

S&P Global

Market Intelligence

Tidewater Inc. NYSE:TDW

Earnings Call

Friday, November 8, 2024 2:00 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	9

Call Participants

EXECUTIVES

Piers Dayer Middleton

Executive VP & Chief Commercial Officer

Quintin V. Kneen

President, CEO & Director

Samuel R. Rubio

Executive VP & CFO

West Gotcher

Vice President of Finance & Investor Relations

ANALYSTS

David Christopher Smith

Pickering Energy Partners Insights

Donald Peter Crist

*Johnson Rice & Company, L.L.C.,
Research Division*

Fredrik Stene

*Clarksons Platou Securities AS,
Research Division*

Gregory Robert Lewis

BTIG, LLC, Research Division

James Carlyle West

*Evercore ISI Institutional Equities,
Research Division*

James Michael Rollyson

*Raymond James & Associates,
Inc., Research Division*

Presentation

Operator

Thank you for standing by. My name is Novi, and I will be your conference operator today. At this time, I would like to welcome everyone to the Tidewater Q3 2024 Earnings Conference Call. [Operator Instructions]

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

West Gotcher

Vice President of Finance & Investor Relations

Thank you, Novi. Good morning, everyone, and welcome to Tidewater's Third 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 in 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, November 8, 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 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 Third Quarter 2024 Tidewater Earnings Conference Call. Third quarter revenue came in as expected as day rates continued to improve nicely, exceeding our expectations by over \$600 per day. Gross margin came in at 47.2%, and we generated free cash flow of \$67 million. Year-to-date, we have generated nearly \$224 million of free cash flow, \$174 million more than the same period last year. The substantial improvement in free cash flow generation is the result of high-grading our fleet through focusing on newer, higher specification vessels and our contracting strategy to relentlessly drive global day rates higher. We believe that long-term fundamentals support continued free cash flow progression, and we expect our free cash flow generation to improve over the coming quarters.

The third quarter is typically characterized as the most active quarter of the year as customers take advantage of favorable weather conditions to execute their plans ahead of the seasonally less favorable fourth and first quarters. We saw this dynamic play out this year, with average day rates improving over 5% and leading-edge day rates moving up nicely, particularly in our high-specification PSVs and smaller anchor handlers. Utilization came down slightly as additional time between jobs, principally in our West Africa and Europe and Mediterranean segments, along with higher-than-anticipated drydock days globally, both increased from the second quarter.

On last quarter's call, we discussed our weekly reforecasting process in the context of the rapid pace at which the industry outlook can change and the need to frequently evaluate our outlook as the factors driving our business evolve. We've seen that play out in the past 3 months as activity in certain of our regions softened unexpectedly due to a lack of incremental projects, projects ending early, and regulatory delays causing more idle time for some of our vessels, principally in the Americas and Asia Pacific. The North Sea, particularly in the U.K. sector, is anticipated to be weaker due to a combination of typical

winter seasonality and adjustments to their regulatory and tax programs, both of which are putting pressure on day rates and utilization. We are also planning on making more investments during the fourth quarter in our fleet than we had originally planned to prepare it for what is expected to be a better market as we progress into the second half of 2025, and these incremental investments will result in incremental drydock days as compared to our previous expectation.

More broadly, as we evaluate the landscape for 2025, the outlook on the timing and pace of growth in offshore vessel activity is less clear than it's been in a few years. We continue to see conviction in long-cycle projects by our customers. However, continued near-term activity growth appears to be somewhat subdued. We've seen our customers take a measured approach to executing incremental growth projects. Importantly, projects aren't being canceled, but the decision to procure vessels and other assets has been stalled as operators evaluate the outcome of recent successes and contend with lead time issues for critical offshore infrastructure and equipment. We've not seen a pullback in day rates, as evidenced by both the increase in average day rates for the quarter, along with the increase in the quarter's leading-edge day rates. However, lower activity levels adversely impact our ability to continue to push day rates as aggressively as we have over the past 2 years.

Over the last 2 years, we've been able to push day rates up over \$4,000 per day each year, which incidentally is fantastic. And those increases have had a big impact on earnings. I'm confident we can still push day rates up. But whether it's \$1,500 per day, which historically has been the benchmark during industry upturns, or the \$4,000 day we've seen recently, is what we are grappling with. So we're holding off on guidance for 2025 until we get some better visibility, which we anticipate we will have for you on next quarter's call.

We've talked at length about our contracting strategy over the past few years, the merits of taking a short approach to contract duration in order to push day rates and contractual terms. We've seen the benefit of this strategy with realized average day rates now almost double from what they were at the beginning of 2022, which has had a substantial impact on the earnings and cash flow of the business. This strategy trades contract coverage and higher utilization for the opportunity to push rates. Although the near-term expectation and the growth of offshore activity is less certain, we still believe that going short is the right strategy, though it may cause some lower utilization in the near term.

