HELMERICH & PAYNE
Fiscal Fourth Quarter 2024 Earnings Call
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Operator: Good day, and welcome to Helmerich & Payne's Fiscal Fourth Quarter Earnings call. At this time, all participants are in a listen-only mode. Later, you will have the opportunity to ask questions during the question-and-answer session. You may register to ask a question at any time by pressing star one on your telephone keypad. Please note that today's call will be recorded, and I'll be standing by if you should need any assistance. It is now my pleasure to turn the call over to Dave Wilson. Please go ahead.

Dave Wilson: Thank you, Todd. Welcome, everyone, to Helmerich & Payne's conference call and webcast for the fourth quarter and full fiscal year of 2024. With us today are John Lindsay, President and CEO, and Kevin Vann, Senior Vice President and CFO. Both John and Kevin will be sharing comments with us, after which we'll open the call for questions. Before we begin our prepared remarks, I'll remind everyone that this call will include forward-looking statements as defined under the securities laws. Such statements are based on current information and managed expectations as of this date and are not guarantees of future performance. Forward-looking statements involve certain risks, uncertainties, and assumptions that are difficult to predict. As such, our actual outcomes and results could differ materially. You can learn more about these risks in our annual report on Form 10-K, our quarterly reports on Form 10-Q, and our other SEC filings. You should not place undue reliance on forward-looking statements, and we undertake no obligation to publicly update these forward-looking statements. We also make references to certain non-gap financial measures, such as segment operating income, direct margin, and other operating statistics. You will find the gap reconciliation comments and calculations in yesterday's press release. Finally, as you will hear, probably a couple times in this call, unless expressly identified otherwise, statements majoring this call relate to H&P on a standalone basis and do not include any amounts or guidance related

to KCA Deutag or on a client enterprise basis resulting from the pending KCA acquisition. With that said, I'll turn the call over to John Lindsay.

John Lindsay: Thank you, Dave. Good morning, everyone, and we appreciate you joining us today. The company delivered another strong year in fiscal 2024. I'm extremely pleased. We continue to lead the industry in safety, customer satisfaction, and margin generation. Looking back on our expectations and how we executed on our strategies in a challenging market, three elements stand out in my mind as being noteworthy and will continue to be pivotal for the company going forward.

First, our focus on achieving the best customer outcomes by executing strategies that deliver safety, operational expertise, and technology solutions continue to generate superior contract economics and industry-leading rig performance and margin generation. Second, our teams swiftly adapted to a market where customer consolidation and commodity price volatility was driving a lot of rig churn in the US. In tandem, these two factors drove the US industry rig count down about 5% year over year. While the H&P North America solutions rig count experienced a slight increase. Under those conditions, our teams delivered solid performance, generated healthy margins, and grew market share to approximately 28%. The third element is the progress we made in our international solutions growth strategy. We've delivered five of eight FlexRigs in Saudi Arabia, and the first rig has commenced operations for Aramco.

Additionally, we're executing on the transformational acquisition of KCA Deutag, which will position us as a global drilling leader. We expect to close that transaction in December or January, depending upon regulatory approvals. Looking at the fourth fiscal quarter results, our North America solutions rig activity trended as we expected up a handful of rigs from the previous quarter and exiting at 151 rigs. Along with the increased rig count, the North America solutions segment was also able to sustain healthy direct margins, which, again, is a testament to our ability to deliver value to our customers through our drilling solutions approach.

Heading into the first fiscal quarter of 2025, we expect our rig count to remain relatively flat as incremental demand for rigs is matched with rigs rolling off of existing commitments. Similarly, we expect North American solutions direct margins to remain

relatively flat during the quarter. From a big-picture perspective, the rig count in the US has been choppy over the past year. Between customer consolidation, low natural gas prices, and overall performance improvements, the industry's super-spec rig count is down approximately 30 rigs from the high in 2024. Given that H&P increased activity in '24, we've demonstrated that safety, efficiency, and value creation delivered with leading technology and performance-based contracts lead to profitable growth.

During the year, we have also seen private E&P activity increase for the FlexRig fleet, and our teams continue to work closely with a broad array of customers across our industry. Our increase in market share and margins throughout the year were directly in line with our delivery of more value as we assist customers by drilling longer laterals, reducing cycle times and well costs, and improving overall well performance.

