PARAGON OFFSHORE PLC

FORM 8-K
(Current report filing)

Filed 12/08/14 for the Period Ending 12/08/14

Address	3151 BRIARPARK DRIVE SUITE 700 HOUSTON, TX 77042
Telephone	44 20 3300 2300
CIK	0001594590
Symbol	PGN
SIC Code	1381 - Drilling Oil and Gas Wells
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of report (date of earliest event reported): December 8, 2014

PARAGON OFFSHORE plc
(Exact name of Registrant as specified in its charter)

England and Wales	001-36465	98-1146017
(State or other jurisdiction of incorporation or organization)	(Commission file number)	(I.R.S. employer identification number)

3151 Briarpark Drive, Suite 700 Houston, Texas	77042
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: +44 20 330 2300

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01 Regulation FD Disclosure

Investor Presentation

On December 8, 2014, Randall D. Stilley, President, Chief Executive Officer and Director of Paragon Offshore plc (" ***Paragon*** "), will attend the 2014 Wells Fargo Energy Symposium Conference in New York City, New York. The event will not be webcast. However, presentation slides used during investor meetings will be available on December 8, 2014 on Paragon's website at www.paragonoffshore.com, under "Events & Presentations" in the "Investor Relations" section of the website. The presentation slides are also included as Exhibit 99.1 to this Current Report on Form 8-K and are incorporated herein by reference.

The information presented in Item 7.01 to this Current Report on Form 8-K is being furnished in accordance with Rule 101(e)(1) under Regulation FD and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated by reference.

Forward Looking Statements

Certain statements in this current report constitute "forward-looking statements" within the meaning of the U.S. federal securities laws. These statements reflect management's current expectations regarding future events and speak only as of the date of this current report. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance and will not necessarily be accurate indications of whether or not, or the times at or by which, events will occur. Actual performance may differ materially from that expressed or implied in such statements. Although the forward-looking statements contained in this current report are based upon what are believed to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements, and the differences may be material. These forward-looking statements are made as of the date of this current report and, except as expressly required by applicable law, the Company assumes no obligation to update or revise them to reflect new events or circumstances.

Item 9.01 Financial Statements and Exhibits.

(d) *Exhibits* .

EXHIBIT NUMBER		DESCRIPTION
99.1	—	Slide presentation of Paragon to be used at the 2014 Wells Fargo Energy Symposium Conference on December 8, 2014.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Paragon Offshore plc, a public limited company incorporated under the laws of England and Wales

Date: December 8, 2014

By:	/s/ Steven A. Manz
Name:	Steven A. Manz
Title:	Senior Vice President and Chief Financial Officer

INDEX TO EXHIBITS

EXHIBIT NUMBER		DESCRIPTION
99.1	—	Slide presentation of Paragon to be used at the 2014 Wells Fargo Energy Symposium Conference on December 8, 2014.

Exhibit 99.1

PARAGON
OFFSHORE

2014 Wells Fargo Energy Symposium
Presentation for 1x1 Meetings

December 8-9, 2014

New York, NY

www.paragonoffshore.com

Safe Harbor Statement

This material contains statements that are "forward-looking statements" about Paragon's business and financial performance. These statements can be identified by the fact that they do relate strictly to current or historical facts. Each future projection is a forward-looking statement that involves certain risks, uncertainties and assumptions. These include but are not limited to operational risks, actions by regulatory authorities or other third parties, costs and difficulties related to the separation, market conditions, financial results and performance, tax rates, ability to repay debt and timing thereof, actions by customers and other third parties, factors affecting the level of activity in the oil and gas industry, supply and demand of drilling rigs, factors affecting the duration of contracts, the actual amount of downtime, factors that reduce applicable dayrates, violations of anticorruption laws, the future price of oil and gas, statements related to the anticipated mandatory tender offer for Prospector, the time frame in which it is expected to occur, the expected benefits of the proposed acquisition, the future financial performance of the assets after the proposed acquisition, and the contract backlog, revenue, condition or performance, contract commitments, dayrates, contract commencements, contract extensions or renewals of Prospector's fleet, and other factors including those detailed in Paragon's filings with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated. Paragon disclaims any duty to update the information presented here.

Agenda

Introducing Paragon Offshore

Paragon's Acquisition of Prospector Offshore

Market Considerations

Conclusion


Paragon C461

Overview of Paragon Offshore

Business Overview

Offshore contract drilling services provider

Spin-off from Noble Corporation completed August 1, 2014

Headquartered in Houston, TX and incorporated in the United Kingdom

Acquired Prospector Offshore (OSE: PROS) on November 17, 2104

9/30/2014 Estimated EBITDA* by Region

Worldwide Offshore Presence

Operating* Fleet Composition

Jackups Incl. Prospector:	35
Drillships:	4
Semisubmersibles:	2
Total:	41

* *See Appendix for reconciliation to EBITDA. Map and Operating Fleet do not include "cold" stacked rigs, which includes two floaters, one jackup, and one FPSO.*

Strong Third Quarter 2014 Operational Results

Contract Drilling Services Revenues:	$440 million
EBITDA:	$224 million
Net Income:	$52 million
Earnings per Share:	$0.59
Jackup Marketed Utilization:	80%
Average Jackup Dayrate:	$117,208
Floater Marketed Utilization:	100%
Average Floater Dayrate:	$284,571

Note: All Figures "As Adjusted"—See Appendix for reconciliation to As Reported

Paragon's Strategy

Deliver reliable, safe, cost-efficient operations

Match our assets to customers in fit-for-purpose applications while maintaining industry-leading utilization

