Helmerich & Payne
Fiscal First Quarter 2025 Earnings Call
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Operator: Good day everyone and welcome to today's Helmerich & Payne fiscal first quarter earnings call. At this time, all participants are in listen-only mode. Later you 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 (1) on your telephone keypad. Please note that this call is being recorded. I will be standing by should you need any assistance.

It is now my pleasure to turn the program over to Mr. Wilson, Dave Wilson, VP of Investor Relations.

Dave Wilson: Thank you, Shana and welcome everyone to Helmerich & Payne conference call and webcast for the first quarter of fiscal year 2025. With us today are John Lindsay, President and CEO and Kevin Vann, Senior Vice President and CFO. Both John and Kevin will be sharing some prepared 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 include forward-looking statements as defined under the securities laws. Such statements are based upon current information and management 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 reference to certain non-GAAP financial measures such as segment operating income, direct margin, adjusted EBITDA and other operating statistics. You'll find the GAAP reconciliation comments and calculations in yesterday's press release and earnings presentation.

With that said I'll turn the call over to John Lindsay.

John Lindsay: Thank you, Dave. Hello everyone and thank you for joining us today and for your interest in H&P. During the first fiscal quarter of 2025 the company continued to execute at a high level. Operational and financial results in our North America solutions segment remained the best in the industry reflecting our relentless focus on providing value to our customers. We also made significant progress on two key fronts of our international growth strategy during the quarter. First as part of our organic growth plan we completed the exportation of eight flex rigs into Saudi Arabia where they will be drilling in unconventional natural gas plays. Second after receiving the final regulatory approvals for the KCA Deutag acquisition we were able to close on the transaction a couple of weeks ago, which now makes H&P a global leader in providing onshore drilling solutions. I'll talk more about the significant attributes of this transaction in a few minutes, but we believe this deal positions us as the premier global drilling company with global scale, industry leading technology, a fantastic group of customers and best in class workforce.

Collectively these achievements in North America Solutions and International continue to demonstrate our ability to execute across multiple capital allocation goals investing in the business for the long term. Providing shareholder returns and maintaining a strong financial position which prioritizes debt reduction. Throughout its long history, H&P has differentiated itself from competitors by developing distinct competitive advantages. In many ways those distinctives revolve around the attributes of our rigs, our people, our processes and our

technology, but importantly scale and managing through the cycles are also crucial differentiators.

We have long been known as an industry leader in the U.S. with our super-spec FlexRig fleet having over 35% market share today. We have a strong presence in all major basins in the U.S. highlighted by our market leading presence in the Permian where we have around a hundred rigs running today. The continued growth in market share of super-spec rigs also benefits H&P and we remain the market share leader with public E&Ps by a very wide margin in addition to our leading position with private E&P operators.

Our market share leadership is a testament to our customer-centric approach which allows us to align and execute in a manner that has all parties working together toward a common goal. Innovations like performance contracts have enabled the company to further accentuate its distinctive advantage by driving alignment around customer value creation while deploying cutting-edge performance technologies. This focus coupled with our operating and technical performance is why I believe our customer partnerships are stronger than they have ever been. Through these efforts in North America Solutions we continue to earn returns in line with our cost of capital and demonstrate our ability to realize these results through the cycle. For example, in 2024 it was a second year in a row where our margins have remained at healthy levels and we accreted market share despite industry rig count declines. Our disciplined approach will continue to provide us the opportunity to provide strong and consistent margin generation and serve our customers in the best way possible.

Turning attention towards our international solutions for the past several years we have spoken about the strategic importance of expanding our scale geographically especially in the Middle East. The KCAD acquisition along with the legacy H&P organic growth initiatives provides us with a market leading position in the Middle East. Let me quickly reiterate the merits of the transaction. First the legacy KCAD's assets and operations will help accelerate that international growth strategy and establish H&P as a global leader in onshore drilling. Second

we will have a robust geographic and operational mix across the US and international crude oil and natural gas markets. This will diversify where and how we generate revenues. Third we expect the transaction to generate attractive financial returns. The legacy KCA has a solid backlog of work totaling approximately $5.5 billion supported by blue chip customers. Now that we've closed the acquisition we will be a more financially resilient company with cash flow diversification across leading global markets. The combined company will share our customer centric approach, safety focus, and commitment to providing exceptional performance and value.

I'm encouraged by the excitement from customers over the past few weeks I've been in Saudi, in Oman, and in Kuwait and there is excitement to work with H&P. In addition, we're seeing multiple avenues of organic growth around these assets as we've heard from numerous customers that are looking forward to working with H&P in their markets. The new company will bring these values forward and continue to operate in the H&P way.

