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Tidewater Inc. NYSE:TDW

Earnings Call

Friday, May 3, 2024 2:00 PM GMT

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Presentation

Operator

Thank you for standing by. My name is Dee, and I will be your conference operator today. At this time, I would like to welcome everyone to the Tidewater First Quarter 2024 Earnings Conference Call. [Operator Instructions] Thank you.

I would now like to turn the call over to West Gotcher, Senior Vice President for Strategy, Corporate Development and Investor Relations. Please go ahead.

West Gotcher
Vice President of Finance & Investor Relations

Thank you, Dee. Good morning, everyone, and welcome to Tidewater's First Quarter 2024 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 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, May 03, 2024. 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 press releases 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. Welcome to the First Quarter 2024 Tidewater Earnings Conference Call. First quarter revenue and gross margin meaningfully exceeded our expectations. Both day rate and utilization outperformed our expectations. We are certainly pleased with the performance as the first quarter of a given calendar year is typically the slowest from an activity perspective. Given the typical seasonal factors impacting a few of our operating regions, we take advantage of this period to front-load the drydock schedule, which serves to prepare our fleet for a busier work season later in the year.

This first quarter not only exceeded our expectations, but it exceeded the fourth quarter and the fourth quarter exceeded the third quarter. This sequential improvement through the typical slow period is the strength of the cycle overwhelming the calendar year seasonality. The seasonality is still there, but the increased average day rate from contracts rolling on to higher rates more than offsets the effect. Day rate momentum during the first quarter was broad-based with each of our vessel classes posting strong sequential growth. Particularly in our large class of anchor handlers, day rate momentum for this class of vessel was consistent across multiple regions with a composite rate for this class up about 27%.

Large anchor handlers are primarily used to support the mobilization and movement of drilling rigs and typically benefit the most busy year, more seasonable, favorable periods in the second and third quarters. The first quarter also results -- first quarter results also indicate that the supply of large anchor handlers is persistently tight and that the continued rolling of all vessels onto new leading-edge contracts will continue to drive up the printed quarterly average day rate. During the quarter, we repurchased $3.5 million of shares on the open market and subsequent to the end of the first quarter, we repurchased an additional $12.5 million of shares on the open market. In addition to the open market repurchases, we used $28.5

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million of cash to buy shares from employees so that they can then pay the associated tax benefit with the vesting of their equity compensation in lieu of those employees just issuing those shares into the open market.

So year-to-date, we've used $44.5 million of cash to reduce the share count by about 492,000 shares. We remain opportunistic on share repurchases, and we'll continue to weigh the merits of share repurchases against other capital allocation opportunities, both relative to our view of the intrinsic value of the shares and against other capital allocation opportunities that may present themselves. We continue to pursue acquisitions, but thus far, our share repurchases have been the most value-added use of capital. Our focus for acquisitions remains on companies located in North and South America, but we remain opportunistic in all geographies.

In summary, we are very pleased with the performance of the business during the first quarter, and we remain opportunistic -- optimistic on the continued pace of offshore activity acceleration as a result of the constructive leading indicators we observed during the first quarter coupled with the persistent tightness in vessel supply and lack of new build activity. We will remain focused on driving free cash flow generation, and we'll continue to deploy capital into those alternatives that maximize shareholder value.

And with that, let me turn the call back over to West for additional commentary and our financial outlook.

West Gotcher
Vice President of Finance & Investor Relations

Thank you, Quintin. To provide some additional context on our share repurchase program. We are pleased to announce that our Board of Directors has authorized an additional $18.1 million of share repurchase capacity. This incremental authorization, combined with our remaining authorization from the last announced authorization provides for $50.7 million of authorized share repurchase capacity. The outstanding and authorized share repurchase program represents the maximum amount permissible under our existing debt agreements. To date, our capital allocation philosophy has been governed by our free cash flow generation or beyond the intrinsic value of our shares relative to where our shares trade on the market, our current debt capital structure and competing capital allocation opportunities. .