Manage our costs to preserve flexibility in changing dayrate environments

Practice disciplined capital allocation in terms of fleet maintenance, fleet renewal and returns to shareholders

Paragon DPDS2

Paragon's Acquisition of Prospector Offshore Transaction Summary

As of November 20, 2014, Paragon has acquired >98% of the outstanding shares of Prospector Offshore Drilling S.A. ("Prospector")

- Share Price: NOK 14.50 (~$2.13)
- Share purchase price: ~$198 million

Prospector operates two high specification/harsh environment (HS/HE) jack-ups in the North Sea and has three additional, identical rigs under construction

PROSPECTOR 1

Prospector is an excellent strategic fit with Paragon

- Brings two HS/HE rigs with attractive contracts in the key North Sea market
- Adds contract backlog valued at $384 million
- Strengthens Paragon's relationship with Total
- Expands the technical capabilities of Paragon's fleet, reduces Paragon's fleet age and provides future contract opportunities for high-spec rigs in core markets

Prospector is a low-risk opportunity for Paragon to begin renewing its fleet

Contract Overview and Delivery Schedule of Propsector Offshore's Rigs

PARAGON OFFSHORE

PROSPECTOR 1 has a firm charter duration of 730 days, plus one 1-year option and four 6-month options with Total

- The total revenue backlog for firm period is estimated to be USD 135 MM excluding mobilization fee

PROSPECTOR 5 has a firm charter duration of 1,095 days, plus two 1-year option with Total

- The total revenue backlog for firm period is estimated to be USD 249 MM including mobilization fee

PROSPECTOR 6 has an option with the shipyard to delay the delivery of the rig by four months from Dec 2014 to Apr 2015

The remaining yard installments for ***PROSPECTOR 6 - 8*** are USD 201MM, USD 199MM and USD 199MM respectively (payable at delivery)

- The rig construction contracts are non-recourse to Prospector

Rig	Yard	Construction costs	Delivery Schedule & Contract day rate (USD k/d) — 2013 / 2014 / 2015 / 2016 / 2017
PROSPECTOR 1	DSIC (CN)	185	Sep 2013; TOTAL; $185k/d; $185k/d
PROSPECTOR 5	SWS (CN)	203*	June 2014; TOTAL; $218k/d; $218k/d
PROSPECTOR 6	SWS (CN)	203*	Apr 2015
PROSPECTOR 7	SWS (CN)	214*	Sep 2015
PROSPECTOR 8	SWS (CN)	214*	Mar 2016

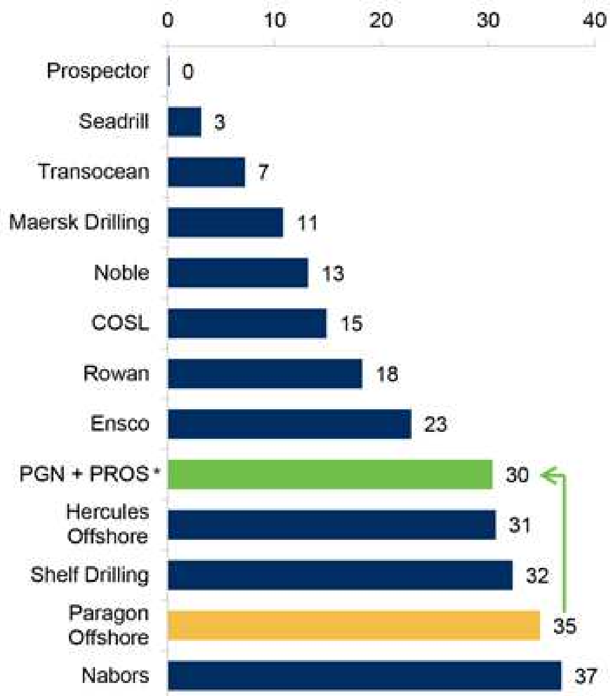
*Includes USD 7MM OFE allowance

- Under construction
- Mobilization / Site preparations
- Contracted
- Options
- Uncontracted

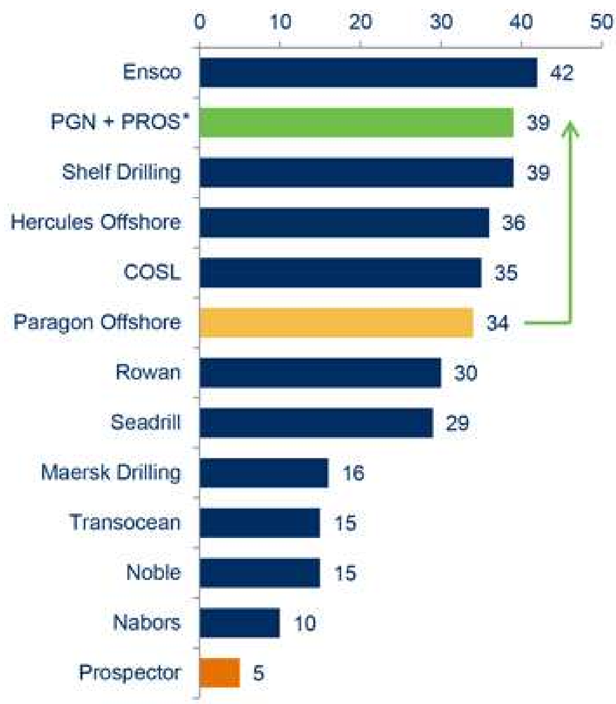
Source: Prospector

Acquisition of Prospector Provides Paragon the Opportunity to Improve Fleet Age by 5 Years*

