Seahawk Investments
Quarterly Note
2026/02

Credit Opportunities in the Offshore Drilling Segment

State of the Jack-Up-market

During the first half of 2026, the global jack-up drilling market remained resilient, although growth was more measured than in the deepwater floater segment.

The Middle East continued to be the primary driver of global jack-up demand. Large-scale drilling programs led by national oil companies, particularly Saudi Aramco and ADNOC, sustained high utilization levels and supported long-term employment for many modern, high-specification jack-up rigs.

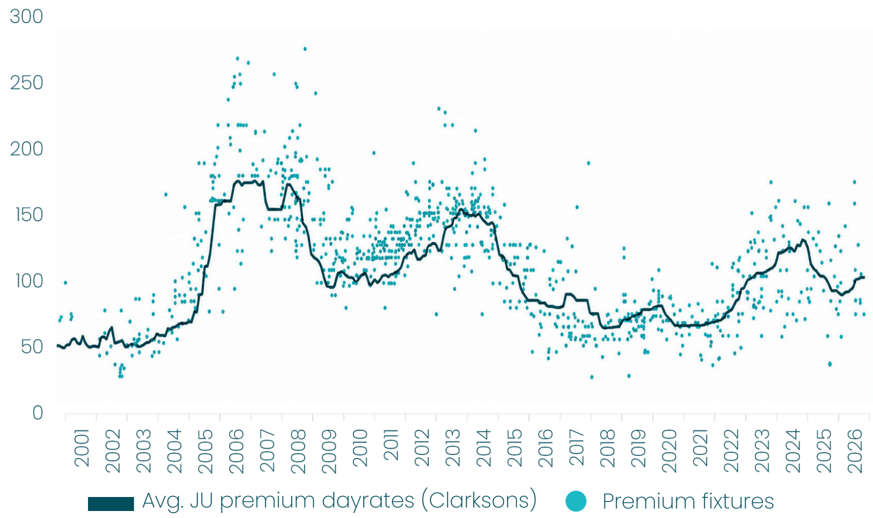
Premium jack-up day rates remained broadly stable throughout the period. In the North Sea, harsh-environment jack-ups continued to command day rates exceeding $150,000 per day, supported by robust activity from operators such as Equinor and Aker BP.

Market conditions varied across regions. The North Sea and Middle East remained among the tightest markets, with limited rig availability and strong demand for premium assets. In contrast, Southeast Asia remained more competitive, characterized by greater rig availability and generally lower day rates.

On the supply side, fleet growth remained constrained. The reactivation of cold-stacked rigs progressed more slowly than anticipated due to high reactivation costs, ongoing crew shortages, and disciplined capital allocation by drilling contractors. In addition, most newbuild jack-ups entering the market were already committed to long-term contracts, limiting the amount of incremental supply available to customers.

Global activity levels remained stable, with approximately 360 to 370 jack-up rigs active worldwide during June and July 2026. Overall, the market remained broadly balanced, supported by healthy demand fundamentals and limited additions to the active fleet.

Premium jackup rates and Individual fixtures



Source: Clarksons Securities AS. As of June 2026

Middle East Crisis

The Middle East crisis created moderate operational disruptions in the jack-up drilling market during the first half of 2026, temporarily affecting activity across several key offshore drilling regions.

The most significant impact was felt in the Arabian Gulf, where security concerns arising from missile strikes, drone attacks, and broader regional military tensions led to the temporary suspension of offshore operations in parts of Saudi Arabia, Qatar, and the United Arab Emirates. Several drilling contractors, including ADES, Arabian Drilling, and Borr Drilling, reported interruptions to rig activity or reductions in operating levels.

In response to the heightened security environment, operators implemented precautionary measures such as personnel evacuations, reduced onboard staffing levels, delayed drilling programs, and postponed contract start dates. These actions were primarily aimed at safeguarding personnel and protecting critical offshore assets.