Now, turning to the outlook for 2025, Kevin's going to hit on these in more detail, but there are some near-term headwinds surrounding our international growth plans, namely the rig suspensions related to the KCA acquisition and the startup costs associated with our organic growth in Saudi. I want to stress that we believe these are temporary, short-term challenges often associated with this highly cyclical industry and they don't reflect the significant value we believe will be created by H&P over time. Specifically regarding KCA's legacy operations in Saudi, the first rig suspension was last August and those are one year duration suspensions, so as of now we're not planning for a significant contribution in direct margin from those rigs in the near term.

With regards to direct margins in Q2 of 2025 for the North America solutions segment, we expect them to remain at healthy levels, but we do expect a modest decline due to fewer days in the quarter and the normal variability that we see with revenues and costs. One thing that strikes me as I look at our results across the last couple of years is the resilience of our margins in North America,

accomplished because of the hard work our sales and operations teams have delivered, and while we may see some quarterly variation, our disciplined and customer-centric approach continues to generate consistent margins and free cash flow.

In closing, we strongly believe there are transformational aspects of the KCAD acquisition. The new H&P has global scope and scale with exposure to the best hydrocarbon basins in the world and the ability to profitably grow in multiple markets around the world. North America's solutions is resilient and continues to deliver strong and consistent margin generation while providing innovative solutions for our customers. We have an achievable plan to de-lever and maintain our investment grade credit rating. We have a new business called H&P, which is another financial differentiation between us and our peers. Our international business has the means to quickly grow revenues from this lower starting point, and we're already seeing numerous opportunities for synergies across the combined company. Our offshore and other business with manufacturing and technology solutions provide capital-efficient free cash flow.

Finally, the H&P team, which now includes those from legacy KCA, remains committed to continue delivering the drilling outcomes our customers desire in a safe and efficient manner. H&P will also remain disciplined and committed to prudent capital allocation for our shareholders, like we have for over 60 years as a public company with a focus on maintaining a strong financial position, financing our significant free cash flow, growth CapEx opportunities, and returns to shareholders.

Now, I'll turn the call over to Kevin.

Kevin Vann: Thanks, John. Today, I will review our fiscal first quarter 2025 operating results, provide guidance for the second quarter, which will include a partial quarter of our expanded international business resulting from the closing of the KCAD acquisition, update remaining full year fiscal ‘25 guidance as a appropriate and comment on our financial position.

Let me start with a few highlights for the first fiscal quarter into December 31, 2024. The company generated quarterly revenues of 677 million versus 693 million from the previous sequential quarter. The quarterly decrease in revenue was due primarily to slightly lower revenues in our North American Solutions segment. Total direct operating costs were 413 million for the first quarter versus 409 million for the previous quarter. This increase is primarily attributable to our startup costs associated with our commencement of legacy unconventional operations in Saudi Arabia. General and administrative expenses were approximately 63 million for the first quarter, a decrease of approximately 4 million on a sequential basis. Still these costs were higher than expectations, but primarily attributable to the payout on our annual incentive plan rather than a recurring increase.

Our reported net income per diluted share during the quarter was 54 cents versus 76 in the previous quarter. As highlighted in our press release, first quarter earnings were negatively impacted by a net 17 cent loss per share of select items consisting primarily of transaction and integration costs and the change in fair value of our equity investments during the quarter. Absent the select items, adjusted diluted earnings per share was 71 cents in the first quarter versus an adjusted 76 during the fourth fiscal quarter.

Capital expenditures for our first quarter were 106 million, which was consistent with the spend in the previous quarter. This amount is in line with our original expectations with regards to timing and amounts for our historical legacy business. I will comment later on our new fiscal '25 capital guidance, expenditure guidance, which will include guidance for expected CapEx for expanded international business resulting from the closing of the acquisition. Q1 cash flow from operations remained strong and resilient at 158 million versus 169 million during our fiscal Q4.

Now, turning to our three segments beginning with North American Solutions, we averaged 149 contracted rigs during the first quarter which is down slightly from

the fourth quarter of fiscal ‘24. The exit rig count was 148, which was within our guided range of 147 to 153. Revenues of 598 million were sequentially lower by 20 million primarily due to the lower average rig count and a slight reduction in daily recognized rig revenue. Segment direct margin was approximately 266 million down from the last quarter of 274 million. As John mentioned earlier, our customer alignment through the utilization of performance-based contracts has never been stronger. These contracts continue to make up a large portion of our total contracted rigs and total segment expenses were relatively flat at 19,300 per day. As of today, approximately half of the US active fleet is on a term contract.