Average fleet age in years, Jack-Up fleets



Jack-Up fleet sizes (# rigs)



** Assumes Prospector's fleet includes the two delivered rigs as well as the three rigs under construction.*
Source: ODS-Petrodata

Prospector Transaction Next Steps

Commence a mandatory tender offer for the remaining outstanding shares in Prospector within four weeks with the intent to require all remaining shares

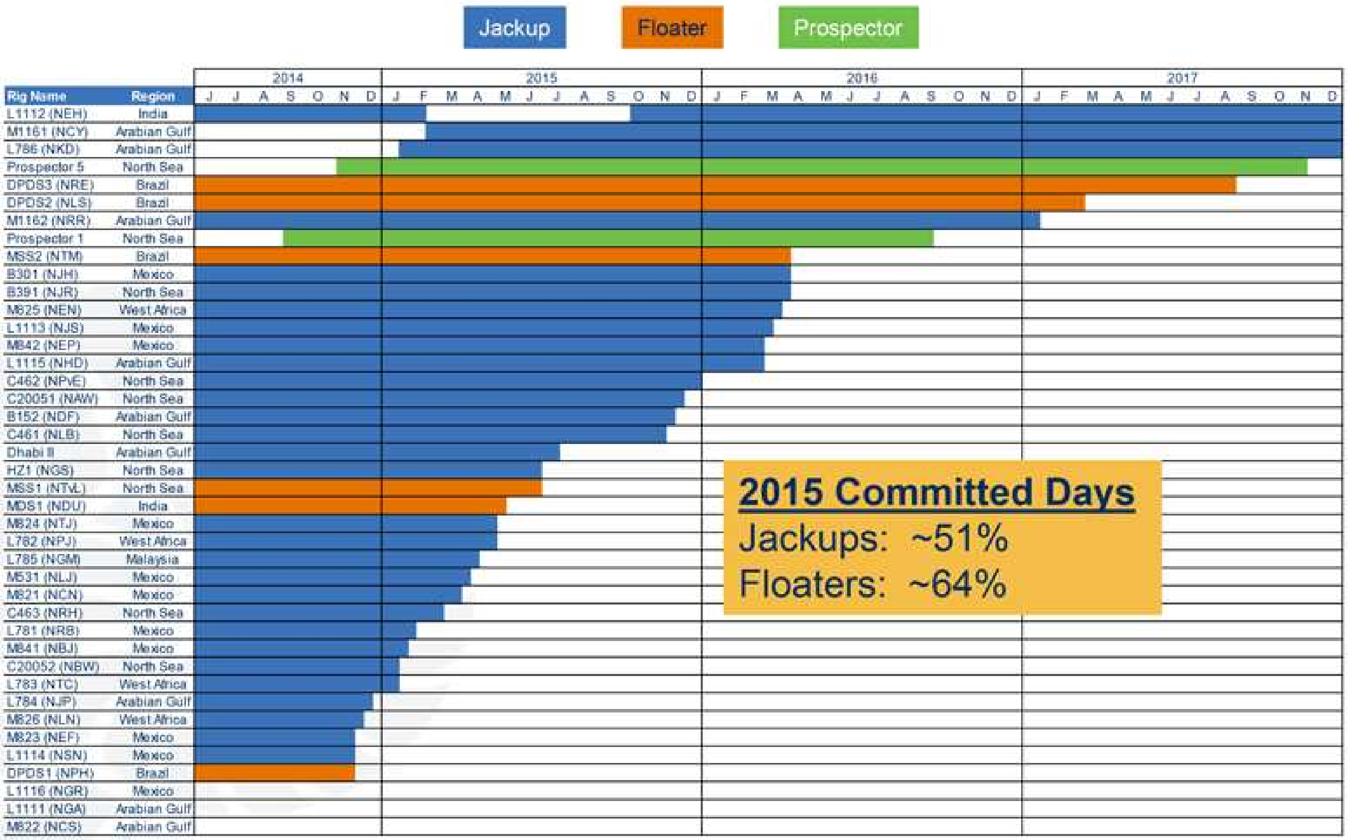
Continue discussions with Prospector's bank group on Prospector debt

- Term Loan: $270 million (LIBOR + 350 bps)
- Bond holders: $100 million (7.75%)
- Examine refinancing opportunities / requirements

Begin integration of Prospector into Paragon

Focus on marketing opportunities for *Prospector 6*

Paragon's Contract Coverage November 17, 2014 Fleet Status Including Prospector Rigs



Source: Company data

Agreement with Petrobras to Transfer Backlog from DPDS1 to MSS2

As part of our ongoing discussions with Petrobras, Petrobras proposed an early release for the DPDS1 and a transfer of the value of the backlog from the DPDS1 to the MSS2

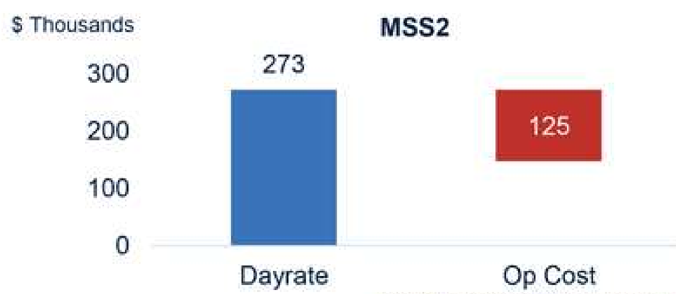
Elements of the agreement:

- DPDS1 released by Petrobras effective November 30
- Value of backlog from December 1 to May 2015 = 154 days at $290k/day = $44.7 MM
- Backlog transferred to MSS2 at $273k/day keeps rig on contract until April 2016

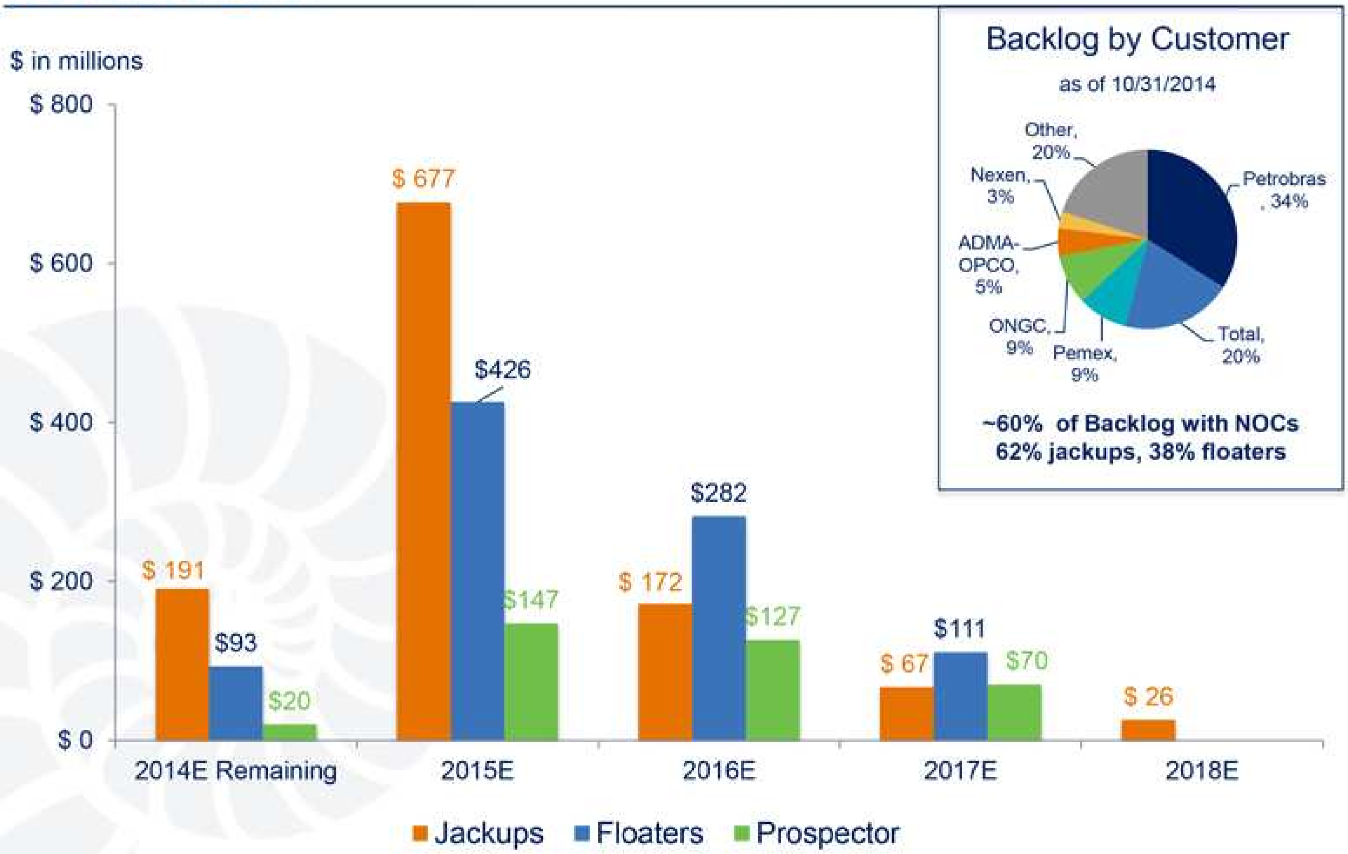
Plans for DPDS1

- Deferral of $20-25 MM shipyard project
- Mobilize rig to US Gulf and stack
- Examine contracting opportunities in Mexico, West Africa, and Southeast Asia
- Estimated associated costs: Demobilization: $6.5 MM; Preservation: $500k; Daily stack cost: <$5k

Better margins on MSS2



$2.4 Billion of Backlog Including Prospector and Adjusted for Petrobras Agreement as of 10/31/2014



~60% of Backlog with NOCs
62% jackups, 38% floaters

Source: Company

Industry-Leading Safety and Quality Performance

Commitment to Safety and Quality

Strong Safety Record

Customers recognize our commitment to safety and performance

- ~50% lower TRIR[1] than International Association of Drilling Contractors (IADC) in 2013[2]
- Continued improvement and outperformance as compared to IADC

Promotes strong relationships with key stakeholders such as employees, customers, and the local communities in which we operate

We believe that our excellent safety record contributes to lower downtime and lower costs

1. TRIR defined as the number of recordable injuries and illnesses incurred in the period multiplied by 200,000 and then divided by the total number of employee hours worked. A lower TRIR is better.
2. Includes both offshore and onshore contract drillers

