
EnscoRowan plc

Balance Sheet Optimization and Shareholder Value Creation Proposal

Luminus Management LLC

- Luminus Management LLC (together with certain of its affiliates, "Luminus" or "We") is the investment advisor to funds and accounts that beneficially own 4.5% of the outstanding ordinary shares of EnscoRowan plc ("EnscoRowan" or the "Company") (NYSE: ESV)
- Luminus has been actively involved in the offshore drilling sector, and we have continuously owned at least one of EnscoRowan's predecessor companies since 2013. We are an investment management firm founded in 2002 focused on the core sectors of power and energy, energy infrastructure, and related industrials. We are long-term, value-oriented investors, and our strategy employs a rigorous, fundamental, bottom-up, sector-focused approach

Executive Summary

Luminus proposes that EnscoRowan launch a priority guaranteed bond offering to immediately fund a special dividend of \$2.5 billion

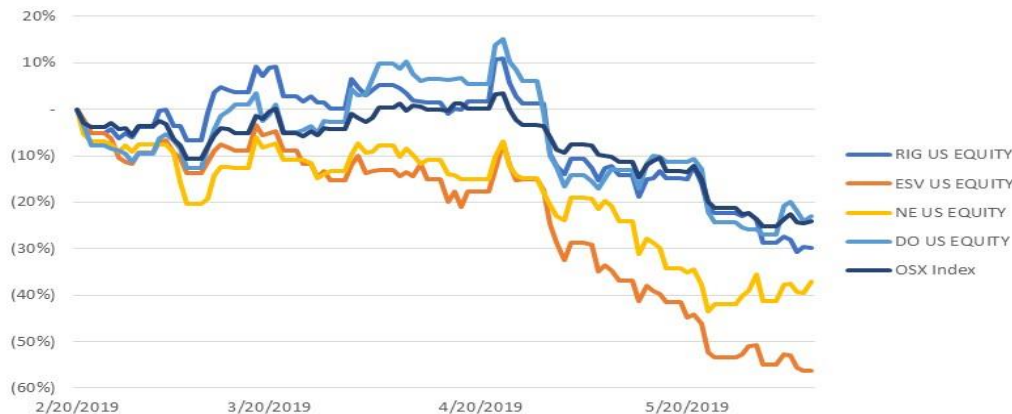
- Luminus has been extremely disappointed by the absolute and relative trading performance of EnscoRowan both before, and since, consummation of the Ensco-Rowan merger. We cannot imagine that other long-term shareholders feel differently
- We propose that EnscoRowan launch a priority guaranteed bond offering to immediately fund a special dividend of \$2.5 billion to shareholders
- We believe that a dividend in excess of the current \$1.6 billion market capitalization will demonstrate that the Board and Management are willing to share a portion of the Company's financial flexibility to deliver value for shareholders
- We believe this commitment will highlight value and extensive balance sheet flexibility, and precipitate a re-rating of EnscoRowan's stock
- After paying this special dividend, the Company will retain ample financial flexibility to harvest the benefits of the emerging market recovery and Management's post-merger value creation strategy
- EnscoRowan will also be able to utilize its significant remaining financial flexibility to execute liability management

Recent Stock Performance Has Been Abysmal

EnscoRowan’s long-term shareholders have been disappointed by the absolute and relative trading performance of EnscoRowan both before, and since, consummation of the Ensco-Rowan merger

- EnscoRowan has meaningfully underperformed the market since approval of the Ensco-Rowan merger
- From February 20, 2019 through June 7, 2019, EnscoRowan’s stock price declined by approximately 56%, underperforming peers and the broader oilfield services market by approximately 26% and 32%, respectively

Relative Prices from 2/20/2019 close:



	Absolute	ESV Underperformance
OSX Index	-24%	-32%
RIG	-30%	-26%
NE	-37%	-19%
DO	-23%	-33%
Average RIG/NE/DO	-30%	-26%
ESV	-56%	

- In our opinion, the market has clearly shown it will treat EnscoRowan’s stock like an option rather than as equity of a viable long-term company; most recently:
 - ▶ On May 17, 2019, after the Company announced an unexpected \$180 million arbitration award (almost 10% of the Company’s then-market capitalization) from Samsung Heavy Industries, **the equity failed to respond**
 - ▶ A traditional equity would have seen a more commensurate improvement of its stock price
 - ▶ In our opinion, investors believed the money would not accrue to equity’s benefit, and that the “ESV-equity-option” would not benefit from the award

