Tidewater Inc. NYSE:TDW

Earnings Call

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Call Participants

EXECUTIVES

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Executive VP & Chief Operating Officer

Quintin V. Kneen
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Presentation

Operator

Good morning, and welcome, everyone, to the Tidewater Second Quarter 2026 Conference Call. My name is Dara, and I will be your conference moderator for today. [Operator Instructions]

I will now hand the conference over to West Gotcher, Senior Vice President of Strategy, Corporate Development and Investor Relations. Please go ahead.

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

Thank you, Dara. Good morning, everyone, and welcome to Tidewater's Second Quarter 2026 Earnings Conference Call. I'm joined on the call this morning by our President and CEO, Quintin Kneen; our Chief Financial Officer, Sam Rubio; and our Chief Operating Officer, Piers Middleton.

During today's call, we'll make certain statements that are forward-looking and referring to our plans and expectations. There are risks, uncertainties and other factors that may cause the company's actual performance to be materially different from that stated or implied by any comments that we're making during today's conference call. Please refer to our most recent Form 10-K and Form 10-Q for additional details on these factors. These documents are available on our website at tdw.com or through the SEC at sec.gov.

Information presented on this call speaks only as of today, August 4, 2026. Therefore, you're advised that any time-sensitive information may no longer be accurate at the time of any replay.

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

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

Quintin V. Kneen
President, CEO & Director

Thank you, West. Good morning, everyone, and welcome to Tidewater's Second Quarter 2026 Earnings Conference Call. I'll begin today with the quarter's highlights, provide an update on the Wilsons' transaction, discuss our current views on capital allocation and share our outlook for the business. West will then walk through our financial outlook and current guidance considerations. Piers will cover the global market and operations, and Sam will review the consolidated financial results. Collectively, we will also update you on the impacts of Operation Epic Fury.

We are pleased to report that second quarter revenue and gross margin exceeded our expectations. Revenue was $342.3 million, supported by both higher day rates and stronger utilization. Gross margin was just under 47%, nearly 3 percentage points above our prior expectations. Excluding $6.8 million of expenses related to Operation Epic Fury, gross margin would have been approximately 49%. Day rate momentum was particularly strong in the European and Mediterranean segment.

Utilization benefited primarily from the timing of dry docks on seven vessels shifting from the second quarter to later in the year. Operational uptime was also better than expected, which further supported utilization. But most noteworthy, our weighted average leading edge day rate increased approximately 7.5% sequentially, a clear indication of the relatively tight supply and demand balance in the market today.

Turning to Operation Epic Fury. While the intensity of the conflict eased during the quarter, we continued to incur costs above pre-conflict levels, totaling approximately $6.8 million in the second quarter. We did not experience any vessel off-hire associated with the conflict. In fact, our utilization and day rates in the Middle East were the strongest they have been in quite some time. In our guidance, we continue to include only costs for the current quarter, and we are assuming approximately $4 million of costs in the third quarter. We are actively working these costs down as we identify alternative ways to manage through the conflict. We remain encouraged that our activity in the region has been largely unaffected and that the outlook for the region remains robust, particularly once the conflict is resolved.

Free cash flow improved meaningfully in the second quarter, nearly doubling from the first quarter to $64 million. That improvement was driven by stronger operational performance and the movement of dry docks on seven vessels to later in the year. Even taking those deferred dry docks into account, we expect free cash flow for the Legacy Tidewater business to continue to accelerate in the back half of the year. We also expect to generate incremental free cash flow from the Wilsons' vessels once the acquisition closes.

On that note, we now expect to close the Wilsons' acquisition around September 1st. As discussed in our recent disclosures, we have completed all necessary regulatory steps and obtained the change of control waivers related to assume the Wilsons' debt. We are now working with the banks to finalize documentation for the debt transfer.

In parallel, we have continued to deploy Tidewater personnel to work alongside the Wilsons' team on pre-closing integration planning, which should allow us to move quickly once the acquisition closes. We believe the ability to effect a smooth and swift integration is a core competency of our organization, and we see every reason to expect the Wilsons' integration to be as successful as the integrations we have completed in the past.

Our balance sheet remains very strong with net debt essentially at 0 at the end of the second quarter. We expect net leverage to increase to approximately 0.8x by the end of the third quarter as a result of the Wilsons' acquisition. Liquidity was also strong at more than $850 million at quarter end. We intend to fund the equity portion of the acquisition price with cash after assuming the Wilsons' debt, and we remain very comfortable with both the strength of our balance sheet and our liquidity profile.

Our $500 million share repurchase authorization remains outstanding. To date, we have held off on repurchases while we complete the Wilsons' debt transfer. Although we will deploy a substantial amount of cash to fund the Wilsons' acquisition, we still expect to be in a strong cash position after closing and we'll evaluate the most accretive use of the remaining excess cash for shareholders.

Our philosophy on the buyback program has not changed. We remain opportunistic and we'll consider repurchasing shares when M&A opportunities are not immediately actionable. We do not view carrying excess cash on the balance sheet as an optimal long-term capital allocation strategy, particularly given the liquidity position we have with the revolving credit facility added last summer. We expect free cash flow from the business to continue to grow through the remainder of this year and into 2027.

