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PRESENTATION

Operator

Welcome to the earnings conference call Fourth Quarter 2019. My name is John. I'll be your operator for today's call. (Operator Instructions) Please note the conference is being recorded. And I will now turn the call over to Jason Stanley, Vice President of Investor Relations and Marketing. Jason, you may begin.

Jason Stanley - Tidewater Inc. - Director of IR

Thank you, John. Good morning, everyone, and welcome to Tidewater's earnings conference call for the quarter and full year ended December 31, 2019. I'm Jason Stanley, Tidewater's Vice President of Investor Relations, and I'd like to thank you for your time and interest in Tidewater.

With me this morning on the call are our President and CEO, Quintin Kneen; our Chief Accounting Officer, Sam Rubio; and our General Counsel and Corporate Secretary, Daniel Hudson. After I cover a few formalities, I'll turn the call over to Quintin for prepared remarks, and then we'll open up the call for you to ask questions.

During today's conference call, we may make certain comments that are forward-looking and not statements of historical fact. There are risks, uncertainties and other factors that might cause the company's actual future performance to be materially different from that stated or implied by any comment that we make during today's conference call. Please refer to our most recent Form 10-K, for additional details on these factors. This document is available on our website or through the SEC at sec.gov.

Information presented on this call speaks only as of today, March 3, 2019, and 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 measures is included in last evening's press release.

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

Quintin V. Kneen - Tidewater Inc. - President, CEO, CFO & Director

Thank you, Jason. Good morning, everyone, and welcome to the Fourth Quarter 2019 Tidewater Earnings Conference Call.

We have been quite busy over the past year and especially so over the past 6 months, transforming our business so that we can prosper even in today's challenging offshore energy market. We definitely see the offshore vessel market improving, although we're determined to get back to acceptable levels of free cash flow even without the market's help.



I spoke a lot on the last call about the transformation we are going through at Tidewater. We are adjusting our shore-based infrastructure and modifying our culture to embrace a returns-based business philosophy. We have the leading position and the strongest balance sheet in a very challenging industry. Our employees know that, and it makes a difference. Our customers know that, and it makes a difference. Our suppliers know that, and it makes a difference. Tidewater is committed to making a difference in this industry.

And on today's call, I'm going to talk to you about where we think the industry needs to go. I'm also going to focus on free cash flow because we feel this metric is going to be the key to managing the business back to acceptable returns, and then I'm going to talk about the company's performance by region.

I want to open up the main dialogue on the call today with a discussion about the need to transform the industry in which we operate. Transforming the company is difficult, but at least it's within your control, or at least that's what I tell myself, transforming the industry is an order of magnitude more challenging, but it has to be done. The industry is highly fragmented. There are nearly 600 participants and only 4, including Tidewater, have more than 2.5% of the market. The industry has lethal levels of debt that is preventing consolidation because many capital holders are looking for par returns.

Par returns are not going to happen. The cavalry isn't coming, the market is not going to save those capital providers. The business model of selling vessels by day is as ingrained in the DNA of the oilfield as it is advantageous to the E&P companies. And thereby, hangs the tail. The model selling vessels by the day results in customers [hiring] their own vessels and underutilizing that vessel. In a recovered market, it's inefficient for them and it works is their goal of reducing carbon emissions in the shipping community.

Ship vessel freight is the most carbon friendly means of transportation, but everyone hiring their own vessel destroys that accomplishment. Everyone hiring their own vessels substantially increases the chance of a safety or security event. I believe we will see the industry eventually gravitate to regional super consolidators, we will be able to leverage a scalable shore-based footprint to operate the most vessels possible at the lowest cost possible in a particular region. Achieving regional super consolidation will allow us to promote a logistics model, consistent with most logistical movement around the world. But it requires enough of a presence in any given geography to influence the change, and that can only happen with consolidation.

Moving away from the day rate pricing model will result in a business that is better for the environment and better for our employees and provides more logistical options for our customers. But it takes fewer vessels globally to execute this business model. So if you're not part of the regional super consolidation that we think is inevitable, you're very likely to be left with the bucket of rust.

