THE EUROPEAN SPIN-OFF & RESTRUCTURING REPORT

April 2, 2019

A.P. Moller-Maersk A/S (Pre-Spin)

Current Share Price (4/2/19): DKK 8,854
Fair Value Estimate: DKK 11,276 per share
Shares Outstanding: 20.8 million
Market Capitalization: DKK 182.3 billion

Ticker: MAERSKB DC
Dividend: DKK 150
Yield: 1.7%

A.P. Moller-Maersk A/S (Post-Spin)

Fair Value Estimate: DKK 9,254 per share
Shares Outstanding: 20.8 million
Market Capitalization: DKK 192.5 billion

Ticker: MAERSK DC
Dividend: TBD
Yield: N/A

The Drilling Company of 1972 A/S

Fair Value Estimate: DKK 2,022 per share
Shares Outstanding: 20.8 million
Market Capitalization: DKK 42.1 billion

Ticker: TBD
Dividend: TBD
Yield: N/A

TBD – To be determined. N/A – Not applicable.
Note: Market capitalization is based on fair value estimate for post-spin entities and current market cap for pre-spin A.P. Moller-Maersk A/S.
1 USD = 6.66 DKK

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Investment Thesis

On August 17, 2018, A.P. Moller-Maersk A/S (MAERSKB: DC) announced that, following a strategic review, the company would seek a separate listing of Maersk Drilling Holding A/S, which is to be named The Drilling Company of 1972 A/S. Maersk Drilling shares will be distributed to A.P. Moller-Maersk shareholders on April 5, 2019, the demerger record date.

Every A or B share in MAERSKB of nominally DKK 1,000 will receive 2 new shares of nominally DKK 10 and every A or B share of MAERSKB of nominally DKK 500 will receive 1 new share of nominally DKK 10 as of the cut-off date of April 3, 2019. All shares of The Drilling Company of 1972 will have the same rights and a single share structure, and will trade on Nasdaq Copenhagen A/S beginning on April 4, 2019.

Maersk, a Danish conglomerate, is primarily an integrated container marine shipping and logistics company. The company's exit from its drilling operations business following the sale of Maersk Oil to Total S.A. is the culmination of a strategic refocus on the shipping and logistics industry. Notably, the Maersk Oil sale generated proceeds in both cash and Total stock, and the company has indicated plans to spin off a large portion of its Total ownership stake. It has been reported that Maersk sought bids for the drilling business prior to the de-merger announcement; however, management was underwhelmed by the resultant bids. Management has noted that in conjunction with the de-merger, $1.5 billion in debt financing has been secured to ensure that Maersk Drilling has an adequate capital structure.

In conjunction with the strategic refocus of its business lines, Maersk also re-designated its segment reporting, and now operates under four segments: Ocean (primarily the Maersk Line business as well as strategic trans-shipment hub ownership); Logistics & Services (including logistics and supply chain management under the Damco brand, operations of inland service facilities including container storage, warehousing, and local transportation),; Terminals & Towage (operation of landside port activities with customers including carriers and towage services under the Svitzer brand); and Manufacturing & Other (production and sale of reefer and dry containers based out of factories in China, as well as other ancillary businesses). Maersk Drilling, which is now reported under discontinued operations, is the owner and operator of offshore drilling rigs, with a focus on ultra-deepwater and harsh environment locales.

When management began its strategic review almost two years ago, it was posited that a possible break-up would likely be more value-accretive if it were implemented by means of a spin-off as opposed to a sale or carve-out. Given the state of the energy sector at the time (energy prices have rebounded, yet Maersk's share price has not benefited from its exposure), any sale would risk taking place at depressed values, without accounting for the long-term earnings potential of those businesses. In a market that favors pure-play companies, management considered that the spin-off of the drilling company might unlock the most value while retaining upside potential for existing shareholders.

On a pre-spin, sum-of-the-parts basis, shares of Maersk A/S are estimated to have a fair value of DKK 11,276 per share, consisting of DKK 2,022 per share for The Drilling Company of 1972

A/S and DKK 9,254 per share for post-spin Maersk A/S. With the pre-spin sum-of-the-parts estimate representing approximately 27% upside to Maersk's current consolidated share price (DKK 8,854 per share as of this writing), the transaction appears to unlock significant upside. In addition, a recovery scenario could generate upside of 48% from current levels. It is important to note, however, that there are several overhangs on the shares which may limit near-term appreciation. Foremost, the International Maritime Organization's (IMO) 2020 sulphur cap regulations will likely cause marine fuel prices to continue to fluctuate widely this year. New regulations, changing economic conditions, and trade tensions could also potentially trigger significant and lasting marine fuel price volatility. That said, at current share prices, the shares appear sufficiently discounted for these risks. Notably, Maersk shares have declined 34% over the past 5 years, versus a 46% return for the OMX Copenhagen 20 Index over the same period. Year-to-date, the shares have appreciated 4% (versus a 12% return for the OMX Copenhagen 20 Index). At current prices, we think the shares are sufficiently discounted for industry and macroeconomic uncertainties. Longer term, the quality of the company's industry-leading shipping assets--combined with the earnings potential of the remaining businesses, and potential for regulatory changes to shift the supply/demand balance to more normalized levels--could offer meaningful upside potential with minimum downside risk.

Company Description

Based in Copenhagen, Denmark, A.P. Moller-Maersk A/S, also known as Maersk, is a conglomerate with activities in the transport, logistics, and energy sectors. The company was founded in Svendborg, Denmark in 1904 by captain Peter Maersk Moller (1836-1927) and his son Arnold Peter (A.P.) Moller (1876-1965) as *Dampskibsselskabet Svendborg* (Danish for "Svenborg Steamship Company").

