

Bob Robotti
President & CIO

Best Ideas 2019
January 10, 2019

What Makes Robotti Different

Analytical Edge

Within the context of a longer-term perspective and 30+ years of experience, we have the ability to develop a different conclusion than that of the market.

Informational Edge

Our network of industry relationships, focus on deep primary research, and experience serving on company boards, provides us with more pieces for building our information mosaic.

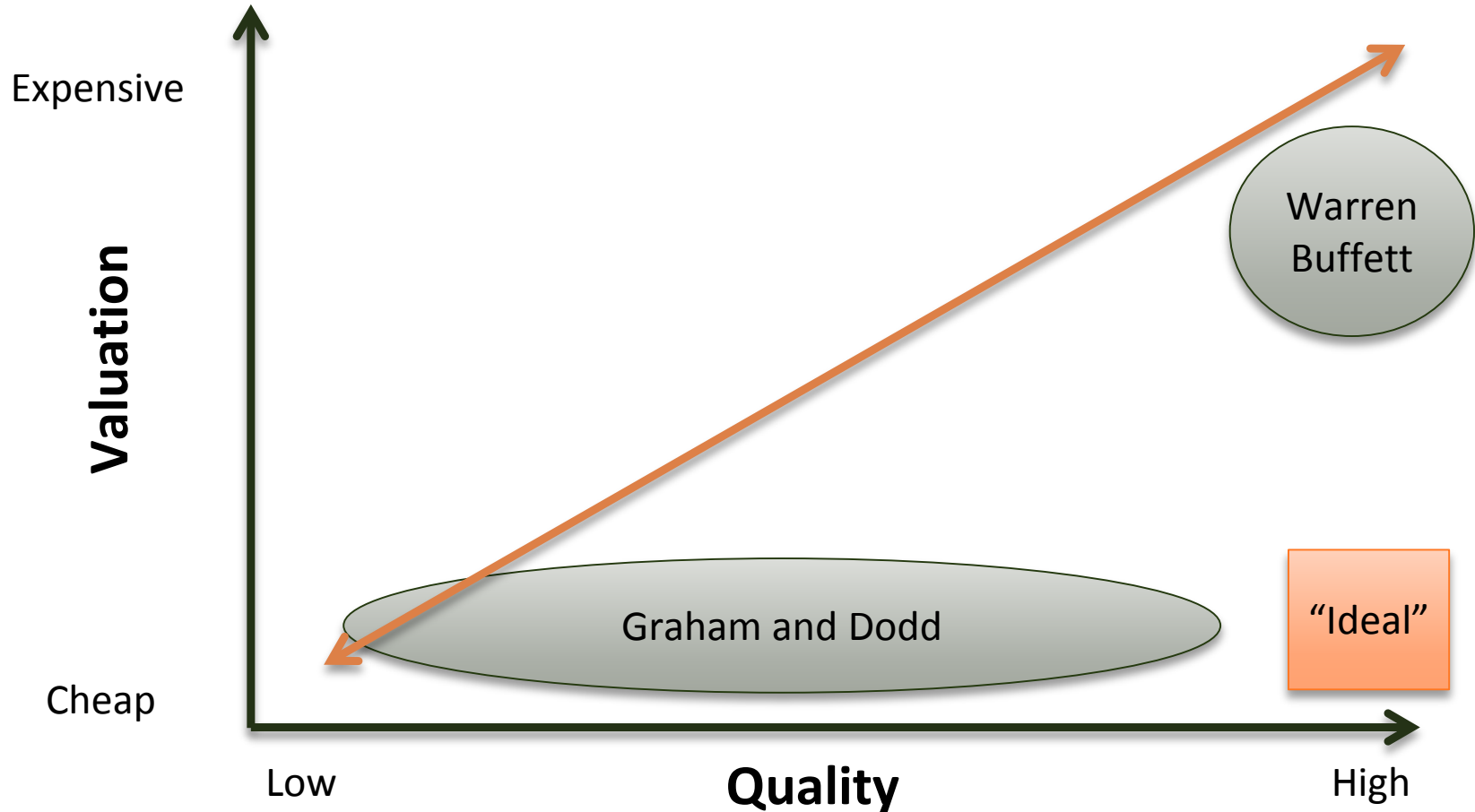
Leads Us To

Behavioral Edge

We take a longer-term view and have the ability to tolerate market swings.

Our behavioral edge comes from our ability to tolerate market volatility. As a result, our investment process concentrates on understanding the long-term normalized earning power of a business well before the “investing herd” gains interest.

Commonalities Among Value Investors



“To me, value investing is a big tent that accommodates many different people. At one end of the tent there is Ben Graham, and at the other end of the tent there is Warren Buffett, who worked with Graham and then went out on his own and made adjustments to the teachings of Ben Graham.”

- Jean-Marie Eveillard (*Graham and Doddsville* – Winter 2007 Ed.)

Today's Value Investor Bias

Investing Checklist

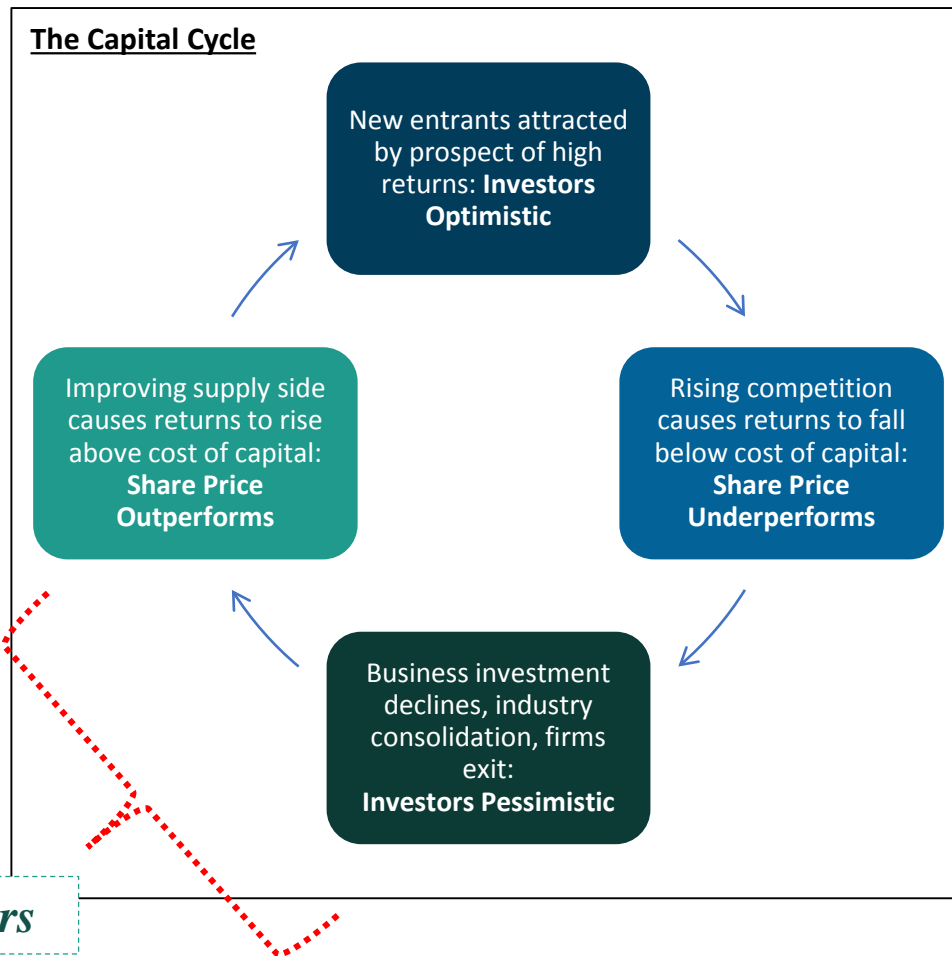
- ☒ Is this company cyclical?
- ☒ Is the business tied to commodity prices?
- ☒ Is the business capital intensive?
- ☒ Is the balance sheet levered?
- ☒ Is there potential technological disruption?

“If you want to have a better performance than the crowd, you must do things differently from the crowd.”

- Sir John Templeton

Understanding the Value of Economic Cycles

- Economic cycles resemble Schumpeter's process of creative destruction
- Opportunities often have long gestation periods as the timing of the pay-off can be highly uncertain
- Holding a contrarian view is difficult – even for a value investor



“History Never Repeats Itself Exactly...”

“It is so much easier for (investors) to sell whatever has recently disappointed investor expectations, no matter how inexpensive it has become. Mutual-fund managers, desperate to put cash to work, don't buy what is cheap but what is working, since what is cheap by definition hasn't been working. It seems obvious that so long as there are inflows into the hands of institutional investors, there will be a telescoping of investment into the several dozen names that have reliably reported quarter-by-quarter earnings growth and almost constant share-price appreciation. It seems obvious, but is actually a slippery and very dangerous slope. When stocks are rising for no better reason than that they have risen, the greater fool is at work.”

“Why Value Investors are Different”

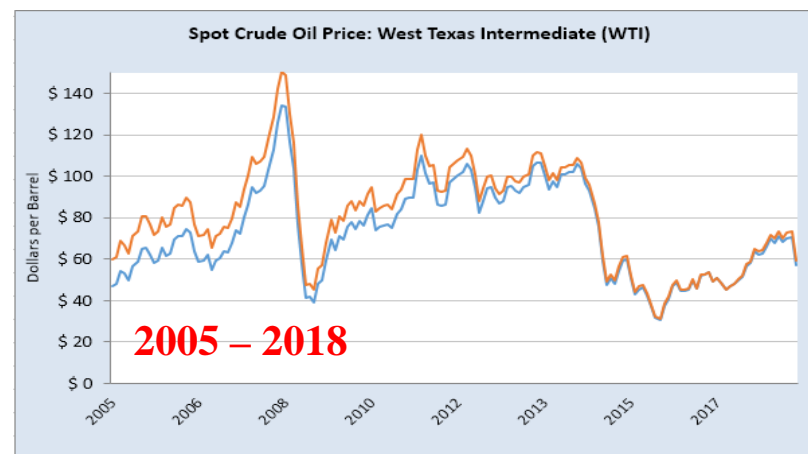
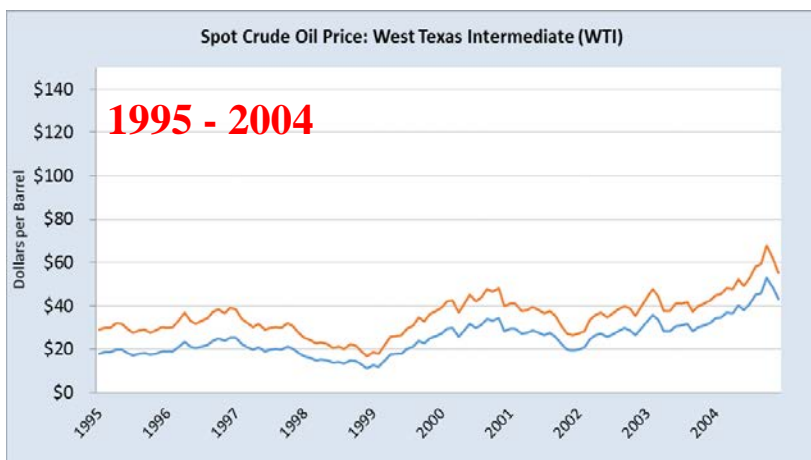
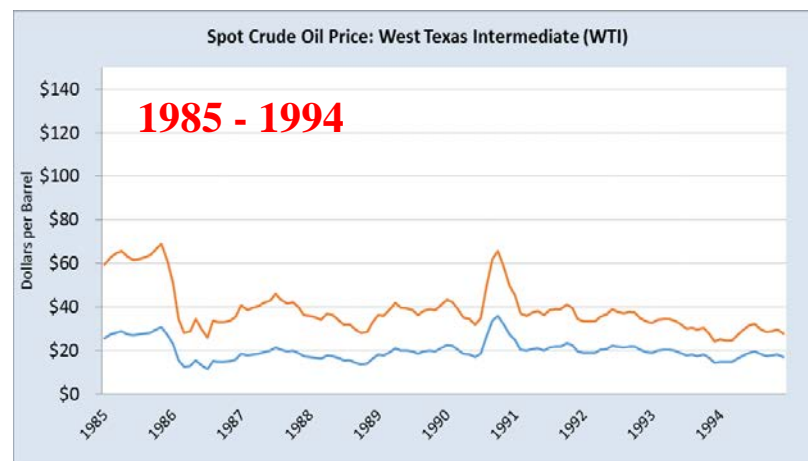
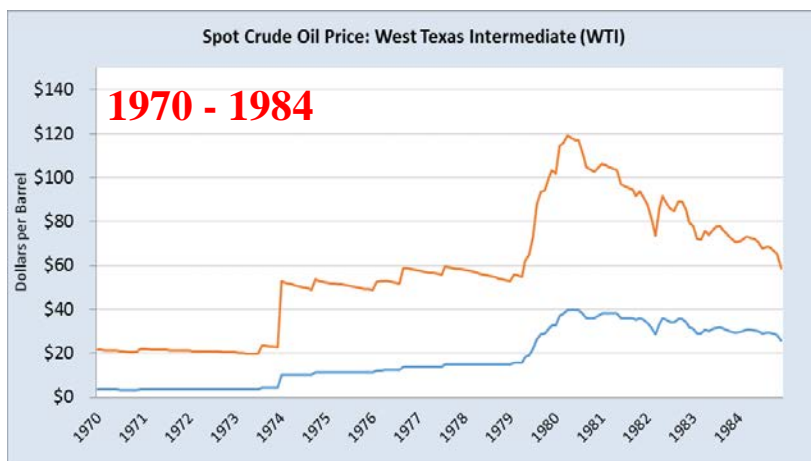
by Seth Klarman