Our current debt capital structure is reaching a point at which we believe there is an opportunity for us to evaluate steps to establish a long-term debt capital structure, more appropriate for a cyclical business and to allow for additional shareholder return capacity. Irrespective of the complexion and flexibility of our capital structure, the guiding principles of our capital allocation philosophy will remain consistent. We will remain rigorous in evaluating the relative merits of each opportunity we look at to pursue the most value accretive uses of our capital.

In addition, we will remain mindful of our balance sheet maintaining a clear line of sight to a net cash position in about 6 quarters for any capital allocation decision we make. During the first quarter, leading-edge day rate momentum continued to improve nicely to $30,641 per day. We entered into 19 term contracts during the quarter with an average duration of about 9 months. We anticipate that we will continue to see continued improvement in leading-edge day rates as we progress through the year given the persistent tightness in vessel supply and increasing chartering activity as we approach the busier quarters of the year.

We remain confident that we can achieve average day rate to improve by approximately $4,000 per day on a year-over-year basis. Looking to the remainder of 2024, we reiterate our full year guidance of $1.4 billion to $1.45 billion of revenue and 52% gross margin. As we progress through the year, we now anticipate revenue to increase slightly in the second quarter due to better-than-anticipated revenue performance in Q1 and to the pull forward of some drydocks, the mobilization of a few vessels and some unplanned maintenance in the second quarter. We still anticipate a meaningful step-up in revenue in the third quarter and continued strength into the fourth quarter.

Similarly, we anticipate relatively flat gross margins in Q2 due to the factors previously described, but expect about 7 percentage points of margin expansion in Q3 and maintain our expectation of Q4 gross margin exit rate of 56% in the fourth quarter. Setting us up well for continued margin expansion as we

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enter what is expected to be in an even stronger market in 2025. Our backlog currently sits at about $930 million of revenue for the remainder of 2024, with 74% of available vessel days contracted for the remainder of the year, with our largest classes of PSVs and anchor handlers having the most exposure to contract repricing opportunities throughout the remainder of the year.

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

Piers Middleton

Thank you, West, and good morning, everyone. This quarter, I will talk a little about what we are seeing in each of our regions as we look out for the rest of the year and into 2025. Overall, the outlook for the OSV market remains strong, with the ongoing upturn in project investment expected to continue to drive additional incremental demand out beyond 2026.

While the limitations in the supply of any additional OSVs to the global fleet will further exacerbate the tightness in the OSV space, so far, this tight supply-demand balance has been reflected positively in our rates for Q1 2024 by pushing our fleet composite day rate up by almost $1,497 per day compared to Q4 2023. And furthermore, based on our outlook for the market, we see no need to move away from our current short-term chartering strategy that we've been very vocal about over the last few years. And again, this has been reflected in Q1 with our average charter length for new contracts remaining in the 9-month period, which was the same as we saw in Q4 2023.

Working through our various regions and starting with Europe. The North Sea spot PSV market has been a little slow to pick up in the first few months of the year, which is not unusual for Q1. However, that was offset by stronger demand on the term side of the business, both in the U.K. and Norwegian sectors for PSVs, with charters coming to the market early in the year to make sure they have the necessary cover over the busy summer periods and through Q3 and Q4.

On the large anchor handlers, we saw rates reported hitting above GBP 120,000 per day mark during Q1 and with indications for the number of projects that were delayed in 2023 are now plan to start in 2024, which bodes well for our large anchor handlers for the remainder of the year. In Africa, even with the busy drydock schedule in the region, we had a strong Q1, predominantly led by increased drilling activity in Angola, Namibia and Senegal, which requires the support of our larger anchor handlers and PSVs in the region. We expect some slowdown in Q2 in drilling demand in the region as rigs repositioned to different countries in Africa. We see drilling restarting in full force again as we move into the second half of 2024 and out into 2025.