The M&A landscape remains active. A healthy operating environment and an improving outlook are important factors in establishing a productive dialogue with potential targets. We remain interested in acquiring the right vessels at the prices that create immediate value for our shareholders. At the same time, we are not interested in acquiring vessels at a premium to our view of their current value simply for the sake of adding scale. We are in the advantageous position of being the largest global OSV provider, and we continue to believe that in the absence of value-accretive acquisitions, the best way to increase shareholder value is to run the business efficiently, maximize free cash flow and repurchase shares when appropriate.

With the balance sheet, liquidity and expected cash flows all in a healthy position, we will continue to apply the same capital allocation framework we have followed, weighing the relative merits of a given M&A opportunity against the return opportunity from repurchasing our own shares.

Looking ahead, the near-term outcome of the conflict in the Middle East remains uncertain. Market volatility can be challenging to navigate, but we believe there are important underlying reasons to remain optimistic about the offshore activity outlook. For some of our customers, broader strategic considerations, such as proximity to hydrocarbon resources and the ability to provide strategic reserves that can help mitigate future supply disruptions, are more frequently mentioned in planning discussions. These factors are more difficult to quantify, but they can also be more durable because they are driven less by near-term economics and more by long-term energy security considerations.

This backdrop points to a more robust view of the long-term offshore activity environment than we had last year, and we see that momentum continuing to build. Tendering and pre-tendering activity have increased significantly in recent months. Importantly, this increase in activity is evident across all of our vessel support services. Industry commentary around a strong rig tendering cycle supports this level of activity, and we are seeing similar momentum across all of our subsea support and production support offerings.

Our conviction in the next leg up of the cycle is growing, particularly given the strategic resource and energy security elements in the outlook. Most of the activity uplift we have seen to date reflects projects and opportunities that were already taking shape before the conflict in the Middle East began. Discussions regarding future projects in response to the conflict have begun and remain in early stages, but the tone is urgent and serious. Offshore projects are inherently long lead time investments and the desire to accelerate these projects is what gives us increased confidence in the duration of the current cycle.

Turning briefly to vessel supply. There has been little movement over the past quarter and frankly, very little over the past 2 years. To our knowledge, there have been no meaningful newbuild order activity in recent months. A handful of newbuild vessels are expected to deliver towards the end of the year with a few more in early 2027. The laid-up fleet remains essentially unchanged, and we do not anticipate meaningful reactivation given the laid-up fleet's age profile and specification mix. We believe much of the laid-up fleet is effectively scrapped in place as evidenced by the limited number of reactivations we saw from that fleet in 2023 and 2024.

We continue to believe the state of vessel supply will support increasing day rates as demand again begins to approach parity with available tonnage, and we expect day rates to accelerate further from what we saw in the second quarter. We continue to see a realistic path to a year-over-year increase in average day rates of $3,000 to $4,000 per day in both 2027 and 2028.

In summary, we are pleased with our second quarter performance. While we will continue to navigate near-term volatility related to the conflict in the Middle East, we are increasingly encouraged by the activity we see ahead. We look forward to completing the Wilsons' acquisition and to bringing the Wilsons' organization and fleet onto the Tidewater platform. As always, we will remain disciplined in allocating capital to the opportunities that we believe can create the greatest value for our shareholders.

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

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

Thank you, Quint. As Quint mentioned, we did not repurchase any shares during the second quarter ahead of the Wilsons' acquisition closing and funding. We anticipate to fund approximately $270 million of cash consideration for the equity component of the Wilsons' acquisition, assuming a closing date of around September 1, 2026. We plan to use cash on hand and do not anticipate utilizing our revolving credit facility to fund the cash consideration portion of the purchase price.

At the end of the second quarter, we retained our $500 million share repurchase authorization. Our philosophy guiding capital allocation remained consistent such that we will approach share repurchases on an opportunistic rather than a programmatic basis, weighing the market value of our shares with our internal view of the intrinsic value of the business. We will contrast this against the relative return profile and other qualitative considerations that an M&A target may present. We retain the option of evaluating M&A and share repurchases concurrently.

Given that the offshore vessel market has stabilized at a healthy level, along with the constructive outlook for offshore activity broadly, the M&A landscape remains favorable. However, we will remain disciplined on pursuing M&A opportunities that we view as value accretive and consistent with our view of intrinsic value.

As a reminder, under the bonds, we are limited in our ability to return capital to shareholders, provided our net debt-to-EBITDA is less than 1.25x pro forma for any share repurchase. Under our revolving credit facility, we are also limited in our ability to repurchase shares provided that net debt-to-EBITDA does not exceed 1x. However, 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. We expect to be at 0.8x net leverage pro forma for the Wilsons' acquisition and expect that our cash flow generation should continue to improve throughout the back half of 2026, reducing our net leverage level.

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 accelerated from the inflection we observed in the first quarter, up 7.5% sequentially. During the quarter, we entered into 25 term contracts with an average duration of approximately 12 months.

Turning to our financial outlook. We are modestly revising our full year 2026 revenue guidance to $1.42 billion to $1.47 billion and a full year gross margin range of 49% to 50%. The reduction in our revenue guidance is attributable to the expected closing of the Wilsons'transaction approximately 2 months later than previously anticipated, offset in part by higher-than-anticipated year-to-date Legacy Tidewater revenue. Our guidance now assumes that we close the Wilsons' acquisition around September 1, 2026. The updated gross margin guidance similarly assumes the loss of 2 months of high-margin revenue from Wilsons' due to the timing of the closing of the acquisition.

