Helmerich & Payne
Fiscal Second Quarter 2025 Earnings Call
05/08/25 11:00 am ET

Operator: Good day, everyone, and welcome to the H&P Fiscal Second 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 questions by pressing the *1 on your telephone keypad. You may withdraw your question by pressing *2. Please note this call is being recorded and I will be standing by should you need any assistance. It is now my pleasure to turn the conference over to David Wilson, Vice President, Investor Relations. Please go ahead.

David Wilson: Thank you, Nikki, and welcome everyone to HP's conference call and webcast for the second 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 will include forward-looking statements as defined under the Securities laws. Such statements are based on 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 on 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 certain non-GAAP financial measures such as segment operating income, direct margin, adjusted EBITDA and some other operating statistics. You'll find the GAAP reconciliation comments and calculations in yesterday's press release. With that said, I'll turn the call over to John Lindsay.

John Lindsay: Thank you, Dave. Hello everyone and thanks for joining us today. With the KCAD acquisition now complete, we believe H&P is well positioned for the future. This acquisition results in H&P having the largest active rig count in the industry and establishes the company as a global leader with the scale and capabilities needed for future expansion into the premier international markets. It's been a little more than 100 days since the transaction closed and the integration is going well. Taking a long-term perspective, particularly considering the industry's current state, we are very well positioned for the future. Now, we must demonstrate that we can execute on our international growth strategy. I want to assure you that is what we are focused on. I want to commend our people. Two legacy organizations have come together as one team and are delivering significant value for customers.

There are some noteworthy headwinds facing the industry stemming from several factors, including OPEC+ production increases and US tariff initiatives that have created global economic uncertainty. Even so, we remain bullish about the long-term outlook for oil and gas markets and believe demand will continue to increase over time. The oil and gas production decline curve continues and the only way to maintain and grow production is by drilling more wells. H&P is the most efficient driller in the US and we plan to demonstrate we can do the same in international markets. I believe that our rigs, technology, people and commercial models drive the best outcomes for our customers and our differentiated solutions will drive our success in the future.

Next, I'll spend a few minutes reviewing each of our operating segments. Our North America Solutions segment remains resilient as our customer and operational performance focus and best-in-class execution allowed us to maintain a steady rig count and realize margins that were better than our expectations going into the quarter. Looking ahead, we expect softer oil prices will lower the industry rig count as market volatility overrides any potential incremental demand. Over 50% of our customers continue to prefer performance-based contracts and technology solutions remain a critical component of our overall contracting strategy. Our technology solutions are focused on automating processes that were previously more manual operations. These technologies drive greater efficiency, safety and reliability for our customers. The combination of performance-based contracts and technology solutions offer advantages for both our customers and H&P by providing a mutually-beneficial value proposition. Kevin will give more details in his remarks about our North America Solutions financials.

Our international solutions segment reflects the inclusion of the legacy KCA Deutag operations and our team is working diligently to fully integrate international operations into a single cohesive business unit. We believe the combined cultures of performance, discipline and customer focus, coupled with learnings from our North America Solutions experience, including our technology and commercial models, position us for success over the long term. During the quarter, we experienced challenges in our Saudi operations with startup delays with the legacy H&P FlexRigs, which we believe have now been mostly resolved. The additional rig suspensions in the legacy KCA fleet were impactful as well.

On the positive side, we have already started to reap the benefits of the expertise, infrastructure and scale of the legacy KCAD operations in Saudi. It is gratifying to see the strong partnerships with customers we have in our international solutions business. In my recent visits to rigs and the countries where we operate, I am confident that in the future, H&P can grow the business. In discussions with customers, it’s become evident that there is a strong demand for the operational excellence, safety and technology solutions that H&P delivers, despite near-term softening in the industry.

Given the current outlook, direct margins in the international solutions segment in the third fiscal quarter will fall short of where ultimately we want to be. Our teams are working closely with our customers and we do expect to see improvement in the results on a sequential basis as we continue to progress our integration efforts, especially in Saudi. We have a laser focus on getting this right and Kevin will go into more details about what is driving our Q2 results and Q3 outlook.