We strive to deliver the best outcomes to our customers in a safe and predictable manner. The customer-centric approach allows us to align and execute in a manner that has all parties working together toward a common goal. Our performance contracts continue to drive alignment on operations and utilize our cutting-edge performance technologies. The industry super-spec rig count continues to grow market share in the US unconventional market and makes up approximately 76% of the active fleet. We believe that longer laterals, more complex well designs, and greater focus on well placement and reliability will remain the key factors that drive higher utilization and the adoption of digital technology and automation on the FlexRig fleet.

Looking ahead for 2025, we believe the rig count will tend to be flat to slightly up during the first half of '25 and will trend down through the year similar to 2024. That, of course, could change if commodity prices move either up or down dramatically. Our rig count has been range-bound between 144 and 156 rigs for 18 months in North America, and all indications with current commodity pricing is that is going to be the outlook. In our international solutions segment, a milestone event for H&P occurred in Saudi Arabia. Our first FlexRig started in a Saudi unconventional field, and the next four FlexRigs are in various stages of moving and rigging it. These results are a culmination of over five years of hard work by the H&P team. I'm pleased with the current progress and excited about delivering returns on our investments and our team's focus on safety and reliability.

Another significant achievement during fiscal 2024 as the announcement of the acquisition of KCA Deutag. This acquisition is a transformative event for the company and establishes H&P as not only the leader in the US land industry but also a global leader in onshore drilling and significantly accelerates our Middle East expansion. I'm especially pleased that as we've been able to spend more time with the KCA Deutag team since the acquisition announcement as we plan for integration, it's been confirming that this transaction will be a great fit from a cultural perspective. We. share a customer-centric approach, a safety-first mentality, and a commitment to providing exceptional performance and value for customers.

There are many reasons to remain excited about the KCA Deutag acquisition, but since our announcement in July, there have been several notifications in Saudi of multiple rigs being suspended, both onshore and offshore, and some of the KCA Deutag rigs were included in those suspensions. As a provider of rigs in Saudi Arabia, KCA announced in September, they had received eight contract suspensions of their rigs for a period of up to 12 months. Having rigs suspended is not without precedent in this cyclical industry. Despite these near-term headwinds, the strategic rationale and reasoning for this acquisition remain firmly in place.

First, it accelerates our international growth strategy. Secondly, it enhances our presence in the Middle East conventional rig market, specifically in Saudi, Oman, and Kuwait. Third, it increases the company's global scale and revenue diversification, not just geographically, but also by adding a sizable asset light offshore management business. Fourth, the addition of a world-class manufacturing and energy services capability. Finally, strengthening and diversifying the company's long-term return on capital and cash flow profile. Kevin will provide some additional facts during his remarks regarding the acquisition and will also provide some additional clarity regarding our cash position, our strategy and ability to de-lever the balance sheet.

We have every confidence that the KCA Deutag acquisition will strengthen H&P's overall cash flow profile with a more diversified and durable revenue stream in the long term. Going forward, we will continue to execute on our growing portfolio of strategic objectives. First, we will build on and increase the durability of our free cash flow and continue success in our North America solutions business. Along with that, we will be

focused on successfully integrating H&P and KCA Deutag. De-levering our balance sheet and seeking opportunities to export the FlexRig's unconventional successes we're achieving in the US to a now larger footprint of international unconventional market. We'll also maintain our focus on delivering superior returns for our shareholders as we expect to maintain our peer leading-based dividend and to maintain our strong focus on disciplined capital allocation.

In closing, during fiscal 2024, our teams remained steadfast and are operating a robust business aimed at achieving the best outcomes for our customers, employees, and shareholders. We successfully improved our sustainability profile by reducing potential safety incidents by approximately 17% year over year and decreasing normalized GHG emissions over 10%. By having a customer-centric approach, we improved our cost per lateral foot drilled and enhanced well consistency. We've also strategically deployed our technology and adjusted our commercial approach to help customers achieve their objectives. Another key element in our 2024 success was a focus on our people. We prioritized improving quality of life on the rig and invested in career development. Creating a strong foundation for growth across the company. Our world-class employees known for their adaptability and drive have always been at the heart of our achievements.

Looking ahead, the H&P team is committed to delivering even greater results for our shareholders in 2025 by leveraging our distinctive capabilities. Now, I'll turn the call over to Kevin.

Kevin Vann: Thanks, John. Today, I will review our fiscal fourth quarter and full-year 2024 operating results and provide operational guidance for the first fiscal quarter of 2025. Additionally, I also want to spend some time to address our annual fiscal 2025 projections, our financial position and provide an update on our strategic and transformative acquisition of KCA Deutag and our focused efforts to lower our leveraged position resulting from it.