Now, there are international solutions activity ended in during the first fiscal quarter or ended the first fiscal quarter with 20 rigs on contract. Of those 20 rigs, 15 were generating revenue and we have five rigs in Saudi that have yet to commence operations. The financial results of international solutions were below our guided range as the new activity in Saudi was a little slower in catching its stride. We expect that all of the lessons learned with the activation of these rigs will help expedite the remaining rigs that have yet to begin operations. We expect one more rig to come online before the end of the quarter with the remaining shortly thereafter.

Finally, to our offshore Gulf of Mexico segment, we have three offshore platform rigs contracted. We also have management contracts on three customer-owned rigs. The offshore segment generated a direct margin of 6.5 million during the quarter, which was just below our guide range due in part to the timing of some material and supply expenses.

Now, looking ahead to the second quarter of fiscal 2025 for North American Solutions, we have 148 rigs contracted. We expect to end our second fiscal quarter with between 146 and 152 working rigs and revenue backlog from North American Solutions fleet from our North American Solutions fleet is roughly 700 million for rigs under term contract. Average pricing per day should remain relatively flat in North American solutions and we expect direct margin in fiscal Q2 to range between 240 and 260 million. There are a few factors influencing the

lower quarter to quarter expectation including a couple less days during the quarter and the normal to quarter to quarter variations on the amount of realized revenues from performance contracts. Based on the current market conditions and the current commodity pricing environment, we expect North American solutions to generate at least a billion dollars of direct margin on an annual basis. As John mentioned, there are going to be some quarters that generate a little more or a little less based on that variability across the quarters. However, in the current economic environment, that rate is a good rule of thumb.

As we look toward the second quarter of fiscal ‘25 for international, as we had mentioned in the press release, we expect margins from our legacy H&P International Solutions to be between a loss of 7 million and 3 million. As I mentioned earlier, we currently have all eight flex rigs in country and three have begun contributing revenue. Further, we have continued to improve our rig acceptance time for each rig as we move up the learning curve. For KCAD's legacy land operations, we are estimating direct margin between 35 million and 50 million. Now, recognize we will not be adding a complete quarter of a consolidated effect of the acquisition given the close. Also, as we expand our international scale and presence, we will be evaluating projects and returns based on our historical H&P approach of return hurdles and risk evaluation. The opportunity set is promising and we're looking forward to the increase in customer interest that we have heard post close from both IOC and NOCs.

As we look toward the second quarter of fiscal 2025 for the offshore Gulf of Mexico segment, we expect to be roughly flat and generate between six million and eight million in direct margin again. For KCAD's legacy offshore solutions business, we believe it will contribute between 18 million and 25 million of direct margin. Collectively, we will exit the quarter between 35 and 39 management contracts and contracted rig platforms. Outside of our core operating segments, we do have some business that generates additional direct margin. Collectively, those businesses are expected to contribute between 4 million and 6 million margin in the second fiscal quarter.

Now, let me update full fiscal year 2025 guidance as appropriate. We expect the timing of our CapEx spend to vary from quarter to quarter with the inclusion of our expanded international business resulting from the close of the acquisition capital expenditures for the full fiscal 2025 year expected to be between 360 million and 395 million. As previously discussed, our historical guidance prior to the close of KCAD was substantially lower than 2024 as post-COVID maintenance costs descended to more normal ranges of approximately 1 million per rig. In addition, the 2024 CapEx was heavily impacted by cost associated with converting idle U.S. rigs to walking, recertifying certain equipment to like new, and conducting required rig modifications, and purchasing specific equipment for Middle East contract opportunities. Some costs associated with this activity was included in fiscal 2025. However, we believe that substantially all of the necessary capital for that project has been incurred. As far as expectations for general and administrative expenses with the addition of the KCAD numbers, we now expect the full 2025 year to be approximately 280 million. We are already capturing some synergies post close of the acquisition and have identified additional cost savings that will put us in excess of the original 25 million by 2026 that we discussed in July last year.

As we get deeper into integration, the opportunities not only for commercial opportunity expansion but for cost reduction continue to materialize. We are now projecting a fiscal year 2025 cash tax range of 190 million to 240 million which includes the additional taxes resulting from the expanded international business. Depreciation expense for our legacy business is still projected to be around 400 million. We have not completed the allocation of the purchase price for the acquisition which will impact the depreciation projected for the balance of the year.

Lastly, the new debt incurred to pay for the expanded international footprint results in about 75 million of interest expense in the balance of 2025. This amount is inclusive of over 35 million in interest savings for the combined company because of the rates achieved in our bond deal versus those historically paid by KCAD.