Now looking at our offshore solutions segment, which continues to produce strong and steady cash flows. H&P’s legacy offshore experience dates back more than 50 years and the inclusion of the legacy KCAD fleet has added significant scale and geographic expansion to our offshore segment. Together, we are the largest global offshore operation and maintenance partner in the world. Our offshore solutions segment deliver drilling solutions, workovers, P&A and rig modifications and asset management on platforms and jackups. KCA’s first offshore contract started in 1972 in Norway. Our offshore business has low capital intensity and a blue chip customer base that we are very familiar with and it’s encouraging to see the growth opportunities emerging again in this segment of our business.

In closing, having successfully accomplished the important strategic objective of expanding internationally, particularly to achieve scale in the Middle East, we are now entering the phase of enhancing value and performance for our customers and shareholders. For our customers, this means prioritizing safety, drilling efficiency and reliability, which in turn drive financial performance for our shareholders. The oil and gas industry has always been cyclical and likely will remain so, but H&P has always been adept at navigating these cycles and coming out stronger on the other side. Throughout our 105-year history, the company has faced many challenges in the industry and the enduring imperative is always to keep our core businesses performing well.

In the upcoming quarters, we will focus on realigning our cost structures, securing value-add synergies and reducing debt on our balance sheet. We are extremely optimistic about the future and our ability to scale in the most prolific oil and gas producing regions in the world, while also acknowledging that there may be temporary growing pains. As I said previously, now, we must demonstrate that we can execute on our international growth strategy.

Before turning the call over to Kevin, I want to express my gratitude for the effort our people have put forth over the past year. With the acquisition and continuing to run the day-to-day, everyone has worked very hard. The H&P organization is comprised of loyal and talented individuals whose dedication and support and focus on our customers are the key ingredients to our success, and I want to thank them. Now, I'll turn the call over to Kevin.

Kevin Vann: Thanks, John. Today, I will review our fiscal second quarter 2025 operating results, which includes a partial quarter from our expanded international and offshore businesses resulting from the close of our KCAD acquisition in January, provide guidance for the fiscal third quarter, update remaining full-year 2025 guidance as appropriate and finally, comment on our financial position. Let me start with a few highlights.

The company generated quarterly revenues of just over $1 billion. Total direct operating costs were $702 million and general and administrative expenses were approximately $81 million for the quarter. Our G&A cost include one-time charges associated with the voluntary early retirement program. Gross capital expenditures for our second quarter were $159 million, which was in line with our expectations as the program was more heavily weighted to the front half of the year. Second quarter cash flow from operations was $56 million, which was negatively impacted by significant non-recurring, transaction-related, one-time cost in addition to some working capital challenges with our unconventional startup business in Saudi. However, we expect future quarters' cash flows to be more reflective of our underlying business as those cost and issues have been substantially resolved.

Turning to our three segments beginning with North American Solutions, we averaged 149 contracted rigs during the quarter, which is right in line with the rig count for the quarter. The exit rig count was 150, which was within our guided range of 146 to 152. Revenues of $600 million were essentially unchanged since the first quarter. Segment direct margin was approximately $266 million, which was a bit stronger than the first quarter. The realization uplift from performance-based contracts continue to enhance our margins and provide additional value to our customers utilizing them. This alignment of customer incentives and our performance resulted in industry-leading margins. In addition, over half of the US active fleet is on a term contract.

Our international solutions activity ended the second fiscal quarter with 76 rigs working, with approximately 4 billion of contracted drilling backlog.

In Saudi, our FlexRig unconventional startup is nearly complete and seven rigs are currently working, and the eighth should commence operations any day. As a whole, our international solutions business generated direct margin of $27 million. As John indicated, the rig suspensions in Saudi had a large negative impact on the quarterly results. To that effect, we are aggressively reviewing and taking action to minimize our operational cost and to quickly and effectively integrate the resources, ideas and expertise that we now share across KCAD and H&P operations.

Finally, to our offshore solutions segment, which generated $26 million in direct margins, we are very pleased with the performance of our steady and stable offshore business, which has current backlog of $2.5 billion. Much of this business was acquired through the KCAD acquisition, which included asset-light offshore management contract operations located in the North Sea, Angola, Azerbaijan and Canada.