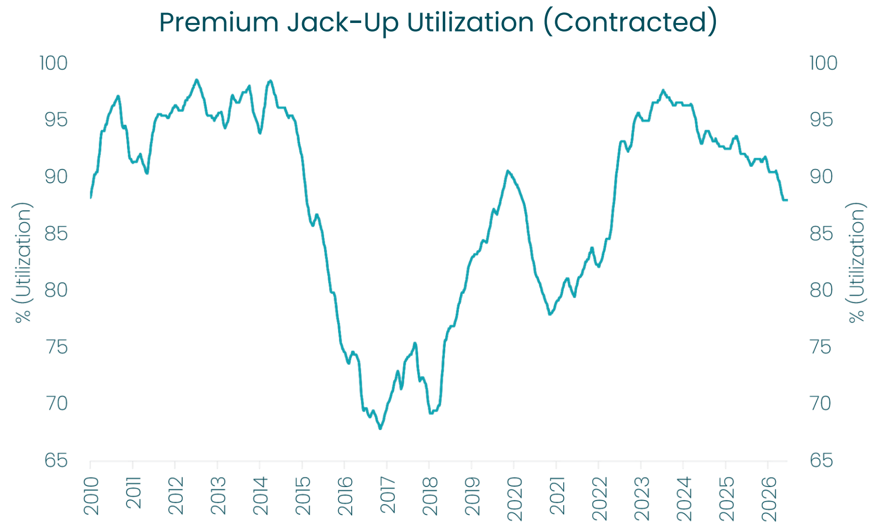
As a result, industry observers noted that jack-up utilization softened modestly compared with expectations at the beginning of the year. Tender activity also slowed temporarily as operators reassessed operational risks and project timelines within the region.

Market estimates suggested that approximately 20 jack-up rigs were affected by temporary suspensions or operational delays. However, most interruptions were considered short-term in nature, with limited impact on the longer-term demand outlook.

By April and May 2026, drilling activity had begun to normalize. Several suspended rigs returned to service, including Borr Drilling's Arabia III, Arabia II and Groa units, while additional rigs resumed preparations for operations in Qatar and the UAE. Industry sentiment subsequently improved, supported by expectations that contracting activity and drilling demand would strengthen as regional tensions eased and energy security concerns continued to support offshore investment.

Utilization Rates

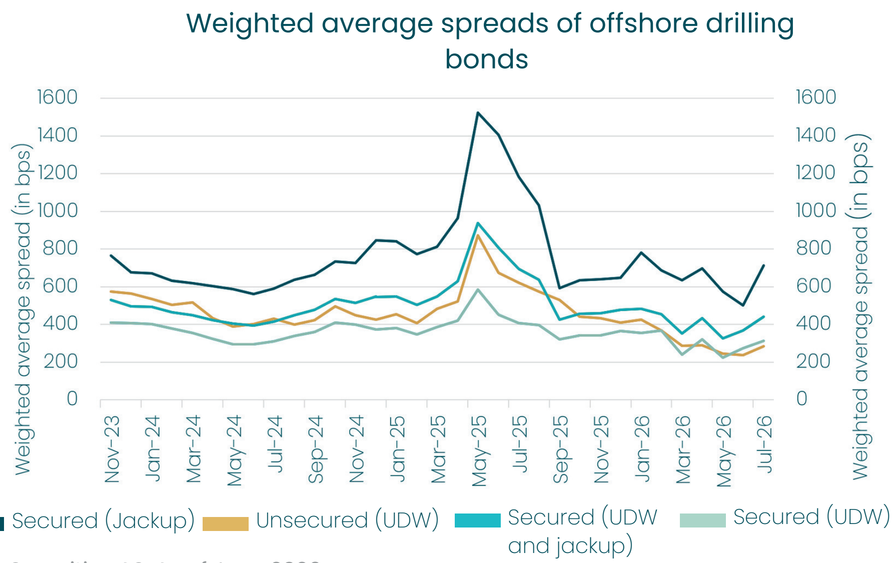
Utilization levels varied considerably across regions during the first half of 2026, reflecting differences in local demand, rig availability, and operator activity. On a global basis, total jack-up fleet utilization generally remained in the mid-70% range, while marketed utilization was significantly higher, averaging approximately 86% during the period. Premium jack-up segments, particularly in the Middle East and North Sea, continued to outperform the broader market, with utilization levels approaching or exceeding 90% in some areas. This stronger performance was driven by sustained demand for modern, high-specification rigs capable of supporting increasingly complex drilling programs, while older standard units faced greater competitive pressure and lower utilization rates.



