HELMERICH & PAYNE
Fiscal Second Quarter 2024 Earnings Call
04/25/2024 11:00 am ET

Operator: Good day, everyone, and welcome to Helmerich & Payne's 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 a question at any time by pressing the * and 1 on your telephone keypad. You may withdraw yourself from the queue by pressing the * and 2. Please note this call is being recorded. I will be standing by if you should need any assistance.

It is now my pleasure to turn the conference over to Mr. Dave Wilson, Vice President of Investor Relations.

Dave Wilson: Thank you, Abby, and welcome, everyone, to Helmerich & Payne's conference call and webcast for the second quarter of fiscal year 2024. With us today are John Lindsay, President and CEO, and Mark Smith, Senior Vice President and CFO. Both John and Mark will be sharing some comments with us, after which we will open the call for questions. Before we begin our prepared remarks, I will 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's 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, and other operating statistics. You will find the GAAP reconciliation comments and calculations in yesterday's press release.

With that said, I will now turn the call over to John Lindsay.

John Lindsay: Thank you, Dave, and good morning, everyone. In light of the choppy market conditions in the U.S., Helmerich & Payne is pleased with our second fiscal quarter results. Even with these shifting market conditions, our margins remain strong, reflecting our continued focus on maintaining commercial economics commensurate to the value we're delivering to customers.

We are also encouraged to see evidence that there is an ongoing necessary shift in the industry's fiscal behavior, which is moving it toward a more sustainable and investable future. In the U.S. market, contractual churn is still prevalent, and while we achieved our average planned rig count for the second quarter, our exit rig count for the quarter was just below what was projected.

Mark will give more rig count details during his remarks but let me summarize by saying that part of this churn continues to be a product of the volatility created by a weaker natural gas market and is reminiscent of the volatility experienced this time last year. However, we believe the impact on our overall activity will be less this year going forward.

E&P consolidations and a variety of other factors have also contributed to churn. And while we expect many of these underlying factors will persist, we are also projecting a relatively stable outlook for our rig count through the third fiscal quarter.

We expect our total projected North America Solutions direct margin for the third fiscal quarter to be down slightly on a sequential basis due to a lower average rig count, but it's important to note that we also expect resiliency in our per day direct margins.

Our customers benefit from reliability, faster well cycles, and better well quality, all of which lowers our total well cost. Our ability to deliver consistently on these measures is what ultimately drives direct margins and market share.

Oil prices remain attractive, and we see the customer outlook becoming more positive regarding medium- and long-term energy fundamentals. Based on that, we believe there will be growing demand for the top performing super spec rigs due to customers deploying well designs that require technologies to derive stronger economics from their acreage positions. Intersecting with this is the major industry theme of service intensity, where daily rig costs are higher because laterals are longer and circulating pressures are higher to drill these wells.

All these elements coalesce to create the opportunity for technology and performance-based contracts that demonstrate the performance differentiation H&P brings to the table. Our operations and sales teams are working more closely than ever with the customer to deliver more collaborative solutions.

Regarding our International Solutions segment, we are busy preparing for the unconventional project in Saudi Arabia that we announced last quarter and have finalized the contractual terms for the seven-rig tender award. Our first rig awarded by Saudi Aramco in August of 2023 is expected to arrive and commence operations later this summer. For the recent seven-rig tender award in January, preparations are ongoing from both the rig and operational perspective with expectations that a majority of these rigs will arrive in Saudi Arabia during the fourth calendar quarter of 2024 and commence operations shortly thereafter. During these preparations, we will continue to spend our 2024 budgeted CapEx toward this project and incur startup operational expenses, which will disproportionately impact near-term international segment margins.

We look forward to working with Saudi Aramco and believe this is the beginning of a long-term presence in the region with additional growth opportunities.

International operations in South America and Australia are expected to remain relatively stable over the next quarter, as well as our offshore Gulf of Mexico operations.

