20 of those assets off the bottom and attribute zero value to them, which we don't, the remaining core fleet of 40 assets is probably the best 40 assets in the world as a combined fleet.

The cash earning potential of that fleet as we get back to more normalized market conditions is significant. And this is probably the thing that I think is most misunderstood about our company structure as of today. During the downturn, we've not diminished our earning potential or our capabilities from the fleet. We've actually built it as a combination of the new builds and the acquisition of Atwood. And that rebalancing has been very much aimed at making sure we have the rigs that we know our customer base wants. And accordingly, we are well-balanced and well-positioned to meet future demand especially in the deepwater. We have seven of the highest -- of the top 43 drillships in the world, and we think that that utilization and pricing in that segment is going to be the next to move, as I've already outlined.

We also have a very big fleet and are therefore exposed to an improving market condition. And we are very levered to a market recovery given the fact that we have a lot of assets to be able to put back to work from both our marketed fleet and the rigs that we preservation-stacked and took out of the marketed fleet a few years ago.

In the shallow water and the moored market, we also very well-positioned. We have some of the best moored, modern moored rigs in the global fleet and we've got one of the largest distributions of modern jackups. So the good thing is that as the market begins to recover, we are exposed to all geographies, all clients, and we're very exposed to the market segments that are recovering the fastest, such as the current jackup market. And then the next one that we actually see is moored work around existing infrastructure.

So in this context that I've just laid out, how are we handling this? Well, probably the most difficult decision we have today is how to price out years and long-term contracts such that we expose ourselves to these improving market conditions. So our contracting strategy today is that we're going to really prioritize our current marketed fleet and getting near-term contracts for those and bridging them to better conditions that we think will come within the next 12 to 18 months. We are less inclined now to contract our most capable rigs at current spot day rates and we're holding out for higher day rates in out years.

As far as our preservation-stacked rigs are concerned, we have no -- if I take our floaters specifically, we have some 8500s stacked in the Gulf of Mexico and we have some drillships stacked in Gran Canaria and Tenerife. We have no plan at this point to bring those rigs back until we see improving utilization and day rates. We will hold them back for a higher market day rate. We will also hold them back so the global fleet is not flooded by additional capacity. And I think what you will see and hear is that a lot of our peer group, competitors, are doing the same.

In the jackup market, we have a series of stacked-out rigs, particularly four that we brought in from the Atwood acquisition. We've deliberately held those back over the last year or two, over the last year since we closed the deal, waiting for better conditions. If the jackup market recovery continues at the pace we see it, then there is a possibility we might bring one or two of those rigs back out in 2019 because we're starting to see day rates and term that would justify bringing those rigs out. If we don't see those day rates appear, we'll hold back the rigs and wait because we do think we will get there.

So the other element, which I touched upon on, on why Ensco, is that our safety and operational performance is leading in the sector. What this is translates to is that we are consistently voted by our customers as being the best rig company for service quality.

And that translates into additional awards. For our customer base, quality of operations, safety, performance and delivery is important. And as I told you, where I see the greatest advantage for us is in the number of companies -- the number of customers who are now coming to us to direct negotiate extensions. And so I think that this track record, which I know sometimes the investment community dismisses a bit, is really critically important for leveraging to longer-term contracts and more utilization.

The other element that's important for us is that as the market recovers, it’s recovering at different paces in different geographies. Because we are the biggest offshore driller by fleet size and we are present in everything from shallow water jackups through to the ultra-deepwater, we're exposed to that broad pickup. We're not tied to looking at day rates for high-end drillships recovering on a specific date because we have a rolling pickup of recovery as we go through our asset classes. We're seeing it today in the jackups. We're seeing it begin to happen in some of the moored market. And we're anticipating it will happen a little bit down the line in the drillships. But our footprint gives us a very good exposure to that rolling improvement in the market. It also gives us a very good insight into what's happening from the side of the table from our clients and how they are viewing investment decisions for 2019 and 2020.

Another element, which I'm going to just do a light touch on, is that we are also innovating. We've actually filed over 30 patents in the last three or four years around innovative additions and technology that we can add to our rig fleet that will help improve our clients' performance. We've picked out two here. One is around equipment maintenance to help up time where we're moving to reliability-based maintenance using artificial intelligence to predict failures on our key bits of equipment on the rigs. And the other is on trying to solve a problem that the industry has, which is when you wait on weather and you just have idle time on a rig and therefore the well costs more. And we have a technology called Pinsafe (ph) that allows us to be able to move our rigs and get them positioned even in worse weather conditions and reduce waiting on weather.

In their own right, these don't mean particularly much, but they come -- they're two of about 50 initiatives that we have ongoing at the moment, all of which keep us ahead of the game and keep us as a Tier 1 contractor for our clients. And we're going to be launching more of these over the next few years.