In our view, market day rates still do not justify the economics required for newbuild vessels and that the day rates will ultimately need to move to a point where newbuild vessels are economically viable. We see vessel attrition continuing to further constrain vessel supply over the coming years. And given the very low number of new vessels on order, we expect that the balance of supply and demand will remain firmly in our favor for at least the next 3 years. As such, we anticipate that as we move through 2025 and into '26, leading-edge day rates will continue to increase from where we are today, and we will be well positioned to take advantage of that imbalance as the growth in activity level accelerates.

Subsequent to last quarter's earnings release, we repurchased about \$15 million of shares in the open market. That brings our year-to-date share repurchases to about \$48 million. And since the inception of the buyback program in the fourth quarter of 2023, we have repurchased nearly \$83 million of shares in the open market. In addition to the open market repurchases, we used \$28.5 million of cash in the first quarter to buy shares from employees so that they can pay their tax obligation on equity compensation, in lieu of those employees issuing shares into the open market, which incidentally, we will do again in the first quarter of 2025. So over the past 4 quarters, we've used \$111 million of cash to reduce the share count by over 1.4 million shares.

We still believe that acquisitions done at a price that reflects [a sharing] of the cyclical and market risk is a solid way to make significant investments to the long-term value of the shares, and we're still generally focused on acquisition opportunities in North and South America. But the aforementioned lack of near-term visibility has increased the bid/ask spread, at least for now. So for now, we'll remain focused on repurchasing our own shares. Because our confidence in cash flows over the next 2 quarters remains strong, we are inclined to increase the rate of share repurchases.

In summary, we are confident that the long-term fundamentals for this business remain favorable and that our ability to capture the benefits of the imbalance of vessel supply and demand is intact. We are

confident that the business will continue to generate substantial free cash flow that will allow us to take advantage of these near-term uncertainties and provide opportunities to continue our past successes in enhancing 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. Over the past 4 quarters, Tidewater has generated \$285 million of free cash flow. Over the same timeframe, we've used \$111 million of cash to reduce the outstanding share count and used \$103 million of cash on the required amortization of our outstanding debt, for a total of \$214 million of free cash flow allocated directly to equity-enhancing uses. We are pleased to announce that our Board of Directors has authorized an additional \$10.1 million of share repurchase capacity. The new authorization brings our total unused share repurchase capacity to \$42.8 million. The authorized share repurchase program and remaining unused capacity represents the maximum amount of permissible debt under our existing debt agreements. We anticipate our share repurchase capacity to increase by close to \$100 million in the first quarter of 2025 under our existing debt agreements. We expect that free cash flow will increase over the next few quarters, and we remain committed to allocating our free cash flow to enhance shareholder value.

We continue to evaluate the best path to achieve our goal of establishing a long-term unsecured debt capital structure, along with a sizable revolving credit facility. We remain opportunistic on pursuing a potential refinancing, as we have no near-term maturities and no immediate need to access the debt capital markets. During the third quarter, we initiated a consent solicitation process to amend certain terms of our unsecured bond issued in the Nordic bond market as the debt capital markets appeared favorable to a new issuance. The amendments proposed were, in our view, credit enhancing to existing bondholders. We subsequently canceled the consent process as the cost to achieve the amendments was unattractive. Given our free cash flow outlook and debt maturity profile, we are comfortable to continue to evaluate the most economically viable path to establish a long-term debt capital structure.

Over the past few years, we have provided quarterly composite leading-edge day rates, along with the average duration of new contracts. We believe that it is now more instructive to provide quarterly leading-edge day rate information by vessel class to provide a subset of data that presents a more representative view of how day rates progressed across each of our vessel classes within the fleet during the quarter. Leading-edge day rates by vessel class can be found in our investor presentation on our website that was posted yesterday alongside our earnings press release. A few worthwhile data points to note. Day rates in our 2 largest classes of PSVs moved up nicely during the quarter, with the greater than 900 square meter class of PSVs up 6% sequentially to over \$37,000 per day, and our medium class of PSVs saw strong momentum sequentially with rates up 26% to over \$35,000 per day. In our smaller classes of anchor handlers, we saw double-digit increases sequentially, with our 8,000 to 12,000 BHP anchor handlers up 16% and our 4,000 to 8,000 BHP anchor handlers up 37%.

Looking to the remainder of 2024, we are updating our full year revenue guidance to \$1.33 billion to \$1.35 billion and a 48% gross margin. We now anticipate fourth quarter revenue to be essentially flat with the third quarter and gross margins to improve 1 percentage point sequentially. The decline in Q4 margin expectations from the prior quarter is principally related to the decrease in revenue associated with lower utilization, increased idle time, and higher-than-anticipated drydock days, and to a lesser extent, an increase in repair and maintenance expenses and an increase in fuel expense associated with additional idle days. Drydock days are expected to decline by about half in the fourth quarter versus the third quarter.

We look forward to providing our updated thoughts on 2025 guidance next quarter as visibility improves for the pace and timing of growth of offshore activity. Our contracted backlog currently sits at about \$332 million of revenue for the fourth quarter, with 79% of available days contracted. The risk to our backlog revenue is unanticipated downtime due to unplanned maintenance and for drydock days.