In addition to our international growth strategy, our capital allocation strategy this fiscal year is structured with a base and supplemental dividend, as well as opportunistic share repurchases, and Mark will provide more details in his remarks.

I want to conclude my prepared remarks by stating again we have remained firm on our contractual economics by working with and collaborating closely with customers on alternative contract models. Our primary commercial model today is using performance contracts combined with our technology solutions. Having the operational confidence in our ability to consistently execute with our technology solutions results in win-win economics for both the customer and H&P, and provides our customers with safety, consistency, and reduced execution risk. All of these successes are possible because of the people at H&P. It is you that make our FlexRigs and our technology solutions the best in the industry. Each of you play a key role in our success and will continue to be drivers of that success in the future.

I now turn the call over to Mark Smith to provide more details and a review of our financials.

Mark Smith: Thanks, John. Today, I will review our fiscal second quarter 2024 operating results, provide guidance for the third quarter, update remaining full fiscal year 2024 guidance as appropriate, and comment on our financial position. Let me start with highlights for the recently completed second fiscal quarter ended March 31, 2024.

The company generated quarterly revenues of $688 million versus $677 million from the previous quarter. Revenues were up sequentially primarily due to an increase in the average active rig activity in North America. Total direct operating costs were $403 million for the second quarter versus $404 million for the previous quarter.

General and administrative expenses were approximately $62 million for the second quarter, which was higher than our expectations due to a few discrete items, including information technology costs, mark-to-market adjustments for director deferred compensation, and the incurrence of certain professional services and consulting fees.

During the second quarter, we recognized gains of $3.7 million primarily related to the change in the fair market value of our equity investments, which is part of the gain on investment securities reported in our consolidated statement of operations.

Our Q2 effective tax rate was approximately 27.5%, which was within our previously guided range for the quarter.

To summarize this quarter's results, H&P earned a profit of $0.84 per diluted share versus $0.94 in the previous quarter. As highlighted in our press release, second quarter select items had a neutral impact on diluted earnings per share. For comparison, diluted earnings per share of $0.84 in the second fiscal quarter versus $0.97 during the first fiscal quarter after adjusting Q1 for select items.

Capital expenditures for the second quarter of fiscal 2024 were $118 million, and I will have some further comments when we come to our fiscal 2024 capital expenditure guidance.

Our Q2 cash flow from operations was $144 million, which was, as expected, sequential decline in part due to most of our year-to-date cash tax payments falling into the second fiscal quarter. I will address the company's cash position later in my remarks.

Turning to our three segments beginning with the North America Solutions segment. We averaged 155 contracted rigs during the second quarter, up from 149 in the first fiscal quarter. The exit rig count was 152, which declined late in the quarter and was below our guided range of between 154 and 159 due to lower natural gas prices and miscellaneous individual customer factors.

Revenues increased sequentially by $19 million primarily due to the increase in average activity quarter to quarter as well as some remaining legacy price rigs rolling to current market rates. Segment direct margin was $271 million, which was towards the high end of our guidance, and sequentially higher than the previous quarter which came in at $156 million. Total segment expenses were down slightly to $19,000 per day in the second quarter compared to $19,600 per day in the previous Q.

Looking ahead to the third quarter of fiscal 2024 for North America Solutions segment. As of today's call, we have 150 rigs contracted. And while activity through most of the second quarter was strong, the previously mentioned factors began to wear on the market, and today the rig count has reverted back to a similar level to January 1st.

That said, we are seeing signs that the rig count seems to be nearing a leveling-off point and we expect to end our third fiscal quarter with between 145 and 151 working rigs. It is worth noting that among the various factors impacting the rig count, pricing is not one of them. And to that end, as mentioned in the press release, we remain focused and steadfast on our commercial economics.

Furthermore, despite a slight decrease in our rig count heading into our third fiscal quarter, we have been able to maintain and even accrete market share since our fiscal 2023 year-end U.S. land share of 25.5% to a 27.5% share today overall, while maintaining a 33% to 34% super spec market share.