Let me start with highlights for the recently completed fourth quarter and fiscal year ended September 30th, 2024. In general, the fourth quarter looks very similar to the third quarter of this year. I'm pleased to say that we did not miss the fairway on any of our guided metrics. We were right down the middle. The company generated quarterly revenues of $694 million versus $698 million in the previous quarter. Correspondingly,

total direct operating costs incurred were $409 million for the fourth quarter versus $418 million for the previous quarter. General and administrative expenses totaled $67 million for the fourth quarter and $245 million for fiscal 2024, which is in line with our expectations. The fiscal ’24 effective tax rate was approximately 28.5%, which is at the high end of the previously guided range due to some acquisition costs that could not be expense for tax purposes.

To summarize fourth quarter's results, we are reporting net income of $0.76 per diluted share versus $0.88 in the previous quarter. Earnings per share for the full year of $3.43 per share was negatively impacted by some unusual of non-cash items, and absent those items would have been $3.50 per share. Capital expenditures for the fourth quarter were $106 million with full year 2024 totaling $495 million, which was in line with our expectations from the July earnings call. H&P generated $169 million in operating cash flow in the fourth quarter and a total of $685 million during the full year. Our cash flow generation helped $495 million in capex, $168 million in base and supplemental dividends, and $51 million in share repurchases.

Now, turning to our three segments beginning with the North American solutions, we averaged 151 contracted rigs during the fourth quarter, which was almost flat with the third. We exited the fourth quarter with the same number we averaged during the quarter of 151 rigs, which was consistent, again, with our expectations going into the quarter. Segment direct margin for North American solutions was $275 million, which was above the midpoint of our July guidance range. Total segment per day revenues decreased slightly to $39,100 during the fourth quarter from $39,840 per day in the third quarter. Direct margins for the quarter were $19,800 per day versus $23,300 per day during the third quarter.

Looking ahead to the first quarter of fiscal 2025 for North American solutions, as of today's call, we have 149 contracted rigs working. As we have stated, we expect our rig count to remain relatively flat as all market sentiment continues to point to such. That said, we expect to end our first fiscal quarter with between 147 and 153 rigs working and our current revenue backlog from our North American solutions fleet is roughly $700 million for rigs under term contract down from $800 million in the previous quarter. As of today, approximately 57% of the US active fleet is on a term contract. Additionally, as

our performance contracts continue to drive alignment with our customers, we currently have roughly 50% of our rigs on them.

In the North American solution segment, we expect direct margins in our first quarter to range between $260 to $280 million as we don't see a material change in the expected margins based on our current contractual structure. Expectations around operating cost and rent count expected to be roughly flat compared to the fiscal year fourth quarter. Regarding our international solutions segment, we had approximately 16 rigs at September 30th, which is a little higher than the third quarter as rigs under contract have been delivered to Saudi and are being prepped for startup. Note these rigs will not generate revenue until they spud. Hence there is not the corresponding change in expected direct margin in the first physical quarter of 2025.

Accordingly, aside from many foreign exchange impacts, we expect our direct margins to be roughly flat for the first quarter of fiscal year 2025 when compared to our fourth quarter. Turning to our offshore Gulf of Mexico segment, we generated a direct margin of approximately seven million during the quarter, which was within our guided range. As we look toward the first quarter of fiscal 2025 for this segment, we expect that it will generate, again, between seven to nine million of direct margins.

Now, I'd like to transition to the first quarter and full year 2025 for certain consolidated and corporate items. First, I want to be very clear that any guidance I have given up to this point and for the remainder of this call is for standalone H&P And does not include the impact of combining KCA Deutag into our expected results. In 2025, our strategy to maintain our strong balance sheet together with investment-grade credit metrics will not change. We continue to invest in maintaining our market-leading North American solutions fleet and to deploy capital prudently to international growth opportunities.

Fiscal 2025 gross capital expenditures are expected to be approximately $290 to $325 million with around 85% of it expected for North American solutions, including maintenance per active rig of approximately one million, which is more in line with historical levels, planned rig-related equipment upgrades, and six planned walking conversions. The international bucket represents the balance of capex and is primarily for

rig maintenance and the remaining spend on the seven-rig tender award with Saudi Aramco.

Our fiscal 2025 budget capex represents a $190 million or 40% decrease to our 2024 actuals. As such, this frees up a substantial amount of cash that will be allocated towards debt reduction in the future. Depreciation for fiscal 2025 is expected to be approximately $400 million. Our sales general and administrative expenses for full fiscal '25 year are expected to be approximately $235 million, which is slightly down from 2024 actuals. Our investment in research and development remains largely focused on solutions for our customers such as drilling automation, wellbore quality, and power management. We anticipate R&D expenditures to be roughly $32 million in 2025.