Now, looking at our financial position, H&P had cash and short-term investments of approximately 526 million at December 31st, 2024. As a reminder, we had sold our equity investment and ADNOC Drilling for proceeds of approximately 190 million. These proceeds together with our September bond issuance and the occurrence of the two-year term loan funded the KCA acquisition. With our undrawn credit facility of 950 million and the remaining cash on hand, we have adequate liquidity to not only cash efficiently fund the 25 operations, but continue to generate ample cash to fund our base dividend and pay back the term loan of 400 million over the next 18 months.

H&P maintains an investment-grade credit rating. As the rating agencies have stated, our rating is supported by our large-scale and globally diversified rig operations following the KCAD acquisition. In addition to a significant contracted backlog that provides stability in a cyclical industry and our long history of prudently balancing debtholder and shareholder interest. With the closing of the acquisition, we have significantly enhanced our scale, diversification, and overall business risk profile. As we have stated previously, we are committed to a quick debt reduction with a goal to reduce our long-term net leverage to or below one term.

Let me close with one other data point that I think is important as we think about our guidance for the expanded international opportunities. KCAD's last fully completed quarter in which results were made public was the third calendar quarter of 2024. During this quarter where there was minimal impact Saudi rig suspensions, KCAD showed total EBITDA of right around 80 million, which equates to roughly 320 million on a manual basis. So, although our second quarter guidance is experiencing a bit of an error pocket because of the full impact of the rig suspensions and some general softness in the market, it does not reflect our ability to fully optimize our pro forma cost structure, does not reflect any of the commercial upside we expect to see in a business going forward, and is not inclusive of any material synergy capture.

With that, I'd like to turn it back over to the operator to open it up for questions.

Operator: Certainly. At this time, if you would like to ask a question, please press star (*) one (1) on your telephone keypad. If your question has been answered, you may remove yourself from the queue by pressing star (*) two (2). Once again, press star (*) one (1) to ask a question. We will take our first question from David Smith with Pickering Energy Partners. You may proceed.

David Smith: Hey, good morning and thank you for taking my question.

Kevin Vann: Good morning.

John Lindsay: Hello, David.

David Smith: I wanted to start with regarding the preliminary guidance for KCA. Can you talk about the range for that international onshore margin, maybe any key items that could drive it between 35 and 50?

Kevin Vann: Yes. Dave, this is Kevin. Between 35 and 50, obviously, there is the general - as I talked about, there's a general softness in the market related to areas outside of the rig suspensions in Saudi, but the team that we have over there, they're actively working on getting some of the rigs in some of the other countries back to work and getting that EBITDA back to a level that's commensurate with kind of what we were seeing back at - during the third calendar year of 2024, the amount of EBITDA that they were generating. Also, the timing of the close, we still have to go back through and kind of do an allocation of how much margin was generated during those first 16 days of January. That's going to take a little bit of work. Then the rig suspension timing, the first quarter - our second quarter will bear the brunt. It's the first real quarter that we're seeing all of it, but there still is one rig that's currently working. Then also, as we think about just our operating cost and with these rig suspensions, we're going to start pulling some cost out of the system that is associated with those suspensions. If we don't see those rigs coming

back to work relatively soon, then we need to really be thinking about what kind of cost can we pull out of it.

David Smith: Yes. No, I appreciate that. If I'm doing the math right, I'm coming up with a quarterly run rate for the KCA edition at around $64 million of EBITDA, but round that up to $65 million and call it annualized to $60 million. I recognize it's not a full year outlook. I just wanted to compare that to the calendar Q3 level annualized at $320 million. Just looking for any color you might provide on how much of that delta between the four quarter outlook and last calendar 3Q results, how much of that relates to the Saudi suspensions?

Kevin Vann: The vast majority of it relates to the rig suspensions. I think on a full calendar year run basis based upon the work that we're able to do now that we're closed, we see those rig suspensions at about $7 million per rig per year. As a result of it, you're really taking close to $80 million out of a full year on a full year basis. What it doesn't include is how much cost do we believe that we can save based upon our projections and anticipation of when those rigs may go back to work.

David Smith: Perfect. Thank you very much.

Kevin Vann: Thanks, Dave.

Operator: Thank you. We will take our next question from the line of Doug Becker with Capital One.

Doug Becker: Thank you. John, you mentioned being in Oman, Kuwait, as well as just some general area of softness outside of Saudi Arabia. So, I just wanted to get your thoughts on how the trajectory in those countries looks and in particular, my recollection is that KCA was looking for a delivery of a couple rigs for Oman specifically at the end of last calendar year.