Barron's, February 15, 1999



How We Got Here: Historical Spot Crude Prices (in USD)

- Demand for OSVs is a first derivative of the price of oil

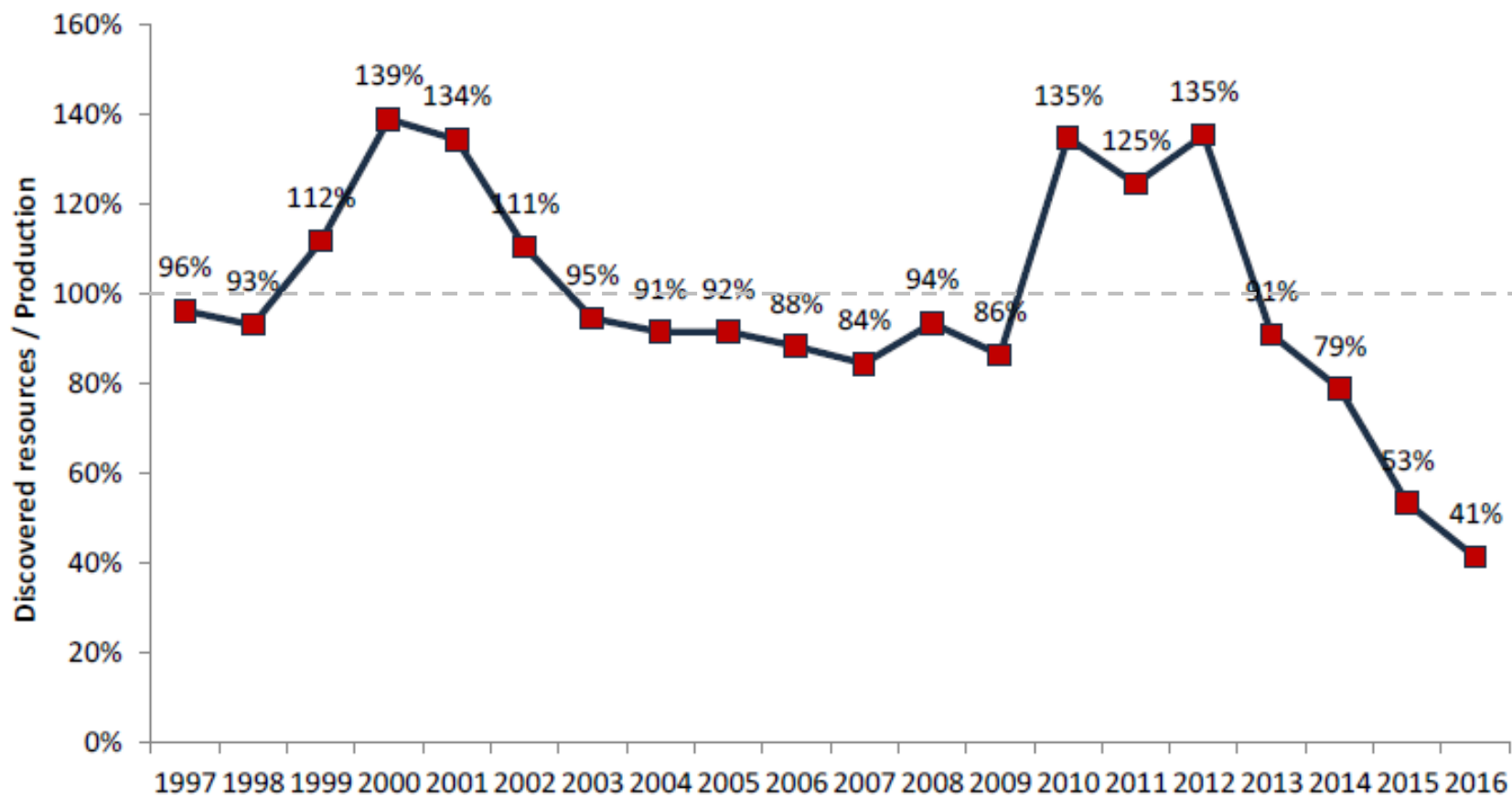


WTI Spot, Nominal USD

WTI Spot, Real USD

Offshore Reserve Replacement Ratio Continues to Fall

Offshore reserve replacement ratio (trailing 3 year average) - last 20 years

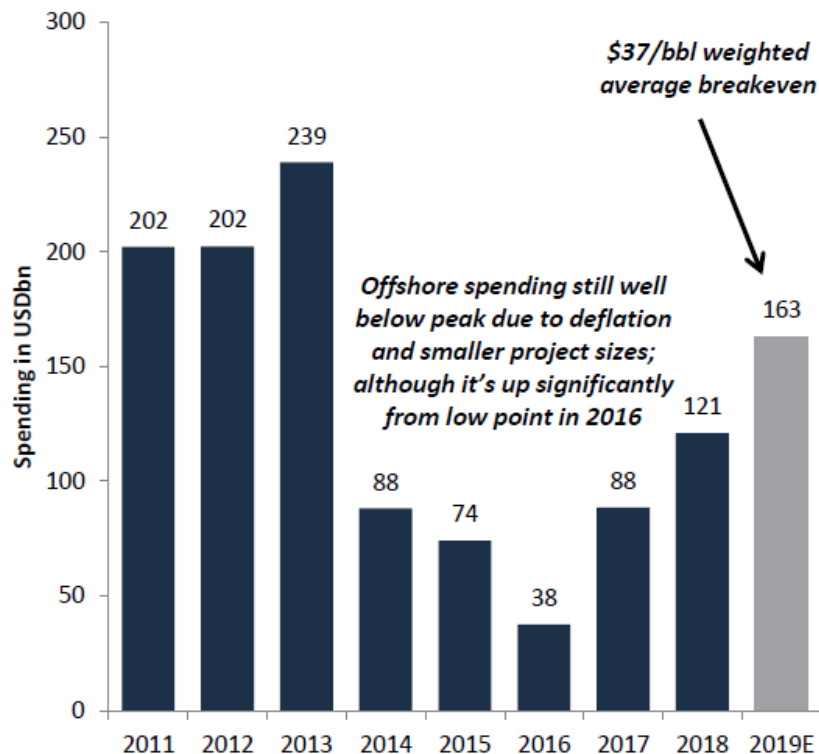


Source: Rystad Energy

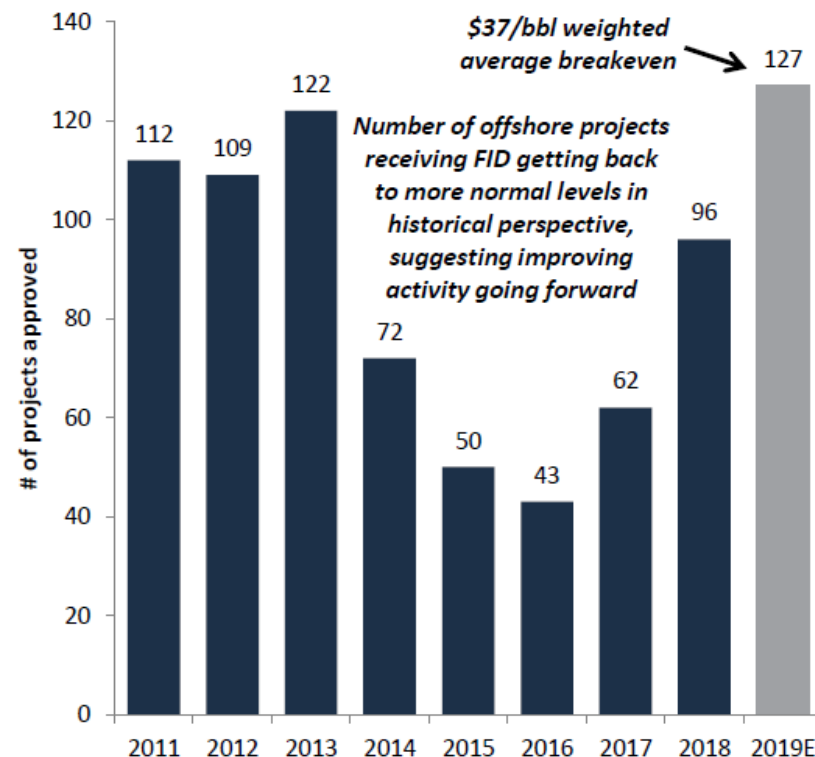


Offshore Spending Fell Before Oil Prices Did

Offshore project spending by FID year



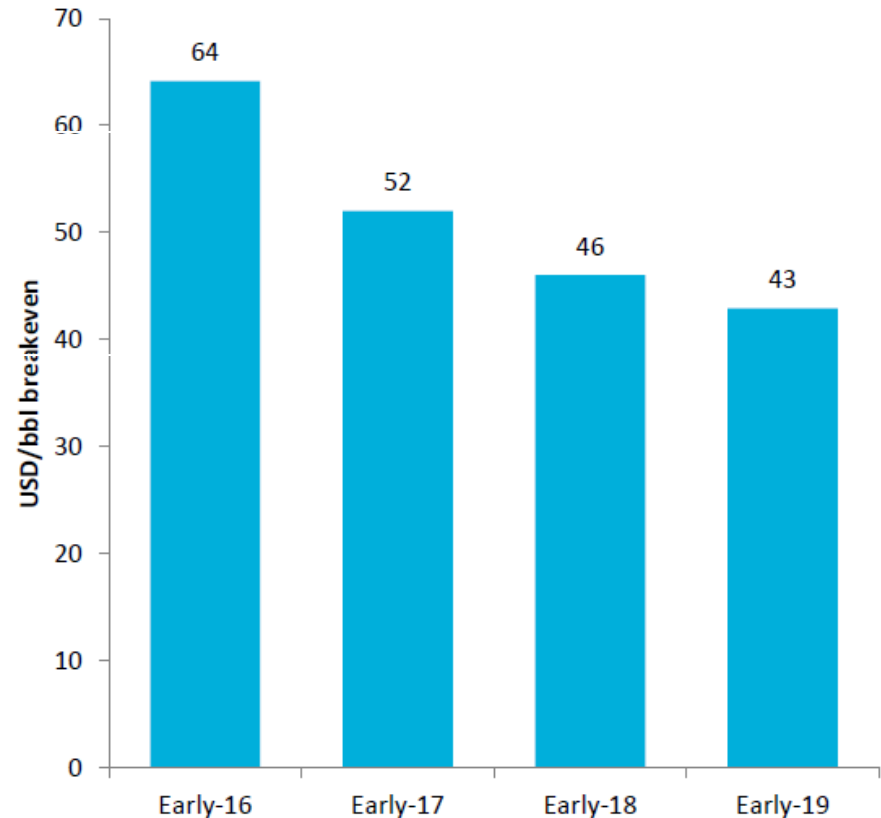
Number of offshore projects by FID year



Higher FID levels suggest rising offshore activity levels as projects move to offshore execution phase

