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Market Intelligence

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Earnings Call

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Presentation

Operator

Thank you for standing by. My name is Ginnie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Tidewater Second Quarter 2025 Earnings 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. Please go ahead.

West Gotcher

Senior Vice President of Strategy, Corporate Development & IR

Thank you, Ginnie. Good morning, everyone and welcome to Tidewater's Second Quarter 2025 Earnings Conference Call. I'm joined on the call this morning by our President and CEO, Quintin Kneen; our Chief Financial Officer, Sam Rubio; and our Chief Operating Officer, Piers Middleton.

During today's call, we'll make certain statements that are forward-looking and referring to our plans and expectations. The 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 comments that we're making during today's conference call.

Please refer to our most recent Form 10-K and Form 10-Q for additional details on these factors. These documents are available on our website at tdw.com or through the SEC at sec.gov. Information presented on this call speaks only as of today, August 5, 2025. Therefore, you're advised that any time-sensitive information may no longer be accurate at the time of any replay.

Also during the call, we'll present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP financial measures can be found in our earnings release located on our website at tdw.com.

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

Quintin V. Kneen

President, CEO & Director

Thank you, West. Good morning, everyone, and welcome to the Tidewater's Second Quarter 2025 Earnings Conference Call. Before beginning my prepared remarks, I'd like to first congratulate Piers Middleton on his recent appointment to Chief Operating Officer. Piers has over 30 years of experience in the industry and has been instrumental in the success that Tidewater has enjoyed over the past 4 years, and he will now be responsible for all of Tidewater's vessel operations in addition to the Chief Commercial Officer responsibilities he has held for the past 4 years.

I'll start on today's prepared remarks by providing some highlights of the second quarter, discuss our recent balance sheet refinancing, update you on our share repurchase program and our current view on capital allocation, discuss the offshore vessel market and lastly, provide an update on the state of vessel supply. West will then provide some additional detail on our financial outlook and our new capital structure and share repurchase program. Piers will give an overview of the global market, and Sam will discuss our consolidated financial results.

Second quarter revenue and gross margin nicely exceeded our expectations. Revenue came in at \$341.4 million due primarily to a higher-than-expected average day rate and slightly better-than-anticipated utilization. Gross margin came in at over 50% for the third consecutive quarter. Day rates outperformed our expectations by more than \$1,300 per day, setting a new quarterly day rate record at \$23,166. The primary factor driving the increase in average day rate was the benefit of our fleet rolling on to higher leading-edge day rate contracts, bolstered by foreign exchange rates that largely strengthened against the dollar during the quarter. Additionally, our uptime performance continued to outperform our expectations as our vessels continue to benefit from substantial dry dock and maintenance investment we've made over the past few years.

As a result of the higher-than-expected printed day rate for the quarter, along with improved uptime performance of our vessels, our gross margin of 50.1% came in well above our expectation of 44% provided on last quarter's call. Continued uptime to outperformance in the quarter helped drive the gross margin fee because not only do we benefit from the incremental revenue associated with the vessel working but we also avoid the expense of the repair itself, and we have avoid the fuel expense associated with the operation of the vessel while it is on hire.

During the second quarter, we generated \$98 million of free cash flow, the second highest quarterly free cash flow figure since the offshore recovery began up slightly from last quarter, bringing the first half of 2025 total free cash flow to over \$192 million.

In early July, we closed on a \$650 million U.S. unsecured bond that refinanced the vast majority of our previously outstanding debt insurance namely our two Nordic bonds and our long-term facility, sorry, our term loan facility. We are very pleased to have consummated this refinancing, achieving our long-discussed goal of establishing a long-term unsecured debt capital structure more appropriate for the cyclical business in which we operate. Alongside the new bond, we put in place a \$250 million revolving credit facility that provides us with a significant amount of financial flexibility. Importantly, given liquidity enhancement of the revolving credit facility, we are now in a position to operate the business with less cash on the balance sheet as we now have an alternative source of liquidity besides cash on hand.

West will provide more details next, but another important feature of our new debt capital structure is that it allows for a substantially increased capacity for shareholder returns. Our confidence in the long-term cash flow generation capability of the business is such that we are pleased to announce that our Board of Directors has approved a \$500 million share repurchase program which equates to over 20% of the company's closing market capitalization as of yesterday.

I'd like to discuss our share of repurchase philosophy a bit further given the new capacity we have available to us and the size of the new program. Over the past 1.5 years or so under our prior debt documents, we were somewhat constrained in our capacity to repurchase shares. As such, we approached the share repurchase program on a quarter-by-quarter basis, updating our share repurchase capacity on a quarterly basis and for the most part, rapidly executing on our available capacity each quarter to ensure we maximize the share repurchase capacity available to us, particularly during those times when we saw a more pronounced dislocation in the stock price.

Because we have previously executed our program in full each quarter, I don't want to leave you with the impression that we will execute all of the \$500 million this quarter. We see this new program as a long-term repurchase program. Given our new cash flow on hand -- I'm sorry given our current cash flow on hand and our future quarterly cash flow generation, we can easily execute on this program over the next year or so and maintain a net debt-to-EBITDA ratio well below 1x. We won't be utilizing our revolving credit facility to repurchase shares and our capital allocation philosophy still prioritizes acquisitions over repurchases when such acquisitions add more value to our equity holders.

