



HELMERICH & PAYNE
Fiscal Third Quarter 2024 Earnings Call
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Operator: Good day, everyone, and welcome to today's Helmerich & Payne's Fiscal Third Quarter Earnings and Acquisition of KCA Deutag call. At this time, all participants are in a listen only mode. Later, you will have an opportunity to ask questions during the question-and-answer session. You may register to ask a question at any time by pressing start one on your telephone keypad. Please press star two if you'd like to remove yourself from the queue. I will be standing by if you should need any assistance. As a reminder, today's call is being recorded. It is now my pleasure to turn the conference over to Dave Wilson, Vice-President, Investor Relations. Please go ahead, sir.

Dave Wilson: Thank you, Connie, and welcome, everyone, to Helmerich & Payne's conference call and webcast to discuss the acquisition of KCA Deutag, and the company's results for the third fiscal quarter of year 2024. With us today are John Lindsay, President and CEO, and Mark Smith, Senior Vice-President and CFO. The agenda for our call this morning is as follows: both John and Mark will be saying some brief comments on the company's third quarter results and outlook for the fourth quarter. John will then provide an overview of our transaction with KCA Deutag and the significant growth and value creation opportunities that it can raise. Then Mark will discuss the financial benefits of the acquisition and our deleveraging plan, and then finally, John will conclude our prepared remarks by discussing our approach to integration planning. Then after that, we'll open the call for questions. Before we begin our prepared remarks, I want to remind everyone that this call will include forward-looking statements as defined in the security 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 include 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 later take no obligation to publicly update these forward-looking statements. We also may make reference to certain non-GAAP financial measures such as segment operating income, direct margin, operating EBITDA, free cashflow, net debt to operating EBITDA, and other operating statistics. You'll find the definition and GAAP reconciliation for direct margin in yesterday's earnings release, and the definitions of the other non-GAAP measures in the acquisition press release and accompanying presentation. We posted the press release and presentation regarding the acquisition to the investor relations portion of the website. Those documents supplement the information we'll discuss on this call,

and we recommend that you have those slides handy to follow along with John and Mark's comments. With that said, I'll turn the call over to John.

John Lindsay: Thank you, Dave, and good day to everyone. I appreciate you joining us on short notice. Yesterday afternoon, we announced our financial results for fiscal third quarter 2024, and this morning we announced our acquisition of KCA Deutag. We believe this merger with KCA is transformational, and accelerates our international growth strategy, and provides immediate scale in the Middle East, provides diversified earnings, offshore management contract exposure, and world-class manufacturing and energy services. Before going into any more details on the acquisition, I'd like to spend a few minutes on our fiscal Q3 earnings, and also allow Mark to provide the financial highlights for the quarter and outlook for fiscal Q4.

During our third fiscal quarter of 2024, we delivered strong operating and financial performance, demonstrating the resilience of our strategy in the North America Solutions segment. It also remains particularly notable that despite the more sizeable decline in the overall industry rig count, our active rig count remains relatively stable during the quarter. We believe this is the result of H&P's unyielding focus on providing value to our customers.

From a macro perspective, two influences have become prominent in recent years and act as a governor on activity in the oil and gas industry. Oil and gas prices have always been cyclical, and that used to be the predominant driver in the business. Today, capital discipline is a driving principle, and while this has ushered in a steadier operating environment, it has also been accompanied by slower growth. That said, we believe that prioritizing return on invested capital will bring about more positive outlook for the industry over time.

Another important influence is customer consolidation and their efforts to drive efficiency and reliability. H&P's operational and contracting strategy matches well with our customers, and our win-win commercial models encourage a return focus that delivers higher earnings for our customers, shareholders, as well as our own.

Contractual term remains prevalent in the US market, but our people are doing a good job of managing through this. We expect the churn to continue, and as we have seen in recent summers, we also anticipate our active rig count to be flat with perhaps a modest improvement heading into our fiscal yearend.

On the international front, the company's first super-spec Flex rig arrived in Saudi Arabia, marking a major step in our strategy to increase our operational presence in the region. Activity levels in the international segment in the fourth fiscal quarter are expected to be comparable with the third fiscal quarter, with the exception of the addition of the first of those eight Saudi Arabia rigs. Those rigs are expected to commence work during the fourth quarter once contractual acceptance procedures are completed. The preparation work for the remaining seven super-spec rigs is progressing as planned with export dates expected through the balance of the calendar year. We're looking forward to working with Saudi Aramco in building a long-term relationship with our new customer.

