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# Atwood Oceanics, Inc. (ATW)

Q1 2017 Earnings Call


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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day, everyone, and welcome to today's First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, you will have the opportunity to ask questions during the question-and-answer session. [Operator Instructions] Please note, this call may be recorded. I will be standing by should you need any assistance.

And it is now my pleasure to turn the conference over to Mr. Mark Smith, Senior Vice President and CFO. Please go ahead, sir.

## Mark W. Smith
*Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.*

Thank you. Good morning, and welcome to Atwood Oceanics' conference call and webcast to review the company's operating results for the first quarter ended December 31, 2016. Speakers today will be Rob Saltiel, President and CEO; and me, Mark Smith, Senior Vice President and CFO.

Before we begin, let me remind everyone that during the course of this conference call, we may make forward-looking statements. These statements involve risks and uncertainties more fully described in our latest 10-K and our other filings with the sec. Actual results may differ materially. Undue reliance should not be placed upon these forward-looking statements, which are applicable only as of the date hereof.

Now, let me now turn the call over to Rob for opening remarks.


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## Robert J. Saltiel

*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

Thanks, Mark, and good day to all of you joining today's call to discuss our first quarter 2017 results. The first quarter was a good one for Atwood, and we've started calendar 2017 with more positive developments that Mark and I will address in detail. Our fleet revenue efficiency for the first quarter was approximately 96%, with no major downtime events to report. Our rig teams continue to deliver reliable drilling services to our clients, in large part, due to the disciplined maintenance and testing of our subsea blow-out preventers. I want to publicly recognize our operations and technical services teams for the great work they are doing in this area. I also want to commend our rig personnel for raising the bar on personal safety and process safety, and for preserving the environments where we work. This remains our most important responsibility.

Our financial results for the first quarter were once again aided by good cost control. As our drilling activity has declined, we have re-assessed our onshore support costs to reduce the overhead burden as much as possible. Offshore, our costs continue to become more competitive as compensation and manning levels have been adjusted without impacting safety or reliability. Since our November earnings call, we have completed two transactions that have meaningfully improved our company's liquidity and balance sheet. I will discuss each in turn.

In early December, we restructured our agreement with the DSME shipyard regarding the delivery dates, payment terms and holding costs for our two drillships that are under construction there, the Atwood Admiral and Atwood Archer. We made an early payment in December to the shipyard of $125 million that was applied to the Archer, and we agreed to two additional milestone payments, $10 million on the Admiral, that will be due in September 2017, and $15 million on the Archer, that will be due in June 2018. In exchange, we delayed each rig's latest delivery date by two years, to September 2019 for the Admiral, and June 2020 for the Archer. We can certainly take these rigs earlier, but given the uncertainty in our business, we wanted to give ourselves ample time to secure drilling programs for each rig prior to taking deliveries.

We also delayed a total of approximately $250 million in payments that remain outstanding on these rigs until December 30, 2022 at an affordable interest rate. This interest accrues, but is not due to be paid until December 2022, so this also improves our free cash flow and liquidity between now and then. These payments are not accelerated by taking delivery of the rigs, so we have an excellent opportunity to have each rig working and earning day rate before we make the final milestone payments to the shipyard. Finally, with this amendment, we also reduced our holding costs in the shipyard for each rig, as Mark will detail in his section. The net impact of this agreement with DSME is to provide our company with nearly $250 million in additional liquidity for the period from June 2018 until the end of calendar year 2022.

Four weeks ago, we announced a secondary offering of our common stock that raised net proceeds in excess of $180 million. The offering was executed at a modest discount to our prior day's closing price due to strong investor interest. These funds improve our liquidity further by reducing our net debt. Having completed these important transactions, we now possess significantly more financial flexibility to navigate the remainder of this downturn than we did one quarter ago. That said, we remain focused on ensuring that our balance sheet remains in good shape as we approach our revolving credit facility maturity date in mid-2019. Mark will offer additional commentary on our capital management approach in his section.

Turning now to marketing, last week we announced the signing of two new drilling services contracts that are very positive for our company. I indicated on our November earnings call that one of our idle jackups was likely to return to work, and it is the Atwood Orca. The Orca has been idle in Singapore since October and will now


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prepare for a return engagement in Thailand with Mubadala Petroleum starting in May. The firm term is one year, with the potential for further extensions. We are not disclosing the day rate for competitive reasons, but we can confirm that the operating rate exceeds our cash breakeven costs.