John Lindsay: Yes, Doug. The feedback that I got was really positive, both in Oman and Kuwait. They do have a rig that - well, I think one rig that actually was recently delivered

and spud. All is going well there. I don't recall if there's another one coming up, but the conversations we were having - this is one of the things that we're really excited about is just in general customers that we previously - or ENPs, both IOCs and NOCs that we haven't worked before with this new exposure to the Middle East really opens up opportunities for us. So, we're seeing some growth opportunities. Those won't hit immediately, but there's definitely some opportunities.

There are some opportunities in Oman for us to move some rigs into Oman to improve activity there. So again, we're pleased about that. I think Latin America will probably be relatively flat to down in some countries, but in general, the feedback that we've gotten, it's been very, very positive related to H&P and our ability to work with, again, in some cases, IOCs that we do a lot of work with here in the States that we really haven't had the opportunity to work with internationally because we don't have that footprint. So, we have the great partnership, great relationship here, now we can take that same relationship and transfer that, like I said, into the Middle East or other opportunities, areas that we see ahead.

Doug Becker: Got it. And then maybe just switching to the U.S. I certainly appreciate this year calendar days in the March quarter versus the December quarter, but would you expand some of the other moving parts driving the lower outlook for direct margin in North America solutions, particularly is there anything changing in the performance-based contracts or is this really more a function of grid churn?

John Lindsay: Again, great question. There's going to continue to be a level of churn, and I mentioned it in my prepared remarks, our teams are continuing to do a great job, the sales force, the operations teams, in delivering tremendous value for our customers, and that is really a win for us. As I said, even with a flat to even slightly down overall industry rig count in North America solutions, we've still created a little bit of market share. Again, we believe that's fully responsible based on the safety and the performance and the value proposition. We've mentioned before about performance-based contraction, about 50% of our rigs are on

performance base. Sometimes quarter over quarter, there's some give and take there, plus and minuses. Again, the teams continue to deliver really well, but a lot of it is just quarter to quarter churn. Anything you would add, Kevin?

Kevin Vann: Yes. I think, again, just some of that variability that we see across quarters, and really, what we're projecting in terms of the margins is it's maybe slightly down, but it's because of really some dogs and cats stuff that moves in pricing, but the pricing coming down just slightly is not because we're given really any room on day rates, it's some of the performance contracts or some of the tech revenue that we expect to receive. So, our sales team has been wonderful and pretty disciplined about maintaining those leading margins. And again, they are the leading margins across the industry. But again, that's why I mentioned, it's easy to say that on an annual basis, we're going to see margins that are going to be in excess of a billion dollars, but you're going to see a little bit of – kind of quarterly variation as maybe as those margins move up 400 one quarter and then down 400 the next quarter. So, they're really hanging in there. It's just a little bit of variability across quarter.

Doug Becker: Got it. Thank you very much.

John Lindsay: Thank you.

Operator: Thank you. Our next question comes from [Unintelligible] with Bank of America.

Male: Hi, good morning, John and Kevin.

Kevin Vann: Good morning.

John Lindsay: Good morning.

Male: John, Kevin, maybe I want to go back to international and what's this [Unintelligible] if I just focus on the eight rigs you deployed in Saudi. I know three [Unintelligible] are in the country they're going to start, but as these rigs get fully operational, John, Kevin, the operation and the profitability on that

normalized rate, maybe give us some color on first thing, the timing of that, when do we expect that to fully happen, and once that happens, can you just remind us of the earnings power and the free cash flow power of just that portion of your business?

John Lindsay: Well, I'll just I'll just start and have Kevin chime in on some of the some of the numbers, But really, in terms of the timing of start of the first three or four rigs were really pretty much in line. I think the other rigs are going to come in closely behind, but we're really pleased with, first of all, just the performance on safety and the focus there, And then we've really seen some good performance in terms of drilling the wells. There is some strong earnings power there going forward.

Kevin Vann: Yes, I think we're in that – once those are all fully operational, we're expecting probably close to $20 million of EBITDA and margin contribution through the year.

Male: Okay, perfect, Kevin. I got it. And then again, on the KCA Deutag side of things I was thinking about – I know David asked about the EBITDA side of the equation, if I just move on and think about free cash flow contribution. I know you raised your cash taxes guidance for the full year by $50 million. Right? But how do we think about how much free cash flow comes out of the KCA Deutag side of the business, especially cash taxes? I know some of the [BDNA] stuff, you're still in the in the process of finalizing that, but maybe any preliminary color on thinking about free cash flow conversion?