Investors Undervalue EnscoRowan

- Investors seem to refuse to give EnscoRowan credit for many of its positive attributes and factors, including:
 - ▶ High quality assets
 - ▶ Tightening jackup market
 - ▶ ARO joint venture
 - ▶ \$165 million per year in projected transaction synergies
 - ▶ Emerging tangible floater recovery
 - ▶ **Extensive balance sheet flexibility**
- In recent months, we have seen the consummation of the merger, inflection in floater and jackup dayrates, the advancement of the ARO joint venture, and increased synergy projections—yet, the stock price has dramatically underperformed; in our view the investment community has failed to understand EnscoRowan’s true value, and sees no path for the market to reassess the stock’s valuation

We believe that the Company must now consider a broader range of options than previously communicated; EnscoRowan should use some of its extensive balance sheet flexibility to benefit shareholders

Recommendation: Fund a \$2.5 Billion Special Dividend

- EnscoRowan's stock value has decoupled from the fundamental strength of the business, and the stock is trading at a significant discount to its fundamental value. As a result, it is our opinion that the Board should:
 - ▶ Raise \$2.5 billion of priority guaranteed debt, and safeguard the Company's ability to issue additional structurally senior debt
 - ▶ Safeguard future financial flexibility (on both a junior and senior priority guaranteed basis)
 - ▶ Fund a \$2.5 billion special dividend
 - ▶ Better incentivize Management to continue to pursue this value creation plan, and at the very least, re-value employee equity and option grants
- Our proposal is the best way to maximize shareholder value in a fiscally responsible way AND ensure that shareholders still benefit from the ultimate industry recovery. The cost of paying the dividend is limited; ultimately the Company's long-term target of achieving investment-grade status would be deferred, but its ability to achieve all the rest of its objectives would be retained

We believe that announcing a special dividend that is 56% larger than today's \$1.6 billion market capitalization will crystallize many of the merger benefits for EnscoRowan's shareholders

Do Shareholders Have a Seat at the Table?

- Management has made it clear to debt and equity holders that liability management will be a near-term component of their capital allocation strategy
- Investors are expecting EnscoRowan to announce a liability-management bond tender in the near term
- Assuming EnscoRowan funds this tender with new bonds, those bonds are likely to contain covenants and restrictions that will constrain the Company for many years to come
- In light of the disproportionate underperformance of the equity versus the bonds, the relative cost of capital between equity and senior unsecured debt has shifted dramatically
- Following this significant repricing of EnscoRowan's securities, we believe that the Company must reconsider the broader available range of options, and shifting the capital structure away from extremely high cost equity and towards lower cost debt has become essential

EnscoRowan Should Monetize its Balance Sheet Flexibility

Shareholders have paid for this flexibility

- Dilution through Equity and Equity-Linked Issuances
 - ▶ When other drillers utilized their flexibility earlier in the cycle to increase leverage and add layers of debt, EnscoRowan sold equity and convertible bonds
 - ▶ EnscoRowan is the only tier-one driller that has issued equity and equity-linked debt since 2011 outside of a corporate transaction or bankruptcy
 - ▶ In total, EnscoRowan has issued ~\$1.5 billion in equity and convertible bonds and ~\$1.4 billion in equity consideration in the Rowan merger
- Prioritization of Creditors and Preservation of a Simple Capital Structure
 - ▶ EnscoRowan prioritized creditors following the Rowan acquisition by providing corporate guarantees on assumed debt rather than allowing a lower-priority layer of debt to exist within its capital structure
 - ▶ In our opinion, the lower priority would have weighed on bond prices and opened more lucrative opportunities for “equity-accretive” liability management
- These actions – while consistent with EnscoRowan’s long-term aspiration to return to investment-grade – have prioritized creditors at a cost to equity:
 - ▶ Given our view that the benefits of investment-grade status are at a minimum five years away, we believe these actions to improve the Company’s credit rating to enhance shareholder value on a “present value” basis actually hurt shareholders
 - ▶ Furthermore, we believe that a special dividend does not stop EnscoRowan from becoming investment-grade; it only delays attaining that status by a few years

We strongly believe now is the time to further consider the interests of shareholders in corporate priorities

EnscoRowan's Balance Sheet is a Source of Strength

EnscoRowan has significant flexibility and optionality around its balance sheet that is likely not being appreciated by the market