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

Piers Dayer Middleton*Executive VP & Chief Commercial Officer*

Thank you, West, and good morning, everyone. This quarter, I will try and put some context around where 2024 sits in the pantheon of previous upcycles, and then also frame out a little of what we are seeing in each of our regions as we go into 2025 and 2026. First off, our overall long-term outlook for the offshore space remains strong. And for 2024, the OSV market has managed to achieve record-breaking day rates in most of the basins and vessel classes in which Tidewater is active.

The fundamentals for the OSV market remain strong. The sector remains supply side constrained, with little prospect of capacity expansion from the stacked fleet or from the negligible order book. Despite a small number of newbuild orders over the summer, the majority of which aren't expected to start delivering until 2027, the PSV and AHTS order book is still under 3% of the OSV fleet. And while we have seen some demand ease back recently in some of our regional markets with a constrained supply story, we are still very well-placed to weather any short-term headwinds and make further progress through 2025 and into 2026 as expected demand growth picks up again, both in exploration and subsea construction projects.

Turning to our regions and starting with Europe. Uncertainty over the U.K. tax regime and the government's decision to increase and extend the Energy Profits Levy is creating some uncertainty over future drilling programs and is expected to weigh on demand in 2025, although we are expecting an uptick in decommissioning and wind farm support projects, which will help offset some of this uncertainty in the U.K. in 2025 and 2026.

In Norway, we see stronger drilling demand kicking off in 2025 through to 2027, driven primarily by the Norwegian government tax incentive scheme that was introduced in 2020. And in the Mediterranean, projects that were delayed from Q3 have now started in Q4 and should carry through into the second half of 2025. And in addition, there are a number of construction projects in the region that are expected to suck up PSVs out of the U.K. in the first half of 2025.

In Africa, we're expecting a strong fourth quarter, helped by a number of exploration projects that were pushed from Q3, which have now started in and around the Orange Basin in Q4, with some of that drilling work expected to continue through into the first half of 2025. Visibility in the region in the second half of the year is more opaque as many of our customers plan to pause drilling campaigns as they assess next steps before starting field development of [these] projects, which are expected to kick off in 2026 and 2027. However, offsetting some of that pause in drilling in the second half of 2025, we are seeing pressure from the Angolan government on the IOCs to increase production in country, which, if it plays out as the government wishes, would see an uptick in vessel demand from both the IOCs and EPC contractors in the second half of '25 and through to 2026.

In the Middle East, vessel demand and day rates continue to strengthen in '24, driven mainly by the EPC contractors operating in the Kingdom as well as additional incremental demand in Qatar and Abu Dhabi. While this is a very fragmented market, which makes it much harder to drive rates aggressively, we are starting to see supply constraints in certain vessel classes. And if demand continues at its current pace, we could see some very positive momentum in day rates as we get into the latter part of '25 and through to 2027.

In the Americas, Brazil and Mexico, demand appears set to remain positive for 2025. However, there is still some uncertainty in Mexico vis-a-vis what the new government's long-term intentions are with PEMEX and how to increase production in the long term. And as such, we probably won't have much visibility around actual long-term plans for Mexico until after Q1 next year. But both Brazil and Mexico are expected to increase in-country investment in oil and gas in the longer term out beyond 2030. As mentioned on many previous calls, Brazil's long-term demand horizon remains very robust, with no signs of any slowdown from either Petrobras or the IOCs currently working in country.

The U.S. GOM and Caribbean had a softer-than-expected 2024, and we expect that many -- that may continue into the first half of '25. But we are seeing some indications of demand for additional drilling in

the second half of 2025 and into 2026, as well as an uptick in the renewables market on the East Coast during the same period.

Lastly, in Asia Pacific, Q3 and Q4 have been affected by the ongoing discussions in Malaysia between Petronas and the local governments of East Malaysia regarding the respective sovereign rights over the natural resources of Sabah and Sarawak. We're now hearing that both sides are hoping to resolve these issues in early 2025, which would mean that we can expect exploration and production, some of which has been paused, to start back up again during Q1 of 2025, which in turn would then have a significant impact on the supply-demand balance in the region for both AHTSs and PSVs, and mean that we should see this region retighten as we move through to the latter half of 2025.

We also see several large EPCI and wind projects starting in the year in both Australia and Taiwan, respectively, which will be supportive for our large AHTSs and large PSVs in the region for the second half of 2025. Overall, we're very pleased with how the market has continued to move in the right direction during 2024, and we remain very optimistic on the long-term fundamentals for our business, still being very much in the shipowners' favor for some time to come. Thank you.

Samuel R. Rubio

Executive VP & CFO

Thank you, Piers, and good morning, everyone. At this time, I would like to take you through our financial results. And as in previous calls, my discussion will focus primarily on the second quarter -- primarily on the quarter-to-quarter results of the third quarter of 2024 compared to the second quarter of 2024. I will also discuss some of the operational aspects that affected the third quarter and how we see the rest of the year playing out.