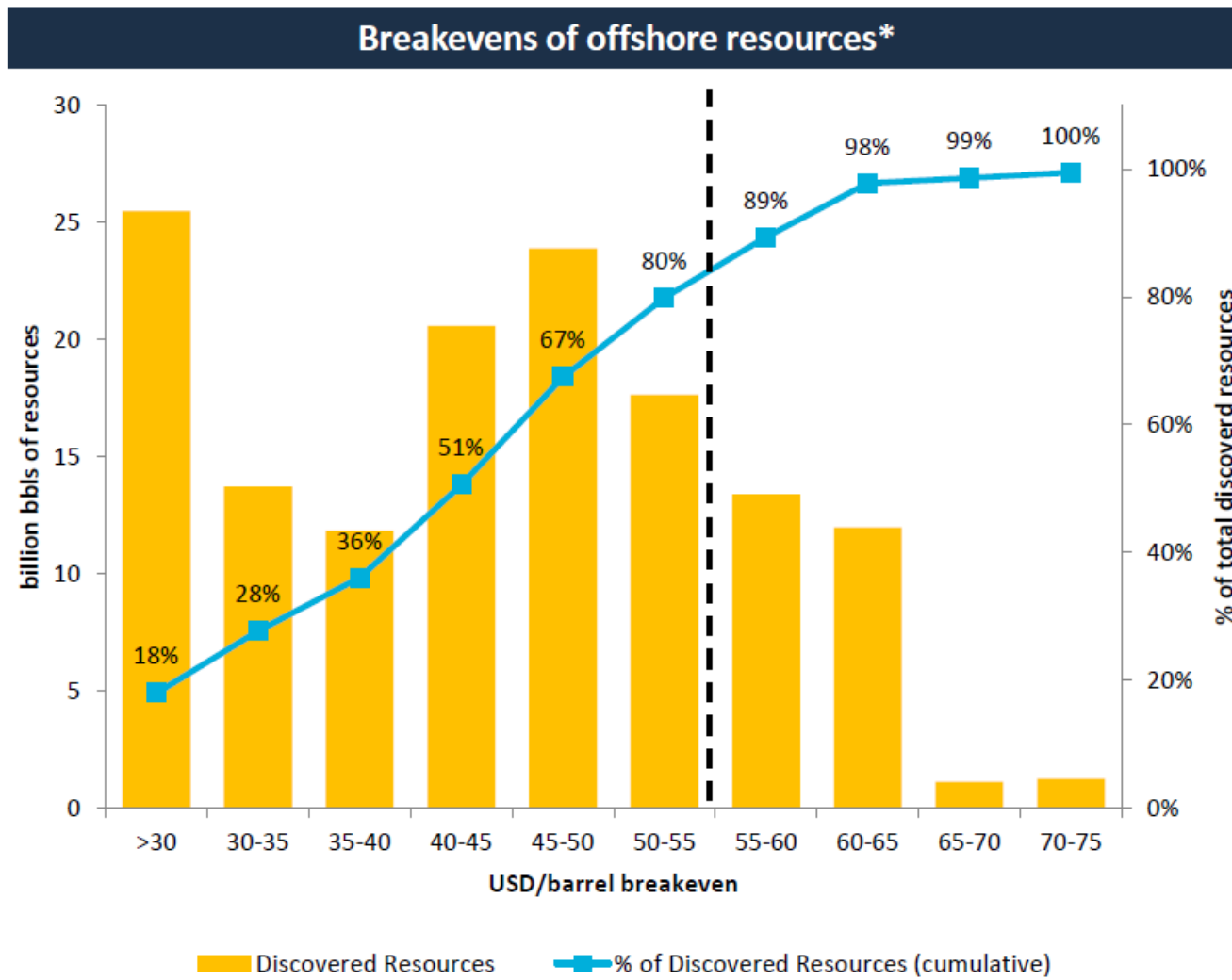
Dramatic Reduction of the Breakeven Oil Price

- Most offshore oil breaks even or better near current prices after fall in marginal production costs:
 - ❖ **80% breakeven with 10% return at \$55/bbl**
 - ❖ **67% breakeven with 10% return at \$50/bbl**
 - ❖ **51% breakeven with 10% return at \$45/bbl**
- Offshore breakeven price continues to fall due to structural and cyclical changes:
 - **Fewer days to drill, faster time to first oil & FID**
 - **Standardization of technology**
 - **Integrated project delivery**
 - **Service cost deflation**



The industry is better prepared for moderated oil prices

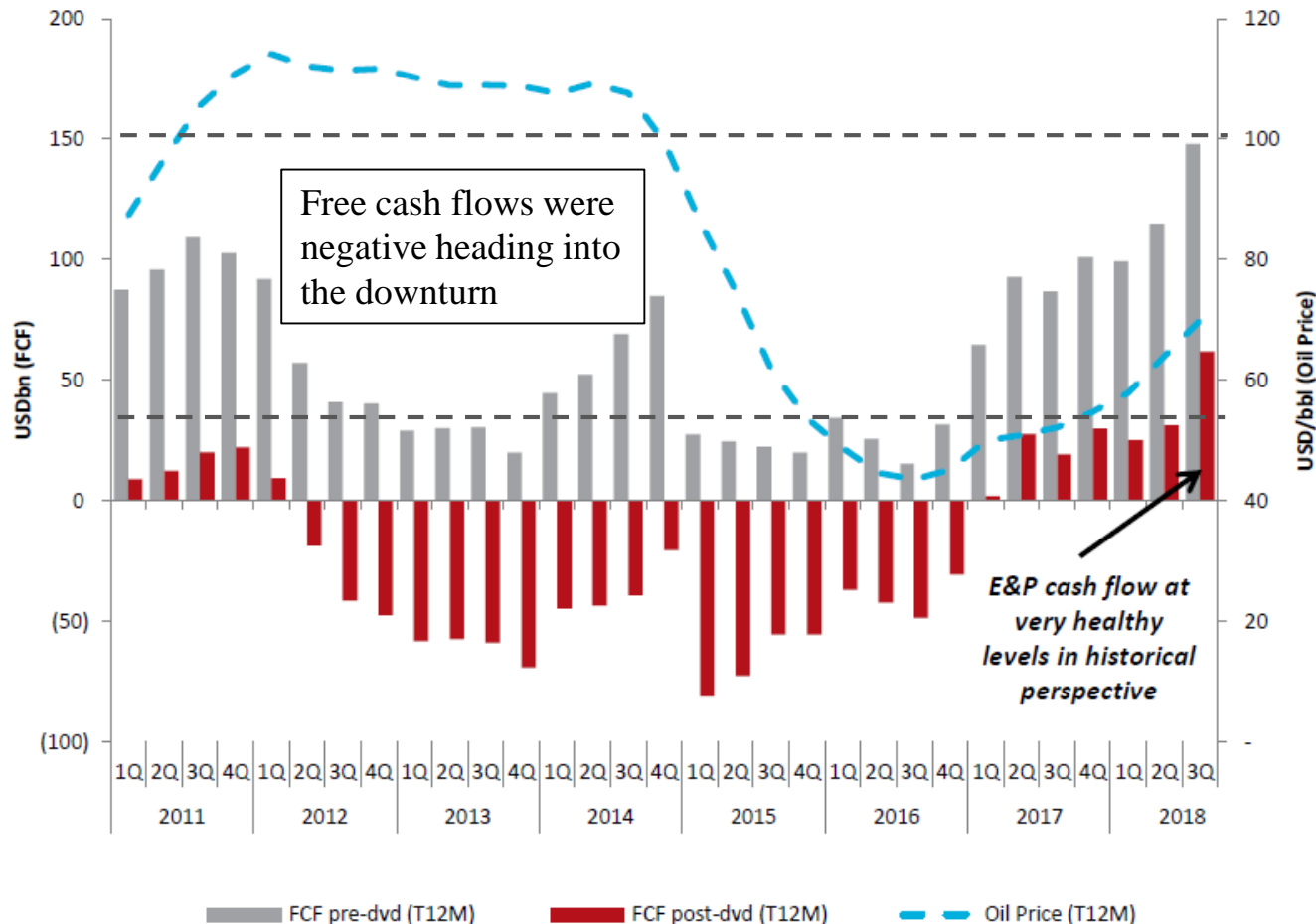
Most Offshore Oil Remains Economic at Current Oil Price



Source: Rystad Energy, Clarksons Platou Securities AS *Discovered but undeveloped; ie. the inventory of possible development projects

Why Now? E&P Free Cash Flow

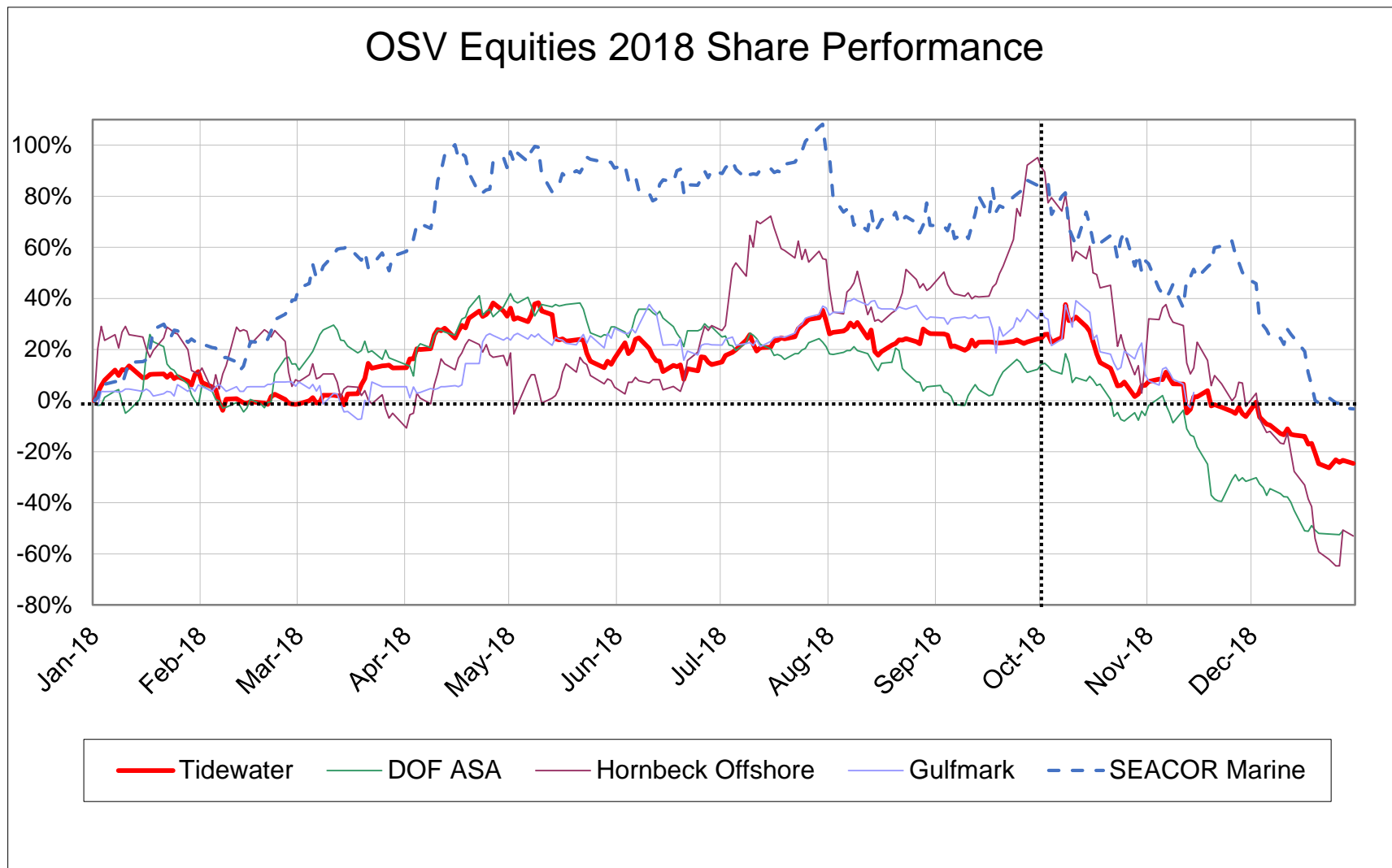
Top 30 E&P's with offshore output - FCF (pre & post dividends) vs. oil price



Even with the price of oil well below 2011-2014 prices companies generate high free cash flow providing capital for potential investments

Current free cash flow (pre-dividend) is the highest in 8 years

OSV Equity Performance in 2018



Tidewater, Inc. (NYSE:TDW)



- Tidewater is a leading owner and operator of Offshore Support Vessels (OSVs) supporting offshore energy exploration and production with exposure to all major regions
- Debt free balance sheet after emerging from bankruptcy on 7/31/18 positions Tidewater to lead OSV industry consolidation
- With the stock currently trading at a fraction of replacement cost we believe the stock is well positioned to benefit a recovery in the offshore energy market while also providing investors with a margin of safety

Market Capitalization

Price	\$21.79
+ Shares	41
Market Cap	\$893
+ LT Debt	470
- Cash	371
Enterprise Value	\$992

As of 1/10/19

USD millions (except share price)

Debt Maturities

- ~\$350 million senior secured notes due 2022
- ~\$90 million export credit backed debt amortizes over ~10 yrs.