So with that, let's talk about Tidewater and free cash flow. For the year 2019, [without] regards to nonrecurring or special items, the business had \$6 million of positive free cash flow. We made significant progress in the fourth quarter and reversed the negative free cash flow position we were in at the end of the third quarter by generating \$12 million of positive free cash flow in the fourth quarter. A principal objective of today's call is to walk you through how we see cash flow improvement in 2020. Absolute free cash flow is the metric we are using in 2020 for incentive compensation. It's the metric we are using for executives as well as for the managing directors of our operating regions.

I'm a big proponent of unburnished, unlevered free cash flow, which we described as a line with the ideas of Graham/Dodd, and Copeland et al. And by unburnished I mean before any special items, financial statements. So you will notice that we added a new reconciliation to the press release that computes free cash flow with a subtotal before proceeds from vessel sales, I think you will find both amounts valuable in the evaluation of sustainable free cash flow.

I want to describe our pathway to increasing free cash flow from the \$6 million in 2019 by dividing it into 4 categories: increased cash flow from reduced G&A, increased cash flow from vessel disposals, increased cash flow from reduced investments in vessels and increased cash flow from core vessel operations. Throughout 2019, we have been hard at work retooling the shore-based operations. Significant work was done installing a state-of-the-art information system and removing 2 layers of management.



Our objective was to establish the most automated, most scalable and most cost-effective global platform in the industry, and we have achieved that objective. We're not done making improvements, but I'm pleased with our current shore-based set and I look forward to testing the scalability through additional consolidation as we proceed through the remainder of the recovery.

Based on our efforts to streamline the organization, we anticipate G&A expense to be \$83 million for 2020, a cash flow improvement of at least \$10 million when compared to the 2019 G&A expense of \$104 million. Recall that some G&A is noncash, so it's not the absolute difference. As it relates to this improvement, the work is already done. Our normalized G&A for the fourth quarter was \$20.3 million, which is \$81.2 million on an annual basis. Our annualized January run rate was \$78.6 million, which will allow us to meet our objectives even after accounting for adding back the CFO position.

I should note that the recruiting process for CFO is still ongoing. I hope to conclude the search by early in the first quarter of 2020, but it's looking like late Q1 or early Q2. In addition to our efforts onshore, we have been busy reassessing the offshore fleet. You will notice that we divided the fleet into 2 categories on the balance sheet. The fleet, we anticipate being a part of the active fleet for the foreseeable future. We kept classified as net property and equipment, and the portion of the fleet, we intend to dispose of, we reclassified as assets held for sale.

Assets held for sale (inaudible) [46] vessels that we are in the process of selling or scrapping, and we have marked the value of these assets to their estimated net realizable value of \$39.3 million. Marking these assets to their net realizable value resulted in the fourth quarter of \$26.7 million. Our intention is to liquidate these assets in 2020, which will result in a cash flow improvement of at least \$10 million when compared to the proceeds we received in 2019.

We also rolled off a partially constructed vessel in Brazil, that was on the books for \$5.8 million because we determined we cannot pursue possibilities on that particular investment.

In total that results in the fourth quarter impairment charge of \$32.5 million. Thus far, in 2020, we have sold 5 vessels for \$4 million, and we have an additional 9 vessels in the final stages of being sold. Also recall, included in our operating expense for 2019 is \$12 million related to the basic [over site, workage] and security of the vessels in layup.

As it relates to fleet investments, as we have discussed in prior calls, the fleet went through a very heavy drydock period in 2019. Total spend for 2019 was \$71 million, our current expectation for dry dock investment in 2020 is \$53 million, which should result in a cash flow improvement of \$18 million in 2020. A few more data points on drydock expenditures to try and give you a sense for the annual fluctuation, demonstrating the unusually high level of vessel investment that we made in 2019.

Cash spent on drydocks for the full year 2018 was \$26 million for a fleet of 142 active vessels. As I just mentioned, it's \$71 million in 2019 for a fleet of 162 active vessels. We anticipate it will be \$53 million in 2020 and \$35 million in '21, both for a fleet of 150 active vessels.