- *EnscoRowan's bond indentures provide the Company with very significant flexibility to raise additional debt, fund operations, manage liabilities, and pay dividends*
 - ▶ Revolver aside, all of EnscoRowan's outstanding bonds have light, investment-grade style covenant packages, which include no limitation on dividends and allow for significant amounts of structurally senior debt to be issued
 - ▶ For this analysis we conservatively assume that EnscoRowan will terminate its revolver. In its place, we assume that EnscoRowan will utilize its significant capacity for first-money-out paper similar to Transocean Ltd.'s "priority guaranteed" and Noble Corp's "senior guaranteed" bonds (hereafter referred to as "priority guaranteed debt")
- *EnscoRowan has not tapped into any of these various capacities or utilized these levers, unlike the vast majority of its peers*
 - ▶ RIG, NE, PACD, SDRL, ODL, DRLCO, BDRILL, VTG, and SHLF have all either availed themselves of the secured debt markets or layered their unsecured debt with guaranteed bonds
 - ▶ The capital markets are giving EnscoRowan very little or no "credit" for its flexibility
- EnscoRowan had \$1.5 billion in pro forma cash and short-term investments as of March 31, 2019

EnscoRowan should acknowledge that its strategy of maintaining excess flexibility (pursued at the meaningful cost of equity dilution) is not being valued, and this path should be comprehensively reconsidered

However, the Balance Sheet is Perceived as Weak

- ▶ **Barclays, 3/5/2019:** “ESV/RDC needs the floater market to recover quickly, however, as debt maturities from now until 2024 year-end are daunting... ESV/RDC generated a combined FCF loss of ~\$800mm last year and will likely be FCF-negative again in 2019, leaving the company with just 3-4 years to generate over \$1.2bn of FCF to meet its obligations by 2024.”
- ▶ **Barclays, 5/3/2019:** “In our view there is now a clear distinction between DO/RIG and ESV/NE. The former have better balance sheets giving them a longer runway for the recovery to take hold ... ESV and NE, on the other hand, have less time before things get better with looming debt maturities in '24-'26.”
- ▶ **BTIG, 5/30/2019:** “We believe ESV’s steeper discount on an implied value per rig is a function of balance sheet concerns.”

EnscoRowan’s Incremental Senior Debt Capacity: Over \$4.4 Billion

High-quality asset base can backstop over \$4.4 billion in priority guaranteed debt and additional junior priority guaranteed debt

- **Drillships:**
 - ▶ Pacific Drilling raised ~\$150 million of debt per rig in September 2018
 - ▶ EnscoRowan’s drillships cost on average \$687 million per rig to construct (per IHS)
 - ▶ Recent transactions peg drillship value in the \$300-350 million range
- **Semisubmersibles:**
 - ▶ EnscoRowan’s 6th-Generation semisubmersible rigs cost on average \$688 million per rig to construct, and the three active 8500-series rigs cost \$492 million per rig to construct (per IHS)
- **Jackups:**
 - ▶ Borr Drilling in March 2019 obtained two secured bank facilities that imply debt capacity per jackup of \$40-60 million
 - ▶ EnscoRowan’s newer jackups cost on average \$211 million per rig to construct (per IHS)
 - ▶ Recent jackup transactions “troughed” at \$65 million per rig and are now over \$85 million

- **ARO Drilling Joint Venture:**
 - ▶ ARO currently owns a fleet of seven contracted jackup rigs, leases another nine contracted rigs from EnscoRowan, and plans to order up to 20 newbuild jackup rigs over the next 10 years with attractive contractual commitments
 - ▶ We will not attempt to value the joint venture here, but EnscoRowan owns a \$455 million shareholder loan against ARO drilling, whose only customer Saudi Aramco has an A+/A1 credit rating

Unencumbered Assets	Number of Assets	Debt Capacity per Rig (\$ millions)	Total Debt Capacity (\$ millions)
Modern High-Specification Drillships	14	150	2,100
Modern Semisubmersible Rigs			350
6 th -Generation	2	100	200
8500-Series (active)	3	50	150
Jackups delivered in 2000 or later	36	45	1,620
ARO Drilling Shareholder Loan (millions)	\$455	NA	375
			4,445

This debt capacity would be incremental to current outstanding debt as it could be issued with “priority guaranteed” status, priming existing bonds

Balance Sheet Management can Further Extend Runway

EnscoRowan has additional balance sheet levers available to extend its runway

■ Discounted Debt Repurchases:

- ▶ EnscoRowan could repurchase debt at a discount
- ▶ Based on current trading prices, we believe EnscoRowan could save over \$1.0 billion in principal payments if near- and medium-debt were repurchased today; including long-term debt brings this number to almost \$2.0 billion

