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Earnings Call

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CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 11

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Operator

Good morning, and welcome, everyone, to the Tidewater Third Quarter 2026 Conference Call. My name is Dara, and I will be your conference moderator for today. [Operator Instructions] I will now hand the conference over to West Gotcher, Senior Vice President of Strategy, Corporate Development and Investor Relations. Please go ahead.

West P. Gotcher
Senior Vice President of Strategy, Corporate Development & IR

Thank you, Dara. Good morning, everyone, and welcome to Tidewater's Third Quarter 2026 Earnings Conference Call. I'm joined on the call this morning by our President and CEO, Quintin Kneen; our Chief Financial Officer, Sam Rubio; and our Chief Operating Officer, Piers Middleton. During today's call, we'll make certain statements that are forward-looking and referring to our plans and expectations. There are risks, uncertainties and other factors that may cause the company's actual performance to be materially different from that stated or implied by any comments that we're making during today's conference call. Please refer to our most recent Form 10-K and Form 10-Q for additional details on these factors.

These documents are available on our website at tdw.com or through the SEC at sec.gov. Information presented on this call speaks only as of today, November 10, 2026. Therefore, you're advised that any time-sensitive information may no longer be accurate at the time of any replay. Also during the call, we'll present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP financial measures can be found in our earnings release located on our website at tdw.com.

And now with that, I'll turn the call over to Quintin.

Quintin V. Kneen
President, CEO & Director

Thank you, West. Good morning, everyone, and welcome to the Tidewater Third Quarter 2026 Earnings Conference Call. Before I get into the details, the headline this quarter is momentum. Our leading edge day rate has now risen for the third straight quarter, and we expect that to drive meaningful revenue and gross margin growth in 2027. We also beat expectations on revenue, closed Wilson Sons and grew free cash flow more than 40%. So I'll cover the quarter, capital allocation and our outlook. West will take you through guidance. Piers will cover the market and our operations and Sam will cover the financials.

Let's start with the quarter. The headline is day rates. Our weighted average leading-edge day rate rose for the third straight quarter, up more than 12% sequentially to just over $27,000 per day, an increase of more than $3,000 per day. And day rates moved higher across nearly all of our vessel classes. Revenue was $360.4 million, ahead of expectations, and that includes 1 month of revenue from Wilson Sons. Gross margin was just under 47%, nearly a full point above our prior guidance and approximately 48%, excluding Epic Fury-related costs. Year-to-date, that leading-edge day rate is up right at $4,900 per day. That's a substantial move in just a few quarters, and it supports our view that vessel supply and demand are increasingly tightening in the vessel owner's favor.

We expect that to continue as we enter 2027. As a reminder, the average duration of our contracts, including Wilson Sons, is approximately 6 quarters. That's roughly how long it takes for the bulk of the fleet to roll on to new contracts. As vessels across our fleet roll off older contracts and on to current market rates, those higher rates flow into our results, and that sets us up for growth in 2027 and 2028. Here's where that growth comes from. Production, Subsea and drilling, the 3 largest activities we support all look poised to keep growing through 2027. The timing varies. Production support typically moves in a fairly linear path. Subsea activity continues to be robust, though as we've noted before, the visibility and duration of that work are harder to estimate. Drilling is in a healthy place. And based on public commentary and our discussions with customers, we expect it to grow nicely as we get into the back half of 2027.

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In total, every part of our business looks set to grow next year, which should drive attractive revenue, gross margin and cash flow growth year-over-year. It was also a very strong quarter for cash generation. Free cash flow rose more than 40% to $91 million. One month of Wilsons helped slightly, but the main drivers were better collections and lower CapEx. We expect free cash flow to improve again in the fourth quarter with a full quarter of Wilson Sons and a continued benefit from working capital.

Turning to Wilson Sons. We closed the acquisition on September 1, and we're now a little over 2 months into integrating the businesses onto the Tidewater platform. As I've said before, acquiring and integrating offshore vessel businesses is one of our core competencies. The work began in earnest as soon as we signed the deal. As with our last 3 major acquisitions, it's going well, and we expect to have Wilsons onboarded to the Tidewater platform by the beginning of 2027. I want to thank both the Tidewater and Wilson Sons teams for their commitment to this important work. We look forward to completing the integration in a timely way.

A quick update on operation at Map Fury. Our direct costs, wages and insurance fell more than 40% in the quarter, and we expect total conflict-related costs to ease to about $5 million in the fourth quarter, down from $5.6 million this quarter. A few minutes on capital allocation. As we've said previously, our first priority was closing Wilson Sons and transferring the existing debt before we turn to our next capital deployment. I'm pleased to say we've done both. With that behind us, we felt comfortable restarting our share repurchase program. Since closing, we've repurchased $25 million of shares on the open market, including purchases so far in the fourth quarter. That leaves us with approximately $475 million of capacity under our most recent $500 million authorization.

We've talked at length about our preference. value-accretive M&A is our preferred path for deploying capital, and we see share repurchases as an attractive way to return capital to shareholders on an opportunistic basis. We can pursue both at the same time. What drives the timing of one versus the other is how actionable M&A transaction is and how its returns compared to the returns we see from repurchasing our own shares. The market today is healthy and the outlook for offshore vessels is robust as recent secondhand prices for OSVs reflect. We're interested in acquiring the right vessels at prices that create immediate value for our shareholders, but we will stay disciplined. We won't buy vessels or fleets at a premium to what we view as their intrinsic value. Meanwhile, we expect the business to keep generating substantial cash flow through the rest of '26 and into 2027.