Looking ahead to the third quarter of fiscal 2025 for North American Solutions, we expect to average between 143 and 149 contracted rigs. Revenue backlog from our North American Solutions fleet is roughly $700 million for rigs under term contract, which is consistent with where we were at the end of the first quarter. $500 million of this total will be recognized in our fiscal year 2025 with a balance in 2026. Again, we are focused on providing customer-centric solutions and believe direct margins in fiscal Q3 to range between $235 million and $260 million. As the broader energy industry continues to face the near-term headwinds associated with commodity pricing and potential cost increases associated with tariffs, we will remain focused on providing our customers with mutually-beneficial performance incentives and innovative technical solutions.

As we look toward the third quarter of fiscal ‘25 for international, as we mentioned in the press release, we expect direct margins from our international solutions to be between $25 million and $35 million, exclusive of any foreign exchange gains or losses. Further, we expect the average rig count to be approximately 85 to 91 contracted rigs, of which 68 to 74 are expected to be generating revenue. Again, we are managing the impacts of the rig suspensions and believe the Saudi FlexRig startup costs are substantially behind us now. We are integrating the best possible outcomes associated with legacy KCAD operations and the unconventional startup. This include operations, people, processes, technology and systems. Coming out of these near-term headwinds, we will be positioned to be a leading provider of drilling services in the Middle East.

Now, turning to guidance for our offshore solutions segment, we expect to generate between $22 million and $29 million in direct margin in the third quarter, with average management contracts and contracted platform rigs to be around 30 to 35. Outside of our core operating segments, we do have some businesses that generate direct margin and collectively, those are expected to contribute between $2 million and $5 million in the third quarter.

Now, let me update full-year 2025 guidance items. As I stated earlier, our CapEx spend was weighted to the front half of the year and fully expected to moderate now for the balance of the year. As such, we are still estimating capital expenditures for the full fiscal year to be between $360 million and $395 million. Just to remind you that last quarter, we were unable to provide a good projection for depreciation expense as the initial allocation of purchase price for KCAD had not been completed. Now that the initial assessment has been finalized, we are projecting depreciation expense to be around $595 million for the full year.

For general and administrative expenses, with the addition of KCAD numbers, we still expect the full fiscal 2025 year to be approximately $280 million. As we have discussed, we are already capturing some synergies post close of acquisition and have identified additional cost savings that will put us in excess of the original $25 million by 2026. As we get deeper into the integration, the opportunities not only for commercial opportunity expansion, but for cost reduction continues to materialize. We are also evaluating broader cost reductions across the enterprise and have a line of sight on $50 million to $75 million in total 2026 run rate savings between synergies and other permanent cost reductions. We are still 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. Lastly, nothing has really changed in regards to interest expense and we are projecting around $50 million for the remainder of the fiscal year.

Now looking at our financial position, H&P had cash and short-term investments of $196 million at March 31st. 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 2025 operations, but continue to generate ample cash to fund our base dividend and pay back the $400 million term loan. As a matter of fact, we are anticipating that by the end of this calendar year, we will have repaid at least $175 million on it.

H&P maintains an investment grade credit rating. We have a long history of responsibly managing our balance sheet and balancing the interest of debt and equity holders. We will continue to do so. Yes, the markets are murky right now. However, collectively, this leadership team has lived and managed through the turbulent energy markets for decades now. We won’t let the grass grow under our feet watching them unfold around us. With that, I’ll turn it back to the operator to open it up for questions.

Operator: Thank you. At this time, if you would like to ask a question, please press the *1 on your telephone keypad. You may withdraw your question by pressing *2. Once again, to ask a question, please press the *1 on your telephone keypad. We'll take our first question from Keith Mackey with RBC. Please go ahead. Your line is open.

Keith Mackey: Oh hi, good morning and thanks for taking my questions. Maybe just to start out on the international, what is your sense of the Saudi market today? I know there were some suspensions this quarter. Do you think that the suspension cycle is primarily complete or is there likely some additional actions to be taken there?

John Lindsay: I wish I could say for certain what – we don't have direct insight into that. We have had some conversations and at least at one point, it seems like that the suspensions were behind us. We just don't have any clear insight into that. I wish I could give you some better clarity into that. One of the things that we have seen in the past and of course, we weren't working in Saudi then, but obviously, the KCA employees were. If you just go back to 2015 timeframe, 2020 timeframe with COVID, there were rig suspensions then. Again, I think just based upon how the market was then, it was a very dramatic drop in a much different environment than what we see today, but nevertheless, there was still a need to pull back on spending and rig count, particularly in the oil markets.