Also last week, we announced an exciting development involving the Atwood Condor and the Atwood Osprey. We agreed with Woodside Energy to substitute the Condor for the Osprey in drilling the Greater Enfield Development Program in Australia which is scheduled to begin in January 2018. The Condor's Dynamic Positioning System, which allows it to move on and off multiple well locations efficiently, and its dual-BOP system, which significantly reduces non-productive time, will allow the Greater Enfield Program to be drilled in fewer days and at a significantly lower cost for third party services. Woodside is compensating Atwood for the costs of mobilizing the condor to Australia and for the additional prep work that is required for the contract, and we will receive a higher day rate and margin to compensate us for the shorter program.

As part of this same deal, the Osprey has been awarded an additional 100-day exploration well with Woodside that is expected to commence in March 2018. We also agreed to provide a priced option well to Woodside, since they have identified another potential drilling opportunity for the Osprey. The net effect of this substitution is to keep the Atwood Condor active throughout 2018 and at least halfway through 2019. We also re-establish a more significant drilling presence in Australia for Atwood Oceanics after having our rig count reduced there from three rigs last year to one rig currently. We are optimistic that we will be able to keep the Osprey working given the rig's stellar reputation in Australia. To this end, in December we secured a four-month well that should keep the Osprey busy until October of this year, so we are now focused on filling the gap between October 2017 and March 2018.

Shifting now to our operations, the Atwood Achiever remains on standby for Kosmos Energy in Northwest Africa. We are preparing the Achiever to re-start drilling operations in early April to drill several exploration wells and conduct a drill stem test in 2017. This activity is likely to take the Achiever until November 2017, which has been restored as the contract end date after Kosmos Energy's recent decision to not exercise the one-year extension option. We believe that the Achiever will be in excellent position to secure further work with Kosmos and their partner, BP, once our contract concludes.

The Atwood Condor completed its short plug and abandonment program for Noble Energy in early January and has mobilized to a shipyard in South Texas to prepare for its relocation to Australia. We are completing maintenance and contract prep work, including the five-year special survey and the removal and overhaul of the rig's thrusters. We have retained many of the senior supervisory personnel from the Condor who performed so well in the Gulf of Mexico over the past five years. These men and women will form the nucleus of the Condor's offshore team in Australia, and they will help train the new Australian crews that will join the rig later this year. The Condor is expected to depart for Singapore sometime in late spring. While in Singapore, we will re-install the thrusters and add the second blow-out preventer before the final transit to Australia. All-in-all, this is a big project for us, but we expect to execute it in typical Atwood fashion, on time and within budget.

The Atwood Osprey completed its previous program with Woodside in December and has commenced a one well-plus-one option well program with ConocoPhillips. Based on discussions with our client, we expect that both wells will be drilled, so we are not anticipating a gap between the ConocoPhillips program and the Osprey's next well with Woodside. And finally, the Atwood Advantage continues to drill in Israel for Noble Energy. I visited the Advantage just two weeks ago, and the rig looked just as good as it did in a recent feature article in the New York Times that highlighted Israel's expanding natural gas resource.


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Let me now say a few words about the offshore drilling market before I hand it back over to Mark. On the positive side, I do think operator sentiment has improved over the past quarter, owing in large part to the November announcement by OPEC to agree on meaningful oil production cuts. The rise in Brent Oil prices back to the $55 level is certainly welcome. However, we maintain a cautious outlook for offshore drilling demand in 2017 since capital budgets have already been set and are unlikely to change meaningfully this year unless we were to see a sizeable increase in oil prices. The good news is that oil prices are trending well, and are predicted by most analysts to move north of $60 per barrel in 2018.

We continue to believe that 2018 will mark an inflection point for the fortunes of the offshore drilling industry. On the floater side, demand has declined since our last call as we had expected. There are now 11 fewer floaters under contract, and most of these declines have occurred once again in the ultra-deepwater segment. We have seen a slowdown in early terminations of contracts, which is to be expected given that the rigs that were signed in 2013 and 2014 are approaching their contract end dates. There are currently 15 contracted floaters on standby status, so the actual number of working floaters stands at around 115. Floater marketed utilization has dipped to 64%, in part because there were only two floaters that were cold-stacked or scrapped since our last call.