Source: Clarksons Securities AS. As of June 2026

Development of Credit Spreads

As the Middle East crisis escalated during the first half of 2026, secured jack-up bonds materially underperformed both secured and unsecured ultra-deepwater (UDW) drilling bonds, with credit spreads widening more significantly across the jack-up segment. The primary driver of this divergence was the jack-up sector's substantial exposure to the Arabian Gulf, which accounts for approximately one-third of global jack-up demand. As regional tensions intensified from February 2026 onward, offshore operators implemented temporary rig suspensions, delayed contract commencements, reduced manning levels, and postponed drilling programs, prompting investors to reassess the near-term cash flow outlook for jack-up contractors.



Source: Clarksons Securities AS. As of June 2026

In contrast, the UDW sector was largely insulated from these developments due to its broader geographic diversification. Modern drillships and semisubmersibles are deployed across multiple deepwater basins, including Brazil, the U.S. Gulf of Mexico, West Africa, and the North Sea, reducing dependence on any single region or customer. Consequently, credit investors viewed UDW cash flows as more resilient and less vulnerable to regional geopolitical disruptions.

By mid-2026, the UDW market had emerged as the clear outperformer within the offshore drilling sector. Floater utilization remained exceptionally strong, while premium drillships continued to secure attractive day rates and increasingly longer contract durations. Multi-year awards extending three to seven years became more common, enhancing revenue visibility and supporting stronger backlog quality. As a result, investors increasingly viewed UDW issuers as beneficiaries of a sustained multi-year upcycle rather than a cyclical recovery story.

Another important factor was customer concentration. Many jack-up contractors derive a significant portion of their revenues from a limited number of national oil companies, particularly Saudi Aramco. During the crisis, some rigs scheduled to resume operations remained idle while other contracts were delayed or temporarily suspended, highlighting the sector's dependence on a small group of customers and increasing investor sensitivity to concentration risk. By comparison, leading UDW contractors typically maintain contract portfolios diversified across Petrobras, ExxonMobil, Shell, Chevron, TotalEnergies, Equinor and other major international operators, resulting in a more balanced risk profile.

H1 2026 also saw increasing differentiation by credit investors based on backlog quality. UDW contractors continued to secure long-duration contracts at attractive economics, providing earnings visibility several years into the future. Jack-up contractors, while generally maintaining satisfactory operating performance, were more exposed to shorter-duration contracts and greater sensitivity to operational disruptions, contract delays, and tender timing. Consequently, the market discounted future uncertainty through wider credit spreads despite the absence of any immediate financial distress.

Ultimately, the widening spread differential reflected a shift in relative investor preference rather than concerns about solvency. Jack-up credits were penalized for their higher geopolitical exposure, temporary downtime, softer-than-expected utilization trends, customer concentration, and less predictable earnings outlook. Conversely, UDW credits benefited from stronger utilization, increasing asset scarcity, superior backlog visibility, longer contract coverage, and greater geographic diversification. As a result, the market increasingly viewed a modern contracted drillship as a more valuable and predictable cash-generating asset than a jack-up rig exposed to Middle East disruptions, helping explain why secured jack-up bonds underperformed both secured and unsecured UDW bonds during the first half of 2026.

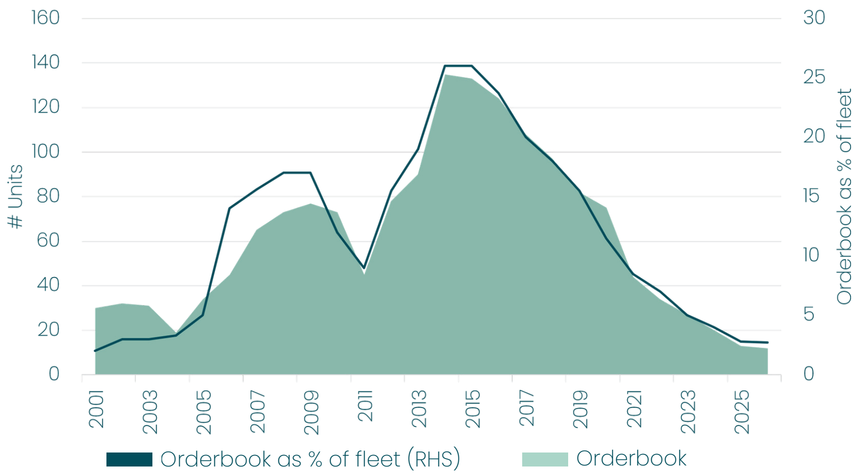
Favourable Fundamental Supply Demand Balance in the Jack-Up Market