I say that because what we do know is that there's a track record of having suspensions and then rigs going back to work. Obviously, that's no guarantee, but I do think that at least, again, what we hear from Aramco is that this has happened before and over time, rigs will go back to work. We just don't know when at this particular time. As far as additional, again, we've seen the same thing. We've seen one or two here along the way, different contractors, but really don't have a sense for if they're finished or not at this point.

Keith Mackey: Okay, fair enough. Maybe just to follow up on the international, you've given Q3 guidance, which looks like there's some impact of some more suspensions or the recent suspensions coming on, but also some of the legacy HP rigs starting up. Can you just give us a bit of a sense of how that dynamic should play out for fiscal Q4? I would imagine that if the suspension impact, full impact is felt in Q3 of what you know today and then you start to get the benefit of the legacy HP rigs, then Q4 should be set for decent inflection in margins for the international. Can you just maybe give us a little bit more color on how we should think about those pieces?

Kevin Vann: This is Kevin and I think you're right. If you look at our legacy unconventional startup operations in Saudi, again, as I mentioned earlier, we're still waiting on one rig to be operational any day, but if you think about the third quarter, not all – some of those rigs were coming online. So for the third quarter, you're really not going to see the full impact of full operational mode for those eight rigs until the fourth quarter. To your point, you should see a pretty good positive inflection by the time we get to the fourth quarter and how much revenue per day those rigs are going to be contributing to the overall international EBITDA stream.

Then on the rig suspensions, I believe at 3/31 at the end of the second quarter, we were still operating – of the 17 total rigs that have been suspended to date, five of those were still operating as of 3/31. So you're going to see, during the third quarter, that start to come down more, but then again assuming – and again obviously, as John said, it's a big assumption, but if there were no more rig suspensions then you should see that flatten out and see the full impact. Offsetting some of the revenue reduction there, as we've mentioned a couple of times so far is that really, the cohesiveness and the integration of the legacy KCAD operations team with the Flex Rig, H&P legacy startup team, we're starting to see that catch stride and minimize and reduce some of the cost and just how they navigate operating in the country. I think by the fourth quarter, you'll really see us start to catch a stride there too, not only on the FlexRig side, but just how we're managing costs and sharing resources.

John Lindsay: Yes, I think that's really good comments, Kevin. As you think about the delays, there's no doubt some of the delays have been in our control, but there's also been a lot of delays that are just being completely out of our control that have caused some of these later spud dates than what we were expecting. The teams are definitely getting some momentum and as Kevin said, I feel good about where we are and where we're heading and again, we're all pushing very hard, as I said in my comments, to make certain that we get those rigs earning at the level that they should.

Keith Mackey: Got it. I appreciate the comments. I'll turn it back. Thanks.

John Lindsay: Thank you.

Operator: Thank you. Our next question comes from Marc Bianchi with TD Cowen. Please go ahead. Your line is open.

Marc Bianchi: Hey, thanks. Maybe just quickly, since we're talking about the FlexRigs in Saudi, can you refresh us on what the ultimate contribution should be from the eight rigs once we're sort of behind all these startup costs and what the run rate ought to be?

Kevin Vann: Yes, and what we historically tell people is around, we'll just call it, full-year $25 million a year. I think that number could go up or should go up given again, just some of the synergies operationally that we're going to be able to leverage from the historical legacy KCAD team. We're already identifying other ways to reduce some of the in-country overhead that's there. I think that number could go up, but what we've historic – or what we've been telling people is somewhere around $25 million for those eight gigs.

Marc Bianchi: Yes, great. Keith asked the question on international and about sort of what the exit rate and how 4Q could look like. If we talk about the other two segments for North America and for offshore, you've got average lower in fiscal 3Q, which would suggest that the exit might be even lower than that. Can you talk about where the outlook is for June in those segments from an activity and margin perspective and how we should be thinking about that progressing beyond June?