With a current market capitalization of DKK 182 billion (USD $27 billion) and 2018 consolidated revenue of USD $39 billion, Maersk is the largest container ship and supply vessel operator in the world (see Exhibit 1). The company has subsidiaries and offices across 130 countries and has around 88,000 employees. Maersk consists of four business segments:

Ocean (2018 revenue of $29.4 billion, 10.6% EBITDA margin). This segment, which represented 75% of 2018 revenue, consists of traditional ocean vessels and the activities of the Maersk Liner Business (Maersk Line, Safmarine, and SeaLand), in addition to the Hamburg Sud brands (Hamburg Sud and Alianca). Maersk Line, the largest operating unit within A.P. Moller-Maersk, is the world's largest overseas cargo carrier and operates over 600 vessels with 3.8 million TEU (twenty-foot equivalent) container capacity. Maersk controls approximately 18% of transportation market share by sea, with a capacity of 4 million TEUs (twenty-feet equivalents); the second largest carrier, MSC (Mediterranean Shipping Company), has a 3.2 million TEU capacity.

- **Logistics & Services (2018 revenue of $6 billion, 1.6% EBITDA margin) (16% of revenue).** The segment includes supply chain management services, container inland services, inland haulage, trade finance services, and freight forwarding

- **Terminals & Towage (2018 revenue of $3.8 billion, EBITDA margin of 20.6%).** Maersk's APM Terminals business operates out of a separate headquarters in The Hague, Netherlands. This business is one of the world's leading port facility operators. The Terminals business operates a global port, terminal, and inland services network, with interests in 57 ports and container terminals in 36 countries on five continents, as well as 155 inland services operations in 48 countries. This segment also includes gateway terminals and towage services under the Svitzer brand. Svitzer, founded in 1833, has a fleet of over 400 tugs, line-handlers, and other vessels. The company provides harbor and terminal towage services in over 100 ports and 20 oil and gas terminals globally. This business has been growing in the 4% range annually as a result of significant investments and new projects.

- **Manufacturing & Other (2018 revenue of $2.5 billion, 2.3% EBITDA margin). This segment consists of** Maersk Container Industry activities within reefer containers. This segment's sales have been declining, and in January 2019, Maersk announced its intention to exit the dry container business.

Exhibit 1 A.P. Moller-Maersk A/S: Income Statement Highlights and Segment Details
(USD in millions)

	Revenue		EBITDA		CAPEX	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Ocean	29,366	22,023	2,547	3,007	2,279	2,831
Logistics & Services	6,082	5,772	98	139	47	54
Terminals & Towage	3,772	3,481	778	639	556	704
Manufacturing & Others	2,547	1,689	59	173	16	23
Unallocated activities, eliminations, etc.	(1,748)	(2,020)	(136)	(196)	(22)	(13)
A.P. Moller - Maersk consolidated - continuing operations	**39,019**	**30,945**	**3,806**	**3,532**	**2,876**	**3,599**

Source: Company reports.

Maersk Drilling Group

Founded in 1972 in Lyngby, Denmark, Maersk Drilling Group was established as part of the Maersk Group and is part of the global offshore drilling industry, providing offshore drilling services to E&P companies in support of their upstream exploration and development activities. Maersk Drilling Group owns and operates a modern fleet of offshore rigs and generates revenue by leasing rigs and providing services to E&P companies. It operates one of the youngest and most advanced fleets of jack-up rigs and floaters (defined below) in the world, and operates worldwide, including in the North Sea, where it has a market-leading presence (see Exhibit 2).

There are three main types of drilling rigs: jack-up rigs, semi-submersibles, and drillships—the latter two of which are referred to as “floaters.” Jack-up rigs tend to operate in shallower waters. The most advanced jack-up rigs can operate in depths of up to 492 feet, while floaters can operate in depths of up to 12,000 feet.

Jack-up rigs are mobile drilling platforms standing on the seabed, and are typically equipped with three steel legs and a self-elevating system that adjusts the platform height based upon the water depth. When the rig relocates, it will jack its platform down on the water until it floats, and will then be towed by tugboats to its next location or lifted by a heavy-transportation vessel if being moved over a greater distance.

The deck of the jack-up rig provides space for drilling equipment, supplies, and living quarters. Modern jack-up rigs typically have a drilling package mounted on a cantilever to drill away from the hull.

As of February 15, 2019, Maersk Drilling Group’s fleet comprised 23 rigs in two operating segments: (1) jack-up rigs and (2) floating rigs (“floaters”), as described in more detail below:

- **Jack-up rigs (63% of 2018 revenue).** Of the company’s 15 jack-up rigs, Maersk operates the following: (1) eight **ultra-harsh-environment** jack-up drilling rigs; of these, five are operating and one is preparing for contract in the Norwegian part of the North

Sea, while one is operating and one is warm-stacked[1] in the U.K. part of the North Sea; (2) four **harsh-environment** jack-up rigs, of which two are operating in the Dutch part of the North Sea, while one is operating and one is preparing for contract in the U.K. part of the North Sea; (3) two **premium** jack-up rigs, of which one is operating in Brunei and one is cold-stacked in Singapore; and (4) one **accommodation** jack-up rig operating in the Danish part of the North Sea.

- **Floaters (37% of 2018 revenue).** Of the company's eight floaters, Maersk operates (1) four drillships, of which three are operating offshore in Ghana and one is warm-stacked in the Gulf of Mexico, and (2) four semi-submersible rigs, of which one is operating in Egypt, one in the Caspian Sea, one is preparing for contract in Timor-Leste, and one is warm-stacked in Trinidad and Tobago.

In addition, one jack-up rig (Maersk Giant) is currently held-for-sale and cold-stacked in Denmark ahead of disposal, with the sale expected to be completed in 2019.

Exhibit 2 Maersk Drilling Group: Income Statement for the Years Ended December 31, 2016

	For the year ended 31 December		
	2018	**2017**	**2016**
Revenue	1,429	1,439	2,297
Costs	(818)	(756)	(916)
Profit before depreciation, amortisation, impairment losses/reversals, and special items	**611**	**683**	**1,381**
Special items	(16)	2	16
Profit before depreciation, amortisation, impairment losses/reversals, and special items	**595**	**685**	**1,397**
Depreciation and amortisation	(403)	(468)	(589)
Impairment losses/reversals	810	(1,769)	(1,510)
Share of results in joint ventures	(1)	-	-
Profit/loss before financial items	**1,001**	**(1,552)**	**(702)**
Financial expenses, net	(12)	(19)	(89)
Profit/loss before tax	989	(1,571)	(791)
Tax	(48)	49	1
Profit/loss for the year	**941**	**(1,522)**	**(790)**
Earnings per share, USD	1,882	(3,044)	(1,580)
Diluted earnings per share, USD	1,882	(3,044)	(1,580)

Source: Company reports.

