

STRONG PARENT COMPANY DOESN'T PROTECT FROM BANKRUPTCY

BUYER:
DIAMOND OFFSHORE DRILLING, INC.

SECTOR:
ENERGY – OIL & GAS

Established in 1953, Diamond Offshore Drilling, Inc. provides contract drilling services to the energy industry worldwide. It serves independent oil and gas companies, and government-owned oil companies.

The company traded on the New York Stock Exchange before being delisted in April 2020. It experienced a continued decline in demand for contract drilling services over the last two years, with revenue dropping from \$1.4B in 2017 to \$935M in 2019. This led to almost double the losses with \$357M in 2019 vs. 2018.

Despite the losses, the company managed to stay liquid with an untapped revolving credit facility. However, the recent OPEC/Russia oil price war and the COVID-19 global health crisis worsened the cash burn, compelling the company to not make its semiannual interest payment due April 2020.

When Diamond Offshore Drilling, Inc. filed for bankruptcy protection in April 2020, it listed \$2.6B in total debts.

RED FLAGS

-  Reduced demand and backlog
-  High cost structure
-  Weak commodity prices
-  Heavy debt obligation

FINAL STRAW

Diamond Offshore Drilling, Inc. historically maintained low debt levels and adequate access to liquidity, but the cyclical nature of the oil & gas industry along with the unsustainable cost structure caused the financial and operational conditions of the company to deteriorate rapidly.

CONCLUSIONS

Although the company is majority-owned (53%) by Loews Corporation—which has a strong financial profile and credit rating—the parent company did not step in to support Diamond Offshore Drilling, Inc. since there are no parental guarantees for the debt obligations. Unfortunately, even though the company had a strong parent, they didn't have the backing needed to stay afloat.

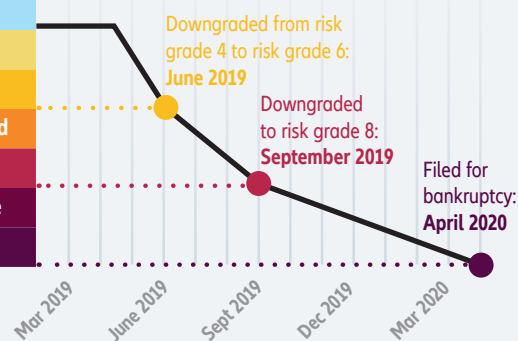
Euler Hermes saw the signs of instability in September 2019 and removed coverage in advance, preventing customers to avoid potential future loss.

Diamond Offshore Drilling, Inc. does intend to emerge by restructuring its balance sheet to achieve a more sustainable debt profile.

RISK RATING

| EH Risk Rating | Generic Description |
|----------------|---------------------|
| 1 | Exceptional |
| 2 | Excellent |
| 3 | Strong |
| 4 | Good |
| 5 | Average |
| 6 | Watch |
| 7 | Substandard |
| 8 | High Risk |
| 9 | Uninsurable |
| 10 | Failed |

Euler Hermes' 1-to-10 risk ratings are reliably based on multiple sources of information and crosschecked thoroughly by our team of expert risk underwriters. **This chart shows how the risk rating for Diamond Offshore Drilling, Inc. progressed leading up to its bankruptcy.**



Last updated September 2020