Just to wrap up on the prior repurchase program, as previously announced, during the second quarter, we fully utilized the remaining capacity under our prior share repurchase program, repurchasing 1.4 million shares at an average price of \$36.80 per share, totaling \$50.8 million of shares repurchased in the second quarter.

As it relates to capital allocation priorities, we remain committed to pursuing M&A opportunities, and this is still the preferred direction for us to allocate capital. As excited as we are to announce a new share repurchase program, we are optimistic that we can consummate more M&A transactions. Fortunately, the longer-term cash flow out for the business is such that we can likely execute on both acquisitions and share repurchases, but the right value accretive acquisitions can provide benefits in excess of what a share repurchase alone can achieve, and we believe there are such opportunities in the market today. We remain open to a transaction using stock, cash or a combination of both although our view of the intrinsic value of our shares will influence how we employ stock as consideration. We will contemplate additional balance sheet leverage for the right acquisition, provided that we have confidence that the near-term cash flows provide the ability to quickly delever back to below 1x net debt to EBITDA, very similar and consistent with what we have done in our prior acquisitions.

Shifting gears a bit, I'd like to discuss our view on the current offshore vessel market and how we see the market evolving over the coming months and quarters. West and Piers will provide more commentary shortly, but I think it's worth providing some context on our view of the market outlook today. Coming into 2025, uncertainty around offshore activity, particularly in the first half of the year was the prevailing theme with drilling activity poised to rebound in the back half of the year. Recent macroeconomic and geopolitical events seem to be extending that period of uncertainty, including for offshore vessels. We are in the fortunate position of benefiting from operations in almost every geographical location around the world and from a wide variety of offshore end markets, including production, subsea offshore construction and drilling and we remain confident in the fundamentals across each of these service lines.

That said, the near term, specifically in the next quarter or two appear to be a bit softer than we originally expected, offsetting the fact that the last two quarters were much stronger than we originally expected. We remain unaware of any project cancellations and customer conversations remain constructive. But nonetheless, we seem to be in a period that can be characterized as lacking any sense of urgency related to commencing committed capital expenditures. Fortunately, subsea and production-related activity remains robust and is helping to mitigate the near-term activity softness in the drilling market. When vessel supply is as tight as it is, marginal improvements in drilling have an outsized impact on our ability to push up day rate across all of our service lines.

The current level of subsea and production activity is strong, but it isn't quite sufficient to put the same strain on existing vessel supply that is needed to meaningfully push up day rates, but it has been enough to hold leading-edge day rates at their current levels. The continued expansion of subsea and production-related work provides a higher baseline demand, which reduces the number of vessels available to satisfy the increase in drilling activity we see shaping up nicely in 2026, which would then provide that much more of a strain on vessel supply as drilling activity picks up and therefore, increase our ability to once again aggressively push day rates higher.

The vessel supply outlook remains essentially unchanged from the prior quarters and really over the past years, nothing has changed. And our understanding of new build conversations globally points to very limited activity. We're not aware of any new build announcements during 2025, the number of new builds on order, representing less than 3% of the global fleet are expected to deliver in late 2026 at the earliest likely into 2027 into 2028. We remain at the view that new build capacity won't sufficiently replace vessels expected to attrition from the global fleet during the same time frame. As such, we still view vessel supply limitations as a tailwind over the coming years as subsea and production markets structurally grow and as drilling activity increases. We watch new build activity very closely, and we will continue to do so, but believe that current shipyard capacity, prevailing global day rates and contractual trends, the stage of the vessel financing markets as well as vessel technological obsolescence considerations make any large-scale new building programs unlikely.

In summary, we are pleased with the strong first half of the year and remain confident in our full year expectations. We are now better positioned than we ever have been since the offshore recovery began with our new debt capital structure and has added flexibility to capitalize on value-accretive acquisitions and share repurchases. We remain confident in a robust free cash flow outlook, and we look forward to deploying this cash in the most value-accretive manner for our shareholders.

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

West Gotcher

Senior Vice President of Strategy, Corporate Development & IR

Thank you, Quintin. Expanding on our recent debt refinancing. Subsequent to the quarter end, in early July, we closed on our inaugural U.S. high-yield bond issuance, issuing a 5-year \$650 million unsecured bond with a coupon of 9.125%. The net proceeds of the issuance went to the redemption of our two previously outstanding Nordic secured and unsecured bonds as well as the previously outstanding term loan facility. Alongside the new unsecured bond issuance, we entered into a \$250 million revolving credit facility with a syndicate of 9 banks.

The completed refinancing marks an important milestone on the continued evolution of Tidewater. The new bond represents the first issue into the U.S. high-yield markets in the 65-year-plus history of the company and establishes a debt capital structure that is well suited for our business, extending maturities out 5 years and providing substantial financial flexibility via the new revolving credit facility.

Pro forma for the refinancing, Tidewater has liquidity north of \$600 million at the end of Q2. Further, given the new liquidity enhancement via the revolving credit facility, we are now comfortable to reduce the amount of cash held on the balance sheet as that was previously our only source of liquidity. Importantly, the new bonds and revolving credit facility provide substantial flexibility as it relates to M&A and shareholder distributions.