[1] Warm-stacked rigs are rigs expected to be idle for a short-term period and are not under contract but are available for prompt use with minor preparation. Normal maintenance operations are conducted so that the rig remains work-ready. Key members of the crew are retained, and the rig is considered part of the marketable supply. In contrast, cold-stacked rigs are not expected to be utilized in the near term, the crew is not on board, and systems have been turned off.

Impact of Tariffs and Trade

The shipping sector was one of the most significantly affected during the economic crisis that started in 2007, suffering from drastically reduced demand, declining freight rates, and lower profit margins. Added to the economic consequences of the recession, the industry has faced growing concerns in other areas. The first is environmental. Shipping-related carbon emissions currently represent approximately 3% of the world's carbon emissions; however, industry forecasts show that within the next 35 years, shipping emissions may increase by up to 250%. By 2050, shipping-related emissions are expected to represent over 14% of global carbon emissions.

With increasing pressure on profits and environmental performance, the industry responded by reducing vessel speed (known as "slow steaming"). By doing so, companies could lower fuel costs while ensuring profitability. Slow steaming is expected to lower carbon emissions by 1,000 tons and lower fuel consumption by up to 54%. Maersk has indicated that by halving its top cruising speed, it has reduced fuel consumption and greenhouse gas emissions by 30%. This allowed Maersk to offer reduce prices and an "environmentally friendly" alternative to companies not requiring immediate delivery.

The International Maritime Organization (IMO) will introduce in 2020 a global limit on sulphur in fuel oil used on board ships of 0.50% m/m (mass by mass). A change from the previous limit of 3.5% m/m, the new sulphur cap will necessitate significant investment and implies that ships will be required to use fuel that is likely to be three times more expensive. To combat increasing fuel prices, Maersk is exploring several ideas to cut marine fuel use over the years, from solar-powered sails to kites that tow a vessel.

With the IMO's 2020 sulphur regulation deadline looming, widely fluctuating marine fuel prices are expected to continue this year, with new regulations, concerns about economic conditions, and other market risks potentially triggering significant and lasting marine fuel price volatility.

Beginning in 2014, a decline in oil prices prompted a severe downturn in the container industry as oil companies cancelled or postponed exploration plans, reducing demand for offshore drilling rigs. Maersk suffered from a combination of a slower than expected rise in freight rates and increasing bunker fuel costs.

Accordingly, beginning in 2016, A.P. Moller-Maersk embarked on a transformational strategy to shed its energy-related assets and focus on its container transportation and logistics businesses. To this end, in March 2018, the company sold its energy business Maersk Oil to French oil-refining company Total S.A. for 4.95 billion in Total shares and US$2.5 billion in Maersk Oil's assumed debt. In March 2019, Maersk Oil Trading and Investments, a subsidiary of Maersk, announced the sale of its position in Total (17.3 million shares), which generated EUR 884 million in gross sale proceeds.

More recently, the effects of the current trade war between the world's two biggest economies, the U.S. and China, have created formidable headwinds. Whereas prior administrations of both parties in the U.S. have followed trade policies that have increased the volume of cross-border trade while largely ignoring U.S. trade deficits, the current Trump administration has taken the opposite approach. Maersk has indicated that the effect of trade restrictions introduced last year would cut global container trade growth by between 0.3 and 1 percentage points annually this year. As background, on May 8, 2018, the U.S. announced that it would no longer participate in the JCPOA (Joint Comprehensive Plan of Action), an international plan of sanctions relief for Iran, on the assumption that the country will not comply with commitments to refrain from nuclear activities. Among the actions triggered by the U.S. withdrawal from the JCPOA is that the shipping insurance industry is banned from providing insurance to ships involved in transport to and from Iran. The U.S. withdrawal went into effect in May 2018; the result has been an increase in idle tanker capacity. In addition, licenses issued to companies such as Boeing Company (NYSE: BA) and Airbus S.E. (AIR: PA) to sell aircraft and spare parts to Iran Air and other Iranian airlines were revoked. Under the current sanctions regime, any vessel carrying Iranian energy products will not be allowed entry into a U.S. port. Simply put, the sanctions regime is both comprehensive and severe.

Another factor potentially weakening demand for oil products is currency depreciation against the U.S. dollar in emerging markets. As the U.S. dollar strengthens—a result of economic turmoil in Brexit-era Europe and rising interest rates in the U.S.—currency in developing economies cannot keep pace. Since many commodities are traded in U.S. dollars, its value weighs heavily on buying power in emerging markets. A strengthening U.S. dollar and weakening of local currencies often stalls economic growth and development potential. The purchase of crude oil and refined products is directly affected by global interactions. Barrels of crude are traded in U.S. dollars—if the Mexican peso, South African rand, and other currencies buy fewer U.S. dollars, those dollars are also limited in the quantity of oil they can purchase. This results in weakening demand for global crude oil and subsequent price volatility on the global oil stage for both crude and other refined products like marine fuels.

Transaction Rationale and Structure

Beginning in 2016, Maersk began an extensive restructuring under chief executive Soren Skou, in an effort to transform itself from a conglomerate into a container transportation and logistics company, concentrating on its shipping, port terminals, and logistics businesses and deciding to sell off its oil-related companies such as production, drilling, and tankers.

In March 2018, Maersk sold Maersk Oil to French oil company Total S.A. (TOTF.PA) for US$7.5 billion (4.95 billion in Total shares and US$2.5 billion in Maersk Oil's assumed debt). In addition, the company set a deadline to sell or list Maersk Drilling by the end of 2019. However, given the size of the company's drill fleet, valued in excess of US$4 billion, finding a buyer proved challenging. An outright sale was also likely made more difficult by an oversupplied drilling rig market, which has not yet recovered despite a recent gain in oil prices. On August 17, 2018, after attempting to sell the business, the company announced its plan for a tax-exempt de-merger of the company's drilling activities (Maersk Drilling).