As noted in our press release filed yesterday, we reported net income in the third quarter of 2024 of \$46.4 million, or \$0.87 per share. In Q3, we generated revenue of \$340.4 million compared to \$339.2 million in the second quarter of 2024, an increase of \$1.2 million. Average day rates increased by 5.4% from \$21,130 per day in the second quarter to \$22,275 per day in the third quarter, which was the main driver for the increase in revenue. Offsetting the increase in day rates was a decline in active utilization from 80.7% in the second quarter to 76.2% in Q3. The utilization decrease was a result of an increase principally in idle days and a slight increase in drydock and repair days. Gross margin in Q3 was \$160.8 million, compared to \$161.9 million in Q2. Adjusted EBITDA was \$142.6 million in Q3, compared to \$139.7 million in Q2.

Vessel operating costs for the quarter were \$178.7 million. On our call last quarter, we expected our operating costs to decrease by \$2.8 million from Q3. However, our costs went up by \$2.2 million. The main drivers included higher-than-anticipated repair costs on several vessels, totaling \$2.6 million. We also had higher fuel costs related to the 448 additional idle days, as well as from mobilizing a vessel from Southeast Asia to Africa. In addition, we had approximately 200 higher drydock days, 150 of which were related to longer durations and 50 of which were related to timing differences between quarters. The total fuel cost for both idle and drydock days was about \$1 million. Also in the quarter, we incurred penalties due to delays in returning to work on vessels that incurred higher drydock days, and we also increased our accrual related to labor claims in Brazil, which combined totaled \$1.4 million.

In comparison to our Q2 actual results, as mentioned previously, our operating costs increased by \$2.2 million. The main drivers included slightly higher R&M costs of \$800,000 and higher crew costs of \$1.5 million due primarily to 1 vessel working in Australia where operating costs are higher. Supplies and consumables were higher by \$1.7 million due mainly to higher fuel costs related to the 704 more idle days and 83 more drydock days. The increases were offset by lower other vessel expenses of \$2 million. The largest components were a mobilization expense write-off and a customs assessment that did not occur in Q3. In Q4, we are not anticipating the high levels of repair costs that we saw in Q3, and we see utilization increasing slightly as vessels return to work after the busy drydock schedule. In turn, we expect a significant decrease in fuel costs and penalties.

As a result, we expect Q4 revenue to remain flat and operating costs to be lower by about \$4 million. Operating cost reductions will include \$1 million in R&M costs, \$1.8 million in fuel and other vessel supply

costs, and about \$1.2 million in other costs such as crew costs, penalties, and other miscellaneous costs. G&A costs for the third quarter was \$28.5 million, \$2.1 million higher than Q2, primarily due to an increase in professional fees and personnel costs. For the year, we expect our G&A cost to be \$109 million, which includes approximately \$13 million of noncash stock compensation. In the third quarter, we incurred \$35.5 million in deferred drydock costs, compared to \$40.1 million in Q2. We anticipate \$18 million of drydock costs in the fourth quarter. Drydock costs for the full year 2024 is expected to be \$134 million.

Drydock days affected utilization by nearly 7 percentage points during the quarter. Year-to-date, drydock days have affected utilization by about 6 percentage points. In Q3, we incurred \$5.7 million in capital expenditures related to vessel modifications, ballast water treatment installations, and IT and DP system upgrades. For the full year 2024, we expect to incur approximately \$27 million in capital expenditures.

We generated \$67 million of free cash flow this quarter, compared to \$87.6 million in Q2. Year-to-date, we have generated \$223.9 million of free cash flow. The free cash flow decrease quarter-over-quarter was primarily attributable to a significant increase in working capital due mainly to the investment in accounts receivable. Through September 30, we have made \$87.5 million in principal payments on our senior secured term loan and \$1.5 million on supplier facility agreement. We are comfortable with our current debt maturity profile. We have no immediate need to refinance our debt, but remain opportunistic in pursuing a potential refinance that would improve our overall debt capital structure.

Year-to-date through September 30, we have used about \$46.6 million in cash to reduce the number of our shares in the market by approximately 520,000. As mentioned on our first quarter call, we also spent \$28.5 million in cash to pay taxes on behalf of employees in lieu of employees selling approximately 321,000 shares of stock in the open market to pay those taxes. We conduct our business through 5 segments. I refer to the tables in the press release and the segment footnote and Results of Operation Discussions in the 10-Q for details of our regional results.

To summarize the sequential results of our regions, day rates improved by 5.4% during the quarter, led by the Asia Pacific region, which improved by 23%, and our West Africa region, which improved by 10%. Revenues were higher in all regions except Americas, which declined by 12%, primarily due to lower utilization. Gross margins decreased slightly from 47.7% in Q2 to 47.2% in Q3. The Americas regions experienced a decline of about 5 gross margin percentage points due primarily to more idle and repair days. In our APAC region, despite the increase in average day rates, we had a gross margin decline of about 3 percentage points due to higher idle and drydock days. Similarly, our Europe and Mediterranean region saw a gross margin decline of 2 percentage points due to higher idle days and drydock days. However, with the increase in day rates, we saw improvements in gross margin in our West Africa and Middle East regions of 4 and 3 percentage points, respectively. We expect consolidated gross margin to increase slightly in Q4 as an increase in utilization, combined with a decrease in operating costs, should improve our overall results.

