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Tidewater Inc. NYSE:TDW

FQ2 2023 Earnings Call Transcripts

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Presentation

Operator

Thank you for standing by. My name is Ian, and I will be your conference operator today. At this time, I would like to welcome everyone to the Tidewater Inc. Q2 2023 Earnings Call. All lines have been placed on mute to prevent any background noise.

[Operator Instructions]

I would like to hand the call over to West Gotcher, Vice President of Finance and Investor Relations. You may begin your conference.

West Gotcher

Thank you, Ian. Good morning, everyone, and welcome to Tidewater's Q2 2023 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 Commercial 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 and uncertainties and other factors that may cause the company's actual performance to be materially different from that stated or implied by any comment that we are making during today's conference call. Please refer to our most recent Form 10-K and 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, August 8, 2023. 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 on our website at tdw.com and is included in yesterday's press release.

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 Second Quarter 2023 Tidewater Earnings Conference Call. Before I turn the call over to Piers and Sam to discuss the quarterly results, I wanted to briefly review our integration of the 37 high specification PSVs from Solstad Offshore, discuss the results of our recent warrant expiration, and related to that, reiterate our philosophy on capital allocation.

We announced the completion of the Solstad vessel acquisition on July 5, shortly after the end of the second quarter. We believe this fleet will prove to be an accretive addition to the Tidewater fleet and will generate meaningful value for our shareholders over the coming years as the offshore up cycle continues. This acquisition is different from the last 2 in that it is largely an asset acquisition. So we have had to prepare the shore-based staff and staff up ahead of the closing to ensure the vessel operations were poised to accept the transfer of the vessels into the existing Tidewater operational and administrative infrastructure.

The positive aspect of this type of acquisition is that we get to have full control of the amount of incremental shore-based resources we assume, and we get to avoid the layoffs, downsizing and redundancies. But the negative aspect is that we have to start preparing much earlier to assume the assets and the margin of error is much lower, as you are moving assets from an existing operational framework and over a few day period, convert and importing the systems to the

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Tidewater infrastructure.

I'm pleased to report that we have already transitioned 5 vessels in the first 35 days. We feel our transition processes are working, and our plan is to have the remaining vessels transferred over by the fourth quarter. Integrations are critical to maintaining our scalable global infrastructure and our low per-vessel overhead expense. And accordingly, we take all of our integrations very seriously.

The last 2 acquisitions saw our G&A expense spike in the first full quarter of the acquisition and then worked down as we integrated the business. This one, you see a ramp-up beginning ahead of the closing, and then working up to a new steady state over about 6 months. We became what might be termed an inadvertent equity issuer about a week ago as warrants from the 2017 restructuring expired in the money. We received proceeds of $111 million and issued 1.9 million new shares. All of the shares issued were actual common shares, no Jones Act warrants. We have ample U.S. ownership now, so we no longer have any need to maintain Jones Act warrants. Incidentally, there is a remnant of Jones Act warrants outstanding, and we're glad to convert them to actual common shares for anyone listening who still holds Jones Act warrants.

On a philosophical basis, I'm pleased that the pre-restructuring Tidewater equity holders were able to obtain incremental value from these warrants. But we would not otherwise willingly be issuing shares. So as a result, we now have an additional $111 million to allocate in the best interest of our shareholders.

As it relates to capital allocation, our first allocation would be to accretive value acquisitions, similar to the last 3 that we've done, that support our existing global position in large act PSVs and other OSVs that are somewhat less commoditized, like the large anchor handlers. Other offshore energy-related assets are always being considered as well, but they would need to fit -- that wouldn't make sense from the perspective of fit, price diversification, et cetera. Strategically, we are underrepresented in the Far West Hemisphere, which is essentially the U.S. and Brazil. So candidates in these geographies are probably slightly favored. But with all that said, we can make a tremendous amount of money with the 223 vessels we now have. We absolutely don't need to do any more acquisitions. But with the right vessels at the right price, we can certainly create more value.

Absent value-accretive M&A, we would seek the best ways to return money to shareholders. Frankly, we're making more money on our cash than we have in recent memory, but I'm still not looking to hold on to the cash and the associated negative carry. Our current secured bond precludes any returns of capital until November 17 of this year, about 3 months from now. Also, any returns of capital would need to be measured until we have a debt capital structure that is appropriate for a cyclical business. To me, that is a combination of long-dated staggered maturity and secured bond debt and an ample revolver, our recent unsecured financing is a step in that direction. My belief is that we can make further strides in that direction over the next few quarters. And quite frankly, another appropriate acquisition could give us the scale to reset the debt capital structure accordingly.

Lastly, on capital matters, we will be filing an updated Form S-3 this week. Our previous universal shelf has expired. This is a standard procedure for a well-known seasoned issuer like Tidewater and prepares us for any of the potential acquisition opportunities we alluded to a moment ago.