Founded

1955

Created the industry's first
Offshore Support Vessel

Vessel fleet

264

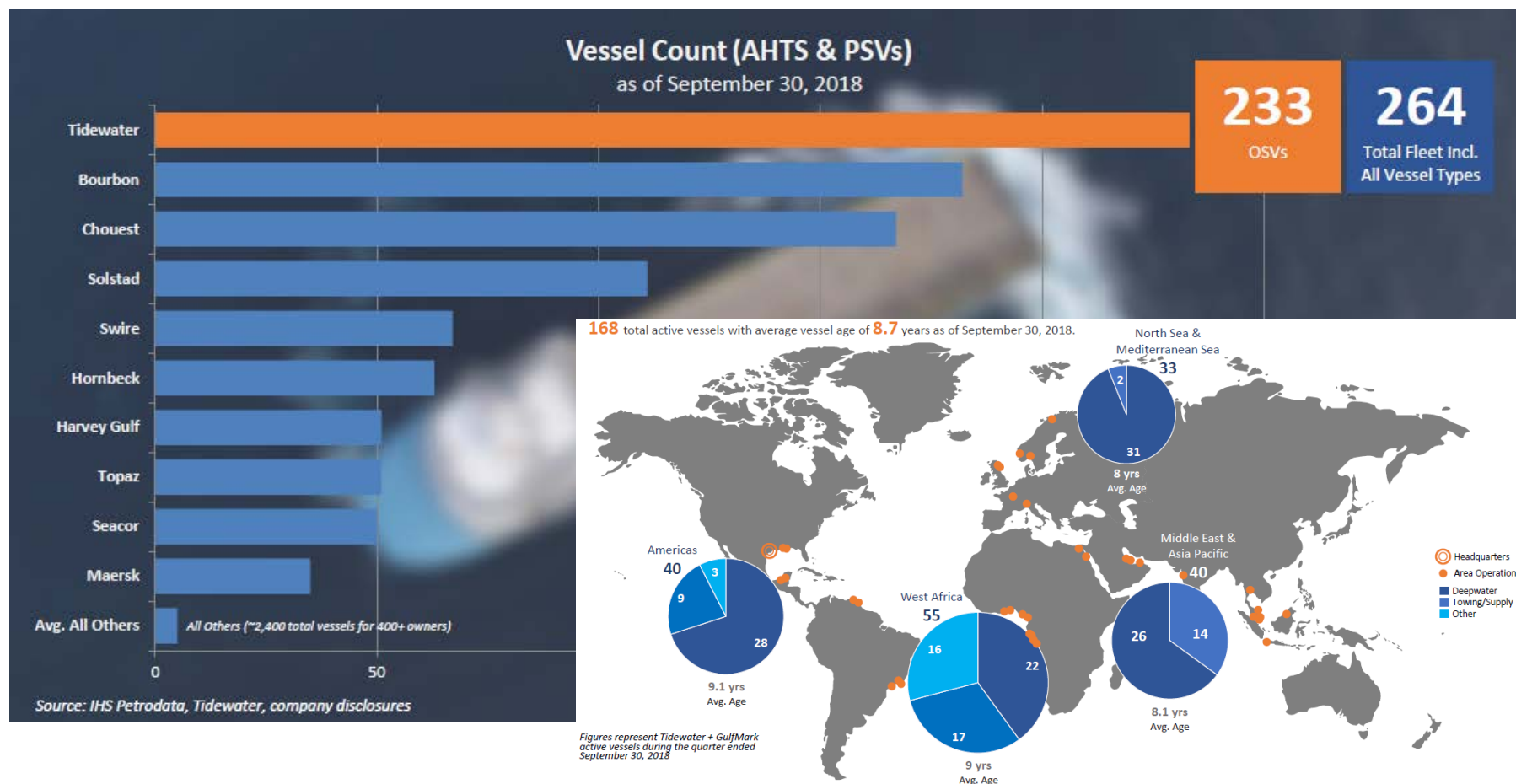
Distributed across the globe,
supporting all water depths

Tidewater has one of the strongest balance sheets in a rapidly improving industry and is positioned to take advantage of the current downturn



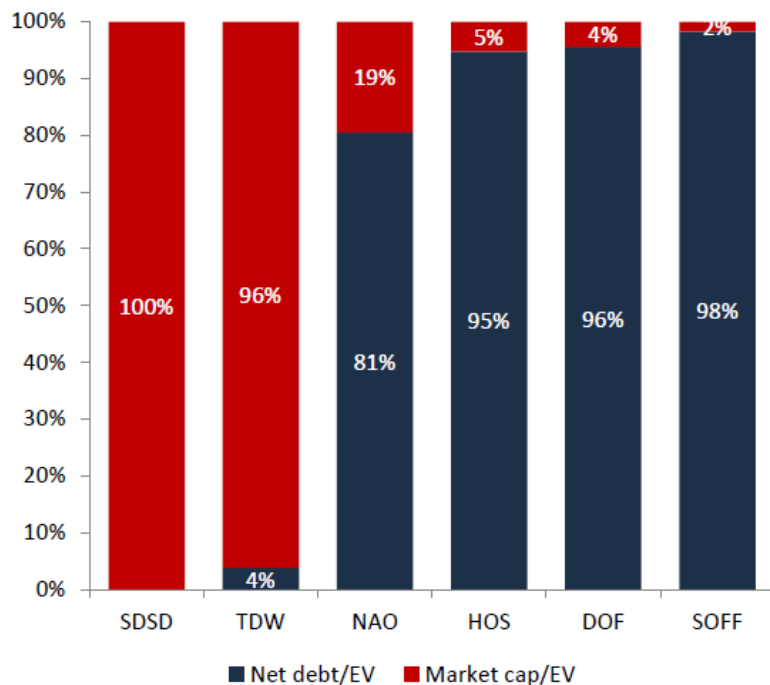
Best Positioned to Participate in Market Recovery

- The OSV industry is highly fragmented with more than 500 vessel operators worldwide and roughly ½ the global fleet controlled by the top 20 operators

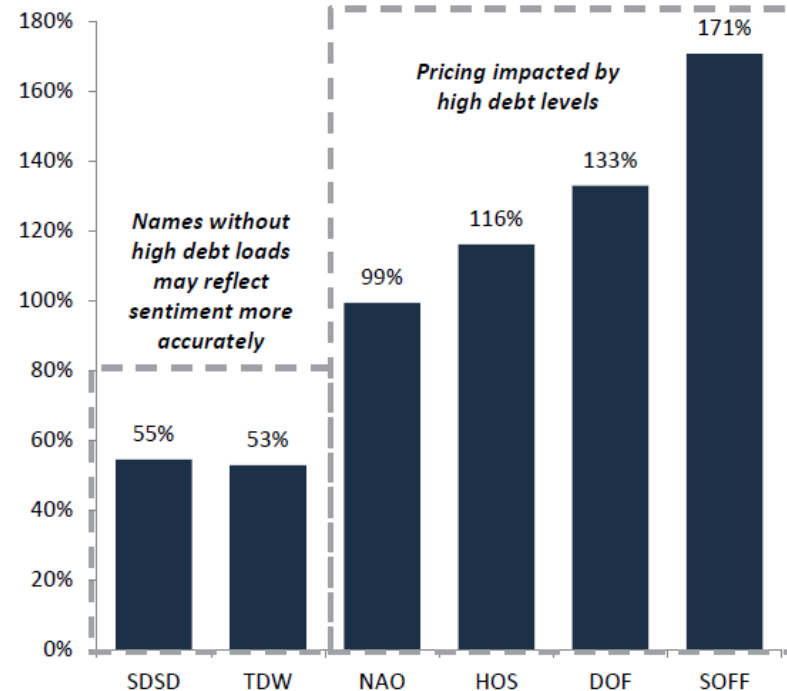


Tidewater $\geq 40\%$ Discount to Second-Hand Values

Components of EV: Net Debt vs. Market Cap



EV to GAV (current second-hand market)



Recent fall in OSV equities should present buying opportunities at attractive prices – quality of fleet and balance sheet are key

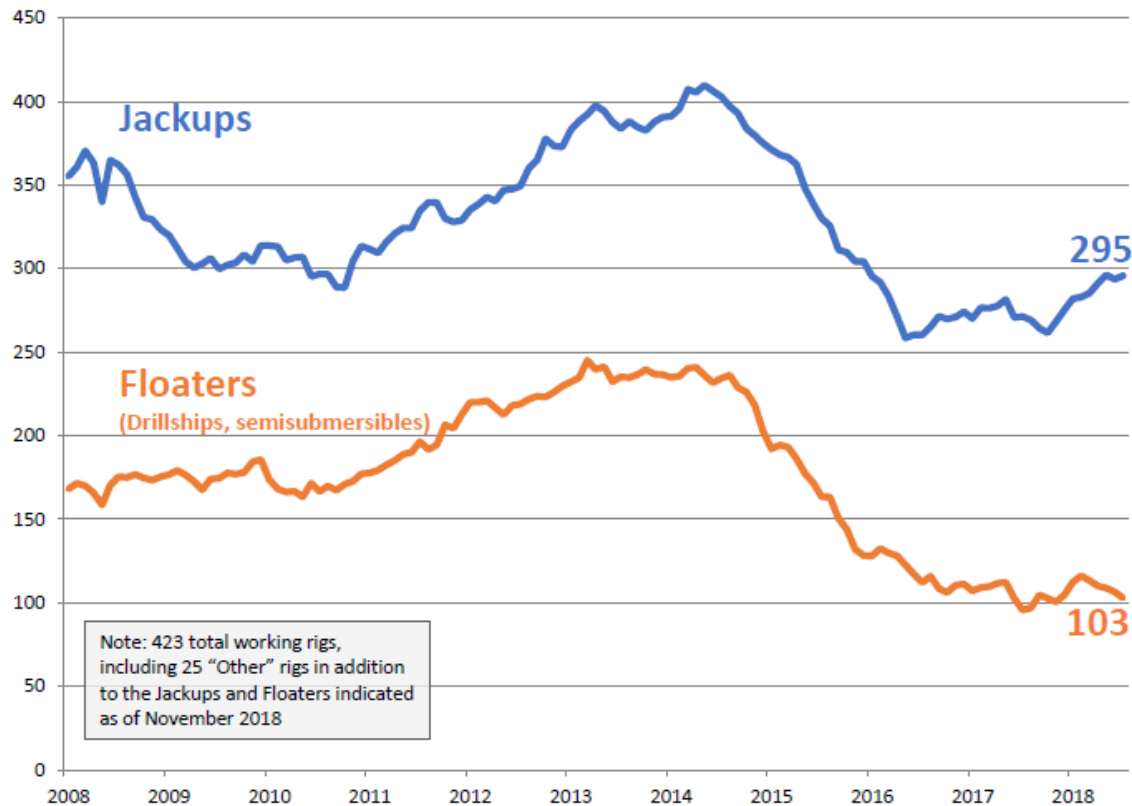
Source: Bloomberg, Clarksons Platou Securities AS