Beyond the short-term effects of the Middle East disruption, the long-term investment case for the premium jack-up sector is increasingly driven by favourable supply and demand fundamentals. One of the most important indicators is the industry's exceptionally low newbuild order book.

The order book represents the number of new jack-up rigs currently under construction at shipyards but not yet delivered to the market. Historically, large order books have led to periods of oversupply and weaker day rates as substantial numbers of new rigs entered the fleet. In 2015, the global jack-up order book peaked at approximately 25% of the active fleet, contributing to years of excess capacity following the downturn in offshore activity.

Today, the situation is markedly different. Over the past two years, the jack-up order book has declined to only approximately 2.5-3% of the global fleet, one of the lowest levels seen in decades. As a result, future supply growth is expected to remain extremely limited, even if offshore demand continues to strengthen.

Jackup orderbook and as % of fleet



Source: Clarksons Securities AS. As of June 2026

This dynamic is particularly supportive because offshore operators continue to require jack-up rigs for development drilling, production maintenance and infill programs across key regions such as the Middle East, Southeast Asia, and parts of Europe. With demand remaining relatively stable and very few new rigs entering the market, utilization levels are likely to remain firm and could tighten further if drilling activity accelerates.

The supply outlook is reinforced by ongoing fleet attrition. A growing number of older jack-up rigs are approaching the end of their economic lives, while increasingly stringent technical and maintenance requirements are making reactivation of older units less attractive. Consequently, industry capacity is being reduced through retirements and scrapping at a time when replacement assets are scarce.

Viewed together, the combination of a historically low order book, limited fleet growth, continued retirement of older rigs, and stable underlying demand represents one of the strongest long-term bullish factors for the jack-up market. These conditions support higher utilization, stronger day rates, and improved earnings visibility for owners of modern premium fleets such as Borr Drilling. Over time, this favourable supply-demand balance should support both asset values and credit quality across the premium jack-up segment.

A leading player in the Premium Jackup Market -Borr Drilling

Borr Drilling Limited is one of the world's leading offshore drilling contractors focused exclusively on the premium jack-up rig market. Headquartered in Hamilton, Bermuda, the company is listed on both the New York Stock Exchange and Euronext Oslo Børs.

Since its formation, Borr has pursued a strategy of acquiring modern, high-specification jack-up rigs at attractive valuations and securing employment through long-term contracts with national and international oil companies. This strategy has enabled the company to build one of the youngest jack-up fleets in the industry.

Today, Borr's fleet consists of 29 modern premium jack-up rigs, all delivered after 2008 and capable of operating in water depths of up to approximately 400 feet. The fleet is geographically diversified and serves a broad customer base across the Americas, Europe, the Mediterranean, West Africa, Southeast Asia, and the Middle East.

Although the Middle East remains one of the most important regions for global jack-up drilling activity, Borr's direct exposure to the region is relatively limited. As of 2026, only four rigs were deployed in the Middle East, including units operating in Saudi Arabia, Qatar, and the UAE. This represents approximately 15% of the company's fleet capacity, significantly below the level that might typically be associated with a pure Middle East-focused jack-up contractor.

Consequently, while the Middle East crisis contributed to wider credit spreads across the broader jack-up sector, the impact on Borr's underlying business model should be viewed in the context of its diversified fleet deployment. The company's earnings and backlog are supported by operations across multiple regions and customer groups, rather than being predominantly dependent on a single market or operator. As a result, the widening of Borr's bond spreads during H1 2026 appears to have been driven more by negative sentiment toward the jack-up sector as a whole than by the company's actual operational exposure to the Middle East.