The cut-off date (last day of trading including the company's drilling activities) is April 3, 2019. April 4 is the first day of trading for The Drilling Company of 1972 A/S. Upon completion of the de-merger, Maersk shareholders will receive shares in The Drilling Company of 1972 that will have a single share structure. The shares will be distributed evenly among Maersk shareholders, so that every A or B share in MAERSKB of nominally DKK 1,000 will receive 2 new shares of nominally DKK 10, and every A or B share of MAERSKB of nominally DKK 500 will receive 1 new share of nominally DKK 10. All shares of The Drilling Company of 1972 will have the same rights.

Outlook: Post-Spin A.P. Moller-Maersk A/S

The ocean container shipping industry has been in a depression since 2008, having suffered from oversupply. Tanker capacity, once created, has a lifespan of roughly 25 years. Worldwide tanker capacity has grown only modestly in recent years. According to Statista, the worldwide tanker fleet grew 6% in 2018. One of the primary reasons for the modest growth is the time required to build a modern tanker (which can take roughly 1,000 workers a year to build). In addition, well-capitalized companies order tankers financed largely through low-cost debt. Because of low interest rates, these companies purchase tankers in order to lease them on the international market, with acceptable returns. In addition, some nations view their tankers as security assets. For example, in June 2018, Japan filed a WTO complaint against South Korea for granting state subsidies to the Korean tanker fleet. The U.S. in turn filed the same complaint against South Korea. As a result of these factors, tanker rates for very large crude carriers (VLCC) are currently about 25% of the level recorded two years ago. Management has indicated that it expects global container growth of between 1-3% in 2019, down from approximately 4% in 2018 and significantly weaker than the near 6% expansion achieved in 2017.

For post-spin Maersk, upcoming regulatory changes surrounding reduced sulphur emissions may impact the supply/demand balance for container ships and reverse the recent historical trend of pricing declines. As mentioned previously, the IMO will cut emissions of sulphur either by reducing its content in marine fuel from 3.5% to 0.5% from 2020 or by requiring ships to remove sulphur content from exhaust fumes. Increased demand for lower sulphur distillate fuel would increase prices. The requirement to remove sulphur from exhaust fumes would require shippers to deploy scrubbers, which strip out sulphur emissions. The cost of this equipment, which can range from $1 million to $6 million, would render many older ships uneconomical, and in turn, increase scrappage rates. It is estimated that as many as 70,000 ships will be affected. The potential for reduced shipping capacity in the near term, and an ensuing fleet rebuilding cycle, could accelerate a restoration of the supply/demand balance for container ships, which could in turn increase pricing. Notably, should these changes take place, it would be reasonable to assume that better capitalized companies, and those with a younger average fleet age would be disproportionately advantaged.

Given the potential for regulatory changes to necessitate increased investment on the part of container shipping companies, Maersk's capitalization structure and owner-operator mentality may be perceived as key competitive advantages in a capital-intensive, cyclical industry. Notably, Maersk is not leveraged, has a low cost of capital, and has effectively reallocated its capital for growth. This operational conservatism has enabled the company to maintain a competitive fleet, acquire financially stressed competitors, and, going forward, should enable it to take advantage of an environment in which many competitors might have to reduce fleet size. Notably, Maersk has tended, over the course of full shipping cycles, to emerge from recoveries in a stronger market share position than when it entered.

Outlook: Drilling Company of 1972 A/S

Performance of the post-spin drilling company will be closely tied to capital expenditures associated with oceanic drilling and crude oil production. Global energy demand and offshore oil and gas' share of this demand represents the primary demand driver for offshore drilling rigs. The International Energy Agency (IEA) forecasts primary energy demand growth of over 25% from 2017-2040, representing 1% growth annually over the forecast period.

As previously discussed, the global economic outlook also creates the potential for fuel price volatility, as economies that lead crude oil production and consumption—such as the U.S., China, Russia, Europe, and the nations of OPEC—are projected to experience weaker economic performance throughout 2019. One factor triggering this economic weakness is the lingering trade tensions between the U.S. and China, as both nations grapple with the implications of imposed tariffs. Though Presidents Trump and Xi decided in December 2018 to forego tariff hikes and negotiate more mutually beneficial trade terms, they continue to have difficulty reaching longer-term trade solutions. That said, at the end of 2018, Maersk Drilling's operations had one of the strongest contract backlogs in the industry, at $2.5 billion.

Valuation Analysis

Valuation: The Drilling Company of 1972 A/S

Following the separation, The Drilling Company of 1972 can be most aptly compared to its primary competitors in the oceanic drilling space. These include Diamond Offshore Drilling Inc. (NYSE: DO), Transocean Ltd. (NYSE: RIG), and Pacific Drilling SA (NYSE: PACD). Detailed comparables are shown in Exhibit 14.

As a starting point for deriving a valuation for the post-spin company, one can formulate projected revenue and earnings based on historical financials coupled with management's commentary and formal guidance. In 2018, the business generated revenue and EBITDA of US$1.4 billion and US$611 million respectively, representing a 43% EBITDA margin. Assuming consistent revenue and EBITDA growth in 2019 and 2010, The Drilling Company could generate 2020 revenue and EBITDA of US$1.6 billion and US$671 million, respectively (see Exhibit 3). Applying a comparable multiple of 12x generates an implied enterprise value of US$8.0 billion for the business. Factoring in net debt of US$1.0 billion (balance sheet as of December 31, 2018), and approximately 20.8 million post-spin shares outstanding, The Drilling Company of 1972 A/S can be fairly valued at DKK 2,235 per share, based on an exchange ratio of 1 USD:6.66 DKK.