• TDW figures reflect TDW and GLF combined pro-forma

• Net debt figures are as at end of 3Q18 and market cap figures are based on last prices on 2-Jan-19

• SDDS figures are adjusted for sale of vessels and share purchase in NWS in 4Q18

Demand is Driven by Offshore Rig Utilization

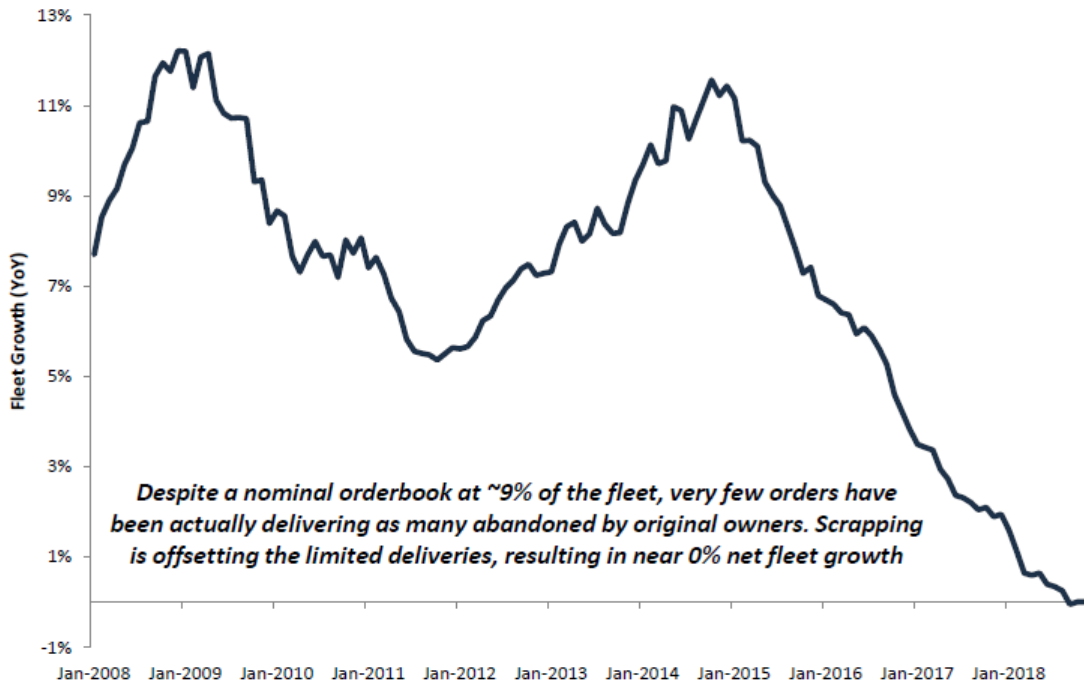


Source: IHS Petrodata

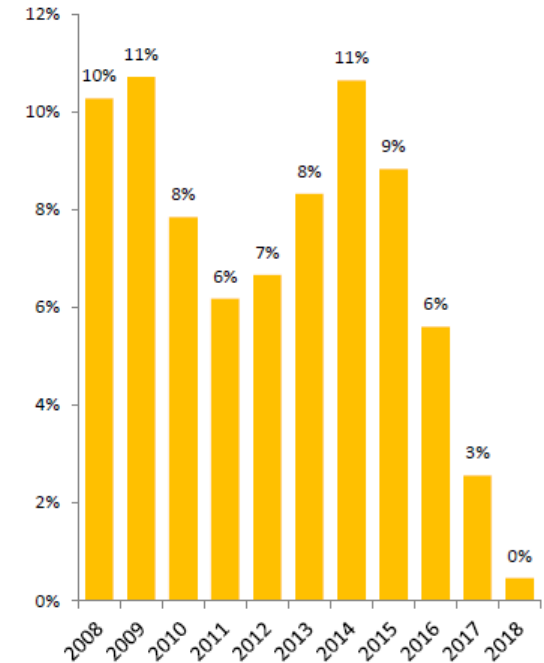
- Vessel demand and utilization improvements will be driven by an increase in the working rig count
- Jackup utilization continues to gradually improve and floater utilization is expected to materially improve in 2H 2019