In the Middle East, with the recent news in Saudi Arabia, we may see some short-term demand slowdown, specifically related to work in the Kingdom. However, we continue to see significant demand requirements from other countries in the region as well as from the contractors supporting projects already ongoing in the Kingdom that we expect will more than offset any near-term slowdown that we may experience from a rig count reduction in Saudi Arabia.

In the Americas, as mentioned on our last call, demand in Brazil remains strong, led by Petrobras as they still try to fill their long-term vessel requirements. And with tonnage from other areas of the world slowly being s***** into Brazil, we expect to see further tightening in already tight regions. The U.S. Gulf of Mexico had a relatively soft quarter with a limited number of new requirements in Q1. But with the majority of our Jones Act fleet already fixed through 2024, we haven't been affected by this dip in demand as some others might have been in the region.

Lastly, in Asia Pacific, Taiwan and Australia were the key drivers of demand in the region in the current quarter, with several new contracts signed up to support drilling activity in Australia that will kick off in Q2 and should go all the way through into 2025. Looking further out into 2026, we're also starting to see several of the other NOCs in the broader region getting organized to increase drilling activity starting end of 2024, all the way out to 2026, which bodes well for the region going forward. Overall, we're very pleased with how the market has continued to move in the right direction in Q1, and we fully expect that positive momentum to continue through the year and into 2025.

And with that, I'll hand over to Sam. Thank you.

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Samuel R. Rubio
Executive VP & CFO

Thank you, Piers, and good morning, everyone. At this time, I'd like to take you through our financial results. My discussion will focus primarily on quarter-to-quarter results of the first quarter of 2024 compared to the fourth quarter of 2023. As noted in our press release filed yesterday, we reported net income of $47 million for the quarter or $0.89 per share. In the first quarter of 2024, we generated revenue of $321.2 million compared to $302.7 million in the fourth quarter of 2023, an increase of 6.1%. Active utilization was essentially unchanged at 82.3% in the current quarter and 82.4% in Q4. Average day rates increased by 8.3% from $18,066 per day in the fourth quarter to $19,563 per day in the first quarter, which was the main driver for the increase in revenue.

Our gross margin percentage for Q1 increased to 47.5% from 47.2% in Q4. Gross margin in Q1 was $152.5 million compared to $142.8 million in Q4. Adjusted EBITDA was $139 million in Q1 compared to $131.3 million in Q4. The positive result as the first quarter is traditionally the weakest quarter in our fiscal year due mainly to the seasonal weakness. The seasonality is still there, but the increased average day rate more than offset its effect.

Vessel operating costs for the quarter were $167.6 million compared to $158.6 million in Q4. The increase is primarily due to higher crew costs as we transferred several vessels into our Australia region, which is higher operating cost environment. In addition, we incurred higher drydock and mobilization days that increased fuel consumption and we also incurred higher-than-normal crew training costs in the period. The increase in operating costs increased our vessel operating cost per marketed day to $8,480 in the first quarter compared to $7,894 per day in the fourth quarter.

As we look to the remainder of the year, based on our most recent forecast, and as mentioned previously, we continue to estimate total 2024 revenues to be in the range of $1.4 billion to $1.45 billion and gross margins to be 52%. In the quarter, we sold 3 vessels from our active fleet for net proceeds of $12.5 million and reported a net gain of $11 million on the sale of these vessels. We generated operating income of $81.9 million for the first quarter compared to $63.1 million in Q4, an increase due primarily to higher revenue and gains on vessel sales, partially offset by increased operating costs.

G&A costs for the first quarter was $25.3 million, $600,000 higher than Q4 due primarily to higher personnel costs. For the year, we still see -- we still expect our G&A cost to be about $104 million, which includes approximately $13.6 million of noncash stock compensation. In the first quarter, we incurred $40 million in deferred drydock costs compared to $24.1 million in Q4. This is going to be a heavy drydock year with the first half of the year being the heaviest. In the quarter, we incurred 1,101 drydock days, 68 days more than in Q4, and this affected utilization by 6%.