Borr Drilling – Issuance of 1.6bn Senior Secured Notes 8.75%/9% Coupon Notes 32/34

In July 2026, Borr Drilling successfully issued two new Senior Secured Notes with aggregate proceeds of approximately $ 1.6 billion, consisting of notes maturing in January 2032 and January 2033, carrying coupon rates of 8.75% and 9.00%, respectively. The proceeds were primarily used to refinance the company's existing Senior Secured Notes due 2028 and partially redeem the Senior Secured Notes due 2030. This transaction meaningfully improved Borr's debt maturity profile, reduced refinancing risk, and created a more sustainable long-term amortization schedule.

Despite the temporary widening of credit spreads across the jack-up sector during H1 2026, the successful execution of this refinancing demonstrates continued investor confidence in Borr's asset base, earnings visibility, and long-term deleveraging potential.

Key Credit Strengths

- High-quality collateral base: The new notes benefit from first-priority security over 26 premium and high-specification jack-up rigs, representing one of the youngest and most technically capable fleets among the world's leading jack-up drilling contractors.

- Conservative asset leverage: At the restricted group level, secured debt equates to approximately $76 million per rig on a gross basis and $66 million per rig on a net basis. These figures compare favourably with second-hand transaction values observed over the past five years and provide substantial collateral coverage for bondholders.

- Strong asset liquidity: The jack-up market remains the most liquid segment of the offshore drilling industry, supported by a large global customer base, active secondary market transactions, and continued demand for modern premium rigs. This enhances recovery prospects relative to many other offshore asset classes.

- Rapid deleveraging profile: Supported by strong cash generation and a growing contracted backlog, Borr is expected to reduce net leverage from approximately 4.5x at the end of the second quarter of 2026 to below 2.0x over the next three years, assuming continued favourable market conditions.

- Moderate loan-to-value ratio: Net loan-to-value (LTV) at the restricted group level is estimated at approximately 44%, providing a meaningful equity cushion beneath the secured debt structure and supporting creditor protection.

Overall, Borr's recent refinancing significantly strengthens the company's financial profile. Combined with its modern fleet, substantial asset coverage, and expected deleveraging trajectory, the transaction positions the company well to benefit from the favourable long-term fundamentals of the premium jack-up market while reducing refinancing risk for both equity and debt investors.

Borr Drilling Bonds Current Pricing

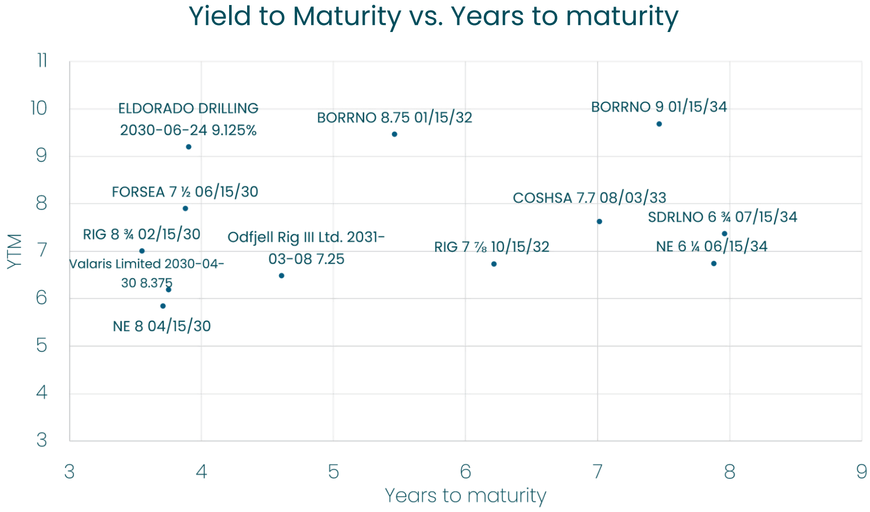
While credit spreads across most offshore drilling segments, particularly the ultra-deepwater (UDW) sector, have tightened significantly since March 2025, the jack-up segment has lagged this broader re-rating. As discussed previously, concerns related to Middle East exposure, temporary operational disruptions, customer concentration, and shorter contract durations have weighed on investor sentiment toward the sector, despite generally healthy operating fundamentals.