Kevin Vann: Yes. I mean, the beauty of the KCA Deutag acquisition even in the short term where we're seeing a little as I mentioned in their pocket kind of in this in the second quarter, even with that lower guidance, I think if you were to annualize it, and refactor all those costs, including the taxes and the interest rate, the additional interest rate expense on that, you're still roughly break even on cash flow. Now, once we once we start to see some improvement in some of the business in the third and fourth quarter that we're anticipating and getting back to those levels that I talked about for the third quarter of last year that KCA Deutag was

contributing, I think you're going to see, probably closer to – once you get back up to that third quarter level, you're probably looking at $100 million of contribution to the overall pie of free cash flow that can be generated by it.

Male: Okay, perfect. Perfect. Okay, Kevin, I got it. Okay. John, Kevin, thanks a lot. Thanks a lot. I'll turn it back. Thank you.

Operator: Thank you. We would like our next question from Keith McKee with RBC Capital Markets.

Keith McKee: Hey, good morning. Thanks for taking my questions. Can we maybe just circle back to the legacy HP International Operations? Can you just maybe give us a little bit more context into what the startup costs that you're incurring generally relate to? Certainly, those would have all been much higher than we might have thought. So maybe just a little bit more context around there. And then to the extent you can maybe just give us a little bit more color on the timing, you expect that that legacy division could be back to a breakeven or positive level of direct margin generation?

John Lindsay: Yes, Keith, good question. I'll start by just saying again, first time that we've had these, the flex rigs in country and just going through the acceptance and the process. Obviously, it's been a big learning curve for us. So we've learned a lot. Each rig comes out a little quicker. But there are, there clearly are costs associated with that. On the positive side of the equation is the feedback that we're getting from the customer. And as we think about combining the legacy H&P and the legacy KCAD and the synergies that we're going to see there and the learnings that we're going to have, I think they're going to be significant. Kevin, you want to…?

Kevin Vann: Yes. And I think most of the costs that we're incurring right now is relationship to just labor and rentals. That's pretty much driving the cost side. And again, the center we're getting the remaining five rigs working and online. We start to generate some revenues, and again we're anticipating close to 15 to 20 million of

additional margin associated with those rigs once they're up and working. But right now, it's primarily labor and rentals. But those costs, every time we step up to the plate now, we've learned and we're learning from KCAD now that we're a mine company. And so those costs are just continuing to go down. Yeah, understood. Okay, maybe just turning back to North America. Some have thought maybe we'd see a bit of incremental natural gas driven activity at some point in 2025. It seems like maybe that has moved a little bit to the right. And now the talk is a little bit more centered around 2026. Can you maybe just give us your thoughts on how you're seeing the market unfold? Because absent of that, it kind of feels like we're in certainly a flat year. But just curious on your thoughts for the impact of that and where you think rig counts in the U.S. might go through 25 and into 2026 to the extent you can.

John Lindsay: Yes, Keith. Well, again, if we just look at the market in general, we're really bullish about energy, really bullish about oil and gas in general, obviously. As you know, we've all been challenged over time and predicting what the timing would be. But I think if you just look at the fundamentals and you look at the long term fundamentals for natural gas, they're really, really positive. And obviously, there's an opportunity to grow production significantly. In that scenario, you're going to need super spec capacity rigs, going to need more H&P rigs in the market. So, we feel good about that, and believe that there's a lot of opportunity for us to keep rigs running and to put additional rigs to work. It's really hard to call whether that's a 2025 or whether that's a 2026 phenomenon. But if you're looking at it through the long-term lens, we're really bullish.

Kevin Vann: Yes. And I think if you think about the projects that are going to lead to that additional demand, where the pricing signals start to – you start to see those pricing signals in the market, those are long lead time type of projects that take a while before you start to see that increase in demand. I mean, I'm a firm believer, we're a firm believer that it's going to happen. It's just it's probably not going to be ’25, it's just how quickly in ’26 or ’27 do we start getting the signals.

John Lindsay: I'll tell you, the other thing to think about in relation to activity in North America, in general, the rigs, for the most part, as you know, the rig count has been pretty flat. When you look at H&P's rig count, we've been range bound 145 to 155. You just look at the industry rig count, it's been pretty range bound, and that's been going on for 18 months. So, one way to think about that is the rigs that are idle have now been idle for a year to 18 months. In some cases the rigs that were active prior to that have been down for two years. So, as you think about the cost associated with reactivating, getting those rigs back out into the market, what that does is that creates a really strong market and one where it helps us maintain that pricing discipline that we've been talking about. And again, it's back to continuing to deliver great value for customers, utilizing performance-based contracts, and being paid for that performance that we're driving. The point I'm trying to drive home here is that there's not a lot of additional capacity in the market that's ready to go to work. It's going to take a significant amount of capital in order to reactivate those assets before they go to work.