Exhibit 3 The Drilling Company of 1972 A/S: Fair Value Estimate Based on 2020E EBITDA
(US$ in millions, except per share data; shares in millions)

2018 Revenue	$	1,429
EBITDA	$	611
2018 EBITDA Margin		43%
Growth		5.0%
2019E Revenue		1,500
Growth		4.0%
2020E Revenue		**1,560**
EBITDA Margin		43.0%
2020E EBITDA		**671**
Multiple		12.0x
Enterprise Value	**$**	**8,052**
Net Debt		1,065
Implied Market Capitalization	**$**	**6,987**
Shares outstanding		20.8
FVE $/Share	**$**	**336**
FVE DKK/Share [1]	**DKK**	**2,235**
Implied Market Capitalization	**DKK**	**46,534**

[1] based on US to DKK exchange ratio of 6.66

Source: Company reports, Bloomberg, and *The European Spin-Off & Restructuring Report* estimates.

An implied valuation based on estimated 2020 earnings per share should also be considered. Based on 2020 estimated revenue of US$1.6 billion (derived in Exhibit 3 above), and assuming a 40% operating margin, The Drilling Company could generate 2020 operating income of US$624 million and net income of US$376 million, or EPS of US$18 per share. Given operating losses at among ocean drilling comparables, we apply a 15x multiple, in line with the low end of container and logistics comparables, which results in a fair value estimate of DKK 1,805 per share (see Exhibit 4).

Exhibit 4 The Drilling Company of 1972 A/S: Fair Value Based on 2020E EPS
(US$ in millions, except per share data; shares in millions)

2020E Revenues	$	1,560.5
Operating Margin		40.0%
2020E Operating Income		624.2
Interest Expense		200.0
Pre Tax Income		424.2
Tax Expense		48.0
Net Income		376.2
Shares Outstanding		20.8
2020E EPS	$	18.07
Multiple		*15.0x*
FVE $ / Share	**$**	**271**
FVE DKK/Share [1]	**DKK**	**1,805**
Implied Market Capitalization	**DKK**	**37,581**

[1] based on US to DKK exchange ratio of 6.66

Source: Company reports, Bloomberg, and *The European Spin-Off & Restructuring Report* estimates.

The above exercises generate an average implied market capitalization of DKK 42.0 billion for The Drilling Company of 1972. Based on an estimated 20.8 million shares outstanding and an exchange rate of 1 USD:6.66 DKK, this analysis generates a fair value estimate of DKK 2,022 for The Drilling Company of 1972 A/S (see Exhibit 5).

Exhibit 5 The Drilling Company of 1972 A/S: Valuation Summary
(DKK in millions, except per share data; shares in millions)

Average Implied Market Capitalization	**DKK**	**42,057**
Shares outstanding		20.8
FVE DKK/Share	**DKK**	**2,022**

Source: Company reports, Bloomberg, and *The European Spin-Off & Restructuring Report* estimates.

Valuation: Post-Spin A.P. Moller-Maersk A/S

Following the separation, Maersk can be most aptly compared to its primary competitors in the container shipping and logistics industry. These include Hapag-Lloyd (HLAG DE), CMA CGM S.A. (parent company is Merit Corp.), Hanjin Transportation Company Ltd. (002320 KS), Nippon Yusen (9101 TYO), Mitsui OSK Lines Ltd. (9104 TYO), China Cosco Shipping Holdings Co. Ltd. (1919 HK), and Yang Ming Marine Transport Corporation (2609 TT), among others. Note that many of the leading shipping and logistics companies are privately held. These include American President Lines Ltd., Mediterranean Shipping Company S.A., United Arab Shipping Company, ZIM Integrated Shipping Services, and Siem Shipping, Inc., among others. Detailed comparables are shown in Exhibit 14. In addition, there are several shipping joint ventures, including Antarctic Ocean Alliance, the 2M Alliance (Maersk and Mediterranean Shipping Co.), and THE Alliance (Ocean Network Express, Yang Ming, and Hapag-Lloyd).

As a starting point for valuation, we use 2018 revenue trends and EBITDA margins to forecast 2019 and 2020 revenue. Post-spin Maersk should experience faster revenue growth compared to The Drilling Company, based on current increases in production and commodity pricing. Assuming sales growth of 4% in both2019E and 2020E and stable margins, the post-spin company could reasonably generate 2020E EBITDA of $4.2 billion. We note that our current forecast for flat margins may prove conservative given pricing trends. Applying multiples of 8x to 11x based on segment peers, post-spin Maersk would be fairly valued at US$40.9 billion on an enterprise value basis. As of the December 31, 2018, and adjusting for the sale of 17.3 million Total shares, which netted gross proceeds of €884 million, or USD$990 million (based on current exchange ratio of 1: 1.12), Maersk carried net debt of US$8.1 billion (see Exhibit 6).

Exhibit 6 Post-spin Maersk A/S: Balance Sheet

Cash [1]	$	2,765
Sale of remaining position in Total Holdings S.A. (17.3M shares on March 22, 2019)	€	884
Gross proceeds, in USD [2]	$	990
Total Cash	$	3,755.08
Debt		11,837
Net Debt	**$**	**8,082**

[1] balance sheet as of December 31, 2018

[2] EUR to USD exchange ratio of 1.12

Factoring in for the adjusted net debt, a market capitalization of US$32.8 billion can be derived, or DKK 10,486 per share (see Exhibit 7).