Additionally, we expect to incur more conflict-related costs in the third quarter than was contemplated in last quarter's guidance, which assumed the conflict concluded by the end of the second quarter. We now expect third quarter revenue to be up about 3%, inclusive of 1 month of revenue from Wilsons'. We expect Legacy Tidewater revenue to decline about 2% due to dry docks moving from the second quarter into the third quarter, consuming about 1 percentage point of utilization, along with higher-than-anticipated down for repair time that will consume another 1 percentage point of utilization.

We expect the third quarter gross margin of about 46% as we now anticipate conflict-related costs of approximately $4 million, along with higher fuel expense due to the dry docks that moved in the third quarter and higher R&M expense than previously anticipated. Our expected conflict-related costs in the third quarter are nearly half of those incurred in the second quarter. We remain in a position to rebill any direct conflict-related costs incurred to date or in the future.

In summary, we are pleased to be able to reiterate a strong full year financial outlook given the continued volatility in the market. Our expectation remains that there is potential for uplift to our full year guidance depending on the strength of the offshore activity picking up towards the end of the year.

Looking to the remainder of 2026, first half 2026 revenue plus firm backlog and options for the Legacy Tidewater fleet, along with the Wilsons' backlog for the September through December 2026 period, represents $1.3 billion of revenue for the full year, representing approximately 91% of the midpoint of our updated 2026 revenue guidance. Approximately 69% of remaining available days for 2026 are captured in firm backlog and options, inclusive of the Wilsons' fleet.

Our full year revenue guidance assumes utilization of approximately 80%, inclusive of the Wilsons' fleet, leaving us with approximately 11% of capacity to be chartered if the market tightens quicker than we are anticipating. Our small and midsized anchor handlers and medium classes of PSVs retain the most opportunity for incremental work, followed by our smaller and largest class of PSVs. Contract cover is higher in the third quarter with more opportunity available in the last quarter of the year. The bigger risk to our backlog revenue is unanticipated downtime due to unplanned maintenance and incremental time spent on dry docks.

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

Piers Dayer Middleton
Executive VP & Chief Operating Officer

Thank you, West, and good morning, everyone. First off, our overall long-term outlook for the offshore space remains positive and the continued optimism in the long-term strength of the market has helped our teams be successful at either maintaining or pushing both utilization and day rates in most of the basins and vessel classes in which Tidewater is active in what has been a challenging first half of the year for some of our regions due to Operation Epic Fury. And as Quintin mentioned earlier, we now feel very well placed going into the second half of the year and into 2027 to be able to push rates and utilization significantly higher as we build momentum in the upcoming quarters and years ahead.

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. And from a demand perspective, we are starting to see a decent uptick in requirements in all the sectors in which we support our customers as well as in the majority of basins in which we currently operate.

Working through our various regions and starting with Europe, the North Sea AHTS spot market continued to strengthen through the quarter with large AHTS spot rates averaging over GBP 160,000 per day, the average levels on -- the highest average levels on record, with some fixtures concluded well above GBP 200,000 per day during the quarter. The PSV market was slightly more subdued during the quarter. However, day rates continue to remain above 2025 levels after the strong start in Q1 with both PSV spot and term activity holding steady throughout the second quarter.

In the Med, we saw strong utilization and day rates in the quarter with the Med region really helping to drive overall revenue and margin for the Europe region as a whole. We do expect a small lull in activity in the Med region at the beginning of Q3 as we wait on a number of drilling and EPCI programs to kick off in September. But once these all begin, we expect Q4 and into 2027 to be very strong for the region.

In Africa, even with the expected drop in utilization in the quarter, the team was still able to maintain healthy day rates across the region and expectation of the pickup in demand that we see coming in the second half of Q3 and into Q4. Increased demand will primarily come from drilling campaigns restarting at the end of Q3 in Namibia as well as a number of production renewal contracts in Angola that are expected to commence in Q4. In addition, there are still several OSV tenders out in Nigeria from all of the IOCs operating in country that we expect will create incremental global demand for the larger PSV classes as well as the medium-sized AHTS classes, with all the tenders expected to commence by end 2026.

Looking further out, strong upstream driving forces appear set to continue to support OSV demand in West Africa. For instance, Azule Energy's $5.1 billion Greater PAJ Project of Angola reached FID in late June and its 95,000 barrel per day FPSO is scheduled to be delivered and installed late 2028. And in Nigeria, Renaissance Africa Energy has recently announced a major offshore oil discovery in OML 74. All in all, we feel very positive for the long-term health of the region.

In the Middle East, even with a very challenging backdrop of Operation Epic Fury affecting the quarter, the team still managed to improve both utilization and day rate across the fleet. And although increased operating costs brought down margins, we have not yet seen any slowdown in demand in the countries in which we operate. We, in fact, saw a little uplift in short-term requirements as our customers have struggled to find OSV supply to fill gaps in their projects.