Fleet Growth Grinds to a Halt

PSV fleet growth (YoY) - 2008 to 2018



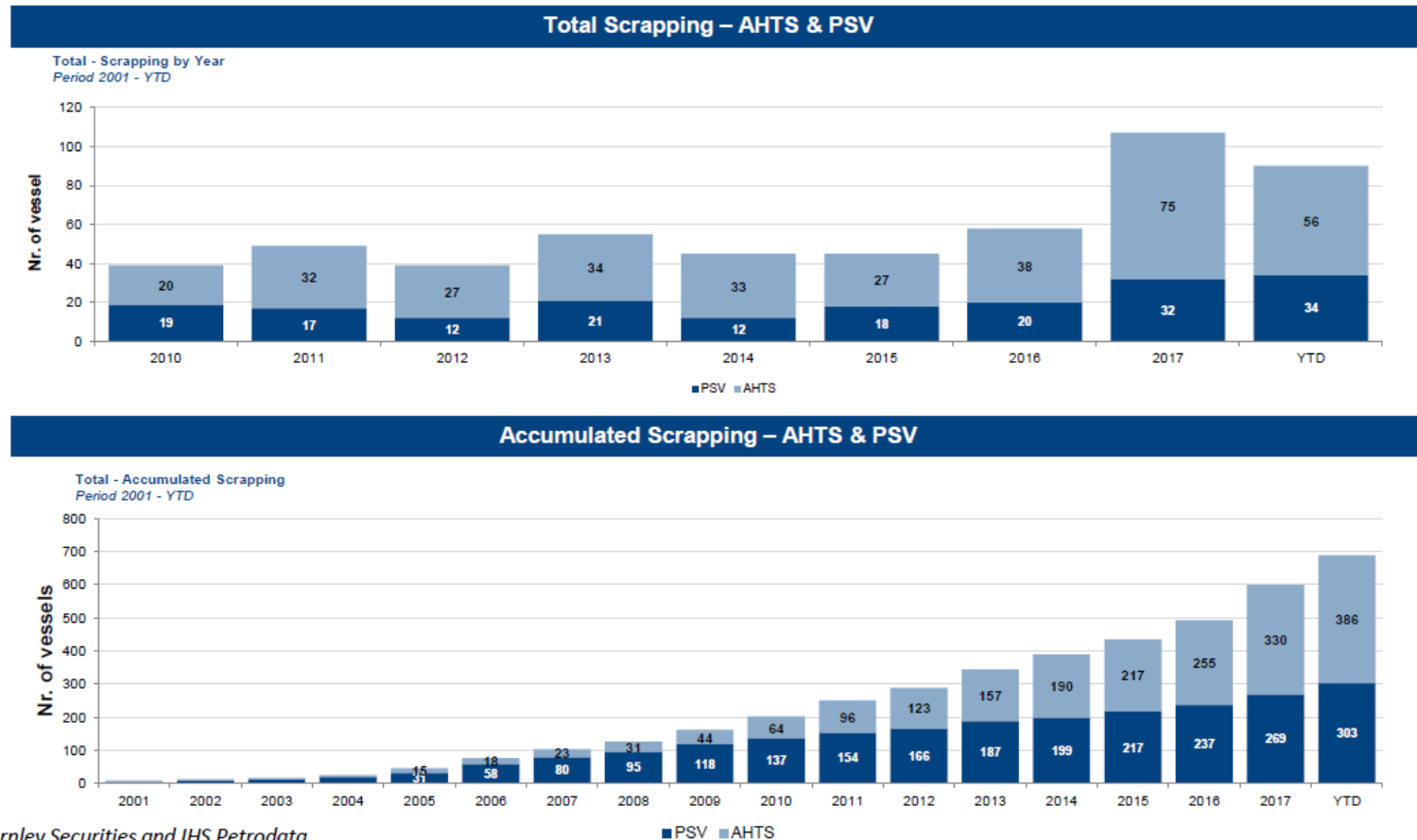
Annual fleet growth – '08 to '18



Supply growth has averaged 7% in last 10 years, headed to zero in 2019

Scrapping Activity Increased in Recent Years

- In 2018 a record 95 AHTS were scrapped

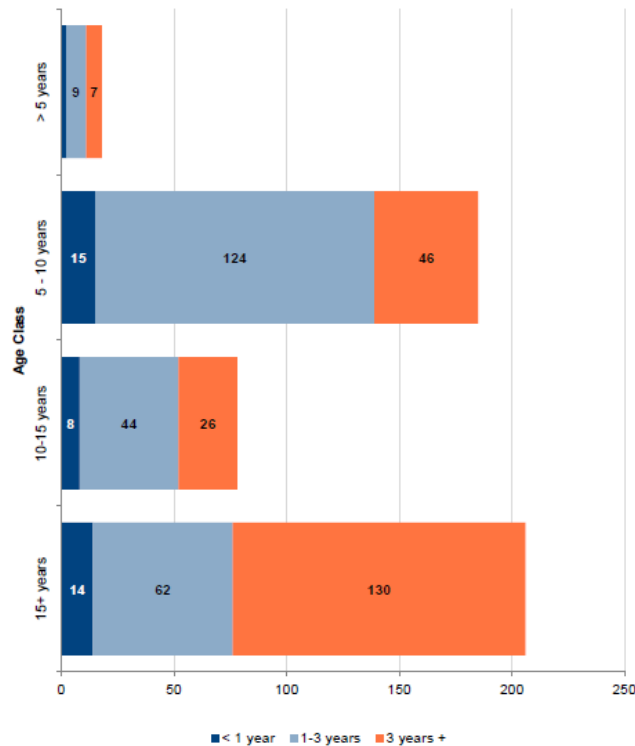


Source: Fearnley Securities and IHS Petrodata

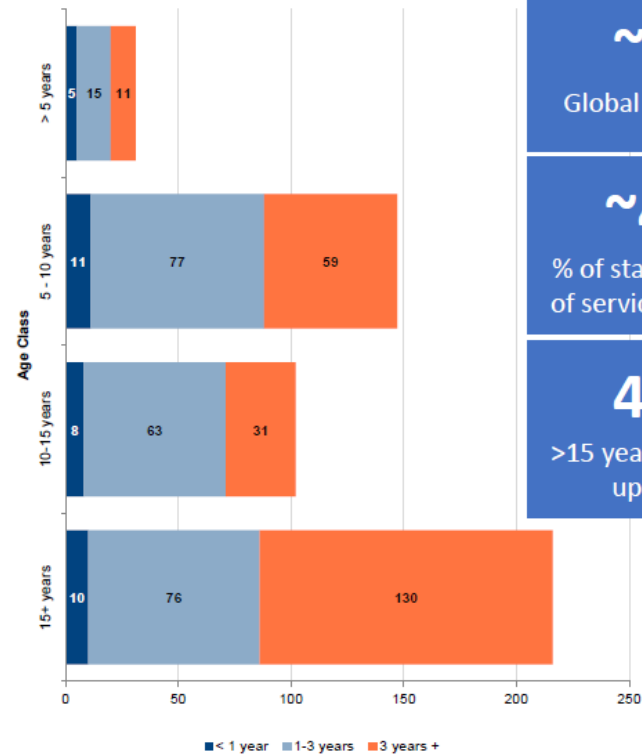
Economics of Re-activating a Vessel

Global OSV Stacked Fleet Profile

Stacked fleet (AHTS) - Year since last contract



Stacked fleet (PSV) - Year since last contract



~990

Global stacked fleet

~45%

% of stacked fleet out of service for >3 years

400+

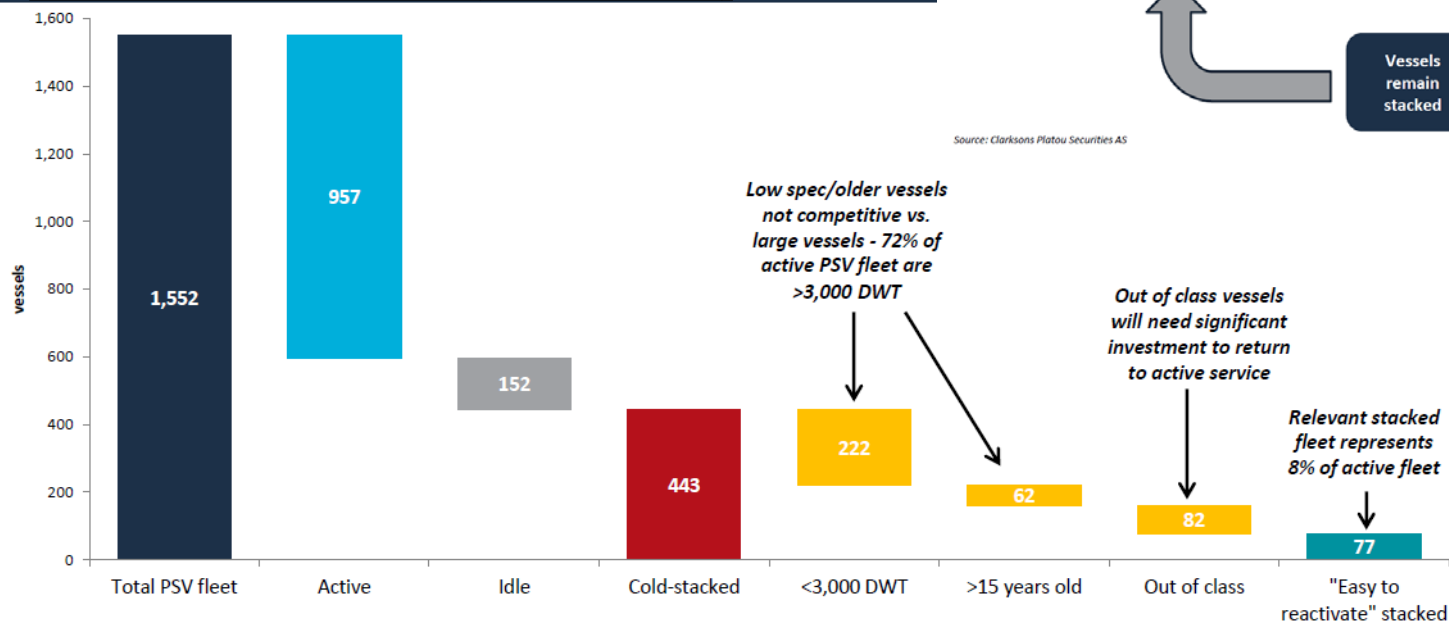
>15 years old and laid up >2 years

Source: Fearnley Securities and IHS Petrodata

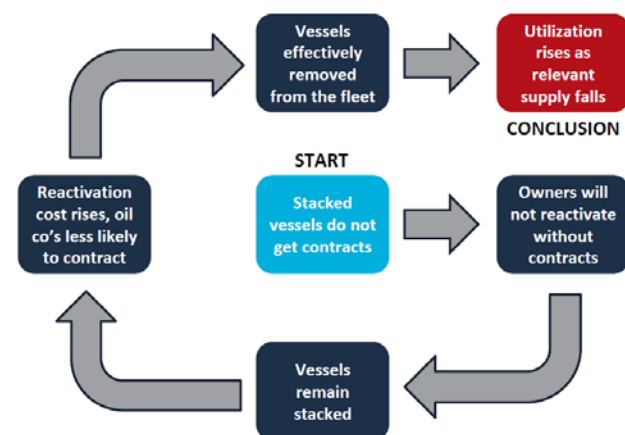
Is Available Capacity Lower Than It Appears?

- “Easy to Reactivate” stacked capacity represents only ~8% of the active fleet

PSV Fleet Breakdown (December 2018)

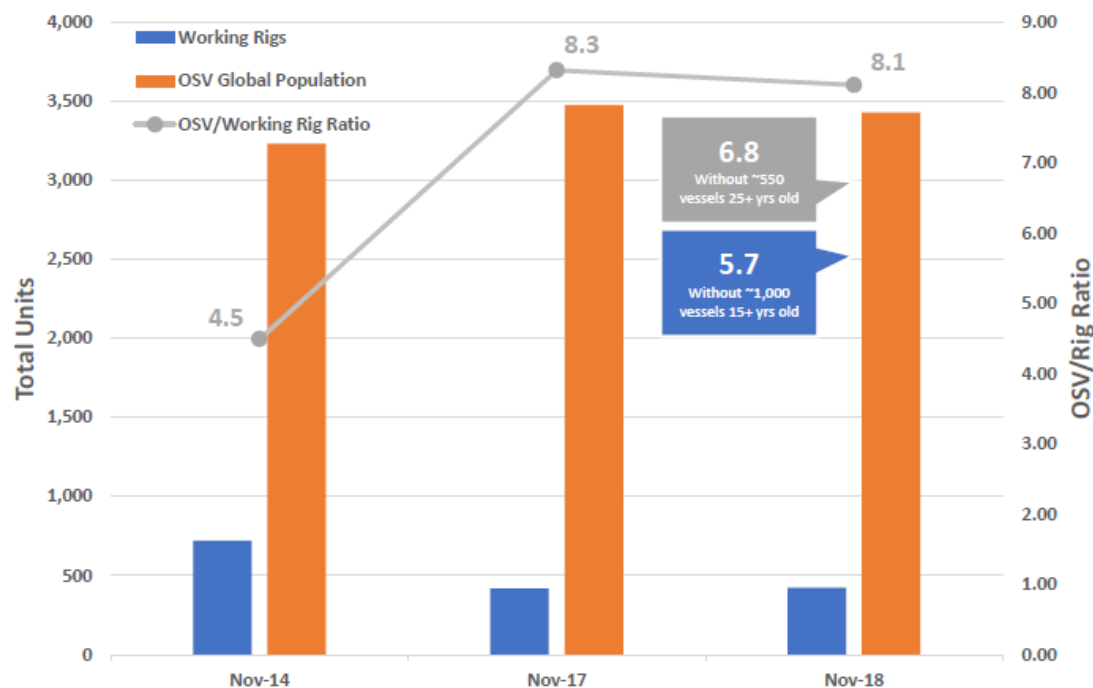


The logical conclusion: relevant supply is shrinking

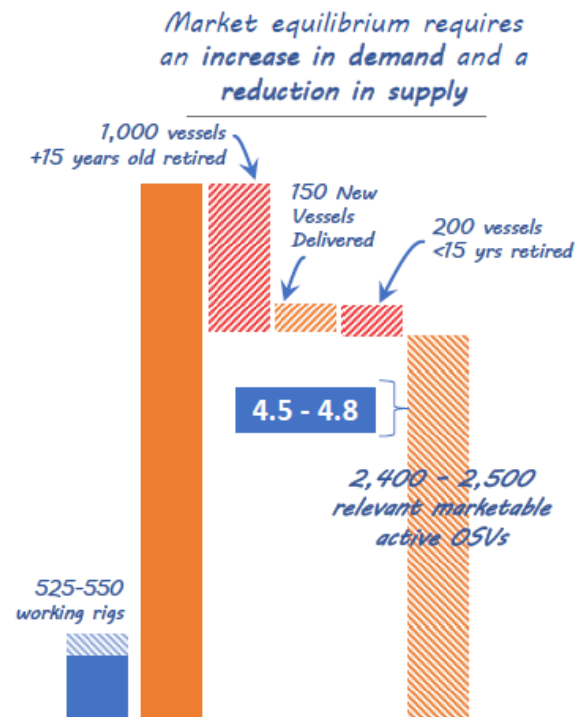


“Easy to Reactivate” stacked capacity represents only ~8% of active fleet

OSV Market Equilibrium: What Does it Look Like?



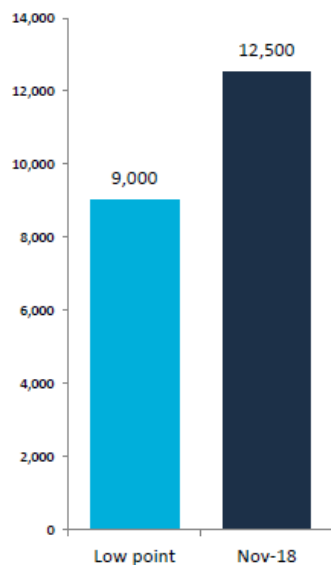
Source: IHS Petrodata and Tidewater. OSV population includes all OSV types



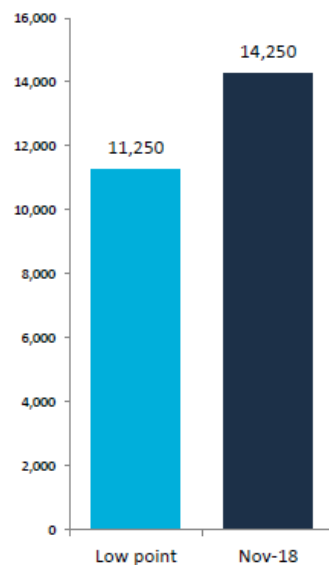
Vessel Day Rates are Improving

Low point of 1-yr TC rates vs. November 2018 levels

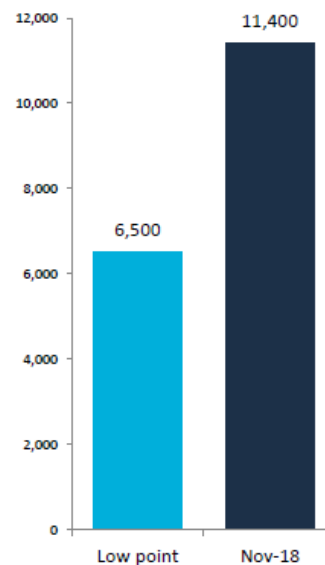
West Africa large PSVs



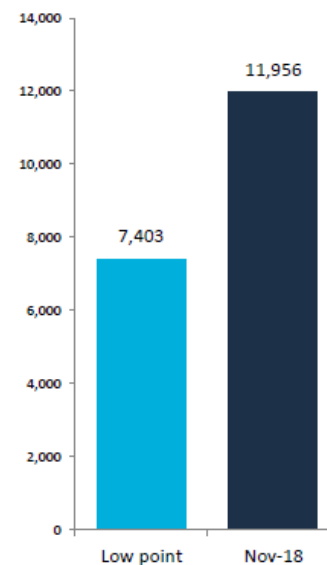
US Gulf of Mexico large PSVs



MidEast mid-size PSVs



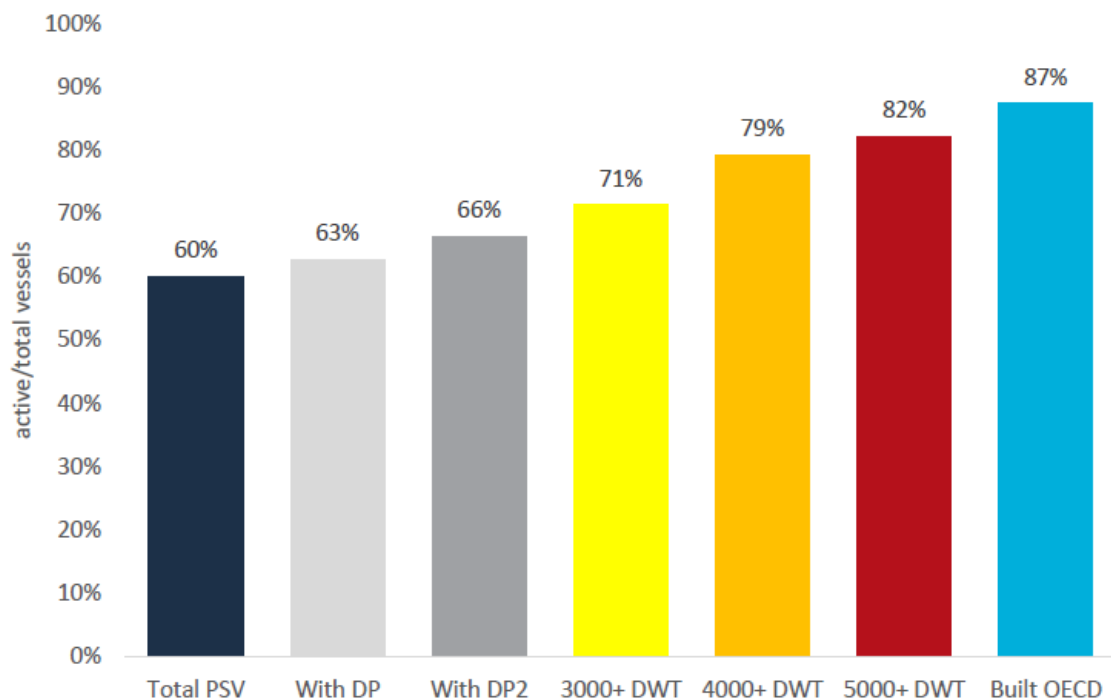
North Sea large PSVs



While still low in historical context, rates have passed the bottom and begun to improve