Market Considerations

Returns for industry players have been negatively impacted in recent years by a variety of factors

Jackup market capacity additions create potential challenges for drilling contractors

Challenges and opportunities in the short-term

Breakeven oil prices for various play types


Paragon DPDS3

Key Issues Impacting Returns in Recent Years

PARAGON OFFSHORE

For Operators

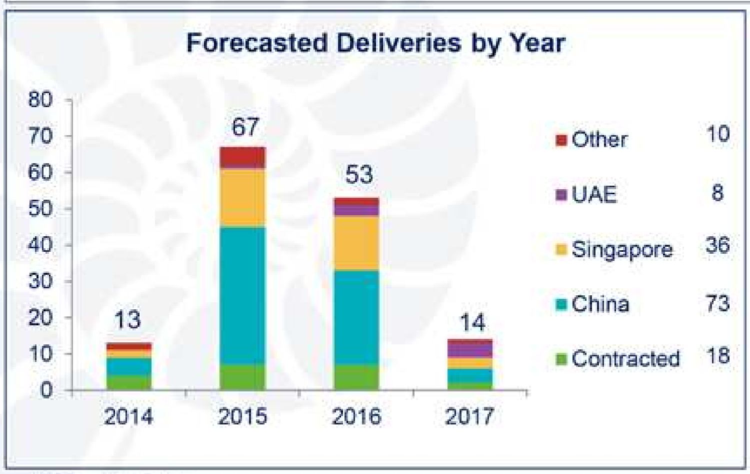
- Financial crisis and resulting host government responses
- Macondo incident and impact on ultradeepwater activity and project costs
- Rise of North American shale plays
- Reduced conventional exploration success
- Increased pressure from investors to return cash to shareholders

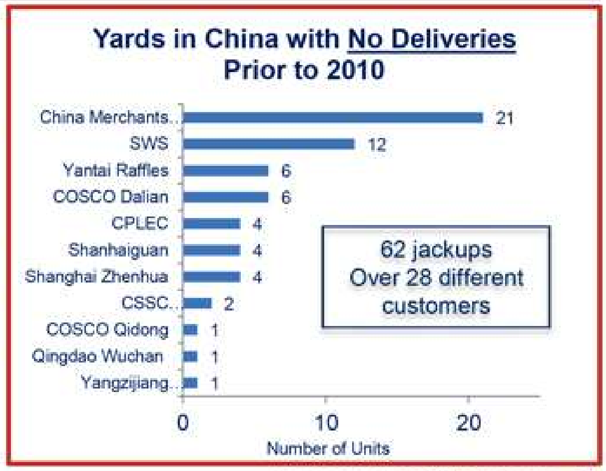
For the Drilling industry

- Rising labor costs and competition for crews
- Increasing regulation
- Increasing local content requirements
- Increasing number of national drilling contractors
- Increasing rig supply
- Increasing industry fragmentation

A changing environment for both Operators and Contractors

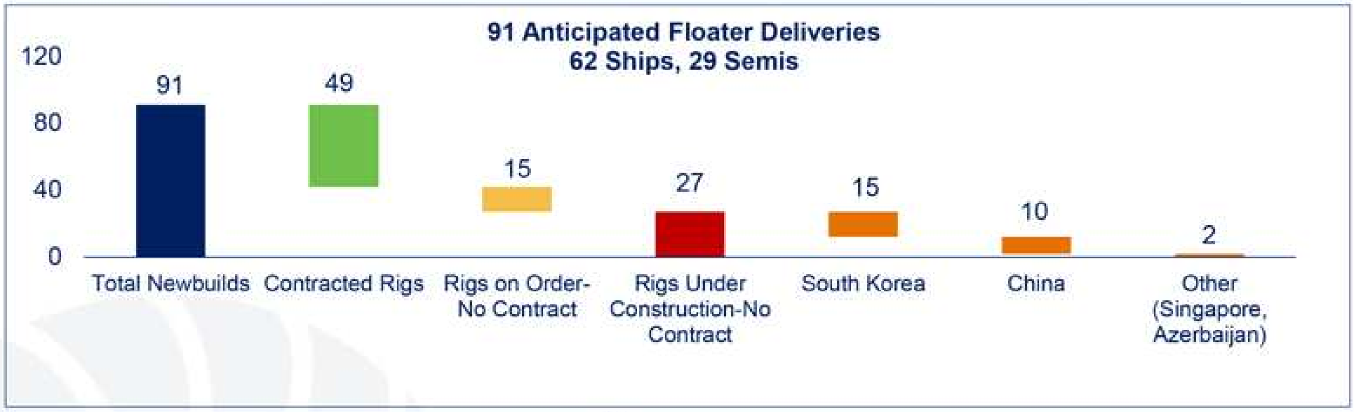
Newbuild Jackup Orders According to IHS
November 21, 2014





Source: IHS Petrodata 11.21.14

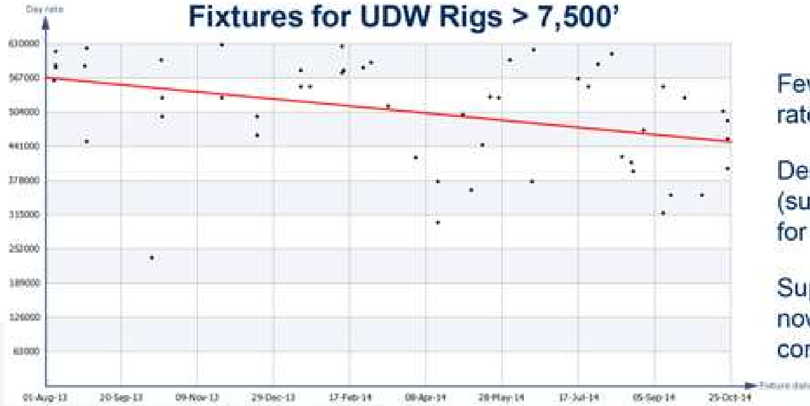
Newbuild Floater Orders According to IHS
November 21, 2014