As a reminder, when we evaluate whether or not to continue to keep a vessel active or to reactivate a vessel out of layup, which are really 2 sides of the same coin, we consider direct aspects such as the payback period and its overall result on free cash flow generation and the return on invested capital, but also the indirect economic impact of having more vessels in the market.

Modern vessels where the market is no longer distressed, such as the 5,000 square meter deck vessel, it's an easy computation. But the indirect impact on other vessels in the market has a lot to do with how many vessels are in the local market, how many vessels you currently have in a given market, how your vessels stack up to other vessels in the market. And geographically, how remote you are from other markets.

Our market is very commoditized, and although new market is perfectly commoditized. It certainly feels that ours is on that way sometimes. But there is a ripple effect on all of the remaining vessels in the global vessel market. And there is an impact on scope of the recovery, that impact can be miniscule to the extent that you're keeping them in active in a relatively isolated geographic area, but it's critical to consider at least the impact on [oil] supply and demand balance.



Our fleet size has been shrinking because we have been withholding capacity on the marginal vessel class, which is to say the lowest specification vessel category that is currently generally employable. Our intention is not to dispose of these vessels, but to hold them off the market until market conditions improve.

We have 19 vessels in layups stage that fit into this category. Okay. So let's get back to free cash flow improvements year-over-year.

We're on the second part of vessel investments, which is CapEx. CapEx for 2020 is anticipated to be \$8 million, which is an improvement in cash flow of \$10 million over 2019.

And finally, most importantly, we are making improvements to our core business of operating vessels. Very important, but difficult task we have in front of us is improving our active utilization. As a reminder, active utilization is the percent of time a fully crewed vessel is billing a customer. Occasions that reduce active utilizations are things like being down for repair, a vessel waiting on pre-hire approvals by a customer, idle time in the market waiting for a job and similar situations. The fourth quarter showed an increase in active utilization up to 81.4% from 80.4% in the third quarter, a 1 percentage point increase in active utilization, is \$6 million per year in pretax profit.

Improving active utilization is one of the most challenging aspects of our business because it involves all aspects of our operations, from [proving] to maintenance, chartering, everything is involved. Everyone has to work together to better coordinate and improve our activities for active utilization to increase. This is one of the reasons we have been intensely focused on making sure our information system provides timely, transparent and relative operating information that is easy to use and always up to date.

So to sum up this part of the discussion, we were \$6 million --

Samuel R. Rubio - *Tidewater Inc. - VP, CAO & Controller*

Free.

Quintin V. Kneen - *Tidewater Inc. - President, CEO, CFO & Director*

...cash flow positive in 2019. We anticipate improving that in 2020 by approximately \$10 million due to reduced spending on G&A. We anticipate improving it approximately \$18 million due to reduced spending on drydocks. We anticipate improving that \$10 million due to reducing our capital expenditures, and we anticipate improving it by at least \$10 million for additional proceeds from vessel disposals.

And then we are anticipating further improvements from approved active utilization. None of this requires an improving market, [none of this is given], it will take additional dedication from the employee base and proper alignment of compensation incentives, but we're quite confident that getting cash flow over \$50 million over -- in 2020 is very achievable.

As you can tell from the new table on free cash flow we added to the press release, in the fourth quarter, we were positive free cash flow from operations, positive free cash flow before vessel disposals, positive free cash flow for the quarter and positive free cash flow for the year. And for the fourth quarter, we are free cash flow positive before selling vessels in what was a horrendously heavy drydock quarter.

It's important to note the proceeds disposals as we move away from this period of benefiting from the proceeds of disposals of assets, the business will benefit from the reduced spend on overseeing these vessels in layup, which I indicated was \$12 million in 2019 and is anticipated to be \$13 million in 2020, incidentally the increase in 2020 is due to the [layup] vessels that we had in Brazil. They account for majority of the increase in the spend in 2020.

On a consolidated basis, revenue was down slightly, which is better than expected for the fourth quarter. Active utilization was up, which is nice, but average day rate was down about \$8. The operations story for the fourth quarter was the increase in operation expense, which [bounced up]



approximately \$5 million in the fourth quarter to \$86 million due to a legal accrual in Brazil and an above-average spend of vessel repairs and maintenance, which resulted in additional fuel costs as well.