From an M&A perspective, we are unlimited in our ability to incur additional unsecured debt or assumed debt related with an M&A transaction up to certain credit metrics, all of which were well below today. From a shareholder return perspective, our new debt instruments similarly provide for unlimited ability to return capital, so long as we meet certain leverage metrics.

Under the bonds, we are unlimited in our ability to return capital to shareholders, provided our net leverage ratio, defined as net debt divided by EBITDA, pro forma for a given return of capital is less than 1.25x. Similarly, our revolving credit facility allows for unlimited returns to shareholders, provided our net leverage ratio does not exceed 1x.

Under the revolving credit facility metric to the extent that we exceed 1x net leverage, we still retain the flexibility to continue returns to shareholders, provided the free cash flow generation is in excess of cumulative returns to shareholders. More broadly, our approach to leverage has not changed.

We remain firmly rooted in our view of maintaining a leverage profile that when combined with our cash flow outlook provides us with the path to return to net debt zero within about 6 quarters. Our leverage philosophy matches up nicely with the shareholder return covenants and our new debt capital structure as we feel comfortable that the latitude provided is consistent with our approach to managing our leverage profile and provides substantial capacity to pursue shareholder returns. As such, we are excited to announce the \$500 million share repurchase program. Given our current leverage profile, current cash on balance sheet and our outlook for cash flows, we believe this program is consistent with our philosophical approach to leverage and within the limitations set forth in our new debt instruments.

As Quintin discussed, while our philosophy around share repurchases and capital allocation remain consistent, our approach to our share repurchase program will evolve given the new long-term capital structure and more permissive debt instruments. We will remain opportunistic and look to take advantage of inefficiencies we see in the market but the pacing of the program could take a different shape than what we've exhibited in the past, particularly to the extent M&A transaction becomes actionable that requires a component of cash consideration. Having said that, we remain confident that the longer-term cash flow outlook for the business supports both M&A and returning capital to shareholders.

Turning to our leading-edge day rates. I will reference the data that was posted in our investor materials yesterday. Across the fleet, our weighted average leading-edge day rate was consistent from the first quarter into the second quarter. For our largest class of PSVs, we saw a nice pickup in day rates from the previous quarter due to strength in the Mediterranean, the Caribbean and the U.S., offset by lower day rate regions such as the U.K. and Mexico. Similarly, in our medium-sized class of PSVs, we saw particular strength in Brazil, Australia and the Caribbean, offset by lower day rate regions in the U.K. and the Middle East. For our largest classes of AHTS vessels, strength in the Caribbean helped push day rates. We entered into 15 term contracts during the second quarter with an average duration of 9 months as we look to a strengthening market as we progress into 2026.

Looking to full year 2025, we are reiterating our revenue guidance of \$1.32 billion to \$1.38 billion and a full year gross margin range of 48% to 50%. We now anticipate Q3 revenue to decline by about 4% sequentially. Although we do expect utilization to improve sequentially, more near-term softness than anticipated is meeting our previously expected utilization improvement. In addition, we see a modest softening in day rates in the North Sea and West Africa, ahead of drilling activity demand improvements in 2026. We anticipate a Q3 gross margin of 45%. The sequential decline is due to the fall-through on

lower revenue as well as higher costs associated with fuel expense related to idle days and repair and maintenance expense associated with vessels down for repair.

As we progress into the end of the year, we anticipate utilization to improve sequentially from the third quarter into the fourth quarter due to dry dock days declining by about half, representing about 3 percentage points of utilization improvement. We expect margins to improve in the fourth quarter due to revenue associated with the reduction in dry dock days and associated reduction of fuel and repair and maintenance expense spend during the dry docks.

The midpoint of our revenue guidance range is approximately 93% supported by first half revenue plus firm backlog and options for the remainder of the year. Our firm backlog and options represent \$585 million of revenue for the remainder of 2025. Approximately 73% of available days for the remainder of the year are captured in firm backlog and options with our larger classes of vessels retain slightly more availability to pursue incremental work as compared to our smaller vessel classes. The bigger risk to our backlog revenue are anticipated downtime due to unplanned maintenance and incremental time spend on dry docks.

With that, I'll turn the call over to Piers.

Piers Dayer Middleton

Executive VP & Chief Operating Officer

Thank you, West, and good morning, everyone. As both Quintin and West have alluded to, and as we've mentioned on the last couple of calls, the short to medium-term outlook for the offshore space remains challenging. And while we've seen demands ease back slightly during 2025, we still feel that with a favorable supply story, we have one of the youngest fleets in the industry, we're still well placed to weather any short-term headwinds and make further progress in the second half of 2026 and 2027 as expected demand comes back online to exploration and subsea construction projects.

In Africa, we had a weaker Q2 than previous quarters as we experienced a winding down of several drilling campaigns in the Orange Basin, which over the last few quarters to support a significant number of our larger PSVs in Africa. We're still going to be supporting the remaining drilling campaigns in Namibia for the rest of the year, however, not at the same level of PSV intensity as in the past 6 quarters. However, helping to offset some of the expected slowdown in Namibia, we won work in the Caribbean and have mobilized a couple of larger PSVs to support drilling campaigns in Guyana and Suriname as well as also winning work in Mozambique for a couple of more of our large PSVs at the tail end of the year to support subsea construction projects, which are expected to push through well into 2026.