Drydock costs for the full year 2024 is expected to be $129 million. In Q1, we also incurred $10.9 million in capital expenditures related to vessel modifications, ballast water treatment installations, IT and DP system upgrades. For the full year 2024, we expect to incur approximately $25 million in capital expenditures. We generated $69.4 million of free cash flow this quarter, which is $8.4 million more in Q4. The free cash flow was primarily attributable to cash generated from operating activities. Our $10.9 million in capital expenditures was more than offset by our $12.5 million in vessel sales proceeds.

Working capital increased during the first quarter as receivables increased because of the higher revenue. Working capital will grow as revenue continues to grow throughout the year, but we will manage this investment as tightly as possible. Cash taxes paid for the quarter were $15.6 million compared to $7.3 million in the prior quarter. The increase is due to the increase in activity, but also final tax payments were made with prior year tax returns filed in Q1. We spent $3.5 million in repurchase shares under our announced share buyback authorization and subsequent to the end of the first quarter, we purchased an additional $12.5 million shares on the open market. We spent $28.5 million in cash paid taxes on behalf of employees in lieu of issuing shares of stock relating to the vesting stock compensation.

Year-to-date, we have used $44.5 million of cash to reduce the number of shares in the market, and that has reduced the account by approximately 492,000 shares. We expect our cash flow performance to continue to improve as the business continues to accelerate.

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I'd now like to focus on the performance of the regions. Our Americas region reported operating income of $10.1 million for the quarter compared to operating income of $16.2 million for Q4. The region reported revenue of $64 million in Q1 compared to $68.4 million in Q4. The region operated 35 vessels in the quarter, which was 2 fewer than Q4 due to vessel transfers to other regions. Active utilization for the quarter was 76.5%, 4.5 percentage points lower than Q4 due to an increase in drydock activity. Day rates increased 5.6% to $25,894 per day from $24,524 per day in Q4. The decrease in operating income was due primarily to the lower revenue driven by 2 fewer vessels operating in the region, slightly higher operating costs due to unplanned repairs and to the decrease in utilization resulting from the higher number of drydocks.

For the first quarter, the Asia Pacific region reported an operating profit of $14.8 million compared to an operating profit of $11.3 million in Q4. The region reported revenue of $47.8 million in the first quarter compared to $38.6 million in the prior quarter. Utilization slipped slightly from 86.6% in Q4 to 84% in Q1 due mainly to the higher drydock activity and higher immobilization days as we moved a couple of vessels into the area. The region operated 21 active vessels, which was up 2 vessels on average compared to Q4. Average day rates significantly increased by 18.6% from $25,378 per day in Q4 to $30,101 per day in Q1.

The higher operating income was due to the increase in revenue, partially offset by the increase in operating costs due to the 2 vessels added to the region. For the first quarter, the Middle East region reported an operating profit of $1.5 million compared to an operating profit of $2.1 million in Q4. The region remained steady quarter-over-quarter and reported revenue of $37.9 million in the first quarter compared to $38.1 million in the prior quarter. The region operated 43 vessels, 2 fewer than Q4.

Active utilization increased slightly from 85.6% in Q4 to 86.6% in Q1. The Day rates increased -- I'm sorry, decreased to $11,108 per day in Q1 compared to $10,855 per day in Q4. The increase in day rates and utilization helped maintain revenue close to the prior quarter level. However, operating income decreased due primarily to the increase in operating costs due to unplanned repairs and higher-than-normal crew training costs. Our Europe and Mediterranean region reported operating profit of $14.8 million in Q1 compared to operating income of $13.8 million in Q4.