In summary, despite a Q4 decline compared to our previous expectation, 2024 execution has been strong. Although visibility into 2025 may not be as clear as we would like it to be, generating strong free cash flows and profitability will continue to be a priority as we move into 2025 and beyond. In the near term, we continue to invest and improve our existing fleet and look to capitalize on future M&A opportunities should they present themselves. Absent accretive M&A options, we continue to view share repurchases as an attractive investment and return of our capital option for our shareholders. We remain optimistic in the long-term fundamentals of the industry and opportunities this will provide Tidewater.

With that, I will turn it back over to Quintin.

Quintin V. Kneen

President, CEO & Director

All right. Thank you, Sam. Novi, why don't we go ahead and open it up for questions.

Question and Answer

Operator

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

Quintin V. Kneen

President, CEO & Director

Morning, Jim.

Operator

Jim, your line might be on mute.

James Michael Rollyson

Raymond James & Associates, Inc., Research Division

I know you're not prepared to do guidance yet, but maybe from a high level, if we talk about the puts and takes, you've got, it sounds to me like, rates should still migrate higher next year, uncertain of magnitude at this point. We'll probably get more clarity next quarter. The utilization benefits from drydocking reduction next year relative to this year, which you, I think, said 6% year-to-date was the impact. And then offsetting that, you'll probably have some of this choppiness that you and Piers went through. Maybe just a little color, high level, how you're thinking about the puts and takes. I would think your costs should generally come down with the lack of drydocking. Just trying to get to the different pieces and how you're thinking about them as we go into guidance in a quarter.

Quintin V. Kneen

President, CEO & Director

No, thank you. Obviously, there's less clarity than we appreciate having at this point as we look into 2025. I'm going to give it over to West and peers, who have been studying this really hard as we've gone through the last couple of months. But in general, I think that you're right. The only thing that I would highlight to you is that I do expect it to be a lower drydock year next year than this year. That won't show up in op costs, but it will certainly show up in improved cash flow.

West Gotcher

Vice President of Finance & Investor Relations

Jim, it's West. You characterized it appropriately. There's some puts and takes and so forth. And obviously, as we discussed, the visibility is lower. But as we pointed out in the prepared remarks, we do anticipate that day rates should increase next year, the order of magnitude of which is uncertain. However, we do expect that to push forward. So we're not in a position to directly quantify as we discuss what the outlook is. But I think it would be fair to say that given the increase in day rate and a year in which drydocks are down, that we would anticipate 2025 to look better than 2024 on an all-in basis.

James Michael Rollyson

Raymond James & Associates, Inc., Research Division

And then just as a follow-up, and then I can get back in the queue. I'm curious, Quintin, with this pause in activity that we're seeing, and obviously, the rig guys have been talking about this through earnings season as well, does it set up the potential opportunity on the M&A front where maybe guys had just purely up into the right expectations, and that was reflected in their asking price. And now with this bit of consolidation going on and activity, they're actually more willing to be reasonable on asking price, and you can actually get some potential M&A done. Are you seeing that? Or is it still too early for that?

Quintin V. Kneen

President, CEO & Director

Too early for that. I am with you that, that the uncertainty that gets highlighted when times like this occur in our industry should reinforce in the minds of potential sellers, hey, this is a volatile industry, and you need to get out when you can and think about that as a risk factor for continuing to invest in the business. It's certainly a risk that we feel very comfortable managing. However, people are never as reasonable as you and I are having the discussion now would indicate. And so I think it takes a little bit more time for them to come down. And so we're just going to be patient. I feel very confident in repurchasing our shares at these levels. And so you'll probably see us do more of that than the M&A side. But I'm still actively engaged in M&A discussions around the world.

Operator

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

David Christopher Smith

Pickering Energy Partners Insights

For the Q4 guidance, I just want to make sure I understood. Did you say utilization is expected to be up, but revenue is expected flat? If so, implication is average day rate would be down. So just wanted to ask if you could provide some color on that. I'm guessing that's mix.

West Gotcher

Vice President of Finance & Investor Relations

That's correct, Dave. It's West. That is the correct inference from the guidance language we provided on Q4. As we discussed in the prepared remarks, I think a combination of some of the pressures that we're seeing in the U.K. [spectra], the North Sea specifically, as well as the regional highlights that we had in Americas and Asia Pacific and some of the project delays and idle time and so forth with vessels in that region are contributing to those moving pieces within the Q4 guidance components.

Samuel R. Rubio

Executive VP & CFO

And a follow-up question, if I may. You're seeing some sloppy rates for the large PSVs in the North Sea. Can you talk about the factors that might act as friction against exporting those rates to the Mediterranean, West Africa, or beyond, recognizing there might be other -- there are other vessel contractors in the North Sea with operations in other countries.?