■ Liability Management to Extend Maturities:

- ▶ EnscoRowan will have significant “junior priority guaranteed” debt capacity – debt that is senior to currently existing unsecured bonds, but junior to the pro forma priority guaranteed debt
- ▶ EnscoRowan has ~\$3.4 billion of debt due in 2024 and 2025 that could be tendered for at a discount with the consideration consisting of longer-dated junior priority guaranteed debt instead of cash

■ Asset Sales:

- ▶ Recent asset sales have placed drillship values at or above \$300 million and premium jackup values in the \$85 million or greater range
- ▶ Covenants on current outstanding debt provide significant flexibility with respect to asset sales and use of proceeds

Debt	Size (\$mm)	Market Price	Discount (\$mm)
RDC 7.875% Senior Notes due 8/2019	201	100	-
ESV 6.875% Senior Notes due 8/2020	123	101	-
ESV 4.70% Senior Notes Due 3/2021	114	93	8
RDC 4.875% Senior Notes due 6/2022	621	93	46
RDC 4.75% Senior Notes due 1/2024	398	77	92
ESV 8.00% Senior Notes due 1/2024	332	85	49
ESV 3.00% Convertible Notes due 1/2024	850	85	125
ESV 4.50% Senior Notes due 10/2024	623	72	176
ESV 5.20% Senior Notes due 3/2025	669	71	194
RDC 7.375% Senior Notes due 6/2025	500	81	97
ESV 7.75% Senior Notes due 2/2026	1,000	76	241
ESV 7.2% Senior Notes due 11/2027	150	75	37
ESV 7.875% Senior Notes due 8/2040	300	70	90
RDC 5.40% Senior Notes due 12/2042	400	59	165
RDC 5.85% Senior Notes due 1/2044	400	59	163
ESV 5.75% Senior Notes due 10/2044	1,001	59	413
	<u>7,682</u>		<u>1,898</u>

Scenario Analysis: Overview

We believe EnscoRowan's balance sheet can easily support funding a \$2.5 billion special dividend, leaving it extensively capitalized to execute on its business strategy and benefit from the industry recovery

Assumptions

- \$1.5 billion in pro forma cash and short-term investments as of March 31, 2019
- No discounted debt repurchases
- No liability management to extend maturities
- No asset sales
- Incremental funded debt at 9% (with almost no tax shield) at a priority guaranteed level. Debt used to fund a \$2.5 billion special dividend and for general corporate purposes as Management executes on its strategy
- Wall Street “Bear” Case
 - ▶ EBITDA
 - Bloomberg consensus EBITDA through 2021
 - 2022 EBITDA a linear interpolation of 2021 and 2023 estimates
 - For 2023 and beyond, constant dayrate estimates that are at or below the bottom quartile of distributed analyst estimates—these dayrate estimates align with sell-rated analyst projections
 - ▶ Capital Expenditures: Bloomberg consensus through 2021; held constant thereafter

Scenario Analysis: Management Forecasts

- In connection with the Ensco-Rowan merger, Rowan's financial advisors and management team—many of whom constitute the current EnscoRowan management team—developed financial forecasts for the pro forma business through 2024. Using Management's own publicly disclosed numbers, we believe EnscoRowan remains extensively capitalized and retains significant equity value after a \$2.5 billion special dividend:

Cash Flow	Q2 '19	Q3 '19	Q4 '19	2019	2020	2021	2022	2023	2024	2025
Attributable EBITDA	83	83	83	293	598	1,209	1,850	2,419	2,692	2,692
Less: Transaction Costs	(34)	(34)	(34)	(102)	(37)	(15)	-	-	-	-
Less: Net Cash Interest on Existing Debt	(110)	(108)	(107)	(399)	(426)	(421)	(406)	(384)	(319)	(232)
Less: Priority Guaranteed Interest	(28)	(57)	(57)	(142)	(227)	(229)	(227)	(227)	(227)	(227)
Less: Taxes	(34)	(10)	(10)	(86)	(40)	(40)	(118)	(201)	(248)	(260)
Plus: Tax Savings from Incremental Interest	1	3	3	7	11	11	11	11	11	11
Less: Change in NWC	-	-	-	41	-	-	-	-	-	-
CFO	(121)	(123)	(121)	(387)	(121)	515	1,110	1,618	1,909	1,984
Less: Capex	(114)	(114)	(114)	(371)	(457)	(315)	(356)	(350)	(376)	(376)
Less: Dividends	-	-	-	(5)	-	-	-	-	-	-
Plus: Other	929	-	-	926	-	-	-	-	-	-
Cash Flow Before Debt Service	693	(237)	(235)	163	(578)	200	754	1,268	1,533	1,608
Less: Maturities / Borrowings	-	(201)	96	(106)	64	(114)	(621)	-	(2,203)	(1,169)
Plus: Net Priority Guaranteed Proceeds	2,500	-	-	2,500	-	-	-	-	-	-
Less: Special Dividend	(2,500)	-	-	(2,500)	-	-	-	-	-	-
Plus: Incremental Priority Guaranteed Borrowing	-	-	-	-	6	(6)	-	-	-	-
Change in Cash	693	(438)	(140)	58	(509)	81	133	1,268	(670)	438
Ending Cash Balance	1,237	799	659	659	150	231	364	1,632	962	1,400
Current Debt Outstanding*	7,681	7,480	7,575	7,575	7,639	7,526	6,905	6,905	4,702	3,533
Priority Guaranteed Bonds	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Additional Cumulative Financing Required	-	-	-	-	6	-	-	-	-	-
Total Debt Balance	10,181	9,980	10,075	10,075	10,145	10,026	9,405	9,405	7,202	6,033
Net Debt Reduction / (Addition)	NA	(237)	(235)	NA	(578)	200	754	1,268	1,533	1,608
Net Debt / EBITDA				32.1x	16.7x	8.1x	4.9x	3.2x	2.3x	1.7x

*Assumes no revolver draw and assumes shipyard financing elected & extended through period end

Note: EBITDA and capex forecast carried over from 2024 to 2025

Source: Luminus Management, LLC; Bloomberg

Scenario Analysis: Wall Street “Bear” Case

- Even under a below-consensus Wall Street “Bear” Case, our models indicate EncoRowan remains sufficiently capitalized, remains on track for a multi-notch rating agency upgrade (Moody’s target of <6x Debt / EBITDA), and retains substantial equity value after a \$2.5 billion special dividend—even without liability management, discounted debt repurchases, or asset sales:

Rigs	Count	Dayrate (\$k/d)
Drillships	16	329
6G Semis	2	275
8500 Semis	3	150
2000+ Jackups	36	112
2004+ ARO Jackups	2.5	112
Run-Rate Attributable EBITDA		1,700

Cash Flow	Q2 '19	Q3 '19	Q4 '19	2019	2020	2021	2022	2023	2024	2025
Attributable EBITDA	41	79	75	239	507	975	1,338	1,700	1,700	1,700
Less: Transaction Costs	(34)	(34)	(34)	(102)	(37)	(15)	-	-	-	-
Less: Net Cash Interest on Existing Debt	(110)	(108)	(107)	(399)	(426)	(421)	(406)	(384)	(319)	(232)
Less: Priority Guaranteed Interest	(28)	(57)	(57)	(142)	(227)	(241)	(259)	(252)	(302)	(399)
Less: Taxes	(34)	(10)	(10)	(86)	(40)	(40)	(46)	(100)	(109)	(122)
Plus: Tax Savings from Incremental Interest	1	3	3	7	11	12	13	13	15	20
Less: Change in NWC	-	-	-	41	-	-	-	-	-	-
CFO	(164)	(127)	(130)	(442)	(213)	270	639	976	985	967
Less: Capex	(65)	(100)	(126)	(320)	(400)	(325)	(325)	(325)	(325)	(325)
Less: Dividends	-	-	-	(5)	-	-	-	-	-	-
Plus: Other	929	-	-	926	-	-	-	-	-	-
Cash Flow Before Debt Service	700	(227)	(256)	160	(613)	(55)	314	651	660	642
Less: Maturities / Borrowings	-	(201)	96	(106)	64	(114)	(621)	-	(2,203)	(1,169)
Plus: Net Priority Guaranteed Proceeds	2,500	-	-	2,500	-	-	-	-	-	-
Less: Special Dividend	(2,500)	-	-	(2,500)	-	-	-	-	-	-
Plus: Incremental Priority Guaranteed Borrowing	-	-	-	-	44	168	307	(519)	1,411	527
Change in Cash	700	(429)	(160)	54	(505)	-	-	132	(132)	-
Ending Cash Balance	1,244	815	655	655	150	150	150	282	150	150
Current Debt Outstanding*	7,681	7,480	7,575	7,575	7,639	7,526	6,905	6,905	4,702	3,533
Priority Guaranteed Bonds	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Additional Cumulative Financing Required	-	-	-	-	44	212	519	-	1,411	1,938
Total Debt Balance	10,181	9,980	10,075	10,075	10,183	10,237	9,924	9,405	8,613	7,971
Net Debt Reduction / (Addition)	NA	(227)	(256)	NA	(613)	(55)	314	651	660	642
Net Debt / EBITDA				39.5x	19.8x	10.3x	7.3x	5.4x	5.0x	4.6x