Now I'm going to turn the call over to Mark to review the Q3 financial highlights.

Mark Smith: Thanks, John. Today I will highlight fiscal third quarter 2024 operating results, notes and selected guidance for the fourth quarter and the remaining full fiscal year 2024 as appropriate, and comment on our financial position.

Let me start with the highlights for the recently completed third fiscal quarter, end of June 30. The company's revenues were up sequentially primarily due to the improved average pricing in North America. Total consolidated direct operating cost were increased primarily attributable to expected higher sequential direct expenses in the international segment for the Saudi startup cost. General and administrative expenses were approximately \$67 million for the third quarter, which was higher than our expectations due to approximately \$7 million of nonrecurring professional services and consulting fees related to the KCA Deutag acquisition, which was noted as a select item in our earnings release yesterday.

Third quarter cashflow from operations was \$197 million, and when deducting \$134 million of capital expenditures and \$42 million for the basis supplemental dividend, the company generated free cashflow of approximately \$21 million. I will address the company's cash position later in these remarks.

Turning to our segments beginning with the North American Solutions segment, we have reached 150 contracted rigs during the third quarter, down from 155 in the second fiscal quarter. The exit rig count was 146, which declined late in the quarter due to churn, but remain within our guided range or between 145 and 151. Revenues increased sequentially by \$7 million primarily due to our continual focus on sustaining contract economics for the value delivered to customers. Total segment expenses were up slightly to 19,540 per day in the third quarter compared to 19,000 per day in the previous quarter. This is within our general expectations as recent daily expenses vary quarter to quarter, with the general range of 19,000 to 19,500.

Looking ahead to the fourth quarter of fiscal 2024 for North America Solutions, as of today's call, we have 148 rigs contracted, and activity through most of the third quarter was relatively flat. As we said, as we stated last quarter during the April call, we continue to see signs that the rig count is approaching a leveling off point, and we expect that in their fourth fiscal quarter with between 147 and 153 rigs working. Despite a decrease in total US industry rig count this calendar year, we continue to maintain and even accrued market share. We expect average pricing and revenue per day to continue to remain relatively flat. We expect cost in the fourth quarter to remain relatively flat as well.

Next, the International Solutions segment, as we look to the fourth quarter of fiscal 2024, as mentioned in the press release, we expect most international activities to remain unchanged with the initial Saudi Arabia rig expected to commence operations before the end of the fiscal fourth quarter. Note that \$1 million to \$3 million of Saudi recommissioning expenses slipped

from the third quarter into the fourth quarter. Therefore, final Saudi Arabia rig recommissioning expense expected in the fiscal fourth quarter is now revised up from five million mentioned in the April call to six to eight million.

On the updated full fiscal year guidance as appropriate, capital expenditures for the full fiscal year 2024 are still expected to be at the top end of our original range around \$5 million. Our total international expansion CAPEX this fiscal 2024 is approximately \$175 million, which is 35% of the fiscal 2024 total expected CAPEX. We previously stated that international spend of \$30 million to \$35 million would be incurred in fiscal 2025. Any further organic international capital spend in 2025 would be primarily dependent on future rig tendering opportunities which are uncertain at this time.

Depreciation for fiscal 2024 is revised slightly from \$405 million down to \$400 million for the full year due to completion of accelerated depreciation related to excess capital spares created via the walking rig conversion program. Our expectations for general and administrative expenses for the full fiscal year are revised up from the previous guidance range of \$240 million to \$250 million. This increase is due to previously mentioned professional services and consulting fees related to the KCA Deutag acquisition. Research and development costs are revised up from fiscal 2024 from \$37 million to \$40 million due to a one-time expenditure in the third quarter related to rig floor automation technologies.

Now looking at our financial position. H&P had cash in short-term investments of approximately \$290 million at June 30, 2024 versus an equivalent \$277 million in March 31. Of note, we repurchased a limited amount of shares in fiscal Q2, and we did not buy back any shares in fiscal Q3, even though per share values were below our trailing 18 months average buy-back level at times within the quarter. Instead, we thought to preserve cash on hand for the contemplated KCA Deutag transaction. \\

Based on this quarter's results and our projections for the final quarter of the fiscal year, we are generating ample cashflow to cover this year's expended capital expenditures, the base dividend, the fiscal 2024 supplemental dividend plan, and the share repurchases to date. Further this fiscal year, we have allocated another \$40 million towards various long-horizon investments.