Piers Dayer Middleton

Executive VP & Chief Commercial Officer

Yes. David, it's Piers here. Yes. So sloppy rates in the North Sea. Obviously, it's a very spot market business. I think what's important to remember about the North Sea is all the vessels, whilst we talk about our 900 square meter vessels, there's also certain specifications on those vessels, so having firefighting and mud capacity and things like that, which are quite specific to certain regions. So you can export some vessels. But actually when you're doing a drilling program, for instance, down in the Mediterranean where we've got some of our vessels, we've taken -- as we talked about previously, taken some vessels from the North Sea down to work in the Orange basin this quarter, you need to have vessels with big mud capacity. And a lot of the vessels in the North Sea are limited. They're just big deck-space vessels, and they tend to do quite North Sea specific. So that is one of the factors that you need to think about. We've got some, as I mentioned, some vessels going down to the Med. And I think depending on the vessels, you can be slightly specific around where those vessels can end up. I'm sure there'll be some movement around the regions, but there is a limiting factor on some of the vessels in terms of the actual specifications once you get into the details of it.

Operator

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

Gregory Robert Lewis

BTIG, LLC, Research Division

Yes. I was hoping to get a little more color on some of the drydockings that we saw in the fourth quarter. If you could bucket them, I guess, how much of that do we think roughly was planned? How much of it was pulled forward because vessels were going off-hire, and we just figured we would do it. And how much of it was, I want to say a year ago, we had that bunch of that unplanned drydocking, I believe it was in West Africa. If you could walk through some of that, just so we understand what -- maybe let us think through how we want to think about drydocking in '25.

Samuel R. Rubio
Executive VP & CFO

Yes. Greg, this is Sam. The drydocking that occurred in Q3, obviously, there was like 200 excess [days]. 150 of that was just longer duration related, and then 50 of it was timing. So you might have had -- I think we had like 1 or 2 boats pulled into Q3 that should happen in Q4. And then we had some just start a little later in Q2 that actually came into Q3. So that extra 50 days is a combination of that.

Gregory Robert Lewis
BTIG, LLC, Research Division

Okay. So kind of what we dealt with a year ago when like vessels were running hard and there was like unplanned issues with the boats. That seems like that's resolved.

Samuel R. Rubio
Executive VP & CFO

Yes, to some degree, right? There is still some down for repair days that we have to deal with. We did see some of that in Q3. But once they go into the drydocks, hopefully, that smooths the repair costs going forward.

Quintin V. Kneen
President, CEO & Director

Yes. Greg, one thing I was just going to allocate -- add to that, rather, was that we were running at about 4% DFR, down for repair last year, and we want to get it down to about 2%. We're probably right now at about 3%. So I think there's still room to improve there, but yes, it's not getting worse.

Gregory Robert Lewis
BTIG, LLC, Research Division

And then we don't need to go through all the basins, and I think you alluded to some of the pricing issues and some of the pricing headwinds we're seeing in some of the markets. I guess, everyone looks at the North Sea data, where we have issues getting more data, which are equally important. Every market's important. But I guess, could you talk a little bit about the large and I guess, we classify them as large and small PSVs in West Africa as well as in the Southeast Asia. And really, what we're seeing around the pricing environment? And then really, just as we look at those are largely term markets, what does the outlook look like for contract resets in maybe those 2 markets? I guess, maybe in Q4 and Q1 or whatever you have in front of you, you can talk to just so we can gauge what type of pricing resets that we can -- or pricing renewals we can think about.

Piers Dayer Middleton
Executive VP & Chief Commercial Officer

Yes. Greg, it's Piers. Yes, Q3 -- trying not to go around all the basins, as you said, but I think in general, held up very well on the rates for the vessels, as West alluded to on his remarks as well. And going forward, actually into Q4 as well, we saw -- as I think we've spoken about in the past, how some contracts pushed from Q3 into Q4 in places like the Med and Africa and places like that. So Q4 is also holding up pretty well on those larger class of vessels. I think as you look out to '25, and we again talked a little bit about this in our remarks, but there is a little bit of some lack of visibility on some of the decisions being made. I think, obviously, there's the drilling piece, which has been very public, and people have talked about. When we look at projects going forward, we tend to know about those much earlier. So there's normally a 6- to 12-month lead time on some of that.

What we're seeing is obviously these construction projects, which tend to come to market a little bit later, and they tend to require -- well, they don't tend to, they require large-decked PSVs as well. So we're seeing more and more of those requirements coming out in places like Australia, Asia Pac more broadly, in Africa a little bit as well, and then also in the Caribbean as well and the Med. So we're optimistic we'll be able to hold rates on the larger vessels as we see the year progress. But we haven't had -- we don't have all those tenders coming through yet at the moment in terms of the visibility that we would normally have at this point in the year. So, as we said, I think, in our comments, we're very optimistic long term. We just don't have the clear line of sight on some of it.

Gregory Robert Lewis

BTIG, LLC, Research Division

Yes. And so, really, when we took guidance down, you clearly called out drilling, but it almost maybe sounds like the delays maybe on the construction side were maybe more of the bigger issue around some of the weakness or some of the guide down for the year than maybe the drilling. Is that what you're trying to communicate?