As we have commented before, market share is not our main goal, but rather providing value to customers and being commensurately compensated for our performance and value created. We believe our financial margins and market performance are representative of our efforts.

Revenue backlog from our North America Solutions fleet stands at roughly $1 billion for rigs under term contract. As of today, about 57% of the U.S. active fleet is on a term contract. Average pricing and revenue per day should remain relatively flat.

In the North America Solutions segment, we expect direct margins in fiscal Q3 to range between $255 million to $275 million and we expect costs in Q3 to remain relatively flat.

Next to our International Solutions segment. International Solutions activity ended the second fiscal quarter with 11 rigs on contract. International Solutions results were above our guidance range as the inflationary environment in Argentina was less detrimental than anticipated. As we look toward the third quarter of fiscal 2024 for international, as mentioned in the press release, we expect all international activity to remain unchanged across the quarter.

With regard to our Middle East growth, our Galena Park facility at the Port of Houston is using its capacity to convert and recommission rigs to meet Saudi Aramco unconventional specifications for the remainder of fiscal 2024. In addition to capital investment outlined in our previous quarterly call, we are incurring recommissioning in expenses. We expect to incur $10 million to $12 million of operating expense consisting of $2.5 million of per rig for inspection and repair in fiscal Q3 with final recommissioning expense expected in Q4 of approximately $5 million. Also included in the Q3 cost guidance is local office setup in Saudi Arabia of approximately $2 million.

In the third quarter, we expect an overall direct margin range of a $2 million earnings to a $2 million loss aside from any foreign exchange impacts in the international segment.

Finally, to our offshore Gulf of Mexico segment, we have three of our seven offshore platform rigs contracted. We also have management contracts on three customer-owned rigs, one of which is on active rate. The offshore segment generated a direct margin of about $3 million during the quarter, which was below our guidance range as one rig was delayed in resuming full-rate operations. As we look toward the third quarter of fiscal 2024 for the offshore Gulf of Mexico segment, we expect to return to previous run rate levels and generate between $5 million to $8 million of direct margin.

Let me update full fiscal year 2024 guidance. Capital expenditures for the full 2024 year are now expected to be at the top end of our original $450 million to $500 million range. During our November earnings call describing initial fiscal 2024 guidance, we stated that approximately 14 walking conversions would occur in Galena Park. Seven were completed and are in the U.S. fleet with the remaining seven committed to the Saudi rig award.

As further discussed on our last call in January, international growth capital for the seven-rig Saudi award also includes recertifying certain equipment to like new, conducting required modifications, and purchasing specific equipment for Middle East contracts.

What was previously estimated timing for maintenance CapEx across the U.S. fleet together with refined international growth CapEx is now pinpointed to the top end of the original range with more supply chain clarity with our placed orders.

It is worth repeating what we have said on prior calls that we are marketing our super spec FlexRigs internationally for the work they were designed for and have excelled at in the U.S., and exporting these idle super spec FlexRigs to international fit-for-purpose opportunities increases our fleet-wide utilization and exposes H&P to markets with longer-term contract profiles, and starts to reduce U.S. concentration while alleviating long idle U.S. supply.

Depreciation for fiscal 2024 is now revised up from $390 million to $405 million for the full year due to the acceleration of 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 original guidance of $230 million to $240 million. This increase is due to IT project costs as well as some other unrelated professional services and consulting fees.

Research and development costs are revised up for fiscal 2024 from $30 million to $35 million due to one-time expenditures in Q2 to acquire certain intellectual property.

We still estimate our annual effective tax rate to be in the range of 24% to 29% with the variance above the U.S. statutory rate of 21% attributed to permanent book to tax differences and state and foreign income taxes. We continue to project an FY24 cash tax range of $150 million to $200 million.