That concludes our prepared comments regarding the third fiscal quarter. Let me now turn the call back to John to discuss our KCA Deutag acquisition.

John Lindsay: Thank you, Mark. As Mark said, we're going to cover the KCA Deutag transaction. We're going to begin on slide three, so hopefully you have the presentation deck in front of you.

It is a historic and exciting day for H&P. Our acquisition of KCA Deutag is transformative and establishes H&P as a global leader in onshore drilling and accelerates our international expansion, delivering on a major strategic objective for the company.

KCA Deutag has a highly complementary geographic footprint with very little overlap to H&P's existing assets and operations. This transaction is expected to be immediately accretive to both cashflow and free cashflow per share. H&P will become a larger, more diversified, and more resilient company, having greater earnings visibility and cashflow generation.

We have a history of taking a thoughtful and managed approach to running and investing in the business. This acquisition continues that legacy and further strengthens the company for many years to come. Being a financially conservative company has been a corner stone of our approach to this business. As such, we have a clear plan to promptly delever post-close and expect to maintain our investment-grade credit rating.

The company also has a long history of taking a balanced approach to capital allocation, with a focus on providing sustainable shareholder returns, and this will continue in the future.

As you'll hear today, KCA Deutag shares our cultural values focused on safety and the well-being of employees, sustainability, and a customer-centric approach. These will remain priorities and will support a seamless integration.

If you turn to slide four, it summarizes key details of the transaction. To provide the highlights, we are acquiring KCA Deutag for approximately \$1.97 billion in cash. We will fund primarily with new debt, and Mark will cover the financing details in a moment. I've already highlighted some of the key financial benefits, but it's worth reiterating the overall accretive nature of this transaction. We expect the transaction to close prior to calendar 2024 yearend, subject to customary closing conditions and regulatory approvals.

Many of you may be familiar with KCA Deutag but slide five is a brief introduction to KCA and what excites us most about this opportunity. Based in the UK, KCA Deutag is a diverse, global drilling company, with a significant land drilling presence in the Middle East and additional operations in South America, Europe, and Africa. KCA has over 135 years of experience and a global network of operations supported by approximately 11,000 employees.

One aspect that really excites us about this transaction is that nearly 95% of the company's total operating EBITDA in 2023 was generated from its land drilling operations in core Middle East countries and its off-shore contract services operations. They have very concentrated resources of revenue and cashflow generation.

In total, KCA's land operations generated approximately 74% of its 2023 operating EBITDA and roughly 71% of total 2023 operating EBITDA was generated by 63 rigs located in those core Middle East countries of Saudi Arabia, Oman, and Kuwait, which again highlights its concentration of revenue and cashflow generation.

The company generated another 23% of operating EBITDA from its asset light, offshore management contract business. This business involves 29 offshore management contracts

primarily on platform rigs located in the North Sea, Angola, Azerbaijan, and Canada. Like their land operations, KCA Deutag's offshore business is highly complimentary to ours with very little overlap. The KCA Deutag offshore business also has a robust backlog with super major customers which provides another source of long-term earnings visibility and stability.

Finally, KCA Deutag's Kenera segment comprises of manufacturing and engineering businesses including Bentec, a well-established drilling manufacturer. This business has three facilities serving the energy industry; one in Germany, and then then important hubs in Saudi Arabia and Oman. We believe this business represents a longer-term growth opportunity for the company, providing upside exposure to energy transition efforts in Europe.

Now turning to slide six, this is the right transaction at the right time for H&P. Shortly after the advent of the super-spec rig in the US market and our US customers becoming more capital disciplined in their businesses, we realized the market in the US was evolving and that growth opportunities here would like be more measured than they were in the past. As a result, we developed a more concerted strategy to expand internationally. This was interrupted by the COVID pandemic, but even then, we continue to look for international opportunities, particularly in the Middle East.