Piers Dayer Middleton

Executive VP & Chief Commercial Officer

I think we don't really see that on the construction side. It's still there, but they just come to the market much later. That's [indiscernible] we're waiting to see that.

Operator

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

Donald Peter Crist

Johnson Rice & Company, L.L.C., Research Division

Can you remind us your percentage of work coming from FPSOs and more sticky work from that side versus drilling? And I think you touched on it on your last answer, but it sounds like the project delays were much more focused around the delivery schedule of FPSOs versus the startup of new drilling campaigns. Can you just -- is that the correct way of thinking?

Piers Dayer Middleton

Executive VP & Chief Commercial Officer

Don, it's Piers again. So I think on the drilling side, normally exploration is 30% of the book, which maybe next year is going to be a little bit smaller than that. On the subsea construction side, it's not just on FPSOs. It's obviously on pipe. We support pipelines, things like that. So some of our contracts as well. So it's a combination of those projects. And in Australia, we're supporting projects doing pipeline installation as well. But it's not so much necessarily the delay on some of the FPSOs. It's just there's just the tenders come out much later and from our subsea construction guys, from the Subsea7s and Saipans and the ODYSEAs. All those guys come to market much later in terms of how they come out. But I think drilling and exploration is going to be, as we said, a little bit more whitespace than perhaps we've seen in the past, but the subsea construction stuff should pick up on that as we go forward into 2025.

Donald Peter Crist

Johnson Rice & Company, L.L.C., Research Division

And on utilization, can we really use the third quarter as a bottom in utilization? And I'm thinking about it more from the aspect of maybe this weakness pulls forward some of the retirements that are happening in the industry and maybe that with the lack of new construction out there, and your comment in the press release around no new construction going forward, as those discussions have gone away, that maybe the third quarter utilization might be a bottom, and we should see that tick up just from vessel retirements, not necessarily with you all but from the industry.

West Gotcher

Vice President of Finance & Investor Relations

Don, it's West. I think that's a reasonable approach. We talked about utilization picking up a little bit in Q4. And thinking about that as a baseline, moving into 2025, drydocks will come down. And so when you think about 2025 in its totality, I think as the market -- our expectation is that the market continues to improve and recover to some degree in the back half with a lower drydock year, that utilization should be improved relative to the Q3 levels.

Donald Peter Crist

Johnson Rice & Company, L.L.C., Research Division

And just to clarify, you're not seeing anybody out there other than that tender that was put out by Petrobras for new vessels. You don't see anybody out there proposing to build new rigs or new vessels today?

Piers Dayer Middleton

Executive VP & Chief Commercial Officer

No, not at the moment. Just as you said, the Petrobras tenders, we haven't seen anything asking to build new PSVs [indiscernible].

Operator

Your next question comes from the line of James West with Evercore ISI.

James Carlyle West

Evercore ISI Institutional Equities, Research Division

So, Quintin, wanted to just clear up 2 things on the third quarter. One, on the utilization, that was a bit below what we were expecting. How much of that do you believe was unplanned in your mind versus planned that maybe we just missed? And then secondarily, with the day rate increases that we've seen in the last 2 quarters, which have been very impressive, is that pure day rate increase? Or are we seeing the impact of perhaps drydocks or downtimes from higher day rate vessels? So just thinking through how we should think about average day rates moving forward. Hopefully, it's the latter, that the actual day rate increase is not utilization driven.

Quintin V. Kneen

President, CEO & Director

Yes. You know what, I'm going to give this over to Sam. Sam has been studying this real hard in the couple months.

Samuel R. Rubio

Executive VP & CFO

Yes. James, on the utilization, the drop that we had from Q2 to Q3, there was several factors. Obviously, idle time had something to play with that. But we had drydock days that were like 85 days higher than Q2. And then we also had, as I mentioned, DFR days. We had some engine problems in some of our boats, et cetera. That added like another 80, 81 days. In the quarter, we also moved one of our boats from Southeast Asia to Africa, which added like another 70 days of idle time. So when you add all that up, that affected utilization by a couple percentage points from -- actually went down almost 4 percentage points from Q2 to Q3.

Quintin V. Kneen

President, CEO & Director

And James, let me add one more thing. I think part of your question related to the product mix and whether or not the product mix [indiscernible] downtime had an impact on day rates. And I think that there is -- it's not a significant impact. But the U.K. sector is typically, and the North Sea sector broadly, is a high day rate region. When that region goes through a bit of a pullback, those high day rate boats, they hit the spot market, as Piers was indicating, and that spot market tends to come down pretty quickly. And as a result, that has an impact on day rates. And I think Piers and his global team are working to

reallocate those vessels into other large boat regions that have not been impacted, like the U.K. sector. So I think that product mix and where they're at geographically has an impact when things like what we're talking about in Q3 occur.