John Lindsay: Well, Marc, I'll start with North America Solutions. As you can imagine, we're in constant communication with our customers, trying to understand their needs. Obviously, oil prices are lower than what our expectations were three months ago. As you've seen, there have been releases from some customers or at least announced releases of a rig here, two rigs there, just trying to balance the budget, but I do think that what we see is a positive, again, depending on the macro, is that our partnerships are strong. We continue to have very strong conversations with our customers. We have a lot of belief that if the commodity price will hang in there, then we'll be in good position, but the reality of it is that's one of those areas that we don't know. We know customers want to continue to reduce cost to their wells. We're doing that with – working very closely with our customers to help them do that. A lot of that is through performance-based contracts and deploying technology and that's obviously delivering a lot of value. What would you add, Kevin?

Kevin Vann: You mentioned June. I mean, obviously given that we're at May 8th now, we got a pretty good line of sight on what April and May are going to look like based upon our internal estimates. June for the third quarter is the little bit of the wild card just because we'd be kind of silly not to at least moderate our expectations for June given everything that you're seeing, we're seeing, the whole market is seeing in regards to what the potential impact is going to be on activity because of lower pricing. Could be higher cost depending on all the uncertainty around tariffs and so we felt like it was the prudent thing to do is to moderate our guidance a little bit until some of this clears the air. Again, as John mentioned, we're working with our customers to figure out what's the right solutions given their activity levels, but it's difficult for the MPs and our customers to slam on the brakes immediately, but we're going to work with them on what makes economic sense in their portfolio to make sure that they're meeting their objectives and allow us to meet our objectives as well.

On the offshore front, we're still chasing new business. We really like that business. It's a little bit lower margin, but it's really steady and we've got some, as John mentioned, blue-chip customers that we continue to have discussions with. Yes, it may be a little bit moderated toward the lower end of the – where we landed for the second quarter was a little bit toward the lower end of our guidance range, but we still think it's pretty healthy there. Again, we're working with customers on where they might potentially add activity, but again, oil prices being another – global oil prices being another moderator of – until some of that clears through the system, we don't exactly know how all those contracts and new business might play out.

Marc Bianchi: Okay. Thanks, guys. I'll turn it back.

John Lindsay: Thank you.

Operator: Thank you. Our next question comes from Eddie Kim with Barclays. Please go ahead. Your line is open.

Eddie Kim: Hi, good morning. John, you mentioned that softer oil prices will likely lower the industry rig count in the US land market. The rig count currently stands at about 570 rigs or so today. If oil prices stay at $60.00-a-barrel level for WTI through year end, do you think we could maybe see about 20 or 30 rigs come out of the market? Just wanted to get your thoughts – your early estimates on magnitude of rig count decline if oil prices stay at current levels?

John Lindsay: Well, Eddie, we were waiting for the OPEC+ announcement. We got that there have been at least some responses from some US E&Ps. Again it sounded to me like that their release counts were very modest, on the low end, and so it's very hard to say whether it's 20 or 30 rigs. I mean, I think your guess is as good as anyone's. At least in my experience, the oil price needs to be at a level for some period of time. So if oil were to stay in the 50's for a period of time, I think we would have a little bit longer term implications, but right now, again, we talk about this internally. We've talked about it on previous calls. A few folks over time have said, "Hey, we're in a downturn." Well, we're really not. We haven't seen this. It's not a downturn environment. It's definitely we're seeing some correction and there's some volatility. We were hopeful that we would see more activity coming up on the gas side. I think there is some gas work that's upcoming. Most of the challenges are in the oil markets.

We don't have an actual number in mind on what we're modeling. I think it's very hard. Obviously, what we're most focused on is our customers and our rig count and how we're maintaining our count and how we do that, of course, is as we've said before, is through performance. It's being the safest contractor, the highest performing contractor and then deploying technology solutions that are really a differentiator. I wish I could give you a direct number, but I don't think anybody can. I think at this stage, it's too early to determine what that rig count number is going to be.

Eddie Kim: Yes. Understood. I understand that the – yes?