Based upon estimated fiscal '25 operating results and capex we are projecting a consolidated cash tax range of $140 to $196 million. Now looking at our financial position, we had cash and short-term investments of approximately $510 million on September 30th, 2024. Including the availability under our revolving credit facility, our total liquidity is approximately $1.5 billion. Included in the short-term investments balance are the shares of ADNOC drilling for which we sold after September 30th through a private placement that yielded proceeds of $197 million. This amount was substantially more than what we had originally anticipated when we announced our debt reduction plans associated with the KCA Deutag acquisition. We also have $1.2 billion in restricted cash as a result of the bond deal we did in September. These funds along with an unfunded $400 million term loan are earmarked for the financing of the KCA Deutag acquisition. The bonds have staggered maturities of three, five, and 10 years with an average interest rate of roughly 5%.

As John indicated, we continue to work through the customary closing conditions and regulatory approvals for the acquisition and are expected to close it around - sorry, expected to close prior to December 24th or roughly right thereafter. Regarding cash returns to shareholders and as a reminder, we plan to maintain our long-standing base dividend of approximately 100 million in 2025. Also, as part of our deleveraging efforts, we have suspended the supplemental dividend, which, again, was roughly 68 million in fiscal 2024. That amount along with share repurchases of 51 million last year and the reduction in planned capex of 190 million resulted in over 300 million of available free

cash to reduce debt. Inclusive of the funds raised by the ADNOC drilling equity sale together with the rates achieved on bond financing, our outlook to reduce our debt level during 2025 and 2026 is still right on track. With that, that concludes our prepared comments for the quarter, and we'll now turn it back over to Todd for questions.

Operator: Thank you. At this time, if you would like to ask a question, please press star one on your telephone keypad. If you find that your question has been answered, you may remove yourself by pressing star two. Once again, to ask a question, please press star one at this time. Our first question will come from Arun Jayaram with JP Morgan. Please go ahead.

Arun Jayaram: Yes. Good morning, gentlemen. I wanted to get your thoughts on what you view as the potential run rate for KCA Deutag. John, you mentioned some of the one-year rig suspensions. I know at the time of the acquisition, you'd highlighted around 340 million of run rate EBITDA plus 25 million of synergies. If we're going to incorporate some of the suspensions, what would you give us in terms of a range of EBITDA on a run rate basis for KCA thinking about 2025?

Dave Wilson: We haven't really given any other additional guidance. Arun, you can't really quantify right now. They say for up to 12 months. It could be six months. It could be 12 months. It could be two months. So, it's too much of a big of a range to really give you anything with clarity.

Arun Jayaram: Okay. Fair enough. I wanted to talk about your outlook, John, that you highlighted for North American solutions. You mentioned that you expected maybe the rig count to be flat to up in the first half of the year and maybe have a similar profile as this year with some seasonality maybe at the back half trends down a little bit. How would you expect HP, your activity, to trend in this outlook if I characterized that correctly?

John Lindsay: No, you did, Arun. I think we'll perform well, as I mentioned in my prepared remarks. We have focused really hard in delivering value to customers and maintaining pricing. Really trying to generate that 50% gross margin target that we've been talking about now for several years. During that process, even in a declining market, we've been able to pick up a little bit of share that really hasn't been our focus. I think when you look at the wells

that are being drilled, the complexity of the wells, you hear more and more about three-mile laterals, four-mile laterals, there's various complexities related to the wells that were drilling. So, super-spec capacity rigs, technology, having a good digital technology platform is really helping us deliver greater value for customers. So, I think it's a great opportunity for us to continue to pick up share while defending pricing. Again, just based on this 50% gross margin target that we have. Of course, there's a lot that we don't know in terms of nat gas prices. I think if natural gas prices were to improve, then I think there's an opportunity to put some additional risk back to work. Based on what we're seeing right now, I think it's a very similar trend to what we saw in 2024, and I think in that environment, we'll perform pretty well.

Kevin Vann: Just to circle back onto your question about projections in relationship to the rig suspensions. Obviously, as Dave said, it's almost impossible to really model that out. We're limited in terms of what we can and can't do and what we can and can't talk about just because of the fact that the deal has not closed. If you look at it through my lens, and you look at the things that I do have clarity on versus the way we had originally modeled them whenever we signed the deal back in July, some things have definitely come in positive in our favor.