However, we have seen a pause on some of the longer term tenders that we were expecting awards on in the Q -- quarter, but still expect these longer term charters to still be awarded. However, the NOCs are waiting for a little more clarity before committing on some of those longer term awards. Overall, sentiment is still positive in the region, but we are obviously watching closely what may or may not happen in relation to the Iran conflict in the coming months.

In the Americas, as mentioned on our last call, we remain excited with the long-term outlook in Brazil, although the market is facing some short-term headwinds related to Petrobras OSV long-term tendering activity as Brazil is in an election year, and this is slowing down some decision-making. However, the expectation from the market is that once the elections are finished in Q4, we will start to see a pickup in tenders again at the end of the year. Day rates remain healthy in the country and for our medium-sized class PSVs are still in excess of $42,000 per day levels, supported by increased activity from the IOCs and EPCI contractors operating in the country.

Demand in the Gulf of America has been flat most of the year, and we expect that flatness to continue into 2027, but this has been offset by the increase in demand in the Caribbean. And as such, we'll be moving some of our Jones Act vessels to support customers in Suriname and Guyana at the end of the year. We will still maintain a presence in the Gulf. But until we see a significant pickup in demand again, we will use our global operating platform to look for margin-enhancing work elsewhere in the world.

Lastly, in Asia Pacific, day rates and utilization were modestly down compared to Q1. However, we continue to see an upturn in pre-tendering and tendering activity, driven in part by long-term energy security concerns in Asia Pacific, with particular focus coming from Malaysia, Indonesia and Australia, which all bodes well for the longer term health of the region going beyond 2027.

In the short term, we have several of our larger PSVs commencing work in Q3, early Q4 in the region, which should mean a solid upturn in utilization towards the end of the year and an improvement in day rates as we move into 2027. Overall, we are very pleased with how the market continues to move in the right direction and fully expect that positive momentum to continue into next year and beyond.

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

Samuel R. Rubio
Executive VP & CFO

Thank you, Piers, and good morning, everyone. I would now like to take you through our Q2 financial results. My discussion will focus on the sequential quarterly comparisons between the second quarter and the first quarter of 2026, including key operational factors that affected our second quarter performance.

Q2 results exceeded our expectation, driven by higher day rates, higher utilization due to stronger demand and timing of dry docks, partially offset by temporary conflict-related operating costs. As noted in our press release filed yesterday, we reported net income of $21.7 million or $0.43 per share. Revenue was $342.3 million compared to $326.2 million in the first quarter. The increase was driven by 1 additional day in the quarter, average day rates that were approximately 3% higher than the first quarter and active utilization improving to 81.4% compared to 80.6%.

Gross margin was $160.5 million in the second quarter compared to $159.3 million in the first quarter. Gross margin percentage was 46.9%, nicely above our Q2 expectation and as expected, below our Q1 margin of 48.8%. The percentage decline was primarily due to the higher vessel operating costs. Operating costs for the second quarter were $181.8 million compared to $166.9 million in Q1. An increase was expected due to higher R&M work that was pushed from Q1 and higher crew wages and supplies and consumables impacted by the Iran conflict. In Q2, we incurred approximately $6.8 million of additional costs due to the continuing impact of Operation Epic Fury. And year-to-date through June 30th, we have incurred approximately $9.2 million. Costs directly impacted were insurance costs and higher crew wages, primarily war bonus pay.

Indirectly, we continued to see elevated fuel and travel cost increases due to increased commodity prices. We will work to minimize these costs. However, we do expect to incur additional costs as the long-term conflict continues.

Fuel expense has been heavily impacted since the beginning of the conflict. In Q2, we saw a sequential increase in fuel expense of over 50%. Importantly, we took steps to contractually limit the amount of war-related pay owed to our mariners working in conflict-affected areas. This effort led to lower-than-expected crew costs beginning in the second half of Q2 and for the remainder of the year.

In total, we are forecasting another $4 million of war-related costs in Q3. We estimate a similar amount of direct costs related to crew wages and insurance costs. In addition, we expect similar increased fuel and travel expenses due to higher global commodity prices. These fuel and travel estimates are based on our forecasted activity and current commodity prices. Elevated costs related to the conflict will likely continue in the near term, though it is uncertain how long this disruption may last.

We are contractually permitted to invoice customers for reimbursement of direct conflict-related cost, which includes war insurance and war-related crew wages, which totaled approximately $5 million through Q2. Currently, we have invoiced close to $1 million and have collected less than $100,000. We have not included any assumed reimbursements in our guidance. However, we will continue submitting invoices for reimbursement for all contractually allowed amounts.

Adjusted EBITDA for Q2 was $133.8 million compared to $129.3 million in the first quarter. Total G&A cost was $34.8 million in the second quarter, which includes $2.7 million of transaction costs related to the Wilsons' acquisition. G&A costs in Q1 was $33.6 million, which included $2 million of transaction costs. Including -- excluding the transaction costs, G&A increased by about $500,000 due primarily to higher personnel costs.

For 2026, excluding M&A transaction costs, we expect Tidewater full year G&A costs to be about $126 million, which includes approximately $14 million of noncash stock compensation. In addition, we expect to incur approximately $7 million in additional G&A costs in the second half of 2026 related to the Wilsons' acquisition.