We had cash and short-term equivalents at H&P of approximately $277 million at March 31 versus an equivalent $298 million at December 31, 2023. The sequentially decreased cash balance is largely attributable to the previously mentioned cash tax timing in Q2.

There is “noise” from quarter to quarter based on timing of various payments and receipts and movement of asset and liability balances. But overall, we are still aligned with what we projected for the full fiscal year and are still comfortable with our overall cash flow projections for fiscal 2024.

That said, based on the quarter’s results and our projections for the remainder of the fiscal year, we still forecast that we will be generating ample cash flow to cover our capital expenditures, the base dividend, and the fiscal 2024 supplemental dividend plan.

That concludes our prepared comments for the second fiscal quarter. Let me now turn the call over to Abby for questions.

Operator: At this time, if you would like to ask a question, please press the * and 1 on your telephone keypad. You may remove yourself from the queue at any time by pressing *2. Once again, that is * and 1 to ask a question.

Our first question comes from the line of Doug Becker from Capital One.

Doug Becker: Thank you. John, if you – I wanted me to dream a little bit. It does seem like the rig count is stabilizing, but was just hoping to get an update on how you see supply and demand for the super spec market, in particular, and when conceptually we could see pricing power again if the outlook for next year, higher oil prices, a little bit better natural gas price outlook. Just want to get a sense for where the lay of the land is and what a little bit of a bull case is.

John Lindsay: Sure, Doug. Good morning. I think if you just look at the activity set over the last several years, the super spec segment of the market continues to grow on a percentage basis. Obviously, we've had a pullback in activity, both H&P and the general industry in general, primarily as a result of natural gas prices like we've talked about.

But I think the outlook is very positive. I think the ability to continue to drive efficiencies and reliability, do it in a safe fashion, and leverage technologies are really those key things that are going to be needed. That's what customers are looking for. So, I feel good about overall the super spec space in the U.S.

In terms of trying to pick the timing, as you know, that's very challenging to do. But obviously, oil prices are strong. But the gas basins, we've had quite a bit of pullback in activity. But again, I think that's we'll see some improvements here in the future.

Doug Becker: Yes, fair enough. Mark, I know you expressed comfort with the cash flow outlook. Just wanted to try and reconcile a lot of the moving parts. My assumption would be that free cash flow would be below the, say, $235 million that previous guidance implied just given most notably the higher CapEx. Is that fair or am I missing a factor?

Mark Smith: It's in the ballpark.

Doug Becker: Got it. Thank you very much.

John Lindsay: Thanks, Doug.

Operator: Our next question comes from the line of Derek Podhaizer from Barclays.

Derek Podhaizer: Hey, good morning. Maybe just to continue the line of questioning, you talked about in your prepared remarks that you're seeing signs of leveling off in the rig count. Can you maybe just expand on that, what you're seeing? Is it customer conversations? Is it duct counts? Just any way you can help us with the sign that you're seeing as far as leveling up on the rig count.

John Lindsay: Well, Derek, it's really a function of conversations that we have ongoing with customers. There's obviously this continued churn that we've described, but there are examples where customers have rigs, rig opportunities where they're picking up. There's also some high grading that is ongoing, really continually as we move forward.

If you just look at our count in general, the H&P count, we've been in a five-rig range since, what, since June of last year. And again, we all know what the challenges have been with natural gas. So, really, our outlook and our expectation is really derived from conversations that we've had with customers and what their expectations are.

You've heard me say before, it's very hard to forecast out much faster quarter. There are a lot of things that can happen in a short period of time, but based on what we know right now and feedback we're getting, that's the estimate that we've put together.

Derek Podhaizer: Great. No, that's really helpful color. I wanted to dig into the performance-based contract. So, one of your customers announced their company record five-well pad, all four-mile laterals last night. Is this a good readthrough of how you capture value and generating efficiencies for your customers? Maybe describe the mechanics of an example like that.