The good news is that we are becoming increasingly aware of floater programs that are being planned for tender over the coming months. Recently, there has been renewed optimism around jackups as higher oil price expectations have translated into increased fixtures, especially in the Middle East. Jackup demand did decline since our last call, but only slightly, suggesting that the bottom may be approaching. However, not one additional jackup was cold-stacked or scrapped since the last call, so marketed utilization for jackups actually fell from 65% to 63%.

The recent slowdown in rig attrition, as measured by coldstacking and scrapping of floaters and jackups, is both puzzling and worrying. Our industry will not experience meaningful recovery without better alignment of supply and demand, and with demand still falling and idle rig counts rising, we have expected a much stronger supply response. However, we note that our offshore drilling competitors will announce their full year 2016 results this month, so we may soon see an uptick in the number of offshore rigs that are confirmed as exiting the marketed supply.

This concludes my prepared comments. I'll hand it back over to Mark who will take us through the financials.

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## Mark W. Smith

*Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.*

Thanks Rob. Today, I will review our fiscal first quarter's operating results, provide guidance for the second quarter and remainder of the fiscal year, and comment on our financial position. Let's start with highlights for the recent quarter. The company generated quarterly revenues of $158 million on 374 operating days versus $189 million on 573 operating days in the previous quarter. The reduction in revenue is due in part to the contract completion for the Atwood Beacon and Atwood Aurora in Q4 fiscal year 2016, and the Atwood Orca early in first quarter fiscal 2017. Additionally, the Atwood Condor earned lower revenue in the first quarter due to the transfer of the remaining Noble Energy plug and abandonment wells from the Atwood Advantage at a lower day rate.

Finally, the Atwood Advantage incurred 21 days at zero rate to mobilize from the Gulf of Mexico to the Mediterranean. These revenue reductions were partially offset by the Advantage then returning to its original contracted rate upon its arrival in Israel. Our fleet performed well with excellent revenue efficiency, as Rob said, of 96%. The company generated diluted earnings per share of $0.15 in the first quarter versus $0.07 in the previous quarter. Note, this EPS is as of December 31, which is prior to our secondary equity offering which I will discuss later.


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Contract drilling costs were $66 million for the first quarter, excluding reimbursable costs of $7 million, which is at the low end of our guidance provided in November. This compares to $77 million, excluding reimbursable costs, for the previous quarter. This decrease quarter-on-quarter is primarily due to higher maintenance costs for the Atwood Advantage prior to its mobilization to the Mediterranean and to the idling of the Atwood Beacon, both occurring in the previous quarter. General and administrative expenses totaled $15 million, in line with our prior guidance of $13 million to $16 million. Concluding the first quarter's operating results, our effective tax rate for the quarter was 20% and our tax expense was $2.4 million, consistent with our prior guidance.

Looking forward to the second quarter and the remainder of fiscal year 2017. As of December 31, 2016 our contract backlog was $611 million. Our latest fleet status was filed on Thursday and included the swap between the Atwood Osprey and Atwood Condor, the Atwood Achiever contract's reversion to the original operating rate and end date, and a new contract for one year for the Atwood Orca. The Osprey/Condor swap will not affect fiscal year 2017 revenue. The higher rate of $222,295 per day on the Condor versus $190,000 per day on the Osprey as a result of the swap will increase our margins in fiscal 2018 and through the contract's term. In addition, we will receive a mobilization fee of $36.5 million on the Atwood Condor to be paid by Woodside in four payments.

This mobilization fee will be recognized through ratable amortization over the duration of the contract term, adding approximately $65,000 per day of revenue and associated margin over the duration of the contract. On top of the daily operating rate impacts that I highlighted above, this further improvement to our 2018 revenue and EBITDA outlook is obviously welcome. Regarding the Atwood Achiever, as Kosmos elected in January to revert the Achiever back to its original day rate and November 2017 contract end date, we expect an increase to fiscal year 2017's backlog of approximately $23 million. We will also receive a one-time payment of $48.1 million, which will be recognized in the second quarter. This payment represents a make-whole for the difference in day rate covering the time period for which the reduced day rate was invoiced, from October 1, 2015 through January 2017. The rate then reverts back to its original $595,000 per day as of February 1.

We estimate reimbursable revenues to range from $3 million to $5 million for the second quarter, and from $12 million to $17 million for the fiscal year. This full year range is a revision to our previous guidance in November. Moving to cost estimates, fleet wide contract drilling costs are expected to range from $72 million to $78 million for the second quarter, excluding reimbursable cost. Full fiscal 2017 guidance is revised to range from $260 million to $275 million. This is above the guidance provided in November due in part to increased expected costs associated with the new contracts for the Atwood Orca and Atwood Condor. Startup costs for the Orca will range from $3 million to $5 million from February through April.