In the short term, for the remainder of 2025 in Africa, we still have several ongoing discussions with customers both for drilling support work as well as to support a few construction projects slated to start in Q4. Longer term, as mentioned on previous calls, we still see strong demand for the region from the second half of 2026 onwards, driven by continued uptick in drilling, subsea construction and long-term production support.

Moving on to the Americas. We saw a very solid quarter for the region and by leveraging our global footprint and best-in-class operations, we won a number of new contracts in the Caribbean, which allowed us to move vessels out of the North Sea and Africa, which helps us relieve some of the short-term pressure we're currently experiencing in those two particular regions. Looking ahead, we still see no slowdown in the long-term prospects of the wider region. The Caribbean seems set fair that both Guyana and Suriname continuing to develop their nascent offshore businesses. And in Brazil, although we have seen some Petrobras FID slip into 2026, the long-term prospects remain very bright with both Shell and BW Energy sanctioning significant projects in Q2.

In Europe, we had a strong Q2 driven by strong North Sea spot markets and good utilization in the Med during the first half of the year. Rates have held up well in the U.K. and are still above historical averages. So looking out for the remainder of the year, we do see a slowdown in demand, which we expect to pressure rates on the down side for the remainder of the year.

On the plus side for the U.K. [indiscernible] looks likely to go ahead and expect some incremental PSV demand to support this project.

In the Med and Norway, the long-term outlook remains positive. However, a number of expected projects slated to start in 2026 in the Med could be affected by the ongoing conflict in the Eastern Med, and as such we'll be watching closely how this continues to evolve.

Asia Pacific was relatively flat in the quarter. But the good news is that with the resolution of the ongoing tribulations for PETRONAS and Eastern Malaysia now firmly behind us, we have started to see demand picking up again in Malaysia and some of the locally-owned vessels that were putting downward veteran rates returning to work. There's still a few quarters away, but expectations are by year-end things will be back to business as usual in Malaysia.

In Australia, there are still several incremental longer-term PSV tenders to support production still to be awarded which are all expected to start in Q4 as well as a number of construction support scopes, which are yet to be awarded. Looking at longer term, we see a very positive demand story unfolding in the latter part of 2026 as a number of long-term exploration development projects are expected to kick off in Indonesia, Myanmar and Malaysia.

Lastly, finishing off with the Middle East, the market remains very tight with limited availability of tonnage in the region. We expect the region to remain supply constrained with the EPCI contractors continuing to utilize any available vessels to support their operations in Qatar and Saudi Arabia and that the opportunity will be there to continue to push rates as our vessels become available. However, as we've mentioned on previous calls, this is a highly fragmented market, and as such, rate increases tend to take longer to push through than in other areas of the world. Longer term, we don't see any slowdown in the region and the supply-demand balance still staying in the shipowners' favor for some time to come.

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

Samuel R. Rubio
Executive VP & CFO

Thank you, Piers, and good morning, everyone. At this time, I would like to take you through our financial results. As in prior calls, my discussion will focus primarily on sequential quarterly comparisons which includes the second quarter of 2025 compared to the first quarter of 2025, also including operational aspects that affected the second quarter.

As noted in our press release filed yesterday, we reported net income of \$72.9 million for the quarter or \$1.46 per share. We generated revenue of \$341.4 million compared to \$333.4 million in the first quarter, an increase of \$8 million or 2%. Second quarter average day rates of \$23,166 were 4% higher versus the first quarter. We saw a slight decrease in active utilization from 78.4% in the first quarter to 76.4% in the second quarter due mainly to the increase in idle and dry dock days and several dockings scheduled in Q1 were pushed to Q2.

Gross margin in the second quarter was \$171 million compared to \$167 million in the first quarter. Gross margin percentage in the second quarter remained steady at 50.1% and now marks 3 consecutive quarters with margins over 50%. Margin outperformance versus our expectations was primarily due to higher-than-expected day rates and utilization, combined with lower-than-expected operating costs, primarily related to lower R&M costs due to overall fewer repair days and lower salaries and travel costs due to reduced manning on some idle vessels.

Adjusted EBITDA was \$163 million in the second quarter compared to \$154.2 million in the first quarter. As a reminder, in Q4 '24, we reported a \$14.3 million FX loss and negatively impacted our adjusted EBITDA. In the first quarter of 2025, we experienced a partial reversal of this FX loss in the quarter to \$7.6 million FX gain and in Q2, we experienced an additional FX gain of \$11.7 million as a result of the continued weakened U.S. dollar. As it relates to tax expense during the quarter, we reversed the valuation allowance related to U.S. net operating losses we generated during earlier periods. We made this reversal due to our increased confidence in the sustainability of our global profitability. The reversal resulted in a onetime noncash increase to net income of \$27 million.

Operating costs for the second quarter were \$170.5 million compared to \$166.4 million in Q1. The increase in costs is due primarily to an increase in salaries and travel and R&M costs as we had one more day of operation in the quarter, together with FX impacts due to the weakening U.S. dollar. The combination of which contributed \$4.3 million to the increase. In the quarter, we also had 192 higher idle days, 245 higher dry dock days, and 59 more mobilization days, which contributed to an increase of \$700,000 in fuel costs for the quarter. Offsetting these increases were insurance and other operating costs that came in lower than prior quarter.