Against this backdrop, Borr Drilling appears to be trading at a relative discount compared with many offshore drilling peers. Despite owning one of the youngest and most technically capable premium jack-up fleets in the industry, maintaining moderate leverage, and benefiting from substantial asset coverage for bondholders, the company's bonds continue to trade at materially wider spreads than those of comparable drilling issuers.

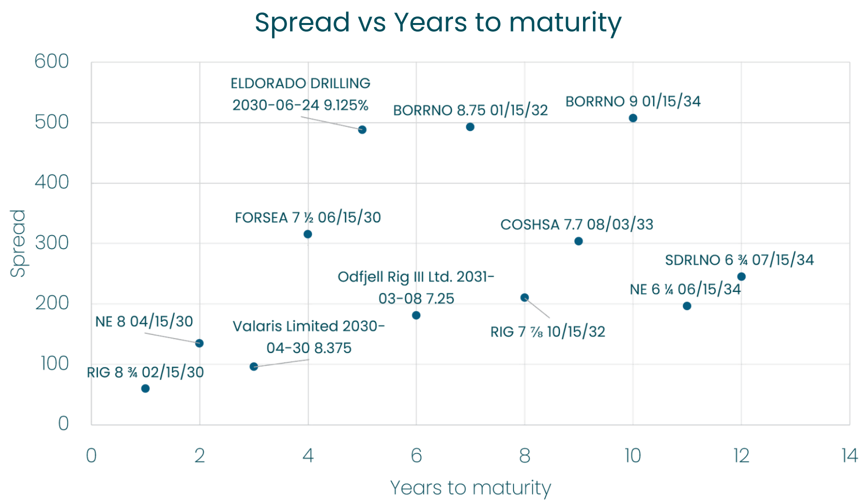
At present, Borr's 8.75% Senior Secured Notes due 2032 are trading at an approximate yield to maturity of 9.5%, while the 9.00% Senior Secured Notes due 2033 are trading at a yield to maturity of around 9.75%. These yield levels imply that investors continue to demand a significant risk premium despite the company's refinancing actions, expected deleveraging trajectory, and strong collateral package.

Relative to the broader offshore drilling universe, Borr's bonds currently trade at credit spreads that are approximately 250 basis points wider than those of comparable issuers, including several UDW-focused drilling contractors. This spread differential appears difficult to justify solely on the basis of credit fundamentals. Unlike many peers, Borr benefits from security over a large fleet of modern premium jack-up rigs, net loan-to-value levels estimated at approximately 44%, and a projected reduction in net leverage to below 2.0x over the medium term.

Consequently, the current valuation gap may reflect a continuation of the broader market preference for UDW exposure rather than company-specific credit concerns. As Middle East-related uncertainty subsides, utilization remains strong, and the company delivers on its deleveraging plan, there is scope for Borr's credit spreads to converge toward those of other offshore drilling issuers. Such spread compression would provide investors with the potential for attractive excess returns in addition to the bonds' already compelling carry.



Source: Clarksons Securities AS, Bloomberg. As of: 29.7.26



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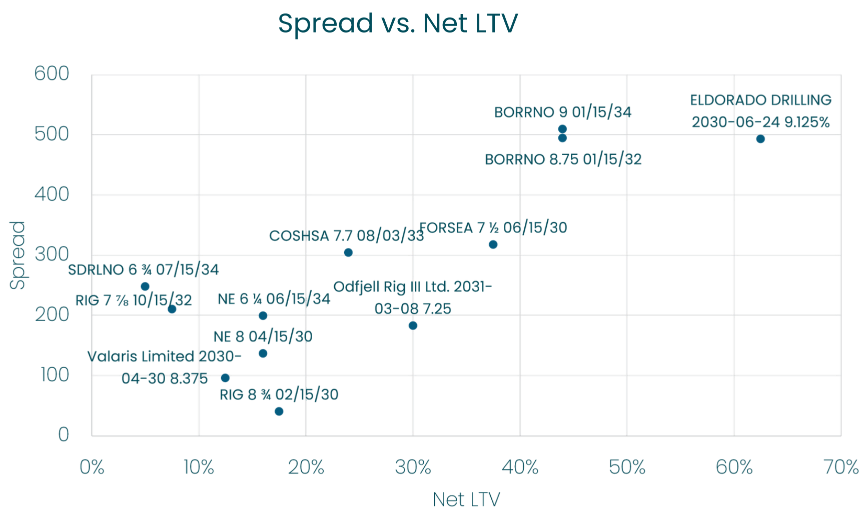