As part of this international strategy, we've generated some organic growth but have also been monitoring various external opportunities around the world for quite some time looking for the right fit. We believe we have found it with this KCA Deutag acquisition. In recent years, KCA has streamlined its portfolio of assets geographically, strengthened its financial position by significantly reducing debt, and enhanced its leadership in the Middle East by acquiring Saipem's onshore operations.

Turning to slide seven, the US and Middle East are the two most prominent oil and gas producing regions in the world. We have often said if you want to be big in the US, you have to be in the Permian, and if you want to be big globally, you have to be in the Middle East. This transaction gives H&P immediate scale in core Middle East markets in a way that would be challenging to replicate organically, making H&P one of the larger rig providers in the Middle East.

Moving on to slide eight, that shows the historic and projected demand for rigs in the Middle East in comparison to the historical price of rent oil. As I've discussed, the Middle East market is not only resilient but is expected to see continued strong growth in the coming years at an estimated 9.0% rate annually through 2026. This represents another compelling reason for executing the transaction at this time. We view this transaction as more than just acquiring assets. Rather we are acquiring operations with quality people and processes. We are excited about what this means for H&P's future.

I will now turn the call over to Mark to discuss the financial benefits of this acquisition.

Mark Smith: Thanks, John. The acquisition is win-win. It increases our scale and it strengthens our geographic and operational mix across the US and international markets.

As shown on slide nine, on a combined basis, the company would have delivered operating EBITDA of approximately \$1.2 billion over the past 12 months, an increase of more than 30% from H&P on a standalone basis. We will also have a much more diversified business. For example, we expect this transaction will grow our international land operations from approximately 1.0% on a standalone basis to approximately 19% on a proforma basis on calendar year 2023 operating EBITDA, and offshore operations are expected to grow from approximately 3.0% on a standalone basis to approximately 7.0% on a proforma basis. So, on a proforma basis, about a quarter of the combined companies operating EBITDA will come from international and offshore operations, creating a diversification from our legacy US onshore business. As a result, H&P will have better geographical balance in earnings and cashflow streams.

Looking at slide 10, we will also have stronger cashflow stability and visibility supported by a robust backlog of work for blue chip customers. KCA Deutag adds approximately \$5.5 billion of contract backlog to H&P's \$1.7 billion, approximately \$3.8 billion of which is firm, and approximately \$1.7 billion of which is optioned. This includes work for large, well-known customers of KCA Deutag including BP, ExxonMobil, and Shell, as well as NOCs in key international markets.

Moving on to slide 11, the transaction is accreted to all our key financial metrics. It is immediately accreted to cashflow and free cashflow per share and increasingly accreted thereafter with double-digit free cashflow accretion expected as soon as 2025. Furthermore, the returns for this transaction are expected to exceed cost of capital by 2026, a timeframe that is shorter than what's typical of transactions of this type.

Additionally, and despite of little geographic overlap, we expect to realize approximately \$25 million in run rate synergies by 2026, driven primarily by a reduction in overhead and procurement savings. We believe there are opportunities for additional synergies over time. These anticipated synergies were not a large factor when considering the strategic and economic rationale for the transaction. Including synergies, we are acquiring KCA Deutag at a transaction multiple of approximately 5.4 times. This is much lower than the trading multiples of other Middle East public peer companies.

Slide 12 details our plans for a balanced but prompt move to delever post to closing. We remain committed to a conservative balance sheet and investor returns. H&P's history of maintaining financial discipline is purposeful and two-fold; 1) it allows us to plan and invest for the long-term despite the volatility often seen in the crude oil and natural gas markets, 2) it also allows us to take advantage of market opportunities, including this very transformative transaction. For this KCA Deutag acquisition, we are willing to temporarily increase our leverage to take advantage of a meaningful international growth opportunity.

We expect to maintain our investment green rating. Debt reduction will be a capital priority for one to two years post-close. We also expect to refinance existing KCA Deutag debt at a lower cost of capital and we will be well-positioned to promptly reduce debt by utilizing the strong projected cashflows, prepayable term loans, and newly issued bonds with staggered maturities. Our focus will be reducing our net debt to operating EBITDA ratio from 1.7 times at close to a long-term target of at or below one times. Consistent with our history, we are focused on financial stewardship in the near-term to realize the significant long-term benefits of this transaction.