Number one, if you look at just the amount of capex reduction that we've got on our side going to help us to reach the leveraged goals that we had stated by the end of 2025 and 2026 coupled with the original purchase for our sales price associated with the ADNOC drilling shares. That's $60 or $70 million dollars higher than what we had originally modeled whenever we were thinking about our deleveraging plans. In addition to that, the interest rate that we achieved on the bonds, that came in significantly lower than they originally planned upon financing. So, the items for which we've got clarity on puts us really on track to what we had originally anticipated, which was being below a turn of leverage by the end of 2026. Actually, halfway between '25 and '26. Based upon the projections that we had at the time in which we did the deal, we're still right on track to get back to that level.

Arun Jayaram: All right. Thanks a lot.

John Lindsay: Thank you.

Operator: Thank you. Our next question will come from Eddie Kim with Barclays. Please go ahead.

Eddie Kim: Hi. Good morning. I just wanted to circle back on the commentary on the forecast of the US rig count next year. Reflects slightly up in the first half before trending down in the second half. Does that second-half trajectory trending down - does that reflect normal seasonality, or is there something more to it than that? I think there was an expectation in the market that potentially some gas rigs or gas activity could increase in the second half of the year. Should we read into your commentary that you don't believe that that is going to take place, that might get pushed out some time into 2026? How should we read into the commentary about the trending down in the second half?

John Lindsay: Yes, that's a good point. We've actually seen this over the last couple of years, and again, I think we had mentioned we've been in this range of rig activity of 144 to 156 rigs over the last 18 months or more. That trending down in the second half of the year is not anticipating an improvement in gas prices. Obviously, we're hopeful that there will be an improvement in gas prices, but that isn't what we're expecting right now. I think the downward trend is historically related to budgets, related to performance. In our case, we've been successful in being able to high grade. The additional share that we have picked up has really been a function of high grading. So, that's been beneficial for us, but you know how hard it is to predict these rig counts. It seemed to us logical that without anything changing in terms of the commodity deck, that we would see this same trend that we saw last year, where we're seeing a little bit of increase in calendar Q4 and then calendar Q1, and then it peaks and then starts declining slightly. Again, it's about 30-rig differentiation from the peak of activity in that March-April time frame to where we are today.

Eddie Kim: Got it. Got it. That's very clear. Thank you. My follow-up is just on your free cash flow expectations for next year for standalone HP excluding KCA Deutag. You did about $190 million free cash flow this fiscal year. For next year, you got capex to decline by almost $200 million year over year. Just doing simple math here, I mean, is there any reason we shouldn't expect free cash flow to potentially be up close to that $200 million level for next year, or what, if any, offsets should we be thinking about as it relates to your free cash flow expectations?

Kevin Vann: No, you're exactly right. The math is pretty simple when you're cutting 200 million, excuse me, capex out of 2025 projections just because of you should see some of the capital efficiencies start to come into play as a result of just the expected earnings and free cash flow to be generated in '25. What we're anticipating with margins being consistent in 2025 versus 2024, your simple math is right on.

Eddie Kim: Okay. Got it. Great. Thank you for that, caller. I'll turn it back.

John Lindsay: Thank you.

Operator: Our next question will come from Doug Becker with Capital One. Please go ahead.

Doug Becker: Thank you. Just to start off on the US guidance for margins to be flat heading into the fiscal first quarter. Is there any shift in terms of that revenue per day or costs? Just trying to think about a pricing stable, and we're still in that $19,000 to $19,500 a day on the cost side going forward.

John Lindsay: I think that's what we're modeling is a similar both revenue and cost side of the equation.

Kevin Vann: I think what you've seen over the last couple of quarters is consistent with our expectations going into 2025, which around that $19,000 to $20,000 per day.

Doug Becker: No, that's really encouraging in the current environment. Then shifting to international, continue to hear rumblings about potential for additional suspensions in Saudi Arabia. Just from your market intelligence, do you have any context? Is it something you think is likely, or we shouldn't read too much into that?

John Lindsay: I think we all see the same rumors and commentary, and obviously, we're not in a position to comment on it. There was a question earlier about the suspensions, and there was an announcement by KCA back earlier, a month or so ago, about a suspension of the eight rigs. As we've stressed, we're still two separate companies until closing. So, it really isn't appropriate for us to comment. They actually had a public announcement on this. So, there hasn't been any additional updates on that. We have seen in the various publications

that there's around 50 rigs overall in the industry that have been suspended, some onshore, some offshore. That's really about all that we can speak to is really the same thing that everybody else sees at this point.