The second quarter was another positive period in the offshore vessel market. The most important indicator of strength in our business, average day rate, continued its upward momentum during the second quarter, with the average day rate up $1,400 per day sequentially, nearly a 10% movement. The average day rate is now up approximately $5,500 per day since the recovery began around the end of 2021. Every region and every vessel class experienced a modest to quite significant day rate increases during the second quarter, with the exception of our 8,000 to 16,000 BHP-class anchor handlers, which were essentially flat sequentially.

For the second quarter, revenue increased about 11% to $215 million compared to $193 million in the first quarter.

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Average day rate was up about 10% sequentially. Vessel level cash margin expanded 4 full percentage points to right at 44%. Leading-edge day rates continued to improve during the second quarter, up 11% over the first quarter. During the second quarter, we entered into term contracts on 26 vessels. The average day rate for contracts associated with the subset of vessels was right at $23,500 per day with an average duration of about 6.5 months. This compares to a leading-edge day rate of approximately $21,000 per day with an average duration of 7.5 months in the first quarter. An 11% increase in leading-edge day rates is meaningful. Further, the leading-edge composite average day rate of $23,500 is 46% above the average day rate for the second quarter. And this growth potential continues to be a driving factor for our confidence in the revenue and gross margin guidance for the year and our optimistic outlook for 2024.

As we've discussed frequently, day rate improvement is the primary driver of increasing profitability of our business, particularly as we look at the intermediate to long-term offshore cycle unfolding. As such, we remain focused on a variety of tactics to continue to drive global average day rates. We were successful in our tactics to continue to push day rates globally. This strategy did have a short-term utilization impact. We consciously chose to forego certain immediate contracts to pursue higher day rate opportunities. And in some cases, we incurred frictional unemployment related to relocating vessels and waiting on customers for projects to commence. The combined opportunity cost to revenue for this strategy was approximately $8 million from loss utilization during the second quarter.

We are confident that this chartering strategy is right for the intermediate and long-term profitability of the business, as we not only achieved higher day rates in the short term, but continue to push the baseline day rates for certain vessels that will prove beneficial as we progress through the remainder of '23 and into 2024 and beyond. The improvement in day rates we realized from this strategy gives us the confidence to reiterate our 2023 annual guidance of $1 billion of revenue and $500 million of operating margin, even with the impact of utilization in the second quarter. We anticipate Q3 revenue to increase by approximately $80 million compared to the second quarter and for revenue to increase an additional $30 million in the fourth quarter. Both figures are inclusive of the newly acquired Solstad PSVs.

To provide some additional context to our guidance for the third quarter, we currently have 87% of the fleet capacity contracted. And with that, we have a 100% backlog coverage relative to our revenue guidance. Embedded in that backlog coverage, we are assuming 84% utilization. That's a nice step up in utilization. The downside risk is where we lose revenue from a vessel that is contracted and expected to work at 84% utilization. But for anticipated reasons, usually being off-hire for repair, the utilization is less than 84%.

In summary, we are very pleased with the continued momentum across our regions and vessel classes during the second quarter, and we remain highly constructive on the outlook for 2024 and beyond. And with that, let me turn the call over to Piers for an overview of the global markets and the company's performance within.

Piers Middleton
Vice President Sales & Marketing

Thank you, Quintin, and good morning, everyone. Before I focus on our area's performance, I want to talk a little about what we at Tidewater are seeing happening in the industry that gives us the necessary confidence in the long-term outlook for our industry.

Our teams regionally all continue to see positive investment momentum in their respective offshore markets, driven by resilient long-cycle offshore developments, production capacity expansions, the return of global exploration and appraisal and the recognition of GAAP as a critical fuel source for energy security and as a part of the energy transition. Offshore markets remain strong, and the supply-demand outlook is very positive. Offshore vessel and rig demand is being bolstered by supportive energy prices, with operators seeking to reinvest profits into increasing oil and gas output.

Overall, $68 billion of offshore oil and gas projects CapEx has been sanctioned in 2023 year-to-date, with outside research projecting $119 billion for the full year, the highest level since 2013. And furthermore, other research resources forecasted E&P vessel spending is expected to increase by 32% this year, with spending estimated to increase with a

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compound annual growth rate of 10% out to 2027. As evidence of some of this newfound long-term confidence in the market, BP has announced the revival of the huge offshore project, Kaskida, in the U.S. Gulf, which they abandoned in 2014, and they are now planning to revive the project, targeting FID in 2025 and First Oil in 2028. The reservoir is estimated to hold more than 4 billion barrels of oil.

Rig rates continue to firm, with Clarksons Research reporting that their rig rate index is now up by 74% compared to the beginning of 2021, driven primarily by the floater sector, with 1 recent fixture agreed at $484,000 per day in June for a harsh environment semi heading for Australia, a further sign of tightness in the harsh floater sector amidst reduced supply and strong competition for harsh units globally. Additionally, various multiple industry outlets forecast that the floater market will hit 100% utilization next year and into 2025, and that the jack-up market will be at 98% utilization by 2025. All very positive indicators for the long-term health of the OSV space.