In the second quarter, we incurred 750 dry dock days and $23.3 million in drydock costs compared to 949 dry dock days and $36.4 million in costs in Q1. Dry dock days in Q2 impacted utilization by about 4 percentage points compared to 5 percentage points in Q1. Our full year 2026 dry dock cost expectation remains at approximately $122 million. Typically, the bulk of our dry dock costs occur in the first half of the year. However, the timing of some projects in 2026 has shifted to the right, resulting in higher cost and days in the second half of the year. Additionally, we expect to incur approximately $7 million of additional dry dock costs in the second half of the year related to the Wilsons' acquisition.

In Q2, we incurred $14.9 million of capital expenditures, mainly vessel modifications and upgrades. For the full year 2026, we expect to incur approximately $52 million in capital expenditures. This amount includes a planned $15 million major upgrade to one of our Norwegian vessels. We also expect to incur about $4 million in additional CapEx spend in the second half of the year related to Wilsons' acquisition. We generated $64.4 million of free cash flow in Q2 compared to $34.4 million in Q1. The sequential increase was mainly attributable to lower dry dock spend, higher proceeds from the sale of two vessels and lower cash consumed by working capital.

As a reminder, the following debt refinancing we completed a year ago, we only have small principal payments each quarter, about $6 million per year that are related to the financing of constructed smaller crew transport vessels. We have no principal payments due until 2030 on our new unsecured notes. Following the anticipated closing of the Wilsons' acquisition, our debt maturity and repayment profile would change to accommodate the newly assumed Wilsons' debt. We conduct our business through five operating segments. Please refer to the press release and the 10-Q for details of our segment results.

In Q2, we saw a decrease in consolidated gross margin of close to 2 percentage points compared with Q1. Regionally, gross margin increased by 8 percentage points in Europe and Mediterranean, offset by 3 percentage point declines in the Middle East and Americas, 4 percentage points in APAC and about 9 percentage points in Africa. While margins were down compared to Q2 -- compared to Q1, they exceeded our expectations, particularly in the Middle East despite challenging circumstances related to the conflict. The gross margin increase in our Europe and Mediterranean region was primarily due to an 8 percentage point improvement in utilization, driven by fewer idle days and dry dock days. The improvement in utilization, together with an 11% increase in day rates, delivered strong results in Q2.

Total operating expenses increased 11%, largely due to the addition of two vessels to the region. Gross margin decreased about 3 percentage points in the Middle East region, while day rates and utilization both improved. Those gains were more than offset by higher costs related to the Iran conflict. Our forecast contemplates war-related costs to continue into Q3.

The decrease in the Americas gross margin was primarily due to a decrease in revenue resulting from a 2% decline in day rates and having fewer vessels in the region, revenue fell about 8% and total operating costs declined about 4%. Gross margin in the APAC region was 4 percentage points lower than Q1. Day rates declined modestly by about 1% and utilization was down about 3 percentage points. However, revenue was up 3% due to more vessels operating in the regions compared to Q1. Operating costs rose 12% versus previous quarter, primarily due to the increase in vessels and the mix of vessels operating in Australia.

Gross margin in our Africa segment decreased by about 9 percentage points due primarily to a $9 million revenue decline caused mainly by an 8 percentage point decrease in active utilization, while day rates remained flat. Utilization was affected by higher idle days. In addition, operating costs increased due to higher R&M costs and higher fuel costs due to the higher idle days. With respect to the Wilsons' acquisition, we now expect the transaction to close around September 1, 2026. We are confident in our ability to integrate Wilsons' in a smooth and efficient manner, consistent with previous acquisitions. We remain strong believers in the importance of the Brazilian market and are excited about the opportunities there.

From a capital allocation perspective, our priorities remain: maintaining balance sheet strength; investing in the fleet; completing and integrating the Wilsons' acquisition; and evaluating opportunities to return capital to shareholders or pursue additional strategic growth. While we have not repurchased shares this year, our $500 million share repurchase authorization remains available. We will continue to evaluate all avenues for capital deployment and execute on the opportunities we believe provide the greatest long-term value for our shareholders.

In summary, we outperformed expectations despite the headwinds from the conflict in the Middle East. Industry fundamentals remain strong. Our balance sheet is in excellent condition, and we remain optimistic 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. Dara, we'll go ahead and open it up for questions.

Question and Answer

Operator

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

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

Glad to see the great results and hear the commentary. Quintin, I guess I'd like to ask you, for the last couple of quarters, you've been pretty bullish. You kind of reiterated the day rate growth potential, I guess, for the next couple of years. And I'm curious, as you sit here today with your recent travels, project tracking conversations and tendering, are you thinking the market is kind of on track with what you thought before? Or do you -- are things getting better? Do you have more visibility? Just kind of understanding the rate of change just like in the last 90 days or so?

Quintin V. Kneen
President, CEO & Director

Jim, yes, I will tell you that I'm probably more bullish now than I've been in the last 6 to 9 months. The amount of tendering activity and pre-tendering activity is quite strong around the world. I was in Asia about 5 weeks ago and the talk in Indonesia and Myanmar and Malaysia. It's all much stronger than I've seen in a while. So I'm getting really confident about this next leg up in the cycle.

But let me turn it over to Piers too, because he actually has more contact with the customers than I do. He may have some other color he'd like to add.