Doug Becker: Fair. You can't speak to KCA Deutag, but certainly, it doesn't sound like your conversations for the rigs that you're bringing in, those conversations, there's been nothing that suggests?

John Lindsay: Correct. We have the five rigs in country. The one has spud, and the others are in various positions in terms of getting ready to spud. So, no, we have not had any notifications of suspensions of the FlexRigs.

Doug Becker: Got it. Got it. Thank you very much.

Operator: Thank you. Our next question will come from Scott Gruber with Citigroup. Please go ahead.

Scott Gruber: Yes. Good morning. The resiliency of your domestic margins has been really impressive and looks to continue here. So, I'm curious. In light of the performance-based contract model that you guys pushed over the last two years, as we decompose the stable margins, are you seeing basically flat-base day rates on the rig and a relatively flattish bonus contribution, or has the size and the breadth of the bonus contribution increased offsetting some modest erosion in base rates? How would you describe the impact of the bonuses on the stability of your domestic margins?

Dave Wilson: Yes, Scott, on that with regards to the performance contracts, historically, we see an uplift of $1,000 to $2,000 a day on the margins relative to what they would get under a straight day rate contract. These last couple of quarters, that's trended to the higher side, and that's something that we've worked really hard to do. Hopefully, in the future, I could change that range to something even higher, but right now, we're still in that $1,000 to $2,000 a day. For the last couple quarters, it's been towards the top into that range.

John Lindsay: I think the other thing to stress here, Scott, is that in this performance contract, it's a win-win. So, when we're doing better, if we're doing better, our customer is also doing better

because they're getting well-delivered at a faster pace and at lower cost. So, that's the beauty of the performance-based contract when constructed properly is that both parties win. As Dave said, we had a great quarter last quarter, and that also means that our customers are doing better as well.

Scott Gruber: No, it's great to hear the model that you're providing benefit and capturing some of the efficiency gains that you guys are helping to deliver. As you think about 2025, are you able to push the model any further in terms of the penetration rate across the customer base? Are you having success, say, pushing it into private? Generally, with these efficiency gains that the industry is achieving, how have the benchmarks changed in terms of capturing the next round of bonus awards?

John Lindsay: Well, I think performance-based contracts, like anything, there's an adoption, and we've great adoption. We've also had some churn with rigs, but I do think we'll have some additional customers adopt performance base. If you look at it today, it's really across the board. I mean, we have both super majors, large independents, and we have private companies that also are investing in the performance-based contracts as well. So, I think there's a lot of upside opportunity there. It's a great opportunity for us to deploy our technologies, our digital technology. There's a lot of advantages associated with that. The adoption curve in general on technology is increasing both on performance-based and nonperformance-based contracts. We see both of those as being very positive for the organization and quite frankly, really, really positive for the industry because it drives greater reliability. There's also a safety aspect to it that's very important. So, again, I feel good about the direction that it's trending, and I feel like we'll continue to have adoption in the coming year.

Scott Gruber: I appreciate the caller. Thank you.

John Lindsay: Thank you.

Operator: Thank you. Our next question will come from Jeff LeBlanc with TPH. Please go ahead.

Jeff LeBlanc: Good morning, John and team. Thank you for taking my question.

John Lindsay: Good morning.

Jeff LeBlanc: I wanted to ask, as certain companies continue to highlight drilling efficiency gains, how should we think about the stickiness of HP share of their fleet as these gains get incorporated in the forward outlook? Then, additionally, how should we think about the opportunity for M&A-related high grades as it appears that operators have been slower than we initially thought to migrate legacy programs to the preferred drilling contractor? Thank you.

John Lindsay: I don't know of anyone in the industry that isn't interested in higher levels of performance, number one, and I think even greater than that is the reliability. We continue to get that feedback from customers drilling a record well. That's great, but what they really want is reliably drilling wells at whatever level of performance that they're targeting. Doing that consistently day in and day out, in most cases, I don't see well complexity being less going forward. I think well complexity continues to increase. We see more three-mile laterals going to four-mile laterals. You've seen some of the U-turn configurations. It seems like there's going to be more of that sort of drilling. So, when you consider that, that means that companies like H&P, with the best rigs, best people, and the best technology are going to grow shares. So, I think there's a great opportunity there.