We'll keep evaluating M&A, but in the absence of M&A, running the business efficiently, maximizing cash flow and repurchasing shares when it makes sense is a strong formula for creating shareholder value. Our balance sheet is in great shape, and our liquidity is strong. At the end of the quarter, including Wilson Sons, net leverage was under 0.9x and liquidity was approximately $650 million, including our $250 million revolver. Given our cash flow outlook for the fourth quarter and into 2027, we expect leverage to decline rapidly. That gives us real flexibility to put significant amount of cash to work in productive value-enhancing ways without stretching the balance sheet. We don't think holding cash well beyond our working capital needs is the best way to steward capital. So we're pleased to have put cash to work in the Wilson Sons acquisition, and we'll keep putting excess cash and future free cash flow to work in value-accretive ways.

Turning to the outlook. Let me start with the opportunity. In a world that is less energy secure and more reliant on local sources of energy, nations and regions want to control their own destiny. That's what the geopolitical tension and conflict are driving, a shift away from an interconnected global economy towards one that is more regional and nationalistic. That does bring some challenges as states become more protectionist, but the opportunities are real. The disruption of energy supply out of the Middle East will have lasting effects on where energy is sourced and secured regardless of how the current conflict ends. The world will keep working out how to adjust. Over time, the ingenuity of individuals, companies and nations will find a workable solution, but it will almost certainly look different than it did before the conflict.

All of this has implications for offshore activity and for our business. We continue to see very robust pretendering activity, and we expect that to continue into next year. Our customers are busy with existing projects, and we see that in our vessel demand. We're also acting with discipline and not necessarily

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rushing to take advantage of higher oil prices. We view that as healthy. Offshore projects have long lead times and continued capital discipline should lead to a more durable offshore cycle. On balance, we're -- I'm sorry, we're optimistic about how the evolving global economic order plays out for us, and we're managing the business with discipline to maximize earnings and cash flow from our assets.

Turning to vessel supply. The picture remains favorable. A small handful of newbuild PSVs have been sold out of the traditional PSV market into other industries and another small set have been outfitted with cranes. Either way, those vessels are no longer competing in our traditional PSV market. Two newbuilds did deliver in September, the first of the vessels ordered in the middle of 2024, and we've seen limited impact on commercial negotiations. Meanwhile, secondhand prices for existing PSVs have risen considerably in recent months as prospective owners commit capital based on an improved day rate outlook over the coming years. That's a constructive market signal. We don't believe current newbuild activity threatens the favorable supply picture, and we expect incremental new build activity to stay subdued as we move into 2027.

To sum it up, it was a strong quarter. Our leading edge day rate rose for the third straight quarter, up more than 12% to just over $27,000 per day. Revenue was $360.4 million and gross margin was just under 47%, both ahead of expectations. Free cash flow grew more than 40% to $91 million, and we ended the quarter with net leverage of 0.9x and about $650 million of liquidity. We closed Wilson Sons and the integration is on track. And since closing, we've already repurchased $25 million of shares. And with contracts continuing to reprice and every part of our business expected to grow, we're entering 2027 with momentum we haven't seen since 2023. We'll stay disciplined in how we allocate capital as we pursue the opportunities ahead.

And with that, let me turn the call back over to West.

West P. Gotcher
Senior Vice President of Strategy, Corporate Development & IR

Thank you, Quintin. Expanding on the earlier comments on the share repurchase activity, subsequent to the closing of the Wilsons transaction and into mid-October, we repurchased approximately 300,000 shares at an average price of $83.14. Since the end of 2023, we've now deployed $277 million into share reductions, representing nearly 5.1 million shares at an average price of $54.60 per share. These totals are inclusive of the payment of taxes on employee stock awards in lieu of net share settlements. Over the same time period, we've deployed approximately 27% of our unlevered free cash flow into reducing the outstanding share count.

Given the recent purchases under the $500 million share repurchase authorization, we retained approximately $475 million of share repurchase capacity under the current authorization. Our philosophy regarding share repurchases will remain consistent, pursuing share repurchases on an opportunistic basis given competing capital allocation opportunities. We judge this based on the prevailing price of our shares against our view of the intrinsic value of our shares, which is now inclusive of the recent Wilsons acquisition. As a reminder, under the bonds, we are limited in our ability to return capital to shareholders, provided our net debt to EBITDA is less than 1.25x pro forma for any share repurchase. Under our revolving credit facility, we're also unlimited in our ability to repurchase shares, provided that net debt to EBITDA does not exceed 1x.

However, to the extent we exceed 1x net leverage, we still retain the flexibility to continue returns to shareholders provided the free cash flow generation is in excess of cumulative returns to shareholders. At the end of the third quarter, our trailing net leverage stood at under 0.9x, which is reflective of the Wilsons debt we assumed along with the cash we deployed for the purchase price. We expect that our free cash flow should continue to improve into the fourth quarter and that we'll continue to generate substantial free cash flow as we progress through 2027.

Turning to our leading edge day rates. I will reference the data that was posted in our investor materials last night. Across the fleet, our weighted average leading-edge day rate further accelerated from the uplift we observed in the second quarter, up 12.5% sequentially following the 7.5% sequential improvement in the second quarter. The $3,033 sequential day rate uplift is one of the largest absolute dollar movements

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in this measure we've seen over the past 3 years. We saw particularly large movements in leading edge day rates in our large and midsized PSVs. Encouragingly, we entered into new contracts for the large and midsized PSVs across 4 of our 5 geographic reporting segments, lending a fairly robust geographic sample to this measure.