Bringing to slide 13, this transaction improves our returns while also reducing volatility, enabling us to deliver both near and long-term value creation for shareholders. We will maintain our long-standing commitment in capital allocation priority to provide shareholder returns. We will pay the fourth and final installment of the fiscal 2024 supplemental dividend that we declared on June 5, 2024. Thereafter, we do not anticipate providing a supplemental dividend during the near-term deleveraging period. We do intend to maintain the current annual-based dividend of \$1.00 per share, and we expect the yield to remain competitive with industry and indexes averages.

As we work to reduce debt in the near-term, we will continue to target select investment opportunities with strong return profiles, including further US rig export opportunities. We will also consider additional opportunistic returns to shareholders beyond the base dividend through the first couple of years following close.

With that, I'll turn the call back over to John.

John Lindsay: Thanks, Mark. I'll wrap-up our prepared comments today by discussing our common core values and integration plan at a high level. If you turn to slide 14, an important aspect of our complementary businesses is our similar cultures, whether in how we serve our customers or how we keep our employees safe.

Like H&P, KCA Deutag has a customer-centric approach that emphasizes safety, sustainability, and operational and financial excellence. Together, we will build on these shared values as we look forward to welcoming KCA Deutag's talented employees to H&P, working together to provide exceptional performance and value to customers across our global markets.

Moving to slide 15, our similar cultures will ground our integration planning. We will take a measured approach focusing on execution and continuing to support our customers. As we plan to bring our companies together, we will have a few areas of focus. This includes leveraging expertise of both companies, optimizing our geographic footprint, enhancing each company's strengths, and identifying opportunities to use our existing assets in operations with KCA's local knowledge.

Post-close, H&P will have three primary operating segments; North America Solutions, International Solutions, and Offshore Solutions. KCA Deutag's manufacturing and engineering

business, Kenera, falls under “other” on this slide, but as we mentioned previously, we believe there is an opportunity to grow this. For your modeling purposes, H&P’s North America Solutions segment will remain unchanged.

Turning to slide 16 and summarizing what we are creating through this acquisition. We are excited about H&P’s future with KCA Deutag. We are building on a 200 plus year legacy of combined companies with successful operations to create a leading global land driller. We will have assets like offshore services and strong innovation in technology and engineering, and we will continue to foster a culture that centers on our people and communities. I firmly believe the best is yet to come.

Before we get to the Q&A, we’ll wrap-up today’s call with the first slide that we shared in this presentation outlining the strategic rationale for the transaction on slide 17. As you’ve hopefully heard, KCA Deutag is a transformative and important acquisition for H&P, and we believe it offers attractive long-term benefits for the company. I want to thank all of H&P’s employees for their hard work, their dedication, and their commitment to excellence. You have made today’s announcement possible and you will continue to drive our success in this next chapter. I look forward to welcoming the KCA Deutag team to H&P, and working closely together to drive growth and deliver strong value for our shareholders, customers, and partners.

Now that concludes our prepared remarks. Thank you for your attention, and we’re going to be happy to answer questions, Connie, with some of the time that we have remaining.

Operator: Thank you. At this time, if you would like to ask a question, please press star one on your telephone keypad. You may remove yourself from the queue by pressing star two. Once again, that is star one to ask a question, and we will pause for just a moment to allow everyone an opportunity to signal for questions.

We’ll take our first question from Serab Pant.

Saurabh Pant: Hi, good morning, John and Mark. Exciting transaction for sure. Let me just start with that on the KCA Deutag side. The one slide you showed on multiple slide you paid 5.4x including synergies and the Middle Eastern drillers paid at a lot higher multiple, but in the US list of companies, John and Mark, any high-level yields on what drives investors to better appreciate the opportunity on the Middle East side of things. I totally agree with you that you are not acquiring assets. It’s much more than assets. It’s an organization and business you are acquiring, but what drives US investors to better appreciate and give credit to that in the way US oil stocks trade versus the Middle Eastern drillers?

John Lindsay: Yes, Saurabh, I didn’t catch all of your question, it broke up just a little bit, but we do feel good about where we are with the multiple, and the outlook, and the opportunities ahead. As we’ve said, this is a transformational deal for H&P and it accelerates that international growth strategy that we’ve been talking about really for the past five years, and having that land rig access in a large concentration in the Middle East I think is really beneficial.