Vessel Quality Matters

PSV utilization by vessel class – Q418



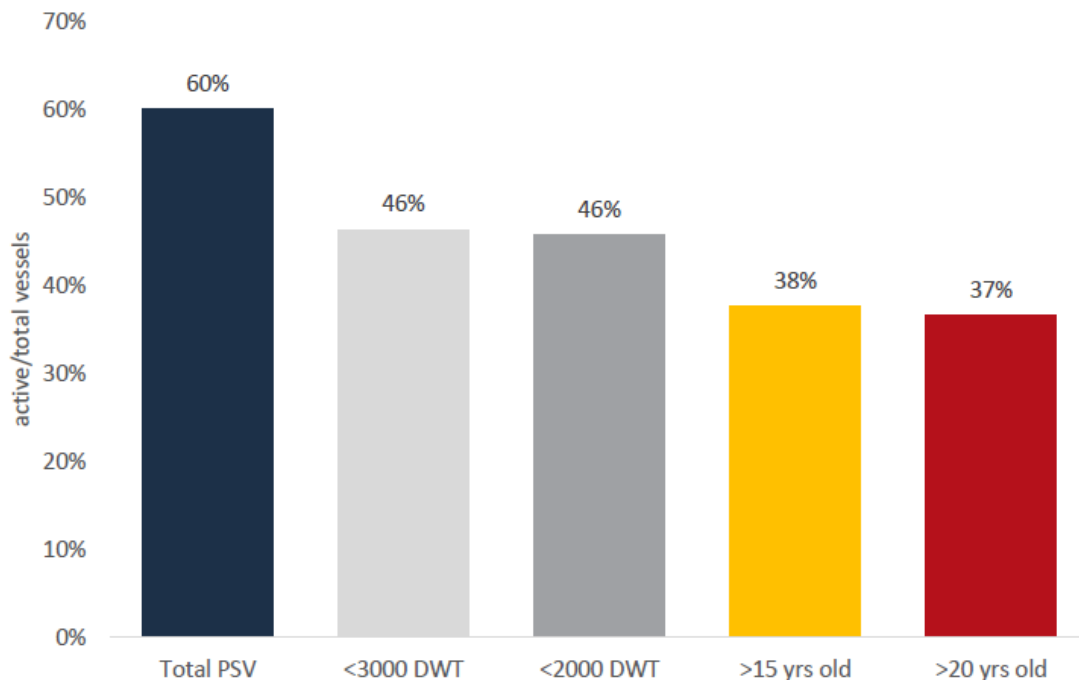
Investors should focus on owners of high quality vessels

Perspectives

- Specification and quality are the best predictors of utilization
- Since higher spec vessels have higher utilization, they are also able to command better rates
- An example from the North Sea:
 - PSV 3-4,000 DWT
 - Avg. 53% utilization in NW Europe for this vessel class
 - \$8.3k/day avg. term rate
 - The average vessel of this type in this region burns cash
 - PSV 5,000+ DWT
 - Avg. 95% utilization in NW Europe for this vessel class
 - Avg. of ~\$12k/day term rate
 - The avg. vessel of this type generates EBITDA of ~\$1.6m

Vessel Quality Matters

PSV utilization by vessel class – August 2018

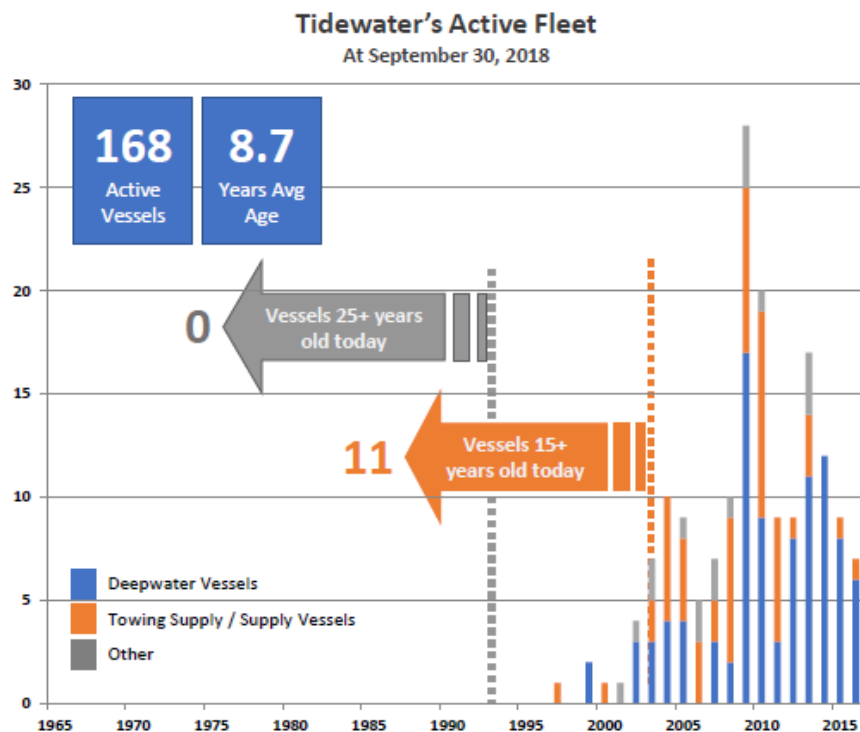


Investors should focus on owners of high quality vessels

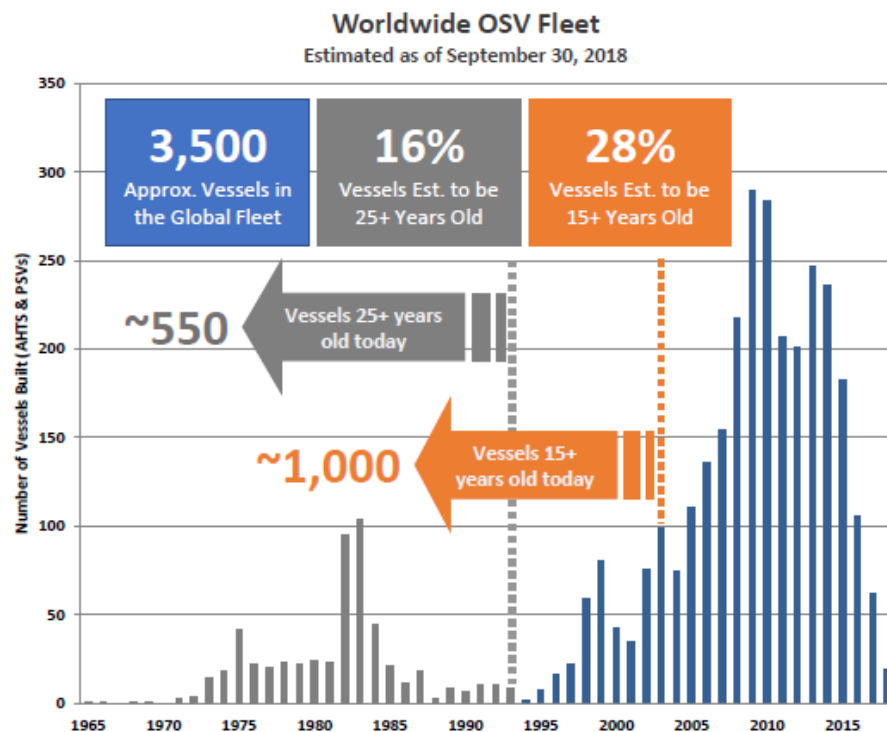
Perspectives

- Specification and quality are the best predictors of utilization
- Lower spec and older vessels show low utilization
- Rates for low spec vessels are generally just above opex in most regions
- For example in the North Sea:
 - A small PSV could earn just below \$500k/yr on term
 - A large PSV could earn over \$1.8m/yr on term contract

Tidewater's Fleet is Young and Modern



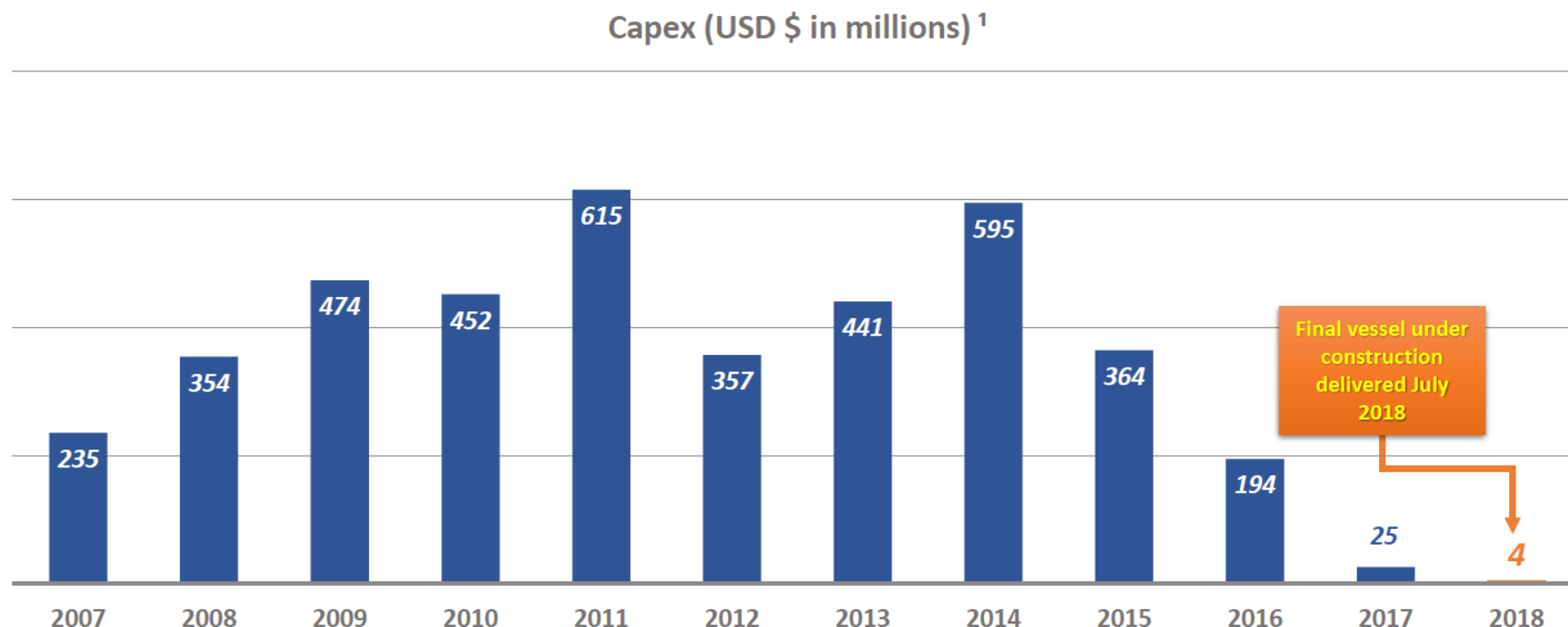
19 of Tidewater's 95 stacked vessels at September 30, 2018 are >15 years old. All statistics include the GulfMark fleet



As of September 2018 there are approx. 215 additional AHTS and PSVs planned, on order, or under construction. In our view, a material number of these vessels will not be completed and delivered.