Further, our large and midsized PSVs comprised 25 contracts during this time frame. During the quarter, across the entirety of the fleet, we entered into 29 term contracts with an average duration of approximately 11 months. Turning to our financial outlook. We are revising our full year 2026 revenue guidance to $1.43 billion to $1.44 billion and a full year gross margin range of 47.5% to 48.5%. The narrowing of the revenue guidance range is attributable to added visibility to the final quarter of 2026.

Looking to the fourth quarter, we now expect revenue to increase approximately 11% from the third quarter, primarily driven by the full quarter benefit of the Wilson Sons acquisition. We do see modest contribution from the legacy Tidewater fleet sequentially in the fourth quarter. However, in total, we do expect revenue to be impacted by higher-than-anticipated down for repair time, capacity reduction and slightly lower-than-anticipated contract extension day rates in our Americas segment, collectively impacting fourth quarter revenue by approximately 3%. The updated 2026 full year gross margin guidance includes approximately 140 basis points of cost burden associated with operation Epic Fury across the year. We expect a fourth quarter gross margin of about 48% as we now anticipate conflict-related costs of approximately $5 million, the combined impact of down for repair revenue loss and R&M expense of approximately $9 million, capacity reduction impact of approximately $2 million and the lower-than-anticipated day rates and contract extensions in the Americas to impact gross margin by approximately $4 million.

Turning to 2027. We are initiating a 2027 revenue guidance range of $1.70 billion to $1.75 billion and 2027 gross margin guidance of 51% to 53%. We would expect revenue to be roughly flat into the first quarter with a nice pickup in the second quarter and improvement as we progress through the remainder of the year. We typically look to front-load dry docks earlier in the year, which weighs on vessel uptime. Similarly, we would expect margins to be roughly flat in the first quarter from the fourth, with each quarter thereafter benefiting from the operating leverage in the business as the sequential revenue increases drop down to gross margin. Our 2027 gross margin guidance assumes very modest impacts associated with operation at Epic Fury.

In summary, though there have been some unforeseen challenges to navigate this year, we're pleased that our full year guidance normalized for the impacts of Operation Epic Fury is essentially in line with our original updated full year guidance post the announcement of the Wilson Sons acquisition. Looking to the remainder of 2026, the first 9 months of 2026 plus October revenue, along with firm backlog and options for the combined Tidewater and Wilsons fleet represents $1.42 billion of revenue for the full year, covering approximately 99% of the midpoint of our updated 2026 revenue guidance. Approximately 78% of the remaining available days for 2026 are captured in firm backlog and options inclusive of the Wilsons fleet. Our full year revenue guidance assumes utilization of approximately 80%, inclusive of the Wilsons fleet, leaving us with approximately 11% of capacity available for opportunities in the fourth quarter.

Our small, midsized and large anchor handlers and medium class of PSVs retain the most opportunity for incremental work, followed by our midsized class of PSVs. Looking ahead to 2027, our combined fleet backlog represents $1.1 billion of revenue, representing approximately 64% of the midpoint of our 2027 revenue guidance range. Approximately 54% of available days for 2027 are captured in firm backlog and options. Our 2027 full year revenue guidance assumes active utilization of approximately 82%, leaving us with approximately 9% of capacity to be chartered if vessel demand exceeds our current forecast. Our small and midsized anchor handlers and PSV fleet retain the most capacity for incremental work as we progress through the year. As always, the bigger risk to our backlog revenue is unanticipated downtime due to unplanned maintenance and incremental time spent on dry docks.

With that, I'll turn the call over to Piers for an overview of the commercial landscape.

Piers Dayer Middleton
Executive VP & Chief Operating Officer

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Thank you, West, and good morning, everyone. Before I talk about each of our regions' performance, I will give a quick update on our perspective of the overall market and touch on a couple of themes we have focused on throughout the year, and we'll continue to focus on to build a long-term sustainable business supporting all of our stakeholders. Offshore markets have remained resilient in 2026 in the face of geopolitical uncertainty and appears set on a positive growth trajectory as we move into 2027. The OSV market fundamentals remain favorable with firm underlying demand and tight supply, maintaining healthy utilization globally, which has allowed us to continue to push day rates.

Overall, the OSV market outlook remains optimistic, for conflict shifting LOC priorities and energy security concerns continue to shape specific regional developments. Rig rates and demand continue to improve with Clarkson Research reporting that rig demand has risen by an additional 3% since the start of the year, reaching 526 rigs as of the beginning of October 2026. Overall, Clarkson's project rig demand to rise 5% to 532 units by year-end and a further 2% year-on-year to 541 rigs by end 2027, equivalent to 90% utilization. The MOPU sector continues to grow amid the sanctioning of numerous projects targeting remote and deepwater oil and gas assets. The E&P sector continues to promote the use of FPSOs with further tailwinds expected from the ongoing concerns over energy security and diversification of oil and gas supply.

So far this year, 11 MOPU contracts have been confirmed. The largest of these involves the $7.8 billion deal between Petrobras and SBM signed in May for the supply of 2 FPSOs to be deployed offshore Brazil. Moreover, there is an extensive list of credible prospects progressing through to FID. At last count, we have identified 15 FPSOs and FLNGs that we expect to be awarded in 2027, all very positive indicators for the long-term health of the OSV space.

With the Wilsons acquisition completed last quarter, we continue to focus on the flight to quality of the fleet, and we now have a total of 226 ships in the Tidewater fleet, of which 212 OSVs and 67% or 142 OSVs are high specification, larger deck PSVs or 16,000 BHP anchor handlers. These high-specification vessels are the classes of boats that are primarily driving charter rates in the global market today as well as being the most sought after by our customers to support their global operations. So the addition of Wilsons to our global scalable operating platform has enhanced our ability to leverage not just OSV rates and contract terms globally, but also to make us the only truly global OSV operator able to support our customers anywhere in the world with a proper boots on the ground regional footprint.