Kevin Vann: I'll add just, I mean, if you look at the forward oil curve, I think that's sending the market a message that they believe this – and again there's a lot of factors that will influence ultimately where 2026 ends up trading on a spot basis. But the forward oil curve being a contango tells you how much of this is being driven in the short term, but the fundamentals would still tell you that there is going to be – that demand is going to be there for oil and there needs to be basically the energy industry needs to be ready to supply that. I don't know.

You look at what Saudi has done with these rigs suspensions. At the same time, they're adding oil into the market. It's a little bit of a mixed message just in regards to how do we, as a drilling company, stand ready and poised to be able to respond to that, but I think the market is telling us that at least right now, even though the oil prices are at that inflection point where you're going to see some drop in activity, still seems to be that there is this right skew perception that there is going to be that demand and we need to be ready in order to deliver the demand – deliver to meet the demand.

Eddie Kim: Understood. Thanks for that color and yes, fully appreciate that the crystal ball is a bit murky right now. Just shifting over to the KCA Deutag suspensions, and apologies, if I missed this, but last quarter, you mentioned all these suspensions are one year in duration and the first rig was suspended back in August. At this point, do you expect that first rig that was suspended to resume work in about three months here? Or do you think it's probably more likely that that suspension gets extended for a few more months just given where commodity prices are today?

John Lindsay: We don't have any indication that those first rigs are going to go back in that – back to work in July-August timeframe. We also don't know that it could happen. We are not having discussions right now. I mentioned earlier, I don't know if you were on the call, but what we do know about the suspensions is that Saudi Aramco has done this before through the cycles. They suspended rigs and suspended rigs went back to work. I don't know what the timeframe was. I'm sure they were one-year suspension periods then. I did not ask that question, but there is a track record for this process and the rigs have gone back to work in the past. That's really our expectation and about the best we can do right now in terms of trying to understand what the future looks like in terms of. reactivations.

Eddie Kim: Got it. Understood. Thank you very much. I'll turn it back.

Operator: Thank you. Our next question comes from David Smith with Pickering Energy Partners. Please go ahead.

David Smith: Hey, good morning. Just a quick…

John Lindsay: Good morning, David.

David Smith: …housekeeping question. I just had a quick housekeeping question. The full-year guidance for SG&A at 280 implies a decent stepdown in the fiscal second half. So just wanted to ask how you see the fiscal Q4 exit rate for SG&A and maybe how we should think about the future run rate with the currently contemplated synergy?

Kevin Vann: Yes, I'll contemplate on the future run rate. I mean again, as I mentioned earlier, we have a pretty good line – most of the synergies and permanent cost reductions that we have talked about are really in the form of G&A. There's going to be other cost savings that come in the form of operating cost. Given the tariffs, the supply chain synergies that we were once looking at, with that fluid situation, they're a little bit more uncertain at this point. Once some of this tariff nomenclature clears the system, we'll be able to put our pencil back to the paper on supply chain synergies, but most of the synergies that we're talking about now in permanent cost reductions, I think will be somewhere in that $50 million to $75 million for full-year fiscal 2026 run rate lower G&A. In terms of the run rate, the exit rate for G&A for the fourth quarter, let me do a little bit of math and I can get back to you on that one, Dave.

David Smith: Thank you very much. Appreciate it, but sounds like it's fair to say the higher synergy estimate does not include savings from lower cost on the suspended Saudi rigs?

Kevin Vann: That's correct.

David Smith: Perfect. Thank you very much.

John Lindsay: Thanks, David.

Operator: Thank you. We will move next with Waqar Syed with ATB Capital Markets. Please go ahead.

Waqar Syed: Thank you. John, your goal is eventually to provide the same kind of operating performance on international rigs that you've been doing domestically in the US market. As you proceed towards that goal, do you think that the rigs that you acquire from KCA Deutag, they're ready for that? Or would you need to apply some capital to that, make some changes, add some technology?

John Lindsay: Waqar, we're really talking about two completely different markets and starting points. You really have to go back. Let's think about FlexRig performance today and where we were 10 years ago, 15 years ago in deploying the FlexRig capability. Of course, that was an unconventional. Most of the work that we have internationally is conventional work, so there are some differences, but I do believe that our performance culture, our process excellence, we're already working on ways to deploy some of our technologies to rigs. The great news is is we have customers that have interest in deploying technology and doing more. It's a long game. It's going to take a really long time, but I think there are some immediate benefits for customers that are going to position us to grow the business in the future. Hopefully, that helps.