James Carlyle West

Evercore ISI Institutional Equities, Research Division

I think you guys should leave the U.K. sector just in general for now, given the profit taxes and everybody else is fleeing the region. So there's no reason to be there. But then maybe a longer-term question as we go into '25, I recognize that the customer base is hesitant to make decisions just right now on their plans, or maybe their shorter-term plans. But a lot of the plans are also long-term deepwater projects, too, which I would assume you have much better visibility on that versus short-term, maybe construction or even wind farm or shallow water plans. What are they telling you about when those decisions will be made? Is this a, hey, we're going through a budget process right now. We'll let you know in a month or so? Or is it, we're going to let you know as we start the next year? What's the timing impact? When that visibility starts to clear up?

Piers Dayer Middleton

Executive VP & Chief Commercial Officer

Yes. James, it's Piers. Good question. I think by the end of this year, we'll start seeing a little bit more visibility on some of those longer-term plans. We haven't seen -- as we've mentioned, we've not seen any indications [indiscernible] suggesting canceling anything. I think the noise around election cycles and things like that obviously has maybe delayed some of the decision-making processes from the higher ups in our customer base. But there's been no pullback in terms of, for instance, if you look at the Orange Basin, obviously, a lot of noise and successes down in Namibia, but we're supporting a number of drilling campaigns down there at the moment. And all of the people we're supporting are saying, look, we'd like to get development first oil in there '26, '27, which is a pretty -- that's a pretty aggressive move from those companies.

So still very positive indicators. Same in the Caribbean as well. There's slight -- we've spoken about some pauses in drilling in this year on some projects. Again, we're expecting people come back, maybe a few exploration wells next year in that region and then starting to install more FPSOs into that region, so '26 and '27. So we're not seeing any real indicators of anybody pulling back or canceling anything. So we're very positive that those projects will continue. And obviously, Brazil, Petrobras moves at its own pace, but they're certainly not slowing down on their side. So yes, I think by the end of this year, we'll start to hear more publicly from the higher ups and the IOCs certainly as to their longer-term plans from that side.

Operator

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

Fredrik Stene

Clarksons Platou Securities AS, Research Division

Thanks for all the color that has been given on 2025 so far, even if it's difficult to guide in detail at this moment. My question actually relates to capital allocation, and even more so on the M&A side. You guys have talked about that you're willing to do accretive M&A transactions if the right transaction presents itself, and you obviously have a great track record of doing so in almost any type of market. But you are also one of the fewer listed players. So your equity price or stock price will track sentiment at any given time. So I was wondering has that enabled or disabled any type of M&A transactions? Or if you were to have discussions with players that are not listed, are they also -- do they also understand that, in a way, prices of private companies also fluctuate with sentiment? Interested to hear anything you have to say on the matter.

Quintin V. Kneen

President, CEO & Director

Fredrik, thanks for your question. We've been -- most of these M&A transactions that we have done, and this is probably not a surprise to anyone, they take more than a year to get done. A lot of these transactions germinate and on and off again and take a while to get done. And during that process, the price has been as high as \$110. It's been as low as \$55. And so, it's been a really volatile time. And they know that because most of who we're speaking with are sophisticated, some of them private equity, you know a lot of them, because we're one of the only listed companies out there, they're [marketing] to us. So they're feeling the pain as well.

So I think it should work its way through, but it doesn't work its way through as quickly as you might think into people's thinkings and so forth. And, of course, sometimes people feel like the market gets dislocated and therefore maybe exaggerates the downside. And so they don't want to price at that particular point. So you have to find a price in between the prices, and it still has to make sense for Tidewater longer term from a long-term value perspective. So I would tell you that it complicates the deal process. A stable price helps the deal process, a volatile price doesn't. But most of the people we're dealing with are very sophisticated and they need time to adjust to it, but they will.

Fredrik Stene

Clarksons Platou Securities AS, Research Division

That's very helpful. Just one quick -- not really a follow-up, but a different question. Are you able to, at this point, say something about the amount of contracted backlog and contracted base that you have so far for 2025, similar to what you did for the fourth quarter in the prepared remarks?

West Gotcher

Vice President of Finance & Investor Relations

Fredrik, it's West. We're prepared to give a 2025 backlog right now. Our backlog for 2025 is about \$855 million. But providing incremental detail around that, I'm not sure we're prepared to put out there at this point. But that is our '25 backlog as we sit here today.

Operator

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

Donald Peter Crist

Johnson Rice & Company, L.L.C., Research Division

I just wanted to ask one question on the debt covenant that you tried to get changed. Is the new plan going forward just to hold cash on the balance sheet and take those out at first call January 2026? Or any thoughts around using cash that you can't find an M&A use for today to pay off the term loans, or anything else that you could extinguish that 10% debt?

Quintin V. Kneen

President, CEO & Director

I'd much rather just repurchase shares, honestly. So if I could get a deal done, I would do that. And similar to the answers to some earlier questions, the process takes longer than anybody would prefer. But absent that, I don't feel the need to delever at all. So I would return that to shareholders in the most constructive way. And of course, the path that we found over the last year is repurchasing shares.

Operator

I will now turn the call back over to Quintin Kneen for closing remarks.

Quintin V. Kneen

President, CEO & Director

Okay. Well, listen, no closing remarks from me. Thank you, Novi. We look forward to updating everybody again in February.

Operator

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

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2024 S&P Global Market Intelligence.