Over the last 5 years, the commercial team has remained very disciplined in delivering on our short-term chartering strategy and pushing day rates, which has been reflected in our composite day rates going from $10,330 per day in 2021 to $23,775 in the last quarter. However, what we perhaps have taken slightly for granted over the last 5 years has been the razor-sharp focus of our operations and technical teams to deliver on our uptime commitments to our customers, which has enabled us to push and maintain day rates compared to our less focused competitors and deliver a global world-beating operating platform to our customers.

As we move into 2027, we see no reason to deviate from our short-term chartering strategy to push day rates, but there will also be a continued relentless focus on the marginal gains we feel we can improve upon in our operations and technical teams to deliver even better uptime to our customers. Working through our various regions and starting with Europe, the AHTS market in the North Sea remains strong, although demand for PSVs is a little subdued, we were able to maintain and push day rates as more PSV supply left the market during the quarter. The Mediterranean market did slightly better than we expected in the quarter with activity supported by a mix of production, construction and towing requirements. Demand was driven by ongoing support requirements for Romania's Neptune deep development as well as a couple of new exploration projects kicking off slightly earlier than expected in the region.

Moving to Africa. We had a flattish Q3, mainly driven by the larger PSVs being delayed a few weeks, waiting for drilling operations to restart in Namibia in Q4 rather than at the end of Q3. As mentioned on the last call, the expected awards in Angola for long-term production work came through, and that will help utilization as we move into Q4 and beyond for the Africa region. There are still a number of outstanding tenders in the continent from Nigeria all the way down and across the Mozambique, which we

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expect to see some awards come through in Q4 to start up through the first half of 2027, which should further tighten the supply-demand balance in the region.

In the Middle East, our most challenging region, both competition-wise and geopolitically, the team managed to still push day rates and increased our total composite fleet rate from $14,555 per day in Q2 2026 to $14,758 per day in Q3 2026. Overall, market sentiment remains cautiously positive, supported by high utilization, rising tendering activity and several large EPCI contract awards. However, anticipated redeliveries and scheduled maintenance may soften near-term activity, while incoming vessels could ease supply constraints. Long term, we remain bullish for the region as we look out to 2027 and beyond.

In the Americas, the U.S. Gulf remains soft. However, as mentioned on our last call, we have limited exposure to the U.S. markets, having taken the decision to move some of our U.S. fleet to support our customers in Suriname and Guyana. Some of those contracts did start in Q3, but the remainder of that impact of those contracts will be felt in Q4 onwards. In Brazil, the elections continue to delay Petrobras renewed tendering activity in Q3. And as such, we expect to start seeing a pickup in tenders being released from Petrobras in Q4 and Q1 next year. We remain very positive about the long-term demand in the country, but expect a slower start to 2027 as Petrobras ramps back up again post Brazil's elections.

Lastly, in Asia Pacific, in Q3, the team continued to sustain impressive rates across the region and increased the composite rates by $845 per day from $37,013 per day in Q2 2026, up to $37,858 per day in Q3 2026. It is worth noting in this region that while day rate momentum has been robust over the years, activity can be lumpy quarter-to-quarter when we move vessels in and out of work between countries. Overall, however, it looks like the region's activity is expected to pick up significantly in 2027 with several new drilling campaigns slated to kick off in East Malaysia, Thailand, Vietnam and Indonesia from Q2 2027.

Overall, we remain very positive for the long-term health of the market and with discipline, a higher-quality fleet and the only true global operating platform, we have, as mentioned earlier, been able to consistently move our fleet comp to day rate up over the years by over $13,445 per day since the recovery began at the end of 2021. Very positive momentum, we believe, not just for Tidewater, but for the whole industry. And with that, I'll hand over to Sam. Thank you.

Samuel R. Rubio
Executive VP & CFO

Thank you, Piers, and good morning, everyone. I would now like to take you through our Q3 financial results. As in previous calls, my discussion will focus mainly on sequential quarterly comparisons, including key operational factors that affected our third quarter performance. Our quarterly results once again exceeded our expectations, driven by higher day rates, higher utilization due primarily to the timing of dry docks, partially offset by temporary conflict-related operating costs.

As noted in our earnings release filed yesterday, we reported net income of $17.5 million or $0.35 per share. Revenue was $360.4 million compared to $342.3 million in the second quarter. The primary driver of the increase was the addition of the Wilson Sons 22 vessel fleet, which contributed $17.1 million to the increase. Average day rates were 3.6% higher than the second quarter, offset by a small decline in active utilization to 79.2% from 81.4%. Gross margin was $168.8 million in the third quarter compared to $160.5 million in the second quarter. Gross margin percentage was 46.8%, which was above our Q3 expectation and consistent with our Q2 margin.

The outperformance versus expectation was primarily driven to higher average day rates and utilization, partially offset by slightly higher operating costs. Operating costs for the third quarter were $191.6 million compared to $181.8 million in Q2. An increase was expected due to the addition of the Wilsons operation, which added $7.8 million in operating costs. In the quarter, we also incurred higher dry dock days and higher repair days that contributed to higher R&M and fuel costs. Our operating costs continue to be negatively impacted by the ongoing conflict in the Middle East, although the amount incurred in Q3 was lower by $1.3 million from Q2, but slightly higher than our estimate.