To back up various recent outside research reports, a leading global offshore rig provider recently disclosed that they now intend to exercise the purchase options for their 2 floaters currently sitting in a yard in South Korea. As the company said it sees enough strong customer interest in their rigs based on their current market outlook, and that the expectation is that most, if not all, of the supply is stacked and new build drillships and the global fleet will be needed to meet growing growth and future demand.

Lastly, on the demand side, Q2 reports from 3 leading EPC contractors reveal a significant milestone: that their combined backlog now surpasses the 2013 year-end record reported backlog, which also bodes well for the long-term demand of the industry, when many of these projects generally have a 3- to 5-year time frame before completion. In addition, as we have said many times on these calls, vessel supply is set to remain constrained for some time. According to leading industry research, 43% of the remaining laid up overseas have been in lay up for more than 5 years, with reactivation becoming increasingly time- and cost-intensive, and there is very little sign of any kind of new building activity on the horizon due to the challenges of securing finance, high new build pricing and uncertainties surrounding design and technology, and day rates still not returning to a level to support long-term new build economics.

So overall, we remain very positive for the long-term health of the market and have started to see some significant movement from our customers when it comes to discussing contract terms. And in particular, termination clauses, with some customers now willing to accept no cancellation for convenience clauses in return for longer-term contracts. Again, very positive momentum, we believe, for the industry.

Moving on to our own fleet. And as mentioned by Quintin, we continue to see the increase in demand and shortness in supply impact rates positively on the upside. And even though in Q2, we saw a slight tick down in utilization compared to Q1, the team still managed to push our fleet composite day rate up by over $1,400 per day compared to the prior quarter.

Working through our various regions and starting with Europe, coming out of Q1, whilst the U.K. market was slightly sluggish in Q2, we continued to see strong demand in both Norway and the net PSVs, which offset any sluggishness in the U.K. The team improved our composite fleet rates compared to Q1 2023 from $15,669 per day to $18,999 per day, a jump of $3,321 per day across the whole region. Whilst the U.K. PSV market was a little slow, we did have some of our medium-sized PSVs roll off older contracts into newer contracts. We saw a significant uptick in rates in Q2 of $5,532 per day compared to Q1 in this class of vessel.

In the Med, we also saw leading-edge day rates for our larger class of vessels reach in excess of $32,000 per day. On the AHTS side, we mobilized back into the region 1 of our larger AHTSs after she had finished project work in Africa, with the intention to have 2 large AHTS in the region to take advantage of the traditionally strong summer season in the North Sea. And rates have remained robust in the $30,000 to $40,000 per day range, and the expectation still remains that demand will pick up in Q3.

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Moving to Africa. We again continue to see rising demand across the whole continent, with particular focus in Angola, Namibia, Congo and Senegal, and have recently seen [Total] come out to tender for 2 10-year floating rig requirements to support their ongoing plans in the region. In Q2 2023, the composite fleet rate improved by $1,422 per day from $13,047 per day in Q1 2023, up to $14,469 per day, with most of the day rate improvement in the quarter, again, coming from our larger 16,000 BHP-class anchor handlers and plus-900 square meter class of PSV. We also had a number of large and medium PSVs rolling off legacy below-market contracts and into new contracts with leading-edge day rates in excess of $34,000 per day levels. In the first half of the year, we also made the decision to mobilize several of our smaller 4,000 to 8,000 BHP-class of AHTSs out of the region to the Middle East to support our operations in Saudi Arabia, where we'll be able to achieve much better utilization and margin for this class of vessels going forward.

During the quarter, this relocation of vessels had a negative impact to our overall utilization numbers, but we believe it is the right time to take some short-term pain for long-term gain. To be clear, we still remain very positive for the Africa region going forward. And whilst our main focus will primarily be in growing our large PSV and AHTS fleet in the region to continue to be the big boat supplier of first choice on the continent. We did also commit to building 4 new Alicats to provide crude transfer services for 1 of our customers in the region against [non-transport] for convenience contracts.

In the Middle East, Saudi Arabia remains the dominant country in the region as well as 1 of our key areas of focus for the fleet. And as I just mentioned, we made the decision in Q2 to mobilize a number of our smaller AHTSs and smaller PSVs from other areas to take advantage of not just the improving day rates in the country for these class of vessels, but as importantly, the consistent utilization you are able to achieve in the Kingdom compared to other regions. Jack-up rig demand in the Middle East remains robust and currently stands at a record 148 units, with demand in the Middle East projected to grow by an additional 8% for the rest of 2023. In 1 of our most challenging region competition-wise, the team did a fantastic job pushing rates and increased our total composite fleet rate of $770 per day to $9,679 per day in Q1 2023 to $10,449 per day in Q2 2023.

In the Americas, as mentioned last quarter, we saw a lot of demand in Brazil in Q1 from Petrobras, with the NOC reported to have awarded up to 20 new PSV contracts. And in Q2, market sources reported that rates being offered for this tender were all in excess of $40,000 per day levels for larger PSVs. In addition, Petrobras is expected to come out with a long-term tender for large AHTS shortly, which is expected to suck up additional supply from outside of the country when the contracts start in Q1 and Q2 2024.