John Lindsay: Well, that's definitely a great example. At the end of the day, what we're doing is we're having conversations with customers. You've heard us talk about it before, this is a partnership, and we work very closely in trying to understand what their deliverables are, what makes for them seeing what would be a positive outcome, and whatever that metric is, that's the focus that we have. At the end of the day, we've got to deliver wells more efficiently, we've got to save days, we've got to improve wellbore quality, consistency. The technology solutions that we have really help deliver that.

So, if you can put together a performance-based contract that really rewards the service provider, in this case, H&P, and aligns it with the outcomes that the customer is wanting, then that's a true win-win outcome and that's the best that you can hope for.

And as you've heard us say, at the end of the day, we're making big investments. This is a capital-intensive business, and we're making big investments, and those investments are designed to enhance the quality and the performance. At the same time, we have to get returns above our cost of capital. Otherwise, it's very challenging for us to be investable today and into the future.

Derek Podhaizer: Okay. Thanks for the color, John. I'll turn it back.

John Lindsay: Thanks, Derek.

Operator: Our next question comes from the line of Saurabh Pant from Bank of America.

Saurabh Pant: Hi, thanks. Good morning, John and Mark.

Mark Smith: Good morning.

John Lindsay: Good morning, Saurabh.

Saurabh Pant: Mark, maybe I'll start with one clarification for you. You did give a good color on CapEx and you have a better line of sight from a supply chain perspective. But if I recall your messaging from last quarter, I think there was a path of $30 million, $35 million you said in additional CapEx related to the Saudi rigs that was expected next year. So, is there an element of that being pulled forward to your FY24 CapEx going from $450 million to $500 million to now $500 million, or is that still expected to be incurred in FY 2025?

Mark Smith: Thanks for the question, Saurabh. No, that's still anticipated to be incurred in 2025. I think I had said or if I didn't, I'll say it now, we're approximately $27 million CapEx all-in for each of these Saudi Arabia rigs, and that's no different than the number we were giving in building our models around this time last quarter.

What I will say, though, is we always have a range, and it's really hard quarter-to-quarter to know exactly how the timing is going to fall when you're working with a very wide supply chain and 150 active rigs in the U.S. and trying to catch up, as we have said on previous calls, for maintenance CapEx for componentry, even going back to the cannibalization we experienced in 2021 coming out of the pandemic. So, as we're two quarters in to a four-quarter year, we have a little more certainty around that maintenance CapEx timing and that is really one of the largest components of driving up towards the top end of the range.

Saurabh Pant: Okay, no, that's helpful, Mark. Then, John, maybe one for you, just the narrative over the past three months internationally, particularly in the Saudi market seems to be there is a lot more emphasis on gas and clearly that's where you are going with your rigs. Then just based on discussing with market participants there, it seems like there might be more tenders coming from more rigs in the Saudi market for unconventional gas. Is there something you can share with us, John, in terms of what you are seeing out there in terms of opportunity from growth and further rig conditions for Helmerich & Payne?

John Lindsay: Saurabh, it's a great question, and really, I can't add anything more than what you probably already read out there in the market. We've read the same thing and heard similar rumors about the potential for additional tenders for unconventional gas going forward. We're hopeful that that is, in fact, the case. But like you, we'll be standing by and waiting to see if that is, in fact, the case because we don't have any direct information on that.

Saurabh Pant: Right, right. Okay, perfect. Okay, John, Mark, thank you. I'll turn it back.

John Lindsay: Thank you.

Operator: Our next question comes from the line of Keith Mackey from RBC Capital Market. Please go ahead.

Keith Mackey: Hi, good morning. Just like to start with your comment there about increasing service intensity. Can you just expand a little bit on what that means for Helmerich & Payne in terms of specific revenue or cost opportunities? And secondarily, is it leading customers to want to use the performance-based model more or want to use the day rate model more or are there just other factors in there that are driving whatever decision might happen?