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As mentioned earlier on the call, in Q3, we incurred $5.6 million of additional costs due to the continuing impact of operation at Epic Fury. And year-to-date through September 30, we have incurred approximately $15 million. Costs directly impacted were higher insurance costs and higher crew wages, primarily war bonus pay. Indirectly, we continue to see elevated fuel and travel costs due to the increased commodity price. We continue to work to minimize these costs. However, we do expect to incur additional costs as long as the conflict continues. Fuel expense has been heavily impacted since the beginning of the conflict, though it has leveled off since the large increase we saw in Q2.

Importantly, we have taken steps to contractually limit the amount of war-related pay owed to our mariners. This effort led to lower-than-expected crew costs in the second half of Q2, and we saw the full quarter benefit of these savings in Q3, where war-related pay was down approximately 50% compared to Q2. Total, we are forecasting another $5 million of war-related costs in Q4. We estimate direct cost for insurance will be similar to Q3. We expect the decline in crew wages and fuel and travel expenses. We are contractually permitted to invoice customers for reimbursement of direct conflict-related costs, which totaled approximately $7 million through Q3. Currently, we have invoiced about $2.3 million and have collected about $600,000.

We have not included any assumed reimbursements in our guidance. However, we will continue submitting invoices for all contractually allowed amounts. Adjusted EBITDA for Q3 was $140.1 million compared to $135.5 million in the second quarter. Total G&A cost was $43.8 million in the third quarter, which includes $10.2 million of transaction costs related to the Wilson Sons acquisition. G&A cost in Q2 was $34.8 million, which included $2.7 million of transaction costs. Excluding the transaction costs, G&A increased by $1.5 million due primarily to the additions of the Wilson Sons business. 2026, excluding M&A transaction costs, we expect Tidewater full year G&A costs to be about $132 million, which includes approximately $13.8 million of noncash stock compensation and about $7 million related to the Wilson Sons acquisition.

2027, we are projecting our G&A costs to be about $149 million, which includes approximately $14.6 million of non-stock-based compensation and about $16 million related to the Wilson Sons acquisition. In the third quarter, we incurred 955 dry dock days and $28.2 million in dry dock costs, of which $3.4 million was incurred by several Wilsons vessels. In Q2, we incurred 750 drydock days and $23.3 million in costs. Dry dock days in Q3 impacted utilization by about 5 percentage points compared to 4 percentage points in Q2. We expect our full year 2026 drydock costs to be approximately $109 million, which includes approximately $8 million of dry dock costs related to Wilson Sons vessels.

In Q3, we incurred $9.4 million of capital expenditures, mainly from vessel modifications and upgrades. For the full year 2026, we expect to incur approximately $47 million in capital expenditures. This includes a planned $17 million major upgrade to one of our Norwegian vessels which is nearing completion and about $1 million related to the Wilson Sons vessels. For 2027, we are projecting dry dock costs to be $147 million, which includes $18 million related to the Wilson Sons acquisition. The total amount includes $63 million in engine overhauls and approximately $15 million of carryover projects from 2026. The carryover amount could change depending on the vessel and shipyard availability. We are expecting dry dock days to affect utilization by about 4 percentage points.

For 2027, we are also projecting $46 million in capital expenditures for vessel equipment and IT upgrades, which include $13 million related to the Wilson vessels and approximately $5 million in carryover projects from 2026. We generated $90.9 million of free cash flow in Q3 compared to $64.4 million in Q2. The sequential increase was mainly attributable to higher revenue combined with a substantial working capital benefit combined with lower capital expenditures in the quarter. Prior to the Wilson Sons acquisition, our debt structure required only small principal payments each quarter, approximately $6 million per year that are related to the financing of recently constructed smaller crude transport vessels. We have no principal payments due until 2030 on our unsecured notes issued last year.

Following the closing of the Wilsons acquisition during Q3, our debt maturity and repayment profile has changed and will include quarterly debt amortization payments of approximately $13.7 million in Q4 and approximately $11.4 million per quarter in 2027. The assumed debt reflects vessel construction loans and vessel conversion and dry dock loans. At September 30, 2026, the total amount of newly assumed debt related to the Wilsons acquisition was $224.5 million. Although we now have quarterly principal payments,

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the assumed debt carries low interest rates and debt agreements allow us to finance future dry docks and vessel upgrades at similarly low rates. We conduct our business through 5 operating segments. Please refer to our earnings release and 10-Q for detail of our segment results.

In Q3, we saw consolidated gross margins stay flat compared to Q2. Regionally, gross margin increased by 3.5 percentage points in Europe and the Mediterranean and 2.6 percentage points in the Americas. These were offset by declines in Africa and the Middle East of approximately 3 percentage points and 4 percentage point decline in our APAC region. While consolidated margins were flat in Q2, they exceeded our expectations overall, particularly in Europe and the Mediterranean and the Middle East despite challenging circumstances related to the ongoing conflict. The gross margin increase in our Europe and Mediterranean region was primarily due to 6% increase in average day rates, combined with a 2 percentage point improvement in utilization, driven primarily by fewer dry dock and mobilization days. The improvement in utilization, together with the increase in day rates and delivered a very strong results in Q3.

In the Americas, gross margin increased by 2 percentage points to 43%. The Wilsons acquisitions positively impacted the results for the quarter. Utilization improved by 4 percentage points versus the previous quarter, while day rates remained flat. Total operating expense was up $9 million or 28%, which was primarily due to the addition of the Wilsons fleet. Excluding the Wilsons results, the Americas gross margin would have been 3.5 percentage points lower, demonstrating the attractive gross margin profile of the acquired fleet. The decrease in West Africa's gross margin of 3 percentage points was due to a decrease in revenue resulting from a 4 percentage points decline in utilization, while day rates remained flat. The decrease in utilization was due to higher idle and dry dock days.