Piers Dayer Middleton
Executive VP & Chief Operating Officer

Thanks, Quint. Yes, I think Quintin hit the nail on the head. It -- We're seeing a stronger improvement. It's probably slightly -- we were seeing that at the beginning of the year. So there's been a slight improvement. I think, obviously, Asia Pac as Quintin mentioned is very positive. We're also seeing a little bit more work in the Med and also down in Namibia and Angola and a very strong uptick in Nigeria. I mean, like all things, Jim, as you followed us for a long time, things can sometimes move a little bit to the right. So we might see a few projects moving to the right. But no, I mean, there seems to be, I would say, better than we expected from the beginning of the year, but maybe a couple of projects in places like Nigeria, West Africa, things never start on time. So maybe we see a push to -- a little bit to the right.

But no, I think overall, it's very positive. And Brazil, yes, we're expecting Brazil to come back pretty strongly in the beginning of next year once we get through the elections and Petrobras really starts retendering as well probably at the end of this year or beginning of Q1. So overall, we're pretty optimistic.

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

Appreciate that color from both of you. And for my follow-up, I don't know who best is, but maybe Quintin, just on the cost side of things, with kind of the added cost from the conflict and fuel prices and all that, how do you think that -- like what's the playbook going forward to either recapture that in rates over time? Or -- you mentioned doing some things to try and improve the cost situation in the Middle East. Just kind of what's the playbook on cost as we go through this offsetting day rate growth environment we're talking about?

Quintin V. Kneen
President, CEO & Director

Yes. Well, there's a lot of game-day decisions just because this is all relatively new and everybody is trying to figure out the best way to do it. Piers and the team have been really good at working with the labor force and the mariners in the area. And in the beginning, we were -- there were significant premiums put into place to attract and maintain the personnel. We've been able to modify that a little bit to bring down those levels. Insurance is something that our team here works on with our insurance agents to try to keep that a little bit more manageable than it otherwise could be. It was very -- everyone was very excited at the beginning of the process. So managing the crew is very important.

The fuel costs themselves are just going to be a product of the environment. My hope is that all settles down. But for us, we're learning as we go through this conflict. And I think that our suppliers and our employees are as well. So we're finding new ways to bring that down. And then, of course, Sam talked to it a little bit, we're going to begin to bill back to our customers. But Saudi Aramco is a strong customer, an important customer and also a difficult customer. So there's a lot of paperwork involved and it takes a long time to get that rebill in place. But my hope is that we'll see all of that come to fruition as we go through the next several months.

Operator

Your next question comes from Fredrik Stene from Clarksons Securities.

Fredrik Stene
Clarksons Platou Securities AS, Research Division

Congratulations on a strong quarter. I wanted to touch a bit on the M&A side. You have been pretty adamant that from a capital allocation perspective, at least, that's been your preferred path. And the -- I would have to say that your CV of acquisitions is starting to be quite long. Now you're soon closing in on the Wilson acquisition. I know you did comment kind of a bit on this in the prepared remarks, but my questions relate to kind of two things.

One, now on that out of the way, do you see more or less opportunities in the M&A space now compared to, for example, 12 months ago? And maybe a bit more specific, do you think it's fair to see you guys doing anything more over the next 1 to 2 years since you require, I guess, a certain size of your targets? But as you said, you're not chasing scale, just to chase scale.

Quintin V. Kneen
President, CEO & Director

Fredrik, thank you. So the M&A landscape is evolving and -- but there continues to be some really attractive opportunities out there. I will say that for us, when we think about M&A, we're looking for some strategic element to it. Brazil got us into that market with Brazilian tonnage, and I'm really excited about that. And the Solstad deal that we did really empowered us from the larger vessel standpoint as well as the hybrid vessel standpoint. And of course, we got back into Asia with the Swire acquisition.

So it's getting things at the right price, but there's also got to be a good strategic rationale for it as well. Price is, of course, very important to us. But yes, no, I fully expect to see other opportunities develop. They take time to work out and they take time to close and so forth. But yes, my hope is that we'll be able to continue to demonstrate value-accretive growth through acquisition in the next year or so.

But again, the other thing I'll say, Fredrik, is I'm not going to consolidate this entirely by myself. So I do need other people out there doing something, and there hasn't been too much of that. But everything you hear about, we're not going to be able to participate in or do. But we're certainly looking for those things that, again, have a strategic element and a good demonstrated strong history of cash flow generation.

Fredrik Stene
Clarksons Platou Securities AS, Research Division

Right. And as a follow-up to that. I think you previously -- and this was before Wilson, you mentioned the Americas and South America, Brazil, maybe in particular, as areas of interest where you felt like you could become larger. And now with Wilson, you're definitely doing that in Brazil. And from the strategic angle that you're talking about, does this mean that you're now maybe particularly focused on trying to get something done in the Americas? Or are you still open to every region as long as transaction has the right characteristics and benefits for you guys?

Quintin V. Kneen
President, CEO & Director

Yes. So Fredrik, I think I mentioned on the last call or maybe the call before last, but I was looking in the U.S. for a long while. I just couldn't find anything that I thought it was at the right value point for us. So less interested in the U.S. today, but always interested in a good opportunity. I think the opportunities that are developing throughout West Africa and into Asia are probably more attractive today.