Typically, in Q1, we see a drop in activity in the area. However, we saw an increase in day rates from $19,061 per day in Q4 to $19,763 per day in Q1. Utilization decreased by approximately 2 percentage points to 87.1% from 89% in Q4 due to higher drydocks and unplanned maintenance days. Despite the decrease in utilization, day rates helped outpace our typical seasonality as we saw revenue decrease by only $300,000 to $80.4 million compared to $80.7 million in Q4.

The region operated 51 vessels in the quarter, the same as Q4. The increase in operating profit for the quarter was mainly driven by lower depreciation and operating costs as revenue and operating costs essentially remained flat. Our West Africa region reported operating profit of $41 million in Q1 compared to operating profit of $27.4 million in Q4. The market in this area remains very strong. Revenue for Q1 increased by 18.8% to $88.7 million compared to $74.6 million in Q4. The region operated 67 vessels on average in Q1, same as Q4. Active utilization increased to 78.3% in Q1 from 74.8% in Q4. The region incurred 214 fewer drydock days and 43 fewer mobilization days in the quarter, which contributed to the increase in utilization. Day rates continue to increase impressively as we saw a 14.3% increase to $18,687 per day in Q1 from $16,356 per day in Q4. The increase in operating income from Q4 resulted primarily from the higher revenue, coupled with lower operating costs due to the lower number of drydocks in the quarter.

In summary, we are pleased with our Q1 results. Q1 results are normally lower due to the seasonality, but the increase in day rates and solid utilization through this period has more than offset the effects of this typical seasonality. We remain encouraged by the leading indicators we observed in the quarter, and we will remain focused on free cash flow generation and profitability.

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

Quintin V. Kneen
President, CEO & Director
All right. Well, thank you, Sam. And Dee, let's go ahead and open it up for questions.

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Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Jim Rollyson from Raymond James.

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

Impressive results given the normal seasonal factors you've highlighted. Quintin, on the -- when you look at your leading-edge contract rates, obviously, they keep moving up last 2 quarters, kind of the rate of improvement has slowed, which, I guess, seasonally is probably pretty typical. But the way things are kind of setting up to pick up over the balance of the year, especially during the busy season, I'm curious your view on how we should think about the kind of rate of change of leading-edge rates given what activity is doing, just the seasonality impact, et cetera?

Quintin V. Kneen
President, CEO & Director

Jim, thank you. It is somewhat muted as you go through Q4 and Q1 because those are just the weakest periods of the year globally. And so it doesn't surprise me that the rate of acceleration has leveled off a little bit as we went through these last 2 quarters. It's always hard to know. But generally, and we saw this last year and the year before, I anticipate that we'll see a ramp up in Q2 and Q3. There probably is a limit to what that number goes to over time. It's certainly grown substantially over the past 8 to 10 quarters. But I would look for more meaningful increases as we go through Q2 and Q3. What we've been seeing at this pace the last couple of years is we started at about $3,000 a year improvement in overall day rates then it's been moving up to $4,000, now it's kind of on pace for $5,000, right? So it has been accelerating about $1,000 a year on average over the last 2 to 3 years. And it wouldn't surprise me to see that in '24 and into '25 as well.

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

Got it. That's helpful. And as a follow-up, Piers, you kind of went through what's going on geographically. And we obviously hear similar things in some of the different regions. I'm curious as you look out over the next 2 or 3 years, where do you anticipate the biggest growth regions to come from at this point?

Piers Middleton

I think it's not much different from what we sort of say, I think all the areas are looking very positive. I think Asia Pacific looks like it will be strong going forward. We tend to see the NOCs in that region have been a little bit slower to pick up, but they're starting to talk about that. So I think that's one area. Obviously, Brazil has continued to be -- has been strong and Petrobras continues to putting out the numbers looking out to 2030. So that looks like it will continue to be a strong area as well. I think it's all positive. So those are the sort of 2 standard areas. And Africa continues to look very positive as well down in Southern Africa in particular as well. There's a lot of work going on down there as well. So there's no bad spots at the moment is how I would leave it.