Gross margin in our Middle East segment decreased by about 3 percentage points due mainly to a $2 million revenue decline caused by a 5 percentage point decrease in utilization as a result of higher dry dock and repair days. This was slightly offset by a 1% improvement in average day rates. We are pleased that operating costs remained flat versus the previous quarter as we have worked diligently to minimize further war-related increases. Gross margin in the APAC region was 4 percentage points lower than Q2. Revenue fell by about $3.4 million due to a 5 percentage point decrease in utilization due mainly to an increase in idle days, partially offset by a 2% improvement in average day rates. Total operating costs remained consistent with Q2.

With respect to the Wilsons acquisitions, as previously announced, we closed the transaction on August 31. Details of the purchase for the acquisition are included in our 10-Q, which was filed yesterday. We also filed the 8-K/A, which provides the required pro forma information. Integration has gone well thus far. And as mentioned previously on the call, we expect the Wilson's business to fully be integrated into the Tidewater platform in January 2027. We remain strong believers in the importance of the Brazilian market and are excited about the opportunities there.

In summary, we outperformed expectations despite challenging geopolitical conditions and rising costs, especially in the Middle East. Industry fundamentals remain strong. Demand for vessels is increasing. Our balance sheet and liquidity position is in excellent condition, and we remain optimistic for the opportunities that lie ahead for Tidewater. With that, I'll turn it back over to Quintin.

Quintin V. Kneen
President, CEO & Director
All right. Thank you, Sam. Dara, would you please open it up for questions?

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Question and Answer

Operator

[Operator Instructions] Your first question comes from Jim Rollyson with Raymond James.

James Michael Rollyson
Raymond James & Associates, Inc., Research Division

Maybe, Quintin, I'd love to -- you mentioned 82% is the kind of embedded utilization in the 2027 guidance. I would love to get the day rate kind of range that's embedded there because it's my recollection over the last 3 or 4 quarters, you've been talking about rates growing $3,000 to $4,000 on average across the fleet. And it seems like with what leading edge is doing, you guys kind of have a running start. So maybe a little context of what's in the guidance and kind of how you see the market shaping up with what's going on today.

Quintin V. Kneen
President, CEO & Director

Right. So I think if you do the math, the year-over-year increase will be about $2,700 per day. Now obviously, it's growing throughout the year. And so yes, we do have a running start. But as it rolls into the year, I think what we're budgeting for or what we're initiating guidance on for '27 is about $2,700 per day.

James Michael Rollyson
Raymond James & Associates, Inc., Research Division

And any -- just any context on how you kind of see that trending over the course of the year?

Quintin V. Kneen
President, CEO & Director

Trending up. As it rolls in over 6 quarters, I would expect all of that to increase quarter-over-quarter.

James Michael Rollyson
Raymond James & Associates, Inc., Research Division

And then just maybe switching now that you have Wilson done, obviously, you wanted expansion, more exposure into Brazil market, which you have. And one of the things you talked about previously was the ability to move other flagged vessels in under REV capacity. Just kind of curious, as you assess the market with the delays from elections and kind of how North Sea is shaping up and all that, just how you're evaluating maybe arbitrage opportunities to move capacity into that market?

Piers Dayer Middleton
Executive VP & Chief Operating Officer

Jim, it's Piers here. Yes, I mean, I think that's still very much part of our game plan. As I commented, Petrobras has come a little bit later to the tendering activity post elections. But we assess every single opportunity. I think there's still going to be opportunities as we get into the latter half of '27, probably for Brazil. It's going to take a little bit of time to get up and running. And -- but there's other areas, as we mentioned, we see some real strength coming out next year. So I think there's going to be some competition for our vessels in different regions. So we may not be moving everything into Brazil, but as we've always said, it's good to have that option value and to be able to pick and choose those contracts as we move through the gears next year.

Operator

Your next question comes from Greg Lewis with BTIG.

Gregory Robert Lewis
BTIG, LLC, Research Division

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My first question was around the outlook and the visibility you're seeing. Clearly, we're seeing rigs be contracted for longer durations. I guess 2 things. One is it seems like we've been -- we have some good visibility in '27 already. But as you think about how that flows through in the utilization, is there any kind of goalpost you can kind of point to where we have visibility, durations are getting longer and maybe how we should think about what that year-over-year impact could be to fleet-wide utilization?

Piers Dayer Middleton
Executive VP & Chief Operating Officer

Yes. I mean I think as we -- I think as we sort of go through the year, as we mentioned, Greg, I mean we're still going through a short-term contracting strategy because we see lots of opportunity. But we are starting to see with this layering of some of that development work, we've talked about in the past where Suriname is coming to play. We're expecting in Namibia, Venus coming in. That tends to be longer-term work that our customers are looking for rather than drilling. So as we get into the second half of the year, again, we're starting to -- we expect some of those contracts to additional development type piece of work, and that will push the utilization story as we get into the latter half of '27 from where we're seeing it. So I think we're very positive about the work that's really starting to layer on top of what we've sort of been building on over the last few years.

Gregory Robert Lewis
BTIG, LLC, Research Division

And then on the Wilson acquisition, there was that average vessel step-up sequentially. But I guess as we think about -- 2 questions. One is, how should we think about -- as we think about Q4, the integration of those vessels? I think when it was disclosed -- I think the Wilson fleet was kind of separated out at like 700 square meters versus, I think, how you guys reported 900. Is there any -- I guess, how should we be thinking about what the PSV fleet in the Americas looks like in Q4? And just as those vessels get integrated, how is that -- how do we think that impacts average vessel rates in Q4, but then as we look ahead to '27 and even '28, what's the type of -- any kind of cadence around vessel contract resets for some of those vessels that were acquired down in Brazil, which arguably could have some uplift?