Waqar Syed: That helps and then secondly, as we look – I think the view that's developing is maybe you get like 30 to 40 net decline in rigs in the coming months. In that kind of environment, do you see some pressure on day rates in the domestic market and maybe if you could talk about some supply demand fundamentals for super-spec rigs. You've got some neat data in the presentation. Maybe you could talk about that.

John Lindsay: If you just think about the super-spec market in general, it's very tight and the rigs that have – so it's one thing to say what's the total available super spec fleet in the US. Well, that's a much larger number than the rigs that are working today, but you have to consider the rigs that have been idle for really over two years, three years. So the rigs that have been active recently is not much more than the 580 that you mentioned. I do think that it's a relatively tight market. Let's face it. We continue to have conversations with customers. We've seen other drillers and there's been some softness in pricing. At the end of the day, we're working very closely with our customers and trying to drive the best value proposition for them. Our belief is you don't get to lower cost with low day rates. You get to lower cost by having the most efficient rigs, the highest technology and delivering lower – fewer well – pardon me, fewer days per well, which really impacts the cost side of the equation.

Your reference to 30 or 40 rigs, I mean, as we said earlier, it's clearly possible. We don't see that right now. There have been again some publicly-announced releases of rigs in the US with some of the E&Ps reducing their rig count for budgetary reasons and that's all very understandable. I haven't heard of anything else past that. Kevin, do you have anything, anybody?

Kevin Vann: No, I think that's – again, most – if you look at the – I think you're referencing the slide that we have in our deck and there's a high degree of utilization of super-spec rigs based upon the ones that are available to go into use. I forget what – call it, upper 80s in terms of the current utilization rate.

John Lindsay: Yes. This cycle, this one is very different than other cycles that we've had in the past and in my career. Again, we've been flat activity. We at H&P have had in this range about 145 to 155 for almost two years. That historically hasn't happened. So again, you've got a fleet of rigs that have been idle for some period of time that aren't going to be able to go back to work anytime soon. That creates the working fleet being at that 80% plus activity level, utilization level and that historically has supported stronger pricing if you look at it from that perspective.

Waqar Syed: Makes sense. Thank you, sir. Appreciate the color.

John Lindsay: Thank you.

Operator: Thank you. Our next question comes from Doug Becker with Capital One. Please go ahead.

Doug Becker: Thank you. John, several offshore drilling contractors have moved their suspended jackups to other markets. There definitely seems to be pockets of some strength in the Middle East. Are there prospects to relocate some of the land rigs currently in Saudi Arabia to other markets in the Middle East?

John Lindsay: If you look at it on a longer term basis, absolutely. If there was a situation where some of these rigs don't go back to work then yes, there would be the opportunity to move to other neighboring countries in the Middle East. We've got a nice operation in Oman. We've got a nice operation in Kuwait. There are some other potential opportunities. We know it's possible. We're sure not making plans for that, but you're right, there have been offshore rigs that have left the region and have gone other places. We have that same capability.

Doug Becker: Switching to the US, curious if there is a potential to see the percent of performance-based contracts increase, and just the thought being that if a customer wants to see a lower headline rate in a declining activity environment, that might be a win-win situation where you can provide a lower headline rate, but still maintain your margins. Do you see any potential for that or just think about it as the 50% level it's been for a while?

John Lindsay: I think we've been in the 50% to 60% range for a couple of years now. The good news for us at H&P is we continue to have customers adopt performance-based contracts and every customer is a little bit different in how they design their performance-based contract, but there's clearly a time element. There's other KPIs that are involved, but at the end of the day, as I said a few minutes ago, if we can reduce a day on the job, then that's a large cost improvement. Being able to do that is beneficial and then I think even more important that we hear from customers day in and day out is what's most important is the reliability component, the ability to do that well after well after well, not having the outlier wells. That's where technology solutions enhance that capability.