Operator

Our next question comes from the line of Fredrik Stene from Clarkson Securities.

Fredrik Stene
Clarksons Platou Securities AS, Research Division

I want to touch upon 2 themes, starting with capital allocation and the capital structure. You've talked about getting a more streamlined debt structure. And in my head, that would typically entail that you're grouping all your current facilities together maybe for a larger, more long-dated bonds. Is that something

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that kind of has changed or your own thinking around how an ultimate cap structure would look like has changed since last time?

Quintin V. Kneen
President, CEO & Director

Fredrik, thanks for the question. Good to hear from you. I'm going to kick it over to West because he's been doing a lot of strategy thinking for us from a debt capital structure perspective. But one of the things that we're certainly focused on is creating a debt capital structure that's consistent with the needs of cyclical business. So West, why don't you update him on the current thinking on that?

West Gotcher
Vice President of Finance & Investor Relations

Yes. Sure. Fredrik, appreciate the question. So I guess the way we're thinking about it today is certainly, the debt capital structure today has been kind of pieced together here over the past years through refinancings and the acquisition. And what we'd like to get to is a more appropriate debt capital structure for the cyclical business that we're in. So we're in a position today where we feel we have the, I guess, flexibility to be opportunistic in evaluating ways to shape the capital structure going forward based on what we can observe in the market, the debt capital markets, both here in the U.S. as well as in your home market appear to be relatively constructive.

We aren't facing any near-term maturities or anything of that nature. So we want to be thoughtful and judicious about how we approach that, but we do believe that we are approaching that time where it makes sense to give some real thought to it. So the ultimate case and complexion of that debt capital structure of our debt capital structure, I still think remains to be seen. But it is an environment which we feel is supportive to our efforts to begin to evaluate that.

Fredrik Stene
Clarksons Platou Securities AS, Research Division

That's very helpful color. And on the back of that, I think if you alluded to in your prepared remarks, one of the ultimate goals here is to have more flexibility around how you spend the cash that you are generating and is going to generate at least on my numbers. But I see that you didn't, during Q1, fully utilize the share repurchase agreement. You accelerated a bit now in the second quarter.

But I was wondering if you think now that the share price has actually approached $100 per share that that's one of the regions where you would think that you would switch to dividends, for example, instead of doing share buybacks. So is -- have you ever done any thinking around how you would allocate capital between dividends and share repurchases under the baskets that you're allowed to use currently?

Quintin V. Kneen
President, CEO & Director

Yes. Well, I don't want to give anybody any indications of what we think our intrinsic value is, but it's certainly higher than where we're currently trading today. And obviously, we're very optimistic about the outlook based on just the EBITDA growth and the cash flow generation of the business. But you're right, yes, there's a point when the value that you see from repurchasing shares is limited, but I also see the potential for acquisitions.

So right now, I've been more focused on repurchases because those have been more value than acquisitions. However, acquisitions may become more attractive as we go through the next several quarters. So we'll maintain a focus on all of those things. So I would say that I had my druthers. I would still focus on value-added acquisitions. But there's going to be so much cash coming off of this business in the next couple of years that share repurchases, acquisitions and dividends will all play a role.

Fredrik Stene
Clarksons Platou Securities AS, Research Division

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Super. And final one, a quick one from me. First quarter was very good. And I think ahead of everybody's expectations, which means that the step-up in kind of the second quarter is going to be a bit less maybe than what you previously anticipated. But on the back of this strong first quarter performance, do you think that there's a chance that you could go above and beyond your guidance or that will now tilted at least to the high end of that guidance range?

West Gotcher
Vice President of Finance & Investor Relations

Fredrik, it's West again. Look, there are certainly variables within the year, as you're particularly aware of in North Sea with anchor handlers and so forth. But look, we spend a lot of time on our internal forecasting. I think we've recounted that in prior calls and kind of the robust approach, bottoms-up approach that we take to that. So at this juncture, what we communicated on today's call is what we feel comfortable committing to and articulating to the market.