Mark Smith: Yes, Saurabh. I would just add it is at a premium to our trading multiple, and how we're thinking about it, we view the implied multiple favorable when we compare it to multiples of other companies with significant Middle East presences especially several that have listed in the recent couple of years. The characteristics of a lot of KCA Deutag's cashflow stream, the visibility and resiliency of the backlog I mentioned in the prepared remarks tend to carry higher market valuation relative to what is seen for more US-centric OFS companies with historical higher volatility within cycles. Finally, the size and scale of KCA within the Middle East region is challenging to replicate, which quite frankly contributes to its attractiveness.

Saurabh Pant: Right, absolutely. That makes sense. Then maybe one quick one in terms of your deleveraging target, Mark. You talked about going down from 1.7 at the close to 1.0x. How should we think about the timeline of that? Of course, to confirm the free cashflow you would generate as a combined entity, but how are you thinking about the timeline of that from this point on?

Mark Smith: Thanks, Saurabh. We've always maintained that low debt level historically and we believe this is a near-term transient increase. Debt reduction, as I've said in the prepared comments, will be the capital allocation priority for one to two years post-close. Our focus will be reducing from that 1.7x EBITDA coverage at close to sort of a longer-term contract where we like to operate in the oil drill services drilling sector at one times or below.

We have very intentional plans for deleveraging; KCA's longer-term contract, the robust backlog I just talked about in your last question supported by that blue chip customer base provides a line of sight to resilient revenues, and as I said, less volatility through cycles.

Saurabh Pant: Right. Then just one quick unrelated follow-up if I may on the US side, your latest EBITDA. It's very positive to see signs of yearly bottoming with a slight uptick towards the end of the fiscal year. John or Mark, can you just comment on what's driving that increase, that potential increase let's say at this point? Is it more high drilling you think customers moving to H&P rigs or do you think there is an opportunity that the overall market starts to go up a little bit?

John Lindsay: I think it's probably a combination of both. There are some high-rate opportunities as we look forward. I think there is an improved outlook fundamentally. Then of course, as we always see at the end of the year and going into the new calendar year, there's usually a reset in budgets and there's some activity improvement there. Of course, as we've said before, it's very hard to see out that far in advance, but that's what we're seeing and hearing as we talk with our customers. Really, the real driver is our people and our performance, and these win-win opportunities that we have with our customers.

Saurabh Pant: Right, perfect. I appreciate that. Thanks for the answers, John and Mark. I'm throwing it back.

John Lindsay: Thank you.

Mark Smith: Thanks, Saurabh.

Operator: We'll take our next question from Keith Mackey, RBC.

Keith Mackey: Hi, good morning. Thanks for taking my questions. I guess the first question really is how do you think about now, like I guess first, does this change the amounts of rigs you might think about moving to outside of the US? Are you now pretty well set in a lot of your other jurisdictions particularly the Middle East as you've now gained a much larger footprint over there?

John Lindsay: Keith, I think this merger really provides us an opportunity to export really even more rigs than what we would've been thinking about before because of the exposure that we have, and the footprint, and the experience that KCA Deutag has. They have a long history of work obviously internationally and specifically in the Middle East. So, I think there's a lot of opportunities there. I sure don't see it as less opportunity. I would see it as more.

Mark Smith: Just reminding that we have at least 70 and 80 idle super-spec rigs in the US.

Keith Mackey: Absolutely. Just a follow-up on the free cashflow accretion. Pretty strong accretion next year. What I always seem to find is there tends to be more cost that creep in when companies acquire others, and that tends to pushout some of those targets. I'm not saying that's going to be the case here but can you give us some reasoning or confidence as to maybe why that won't happen and why your double-digit free cashflow accretion next year is well in hand?

Mark Smith: Yes. We have looked at this transaction from many different ways including the simple unleveraged standalone business. The transaction, as you said, it looks to be accretive. We have double-digit cashflow accretion expected as soon as next year, 2025, and transaction return is exceeding cost to capital by 2026, which for a transaction of this size, in my experience, is just a really quick result.

We feel really confident. We've had a long look at this, we've had many months of due diligence, we've had a lot of access to sites, people, a substantial review of all aspects of the business, and we are pretty confident. As I said, we have very little geographic overlap with our complementary businesses, but yes, we still do expect to have some synergies by 2026 from some reductions in overhead and from procurement and improvement leveraging across the global fleet.