Elsewhere in the region, Guyana and Suriname continue to see a strong first half of the year. And we also start to see the big boat market pick up steam in the U.S. Gulf of Mexico during the quarter. In Q2 2023, our Americas fleet continued to perform strongly, but we didn't have a huge uptick in rates as we saw in some other areas, as we didn't have a large rollover of new contracts in the quarter as we continued working on contracts in the previous quarter. However, the team was still able to push the composite fleet rates by $475 per day from $19,794 per day in Q1 2023 up to $20,269 per day in Q2 2023. The majority of the uptick coming in the large PSV class, where we also managed to achieve leading-edge day rates in excess of $40,000 per day.

Lastly, in Asia Pacific, Malaysia, Taiwan and Australia continue to be the key drivers of demand in the region in Q2 2023, and we expect those countries to drive demand through the rest of the year and into 2024. We did move 1 of our smaller AHTS in the Middle East for the same reasons as previously mentioned, with the focus for the region going forward being on the bigger boat market, where we are best able to support our customers by being the supplier of choice for large AHTSs and large PSVs.

In Q2 2023 the Asia Pacific team continued to sustain impressive rates across the region and even managed to increase the composite rates in the region by $668 per day from $23,582 per day in Q1 2023 up to $24,350 per day in Q2 2023. All in all, a very impressive performance for the quarter and the first half of the year.

Overall, as mentioned by Quintin, we are very pleased with how the market has continued to move in the right direction throughout the year, and that we expect that positive momentum to continue into subsequent quarters and beyond, with

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all signs being that we do not see any significant slowdown in demand in any of the regions in which we operate. And with that, I'll hand over to Sam. Thank you.

Samuel R. Rubio
Executive VP & CFO

Thank you, Piers, and good morning, everyone. At this time, as in prior quarters, I would like to take you through our financial results, and I will focus primarily on the quarter-to-quarter results of the second quarter of 2023 compared to the first quarter of 2023. As noted in our press release filed yesterday, we reported net income of $22.6 million for the second quarter or $0.43 per share on revenue of $250 million compared to $10.7 million of net income or $0.21 per share in the first quarter on $193.1 million in revenue. Active utilization decreased slightly from 80.6% in Q1 to 79.4% in the current quarter. The decrease is due primarily to higher drydock days and higher mobilization days as we mobilize 9 vessels to different regions in the quarter.

Average day rates increased by 9.7% from $14,624 per day in the first quarter to $16,042 per day in the second quarter, which was the main driver for the increase in revenue. Vessel margin in Q2 was $92.1 million compared to $75.7 million in Q1, and vessel margin percentage increased to 43.8% from 39.6% in Q1. Adjusted EBITDA was $72 million in Q2 compared to $59.1 million in Q1. Vessel operating costs for the quarter were $118.3 million compared to $115.5 million in Q1. In the quarter, we saw an increase in crew salaries and travel expenses and vessel supply expenses related to reactivation of a couple of vessels. In addition, as mentioned previously, we mobilized 9 vessels into different regions and incurred additional drydock days in the quarter that added to the increase in operating costs, mainly due to the fuel consumed.

Our vessel operating cost per day was relatively flat quarter-over-quarter at about $71.50 per day. We estimate that fuel costs related to mobilizations and a couple of onetime charges in the quarter affected our operating costs by about $250 per day.

As we look to the remainder of the year, based on our most recent forecast and with the addition of the newly acquired 37 Solstad vessels, we estimate total 2023 revenues to be approximately $1.03 billion and vessel operating margin to be approximately $500 million. In the quarter, we sold 3 older noncore vessels, 1 from our assets held for sale and 2 from the active fleet for net proceeds of $2.9 million and reported a net gain of $1.4 million on the sale of these vessels. We generated operating income of $38.9 million for the second quarter of 2023 compared to $24.5 million in Q1. The increase is due primarily to the higher revenue.

G&A cost for the quarter was $26 million, $2.5 million higher than Q1. G&A for the second quarter included $2.4 million in bad debt expense related to a customer's receivable balance that was determined to be uncollectible. In addition, we also incurred $1.2 million in transaction expenses related to the Solstad vessel acquisition. We expect our total G&A costs for 2023 to be approximately $97 million, which includes $6.2 million of transaction costs related to the Solstad vessel acquisition and the $2.4 million bad debt expense mentioned previously. Excluding these items, we anticipate our annual normal G&A run rate to be about $89 million, which includes additional costs added as part of the Solstad transaction.