Capex: Fleet Renewal Program Completed in 2018

- Renewal program capex of \$4.1bn for vessels less than 12 years old vs. market cap today.



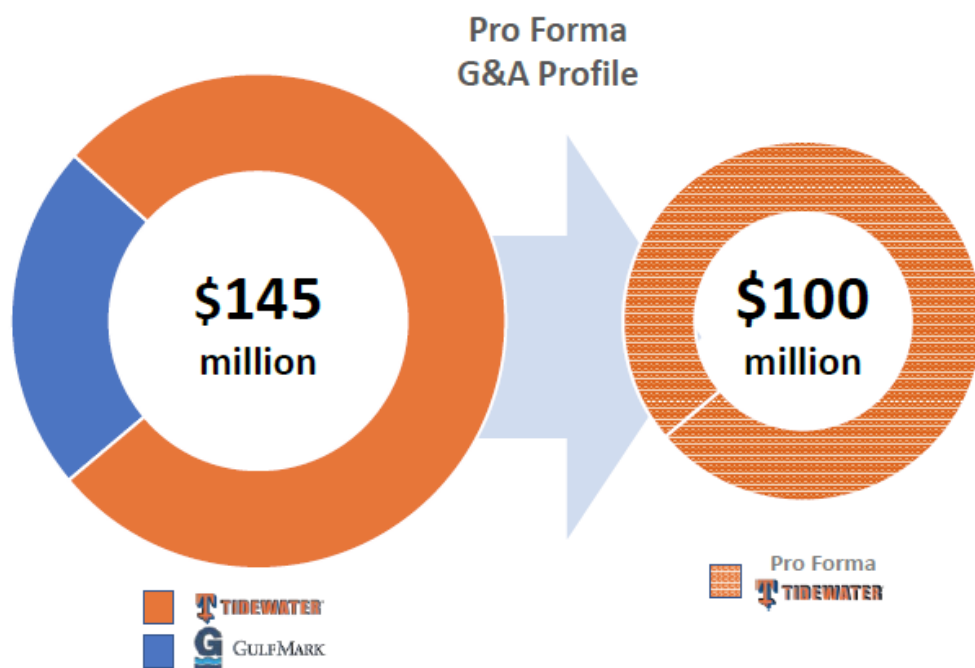
⁽¹⁾ Values presented are on calendar basis

The People Factor

- Leadership - changes with the acquisition of GulfMark
- Management – a meritocracy
- Board of Directors – aligned incentives

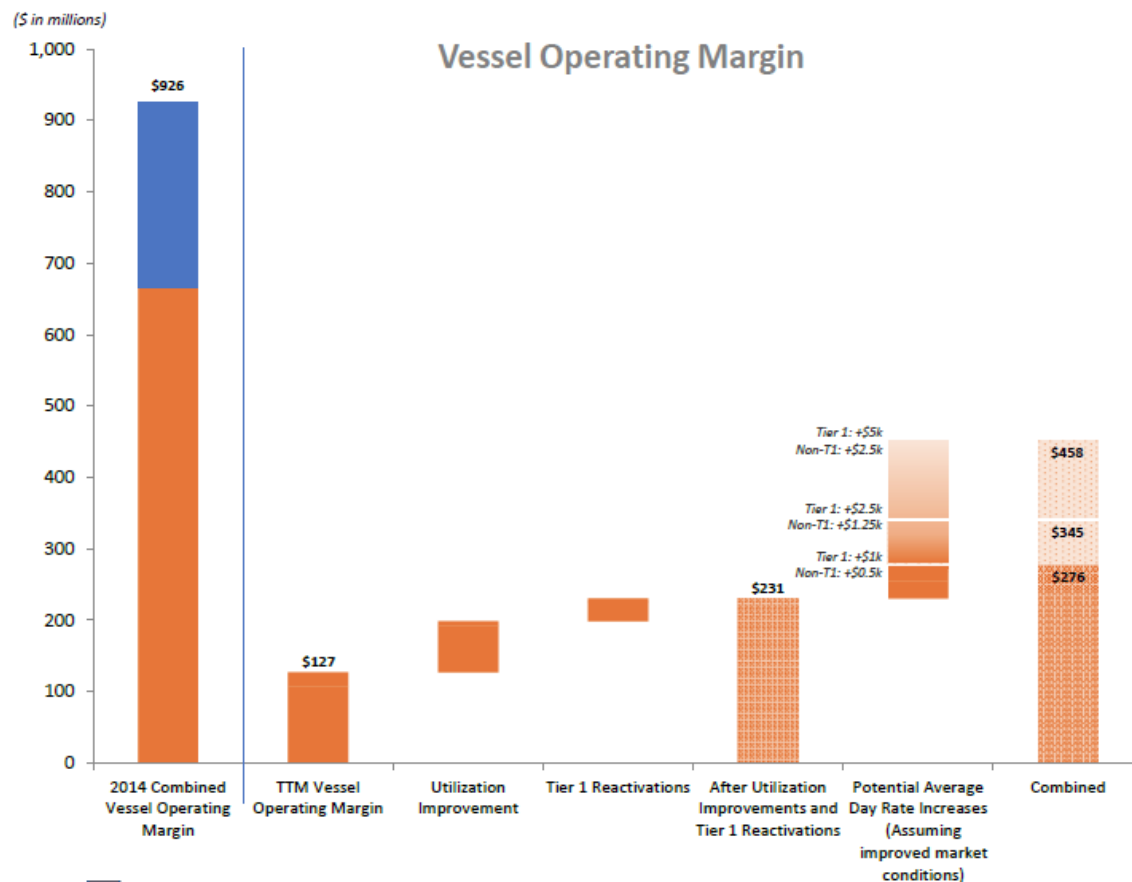
Continued Rationalization to Reduce Costs and Capacity

- Targeted cost synergies of \$45 million in 2019



- Relative to \$145 million of combined LTM G&A, combined company's **run-rate annual G&A is expected to approximate \$100 million**
- Relative to LTM, Tidewater and GulfMark expected to achieve ongoing, stand-alone cost reductions of approximately \$15 million, with **transaction-related cost synergies of approximately \$30 million estimated to be achieved by Q4 2019**

Combined Fleet: Leveraged to Offshore Recovery

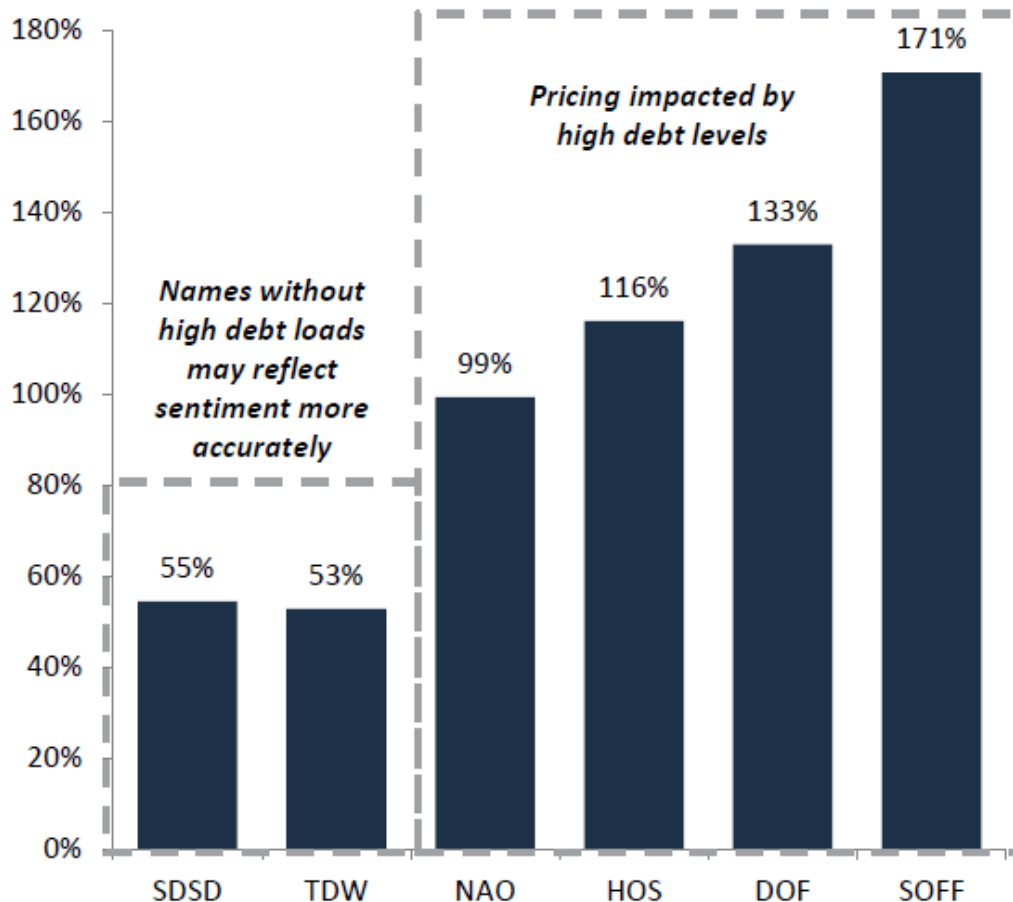


- Combined vessel operating margin of ~\$127 million for the 12 months ending March 31, 2018
- Market recovery assumes utilization improves to 85% for the active vessels (82 Tier 1 and 91 active non-Tier 1 vessels), which is expected to generate an additional vessel operating margin of \$72 million
- Reactivation of a combined 20 currently idle Tier 1 vessels, is estimated to generate additional annual vessel operating margin of \$32 million
- Recovery in demand due to improved market conditions may engender pricing improvements independent of this transaction.
- Each \$1,000 of rate increase on the Tier 1 vessels (\$500 increase for the active non-Tier 1 vessels) is estimated to generate additional annual vessel operating margin of ~\$46 million

1. This sensitivity analysis is not meant to be a prediction of future earnings performance, but simply an indication of the impact on vessel operating margin as a result of varying operating assumptions.

Margin of Safety

EV to GAV (current second-hand market)



- Significant discount to tangible book value
- Significant discount to replacement cost
- Significant discount to second-hand value

Fleet Value

Vessel NBV at September 30, 2018

	<u>Vessel Count</u>	<u>NBV (in millions)</u>	<u>Average Age (years)</u>	<u>Avg NBV / Vessel (in millions)</u>
Deepwater vessels				
PSVs > 3,800 DWT	42	\$ 361.8	6.0	\$ 8.6
PSVs < 3,800 DWT	37	\$ 163.6	9.0	\$ 4.4
Deepwater AHTS	9	\$ 37.4	9.4	\$ 4.2
	<u>88</u>	<u>\$ 562.8</u>	<u>7.8</u>	<u>\$ 6.4</u>
Towing Supply Vessels	80	\$ 204.8	9.8	\$ 2.6
Other Vessels	30	\$ 7.2	12.5	\$ 0.2
Total - All Vessels	<u>198</u>	<u>\$ 798.6</u>	<u>9.3</u>	<u>\$ 3.9</u>

Note: Excludes GulfMark vessel fleet

Risks To Our Thesis

- Oil prices could fall further or remain at current levels for an extended period leading major oil companies to defer capital expenditures and delay deepwater developments.
- Ship owners could delay scrapping older vessels.

Disclosure: Ownership Information

<u>Disclosures</u>	Tidewater, Inc. (NYSE:TDW)
Robert Robotti and/or members of his household has a financial interest in the following securities	Yes
Robotti & Company or its affiliates beneficially own common equity of the following securities	Yes
Robotti & Company or its affiliates beneficially own 1% or more of any class of common equity of the following securities	Yes
Robert Robotti serves as a Director or Officer or Advisory Board Member of the following securities	No

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Questions

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