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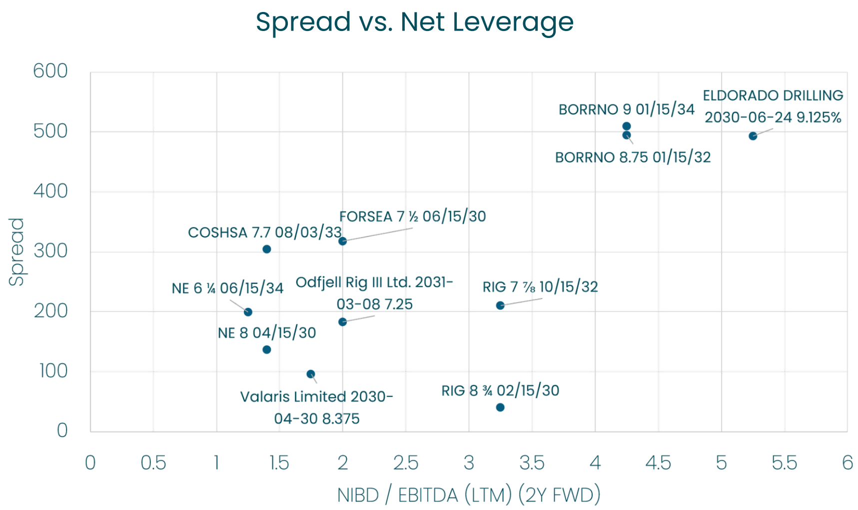

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Key takeaways

The fundamental outlook for the premium jack-up market remains constructive, yet credit spreads in the segment continue to reflect a significant risk premium relative to other offshore drilling sectors. As a result, current valuations appear attractive from a risk-reward perspective.
Demand fundamentals remain supportive. In the Middle East, drilling activity is expected to benefit from the gradual normalization of operations following the disruptions experienced during the first half of 2026, while national oil companies continue to pursue large multi-year development programs. Beyond the Middle East, growing concerns around energy security are supporting offshore investment across several regions, including Southeast Asia, where governments and operators are increasingly focused on domestic energy production. These trends should continue to underpin demand for premium jack-up rigs and support contracting activity and day rates.

The supply outlook is equally favourable. Fleet growth remains extremely limited as the industry continues to rationalize older assets. Eleven jack-up rigs were scrapped during the past year, representing the highest level of retirements since 2021 and a meaningful acceleration relative to previous years. At the same time, a significant portion of the remaining older fleet faces increasing technical and maintenance challenges, with some units reportedly restricted from operating due to deferred maintenance requirements. Industry sources have also suggested that certain Middle Eastern owners are evaluating additional recycling candidates among their older rigs. Against this backdrop, newbuild activity remains negligible, and the pool of economically reactivatable stacked rigs is limited, suggesting that supply growth will remain constrained for the foreseeable future.

Borr Drilling is particularly well positioned to benefit from these trends. As one of the leading operators in the premium jack-up segment, the company controls one of the youngest and most capable fleets in the industry. During the first half of 2026, premium jack-ups demonstrated greater resilience than standard units as demand remained concentrated on modern, high-specification rigs capable of meeting increasingly demanding operational requirements. At the same time, supply growth within the premium segment remained limited, reinforcing utilization levels and supporting asset values.

Despite these positive fundamentals, Borr Drilling's senior secured bonds continue to trade at a meaningful spread premium relative to other offshore drilling credits. Given the company's modern asset base, moderate leverage profile, substantial collateral coverage and expected deleveraging trajectory, the current spread differential appears more reflective of residual sector sentiment than underlying credit risk. As market concerns surrounding the jack-up sector diminish and investors increasingly focus on the company's improving financial profile, there is potential for spread compression. Consequently, Borr Drilling's senior secured notes offer investors a compelling combination of high current income, strong asset backing and potential capital appreciation, making them one of the more attractive opportunities within the offshore drilling credit universe.

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