West P. Gotcher
Senior Vice President of Strategy, Corporate Development & IR

Greg, it's West. I think to the first part of your question as it relates to the fleet size in the Americas, I think you alluded to it that we had kind of the partial quarter's impact in Q3 from the acquisition. But I don't have the number in front of me, but if you look back into the Q2 fleet count for the Americas and add 22 for the fleet that we acquired in Wilson, I think that would take it to roughly 56 or so, can check that number, but that would be kind of your new pro forma fleet count in the Americas. As it relates to the rolling of the day rates for the Wilson's acquisition, which I believe was the second part of your question, as peers may note, the tendering activity from Petrobras has been a little bit slower than anticipated.

But as we talked about on prior calls as it relates to the Wilsons acquisition, the current day rates that the Wilsons fleet are on are a good bit below where the market is in Brazil right now for the PSVs that we acquired. And so we think there's a pretty meaningful uplift that we should see over the next couple of years. Again, a little bit of that is in process as it relates to this tender situation with Petrobras, but there's a pretty good runway from where we are today on the implied day rate within the Wilsons fleet as to where the market is currently. So we're still optimistic that we'll see a good bit of rate expansion on the Wilsons fleet. It's just a little hard to quantify at this point in time.

Operator

Your next question comes from Fredrik Stene with Clarksons Securities.

Fredrik Stene
Clarksons Platou Securities AS, Research Division

I have 2 questions for you today. And the first one, touch a bit on contracting strategy. You already given good color on how you call it the assumptions behind your 2027 guidance. And I think Piers, you also

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mentioned in the prepared remarks that you are happy with your, I guess, shorter-term contracting strategy at the moment to be able to push day rates faster. But I was wondering, are you kind of meeting any -- or seeing any changes with your clients, right? One thing is what you guys want to do when you sign contracts.

But on the other hand, are you seeing clients offering longer term on certain work at lower rates because they want to lock in what they really believe turn out to be a submarket rate in the long run if the market moves as you expect it to. So interested to hear any kind of different or how dynamics have changed in those discussions maybe over the last 3, 6, 9 months?

Piers Dayer Middleton
Executive VP & Chief Operating Officer

Fredrik, it's Piers again. It would be no surprise, our customers are always looking to try and find ways to bring rates down. But as we've mentioned, we think the supply-demand balance is still in our favor. So we're able to keep pushing. I don't think we've seen any particular change. I mean as I mentioned earlier, there's a little bit of a few longer-term needs from some of our customers. But there's -- I think as Quintin made in some of his prepared remarks, we've got such a regionalized business that's different around different areas of the world. So I think our customers are trying to find ways to go longer and push day rates lower. We have a slightly different a which if they want to go longer, we want to go higher. So there's a sort of disconnect there. But the customers are starting to become aware that rigs are getting sent out.

They are starting to think about their long term how they're going to support those rigs on the exploration and development campaigns and they need big PSVs for that. So there's a little bit of conversation around that, but they don't have much choice at the moment except to accept what we're pushing for. We want to -- we're happy to give options, but we price those. And we're not just giving -- we're not going to give our vessels away just for a longer contract still. But no, the -- the conversations we're having with our customers are robust and -- but they're positive as well.

Fredrik Stene
Clarksons Platou Securities AS, Research Division

And the second one, I wanted to touch briefly on M&A. I guess that's a very -- it's a recurring theme in the Q&A, but you have a long history of doing successful M&A and now with Wilson Sons being on the way to be fully integrated by the first quarter next year. You've obviously your Brazil presence, I think, in line with your strategy that kind of started a couple of years back. And if you were to consider any new opportunities today, is there now any kind of particular region that you would be more interested in than before? Or will it be more deal dependent in terms of what is the most accretive, obviously, for whatever you would consider?

Quintin V. Kneen
President, CEO & Director

Yes, it's certainly price dependent. I would say a couple of years ago, I was interested in the Americas broadly, both the U.S. Gulf, Caribbean and Brazil. And obviously, we did the deal in Brazil. I'm less interested today in the U.S., Gulf. It just doesn't seem to be performing as well as other areas around the world and the pricing I still find to be too high. I think there's going to be real opportunities in Africa over the next couple of years, principally in Nigeria. Nigeria is a place we pulled out of about 6 years ago just because of security and disruption concerns. It's a difficult place to operate. But the super majors are going back in and there could be an opportunity to get back in, in size in Africa.

But there's other fleets around the world throughout West Africa, but also Asia as well. So I would say that relative to what I said a couple of years ago, I've been focusing on Americas broadly I'm less focused on that area now, more focused on Asia and Africa again.

Operator

Your next question comes from Keith Beckmann with Pickering Energy Partners.

Keith Beckmann

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Pickering Energy Partners LP

I just wanted to -- leading edge day rates increased pretty substantially again. I just wanted to unpack that a little bit more and get a sense on maybe what in particular is leading to some of the tightness we've seen with the $3,000 per day increase quarter-over-quarter and maybe what regions in particular have been leading the way in that for you guys?