Since the condor rolled off its contract in early January, and does not commence its new contract until January 2018, we are taking advantage of this opportunity to conduct the rig's special periodic survey, and including the overhaul of its thrusters for $9 million, mostly incurred in the second quarter. Condor mobilization costs to be amortized over the term of the contract will be between $10 million to $13 million. Further, we will complete the installation of the second BOP on the Condor en route to Australia. The second BOP is a capital expenditure for a component that will be depreciated over its useful life, and I will include this in my CapEx guidance.

Depreciation is expected to be $42 million per quarter and total $168 million for the year. General and administrative expenses are expected to range from $12 million to $14 million for the fiscal second quarter. Full year G&A expense will approximate $49 million to $52 million. Interest expense will be approximately $12 million to $14 million for the second quarter and approximately $16 million to $20 million for each of the quarters following, net of capitalized interest. Interest expense is increasing in the latter half of this fiscal year because we


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will no longer be able to capitalize interest for the Atwood Archer after May. We expect to pay cash interest of approximately $81 million for the fiscal year.

We expect to incur $9 million to $11 million in tax expense for the remainder of the fiscal year. This is slightly above our previous guidance due to the impact of the Kosmos make-whole payment and increased go-forward day rate on the Atwood Achiever. Now, looking at our financial position. During the quarter, capital expenditures totaled $139 million for the first quarter versus $26 million for the previous quarter. This increase over prior guidance is due to the $125 million payment on the Atwood Archer in mid-December as part of the most recent DSME agreement. As Rob mentioned, during Q1, we negotiated the ability to further delay the latest delivery of the Atwood Admiral and Atwood Archer by two additional years each, to September 30, 2019 and June 30, 2020, respectively.

In consideration of this agreement, we made a payment of $125 million for the Atwood Archer in mid-December and will make an additional interim payment of $15 million on June 30, 2018. With respect to the Atwood Admiral, we will make a payment of $10 million on September 30, 2017. We retain the option to take earlier delivery of each vessel upon 45 days' notice. The terms negotiated with DSME allow us to preserve cash during this difficult market. Independent of delivery dates, the remaining milestone payments of $83.9 million for the Atwood Admiral and $165 million for the Atwood Archer, and all associated interest costs incurred until delivery, have been financed by DSME and are not due until December 2022. The financing consists of two separate agreements, one for each rig, takes effect upon delivery, incurs interest of 5% per annum, and is secured by the respective drillship.

The interest to DSME on financings will be charged to interest expense, but will be accrued as a liability payable at the time the final payment is due in December of 2022. Further, this agreement allows us to reduce our holding costs during the extended delay period by $5,000 per day per rig. The portion paid to DSME reduces from $15,000 per day to $10,000 per day reducing the overall holding costs from $35,000 per day to $30,000 per day. These fees are charged to drilling costs, however the DSME portion is accrued as it is not payable until delivery. The Atwood Admiral holding costs are incurred currently while the Atwood Archer holding cost are estimated to commence approximately May 1, 2017 also at $30,000 per day.

We expect capital expenditures to be approximately $10 million for the second quarter, inclusive of capitalized interest. Total CapEx for full fiscal 2017 will be approximately $197 million. Of the $58 million remaining in quarters two through four, $35 million is maintenance CapEx of which $15 million is planned upon delivery and installation of the Condor's second BOP. $14 million is related to construction-in-process of which $10 million is for the Admiral DSME payment mentioned previously. The balance is capitalized interest. Total debt increased to $1.3 billion in the first quarter from $1.2 billion at the end of the fourth quarter due to the previously mentioned Atwood Archer payment.

Cash on hand at December 31 was $160 million. The amount drawn under the revolving credit facility at December 31 increased to $850 million from $780 million at September 30, leaving $545 million available under the revolver. This resulted in liquidity of $705 million at the end of the quarter versus $760 million at the end of the previous quarter. Subsequent to December 31, 2016, we issued, in a public offering, 15,525,000 shares of common stock resulting in approximately 80.5 million shares outstanding as of February 1, 2017. The net proceeds from the offering were $181.1 million. We expect to use the net proceeds for general corporate purposes, which may include the repayment of borrowings under the credit facility, the funding of future purchases of our senior notes, working capital and capital expenditures, and otherwise to enhance our liquidity.