Keith Mackey: Okay. Thanks very much. I'll turn it back.

Mark Smith: Thank you.

Operator: We'll take our next question from David Smith, Pickering Energy Partners.

David Smith: Hey, good morning, and congratulations on this deal.

John Lindsay: Good morning, David. Thank you.

Mark Smith: Thanks, David.

David Smith: To Mark's earlier point about the KCA size and scale being tough to replicate, I know your entry into Saudi has been a long process with some real startup cost, but following on Keith's question, how do you think about the potential international market appetite for your Flex rigs and maybe how should we think about your proforma company's ability to introduce your Flex rigs to other geographies, assuming that part of the hurdle is establishing a relationship?

John Lindsay: You know, David, that's a great question. I do think that just the sheer nature of the coverage, and the experience, and the relationships that they have, in some cases, obviously we don't have that same exposure, we don't have that same experience with H&P. So, I think just by definition, that opens up some opportunities.

I think the other is unconventional resource plays. I mean I think we continue to see that as a great opportunity for international expansion, and I think this merger just creates even that much more of an opportunity for us to have that exposure to additional customers and additional countries. So, I do think it provides us upside.

David Smith: I appreciate it. If I can ask a follow-up, I'm sorry if I missed it but did you mention what percentage of your US activity is on performance-based contracts? I know it's early to ask but I'm curious if you think there are opportunities to take the performance contract approach outside the US.

Mark Smith: David, we've been consistent quarter on quarter around 50% of the fleet as we have experienced some turn for many various reasons in our customer base, including some of the E&P consolidation that's occurring. We do expect, as the churn settles and that activity slows, to once again increase that percentage, and to your point, the rig that we have that'll start up in Bahrain in the fourth calendar quarter, first quarter of fiscal 2025 is a performance contract and it is in fact we believe to be the first performance contract in the Gulf Coast countries.

David Smith: Fantastic. Thank you so much.

Mark Smith: Thanks, David.

Operator: We'll take our next question from Doug Becker, Capital One.

Doug Becker: Thank you and congratulations. In terms of the slide deck, certainly we're highlighting the run rate growth. I'm just curious about the growth prospects off of that base and what's contemplated in some of your accretion and return on invested capital metrics off of that \$341M run rate base.

Mark Smith: That's a great question, David. A lot of our score here, as you will note, is based on 2023, 12-31-2023 EBITDA, and the company, KCA Deutag, had just finished its Saipem acquisition towards the back half of 2022, and that Saipem acquisition actually had many various staggered closings, one of which for a portion of Latin America, Argentina I believe, did not occur until this year.

So, there has been EBITDA growth since that 12-31-2023 number, and we believe that there is the opportunity to invest not only in some of the H&P legacy rig exports that we just talked about with the last analyst, but we believe there are opportunities throughout KCA Deutag's existing footprint for further growth related to the type of work that they do today which is primarily conventional onshore drilling.

Doug Becker: That really sounds encouraging. In the due diligence process, what was your assessment or did you see them in the market, what was KCA Deutag's relationship with Aramco and the general perception with customers?

John Lindsay: KCA Deutag has an excellent reputation. Of course, we've known of KCA. As long as I've been in the business, I've known, and they've always had a great reputation. I've actually had conversations with some of the customers that are big customers of theirs and they couldn't be more happy with the relationship, and the performance, and the focus on safety. They agree; culturally they felt like there was some great overlap.

So, the early reception that we have is very positive coming from the customers both in terms of KCA's service that they provide the customers and also a focus on technology and looking at ways of doing the business differently and better, which is a big driver for H&P. So, I think there's a really positive aspect to this and I think there's a great opportunity through the integration and as we move forward. As I've said previously, these are great assets but we're also just getting some amazing people, and those processes and people I think are going to really be a difference maker.

So, I feel really good about it. The brand is strong, and I think the combined brands together are going to be very powerful.

Doug Becker: Makes sense. Thank you very much.

John Lindsay: Thank you.

Operator: We'll take our next question from Marc Bianchi, TD Cowen.

Marc Bianchi: Hey, thanks. Thanks for keeping us on our toes this morning. Good morning.

John Lindsay: Yes. That was our goal. That was our goal. We've been up pretty early, so we thought we would pass some of that around.