I've talked about in my remarks, essentially our technologies are removing some of the human element, the daily human interaction with directional drilling as an example and we're using software to directionally drill as opposed to a human making a decision on guiding the well. Those sorts of things, as you can imagine as a 24-hour operation, that provides some significant advantages to us and to our customers and the ability to do that. I think there's a lot of opportunities for that and you combine those technologies with the performance-based contract, you're driving greater reliability. Again, we've described it as being mutually beneficial for us and our customer. At the end of the day, that's what we want. We're making big investments in our fleet. We're making big investments in our technologies. Again, like our customers, we just want to make a return on those investments.

Doug Becker: Now, but it sounds like no reason to expect any particular increase in those contracts more steady [crosstalk].

John Lindsay: We are always pushing. We are always pushing to go that direction. Don't hear me say it's not possible. I just don't have it clearly in sight. We don't see that in the near-term outlook, but I wouldn't say that it wouldn't or couldn't happen.

Kevin Vann: I would add that H&P, since we've been doing performance-based contracts for several years now, the internal competency that we've developed across all the various facets of the organization, it definitely differentiates us in regards to – because these contracts aren't easy. They require some negotiation. That's a negotiation. It's working with our customers to figure out what's the right blend of KPIs and other things that they want, but then it's also being able to administer it from a back office perspective and we've got five years of doing it. I think that's key.

Doug Becker: Makes sense. Thank you.

Operator: Thank you. We will take our last question from Jeff LeBlanc with TPH. Please go ahead. Your line is open.

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

John Lindsay: Certainly. [Go ahead].

Jeff LeBlanc: I wanted to clarify, are you saying that you're making pricing concessions today or are you willing to cede market share to maintain margin?

John Lindsay: Well, our market share has grown and our pricing is – again, it's market-based pricing and we're having discussions with customers every day. So I think just by virtue of our guide, you can see that we're forecasting both fewer rigs and some pricing reduction just as a result of the market, but again, at times, depending on the quarter, we'll have an increase in margins due to our performance-based contracts and that's difficult to sometimes predict. Do you have any additional, Kevin?

Kevin Vann: No, and I think that's what – if you look at the guidance we gave last quarter and where we came in with margins, it's a constant – our sales and marketing team are in constant discussions with our customers about what makes sense. Again, we're going to continue to push for performance-based contracts where it makes sense for our customers because as John mentioned, it's not about the single well. It's about a 10-well program and making sure that you don't destroy the economics for the 10-well program because you have two really bad wells, but the other eight could have been done cheaper, if you were to be utilizing something other than a performance-based contract. They're looking at the well economics across all 10 wells. It's fluid, but we've got a lot of headwinds right now that our sales team is working with our customers collectively as a – it's an energy industry problem and not just a drilling services problem. We just need to make sure that we're working with our customers as partners.

John Lindsay: Yes, Jeff, the reality is we acknowledge it, there's pressure. I mean, there's pressure across the whole energy value chain to lower costs. We're going to continue to work very closely with our customers. We've got to understand their needs. Again, it comes back to being customer-centric and making certain that we're helping them deliver on their goals and that's one of the key elements of our differentiation, our differentiated offering. Again, we're going to continue to work very closely with our customers and try to continue to deliver the value proposition that we're delivering. Again, we recognize there's a lot of pressure in the industry. There has been now for a couple of months.

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

John Lindsay: All right.

Operator: Thank you. This will conclude our Q&A session. I will turn the call back to John Lindsay for closing remarks.

John Lindsay: Thank you. Again, thanks for joining us today. I've mentioned this, but just to reiterate. We believe the acquisition of KCA is a game changer for our business long term. Overall, the integration has gone well. Of course, we're continuing down that path of integration. I have been very pleased to see customers' excitement about the future, both IOCs and NOCs that we're working with today. There are some macro headwinds that we've talked about that are slowing some of that progress, but we're bullish on energy long term. Obviously, there's a lot of predictions out there that energy demand is going to continue to grow. There's thousands and thousands of wells that are going to need to be drilled globally for years to come and I believe that we're very well positioned to take advantage of that opportunity globally.

As I said earlier, we're taking a long-term perspective. Particularly considering the industry's current state, we think we're positioned well for the future. Again, I want to stress it. We also must demonstrate that we can and will execute on our international growth strategy. That's our plan. We've deployed new technologies and new commercial models and all sorts of things over the years and we've been very successful. I want to assure you that we are continuing our focus on that. So thank you again for your interest 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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