As I mentioned, included in the \$86 million is approximately \$4.4 million or \$12 million per year of costs related to managing the fleet in layup. When we last spoke, I anticipated that we would see a similar number of net vessels going into stack in the fourth quarter as we did in the third quarter, in which we were down 5 vessels. We did better than I anticipated. We were down 1 vessel for the quarter again, it's all about generating an acceptable cash return and certainly not about working vessels for practice, [bodes] on the margin of generating an acceptable cash return, it is a bit better than I anticipated. And we kept them working through the quarter.

The heavy drydock schedule we are experiencing settles down this year, but drydock schedule is still disproportionately heavy in the first half of 2020. Of the \$53 million of drydock we have scheduled for 2020 anticipate \$30 million in the first quarter, \$12 million in the second quarter and \$11 million in the second half of 2020.

A fleet of our current size should experience, on average, \$9.5 million of drydock expense per quarter or \$38 million per year. As indicated by the second quarter and second half 2020 drydock guidance, we are getting to the period in the 5-year drydock cycle where we will be spending less than the average. As I indicated earlier, the expectation for full year 2021 is \$35 million.

As I mentioned on the last quarter's call, Tidewater has been everywhere geographically, but we are deemphasizing the geographic areas where we have low returns on capital, such as Brazil and Southeast Asia. In addition, any work outside of our primary shore-based locations must require a commensurate premium for being [far removed] from existing infrastructure.

Exiting areas like Brazil and Southeast Asia is always slower than preferred because we have vessels there, which are under long-term contracts with customers that we work with around the world. So the process of rebalancing the portfolio will take some time.

The fourth quarter is one of the softer 2 quarters of the year, the first quarter is the other. This is due to weather and wind conditions in the North Sea during the winter months and calendar year contracting behavior in other areas of the world.

The fourth quarter this year was not that bad. In the North Sea, demand was buoyed by an unusually high level of construction projects, principally the Nordstream project. This kept the spot market strong through most of the fourth quarter. Average day rates and utilization levels remained flat on a sequential quarterly basis due to this demand.

West Africa had a tough fourth quarter. The region has had substantial drydock activity throughout 2019 and suffered a few major mechanical failures, which resulted in active utilization numbers decreasing by 2 percentage points. The difficulty with mechanical failures in Africa is not just the loss of revenue, it's the added cost of the repairs and fuel. In areas like West Africa, you can't just sonder into a drydock facility, you often have to journey for several days to get to a repair facility. And then getting parts and technicians into the drydock location requires significant administrative time. As a result, West Africa had a difficult and low-performing fourth quarter and due to drydock activities had a difficult third quarter as well. But I'm optimistic that we will see an improvement in West Africa as we get significant drydock activity behind us.

Africa is an important region for Tidewater, Angola and Nigeria, we operate through joint ventures. Our Angolan joint venture partners in the process of divesting its non-core investments. And our joint venture with them is one of the many that our partners in the process of divesting. You may have read about this divestiture process in the press. And we are, of course, participating in cooperating in the process. It doesn't have an impact on operations, and there's nothing to report at this time, I just wanted to mention the intention of our partner since it will be a public process.

The Middle East, Asia Pacific region had a good quarter. It was a bit of a transition quarter. 3 vessels were added to the active register and even though 3 vessels entered the region and 3 vessels were in drydock, active utilization was higher than it's been in the past 5 quarters. The average day rate was up nicely to [\$126] a day. We lost a bit of ground on the cost side due to vessels in transition in an unusually heavy maintenance quarter, but I'm very bullish on the outlook for this region in 2020.

The Americas region is another region that performed well during the fourth quarter, but it had one isolated special item of note. Overall, revenue was up on the same number of active vessels, which is always nice, active utilization was up 2 percentage points, but average day rates were down about \$170 per day. On the operating cost side, we made an accrual for just over \$2 million for some old individually and significant labor and customs claims in Brazil. That we now believe will result in more exposure. Absent the legal accrual, we would have had slightly higher vessel operating margins for the quarter.