Maybe you asked this, but as I just think about it logically, tier 1 and then shifting more to tier 2 acreage, and I know - I don't have a real clear definition for myself tier 1, tier 2. What I do know is that typically speaking, customers are going to drill their best wells first, and then there's going to have additional acreage that - so we call it tier 2. That's going to, again, I think, drive a push towards greater efficiencies. I'd mention in my prepared remarks that the super-spec fleet today makes up 76% of the working fleet. I don't remember the exact numbers, but probably five years ago, it was 50% or maybe even less. So, super-spec capability requirements, better rigs are going to be what customers are going to want. So, that puts H&P in a great place here in the unconventional place here in the US and, really, I think globally as well.

Jeff LeBlanc: Thank you very much to the caller. I'll hand the call back to the operator. Thank you.

John Lindsay: Thank you.

Operator: Thank you. Our next question will come from Kurt Hallead with Benchmark. Please go ahead.

Kurt Hallead: Hey. Good morning, everybody.

John Lindsay: Hi Kurt.

Kurt Hallead: Hey. I always appreciate the caller. I'm really curious, right, John, that there's been a significant improvement in drilling efficiency, well efficiency. You talked about it quite a bit, not just on this call but over the past few, and how it's benefited H&P, right? So, I'm thinking along lines of what you're seeing right now, what do you think this means in terms of the potential for rig attrition in the US, right? So, the 76% of the total rig fleet going to 100% and these other rigs essentially just either dying off the vine. Then in conjunction to that, right, just high-level thought process for HP, right? Does it mean that there's a possibility that you can cannibalize some of your existing assets, and the rig count basically remains flat? Just high-level thoughts from you.

John Lindsay: Well, I don't think there's any doubt that well efficiencies are going to continue to improve for a lot of reasons. The rig and the downhole technology, the technologies that we're bringing there, all those things are going to drive greater efficiencies. I think what ends up driving additional rigs is a stronger commodity price environment. I mean, again, just look at how many rigs have been retired over the last 10, 15 years in the US. There'll be much less of that going forward now, I think, but I do think that's something that the industry will continue to watch very closely. I feel good about where we are in terms of positioning and the fleet that we have. Most recently, we had, what, 191 rigs, yes, and then we have another 10, 15 rigs past that that we could put to work. So, feel good about our positioning there. Anything you guys would add?

Dave Wilson: Kurt, the only thing I'd add, you talk about rig efficiencies around that. You look at our rig count in West Texas two years ago, we're within one or two rigs of that count today. So, obviously, there's been efficiencies gained in the markets in the past two years, but yet the H&P rig count in West Texas has remained pretty resilient. So, I think, as John

said, that speaks to the value proposition that we bring, the performance that we bring to customers, and when they see that, they want more of it, not less.

Kurt Hallead: That's great. Appreciate that. Appreciate that, caller. Now, maybe just a follow-up then in the context of your opportunity set in the Middle East as it relates to your existing contracts that you have and then KCA Deutag. I guess my question is along those lines, right? So, you got a bit of a makeshift taking place in Saudi, and they've shifted their spend a little bit off of the oil front and onto the now unconventional natural gas front, which after they've placed spec rigs. Do you ultimately see that there is the prospect for absolute displacement of unconventional bricks in Saudi going forward?

John Lindsay: I think it's early times, of course, on the unconventional side in Saudi, and I'm not an expert on the types of rigs that are drilling in the unconventional place. My sense is that there's rigs that are doing both conventional and unconventional work that are of the same rig category as that makes sense. The FlexRig is going into Saudi to do nothing but conventional - pardon me, unconventional drilling, which is what we're doing in Argentina, which is what we're doing in Australia. I think we may be doing some unconventional work in another country, too. Probably hesitate to mention at this stage. In general, we think that there are opportunities to do that. I think just logically the conventional rig fleet will continue to drill conventional oil and conventional gas. I don't know if that answers your question or not.

Kurt Hallead: Yes, generally. I think I'm just looking back at what's transpired here in the US, right? We've gone from the mechanical to AC rigs, and maybe in some ways, we've gone from conventional well drilling to unconventional, right? So, I was just curious if there's a similar trend we should be looking at starting to evolve in the Middle East. It's all incremental, John.

John Lindsay: Yes, I think there's a dramatic difference in the types of conventional wells that we drill or that are being drilled in the Middle East compared to the conventional work that oil wells that are drilled in the US. There's a night and day difference in the types of wells and the complexity with those conventional wells, the depths, the casing size, the pressure, 10,000, 15,000 pressure rating. So, there's a lot to be said. It's an entirely

different market, at least the way I look at it, in the Middle East than what we have in the US or then we've ever had in the US quite frankly.