Source: IHS Petrodata 11.21.14

Differences Between Floater and Jackup Markets

PARAGON OFFSHORE



Ultradeepwater Floater Markets

Few fixtures over last 12 months and downward day rate trend

Demand governed by relatively few customers (supermajors, Petrobras) who have alternative uses for capital (e.g., Lower 48 onshore)

Supply of 91 units scheduled for delivery between now and 2020; built largely by established drilling contractors (50) or for Petrobras (29)

International Jackup Markets

Many fixtures over last 12 months at flat rates

Many more jackup customers vs. floater customers; not nearly as many opportunities to redeploy capital away from offshore; additional demand projected

Supply of 147 units scheduled for delivery between now and 2017

Newbuild rigs largely ordered by financial speculators (more than 50%) looking to sell

Source: IHS Petrodata 11.23.14; Trendlines inserted by IHS

People—A Key Ingredient for Success and an Advantage for Paragon

With 147 jackups and 93 floaters under construction, the industry needs to add a significant number of people to crew these units

At an average of 100 people per rig, we could need more than 20,000 new employees to crew these rigs if all are incremental to current supply.

Although rig stacking and retirements will likely make crews available for some newbuilds, a large proportion of the workforce is past the age of 50, which means that the "great crew change" is coming

Many safety and downtime incidents can be traced to human error—those contractors with the most experienced crews and best training programs, like Paragon, are best positioned for success

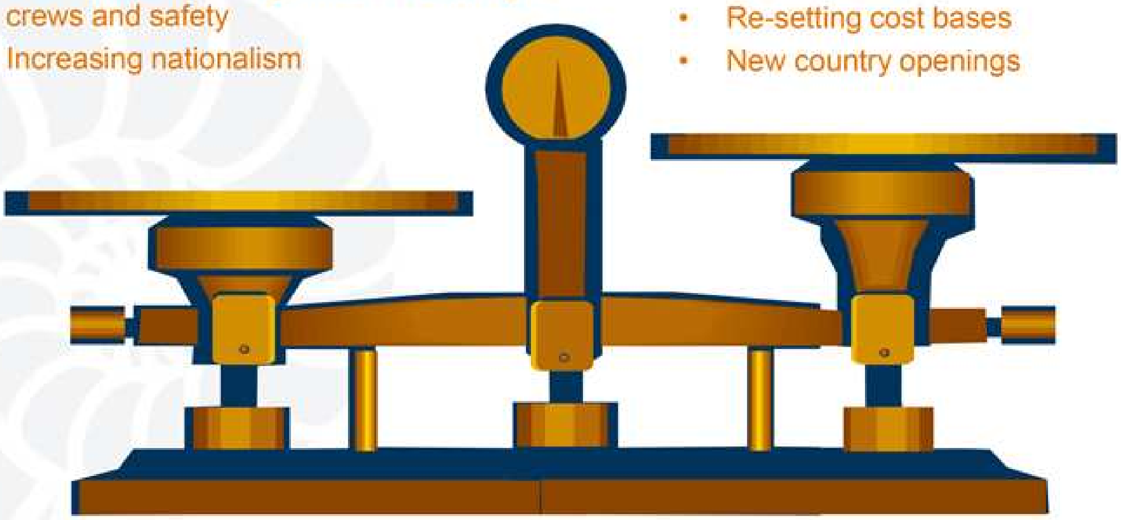
Where Are We Headed?
Short-term: More Challenges Than Opportunities