In the quarter, we incurred $21.4 million in deferred drydock cost compared to $31.1 million in Q1. In the quarter, we incurred 823 drydock days, which affected utilization by 5%. With the addition of the Solstad vessels, we now estimate our drydock costs for the full year 2023 to be about $87 million, which includes $8 million related to the Solstad vessels. In Q2, we also incurred $6.4 million in capital expenditures related to IT upgrades and vessel modifications. In addition, we incurred $2.5 million related to downpayments on 4 new Alicats. For the full year 2023, we expect to incur approximately $28 million in capital expenditures, $5 million of which has been reimbursed by our customers.

We generated $11.3 million of free cash flow this quarter. As cash flow -- as cash flow in Q2 was affected primarily by higher drydock and CapEx expenditures, we also paid approximately $10 million in taxes. Working capital increased by

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almost $23 million for the quarter. And even though we do expect our investment in working capital to grow with the addition of Solstad vessels and as revenue increases, we will continue to manage this investment as tightly as possible. As anticipated, we did see a significant spend in CapEx and drydocks this quarter. However, we expect the cash flow performance to significantly improve in Q3, with additional improvements in Q4 as the business continues to accelerate.

In Q4 of 2019, we began reclassifying vessels on our balance sheet from property and equipment to assets held for sale. We have since run 88 vessels through this program. At the end of Q2 2023, we had 2 vessels remaining in assets held for sale at a value of about $600,000. During the second quarter, as mentioned previously, we sold 1 vessel from the assets held for sale for proceeds of $500,000. On July 5, we completed the acquisition of the 37 platform and supply vessels from Solstad for $580 million. We financed the acquisition through a combination of net proceeds from a $250 million 5-year [10 3/8] fixed rate unsecured Nordic bond, a new $325 million, 3-year sulfur-linked floating-rate amortizing secured senior bank term, together with $18.5 million of cash. More details of the financing are available in our recently filed Form 10-Q. We're very pleased with the acquisition, and we appreciate the support we received from the credit markets. We look forward to integrating the 37 vessels into our operational management and anticipate the completion by the fourth quarter.

I would now like to focus on the performance of the regions. Our Americas region reported operating profit of $6.2 million for the quarter compared to operating profit of $8 million in Q1 2023. Vessel operating margin increased from 40.7% in Q1 to 41.2%. The region reported revenue of $50.4 million in Q2 compared to $47.7 million in Q1. The region operated 32 active vessels in the quarter, an increase of 1 vessel from Q1. Active utilization for the quarter was 85.4%, slightly higher than 85.2% in Q1. Day rates increased 2.4% to $20,269 from $19,794 per day in Q1. The decline in operating income was due primarily to increased reactivation expenses and the $2.4 million bad debt charge taken in the quarter.

For the second quarter, the Asia Pacific region reported an operating profit of $7 million compared to an operating profit of $5.6 million in Q1. Vessel operating margin increased from 43.3% in Q1 to 47%. The region reported revenue of $22.6 million in the second quarter compared to $22 million in the prior quarter. The region operated 14 active vessels, which was up 1 vessel on average compared to Q1. Active utilization decreased to 72.4% in the quarter compared to 77.8% in Q1. However, day rates increased by 2.8% from $23,582 per day in Q1 compared to $24,250 per day in Q2. The higher operating income is due to the increase in revenue, coupled with decreases in operating and G&A expenses.

For the second quarter, the Middle East region reported an operating loss of $1.7 million compared to an operating loss of $344,000 in Q1. Vessel operating margin decreased from 25% to 22.7%. The region reported revenue of $31.9 million in the second quarter compared to $30.8 million in the prior quarter. The region operated 44 vessels, an increase of 1 vessel from Q1. Active utilization decreased from 82.5% in the first quarter to 76% in Q2, due mainly to higher mobilization days. Day rates increased from $9,679 per day in Q1 to $10,449 per day in Q2. The region incurred over 500 mobilization days in the quarter, which impacted utilization substantially, as 4 vessels were transferred into the region. The decrease in operating income was due primarily to the increase in operating expenses, in particular, higher fuel expense, resulting from the mobilizations into the area.

Our Europe and Mediterranean region reported operating profit of $8.3 million in Q2, a nice increase from Q1, where the region reported operating profit of $2 million. Vessel operating margin increased from 36.7% to 45.8%. Revenue increased 26% to $39.3 million in Q2 compared to $31.3 million in Q1. The region operated 26 vessels in the quarter, 1 less than Q1. Active utilization increased to 85.7% compared to 83.4% in Q1. The increase in utilization was primarily due to lower drydock days and in Q1 and the increase in activity as the seasonality impact is reduced. In addition, day rates jumped 21.2% to $18,990 per day compared to $15,669 per day in Q1. The increase in operating income for the quarter was mainly driven by the increase in revenue, offset by higher operating costs due to higher R&M and higher supplies and consumable expenses.

Our West Africa region reported operating profit of $25.5 million in Q2 compared to operating profit of $17.2 million in Q1. Vessel operating margin increased from 46.4% to 53.6%. The market in this area remains strong. Revenue for Q1 was $66.2 million compared to $59.5 million in Q1. The region operated 65 vessels on average in Q2, 1 less than in Q1.