As I look to the first half of 2020, I still see tightening in the West Africa market. As I mentioned on the last quarter, I see it later in the first half as opposed to what I thought earlier, which was better by the start of the second quarter.

We saw the tightening that I was anticipating in the Middle East a bit earlier, and that's reflected in the fourth quarter numbers. I anticipate Europe, Mediterranean region to be softer in the first quarter and stronger in the second quarter, and I anticipate the Americas region to be consistent throughout the first half of 2020 with what we saw in the fourth quarter.

Tidewater has the industry's strongest balance sheet, and we are dedicated to keeping it. Doing so requires us to develop a business that is free cash flow positive, which we achieved in the fourth quarter and it requires that any potential consolidation to be beneficial on a stock per stock basis and that the stocks are approached (inaudible) relatively valued.

We completed a [bond consent intention] in the fourth quarter related to the \$350 million 2022 bonds that resulted in the loosening of certain operational restrictions and the financial covenants as well. As a result of the consent, we are extremely comfortable with these financial covenants as we go through to maturity. We tendered and repurchased \$125 million in face value of the bonds. So the outstanding face value today is just under \$225 million. The repurchase improved overall cash flow by \$8 million on an annual basis as a result of reducing negative interest carry.

As I mentioned previously, we have no intention of altering our low net debt position, and we'll continue to seek value-accretive opportunities to repurchase our debt on the open market. We see no concern if we're refunding the debt upon maturity. And over the next year, we will develop additional liquidity resources, such as a revolving credit facility, to ensure the company has backup liquidity to its cash on hand.

We closed the quarter with \$224 million of cash. We have \$289 million of debt, the bulk of which matures during [2 years] from now in August 2022. But we are easily able to service the debt and can readily refinance the debt given our cash on hand. Also, we have no required CapEx, and we have no vessels under construction.

Importantly, our path to improving free cash flow isn't predicated on recovering the drilling market or further recovery in the offshore vessel market. It's based on designing our shore base infrastructure to be efficient and fully scalable. It's based on focusing our vessels in the (inaudible) regions possible while deriving a highest margin on those vessels. It's about tightly managing required investment in those vessels. It's about rationalizing the fleet in layup. And last but certainly not least, it's about keeping the net debt low and keeping working capital most consistent with activity levels. These are the things that will ensure Tidewater as a highest return on capital, global offshore vessel company in the world.

Finally, I want to mention the current potential impacts about the coronavirus outbreak that has on our business. We have been proactively engaged with the international health and travel consultants on the outbreak. We have obtained related (inaudible) precautions to help employees avoid any potential exposure. We continue to monitor the updates on this outbreak, due to the nature of our business, the safety and well-being of our employees has always been our highest priority. And we have well-established protocols on safety communications.

Our current concern is having our crudes transit through high-risk locations. We continue to monitor countries identified as high risk and we have instructed our travel companies to avoid any crude movements through these high-risk countries.

And with that, I would like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And our first question is from Turner Holm from Clarksons Platou.

Turner Holm - *Clarksons Platou Securities AS, Research Division - Director*

Quintin, you referenced in your prepared remarks that you see a pathway to acceptable free cash flow even without significant market improvement. But on that, on the day rate front, I just wanted to ask what you're seeing, especially for the leading edge or what's being tendered now. Is there a sense of continued day rate improvement? Or does it feel like the market is flattening out now.

Quintin V. Kneen - *Tidewater Inc. - President, CEO, CFO & Director*

Day rates are improving around the world globally. Especially in the large [load] market. So in the 300-foot class vessels, [1000-square meter] deck vessel, I see marked improvement in those vessels throughout 2019 and bidding activities currently is still higher as well. So that market is a market that I consider are no longer distressed. It's still a difficult market, but the day rate improvements are progressing.

What I'm starting to see now is the next level below that, so call that 280 class vessel, maybe 850 square meter deck boat starting to improve in day rates. So moving up nicely behind those larger class vessels. So day rate improvements in those 2 classes of vessels are continuing to improve.

The vessel class that's 750-meter and below -- the deck base size, we still see this doesn't seem to be getting any worse, but it is very challenging. And in certain markets, it is getting worse, like Southeast Asia. And so therefore, my prepared remarks on why we're de-emphasizing Southeast Asia at this time.