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Atwood Oceanics views capital funding through four vehicles. One, we have addressed financing our remaining drillships under construction. Two, we bought back bonds at a discount in 2016 in an effort to delever opportunistically; and we continue to watch the capital markets for opportunities to stagger maturities. Three, we issued equity near a rolling 12 month [ph] higher (24:02) for the stock. And four, we have previously amended our revolving credit facility and maintain excellent relationships with our lenders.

So far this fiscal year, with shipyard financing of $250 million and an equity raise of $181 million, we have created $431 million of liquidity, reducing our reliance on the revolving credit facility's capacity prior to its May 2019 maturity. Atwood will continue to be opportunistic by utilizing our capital structure playbook to increase liquidity, reduce debt and/or stagger debt maturities in order to reduce the company's refinancing risk and maintain financial flexibility as we look forward to participating in the offshore drilling market's recovery.

This concludes our prepared comments. I will now turn the call over to Savanna for questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] And we'll take our first question from Ian Macpherson from Simmons. Please go ahead. Your line is open.

Ian Macpherson
*Analyst, Simmons & Company International*

Q

Thank you. Good morning, Rob and Mark. Did I hear correctly that the associated mobilization expense for Condor is $10 million to $13 million implying a significant margin on that mode to Atwood?

Mark W. Smith
*Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.*

A

Ian, good morning. This is Mark. Yes, there are several components of cash cost related to our move of the Condor to Australia, including about $9 million related to regular maintenance costs. The $10 million to $13 million, that you quoted, that will be amortized and $15 million related to the installation of the second BOP, which is required for the contract.

Ian Macpherson
*Analyst, Simmons & Company International*

Q

So collectively, those match the mobilization revenue component then?

Mark W. Smith
*Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.*

A

That's correct.

Ian Macpherson
*Analyst, Simmons & Company International*

Q

Okay.


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Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

Yeah, Ian, I think the only point Mark's making there is that there is a mixture of capital and expense items.

Ian Macpherson
*Analyst, Simmons & Company International*

Q

Yeah.

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

So the second BOP is a capital item.

Ian Macpherson
*Analyst, Simmons & Company International*

Q

Understood. Thanks for striking that out. It struck me that even withstanding that additional $35-plus-million outlay, [indiscernible] (26:30) that the economics of this rig swap were still compelling. Is the drilling efficiency differential between the two rigs – does it really fully explain the incremental cost that Woodside is committing to here for the rig swap?

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

Well, this was clearly a win-win because you can appreciate, Ian, both for Atwood and for Woodside, this was a material change in expectations. I mean, it wasn't that long ago that we had signed the agreement for the Atwood Osprey to drill Greater Enfield. However, when you look at the specifics of that program, it involves multiple well centers, which then requires multiple moves of the rig both on and off location. And when you take a look at that, you take a look at the – some of the challenges of doing that cost effectively, especially when you got situations where you've got subsea infrastructure or potential weather events, those kind of things.

It really made sense to take a closer look at a dynamic positioning rig to drill that program. And so, that really was the genesis of the swap was really trying to figure out if the program itself could be drilled more efficiently, primarily through moves of the rig, but not exclusively, because there is another benefit, which of course is the second BOP that the Condor brings. So when you add all that up, the movement between well centers and the efficiency of the Condor with the second BOP, it became a compelling move for both Atwood and for Woodside to make the substitution.

Ian Macpherson
*Analyst, Simmons & Company International*

Q

Okay. Thanks. And Rob, I fell behind with my pencil here, but I heard you say, you do not expect much of a gap between the [indiscernible] (28:21) Woodside work for Osprey. Is that predicated on optimism that the [ph] option (28:27) work will be picked up by Conoco next quarter?

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

Yes. The discussions we've had with the client indicates that they're likely to drill that second well and that was the basis for the comment.


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Ian Macpherson
*Analyst, Simmons & Company International*
Q

Okay. Got it. Thanks.

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*
A

You're welcome.

Ian Macpherson
*Analyst, Simmons & Company International*
Q

And then lastly, do you have any updated thoughts around Advantage coming up this summer? And we expect of an FID in Leviathan soon from the customer. Can you talk about how you feel your competitive footing is for that work and the timing of a potential award to the market and hopefully that would, and also the timing of the drilling program itself?