Operator

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

Joshua W. Jayne
Daniel Energy Partners, LLC

First, you entered into 25 contracts with a term of 12 months. Just given your day rate expectations, is it fair to say that the mindset is still to largely have a lot of the fleet available to reprice in '27 given this backdrop? Or could you just talk about how you're thinking about as we exit this year, how much of the fleet you'd like to have contracted?

Quintin V. Kneen
President, CEO & Director

Well, I'll tell you, West and Piers have a well-developed strategy and they follow that real closely. So let me give it over to them and let them speak to it.

Piers Dayer Middleton
Executive VP & Chief Operating Officer

Josh, yes, I mean, I think -- I'll let West sort of opine afterwards. But we're still going to -- we believe in this market is probably clear from our comments. So we're going to keep a decent amount of ships, generally, the larger vessels, the larger PSVs, which support drilling and the large anchor handlers, that's always been the big driver for us in terms of being able to drive day rates.

But I think once we start really, as Quintin mentioned, getting to that, really driving that $3,000 to $4,000 a day uplift on the rates as we go through the gears next year, then we may start looking to -- as we get into '28, a little bit longer and things like that. But I think in the short term, we're looking to keep a decent amount of availability in the fleet to take advantage of what we see coming in '27 and '28. So we're not going to change that strategy of going -- looking for the shorter term contracts and turning vessels over because we need to improve contract terms and we still need to obviously push day rate as well on that side. So that's what we're sort of focusing on as we go into '27.

I don't know, West, do you have any other thoughts on top of that?

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

I'll add one item and it's something we've talked about in the past, which is not all of our vessels are the biggest and best vessels in the world. And so there are a subset of vessels that we are happy to put on longer term contracts. They just won't necessarily exhibit the same type of relative demand and day rate amplitude that some of our other vessels will. And I think there's a component of that in this quarter's average length of contract, is that there are some vessels that we were happy to put away for a little bit longer. And this is often the case from quarter-over-quarter with this measure is, there can be some -- both regional and vessel class, I don't want to use the term noise, but noise in there that can do that.

And so that's what I'd say is that there are some vessels in there that we're happy to tuck away on longer term contracts. I think for the larger vessels, as Piers mentioned, I think our general philosophy is to continue to go relatively short because we do believe in the market and continue to push those day rates and contract terms.

Joshua W. Jayne

Daniel Energy Partners, LLC

Understood. And then second one for me is on the Middle East. You highlighted some of the short-term cost recoveries you're hoping for. But I just wanted to take a step back and think longer term, so as someone who's been running in that region for quite some time. Could you just give us some more -- a bit more color around conversations with customers, what it is ultimately going to take to get back to sort of a normal operating environment? And if you believe in any way that capital will shift away from that region as a result of the conflict, like is it structurally impaired at all? Or do you just believe that once things settle down, it will just be sort of full steam ahead back to normal and just your expectations over the next couple of years once we have a resolution?

Quintin V. Kneen
President, CEO & Director

Yes, Josh. So I actually think they'll show more strength in the future than it's shown in the recent past. The conflict certainly has the inherent result of actually improving activity levels as you move jackups in and out and around and relocate things. So post the conflict, I expect to see a bump in activity. But I also expect to see further developments and activities in that region as people reposition assets and redeploy other hydrocarbon basins into -- kind of throughout that region.

So from my perspective, the customers have not shied away from any thinking about what they're going to do in the future, and everybody is just excited to get the conflict resolved so they can get back to work. But Piers, you probably had more recent conversations with them, if there's anything you'd like to add, go ahead.

Piers Dayer Middleton
Executive VP & Chief Operating Officer

No, I think -- yes, it's still -- sentiment is still pretty strong. I think this is very much short term. I think there's going to be -- as Quintin mentioned, we come out of this conflict, there's going to be a sort of short-term bump as people sort of get projects back up and running, a little bit like we saw sort of post COVID in some ways where you suddenly saw a big kick of people just catching up with what they've sort of had to pause a little bit.

But no, longer term, we're still seeing tendering activity from all the NOCs we work for in the region. The EPCI guys are -- maybe there's a bit of projects pushing to the right, but there's still FIDs in place. There's no slowdown. And then there's continued talk about putting more dollars into the region as well. The -- Obviously, UAE moving OPEC and things like that, that's going to cause -- for us, we feel a big sort of uptick in terms of future demand as well.

So no, we're not -- we're seeing -- it's going to be positive in the region. I mean it's always -- as I've mentioned on previous calls, it's always a tough region just because it's highly fragmented in terms of competition, et cetera, et cetera. But I think from an investment in the region, we're not seeing any slowdown or any expected slowdown from our big customers that we work with.

Operator

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

Keith Beckmann
Pickering Energy Partners LP

I just wanted to step back and ask a very -- a long, long-term question around the vessel, the OSV fleet is somewhat aged 15-ish years kind of as a whole, I'm thinking about the macro market. How long do you think you can realistically keep -- not have to retire these assets kind of from a macro perspective? And then maybe backing up to what day rates do you -- where do you think day rates would need to go to incentivize new builds, maybe a decade down the road once a lot of these vessels start aging out potentially? Just any thoughts around all that?