Turner Holm - *Clarksons Platou Securities AS, Research Division - Director*

Sure. I guess, I'm just trying to reconcile the revenue comment in the press release expectation that 2020 revenue should be similar to levels in 2019 with the sort of underlying market commentary that you mentioned with modest improvement in day rates.

Quintin V. Kneen - *Tidewater Inc. - President, CEO, CFO & Director*

So the back the vessel count will continue to move down. So what I see happening in 2020 is us withholding capacity on the marginal vessels, but making up for the revenue on those better vessels and the more -- the higher end specification vessels. So what I see happening in 2020 is revenue staying relatively constant, but with fewer vessels and lower operating cost because fewer vessels were operating today, in 2020.

Turner Holm - *Clarksons Platou Securities AS, Research Division - Director*

On that on the active vessel count, you said you see it moving down in 2020. Is that sort of a conscious decision on your part? Or is that a function of demand?



Quintin V. Kneen - Tidewater Inc. - President, CEO, CFO & Director

I actually see the broader market improving. So I see the broader market improving. What I'm doing is shrinking market share on a global basis, but I'm shrinking it by reducing our exposure on the low end vessels. So what I'm trying to do is focus our business on the high end vessels on the marginal vessels and withholding capacity. And so I can push the rates up a bit higher and then redeploy them into the market.

Turner Holm - Clarksons Platou Securities AS, Research Division - Director

I see. I see. Okay. And on those marginal assets, it looks like there's -- I believe it was 40 assets that were mentioned in the press release for scrapping or disposal of some form. What's the main driver of that? Is that removing marginal capacity so that you might get a bump in day rate and some of those more marginal assets? Or is it more sort of a cost issue with regards to stacking costs and drydocks and that kind of thing?

Quintin V. Kneen - Tidewater Inc. - President, CEO, CFO & Director

Okay. So when I speak about the marginal vessels, what I'm really talking about are; the vessels that we intend to keep, but that the mortgage just isn't right for them to go to reactivate or stay active today. The vessels that we have in assets held for sale, those are assets that we're disposing of, because I don't believe there's any economic rationale for putting those vessels to work. The reason being is that either the drydock of the reactivation costs on those vessels is significantly high. The remaining life on those vessels is significantly low and the current margins on those vessels are breakeven to mediocre. So reactivating vessels in that class in any foreseeable market in the future doesn't make economic sense.

Turner Holm - Clarksons Platou Securities AS, Research Division - Director

Understand. And one of the things you mentioned in your prepared remarks -- prepared remarks was the fact that some capital providers are wanting par returns, and you talked about how challenging that is in the current environment. So I was wondering, are you seeing any movement from those capital providers? I mean, it's been a few years since this process started, I guess, what I'm really trying to understand is if there are any, call it, reasonably near-term possibilities for larger-scale deals like you did with GulfMark that was very successful? Or are those opportunities still out on the horizon?

Quintin V. Kneen - Tidewater Inc. - President, CEO, CFO & Director

Well, capital providers are coming around. And so there's a lot more dialogue today about capital providers willing to take a discount to their debt levels in order to get a transaction done. But there's only have been a few instances around the world where I could say that, that's happened. But it's at least on banks that aren't primarily in the shipping space, they're willing to take those losses and move on.

As it relates to doing another deal like the GulfMark deal, I think there's going to be some opportunities out there. There's not that many large companies, but there are some. And there could be the opportunity to do something in 2020. But there's certainly a lot of fleets that are 1/3 of the size of the GulfMark, I mean the [20] range that to me can make a lot of sense as well.

So there's certainly opportunities. People are starting to come around. It's slower than anybody would prefer because of all the facts and circumstances around people trying to hold on to their assets a little bit of self preservation by management teams as well, but it seems to be coming to an end.

Turner Holm - Clarksons Platou Securities AS, Research Division - Director

Yes. Okay. And then the last one for me is just, Quintin, you referenced how the business model might evolve in the coming years. I'd be interested to hear if there's any examples of that sort of happening now. But then also any comments you might have around opportunities to invest in sort of operationally similar markets like offshore wind that could give some diversification? And sort of if that's on the agenda, what do you think the time line could look like? So sort of, yes, the evolution of Tidewater as a business.