G&A expense for the second quarter was \$31.2 million, \$2.1 million higher than the first quarter due primarily to an increase in personnel costs as well as an increase in professional fees. We are projecting G&A expense to be about \$120 million for 2025, which includes \$15 million of noncash stock-based compensation. As a reminder, we conduct our business in 5 operating segments. I refer to the tables in the press release and the segment foot note and results of operations discussions in our Form 10-Q for details of our segment results.

In the second quarter, consolidated average day rates were up versus first quarter. However, results varied by segment, with our Europe and Mediterranean day rates improving 14% and our Americas day rates improving by almost 3%. We saw marginal increases in day rates in our APAC and Middle East regions, offset by a day rate decrease in Africa of about 5% quarter-over-quarter.

Total revenues were up compared to the first quarter with revenues up in our Americas and Europe and Mediterranean regions by 28% and 27%, respectively, quarter-over-quarter. While revenues in all other regions decreased compared to Q1, with the largest decrease in our Africa region of 22%.

Regionally, overall, gross margin increased in the Americas region by 14 percentage points, and in Europe and Mediterranean region by 10 percentage points, a decrease in our other 3 regions. The increase in the Americas region was due to increases in average day rates and utilization as well as a minor decrease in operating expenses. The increase in the Europe and Mediterranean region was primarily due to an 8 percentage point increase in utilization and a 14% increase in average day rates due to typical calendar seasonality and a stronger-than-expected North Sea spot market.

In our APAC region, gross margin decreased about 2 percentage points, primarily due to a slight decrease in utilization, partially offset by higher average day rates and slightly lower operating costs. Our Middle East region also saw a gross margin decrease of about 8 percentage points due to a decline in utilization, combined with an increase in operating expenses due to higher fuel costs. The primary reason for the lower utilization was higher dry dock days and higher repair and idle days.

In our Africa region, we saw a 12 percentage point decrease in gross margin due primarily to lower day rates, lower utilization and higher R&M and fuel costs resulting from higher dry dock repair and idle days.

We generated \$97.5 million in free cash flow this quarter compared to \$94.7 million in Q1. The free cash flow increase quarter-over-quarter was primarily attributable to the stronger results from operation, lower dry dock and CapEx costs and higher proceeds from asset sales, partially offset by a use of working capital.

Last quarter, I mentioned that we had not received payment for several quarters from our primary customer in Mexico. We still have not received payment from them and our outstanding AR balance at the end of June represents approximately 14% of our total trade AR. As mentioned previously, this customer had periods of nonpayment in the past, but historically, we have not had any write-offs due to the collectibility of their receivables. We continue to monitor and assess this closely.

During the second quarter, we made \$12.5 million in principal payments on our senior secured term loan in addition to approximately \$1.5 million in other debt repayments related to the financing of recently constructed smaller crude transport vessels. We also incurred \$23.7 million in deferred dry dock costs compared to \$43.3 million in the first quarter. In the quarter, we had 1,195 dry dock days that affected utilization by about 6 percentage points. For the year, we are projecting dry dock costs to be about \$107 million, which is down about \$6 million from our prior call. The decrease is due to the net effect of changes

in timing of various '25 and '26 projects. In addition, the savings generated from our already completed 2025 dry docks.

In Q2, we incurred \$5.2 million in capital expenditures related to various projects, including ballast water treatment installations, EP system upgrades and IT upgrades, both onshore and vessel related. For the year, we still project capital expenditures of \$37 million.

During Q2, we spent \$51 million on share repurchases to bring our total of 2025 repurchases to about \$90 million. The Q2 repurchases reduced our shares outstanding by approximately 1.4 million shares.

As Quintin and West mentioned earlier, we successfully refinanced our previous debt instruments, the longer tenured unsecured structure and we were also successful in entering into a \$250 million revolving credit facility. We also announced our new authorized \$500 million share repurchase program. Overall, we believe this new debt capital structure increases financial flexibility for Tidewater, and we are also excited about the opportunity for additional shareholder returns moving forward.

On the tariff front, we have not seen a meaningful decrease in our costs, and we do not anticipate direct or indirect tariff exposure that will drive a meaningful increase in our costs. We acknowledge that many vendors are still evaluating tariff announcements. As such, the impact of these tariffs on our cost structure is subject to change moving forward.

In summary, Q2 was exceptionally strong from an operations and execution standpoint. We delivered both strong financial results and free cash flow as well as returning significant amount of cash to shareholders in the form of share repurchases. We also successfully refinanced our previous debt to a more suitable and flexible structure that aligns with our objectives and needs. While there is some amount of near-term uncertainty in the industry related to the timing of incremental vessel demand, the industry's long-term fundamentals remain very strong. Despite this uncertainty, we expect to achieve our full year financial guidance and expect to continue to generate strong free cash flows and profitability each subsequent quarter of the year. We remain optimistic about our current position and about the opportunities that lie ahead for Tidewater.

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

Quintin V. Kneen

President, CEO & Director

Thank you, Sam. Ginnie, would you please open the call up for questions?