John Lindsay: Okay, Keith, I think I'll try to summarize, when we think about service intensity, we talked about, I think, on our last call that laterals have more than doubled over the last five to seven years and we're drilling those wells in far fewer days. And of course, the end result is more exposure to the resource, better outcomes, better returns for our customers.

At the same time, our equipment continues to work harder. You just heard Mark talking about maintenance CapEx. So, maintenance CapEx continues to go up on a per-rig basis, and a large part of that has to do with that service intensity.

So, what we're doing is, yes, the performance-based contracts are important because it helps you align with the outcomes that your customer is wanting to achieve and you're creating a value proposition that you're getting paid for in the process.

So, without going into great detail, that's really the concept behind it. And it's not just drilling rigs. I mean, it's pressure-pumping, it's across the board. All of the equipment in OFS is really working harder in these more challenging well designs, longer laterals, and much, much faster cycle times.

Keith Mackey: Okay, that's helpful. Thank you. Can we just talk a little bit more about the Saudi rigs? It looks like there is a batching process of them being sent over. Once the OpEx portion or the startup costs are spent that Mark outlined, do you expect there to be more costs, similar costs in fiscal 2025, or should that be it? And then when roughly do you think that these rigs will get up to their appropriate run rate for revenue and margin profile?

John Lindsay: Well, thanks for the question, Keith, but most of this recommissioning expense will be largely incurred in the fiscal 2024 that we're in. As I mentioned in the prepared remarks, $10 million to $12 million is expected in fiscal Q3, and then another $5 million for that recommissioning in fiscal Q4, and then they start being readied to put on boats and mobilize to the Middle East. And when that happens, there will be a cash expenditure of $2 million for mobilization per rig, which will be deferred and recognized over the contract term together with the corresponding mobilization revenue once the operations commence. So, that stuff is largely at 2025 and then through the life of the contract is the recognition. We think that these rigs will mostly be exported through this calendar year and commence turning to the right and operation spudding in the beginning of Calendar 2025.

Keith Mackey: Perfect. Thanks very much.

John Lindsay: Thank you.

Operator: Our next question comes from the line of Scott Gruber from Citigroup. Please go ahead.

Scott Gruber: Good morning.

Mark Smith: Good morning, Scott.

John Lindsay: Good morning.

Scott Gruber: I want to stay on the Saudi rig topic. I want to ask about the cost structure in-country. How do you think about your ability to lessen that over time as you gain experience operating in the country?

Mark Smith: I'll take a stab at that, John, and please add in. There are several different things, and obviously, most of our daily costs are related to labor. We're certainly starting with what will be. We have some costs that we're incurring in-country now as we have set up an office and are beginning to hire people. And we'll be starting with a large complement from our North America Solutions segment so that we ensure safe and efficient and effective startups. But through time, we will begin to have local crews and transfer knowledge.

I think a prime example of demonstrates how we can do that is Argentina. Today and for some time, there has not been a single U.S. expat in that country, lower operating eight or nine super spec rigs, and have a similar market share position in the block and more to what we have in the U.S., albeit a smaller scale.

There are also supply chain benefits through time that we'll get. We've obviously are doing all this work at our facility in Galena Park to do the equipment recertification, recommissioning, etc. But once we're in-country, we'll have a couple of things that will be helpful.

One, because these rigs are "like new" in their five-year contractor, and we expect minimal maintenance CapEx through the initial five-years. Two, we'll be developing through that time our supply chain apparatus in the country as we look to have in-country, in-Kingdom value spend and that will also make us more efficient we believe locally with not only maintenance CapEx, but materials and supplies inventory consumption as well. So, we're working on a lot of these efforts and we're excited about the opportunity to put all these ideas to work.

Scott Gruber: Got it. Appreciate the color. Then turning back to the U.S., the customer consolidation in E&P's obviously should be beneficial for HP. You guys have highlighted that. I'm just wondering, now that we're starting to see some deals close at least from the recent wave, are you having conversations that suggest some consolidation-driven share pickup is a distinct possibility for HP in the near future?