Quintin V. Kneen - *Tidewater Inc. - President, CEO, CFO & Director*

The evolution of the offshore vessel industry from a pricing model perspective, it will take a lot of time. And it has to be post a degree of consolidation in the market because the market is so highly fragmented today. It's hard to foster change because you can't influence enough of a particular market.

But we're starting to see some aspects of it. And what I would say from a Tidewater perspective is there's different ways to work around it. For example, if somebody wants to do something significant to a vessel, a major modification or a major [Mob] -- mobilization to a remote geographic area, then they have to pay upfront for that. And we've had 3 incidents throughout the last 1.5 years where we've had our customers pay a significant amount of upfront for modifications that they desire as well as any mobilization fees and starting to get more money upfront is a way of changing the business pricing model.

And my hope is that we'll continue to see that. I see that customers are willing to do that with a company like Tidewater because we have the balance sheet, we don't have the existential risk that a lot of companies do have. So as a result, they're willing to spend \$2 million to \$3 million with Tidewater upfront on a project because they know that we're going to be here longer term.

And so -- so that part of the pricing model is beginning to get pushed a bit. But it will take a higher degree of consolidation and a larger focus. There are certain areas around the world that are already combining vessel forces. And so you'll see this in areas -- we can see that Denmark and some other areas where they're coralling the vessel companies and trying to force a more efficient use of vessel traffic.

And I see that increasing in focus as we go through the next 5 to 10 years. And so my sense is that the evolution of the industry will, in fact, take some time.

Operator

Our next question is from Patrick John Fitzgerald from Baird.

Patrick John Fitzgerald - *Robert W. Baird & Co. Incorporated, Research Division - High Yield Desk Analyst*

Outside of drydock, what is maintenance CapEx you spent \$18 million this year? Is that kind of a good level to use going forward?

Quintin V. Kneen - *Tidewater Inc. - President, CEO, CFO & Director*

Patrick, outside of drydock, CapEx is modifying the vessel for a particular venture. But just finishing up with Turner and I was talking about 3 examples of where we made a significant investment in a vessel because it was -- we got a significant upfront payment from the customer. Those modification to vessels are not drydock, they're considered CapEx. So anything that modifies the revenue generation capacity of the vessel or extends its useful life, and it's usually the former is categorized as CapEx. I have -- advantage of opportunities where customers are willing to prepay CapEx. But absent that situation, I don't see CapEx being more than about \$5 million or -- I'm sorry, \$8 million for 2020.

Patrick John Fitzgerald - *Robert W. Baird & Co. Incorporated, Research Division - High Yield Desk Analyst*

Okay. And you said you had, in the press release, you had \$440 million contracted backlog to date. Where were you at, at this point last year?

Quintin V. Kneen - *Tidewater Inc. - President, CEO, CFO & Director*

So our new information systems are allowing us to gather this information. So I don't have a comparable figure for last year.



Patrick John Fitzgerald - *Robert W. Baird & Co. Incorporated, Research Division - High Yield Desk Analyst*

Okay. But you expect revenue to be roughly flat, I guess -- so I guess, you don't have the information to say one way or another, but your sense is that it's flat with last year, you would have \$440 million contracted last year?

Quintin V. Kneen - *Tidewater Inc. - President, CEO, CFO & Director*

Because we didn't have the same information system in place, and so I can't tell you how much I had contracted last year at the same time, under the same definition. So I can't give you that comparable figure in any reliable measure. But this degree of contract coverage for the upcoming year is unusually higher. So going into this market, my intention is to lock up in the near term, but not in the long-term because I do see rates increasing. So it's not atypical to have 60% of your forward year contracted in a normalized market.

What we've done throughout 2019 is work things up primarily through the softer period in 2020. So call it the first [one] and then leave some spot exposure (inaudible) fully in the summer months, and a little in the fourth. (inaudible) I'm not willing to talk about the markets where we have spot exposure, I'm very bullish on this, in particular in the North Sea.