Question and Answer

Operator

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

James Michael Rollyson

Raymond James & Associates, Inc., Research Division

Contract on a nice quarter, and congrats, Piers, on your promotion. Quintin, maybe since you brought it up, and I think I've heard it 3 or 4 times throughout the call, you brought up M&A and obviously, the flexibility that your new facility and financing and not need to keep all the cash on the balance sheet, provide you. Would love just to hear an update of kind of what you're seeing out there and if you think there's actually anything actionable in the fairly near term out there since you've been kind of evaluating opportunities for quite some time since your last transaction?

Quintin V. Kneen

President, CEO & Director

Jim, thanks. So I would characterize the discussions over the past several months as becoming more constructive. If you take us back to last summer, everybody was very excited about the near-term outlook and I think prices for secondhand equipment and for companies got a little bit ahead of where I thought they should be. And I believe that people over the last several months have come to terms with what they see as the pace of the offshore cycle and probably just the growing awareness of the uncertainty or volatility that's inherent in our business. And so that's just brought people back to the table. So I am encouraged. It's always hard to know.

I joke with West that we've probably been in due diligence for 6 years straight and we had 3 or 4 transactions done. But -- so we're still active in the market, and we look forward to getting things done, but we've got some very -- we've got some significant price hurdles. Right now, just repurchasing our own shares is significant value. So I need to make sure that anything that we do outside of that creates just as much more value for our shareholders.

James Michael Rollyson

Raymond James & Associates, Inc., Research Division

Yes, that makes sense and consistent with kind of how you thought about this in the past. And then maybe as a follow-up, as we've gone through last quarterly earnings season and so far this season, it seems like all the talk around or the thesis around back half of '26 into '27 and '28 drilling demand in the deepwater side at least is that all seems to still be in place based on what contracts have been let with some of the drillers that have reported so far are still talking about and it seems kind of consistent with your comments, but I'd love to hear to whatever extent you have visibility going into next year, maybe its second half and into the years after just from a demand perspective, and you mentioned a slightly kind of balanced supply/demand for vessels right now where you're not able to push rates, but you're still able to sustain rates just kind of put the pieces of the puzzle together to see if we get back to a market sometime next year or into '27 where you're actually able to push rates again?

Quintin V. Kneen

President, CEO & Director

Well, that's certainly our house view. But I'll tell you what, I'm going to hand it over to Piers because he's got more visibility with the customers, and he can give you a little bit more color on what he's seeing developing in 2026.

Piers Dayer Middleton

Executive VP & Chief Operating Officer

Thanks, Jim, for the congratulations. Yes, I mean it's -- I think as Quintin said, our house view is definitely we're seeing the drillers starting to pick up contracts and have been quite public about what they're

picking up in 2026. And we're certainly seeing that in the tendering activity that we're starting to now see. We always tend to be slightly behind where the drillers are, but I would say we're seeing an uptick in those tenders and pre-tenders coming out for those regions to support the drilling activity. And as we sort of said in the past, I mean the thing about our business is we're not just a drilling derivative, of course, we've got layering on to that subsea construction, and we're starting to see those contracts coming into play now, which maybe we thought come a little bit earlier, but now Q4 and into 2026 as well.

So we've got a very positive outlook in terms of the second half of '26, we've got a bit of an uptick on some of the production stuff. We're supporting development drilling already. We see other projects coming up in -- not just in the Caribbean, but Southern Africa as well and Indonesia, like I mentioned. So yes, it's looking to be a much more positive story as we sort of go into the second half of '26 and think we'll have all sort of 3 production -- subsea construction and drilling all working at the same time. And once we have that demand story in place, that with the limited supply will give us a chance to really start pushing rates again like we did in '23 and '24 is the intention.

Operator

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

Fredrik Stene

Clarksons Platou Securities AS, Research Division

I hope you are all well, and nice to see a very strong quarter, absolutely. So I think kind of the themes that I wanted to touch upon is a previous question touched slightly on it as well.

But Quintin, in your prepared remarks around the M&A story and what you said now that you -- there could have been 3 or 4 transactions that might have been realized at some point, but there's always different pieces that doesn't work out at a specific time. But I think kind of the way you phrased yourself and also remembering some of the comments you've given before around M&A makes me feel like you might be a bit more optimistic about getting things done now than before? And if that's the case, is it because the market itself, while there's still volatility out there, it seems like people have been able to assess that volatility better than what they have been doing before that there is a calmness amidst all this volatility that could make transaction happen nonetheless?

Quintin V. Kneen

President, CEO & Director

That's exactly what I would say. I would say that people are getting comfortable with the uncertainty levels that are out there. And maybe a year ago, they were a little bit too irrationally bullish and the pace of the recovery. Now they are starting to feel the '26-year fill up for the drillers are starting to see what the vessel supply is going to be required. They're not seeing any vessel supply coming in. And so everybody is getting real comfortable with the recovery that they see playing out and the pace of it. And so as a result, I think it settled people into some expectations that allow these conversations to be more constructive.

And so my hope is, yes, I would say on balance quarter-over-quarter, I'm more bullish about the opportunity to get some things done. But it's always difficult to say because there's -- everyone has different price expectation. And we have -- again, we just have a firm expectation of value creation, and we've got an opportunity to repurchase shares if we need to. And so we'll deploy capital to the most constructive way. But there's always a benefit in acquiring vessels that will reduce the age of the fleet that enhances a particular region for strategic reasons, for competitive and balanced reasons well as access reasons. So no, I'm generally more bullish now than I was even over the past 9 months, hopeful that we can get some things done, but at the same time, we'll take it as it comes.