Piers Dayer Middleton
Executive VP & Chief Operating Officer

Keith, so I mean, I think as we mentioned, it's obviously our larger size of vessels have been pushing it. But it's been fairly across the board. We've had -- as Quintin mentioned, Africa has been very good. We've seen a pickup in activity in Namibia, Mozambique, also in Asia Pacific as well on some of the contracts on our bigger PSVs. And then lastly, in the Caribbean as well. And then actually, the Med as well has been very positive in terms of that day rate progression as well. And it's across between supporting exploration, but also the construction piece as well, supporting the EPCI customers as well. So they need large tank handlers and they need large PSVs, and we have lots of them. So we're able to use that to our advantage.

Keith Beckmann
Pickering Energy Partners LP

And then my second question is maybe much longer-term, bigger picture question around -- you guys have a fleet attrition slide that's always kind of helpful every quarter, I think, close to half of the OSV fleet is kind of aging beyond 25 years here over the next decade with not a whole lot of new build order book to replace it right now. I mean, how do you guys best position yourself to kind of move into that market environment here over the next 5-plus years, positioning yourself well for that?

West P. Gotcher
Senior Vice President of Strategy, Corporate Development & IR

Keith, it's West. I think it's what we've been endeavoring to do over the past 5 or 6 years, which is continue to focus on acquiring fleets at a value-accretive level. Part of the rationale from an M&A perspective, and there's a lot of different facets that go into this, but partly is fleet renewal for lack of a better term, right? I mean in each instance, we've bought effectively the youngest vessels in the world that we can find at that -- at those various points in time. Now admittedly, the fleet is aging. There aren't a lot of new builds on order. And so the younger fleet -- a younger boat is still relatively old. And so what we've done has been able to kind of piece together a fleet that is disproportionately younger than the rest of the fleets in the world.

So in a world where you begin to see real attrition in the global fleet, we should be that much better off than our competitors. So I think that's what is, again, a facet of the M&A process over the past half decade or so is ensuring that we're acquiring the right tonnage at the right value. But part of that right tonnage definition is that it's young, well-built and has a lot of durability left when we look at the cash flow longevity of that business. So we'll see how that world continues to play out over the coming years. But that's certainly been part and parcel of our strategy as we've embarked upon this M&A journey is just that, is to make sure that we are that we have the youngest fleet and we have the most durable earnings capacity in the world.

Operator

Your next question comes from Josh Jayne with Daniel Energy Partners.

Joshua W. Jayne
Daniel Energy Partners, LLC

Through subsea production and drilling outlooks briefly. And when we match up your guidance outlook for '27 with when we think about not only next year, but moving forward on the drilling side, is that where the main torque to the business exists moving forward? And maybe you could just comment on if a further increase in exploration in the next couple of years would drive upside to sort of your current expectations as that's been a little bit slow.

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Quintin V. Kneen
President, CEO & Director

Yes. I mean, Josh, as I said, we've always been very the main talk for our business is on the drilling side. The more rigs we have on the water, the better for us. That's super important. That's where we can really push day rates. I would say also on the -- as I mentioned in some of my comments earlier, I think on the subsea support in the subsea construction side as well is super important as well. That's also an area where we can really push day rates tends to be slightly shorter contracts, those guys and they tend to come late to the market. So you can really push the day rates on that side.

But yes, no, I think on the drilling side, we're seeing -- it's always sometimes slower than we expect, but it's certainly seeing a pickup on the drilling side, we're seeing more rigs, more floaters going back than jackups. So deeper water tends to support us better with our larger vessels. So I think that's going to have a really good positive effect for us as we go into second half '27 and into '28 as we saw more floaters hitting the water around the world. So yes, we're very positive on seeing a lot more exploration coming out or significantly picking up.

Operator

Last call from Lucas Stahl with Arctic Securities.

Unknown Analyst

Just following up on that last question, I was wondering if you sort of look at your contracts over the last year or so, do you see a meaningful delta in terms of the development and exploration campaigns that your vessels are being assigned to?

Quintin V. Kneen
President, CEO & Director

Yes. So you mean a reasonable delta in terms of just the contract length or just the amount of contracts?

Unknown Analyst

No, the type of contract, I mean, the type of campaign, whether the campaign is an exploration campaign or whether it's a development campaign, whether you have sort of seen you have noticed that there has been a shift in terms of the split in terms of percentages?

Quintin V. Kneen
President, CEO & Director

Yes. No. I mean, at the moment, it's still exploration. I mean I think if you -- when we started seeing the pickup in '21, that was a case of production coming back on post-COVID. Then we had a couple of exploration campaigns, things like we were supporting Total and Suriname. We're now going back into support Total and Suriname, and that's a development campaign. So it's just a layering on of that effect. So what we're seeing the uptick in at the moment is a little bit more of that development work coming, but primarily, it's still exploration in terms of the regions where we're seeing the work that's coming back. So it's more a push towards exploration, which is from a long-term perspective, that's very positive because the assumption is that turns into development and then production and that continues to grow the business as we look out beyond the next sort of 1, 2 years into sort of 5-year time frame and beyond.

Unknown Analyst

And then you mentioned that you were sort of eligible to recover some of the costs in the Middle East or some of the cost increases in the Middle East. How much have you sort of recovered today?

Samuel R. Rubio
Executive VP & CFO

Yes, Lucas, this is Sam. We have billed, I think, about $7 million so far. I'm sorry, we billed a little over $2.5 million, and we've recovered $600,000 so far. Now we're able to bill up to $7 million, but that billing

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process obviously is taking a little bit longer than we would anticipate. But eventually, we hope to build everything that we can put in the context.

Operator

There are no further questions at this time. I will now turn the call back to President and CEO, Quintin Kneen, for closing remarks.

Quintin V. Kneen
President, CEO & Director

Dara, thank you, and thank you, everyone, for joining us. We look forward to updating you again in February. Goodbye.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.

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