Quintin V. Kneen

President, CEO & Director

Sure. So before the downturn in 2014 and '15, we were routinely operating vessels into the high 20s, early 30-year range. And there's no reason why vessels can't operate that long. There certainly was in that same time frame, kind of '11 to '14, a bit of a transformation in the sense that vessels got larger. They all stepped up to be about 1,000 square meter deck or 300-foot length overall. Everybody went to diesel electric and a lot of them went to DP2 and so forth. But there's no technological transformation that's happening today.

So what we saw during the worst part of the downturn, so '16 to '18 in that time frame, where people putting up age restrictions as a way just to cull the number of vessels that were being tendered in every situation. And so I fully expect all of that to go away. And right now, it's already started. So I expect to see the fleet age still to run for another 5 or 6 years before people need to rebuild. And now what is the price that it takes? Well, in today's market, today's cost structure, it's in the low 30s that would justify building today. And we might get there in a couple of years. I think that takes a couple of strong years to achieve. And maybe by the time we get to '29, that can make some sense. But no, it's -- the fleet has a lot of duration left in it, in our perspective.

Operator

Your next question comes from Greg Lewis with BTIG.

Gregory Robert Lewis
BTIG, LLC, Research Division

Sorry, I might have missed this. But I realize in the Q&A, there was a little bit of talk around term structure in the market. West, are you guys providing any color around what contracted capacity is in either Q3 or the second half of this year?

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

We did, Greg. We had that in our prepared remarks, and I'll update you, but let me just grab that for you. We have -- about 69% of the remaining available days for 2026 are captured in our backlog and options, which includes the Wilsons' fleet. So you can look at the remainder of that, if you will, as to what capacity we have. And just to be clear, what's contemplated in our financial guidance is 80% utilization. So I think you can use those two data points to determine that answer.

Gregory Robert Lewis
BTIG, LLC, Research Division

And then just as we think about -- you mentioned the 1-year deals and Piers, you kind of alluded to the fact that there are some term contracts out there that have kind of yet to come to fruition. If we were to kind of think about what '27 already looks like, is it kind of a rough estimate, maybe 20% to 30% of the fleet is already contracted for '27? Yes, probably about right?

Piers Dayer Middleton
Executive VP & Chief Operating Officer

A little bit more than that. Yes, we're sort of -- as sort of West alluded to, there's certain -- obviously, some of our smaller vessels last as we've gone a little bit longer term, but we try to keep the bigger ships available so we can really push into 2027, so yes.

Gregory Robert Lewis
BTIG, LLC, Research Division

Okay. Super helpful. And then there was that transaction, the dock transaction. There's just a few PSVs. I think it's sold in the last couple of weeks. Was that something that the company was looking at? Was there anything interesting about those PSVs that were sold? I believe it was a private deal. Any thoughts around the price of those? Or I mean, I think they were all kind of in that 15-year-old range just simply because there is no real new tonnage. But is that just not -- Quint, I know you always talk about the potential to kind of really establish a position in a new market. Is the read-through there that these kind of smaller one-off acquisitions just really -- don't really get us anywhere?

Quintin V. Kneen
President, CEO & Director

I think that's right. I mean the amount of work it takes to do a three-vessel transaction is about the same as it takes for 20 transactions. So we've been focused on larger deals. And as I was indicating earlier, if there's a real strategic reason for a particular vessel location or vessel type to be acquired, I'm definitely very interested in those types of opportunities. But I made a joking comment earlier that I just can't consolidate this industry all by myself. So I'm glad for some people to start helping me do it. And so that's great. But no, not bad vessels, it's just work -- more work for us.

Gregory Robert Lewis
BTIG, LLC, Research Division

And then just really following up on that, just given the fact that there has been some technological advances in the offshore. As we think -- and realizing that the economics for large-scale new builds maybe aren't there, are there starting to come in requests from customers about potentially having to take some vessels into the dry dock for like upgrades to kind of do some of this work that's kind of coming down the pipeline or at this point, just the requirements of that conventional PSV, the work can be done with the fleet that's there?

Quintin V. Kneen
President, CEO & Director

Well, we are doing some of that. And in fact, we're doing some of it in the North Sea right now. But Piers may have a better perspective on what the customers are asking for. There are certainly a couple of opportunities where we're making large investments in vessels, but we're generally pushing them out of the PSV space into a more specialized space.

Piers Dayer Middleton
Executive VP & Chief Operating Officer

Yes. I mean, Greg, I think Quintin touched on the previous comments, I think, to Keith. I mean there's not been a big technological advance in terms of vessel designs really. I mean the only thing that's come in, I suppose, is putting batteries on the back of the ships, and we've obviously got the largest hybrid fleet. We're seeing a few customers sort of asking about that. But to be honest, it really comes down to what they're prepared to pay and it costs money to go and retrofit batteries onto our vessels, and there's a cost to that, and that needs to be borne by the customer.

So yes, some of the tenders, they certainly come out, and we've seen some in Brazil and some in the Middle East are asking about that. And yes, we'll just have to see if that sort of bears out. But there's nothing in terms of the sort of do you want to put methanol or ammonia or these things and that sort of discussion has really gone away in the last couple of years, is just not being financially viable really in terms of how our business is set up today.

Operator

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

Quintin V. Kneen
President, CEO & Director

Well, thank you, everyone, and we will update you again in November. Goodbye.

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