Fredrik Stene

Clarksons Platou Securities AS, Research Division

Perfect. And one on the outlook for the year. You guys gave quite comprehensive commentary now on how you view the rest of the year and you've reiterated guidance. But clearly, Q1 was stronger than initially

expected. Q2 was stronger than initially expected. Delta from when we had this call here in May on the first quarter, what has -- the outlook for the second half, is that worse now? Maybe if I try to read a bit between the lines, upturn has might be pushed a bit out in time. Any particular color on that would be helpful.

And as a side question to that, I think for 2024, you initially guided for '24 during the third quarter conference call in '23. Last year, you weighted the guidance one extra quarter because of all this volatility. Do you think you'll be in a position to guide for '26 during the third quarter call? Or is it still same type of outlook for next year that there is too early to tell this time around as well?

West Gotcher

Senior Vice President of Strategy, Corporate Development & IR

Fredrik, it's West. I'll try and parse your question there. I think on the last piece, referring to delaying our guidance from our kind of regular scheduled programming and doing so in Q3 of last year into Q4 results so at the beginning of the year. I don't know that we're necessarily in a position to confirm that yet. In terms of what we'll do for this coming year. I think in a perfect world, that would be our preference to get guidance out sooner rather than later. But similar to last year, I think we'll have to evaluate the market factors in play to understand our level of confidence in doing so. So we'll play that out over the coming months and quarters or so to see what the world looks like heading into 2026, and we'll make that determination when we get there. I'm going to restate your first question to make sure that we understand it, and that's our second half expectations from the Q1 call in to the Q2 call. Is that correct?

Fredrik Stene

Clarksons Platou Securities AS, Research Division

Yes, how have those changed?

West Gotcher

Senior Vice President of Strategy, Corporate Development & IR

Sure. So I think it is fair to say that our second half expectations have come down as compared to our second half expectations at the end -- during the Q1 call. Our commentary in the prepared remarks specifically referred to our previous utilization improvements in the back half of the year. I think if you recall on the last earnings call, and we provided guidance, we expected a more meaningful step-up in utilization into Q3 and Q4 that we've backed off a little bit on. We do expect utilization to improve in the back half but not as substantially as we did in last quarter's call. So when we look at the full year guidance, given the outperformance in the first half, and still a fairly constructive back half, we're comfortable to reiterate the full year, but again, I didn't want to differentiate a little bit that expectations have come down a little bit for the back half, particularly as it relates to the step up in utilization that we had originally expected.

Fredrik Stene

Clarksons Platou Securities AS, Research Division

All right. That's very clear. And you've taken my question much more simply than I managed to.

West Gotcher

Senior Vice President of Strategy, Corporate Development & IR

I want to make sure we answered it correctly.

Operator

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

David Christopher Smith

Pickering Energy Partners Insights

I think you mentioned Q3 utilization was expected to tick higher. Can you give a rough range of that improvement?

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

Sorry, for the second quarter into the third?

David Christopher Smith*Pickering Energy Partners Insights*

Right. So the third quarter guidance, I thought your expectation was for utilization to tick higher, and I was just looking at...

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

Yes. That's correct. Yes. To quantify, that would be a few percentage points of utilization improvement from -- into the third quarter from the second.

David Christopher Smith*Pickering Energy Partners Insights*

Okay. I appreciate that. With -- even a small uptick in utilization, just doing back of the envelope math, right? If I heard the guidance for Q3, revenue down 4%. And kind of suggest average rates in Q3 that are down 1,200 or more and it sounds like you're pretty well contracted for the quarter. So I was just hoping to get some color on that lower rate outlook, if it's more driven by mix, if you're seeing unfavorable contract rollovers or maybe there's some healthy conservatism baked in?

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

Dave, I'll draw my comments back to -- as it relates to day rates, that is the correct implication or inference that you're making. And we referred to the day rates in the North Sea and West Africa is softening a bit. As discussed in the prepared remarks, the second quarter in North Sea was actually relatively strong, which one would expect given the seasonally favorable time of the year. And so that was positive. But I think both of my comments and Piers' comments, we suggested that given some demand pull off in the North Sea heading into Q3, we'd actually expect that to taper back a little bit. And similarly, in West Africa, given some of the dynamics that Piers discussed related to drilling and some of the time between contracts, we would expect that to come off a little bit.

And there's also the -- as a reminder that we discussed in the prepared remarks, we also benefited from foreign exchange from FX during the second quarter, even in the day rate line as well as below the line. And so we're not necessarily forecasting an improvement in FX rates to help push the day rate. So when you put all those together, your inference is correct that with a slight utilization improvement that does imply a printed day rate reduction into the third quarter.

David Christopher Smith*Pickering Energy Partners Insights*

I appreciate that. And if I could sneak a quick follow-up. Just wanted to make sure if I'm understanding the full year guidance correctly in the Q3 then the midpoint for the full year kind of suggest Q4 vessel margin that steps up about \$30 million compared to the Q3 outlook, which would be a pretty strong uplift compared to fourth quarters from prior years. And I know you touched on it in the prepared remarks, but could you give just a little more color on that visibility for the activity drivers in Q4?