What's important is we worked a lot on technologies that can be retrofit to our existing fleet structure. We don't believe that the industry is going to go into another build cycle for a long time. Therefore, coming up with technology and advances that require new-build rigs doesn't make sense to us. But investing in technologies that can be retrofit to our existing fleet for manageable amounts of CapEx and can elevate the quality of those rigs and the delivery to our customers is where we put a lot of attention. And we'll be rolling out, over the next six-odd months or so, a number of new technologies that we think will drastically enhance our current fleet structure. But that comes off the back of probably about four years of a different direction that we've taken on R&D.

The other element of why I think you should invest in us is our solid financial position. We have currently $2.7 billion of liquidity, made up between $0.7 billion of cash and short-term investments and a $2 billion revolving credit facility as of today. And we have $2.3 billion of contracted revenue backlog. This gives us some flexibility to continue to invest in our fleet, continue to invest in the technologies and the R&D that I outlined, but also be mindful that there is a cost to recovery. As you begin to put rigs back to work, you have to have the financial wherewithal to be able to remobilize rigs, move them to different locations and, in some cases, bring them out of stack. And I think our financial position puts us in a very good position to do that.

And this probably is the most important point, is that our debt maturity profile gives us a very long runway and we're not tied to trying to pick a point in the market and say; look, if pricing doesn't reach double where it is today by this point that we have trouble. We've got a lot of flexibility, a long runway, and we feel very comfortable about our ability to manage our liabilities and any capital commitments we have over the next sort of six-year period.

All of this has led to the fact that we are winning a very disproportionate amount of the global contracts that are out there. And recently we've added over 39 rig years to Ensco's backlog. We expect this to continue. And there are a series of awards that will be coming out over the next six months globally across all of our competitors and I think you will see that we will win a significant an important number of those contracts. And importantly, it will be in key basins with key clients, where we see follow-on work and the chance to push pricing the most rapidly.

So in summary, higher customer demand is beginning to lead to a turning point. I think bar a major leg down in the global economy, I think we're now at the beginning of an up cycle for E&P investment and particularly offshore E&P investment in drilling. And that's very different from where we have sat for almost four years. We see it materially in the jackup market and we now have a good line of sight to it following through to the floater market.

In that backdrop, Ensco is incredibly well-positioned. We've taken some pain and we've made some very big decisions over the last few years, but as a consequence of that, we have good financial flexibility to see us through the next few years and not be reliant on the market coming back at any one particular quarter or year. But as I emphasized, our fleet structure is fundamentally different than it was and we have 40 of the best, most capable rigs across all classes that there is out there. And that levers us very strongly to a recovery in the market. So with that, I'm going to finish. Thank you.

J. David Anderson: Great. Thank you very much, Carl. Given that there's no breakout, we'll go straight into asking one or two questions from the audience. We have about two minutes left. So I think we have a question here.

Unidentified Audience Member: Thanks. In the floater market, I'm wondering if you could talk about how much it takes to upgrade and bring back either a warm-stack rig and a cold-stack rig. And then in each case, how much incremental day rate would you need to justify those investments? Thank you.

Carl Trowell: So firstly, this is a complex question because it very much depends on how the rig has been stacked. And there's an awful lot of definitions of that out in the marketplace at the moment.

We very much draw attention to the rigs that we preservation-stacked. And there's a very important reason there because we actually took some upfront investment to do it, which means that the cost to bring those rigs back is somewhat lower than might be typical for a cold-stacked drillship. And just to give you an indication of what that means; we take off critical equipment. We put it in air-conditioned warehouses. We put power on to the rig. We basically preserve everything the same way that the military or NASA would do with equipment.

For us, we've quoted that to bring a drillship back from that type of position would be between about $25 million to $30 million. I still think that that range applies. It's more likely to be at the higher end the longer the rigs have been stacked, and also because there is some inflation beginning to happen on resupply and things like this. Now, that doesn't apply to all rigs that are stacked out because some of them have been put in some pretty rudimentary stack conditions.

The other important bit is actually where the rig is going and do you have to pay for the mobilization to get it to its next contract and do you have to upgrade it again to meet client specs can double that figure. And so I think you have to be very careful when people throw out figures that it's very different by the rig, where it's going and whether you have to upgrade it. So that's why you can see ranges talked about between, say, $30 million and $60 million, $65 million.

So again, now, what day rates do you have to see? Well, you have to see probably at least $100,000 a day on top of the leading edge day rates today to do that if you're going to recover it in the first contract. Now I think over the last couple of quarters you've actually seen -- last year, you've seen one or two companies reactivate rigs. I don't think you're going to see that wholesale now. I think there is no appetite amongst our major peers to proactively bring out rigs until we, especially in a slightly improving market, until we see the day rates that will justify it or clients willing to contribute at least a part of that reactivation.

J. David Anderson: Okay, great. And I think we're out of time. So thank you very much, Carl.

Carl Trowell: Thank you.