Challenges

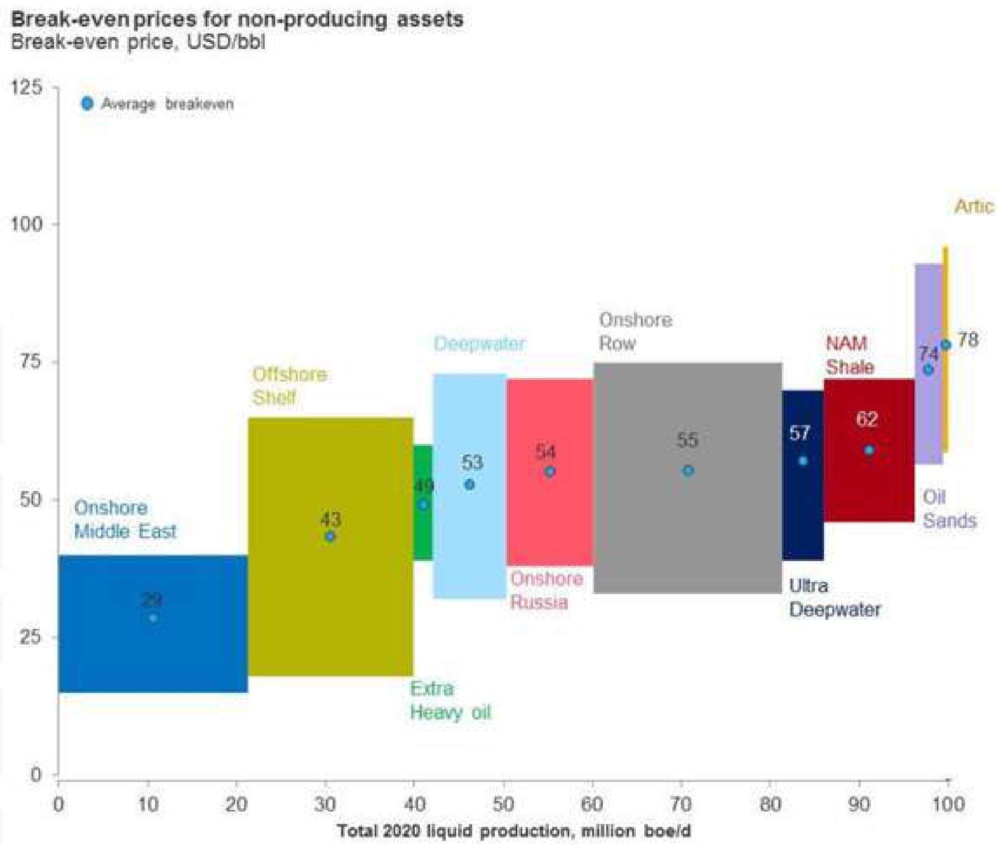
- Near-term lower oil price environment
- 2015 E&P capital budgets reduced for some oil companies
- Customer focus on project cost reduction
- Speculative rig construction continues
- Absorption of new rigs into the industry—crews and safety
- Increasing nationalism

Opportunities

- Consolidation
- Fleet renewal
- Re-setting cost bases
- New country openings



Rystad Energy's Global Liquids Cost Curve



Offshore shelf developments are well-positioned on the global cost curve

Paragon mainly serves NOCs and smaller Independents who generally have different strategic drivers as compared to the Supermajors

Believe shelf drilling operations—new wells and workovers—are likely to continue in this price environment

Source: Rystad Energy; June 12, 2014; http://www.rystadenergy.com/AboutUs/NewsCenter/PressReleases/global-liquids-cost-curve

Conclusion

Disciplined Capital Allocation

The Focus for Paragon Offshore

Focus on Existing Fleet

- Secure contract renewals
- Make disciplined investments to maintain fleet, improve competitiveness, extend life
  - $180 MM Maintenance (base budget + survey-related expenditures)
  - $120-150 MM Discretionary — Capability Upgrades, Customer Requirements, Capital Spares
- Explore sales of stacked rigs; potentially others

Renew the Fleet

- Lower average fleet age over time
- Be opportunistic and disciplined
- Refrain from spec building
- Focus on quality designs and yards; primarily jackups

Steward Our Resources

- Initiated $0.50/share dividend; first quarterly installment paid in November 2014; expect to be sustainable and growable
- Explore and act as appropriate on opportunities to reduce debt and/or repurchase shares
- Seek to remain leverage-neutral when considering opportunities
- Invest through lens of ROCE
- Look for creative ways to finance acquisitions

Why Paragon Offshore?

Significant Scale, Size and Expertise

Low-cost Driller with Proven Record of Excellence

Strong Backlog and Established Diverse Customer Base

Well-Maintained "Workhorse" Fleet of Rigs

Opportunistic Acquirer

Total Return Investment Vehicle

Paragon C20051

PARAGON
OFFSHORE

NYSE Listed: PGN

3151 Briarpark Drive

Houston, TX 77042

832.783.4000

For additional information, contact:

Lee M. Ahlstrom

SVP-Investor Relations, Strategy & Planning

lahlstrom@paragonoffshore.com

www.paragonoffshore.com

Appendix

3Q14 Adjusted Net Income (Non-GAAP) to Net Income (GAAP)

(In thousands, except per share amounts)
(Unaudited)

The following tables sets forth the reconciliation of adjusted net income (non-GAAP) to net income:

		Three Months Ended September 30, 2014
Net income (loss)	$	(894,216)
Less:		
Gain on repurchase of long-term debt		(6,931)
Add:		
Loss on impairment		928,947
Tax impact of loss on impairment		24,079
Adjusted net income	$	51,879
Allocation of adjusted net income		
Basic and Diluted		
Adjusted net income	$	51,879
Earnings allocated to unvested share-based payment awards		(2,041)
Adjusted net income to ordinary shareholders - basic and diluted	$	49,838
Weighted average number of shares outstanding - basic and diluted		84,753
Weighted average unvested share-based payment awards		3,471
Adjusted earnings per share		
Basic and Diluted	$	0.59

3Q14 As Adjusted Measures (Non-GAAP) to As Reported Measures (GAAP)

PARAGON OFFSHORE

PARAGON OFFSHORE PLC
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES (cont'd)
(In thousands, except operating statistics)
(Unaudited)