Operator

Our next question comes from the line of David Smith from Pickering Energy Partners.

David Smith

Sorry if I missed the details in the prepared remarks, but I wanted to make sure I heard the guidance correctly for relatively flat vessel margin or minimal vessel margin improvement in the second quarter, but then a 700 basis point step up to margin in the third quarter. And if I did hear that correctly, is that largely due to the timing of contract rollovers? Is it more downtime and costs that disproportionately impact Q2 versus Q3? Just any color behind that the ramp in the second and third quarter, please.

West Gotcher
Vice President of Finance & Investor Relations

Yes. So Dave, it's West. Appreciate the question. I think you -- yes, to answer your question directly, that is how we characterize the margin progression from a Q2 and Q3 perspective. There are a variety of items that, I guess, impact that. Certainly, the rolling of contracts is definitely impactful. We did talk about some drydocks coming forward into Q2, which we tried to do as early in the year as we can to prepare for the busier seasons. A couple of vessels that are mobilizing and a little bit of unplanned maintenance. So I think a combination of some of those items alleviating and the continued rolling of contracts as you get into Q3, when you look at those combined, that has a pretty material impact from a margin perspective.

Operator

Our next question comes from the line of Josh Jayne from Daniel Energy.

Josh Jayne

Maybe first, you talked about the Gulf being sort of a little bit soft in Q1, not necessarily Tidewater specific. But just on the conference calls of the drillers so far, it seems over the next 18 to 24 months, Gulf of Mexico should be a pocket of strength just with respect to rig activity and going forward. Would you agree with that also? And how you're thinking that -- how are you thinking about that market over the next 18 to 24 months?

Piers Middleton

Yes. I think there's -- that's probably as the drillers are saying it, they're probably right. We're certainly seeing that -- I think there was a slowdown in Q1, which we'll probably see knocking through into Q2 as well a little bit. I think there's an organization piece with some of the drillers that we're seeing to get the rigs in the right place. So we're certainly not negative about the Gulf. Sometimes you see this in certain regions, you'll get a sort of slight slowdown as people reposition rigs into areas. So yes, we we're positive going forward. I think it's just a -- maybe a couple of quarters where it slowed down a little bit, and there's not been quite as much activity as perhaps people have expected. I mean it's not, as we said, affecting us so much as we sort of saw that coming a little bit. So we fixed a little bit longer in this area

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than we have done normally. But we don't expect the Gulf to be slowing down long term. It's more of a short-term issue.

Josh Jayne

And then the other thing you mentioned on the short-term chartering strategy, I would assume that's not a broad brush when you talk about 9-month terms and things of that nature across the entire fleet. Could you talk about if there are opportunities within certain rages for longer-term contracts and how those conversations are ultimately going with your customers and how you view those, et cetera?

Piers Middleton

Yes. I mean our customers still coming out for long-term tenders, and we're not precluding that, I think we've said before, part of the short-term strategy is not only about driving rates, but it's also driving contract terms, which we feel are incredibly important in getting our customers to make more ex-bill contracts. But no, we're definitely seeing in certain regions, our customers wanting longer-term durations. We're just choosing to go a little bit shorter term because we still feel there's a lot of runway in this market globally, and we want to keep our optionality on our side of the fence rather than in our customer side of the fence, which you tend to do in a lower market.

Operator

Our next question comes from the line of Sherif Elmaghrabi from BTIG.

Sherif Ehab Elmaghrabi
BTIG, LLC, Research Division

I apologize if my questions have been asked. In the press release, you called out the Q1 drydock was 6% drag on utilization. How should we think about the case of drydocks for the rest of the year?

Piers Middleton

Sherif, the line was a bit dropped, but it's about a drydock question. Is that correct?