Keith McKee: Understood. Appreciate the comments. Thanks.

John Lindsay: Thank you.

Operator: Thank you. We will take our next question from Kurt [Unintelligible] with Benchmark.

Kurt: Hey, good morning, everybody.

John Lindsay: Hi, Kurt.

Kevin Vann: Good morning.

Kurt: Hey, thanks for slotting me in. So, yes, I guess from my standpoint, acquisitions are always a little bit choppy or sloppy or whatever, and clearly, you've made a bet on the long-term opportunity set with respect to the acquisition of KCA Deutag. So, ’25 is going to be what it is, right? But I'm just curious in the context

of as you're getting larger and getting more scale in the Middle East and in the markets that you haven't really operated before, what do you take away from some of the more recent learnings? I know it's been very recent with the close of the deal, but what are you taking away from some of the learnings that as you go forward, it gives you the conviction and confidence that you're going to be able to substantially improve the operational efficiency, performance, and profitability of what you have going in the Middle East?

John Lindsay: Yes, Kurt, that's a great comment and question. And again, we feel very, very good about the long-term fundamentals of the KCA acquisition. Obviously, this transaction accelerates our international growth strategy. You've followed the company for a long time, you've seen that we have we've been working on this Saudi opportunity with these eight rigs for over five years.

So, to grow internationally takes some time. So now, we have global scope, we have scale, we have exposure to the best hydrocarbon basins in the world, and it really gives us, gives H&P the ability to grow in multiple areas. I said it earlier, but I think just to reemphasize the feedback that we're getting from IOCs and NOCs excited about H&P now being in the basins where they work or the countries where they work, they're very, very excited about that.

So again, it's unfortunate that the timing isn't great, but as you know, this is a cyclical business, it's always been cyclical. H&P has a great track record for being able to manage through the cycles. I don't have any doubt that our teams are going to work very closely with our customers and work our way through this. So we have a lot of excitement about the future. You just think about Saudi, Oman, Kuwait, the U.S., North Africa, Argentina. This, we haven't talked at all about our, the offshore business. Obviously, we've had a legacy with H&P, a legacy offshore management contract business that's been very successful. Now we're we've grown that. We're in four or five additional countries, over 30 contracts, very low capital intensive business. It really gives us a lot of opportunity. We see this as a multi-decade opportunity.

Again, we're bullish, oil and gas. You just look at the energy demand that we see globally, and I think we're positioned really well for the future. We know without shadow of a doubt that it's very hard to grow in any quick timing on the international side. So, this gives us an immediate footprint and an opportunity to grow.

Kevin Vaan: And I would just add to your point, we're only a couple weeks into the post-close work. We've been working on pre-close integration planning work, but getting, unleashing the two workforces and being able to question each other, like "Why do you do it this way?" or "Why do we do it that way?" I think there's already some early learnings that are going to generate some significant cost savings across the combined company that, again, when I look back at the acquisition economics, we didn't plan for those. We didn't predicate the deal on those savings. But I know just based on the learnings in the first couple of weeks, there's a lot of opportunity there that'll be realized in the next 12 to 18 months.

Kurt: That's great. And if I can, just one follow up on the shuffling of the cards or shuffling of the rigs in Saudi, right? So, is that the situation, John – and I put you on the spot too much here, but just kind of curious. You got a handful of rigs that you obviously brought into country from the US. I don't know, is there any risk of cannibalization, if you will, of the KCA fleet that's in Saudi? And again, this high level type stuff that just seems like either too coincidental on timing, that you guys got these contracts and at the same time, they released some of the KCA rigs. On the flip side of that, I just would have thought given the dynamic that the incremental spend is going to unconventional gas land, that the Saudis would want to keep as many land rates running as possible to take advantage of that. So, just how you're thinking about that.

John Lindsay: Yes, that's a great question. So, let's look at it more broadly. H&P or KCA, but legacy KCA, now H&P, those rigs, number one, have been suspended. They've not been released. H&P rigs are not the only rigs that have been suspended, both onshore and offshore. In Saudi, rigs have been suspended. So, don't get the impression that that the legacy KCA rigs have been treated any differently than

others. Secondly, I want to say three of the 12 or four of the 12 rigs are drilling gas, the others are drilling oil. I think that's an important aspect. Maybe one – actually, I don't think any of the rigs were really actually drilling unconventional gas. So, that's another point. So, we believe, and I think we have evidence to prove, that those rigs are built and designed for the type of work that's being done, mostly conventional work. There are some of the rigs that have done some unconventional in the past, and I think there's some opportunities for us to do that.