Exhibit 7 Post-Spin Maersk A/S: Valuation Based on 2020E EV/EBITDA

(US$ in millions, except per share data; shares in millions)

		Ocean		Logistics & Services		Terminals & Towage		Manufacturing & Others		Maersk Post-Spin
2018 Revenue	$	26,937	$	6,082	$	3,772	$	2,547	$	39,338
Growth		4.0%		4.0%		4.0%		4.0%		4.0%
2019E Revenue		28,014		6,325		3,923		2,649		40,912
Growth		4.0%		4.0%		4.0%		4.0%		4.0%
2020E Revenue		29,135		6,578		4,080		2,755		42,548
EBITDA Margin		10.6%		1.9%		21.5%		3.2%		9.8%
2020E EBITDA		3,088		125		877		88		4,179
Multiple		10.0x		11.0x		9.0x		8.0x		9.8x
Enterprise Value	**$**	**30,883**	**$**	**1,375**	**$**	**7,894**	**$**	**705**	**$**	**40,858**
Net Debt [1]										8,082
Market Capitalization									**$**	**32,776**
Shares outstanding										20.8
FVE $/Share									$	1,574.48
FVE DKK/Share [2]									**DKK**	**10,486**

[1] Balance sheet as of December 31, 2018. Includes cash associated with sale of Total Holdings stake (March 22, 2019)

[2] based on US to DKK exchange ratio of 6.66

Implied Market Capitalization	**DKK**	**218,286**

Source: Company reports, Bloomberg, and *The European Spin-Off & Restructuring Report* estimates.

One can also derive projected EPS for the post-spin company. Based on projected 2020 revenue of US$42.5 billion (derived previously), and assuming an operating margin of 8.5%, post-spin Maersk A/S could reasonably generate net income of US$2.4 billion, or US$115 in earnings per share (see Exhibit 8). Applying a comparable 10x multiple generates a post-spin fair value estimate of DKK 7,642 per share.

Exhibit 8 Post-Spin Maersk A/S: Valuation Based on 2020E EPS

(US$ in millions, except per share data; shares in millions)

2020E Revenues	$	42,548.0
Operating Margin		8.5%
2020E Operating Income		3,616.6
Interest Expense		473.5
Pre Tax Income		3,143.1
Tax Expense		754.3
Net Income		2,388.8
Shares Outstanding		20.8
2020E EPS	$	114.75
Multiple		*10.0x*
FVE $ / Share	**$**	**1,148**
FVE DKK/Share [1]	**DKK**	**7,642**
Implied Market Capitalization	**DKK**	**159,091**

[1] based on US to DKK exchange ratio of 6.66

Source: Company reports, Bloomberg, and *The European Spin-Off & Restructuring Report* estimates

Given the industry volatility in revenue and earnings growth, a book-value-based multiple can also be considered. The consolidated shares currently trade at below book value (0.8x), despite being cash flow positive and not debt leveraged, suggesting that the shares carry substantial cyclical-recovery optionality. Applying a more normalized price-to-book multiple of 2.5x (which may prove conservative given that the shares traded at 1.4x in 2014), the shares could be valued at DKK 8,271 per share (see Exhibit 9).

Exhibit 9 Post-Spin Maersk A/S: Valuation Based on Historical Price-to-Book Value
(US$ in millions, except per share data; shares in millions)

Book Value (December 31, 2018)	$	10,332
Applied multiple [1]		*2.5x*
Implied Market Capitalization	**$**	**25,830**
Implied Market Capitalization [2]	**DKK**	**172,028**
Shares Outstanding		20.8
FVE DKK/Share	**DKK**	**8,271**

[1] premium to current multiple of 0.8x and 2014 P/B multiple of 1.4x

[2] based on US to DKK exchange ratio of 6.66

Source: Company reports, Bloomberg, and *The European Spin-Off & Restructuring Report* estimates

Given the sharp declines in container shipping prices, an analysis of more normalized growth rates and the ensuing impact on future earnings and valuation should be considered. Assuming 8.5% revenue growth in 2020, post-spin Maersk could be estimated to generate revenues of $44.2 billion (see Exhibit 10). Note that this projection is in line with the 8.51% CAGR projected for the global shipping container industry during the period 2018-2022. Applying an expanded multiple of between 12x and 14x earnings for more normalized growth generates a fair value estimate of between 9,585 and 11,115 per share.

Exhibit 10 Post-Spin Maersk A/S: Valuation Based on Price Recovery Scenario

2019E Revenues	$	40,911.5		
Growth		*8%*		
2020E Revenues	$	44,184.4		
Operating Margin		8.5%		
2020E Operating Income		3,755.7		
Interest Expense		473.5		
Pre Tax Income		3,282.2		
Tax Expense		787.7		
Net Income		2,494.5		
Shares Outstanding		20.8		
2020E EPS	$	119.93		
Multiple		*12.0x*		*14.0x*
FVE $ / Share	**$**	**1,439**	**$**	**1,679**
FVE DKK/Share [1]	**DKK**	**9,585**	**DKK**	**11,115**
Implied Market Capitalization	**DKK**	**199,358**	**DKK**	**231,187**

[1] based on US to DKK exchange ratio of 6.66

Source: Company reports, Bloomberg, and *The European Spin-Off & Restructuring Report* estimates

Finally, the company's post-spin dividend should also be considered. Based on estimated net income of US$2.4 billion (derived previously), and assuming a 55% payout, Maersk would have cash of US$1.3 billion available for dividends. At a comparable yield of 5.0%, this analysis generates a fair value estimate of DKK 8,407 per share (see Exhibit 11).

Exhibit 11 Post-Spin Maersk A/S: Valuation Based on 2019E Dividend Yield

(DKK in millions, except per share data; shares in millions)

2020E Net Income	**$**	**2,388.75**
Dividend Payout		55%
Cash available for dividend		$1,313.8
Shares Outstanding		20.8
Dividend		$63.11
Yield		5.00%
FVE per share	**$**	**1,262**
FVE DKK/Share [1]	**DKK**	**8,407**
Implied Market Capitalization		**DKK 175,000**

[1] based on US to DKK exchange ratio of 6.66

Source: Company reports, Bloomberg, and *The European Spin-Off & Restructuring Report* estimates.

The above exercises generate an average implied post-spin market capitalization of DKK 192 billion for post-spin Maersk, or DKK 9,254 per share for post-spin Maersk A/S based on approximately 20.8 million shares outstanding (see Exhibit 12).

Exhibit 12: Post-Spin Maersk A/S: Valuation Summary
(DKK in millions, except per share data; shares in millions)

Average Implied Market Capitalization	**DKK 192,492**
Shares outstanding	20.8
FVE DKK/Share	**DKK 9,254**

Source: Company reports, Bloomberg, and *The European Spin-Off & Restructuring Report* estimates.