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

So maybe I'll speak to the first part and then let Piers discuss, again, his view on the macro and the activity landscape. But again, your inference is correct that in order to achieve the midpoint of guidance for the full year, given our Q3, the specificity we provided around Q3, that would imply a fairly meaningful step-up in Q4. So again, that is the right read. And -- but I'll let Piers talk about some of the activity drivers that he sees into Q4.

Piers Dayer Middleton*Executive VP & Chief Operating Officer*

Yes. Thanks, West. Yes, Q3 is going to be a little bit [indiscernible] than perhaps expected. But I think as I mentioned, Q4, we are already starting to see a number of tenders for some drilling activity in Africa, but also subsea construction is starting to kick in as well. So some of our -- we've seen this sort of tailing off of some of our big PSVs, which have been very successful in Namibia supporting drilling campaigns there. So there's a slowdown on that, and that's going to pick up again in Q4. So that's what's driving our more positive response to go towards the end of the year, primarily for Africa, Mozambique, Angola, specifically on that side. But then we're also seeing an uptick in Asia Pacific as well. There's a slight slowdown in Q3, but in Q4, we've seen a number of projects in Australia, which we're expecting to pick up.

So it's just -- sometimes you get these small short blips in our business and waiting for new contracts to come along, and we're starting to see those tenders coming through. And as I think we've mentioned on previous calls, subsea construction tends to have a much shorter time frame in terms of -- they come out and [award] in a much quicker time frame. The oil companies tend to have sort of 6- to 12-month type of window, whereas the construction tenders tend to be sometimes 30 to 90 days of notice. So that's what we're dealing with. We're seeing that now for the subsea construction piece picking up in Q4.

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

Dave, if I could add one more data point to Piers' commentary more on the fleet side. Just to remind you, we do expect dry dock days to fall half in Q4 which equates to about 3 percentage points of utilization.

David Christopher Smith*Pickering Energy Partners Insights*

Congrats on the great Q2 performance and the debt refi.

Operator

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

Joshua W. Jayne*Daniel Energy Partners, LLC*

First one, I know you talked about some utilization softness in West Africa over the near term. But could you talk about your multiyear outlook there as it seems to be one of the regions when you listen to driller optimism over '26, '27 and beyond. How do you see this playing out versus some of the other regions where you have opportunities to deploy assets over the next couple of years?

Piers Dayer Middleton*Executive VP & Chief Operating Officer*

Yes. I'll take that. So we are also very optimistic for Africa. I mean there's always -- as you know, in the cyclical nature. I mean I think the way we look at our business and you go through that process, we've obviously been very busy, as I mentioned, in the last 6 quarters or so supporting drilling in Namibia. That is expected to slow down a little bit over the next year perhaps. And then the expectation is that as you go into the second half of '26, those projects will go into a development phase. And that when you go into development, that tends to sign up a number of rigs and significant amount of drilling and over a longer period of time, which is the sort of work we're now doing in Suriname and Guyana in terms of that development phase of 2 to 3 years. So once those kick in, and we're seeing that in Southern Africa as well, we're supporting some campaigns there. So that's going to drive demand for the bigger PSVs. And then we're also seeing supporting projects in Congo at the moment.

So there's some new production on that side. So I think there's probably going to be -- probably there is going to be a pause on the drilling for the next few quarters, and that's what we're, I think, talking about. And I think as you go into 2026, you'll start seeing additional exploration and then development as well on top of that as well. So you're going to layer in another layer of demand from that side. And I think the

other thing which I think we may have mentioned on the last call, which is we're not particularly active there, but Nigeria seems to be very [indiscernible] we've seen a couple of awards or discussions ongoing for the drillers on that side as well. So Nigeria is going to suck up a certain amount of supply as well of vessel. So maybe we'll work there, maybe we won't, but that's going to certainly suck up supply from our competitors as well. So I think Africa longer term is a very positive story. It's just the next few quarters is probably going to be a little bit quieter than we've seen in the past, but there's a lot of work coming up. So we have a very positive long-term outlook for the region.

Joshua W. Jayne

Daniel Energy Partners, LLC

And then just as my follow-up, how did you all arrive at the \$500 million number for the share repurchase program? I think there was a comment in the opening remarks that -- it was something that was -- you felt comfortable that you'll be able to execute with them a year on. I'm just curious how you arrived at the \$500 million number.

Quintin V. Kneen

President, CEO & Director

So it's Quintin. I don't want to commit to just a year because there may be some things that will come into play over the next year that either accelerated or extended one way or the other. But when I look at the cash that we have on hand, and I think about the excess amount that exists today on the balance sheet. Since we have our new revolver, we're allowed, we're going to allow ourselves to reduce that balance to a reasonable level. We're generating about \$100 million of free cash flow a quarter. And so in the next year or so, it's certainly very conceivable that we could take advantage of the entire \$500 million amount. And that's how we set it. Now I'd like to do acquisitions, and so I'd like to use cash for acquisitions. So that may delay us fully utilizing that program within the year, but that's how we go.

Operator

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

Quintin V. Kneen

President, CEO & Director

Thank you, and thank you, everyone, for listening, and we will update you again in November. Goodbye.

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