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Active utilization increased to 77.8% in Q2 from 76.6% in Q1. And day rates continued to increase as we saw a 10.9% increase to $14,469 per day in Q2. The increase in operating income from Q1 resulted mainly from the higher revenue, coupled with a decrease in vessel operating expenses.

In summary, we are pleased with our Q2 results. In the quarter, we repositioned 9 vessels to different regions and had a high number of anticipated drydock days that affected our overall results. However, this will have a positive impact on our results in the future. We are encouraged to see continued increases in revenue throughout the year driven by higher day rates. During 2022, we reactivated many of our previously stacked legacy Tidewater vessels, acquired 49 vessels with the Swire transaction. And in July 2023, we completed the purchase of 37 Solstad vessels, all of which will now put us in a stronger position to take advantage of the continued upturn in the industry. We remain encouraged by the leading indicators we see for the remainder of 2023 and beyond.

With that, I'll turn it over back over to Quintin.

Quintin V. Kneen
*President, CEO & Director*Well, thank you, Sam. Ian, why don't we open it up for questions?

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Question and Answer

Operator

Thank you.

[Operator Instructions]

Our first question is from the line of Jim Rollyson with Raymond James.

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

Quintin, clearly, a nice sequential move in terms of fleet average day rates and obviously, the incremental contract average leading-edge rates. On the duration front, you mentioned, I think, 6.5 months was the average duration of the incremental vessels signed in the quarter. Can you remind us what the kind of fleet average is today in terms of duration, inclusive of Solstad?

Quintin V. Kneen
President, CEO & Director

About 1 year. For the legacy Tidewater fleet, yes.

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

And when you are -- obviously, you guys have talked about incremental tightening in the market based on activity and spend. Are you getting from your customers? Are they starting to get concerned about that trend? I mean, obviously, as their spending plans change for the better, I have to imagine they look at all the same trends that we look at and start to get concerned about vessel availability. So just kind of curious how those conversations go. And are they trying to -- your actual duration went down by a month this quarter versus what you booked last quarter. So curious if they're trying to book up longer-duration contracts and just kind of how that conversation is going.

Quintin V. Kneen
President, CEO & Director

Yes. In fact -- Piers is here is in Brazil. I'm going to hand it over to him in a second. But I would say that period of sticker shock that we went through in '22 is behind us. And now everyone realizes that rates are moving up, and they're worried about scarcity. It's scarcity. It's a scarcity issue for them. And so those that are more active and drilling campaigns are more concerned about scarcity. So we're starting to see them trying to book longer periods of time. We're still going short, but the person in our organization closest to it is Piers. So let me ask him to comment.

Piers Middleton
Vice President Sales & Marketing

Yes. Thanks, Quintin. Hi, Jim. Yes, we -- I mean I think strategically, we sort of had a plan to sort of go short to allow us to roll a number of the poor legacy contracts we had. And part of that is also, I think I just mentioned a lot of the contract term that was in place in terms of these cancellation clauses for convenience that oil companies were able to push on us

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during the downturn. We're spending a lot of time pushing back on those and getting people to commit -- if they're going to commit to a 1-year or a 2-year or a 3-year contract, then they commit to the full term. So that process, we've had some positive momentum during the course of this year that people are starting to accept those types of terms of contract again.

So it doesn't happen overnight, but that's certainly starting to happen, and we're starting to have some successes with a number of our customers who are recognizing that if they want a 3-year contract, then they need to support that with an actual contract that commits to that, which we're starting to start to see because they need to have -- they are worried about the scarcity of vessels. So yes, it takes time, but we're definitely seeing movement in that direction from our customer base.

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

Yes. That makes sense and sounds good from your end. And Quintin, on the relocation of vessels out of certain markets into the Middle East, obviously, there's some near-term kind of cost impacts and utilization impacts. Just maybe a little color on how much further does that still drag some in 3Q. And then how long before you think that starts to benefit you from the steady utilization and hopefully better rates kind of perspective?

Quintin V. Kneen
President, CEO & Director

Yes. So an underlying theme in that situation in the quarter and really the first 6 months is the fact that the last boats to go to work are usually your lowest -- these capable boats, like a small size and lower-specification boats. And those boats are great for the Middle East. But when you move them into the Middle East, you've got to go through a whole Saudization process, right? So you've got a bunch of costs that go upfront. So it's good to put those boats back to work, and we did that in the first half of the year, most of that hit in Q2. I think we have a small remainder in Q3, but not -- nothing significant. Certainly all contemplated in the guidance that we laid out. But no, I think that reactivation surge and that resetting of the chest table globally is largely behind us at this point.

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

Great. I will turn it over for someone else. Thanks.

Operator

Your next question comes from the line of Greg Lewis with BTIG.

Gregory Robert Lewis
BTIG, LLC, Research Division

I was hoping to get a little bit more color around the comment around the contracted fleet. You mentioned roughly 87% of the fleet is contracted. I guess the questions around that are -- is this a function of vessels rolling off contracts, and then going back on longer contracts? Or is it, hey, there's going to be this natural piece of our fleet that's going to just simply be trading in spot. And if you could, could you provide us a little color around where those spot vessels are and how those markets are doing?