On a pre-spin, sum-of-the-parts basis, shares of Maersk A/S are estimated to have a fair value of DKK 11,276 per share, consisting of DKK 2,022 per share for The Drilling Company of 1972 A/S and DKK 9,254 per share for post-spin Maersk A/S (see Exhibit 13). With the pre-spin sum-of-the-parts estimate representing approximately 27% upside to Maersk's current consolidated share price (DKK 8,854 per share as of this writing), the transaction appears to unlock significant upside. In addition, a recovery scenario could generate upside of 48% from current levels. As such, the pre-spin shares are recommended for purchase.

Exhibit 13: Maersk A/S: Pre-Spin Sum-of-the-Parts Fair Value Estimate
(DKK in millions, except per share data; shares in millions)

		Base		Recovery
Implied Market Capitalization - Drilling	DKK	42,057	DKK	42,057
Implied Market Capitalization - Maersk	DKK	192,492	DKK	231,187
Total Implied Market Capitalization	**DKK**	**234,549**	DKK	273,245
Shares outstanding		20.8		20.8
FVE DKK/Share	**DKK**	**11,276**		**13,137**
Current Share Price (4/2/2019)	DKK	8,854		
Implied Upside		*27%*		*48%*

Source: Company reports, Bloomberg, and *The European Spin-Off & Restructuring Report* estimates.

Exhibit 14 Maersk A/S: Peer Comparables

(currency in millions, except per share data)

		Containers and Logistics						Drilling		
	AP Moller - Maersk A/S	**Hapag-Lloyd AG**	**Hanjin Transportation Co Ltd**	**COSCO SHIPPING Holdings Co Ltd**	**Nippon Yusen KK**	**Mitsui OSK Lines Ltd**	**Yang Ming Marine Transport Corp**	**Diamond Offshore Drilling Inc**	**Transocean Ltd**	**Pacific Drilling SA**
Ticker	**MAERSKB DC**	**HLAG GY**	**002320 KS**	**1919 HK**	**9101 JT**	**9104 JT**	**2609 TT**	**DO**	**RIG**	**PACD**
Price	**DKK 8,854.00**	**¥29.60**	**GBP 36,150.00**	**¥3.42**	**1,660.00 €**	**¥2,478.00**	**$8.61**	**$11.11**	**€ 9.09**	**$14.00**
Market Capitalization	180,289.6	5,202.5	432,883.8	70,866.7	282,291.5	298,917.7	20,001.2	1,526.9	5,548.2	1,050.4
Net Debt (Cash)	(145,923.6)	5,371.4	972,009.4	124,827.8	1,008,849.0	1,114,028.0	71,350.4	1,520.0	7,825.0	2,853.9
EV	**34,366.0**	**10,573.9**	**1,404,893.2**	**195,694.5**	**1,291,140.5**	**1,412,945.7**	**91,351.7**	**3,046.9**	**13,373.2**	**3,904.4**
Revenue 2017	31,965.8	10,087.3	1,850,814.0	92,335.6	1,954,146.5	1,474,422.6	131,562.2	1,472.7	2,787.3	562.0
Revenue 2018	38,820.9	11,452.9	1,941,682.5	107,937.3	2,139,808.3	1,650,636.4	140,791.8	1,101.7	2,997.2	261.8
Revenue 2019E	40,322.6	12,187.9	2,122,072.5	132,343.9	1,801,087.3	1,244,858.7	143,907.5	998.6	3,153.1	289.5
Revenue 2020E		13,110.1	2,252,397.0	143,566.5	1,804,380.8	1,258,934.4	149,164.0	1,082.4	3,502.7	383.0
EV/Sales 2018	0.9x	0.9x	0.7x	1.8x	0.6x	0.9x	0.6x	2.8x	4.5x	14.9x
EV/Sales 2019E		0.9x	0.7x	1.5x	0.7x	1.1x	0.6x	3.1x	4.2x	13.5x
EV/Sales 2020E		0.8x	0.6x	1.4x	0.7x	1.1x	0.6x	2.8x	3.8x	10.2x
2018 Net Income	291.1	47.9	57,502.0	959.0	13,836.3	12,621.4	(7,161.5)	(141.9)	(514.3)	(916.8)
2019E Net Income	785.0	253.0	13,206.0	1,556.0	(2,913.9)	19,802.1	(2,260.3)	(275.0)	(470.1)	(319.5)
2020E Net Income	1,331.8	411.9	25,331.0	2,376.7	20,080.1	36,474.3	837.0	(200.3)	(289.9)	(292.8)
2018E Net Income Margin	0.7%	0.4%	3.0%	0.9%	0.6%	0.8%	-5.1%	-12.9%	-17.2%	-350.2%
2019E Net Income Margin	1.9%	2.1%	0.6%	1.2%	-0.2%	1.6%	-1.6%	-27.5%	-14.9%	-110.4%
2020E Net Income Margin		3.1%	1.1%	1.7%	1.1%	2.9%	0.6%	-18.5%	-8.3%	-76.5%
2017 EBITDA	3,636.6	1,005.9	108,443.0	6,872.3	85,048.0	77,201.0	6,146.3	568.4	1,227.4	29.5
2018 EBITDA	3,829.8	1,129.9	113,242.5	5,745.6	117,014.8	104,060.2	(110.0)	271.3	1,059.7	(4.3)
2019E EBITDA	5,232.0	1,419.4	133,550.5	9,454.9	95,370.4	120,191.9	2,225.5	145.2	1,043.7	(0.3)
2020E EBITDA	5,780.1	1,575.8	148,972.5	11,356.6	124,857.6	136,082.4	9,558.0	225.0	1,231.2	16.9
2017 EBITDA Margin	11.4%	10.0%	5.9%	7.4%	4.4%	5.2%	4.7%	38.6%	44.0%	5.2%
2018 EBITDA Margin	9.9%	9.9%	5.8%	5.3%	5.5%	6.3%	-0.1%	24.6%	35.4%	-1.7%
2019E EBITDA Margin	13.0%	11.6%	6.3%	7.1%	5.3%	9.7%	1.5%	14.5%	33.1%	-0.1%
2020E EBITDA Margin		12.0%	6.6%	7.9%	6.9%	10.8%	6.4%	20.8%	35.2%	4.4%
2019E EV/EBITDA	6.6x	7.4x	10.5x	20.7x	13.5x	11.8x	41.0x	21.0x	12.8x	-13014.6x
2020E EV/EBITDA	5.9x	6.7x	9.4x	17.2x	10.3x	10.4x	9.6x	13.5x	10.9x	231.7x
Average, ex. MAERSK		***17.5x***						***12.2x***		
2019E EPS	$35.07	$1.64	$1,111.14	$0.13	($11.85)	$164.81	($0.25)	($2.00)	($0.81)	($4.22)
2020E EPS	$35.07	$1.64	$1,111.14	$0.13	($11.85)	$164.81	($0.25)	($2.00)	($0.81)	($4.22)
P/E 2019E	252.5x	18.1x	32.5x	25.7x	-140.0x	15.0x	-34.2x	-5.6x	-11.2x	-3.3x
P/E 2020E	252.5x	18.1x	32.5x	25.7x	-140.0x	15.0x	-34.2x	-5.6x	-11.2x	-3.3x
Average, ex. MAERSK		*-13.8x*						*NM*		
2018 FCF Yield	0.1%	6.9%		-84.4%	-7.9%			2.9%	6.5%	-37.5%
2019E FCF Yield	1.3%	10.4%	27.5%	-6.2%	3.0%	-10.8%		-6.6%	-3.3%	-44.6%
2020E FCF Yield	381.5%	5.5%	30.8%	-0.2%	19.7%	-7.7%		-11.0%	-5.0%	-10.5%
2018 FCF Per Share	$12.50	$2.04		($2.89)	($130.54)			$0.32	$0.59	($5.25)
2018 P/FCF	708.5x	14.5x		-1.2x	-12.7x			34.2x	15.4x	-2.7x
2019E Free Cash Flow	2,320.7	539.1	117,277.2	(2,169.3)	8,415.5	(32,001.0)		(101.3)	(181.3)	(133.3)
2019E FCF Per Share	$111.78	$3.07	$9,935.85	($0.21)	$49.88	($267.59)		($0.74)	($0.30)	($6.24)
2019E P/FCF	79.2x	9.6x	3.6x	-16.1x	33.3x	-9.3x		-15.1x	-30.6x	-2.2x