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*
A

Well, look, we think we're in a great position. We've been drilling for two-and-a-half-years for Noble and I think the rig has done an outstanding job. Having the rig positioned in the Mediterranean versus the Gulf of Mexico clearly gives us a leg up for being competitive in competing for future work. I will say that there is some uncertainty around the final investment decision. I think, some people thought that, that would have already occurred, and I also think there is some uncertainty about the well sequencing, which Noble may ultimately elect to develop Leviathan. So those are really the unknowns at this point and Noble is probably in better position to us to offer some specifics on that.

Ian Macpherson
*Analyst, Simmons & Company International*
Q

Okay. Thanks very much.

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*
A

You're welcome.

**Operator**: And we'll take our next question from Kurt Hallead from RBC Capital Markets. Please go ahead. Your line is open.

Kurt Hallead
*Analyst, RBC Capital Markets LLC*
Q

Great. Thanks. Hey, good morning.

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*
A

Good morning.


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Mark W. Smith
*Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.*

A

Good morning.

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Kurt Hallead
*Analyst, RBC Capital Markets LLC*

Q

Hey, Rob, you mentioned that you are seeing a number of floater tenders in coming months. I was wondering if you might be able to add a little bit more color around that dynamic. What do you think is driving it? We've been hearing you need $60 plus oil to kind of get things moving. So it seems like you had a different take than maybe some of your other peers?

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Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

No, we've been saying pretty consistently that for us to have meaningful recovery, we needed to see north of $60 oil. I think what's happening is because some of these programs are being scheduled for mid- to late-2018, there is some anticipation that with the trending oil price that we may be at or above those levels at the time these programs start. So we're seeing opportunities in the Golden Triangle and as well east of that. And I think that you're going to see an increase in tender activity. I mean, clearly the market has been [ph] starved (31:17) for new floater fixtures really for the better part of three years. And I think it is only natural that as we move into 2018, you're going to see some tenders come to fruition and we're watching a number of those and we certainly hope to continue to get more than our fair share of those as and when they're awarded.

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Kurt Hallead
*Analyst, RBC Capital Markets LLC*

Q

Okay. Great. And then on the flip side, it seemed like the bottom is in place for jackups based on the things you're seeing and the commentary you made?

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Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

Well, it certainly appears that the response to the pickup in oil price on the jackup side has been tangible. Clearly, Atwood Oceanics is excited to be back in the jackup business after having all five of our rigs idle during the downturn. So for us, putting the Orca back to work is a really good start. But again, I think around the industry there's good optimism around a recovery in the jackup space, certainly on the demand side. We continue to be concerned about the lack of supply attrition there. But on the demand side, I think the response to oil price has been good for jackup demand and hopefully utilization and day rates going forward.

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Kurt Hallead
*Analyst, RBC Capital Markets LLC*

Q

Okay. That's great. Thanks for that color. Appreciate it.

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Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

You're welcome.

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**Operator**: And we'll take our next question from Gregory Lewis from Credit Suisse. Please go ahead. Your line is open.

Neesha Khanna
*Analyst, Credit Suisse Securities (USA) LLC*
Q

Hi. This is Neesha for Greg. Congrats on the Orca jackup contract. As you guys think about the other four rigs, how do you think about that in terms of length of contracts to reactivate?

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*
A

Well, it's obviously a function of a number of things to make a decision to reactivate a rig that has been idle. And I should stress that the other four are all idle and being actively marketed. However, putting together the remainder of the crews and making sure that the rigs are truly ready to go to at Atwood standard obviously involves some startup costs. And clearly, we don't want to do that for marginal or negative economics. So it's really a combination of factors, term length is part of it. Obviously, day rate is part of it. How much expense you have to undertake to mobilize the rig to the first well location is part of it.

So, we evaluate every opportunity on its own merits and that's what we'll continue to do. Clearly, in the case of the opportunity for the Atwood Orca, it was a short mobilization back to Thailand, the client we worked with before, the contract terms, we're able to leverage from what we've done before. So there was a much lower risk profile for doing that deal then you might have for some other deals, so we were very excited to do that. And we hope to have some of these other rigs back to work before too long.

Neesha Khanna
*Analyst, Credit Suisse Securities (USA) LLC*
Q

Great. Thanks. Congrats.

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*
A

You're welcome.

**Operator**: And we'll take our next question from Praveen Narra from Raymond James. Please go ahead. Your line is open.

