

BANKRUPTCY UPDATE

Expert Analysis

Restructurings Following COVID-19 And Oil Price War Pressures

This issue of the Bankruptcy Update focuses on the latest wave of restructurings by offshore drillers, including Seadrill Limited, Valaris and Diamond Offshore Drilling, as they face dual pressures of COVID-19 pandemic and oil price wars.

Seadrill Limited

On Feb. 10, 2021, Seadrill Limited and certain affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. *Seadrill Limited* (Bankr. S.D. Tex. 21-30427).

The offshore drilling firm previously emerged from Chapter 11 on July 2, 2018 pursuant to a plan that restructured its approximately \$5.7 billion in prepetition secured bank debt and equitized roughly \$2.4 billion in unsecured bond obligations, over \$1 billion in contingent newbuild

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obligations, material unliquidated guaranty obligations, and more than \$250 million in unsecured interest rate and currency swap claims, while leaving employee, customer, and ordinary trade claims largely unimpaired.

Seadrill Limited noted that the debtors emerged from their above Chapter 11 cases during a sustained downturn in the oil and gas market. Ultimately, these conditions coupled with the dual shock of the COVID-19 pandemic and OPEC-Russia oil price war led the company to seek bankruptcy protection again.

The debtors entered their second bankruptcy without a comprehensive restructuring agreement in place and listed about \$6.1 billion in prepetition funded debt comprising \$5.6 billion of aggregate obligations outstanding under the company's 12 secured

credit facilities and \$536 million in aggregate 12% 2025 senior secured notes obligations.

The debtors have not sought approval of a DIP facility at the outset of their cases and intend to rely on their prepetition secured lenders' cash collateral to fund their operations under Chapter 11 after reaching agreement on consensual use of cash

On April 26, 2020, Diamond Offshore Drilling and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas.

collateral for a 60-day period subject to possible extensions.

During this time the debtors plan to initially focus on a potential stand-alone reorganization transaction with a comprehensive restructuring proposal due to be delivered to certain lender groups on or before March 31, 2021 and a draft plan and disclosure statement due May 14, 2021.

Valaris plc

On Aug. 19, 2020, Valaris plc and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. *Valaris plc* (Bankr. S.D. Tex. Case No. 20-34114).

The London-based offshore drilling contractor entered bankruptcy with \$7.1 billion in debt, pointing to the energy sector's downturn and the coronavirus pandemic as key precursors to the filing. Specifically, the debtors lost 10 contracts since the outset of the pandemic and agreed to modify others leading to significant revenue losses.

Valaris entered bankruptcy with a restructuring support agreement in place with holders of over 70% of their bond debt and agreements on a \$500 million DIP loan as well as a \$520 million exit facility.

On Sept. 25, 2020, the debtors obtained final approval of the DIP facility over the objection of Citibank, agent for the debtors' prepetition revolving credit facility lenders, which argued that an alternative proposal would have cost Valaris \$4 million less than the bondholder DIP facility. Despite the approval, the final DIP hearing set the stage for a potential confirmation battle with Citibank if an agreement on the restructuring could not be reached in the course of the case.

Ultimately, Valaris' fourth amended Chapter 11 plan of reorganization was confirmed on March 3, 2021 following a global restructuring settlement with prepetition revolving credit facility

lenders led by Citibank and the ad hoc unsecured bondholder group.

The plan, if consummated, will deleverage the company's balance sheet through full equitization of all \$7.1 billion of the debtors' prepetition funded debt obligations, pay holders of administrative, priority, trade and general unsecured claims in full in cash, provide consideration to existing shareholders in the form of warrants with a value of around \$11 million and raise \$500 million in new money in the form of first-lien exit notes financing.

Diamond Offshore Drilling

On April 26, 2020, Diamond Offshore Drilling and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. *Diamond Offshore Drilling* (Bankr. S.D. Tex. Case No. 20-32307).

The debtors noted that they elected to commence their Chapter 11 cases to stabilize operations while proactively restructuring their balance sheet with an aim to successfully compete in the changing global energy market. As of the petition date, the debtors had outstanding prepetition funded debt obligations in the aggregate amount of around \$2.4 billion, comprising around \$442 million in secured revolving credit facility loans and the remainder in four series of senior unsecured notes.

Unlike most companies seeking Chapter 11 relief, Diamond Offshore had nearly \$435 million in unencumbered cash at the time of its bankruptcy filing that it would use to fund its business operations and administrative expenses in bankruptcy and did

not seek DIP financing or authority to use cash collateral.

The cases were commenced without a restructuring support agreement in place and the debtors indicated they would be exploring various restructuring options including a notes equitization transaction, other standalone reorganization options, an asset sale, or some combination thereof as they engage with their key stakeholders.

This process culminated in entry into a plan support agreement with the holders of over 70% of the company's senior unsecured notes and over 70% of their revolving credit facility loans and the filing of a plan and disclosure statement embodying the terms of such agreement on Jan. 22, 2021.

The proposed plan will seek to eliminate over \$2.1 billion in funded debt through the equitization of the claims of holders of senior unsecured notes into 70% of the reorganized debtors' new equity subject to dilution. Holders of revolving credit facility claims are proposed to receive a 100% plan recovery in the form of cash and exit loans while non-noteholder general unsecured claims are unimpaired. A hearing on plan confirmation is currently slated for April 8, 2021.