Quintin V. Kneen
President, CEO & Director

Yes. No, I think you've got it laid out right in the sense that most of those are going to be rolling through the spot market

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as we go through the next several quarters. Let me give it over to Piers to give you an idea of where the spot market is most active around the world.

Piers Middleton
Vice President Sales & Marketing

Yes. Thank you, Quintin. Hi, Greg. Yes. No, so we have -- I mean, you sort of -- as Quintin said, you guessed it right, there's an element of spot in that availability. I mean obviously, the North Sea, you always have a certain level of spot exposure, the way that's set up, particularly on the larger anchor handlers as we go into the second half of the year. So there's some there. We're also seeing -- that market is holding up very well. It's still very positive.

The good news, I think, with the Solstad transaction is we have largest share on the PSV side in that market, but actually our competitors seem to be holding rates as well. So that's turning over to a certain level in the North Sea, which is -- is spot. And then we're seeing a number of contracts rolling off in Q3 and Q4 in Africa. But again, very positive momentum in that piece as well. So there's a few contracts down there.

And then otherwise, we're pretty busy everywhere else in the world. So not a huge amount of -- a little bit of spot exposure in Asia as well, but otherwise, everything else is working. So mainly out of the North Sea is where we see most of that exposure on the spot side.

Gregory Robert Lewis
BTIG, LLC, Research Division

Okay. Great. And then just -- I did want to talk a little bit about the Solstad fleet. You mentioned the 5 vessels that were integrated in. I guess -- and as we think about the remainder of that fleet being integrated in, is there any way to kind of think about it on a vessel basis? What is that cost, right? I mean, you kind of touched on it. Is it basically to integrate each vessel into the fleet is a couple of hundred grand? And then as we think about those vessels that are still going to be put in the fleet, realizing there's a heavy concentration in the North Sea, but there are some vessels from the Solstad fleet that are in Brazil and West Africa. Is it kind of -- is it kind of we expect these vessels to stay put? Or you mentioned you're in Brazil, are you already down there trying to figure out if we can boost our position down there? Just kind of curious as we think about that, just given the ebbs and flows -- and the recent -- the decision last quarter to reposition vessels to the Middle East.

Samuel R. Rubio
Executive VP & CFO

Greg. Hi, Greg. This is Sam. I'll kick it off, and then maybe Quintin can comment on this. But as far as it relates to the cost of integrating these boats, I would say that it's going to add maybe $25,000 to $35,000 a boat just because of all the documents change and everything that we got to do. But it's really more of a timing than anything else. It will take us 1 day, 1.5 days to switch over systems and stuff like that. So the impact is minimal, as far as the timing and the cost.

Quintin V. Kneen
President, CEO & Director

Now I'd layer on top of that, Sam, that as a result, you've increased your G&A guidance for the year from the stand-alone Tidewater fleet, about...

Samuel R. Rubio
Executive VP & CFO

That's correct. We're anticipating G&A to go up about [$5,000] for a full year. So...

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Quintin V. Kneen
President, CEO & Director

$5 million.

Samuel R. Rubio
Executive VP & CFO

I mean, I'm sorry, $5 million for the full year, which should be about $2.5 million for the second half this year.

Quintin V. Kneen
President, CEO & Director

And that's the incremental shore-based facilities. But the actual movement of the vessels over is really just a -- it's an intensive planning exercise, but it's not an intense cost.

Samuel R. Rubio
Executive VP & CFO

Not an intense cost. That's correct.

Gregory Robert Lewis
BTIG, LLC, Research Division

And then just what the outlooks for those vessels, just given when we acquired them where they were located, I mean, is it too early to tell? Or should we be thinking about [indiscernible]?

Quintin V. Kneen
President, CEO & Director

It's -- so right now, most of them are under contract, which is kind of the good news, bad news on that fleet, because I would really like to roll them over a little bit faster than I can. But the -- so I think over the next year, you're going to see them working in the areas where they're currently at. So the biggest slug is in the North Sea, but we've got a handful in Brazil, a handful in Australia and just 1 or 2 in West Africa. And certainly, the thing that I'm optimistic about with that fleet is where they're at today, they're rolling on to new contracts that are better than we actually anticipated. So from a merger analysis standpoint, I'm really pleased with that.

Now where I'm working -- I'm more concerned that it lightens up more in the U.K. sector over the next couple of years. And if it does that, then rolling them down into the Mediterranean, which has been recently very strong as well as West Africa, is where I anticipate them to go. I don't expect pulling out of Brazil at this point, although Brazil is always a troubling area for an international operator. And I think there's a real opportunity in Brazil for a Brazilian on tonnage. This is not Brazilian flag tonnage, this is foreign tonnage.

Operator

Your next question comes from the line of Fredrik Stene with Clarksons Securities.