Praveen Narra
*Analyst, Raymond James & Associates, Inc.*
Q

Hey, thanks guys. Just a follow-up on that question in terms of the startup costs. Obviously, it's going to be dependent on a lot of things like you mentioned, but in terms of just the startup costs for those jackups, where do you think the ballpark is for what that would be? Are we talking $5 million? Are we talking less than that?

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*
A

Praveen, good morning. Yes, as we indicated for the Orca, it's about $3 million to $5 million. It's the most – one of the more recently idled, but I don't think our cost to creep up from there. I think $5 million is a good assumption.


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Praveen Narra
*Analyst, Raymond James & Associates, Inc.*

Q

Okay, perfect. And then, I guess, going back to the Condor mobilization. It is interesting that you guys are moving it from the Gulf of Mexico to Australia. Those would kind of suggest that, that you guys have a somewhat favorable view of the Australian market going forward. Can you give us a sense of what you're seeing or kind of how you see that playing out over the next couple of years?

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

Well, look, the Australian market has been a core market for Atwood Oceanics for more than 40 years. And as you know, we had three rigs working in that market a year ago. We're down to one currently, and given our experience there, we obviously were looking for opportunities to reenter the market. And this was really a fortuitous development. I mean, the Atwood Condor is an extremely capable rig. However, being in the Gulf of Mexico, it is in a very crowded market in terms of idle capable ultra deepwater assets and the opportunity to relocate this rig to Australia for a term program, we think is not only beneficial because it puts us in Australia, but frankly, it takes us out of a very competitive market, whose recovery could be delayed because of the intense competition. So from that standpoint, it was a win-win for Atwood. I think, it's a win-win for our Australian franchise and we're excited to make it happen for our client Woodside.

Praveen Narra
*Analyst, Raymond James & Associates, Inc.*

Q

Agree with that. Thank you very much guys.

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

You're welcome.

**Operator**: Thank you. And we'll take our next question from Vebs Vaishnav from Cowen and Company. Please go ahead. Your line is open.

Vaibhav Vaishnav
*Analyst, Cowen and Company*

Q

Good morning, and thanks for taking my question. Just wanted to speak about the balance sheet management steps. If we think about the revolver maturing in 2019 and the bonds maturing in 2020, how should we think about the next steps?

Mark W. Smith
*Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.*

A

Vebs, good morning. We will – we're going to opportunistically monitor capital markets to consider more capital access for further de-levering or staggering of maturities between now and mid-2018, when we will obviously be in the refinancing window for the revolving credit facility. Many capital markets appear to be reopening, so we have several options in front of us.

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A


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Yeah. I think the good news Vebs is that we've made tremendous progress over the last 90 days. And the wind does seem to be at our back to some degree with regard to opportunities that are out there. If you just look at where our bonds are trading, I mean, obviously, they're in a much stronger position than they were six months ago. You've seen some of our competitors go to the public debt market. So the options, as Mark was highlighting, are available to us. We want to be thoughtful in terms of, which plays from the playbook we pursue next. But having done a lot of good, positive heavy lifting over the last quarter, I feel much better about our opportunities going forward with the balance sheet to demonstrate that we can continue to be well financed and work our way through the remainder of this downturn.

---

Vaibhav Vaishnav
*Analyst, Cowen and Company*

Q

Would it be fair to say, given the bonds are callable this month, that the first of the steps would be or that you will have to refinance those bond before you refinance the revolver?

---

Mark W. Smith
*Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.*

A

Vebs, we're exploring many alternatives, not the least of which included the best use of our cash proceeds. We have, as you notice from the press release Friday, $160 million cash on hand. That's prior to our capital raise in January of netting $181 million and our receivable we expect to collect from Kosmos in the near-term of another $48 million. So, we will look at best use of these proceeds including opportunities to use this cash to not only de-lever, but to also stagger maturities regardless today, at this minute, our net debt is obviously improved.

---

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

But Vebs, of course, we look at the revolver and we look at the bonds – it's all part of our debt structure. So, as Mark says, we're going to take a holistic look at the opportunities ahead of this and again, just be appreciative of the fact that we carved out quite a bit more financial flexibility to consider some options that, six months ago, would have been off the table.

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Vaibhav Vaishnav
*Analyst, Cowen and Company*

Q

Okay. That's all from me. Thanks for taking my questions.

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Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

Thank you.

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**Operator**: [Operator Instructions] We'll take our next question from David Smith of Heikkinen Energy Advisors. Please go ahead. Your line is open.