Source: Bloomberg.

Conclusion

On a pre-spin, sum-of-the-parts basis, shares of Maersk A/S are estimated to have a fair value of DKK 11,276 per share, consisting of DKK 2,022 per share for The Drilling Company of 1972 A/S and DKK 9,254 per share for post-spin Maersk A/S. With the pre-spin sum-of-the-parts estimate representing approximately 27% upside to Maersk's current consolidated share price (DKK 8,854 per share as of this writing), the transaction appears to unlock significant upside. In addition, a recovery scenario could generate upside of 48% from current levels. As such, the pre-spin shares are recommended for purchase. It is important to note, however, that there are several overhangs on the shares which may limit near-term appreciation in the shares. Foremost, the International Maritime Organization's (IMO) 2020 sulphur cap regulations will likely cause marine fuel prices to continue to fluctuate widely this year. New regulations, changing economic conditions, and trade tensions could also potentially trigger significant and lasting marine fuel price volatility. That said, at current share prices, the shares appear sufficiently discounted for these risks. Notably, Maersk shares have declined approximately 34% over the past 5 years, versus a 46% return for the OMX Copenhagen 20 Index over the same period. Year-to-date, the shares have appreciated 4% (versus 12% for the OMX Copenhagen 20 Index). At current prices, we think the shares are sufficiently discounted for industry and macroeconomic uncertainties. Longer term, the quality of the company's industry-leading shipping assets, combined with the earnings potential of the remaining businesses, could offer meaningful upside potential with minimum downside risk.

Exhibit 15 The Drilling Company of 1972 A/S: Balance Sheet at December 31, 2018, 2017 and 2016
(US$ in millions)

	As of 31 December		
	2018	2017	2016
Intangible Assets	56	85	109
Property, plant and equipment	4,845	4,270	5,974
Financial non-current assets, etc.	3	2	31
Deferred tax	2	30	16
Total non-current assets	**4,906**	**4,377**	**6,130**
Trade receivables	339	297	288
Loans receivables	2	3,390	4,134
Other receivables	37	60	96
Prepayments	58	79	101
Receivables, etc.	436	3,826	4,619
Cash and bank balances	372	49	460
Total current assets	808	2,875	5,079
Total assets	**5,714**	**8,252**	**11,209**
Share capital	87	87	87
Reserves	3,723	6,122	8,170
Dividend proposed for the year	-	-	500
Total equity	**3,810**	**6,209**	**8,757**

Source: Bloomberg.

Exhibit 16 The Drilling Company of 1972 A/S: Historical Income Statement
($ in millions, except per share data)

	For the year ended 31 December		
	2018	**2017**	**2016**
Revenue	1,429	1,439	2,297
Costs	(818)	(756)	(916)
Profit before depreciation, amortisation, impairment losses/reversals, and special items	**611**	**683**	**1,381**
Special items	(16)	2	16
Profit before depreciation, amortisation, impairment losses/reversals, and special items	**595**	**685**	**1,397**
Depreciation and amortisation	(403)	(468)	(589)
Impairment losses/reversals	810	(1,769)	(1,510)
Share of results in joint ventures	(1)	-	-
Profit/loss before financial items	**1,001**	**(1,552)**	**(702)**
Financial expenses, net	(12)	(19)	(89)
Profit/loss before tax	989	(1,571)	(791)
Tax	(48)	49	1
Profit/loss for the year	**941**	**(1,522)**	**(790)**
Earnings per share, USD	1,882	(3,044)	(1,580)
Diluted earnings per share, USD	1,882	(3,044)	(1,580)

Source: Company filings.