Marc Bianchi: Mission accomplished. The first one was just on kind of the asset quality here. If I look at H&P historically, leader in kind of high-end assets, leader in the drive to AC rigs in North America, and I look at KCA and I'm not quite as familiar what their fleet of assets looks like but I would suspect it's not the leading-edge stuff necessarily. Maybe there's some in there. Then also, maybe related to it, if I look at the multiple that you've got on that slide there at 5.4 times versus the others at those higher multiples, is there some reason that the asset quality of something about KCA explains that difference or is it just the market is missing something here?

John Lindsay: I'll let Mark hit that last point but I think just going back to the assets and the asset quality, we really like the fleet that they have. I think even more important is the customers really like the fleet that they have. It's mostly conventional drilling. Of course, the last 15 years at H&P, mostly what we've done particularly in the US has all been unconventional, but the majority of the work they have is conventional so they're more conventional assets, but there have been a lot of investments in those rigs and upgrades over the years, just like the business in the US.

So, we feel really good about the fleet. I don't think the fleet has anything to do with the multiple variances that we're talking about.

Mark Smith: I would totally agree with that, John. If you took the approximately 70+% of EBITDA from the core countries and look at the active rigs in the Middle East, I think it's pretty attractive per asset value. From a maintenance perspective, we got a very comfortable, Marc, with KCA Deutag's assets. That's well-maintained. As I said, we spent a lot of time with this and we were able to see quite a few site visits. You could not realize the level of performance of the equipment. You could not realize the level of performance that they are achieving with equipment that was not well-maintained. We have certainly considered that. I would say with this acquisition, it's more than just acquiring assets.

As John had said, it was acquiring operations and the people that are running these rigs that'll benefit us in the long-term. We gain immediate scale in the core Middle East countries in a way that would, as I said, be challenging not only to replicate organically but from any other sort of transformative transactional opportunity like this one.

John Lindsay: The relationships that KCA has, we have great relationships, they have a much larger footprint, and again, my experience with interaction with customers is that they have very good relationships, and that's obviously very, very important in a service industry. So, again, we feel very good about that.

Marc Bianchi: Yes, okay. Thanks for that, guys. The other one I had was on the capital intensity of the business, of the KCA business. I guess there's it looks like \$350 million plus of cash generation here for 2025. I'm looking at the bottom of slide 12. I presume you're assuming that H&P's CAPEX is in that \$500 million range. I know the swing factors what happens with tenders in Saudi but what's the combined company or what the KCA CAPEX number that we should be thinking about on a recurring basis and what's reflected in this 2025 number here?

Dave Wilson: Hey, Marc. This is Dave. I think we're going to operate as two separate companies [until close], so when we come out with our fiscal 2025 CAPEX budget, that would be H&P only. I would kind of point you to some of the publicly available information on the website. I think the run rate for CAPEX through March for KCA Deutag was about \$22 million. I think last year 2023 it was \$124 million. So, that's going to give you an idea of their run rate and what they're seeing for CAPEX.

Marc Bianchi: Got it, okay. Thanks, Dave. I'll turn it back.

John Lindsay: I'll just add to that that their per active rig maintenance CAPEX number per annum is pretty similar to our own, Marc. So, thanks for the questions.

Operator: At this time, we have no further time for questions. I will now turn the call back over to John for any additional or closing remarks.

John Lindsay: Thank you again for joining us on short notice. The company is going to continue to strive to execute, as it always has, using a customer-centric approach and a safety focus, which is really ingrained in our company culture. We are very much looking forward to joining forces with KCA Deutag. We're very excited about the future and about this opportunity and the value that we can create for our shareholders going forward.

Then finally, I wanted to mention, most of you probably know this but just in case you don't, this is a farewell for Mark, and before we sign off, I wanted to callout our appreciation in accomplishments that Mark has had with the company.

So, last earning call with H&P. We're going to miss you. A little over six years ago, you joined H&P and we started this journey together to build a strong financial team, drive financial acumen company-wide for the purpose of delivering value to shareholders and we have accomplished a whole lot together. We appreciate your humor [Laughter] and your friendship, work ethic, deep industry and financial knowledge. It's been a fantastic experience, and speaking for everyone at H&P, we want to wish you and Angela all the best in retirement, and success in your next chapter. Take care.

Operator: This concludes today's conference. We thank you for your participation. You may disconnect at any time.

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