Atwood Oceanics (ATW)
and
Diamond Offshore Drilling (DO)

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- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

Atwood Oceanics - business

- International offshore drilling and completion of exploratory and developmental oil and gas wells
  - Semisubmersibles – 5000ft drilling – higher moat
  - Jack-ups – 500ft drilling – no moat
  - 2 deep water semisubmersible drilling units under construction
    - To be delivered in 2011 and 2012
    - 625M and 750M price tags
- Utilization
  - 100% 2007, 2008. 85% 2009, 65% contracted 2010, 35% contracted 2011
  - Jack-ups on short term contracts, low water-depth semisub idle
  - Cyclical: 2009 low year due to oil price drop, crisis -> drop in oil E&P

Atwood Oceanics – business (cont'd)

- Primary customers:
  - Noble Energy Mediterranean, Ltd. 26%
  - Woodside Energy Ltd 20%
  - Sarawak Shell Bhd.14%
- Revenues
  - United States 19,055
  - Southeast Asia & India 162,888
  - Mediterranean & Black Sea 169,828
  - Africa 89,601
  - Australia 145,135
- Executive retirement
  - John R. Irwin, CEO and President July 31, 2010 and James M. Holland, CFO December 31, 2010

Is it a good business?

- 5 year history of profits
- ROE:
  - 14.4 10.6 11 10.2 0 2.8 7.2 18.8 22.6 25.50 2009:22.75
- Margins
  - 2009: 42.75226042 40.91081724 34.49410352
- Negative cash flow for last 2 years
- OK balance sheet
  - 0.16 net debt/equity (275M debt – 100M cash / 1102M equity)
  - 1.1B book = net tangible assets
- ROIC = Earnings / (Equity + Debt – Cash) = Earnings / (Assets – non-debt liabilities - Cash)
  - 19.6 ROIC – OK

Is business cheap?

- ROE 22.5% - conservatively assume 15%
- Earnings in 10 years = ROE*Equity*$(1+ROE)^9$ = $16M
- Equity in 10 years = Equity*$(1+ROE)^9$ = 582M
- Market cap = 582M x P/E (15) = $8.7B
- Rate of return = ~12.4% after tax (calculations omitted)

- >2 P/Book – not a net net, but not horribly expensive

Is business cheap?

- Discounted cash flow
  - Current earnings of ~251M
  - 10% growth for 10 years, leveling after that
    - 10% discount -> $5B current valuation (if you buy company at <$5B, you will get 10% return or higher)
    - 15% discount -> $3B current valuation
  - 10% growth for 5 years, leveling after that
    - 10% discount -> $3.7B current valuation
    - 15% discount -> $2.4B current valuation
- Owner's yield = earnings / (market cap + debt - cash) = earnings/EV
  - 251M / (2300M + 275M – 100M) = 10.1%

DO: Is it a good business?

- 5 year history of profits
- ROE:
  - 8.50 4.10 9.40 3.50 -2.90 -0.40 14.00 30.50 29.40 39.20 2009:40
- Margins
  - 2009: 40.13863154 37.71576525 32.9685484 34.43713546
- Positive cash flows unlike ATW – but aging fleet
- OK balance sheet
  - 0.21 net debt/equity (1000M debt – 251M cash / 3633M equity)
  - 3.6B book = net tangible assets
- ROIC = Earnings / (Equity + Debt – Cash) = Earnings / (Assets – non-debt liabilities - Cash)
  - 33.4 ROIC – OK

DO: Is business cheap?

- ROE 40% - conservatively assume 20%
- Earnings in 10 years = ROE*Equity*$(1+ROE)^9$ = $3749M
- Equity in 10 years = Equity*$(1+ROE)^9$ = 582M
- Market cap = 582M x P/E (15) = $18.745B
- Rate of return = ~13% after tax (calculations omitted)

- >3.8 P/Book – not a net net, pretty expensive

Is business cheap?

- Discounted cash flow
  - Current earnings of ~251M
  - 10% growth for 10 years, leveling after that
    - 10% discount -> $29.320B current valuation (if you buy company at <$29B, you will get 10% return or higher)
    - 15% discount -> $17.8B current valuation
  - 10% growth for 5 years, leveling after that
    - 10% discount -> $22B current valuation
    - 15% discount -> $14B current valuation
- Owner's yield = earnings / (market cap + debt - cash) = earnings/EV
  - 1466M / (3633M + 1000M – 251M) = 9.9%