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David C. Smith
*Analyst, Heikkinen Energy Advisors LLC*

Q

Hi. Good morning, and congratulations on the win-win adjustment for the Woodside contract.

---

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A


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Thank you.

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David C. Smith
*Analyst, Heikkinen Energy Advisors LLC*
Q

I wanted to ask about the jackup cost during the quarter and whether that's a good run rate for the rigs when their idle or if there were transitional costs between – the rigs going off contract and moving to a warm-stack location?

---

Mark W. Smith
*Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.*
A

The idling cost ongoing is pretty efficient for each vessel as you know, thanks to our – thanks to our strategy to keep them at dockside and use onshore power. The Mako, Manta have been at approximately $5,000 per day in low-cost locations of Philippines. The Aurora and Beacon just slightly higher at their shared location in Malta in the Mediterranean. Obviously, when you begin an idling of a vessel you have severance costs related to the personnel on board, et cetera, but pretty low cost, pretty efficient strategy for the ongoing maintenance of these vessels keeping them in a ready-to-go actively marketed state.

---

David C. Smith
*Analyst, Heikkinen Energy Advisors LLC*
Q

Okay. Appreciate that. And the follow-up, just setting aside the mobilization cost that get amortized. Wanted to ask how, if it all, the Condor costs in Australia would compare to the Osprey?

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Mark W. Smith
*Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.*
A

We've done a good job of managing our costs offshore across the globe, including with the Osprey. We will have a slightly higher cost but not significant and its simply due to the addition of Marine crew for the dynamically positioned vessel versus the [ph] Nord (41:22) vessel.

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David C. Smith
*Analyst, Heikkinen Energy Advisors LLC*
Q

Great. Thank you very much.

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Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*
A

Thank you, David.

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**Operator**: Thank you. And we'll take our next question from Andrew Cosgrove from Bloomberg. Please go ahead. Your line is open.

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Andrew Cosgrove
*Analyst, Bloomberg LP*
Q

Hi, guys. Thanks for taking my question. I was just curious if you could speak a little bit more about the – maybe some regional markets and any kind of commentary you've been hearing. The move to Australia is very interesting. I was just curious if independent AMPs in the Asian market are more likely to potentially alter CapEx budgets with rising oil prices, whereas we know that IOCs and NOCs tend to be a little bit more sticky and more slower moving with their decisions?

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Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

Yeah. I think it's a fair comment that the independents and maybe even the smaller ones over the larger ones tend to be more price responsive. They tend to be a bit more nimble. And so, I think your basic thesis is okay. I think we have to keep in mind here that, that we're still very much in a market that's looking to find the bottom. And we haven't found the bottom yet on demand. But we certainly are encouraged by some of the things that we're seeing both in terms of sentiment and then really more so on the jackup side in terms of fixtures around the rise in oil prices.

I'm not sure that you can really focus too heavily at this point on regions other than the Middle East, where I think you have seen some clear strength around the jackup business. Going forward and certainly hopefully for upcoming earnings calls, we'll be able to cite more examples of regional strength. But right now, it's more looking at tenders that are likely to materialize over the next six months or so. And as I said in my comments, those are over a pretty wide set of regions around the world.

---

Andrew Cosgrove
*Analyst, Bloomberg LP*

Q

Okay, great. Thanks. And my follow-up would be just competitively speaking with respect to the Leviathan prospect. It seems like you guys have the only dual BOP seventh-gen drillship there. Could you maybe talk a little bit about who else is maybe operating in the region and how that potential tendering process or competitive bidding has kind of transpired so far?

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Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

Well, we're not going to be able to say too much about a competitive tender. Look, you recognize everything in this market is competitive and we understand why our client would certainly want to make sure they're getting a good deal for a good rig. But as you point out in your comment, we think we've got the best rig certainly in the region and we think our design holds its own against any out there. So, given the great performance we've had, we think we're in a great position to win future work.

---

Andrew Cosgrove
*Analyst, Bloomberg LP*

Q

Okay. Great. Thank you.

---

Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

A

You're welcome.

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**Operator**: Thank you. And it appears we have no further questions at this time. We'll turn it back over to our presenters for any additional or closing remarks.

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Robert J. Saltiel
*President, Chief Executive Officer & Director, Atwood Oceanics, Inc.*

I'd like to thank everyone for joining today's earnings call. Our next call will be in May to discuss our second quarter 2017 results. Have a great day.


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**Operator**: This does conclude today's program. Thank you for your participation. You may disconnect at any time and have a great day.

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