John Lindsay: Scott, I really don't want to get into those details. I mean, again, I think when you look at consolidation over time, I think when I look back at H&P, and we have been – we've come out on the good end on many of the consolidations over the years, and our expectation is that we'll continue – I mean, at the end of the day, it comes back to no surprise what we've said before, and that is the ability to deliver safe, efficient, and reliable performance. And I think as long as we can continue to do that and have strong partnerships with our customers, it will come out in a great place over time.

Scott Gruber: Got it. That is good [subsequently]. Appreciate the color. Thank you.

Mark Smith: Okay, thank you.

John Lindsay: Thanks, Scott.

Operator: Our next question comes from the line of Marc Bianchi from Cowen. Please go ahead.

Marc Bianchi: Hi, thanks. Hey, guys. [Laughter] I wanted to go back to the Saudi margin opportunity there because I think you previously outlined it as more than $25 million for the seven rigs, which would compute to something just below $10,000 a day.

It sounds like there is a fair bit of overhead, but when I look back at the international business for H&P over time, the margins don't seem to really get up above $10,000 a day. And I know it's different geographies and such, but you made the comment about historically Argentina operating.

So, I'm just curious, where do you see the opportunity in margin for Saudi? Should this ultimately look more like what we see in North America, or are there just factors that we've seen with international historically that would keep this closer to $10,000 a day?

Mark Smith: Marc, thanks for the question, and let me just say on one end, no, the $10,000 a day that you're coming up with is not a marker for 2025 or thereafter. Having said that, there are certain details we're not going to get into for competitive reasons here as was previously stated on this call, we do expect future tenders in a competitive bid tender environment moving forward.

We've done our internal modeling for returns that get us to our IRR hurdles on the $27 million investment per rig. That's one thing to note.

Another thing to note is that, as you referenced to my comment on Argentina this morning, we've only recently gotten to that no U.S. expat status with our focus on cost management the last couple of years. And I will say historically in our business, not just H&P but the onshore drilling industry for U.S. drillers moving internationally, we did not do a great job of scale. We would go into countries with one or two rigs and we've set up an entire SG&A apparatus to support it.

And we have said for a couple of years on these calls that is exactly the opposite of what we will do point forward. We started with one rig last August. We've just added seven to get eight. We will begin to see benefits of scale as we get local content, both in terms of people and supply chain, and we will continue to add to that scale.

We will also be leveraging more of a supply chain back office support for the corporation and are excited about the things we can do for this that are very different than that historical experience you just outlined.

John Lindsay: This is John. And I think just to add to Marc's comments, specifically in Saudi, obviously, it's unconventional. We have a lot of experience with unconventional. Again, there was a question earlier about additional tenders. My assumption is over the next several years, there will be more tenders, and our expectation is that we would be successful, and we would be successful because we're going to be providing and adding value for Aramco. So, that's my hope.

The other factor that we haven't really talked much about is the technology aspect of our offering, and there's some opportunity there. Again, as you think back, as you think about what we're doing in the U.S. and the unconventional play, and how we've been doing this work in the U.S. all these years and yet we continue to have year-over-year improvements that, in a lot of cases, are driven by technology. So, that's the other upside component to this with H&P.

Marc Bianchi: That's great color. Thanks guys. Mark, I wanted to ask one more on kind of the maintenance CapEx. I think previously, if we go back and it was like $1 million a rig per year. That was increased to like $1 million, $1.3 million, and then the latest comment was it was maybe between $1.3 million and $1.5 million, if I remember correctly, and now it sounds like maybe there is some upward bias to that. Can you talk about how much of that is sort of just this hangover from the cannibalization period versus what could be sustainably a higher run rate over time?