Kurt Hallead: That's exactly what I was looking for. Really appreciate it.

Operator: Thank you. Our last question will come from Thomas Curran with Seaport Research Partners. Please go ahead.

Thomas Curran: Good morning, guys. John, I wanted to shift gears to technology and return specifically to the data point you shared in your opening remarks about having reduced GHG emissions by 10%. Could you expound on what contributed to that with the main drivers were and then update us on your strategy for powering a fleet? Over the long term, what fuel mix would you like to move towards for the US land drilling rig fleet?

Dave Wilson: You want me to go ahead?

John Lindsay: No, go ahead.

Dave Wilson: Tom, yes, part of that is just the efficiency of our fleet getting better, drilling more feet per day in less time. Another part of that is having more rigs on highline power, and really, it's a collaborative effort with the customer. So, going forward, we want to be able to provide the power solutions that they want and they need. So, that's really working hand in hand with our customers and providing whatever technology they choose, whether that's a diesel highline, natural gas, or combination of that, or using battery. We've explored all kinds, and we're willing to work with customers on whatever makes sense for them.

John Lindsay: The other thing I would add is that we do have automation associated with our on-off powering of our engines. So, the beauty there is that the engine load is going to be adjusted based upon the amount of load that we're actually undergoing, depending on whether you're drilling ahead or whether you're running casing, as an example. So, with a higher load, you're going to have three or four engines running with a lesser load, you're going to have one or two engines running. The beauty is you don't have to send a person down to turn off or turn on an engine. It does it autonomously. It does it automatically. So,

that's one of the advantages. I think what Dave said, at the end of the day, we're not paying for the energy on the location. So, whether it's a diesel or whether it's highline power, natural gas, we're going to do and support what our customer wants to do. We're definitely trending in the right direction and continuing to lower our emissions as we move forward.

Thomas Curran: Got it. Could you give us an idea of how many rigs within the current active fleet are on highline power or being fueled by natural gas?

John Lindsay: I think the highline power, the number last time I saw was between 15 and 15 and 20 rigs. The natural gas, I don't remember what our count is, but for us, it's a relatively small number of natural gas engines. It's just shifting from a diesel power to a natural gas is quite expensive, but there are some fuel mechs. There is some hybrid ways that we're going to be looking at that. We'll be talking more about that next year.

Thomas Curran: Got it. We'll stay tuned for that. Last one for me. As you guys have shifted the focus of your strategy solving for your international growth polls via the pending acquisition of KCAD, are you seeing any of your peers who own the remainder of the idle super-spec inventory in the US maybe step it up and either start to market some of their availability inventory into foreign markets, start to bid on tenders, or if they're already doing that, become more aggressive because they think the big dog with the lion's share of that inventory who had been taking that approach is now pivoting and therefore creating a bit of an opportunity? Just wondering if you're seeing any of your competitors change their behavior when it comes to exploring and pursuing international countries for their idle super-spec rigs.

John Lindsay: There have been a few examples where some of our peers in the US are moving some of their assets. I think some assets that were idle. Some assets that over time had been active, but they weren't as successful in a particular base and decided to send them to international markets. I do think that that is possible. With our larger footprint, with KCA Deutag, we definitely feel like we've got exposure to countries that we didn't have exposure to before with FlexRig fleet. Like we did in Saudi, the ability to mobilize additional FlexRigs out of the US to international markets, I think, present a great opportunity. So, I'm sure others are looking at that as well.

Thomas Curran: Makes sense. Thanks for squeezing me in and taking all my questions. It was very helpful.

John Lindsay: Thank you.

Operator: Thank you. At this time, I'd like to turn the call back over to John for any additional or closing remarks.

John Lindsay: All right. Thank you, Todd. In closing today, the company's going to continue to strive to execute with a customer-centric approach and a safety focus that's really ingrained in our company culture. As we've said, we look forward to closing the acquisition with KCA Deutag and taking advantage of the additional opportunities that that acquisition will provide us and the opportunities that will come up in the coming quarters. I really appreciate our people's efforts on the integration front. We have a lot going on. At the same time, we've got pre-closed integration ongoing. Continuing to focus on delivering value for our customers and doing it the H&P way, and as always, keeping safety at the forefront of everything we do. So, thank you again for joining us, and we'll talk to you later. Thank you.

Operator: This concludes the Helmerich & Payne Fiscal Fourth Quarter Earnings call. Thank you for your participation. You may disconnect at any time.

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