Patrick John Fitzgerald - *Robert W. Baird & Co. Incorporated, Research Division - High Yield Desk Analyst*

Okay. Yes. Kind of just another question on the consolidation front. So I mean -- thanks your comments were helpful. So if you see this new world of companies like Tidewater dominating certain markets and being out of others, how many markets would you expect to be in like North Sea and West Africa? Or is that kind of how you see it?

Quintin V. Kneen - *Tidewater Inc. - President, CEO, CFO & Director*

Well, right now, the only thing that I would say is on deemphasizing Brazil and Southeast Asia. So of the markets around the world, the U.S. Gulf of Mexico is still a decent market. The market in the Southern Caribbean is a very strong market, it's a smaller market. Mexico is a decent market. We'll see how it evolves over the next couple of years.

So the (inaudible) on Africa and the North Sea, I'm more bullish on because I see those markets tighten. So the Mediterranean, the North Sea and Africa, those areas seem to need no (inaudible) and continue to concentrating and make sure that our business is focused on. Areas like Gulf of Mexico and Southern Caribbean to me are still very good markets and I don't see a reason to get out of them at all.

As it relates to Brazil, these are lower returns in Southeast Asia, that's a market where you used to make a tremendous amount of money in Southeast Asia. It's a very business-friendly environment. But it's just so oversupplying with the vessels today and it's a relatively lower spec tonnage that I don't expect that market to come back. But it's not a market that I wouldn't go back to, but when I talk about the regional super consolidators, there's a few people that are in the same position that Tidewater has, where we can live with ourselves across a global footprint. But it's important to concentrate in some key areas. And concentrate in the North Sea and Africa would be great for us, but I wouldn't put ourselves from concentrating in Gulf of Mexico as well.

Patrick John Fitzgerald - *Robert W. Baird & Co. Incorporated, Research Division - High Yield Desk Analyst*

Okay. And then sorry, one more question. Just on the \$39 million assets held for sale. I don't know -- did you -- are those going to be mostly from the markets that you're de-emphasizing?



Quintin V. Kneen - *Tidewater Inc. - President, CEO, CFO & Director*

They're vessel categories -- so they're not necessarily -- some of them are, naturally. But really, it's the older lower spec tonnage (inaudible) specification for continuing to maintain. And that's around the world, yes.

Operator

Our next question is from Ceki Medina from Southpaw.

Ceki Aluf Medina - *Southpaw Asset Management, LP - Partner and MD*

Good. Congratulations on the good results. I have a question about the markets that you're tied to in the rig space. The ultra-deepwater market is improving much slower compared to jack-ups. So I was wondering if you could give us an idea about which one you are more exposed to these days. Do you have a sense of what kind of rigs your vessels are working for in certainly around the world, but also in different markets, just roughly?

Quintin V. Kneen - *Tidewater Inc. - President, CEO, CFO & Director*

Absolutely, Ceki. And so let me start by talking to you about how I see the demand equation for the offshore vessel industry. Historically, it's been about 50% of the activity that we do is just basic production related. Not very sophisticated vessel work, but very important vessel work, very reliable vessel work. And with the downtick in drilling that's now 60% to 70% of our business is just basic production activity. And those vessels operate in that format throughout the world.

The remaining 30% is, of course, drilling and other construction projects as well. And of course, for us, it's more important for the floater industry to improve from a per vessel basis. So floaters have a more significant improvement in demand increasing more significantly than the jack-ups just because, usually, they're part of their field, they take more supplies, there's more vessels in circuit supporting those types of offshore units than it is to the jackups.

Today, though, because there hasn't been that much improvement in the floater market, we're still mostly exposed to the jack-up market. And so around the world in the areas that we see things improving. I do see incremental improvement in the floater market as well, but a substantial improvement in the jack-up market has helped us more.

Operator

And we have no further questions at this time, I will now turn the call back over to Jason Stanley for closing remarks.

Jason Stanley - *Tidewater Inc. - Director of IR*

Thanks, John. Thank you, everybody, for your time and your interest in Tidewater. As always, if you have any follow-up questions, feel free to reach out to me, and have a great day.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating, and you may now disconnect.

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