Sherif Ehab Elmaghrabi
BTIG, LLC, Research Division

Yes. And the cadence for the rest of the year, how that affects utilization?

Samuel R. Rubio
Executive VP & CFO

Yes. So utilization for the rest of the year, I think we mentioned on the call that we're going to be pretty heavy in the first half of the year. And then it will drop off the second half of the year. So you'll see instead of the normal 6%, that will go down to 4%, hopefully in the -- depending on the timing of some of these drydocks, right, to 4% overall utilization.

Sherif Ehab Elmaghrabi
BTIG, LLC, Research Division

Okay. And then I'll go a bit more esoteric here. Is there an effect on the supply book from emissions regulations. For example, Europe's rolled out -- rolled the maritime trade emissions trading scheme. And I'm wondering if that's a consideration when you're looking for new work, what are the costs associated with emissions can be a little extra reduced rates in the North Sea, for example, or if operators are getting a little anxious about securing tonnage?

Piers Middleton

No, I mean it's primarily European issue going into '25 and beyond and is for vessels over a certain tonnage size over 5,000 tonnes. So most of our vessels don't hit that size. So it doesn't affect us. But I would say if we're talking esoteric, I mean, I think generally, our customer base wants to have the most fuel-efficient vessels. And I was looking all the time at how they can cut emissions. That's why we have

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obviously 16 hybrid vessels in the fleet, more than anybody else has. So we're obviously looking at that as well as a business on a global basis. But no, we're not seeing a pushback from -- we're not expecting to see anything material from a government perspective globally.

Operator

Our next question comes from the line of Don Crist from Johnson Rice.

Donald Peter Crist
Johnson Rice & Company, L.L.C., Research Division

I just wanted to ask about the pace of new FPSOs coming out and what your kind of balance is today between drilling rigs and kind of production vessels and how that could skew demand as we kind of move forward throughout the year?

Piers Middleton

Yes. I mean as probably heard, we're positive on the amount of FPSOs coming out. I think as we look forward, and I may get the numbers wrong here, but I think Rystad's come out with numbers of expecting 40 plus 48-odd FPSOs coming out in the next 5-plus years, which is obviously positive. In terms of how our current fleet is, I mean, normally, we -- so I think we say we're around 60% -- 40% to 60% production and 40% drilling type work. I'd say that's a little bit more skewed towards supporting drilling at the moment from our side. And then we've obviously got some subsea construction in there as well. But I don't know, maybe Quintin has some added color on that as well.

Quintin V. Kneen
President, CEO & Director

Yes. It certainly varies over the time. And we don't always have a clean break between the two because when someone is chartering a vessel, they're not always just focused on drilling, there could be some production support elements in it over its contract life. But it will vary throughout the cycle. It's moving into the higher allocation towards drilling right now.

So Piers was indicating 60-40. So the 60% production, 40% other, which is generally drilling rigs, FPSOs, offshore construction, other elements like that. And a year ago, that was probably 70-30. Okay. In the depths of the pandemic, it was probably 80-20. So it definitely weighs higher at this point in the cycle and it wouldn't surprise me if it stays at that level. It doesn't normally go over 60-40. So I mean we should be at about the maximum level of allocation at this point.

Donald Peter Crist
Johnson Rice & Company, L.L.C., Research Division

And just from a market demand standpoint, FPSOs generally speaking, require about the same type of vessels as the bigger offshore drilling rigs, right?

Piers Middleton

Yes. It depends on the regions. But yes, generally, I mean you're looking at some PSVs and some -- depending on where you are, some anchor handlers to support the FPSOs as well sometimes.

Operator

There are no more questions. I will now turn the conference back over to Quintin Kneen for closing remarks.

Quintin V. Kneen
President, CEO & Director

Thank you, Dee and thank you, everyone, for participating in the call today. We look forward to updating you again in August. Goodbye.

Operator

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Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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