So, I would not – I'm sure there's conversations, people that have talked about that, but the reality of it is – again, I was there two weeks ago, I had direct conversations with the executives that basically said this happens occasionally, it's budget driven, everybody's being impacted, all the contractors are being impacted. Obviously, legacy KCA was one of those. So, I think looking at it longer term, to your point about performance and processes, we have a lot of respect for the legacy KCA. If you just look at it through a broader lens from a performance base, I think H&P and our culture and our processes are going to be really welcomed from the customers. And I can tell you, we're getting a lot of positive feedback from the legacy KCA employees. They're learning a lot. Kevin said it a minute ago, we're both learning together. This is a situation where one plus one isn't going to equal two, it's going to equal three, and I think there's a lot of opportunity for us ahead with this new global footprint, and there's lots of opportunities.

So again, we're excited about it, recognize, again, unfortunately, we hate to see this, but again, cyclical business. I've been in this business for 38 years, I don't know how many up cycles and down cycles or sideways cycles I've been a part of, but I've been a part of a lot of them, and H&P knows how to manage through these cycles.

Kevin Vann: Yes. And the only thing I would add is that, as John mentioned that he was over there a couple of weeks ago in the Middle East, the relationships with all of the KCAD customers, all of our existing customers, it's strong. These rig suspensions are not as a result of historical poor performance or bad relationship, this is – as John mentioned, this is part of the budgeting that normally occurs every once in a

while, and unfortunately, given the timing of the closing of the acquisition, we're right there in one of those air pockets where budget constraints are resulting in rig suspensions. These won't last forever. Obviously, these rigs will go back to work, and we'll stand ready to meet the customers' needs when they do.

John Lindsay: The other thing I wanted to mention too, is these rigs, some of these rigs that have been suspended have actually had their contracts extended three, five, seven years. So, I think that's an important element to take into account, is again, the rigs were not released, they're suspended, and some of the rigs, even while the suspension period, their contracts have been extended. So, I think that's really important.

I think the last thing that just we're excited about it, but this isn't going to happen in the next couple of quarters. The first rigs were suspended in August, and they're one-year suspension periods, so you're looking at August, September timeframe before you would even begin to see rigs more likely going back to work.

Kurt: That's great, John. I really appreciate it. Thank you.

John Lindsay: Thank you.

Operator: Thank you. Our last question comes from the line of Waqar Syed with APB Capital Markets.

Waqar Syed: Thank you for taking the question, and thanks, John, for a very detailed answer before. Just following up on the rigs, KCA Deutag. In the U.S., you're putting in a lot of technology on the drilling rigs. Do you see that demand for that technology in the international markets as well? And if so, can that technology be put on the KCA Deutag rigs? And if so, does it require any upgrades to do that?

John Lindsay: Great question, Waqar. As a matter of fact, yes, we continue to have deployed technologies. We're starting to see more of that internationally. Of course, most of that is directly related to the unconventional plays, which is where our

technologies were developed and really adding value to customers. We do believe that over time, we'll be able to deploy more of our technology in Saudi, obviously, the legacy flex rigs, but also on the legacy KCA rigs. And that's something that internally we're working on, the two teams are working together on. We're really, really excited about that opportunity. And those technologies would be margin accretive. Those technologies would be additive to what we've been doing up to this point. So yes, we think that there's a lot of opportunities ahead for technology.

Waqar Syed: And just a follow-up, the KCA Deutag backlog is about $1.5 billion. Could you maybe quantify how much of that – what time period you could recognize that backlog? Or maybe just like 80% to 90% of that could be – by when could that be recognized?

John Lindsay: Waqar, we don't have that in front of us. That's something that we can try to get to you later. But at this stage of the game, we don't have that level of detail.

Waqar Syed: Yes.

John Lindsay: I did want to say that our finance teams have just done an amazing job, as you can imagine, closing on the 16th, to be where we are right now, knowing what we know right now, has been a Herculean effort, and just really do appreciate them and all the extra time that they've put in to make this happen.

Waqar Syed: Thank you very much.

John Lindsay: Thank you.

Operator: Thank you. I will now turn the program back over to John Lindsay.

John Lindsay: Thank you, Shana. Again, everybody, thank you for joining us today. As we've mentioned, we believe the potential of this acquisition is a game changer for our business at H&P. We see a lot of opportunities ahead. I mentioned it, but energy demand is rising. It's going to continue. And we believe that we are positioned

well to take advantage of this opportunity globally for decades to come. So, thank you again for joining us and have a great day.

Operator: This does conclude today's program. Thank you for your participation. You may disconnect at any time.

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