*Assumes no revolver draw and assumes shipyard financing elected & extended through period end

Source: Luminus Management, LLC; Bloomberg

The industry is in the early stages of a recovery

The industry appears to be solidly on the path to recovery, despite a decline in oil prices in the middle of last year's budgeting season

- **Evercore ISI, 3/26/2019:** "Floating rig... utilization crossed 65% this month to its highest level in more than three years. More importantly, the marketed utilization (i.e. excluding cold stacked units) is approaching 80% or the highest level since November 2015. This is well ahead of our forecasts..."
- **Wells Fargo, 5/5/2019:** "The more notable takeaway... was the commentary and data points suggesting a significant step up in UDW and moored floater dayrates from 2019 to 2020... Other conversations this week also suggest a solid step up in spot UDW rates well above \$200k from the \$150-180k range... The most notable change the last few weeks/months has been a tightening in the spot market, which we believe is being supported by the recent build in backlog among the largest publicly traded offshore drillers."
- **Arctic Securities, 4/9/2019:** "Latest data points with some duration indicate a dayrate hike in the range of ~USD50-100k vs. 2017/18... We also see indications that dayrates for extensions have increased somewhat."
- **BTIG, 5/30/2019:** "The on-contracted floater count stands at ~133 rigs, the highest level since July 2018 and up ~17% from the bottom in early January. Equally encouraging the contracted rig count (includes rigs yet to start working) is at ~158 (the highest level since the summer of 2017). The on-contracted Jackup count averaged ~320 rigs over the last 4-weeks, the highest level since 2Q16. And the contracted Jackup count has averaged ~358 rigs over the last 4-weeks, its highest level since 4Q15. Things are better."
- **DNB Markets, 5/29/2019:** "We see very little debate among offshore drilling stakeholders that the trough is behind us for dayrates and utilisation; to us this also appears acknowledged by investors with a bearish view on the sector. In particular, the jack-up market has performed well in all regions recently in terms of utilisation and rates."

Conclusion

- Despite the Company's high-quality assets, tangible improvements in the market, a one-of-a-kind joint venture with Saudi Aramco, synergy benefits from a just-closed transaction valued at \$1+ billion (or almost two thirds of the Company's market capitalization), and very significant financial flexibility, EnscoRowan's stock is trading at its lows since 1993
- It appears that equity markets have not rewarded the Company for its "best-in-class" balance sheet strategy. This strategy is becoming increasingly expensive to maintain. Reducing EnscoRowan's reliance on high-cost equity in exchange for lower-cost senior and junior priority guaranteed debt has become essential in our view
- The Board and Management should initiate plans to declare a \$2.5 billion special dividend
 - ▶ This approach would use a portion of EnscoRowan's balance sheet flexibility to appropriately capitalize the Company, and would be highly accretive for shareholders, helping to crystallize EnscoRowan's underappreciated fundamental value while allowing the Company to retain extensive financial flexibility for Management to execute on its strategy and for stakeholders to benefit from the offshore drilling recovery that is currently underway
 - ▶ Approving this transaction would reward long-term shareholders who have supported and financed EnscoRowan through the downturn
- Based on the substantial value-creation alone, Luminus is confident that shareholders will support this idea, and we encourage the Board to initiate plans to raise Priority Guaranteed debt and fund a special dividend
- Luminus would appreciate the opportunity to present this plan to the full EnscoRowan Board of Directors, and to address any questions or concerns

More Information

About Luminus

Luminus Management, LLC (“Luminus”) is an investment adviser founded in 2002. Luminus employs a low net, relative-value oriented strategy that seeks to generate alpha via deep fundamental analysis and opportunistic investments across the capital structure of companies within the broader energy ecosystem. Luminus's fund strategy has a general focus on opportunities within North America, and its coverage universe includes power, utilities, MLPs, E&P, drillers, refiners, engineering and construction, and coal/steel.

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