Fredrik Stene
Clarksons Platou Securities AS, Research Division

Hopefully, you guys can hear me. I actually wanted to revert a bit to some of the themes that Greg touched upon in

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relation to contracted capacity. You've given us the numbers for the third quarter. Are you able to give us some color on what's happening in the fourth quarter and also in 2024? And I'd be interested in both what you booked of revenue going forward, but also what's left in terms of free capacity to play the markets.

Quintin V. Kneen
President, CEO & Director

Sure. So naturally, what happens as you look out each quarter is we have a little bit more room, a little bit more white space, as it's commonly been called, to fill. And so we're about 85% filled for the fourth quarter. And so we'll work over this quarter to fill in that white space, to get it up to the same level that we're talking about in Q3, which is 100%. And then as you go out into -- I'll reserve on '24 until we do the '24 overview. But it's a similar step down as you go through the quarters.

Fredrik Stene
Clarksons Platou Securities AS, Research Division

Okay. And in terms of just how you commented on your strategy now in Q2 that you're holding on a bit on capacity to secure kind of longer-term work -- with longer rates, are you feeling on a general basis that you've come to a point where it's the right time to start to go from that short strategy, as you've talked about, to a long strategy to a large degree? Or is it the correct timing for some of the subsegments of your assets? Anything that kind of can help us get cash flow visibility or comp. I truly believe there has been a misunderstanding, but if your attitude towards that has changed, it would be helpful.

Quintin V. Kneen
President, CEO & Director

No. My attitude really hasn't changed. I'm still very optimistic in the acceleration of day rates globally. And I really see nothing holding it back. There's no incremental supply of any magnitude coming in from anywhere, and activity levels are continuing to increase. So generally, I'm still going short.

Now we've been going short for so long that we're actually depleting a lot of our coverage. So we may add some longer-term contracts just to balance out the book, if you will. So -- because there's always a meaningful piece of long-term contracts. If you can get the right terms, if you can get the right price escalations and so forth. But if I had my druthers, I'd I just jam it on the spot market. But let me hand it over to Piers, and he's got to live with it. So I'll ask him to comment as well.

Piers Middleton
Vice President Sales & Marketing

I mean, I think -- I mean, I think I sort of mentioned earlier, we are still focused on a relatively short-term strategy. But I think as Quintin just said, if we can -- we're spending a little bit of time getting the customers to actually commit to the term of contract. And if they're there to commit to a proper, what I consider a proper non-cancelable 3-year contract or 5-year contract on the right sort of terms, as Quintin said, then that's certainly something we'd look to put into the fleet. But I don't see us in the short- to medium-term planning to change our strategy. I think we're very positive for the long-term future of this market. So there's more upside opportunity as we go forward from our side.

Quintin V. Kneen
President, CEO & Director

Yes. And I follow up with 1 more -- 1 more item -- I follow up with just 1 more item on that, which is, obviously, we're playing the spot market nothing's really changed. To the extent that we'd layer on additional contract covered like Piers was indicating, it's because we're getting contract terms that we feel are sustainable over a 3- or 4- or 5-year period.

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Fredrik Stene
Clarksons Platou Securities AS, Research Division

Perfect. And just a final follow-up on that. I think in some of the other -- also subsegments like the rig space, what we see now over the last few months is that the lead time to contract start has expanded for these long-term contracts. And of course, there are different dynamics in these 2 markets. But in terms of your discussions with -- with your clients, are they not only willing to give term or offer term contract, but how has the -- how far out in time are they trying to plan for their OSV needs? And how has that changed maybe over the last 12 months?

Quintin V. Kneen
President, CEO & Director

Hey Piers, do you want to take that one?

Piers Middleton
Vice President Sales & Marketing

Yes, yes, of course. And it always amazes me, you think customers would be slightly better organized when it comes to looking to book the PSVs and anchor handlers. But I would still say the majority of the customers are leaving it quite late still. They're still -- they may have a long lead time on a rig, but we're not still seeing tenders that are sort of 3 months out, with the exception of perhaps someone like Petrobras, some of the NOCs have a longer lead time on the IOCs. Their lead times tend to be 2 months -- 3 to 6 months before they come out. And in some cases, we have some of them who even come out expecting -- expecting assets to be available in a month's time, and we have to more often than not disappoint them.

So we're not -- we haven't really target into the rigs, yes, I would say, Fredrik. But no, maybe that will change over the next few months. But they're definitely looking to commit to longer-term and better contract terms when they do come out. So that bit is changing.

Fredrik Stene
Clarksons Platou Securities AS, Research Division

All right. Thank you all for the color. Super helpful. That's all for me, and I wish you a good day.

Operator

There are no further questions at this time. I would like to hand the call back over to Quintin Kneen for closing remarks.

Quintin V. Kneen
President, CEO & Director

Thank you, Ian. Thank you, everyone, and we will update you again in November. Goodbye.

OperatorThis concludes today's conference call. You may now disconnect.

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