	As Reported			Rigs Retained or Sold by Noble			As Adjusted		
	Three Months Ended			Three Months Ended			Three Months Ended		
	September 30,		June 30,	September 30,		June 30,	September 30,		June 30,
	2014	2013	2014	2014	2013	2014	2014	2013	2014
Operating revenues									
Contract drilling services	$ 456,174	$ 468,348	$ 462,334	$ 15,904	$ 50,399	$ 41,296	$ 440,270	$ 417,949	$ 421,038
Labor contract drilling services	8,562	8,466	8,146	-	-	-	8,562	8,466	8,146
Reimbursables and other	40,486	12,868	8,477	327	917	1,078	40,159	11,951	7,399
	505,222	489,682	478,957	16,231	51,316	42,374	488,991	438,366	436,583
Operating costs and expenses									
Contract drilling services	217,378	219,022	222,317	5,701	18,813	16,972	211,677	200,209	205,345
Labor contract drilling services	6,593	6,110	6,223	-	-	-	6,593	6,110	6,223
Reimbursables	35,592	9,588	5,224	158	729	497	35,434	8,859	4,727
Depreciation and amortization	108,027	105,445	112,536	3,877	11,727	11,255	104,150	93,718	101,281
General and administrative	12,037	16,911	12,683	536	1,781	901	11,501	15,130	11,782
Loss on impairment	928,947	3,585	-	-	3,585	-	928,947	-	-
Gain on disposal of assets, net	-	(35,646)	-	-	(35,646)	-	-	-	-
Gain on contract settlements/extinguishments, net	-	(22,573)	-	-	-	-	-	(22,573)	-
Gain on repurchase of long-term debt	(6,931)	-	-	-	-	-	(6,931)	-	-
	1,301,643	302,442	358,983	10,272	989	29,625	1,291,371	301,453	329,358
Operating income	(796,421)	187,240	119,974	5,959	50,327	12,749	(802,380)	136,913	107,225
Other income (expense)									
Interest expense, net of amount capitalized	(22,453)	(1,318)	(2,972)	n/a	n/a	n/a	(22,453)	(1,318)	(2,972)
Interest income and other, net	340	1,237	338	n/a	n/a	n/a	340	1,237	338
Income (loss) before income taxes	(818,534)	187,159	117,340	5,959	50,327	12,749	(824,493)	136,832	104,591
Income tax provision	(75,682)	(29,524)	(22,292)	n/a	n/a	n/a	(75,682)	(29,524)	(22,292)
Net income (loss)	$ (894,216)	$ 157,635	$ 95,048	$ 5,959	$ 50,327	$ 12,749	$ (900,175)	$ 107,308	$ 82,299
Add:									
Income tax provision	75,682						75,682	29,524	22,292
Interest expense, net of amount capitalized	22,453						22,453	1,318	2,972
Loss on impairment	928,947						928,947	-	-
Depreciation and amortization	108,027						104,150	93,718	101,281
Less:									
Gain on repurchase of long-term debt	(6,931)						(6,931)	-	-
Interest income and other, net	-						(340)	(1,237)	(338)
EBITDA	$ 233,962	(1)					$ 223,786	$ 230,631	$ 208,506

(1) EBITDA as defined in the credit facility agreement.

3Q14 As Reported and As Adjusted Operational Information

PARAGON OFFSHORE PLC
OPERATIONAL INFORMATION
(In thousands, except operating statistics)
(Unaudited)

	As Reported			Rigs Retained or Sold by Noble			As Adjusted		
	Three Months Ended			Three Months Ended			Three Months Ended		
	September 30,		June 30,	September 30,		June 30,	September 30,		June 30,
	2014	2013	2014	2014	2013	2014	2014	2013	2014
Rig fleet operating statistics (1)(2)									
Jackups:									
Average Rig Utilization	77%	93%	76%	50%	100%	50%	77%	93%	78%
Marketed Utilization (3)	79%	96%	78%	50%	100%	50%	80%	96%	80%
Operating Days	2,447	3,096	2,492	31	184	91	2,416	2,912	2,401
Average Dayrate	$ 116,967	$ 105,413	$ 113,125	$ 98,194	$ 96,614	$ 98,625	$ 117,208	$ 105,969	$ 113,675
Floaters:									
Average Rig Utilization	76%	67%	78%	100%	100%	100%	75%	63%	75%
Marketed Utilization (3)	100%	86%	100%	100%	100%	100%	100%	83%	100%
Operating Days	583	552	637	31	92	91	552	460	546
Average Dayrate	$ 291,498	$ 257,210	$ 283,221	$ 414,839	$ 354,596	$ 355,174	$ 284,571	$ 237,733	$ 271,229
Total:									
Average Rig Utilization	77%	84%	76%	67%	60%	67%	77%	87%	77%
Marketed Utilization (3)	82%	90%	82%	67%	60%	67%	83%	94%	83%
Operating Days	3,030	3,648	3,129	62	276	182	2,968	3,372	2,947
Average Dayrate	$ 150,548	$ 128,381	$ 147,752	$ 256,516	$ 182,605	$ 226,901	$ 148,334	$ 123,943	$ 142,865

(1) We define average rig utilization for a specific period as the total number of days our rigs are operating under contract, divided by the product of the total number of our rigs, including cold-stacked rigs, and the number of calendar days in such period. Information reflects our policy of reporting on the basis of the number of available rigs in our fleet.
(2) Excludes the Paragon FPSO1.
(3) Excludes the impact of Paragon cold-stacked rigs.

30 September 2014 Summary Balance Sheet

PARAGON OFFSHORE

Assets (in thousands)

Cash	$81,908
Total Current Assets	$643,565
PPE, Net	$2,033,635
Other Assets	$103,092
Total Assets	**$2,780,292**

Liabilities and Equity

Total Current Liabilities	$435,716
Long-term Debt	$1,670,087
Deferred income taxes	$79,482
Other Liabilities	$120,110
Total Liabilities	$2,305,395
Total Equity	$474,897
Total Liabilities and Equity	**$2,780,292**

Source: Company's Quarterly Earnings Press Release for the nine months ended September 30, 2014