Mark Smith: Sure, Marc. Tere is, if you think about fiscal 2023, so go back a year and look at our maintenance look at our CapEx, maintenance CapEx-specific guidance for fiscal 2023 at the beginning of the year and when we ended 2023 in September 30, we did not spend that amount, so we had revisions downward and we had a lot of supply chain constraints. What we've seen this year is the supply chain finally responding with more throughput so that we can do this catch-up we've been talking about for quite some time.

So, what you see is transitory amounts here as we've been able to nail down the supply chain. The componentry in question, it's all sorts of stuff. It's seven-year top drive, it's a five-year BOP, it's engine work, it's mud pump work, it's etcetera, etcetera, etcetera. So, it's across the full stack of componentry on the rig. And I would say as I look at the list of components and work with our U.S. operations and maintenance teams, we're starting to see where we're turning the corner on some of these components.

So, the volume that we've had to get through should start to tick down, I would hope, in 2025. And then but I will say we do have some inflation that will be sticky. So, will we ever get to under a million? I don't see that necessarily, but I think the $1.4 million that we started this year with and $1 million, somewhere between those two in another year or two looks to be a good zip code.

Marc Bianchi: Great. Thanks so much.

Mark Smith: Thank you.

Operator: Our next question comes from the line of Waqar Syed from ATB Capital Markets. Please go ahead.

Waqar Syed: Good morning. A couple of questions here. First of all, John, with oil prices in the 80s and the Permian documentary relatively low, I know you mentioned you're seeing kind of a flattish market, but do you see any hope of any pickup in activity in the Permian for H2 and perhaps for next year?

John Lindsay: Good morning, Waqar. Well, we're always hopeful and I did mention that the longer-term outlook, the fundamentals are strong; obviously, oil prices are strong. The activity set that we're experiencing this correction in activity, as you know, is a function of natural gas, not oil. And so I do think the Permian has a lot of potential.

Obviously, we're the largest driller, has the most rigs running in the Permian, and quite frankly, I think the rig count we have today is essentially the same as it was when we had close to 170, 180 rigs running. So, we've done very well in terms of maintaining our market share, actually growing a little bit in that basin. So, I think the outlook is good.

The big question, as we all say, is well, when is that? When is that opportunity to add back units? And again, our hope is we'll start to see some improvement in the back half of this year. But again, at this stage, it's just hope because we don't really have any additional information than you or anybody else does.

Waqar Syed: No, we do hear that with some of these big E&P consolidations having, once they're consummated, you may see or you are seeing some geoscientists come out from these consolidated companies or become redundant, and some private capitalists chasing them and new companies are being formed, and that you may see private activity maybe pick up in the second half or maybe in 2025. Are you seeing any early signs of that? Are you having any conversations in that respect?

John Lindsay: Well, as you probably know, most of, I think 80% of our active fleet today is with large public companies. However, we do have nice partnerships with the private and there are some examples where here recently, just recently in the past quarter, we put a rig to work for various small private companies. So, I definitely think that that's an opportunity. Clearly, the consolidation that we see usually in the first period of time, there's some slowdown in activity. But at the end of the day, they're going to want to keep their production levels up and, in many cases, that means keeping the same amount or even adding some rigs.

So, and then the additional private companies, we could sure see that happening. It's happened in the past and maybe it will happen in the future, but hard to say much more about that, Waqar.

Waqar Syed: Okay, and then just one final question that as the service intensity continues to increase now going to these four multiples, some companies, are you seeing the super spec rig specifications kind of change again or step out again, or the rig of choice, super spec rig of choice for the last year or two years ago is still pretty relevant?

John Lindsay: Very relevant. We have been able to handle these three- and four-mile laterals with the kit that we have. There are times where you may need to upsize the setback capacity or something like that, but in general, the FlexRig is very well suited for the work that is required and ongoing. So, we feel really good about where we are.

Like I said earlier, we think there will be more demand for super spec, not less. It's going to be harder, harder for the lower-tier rigs to be competitive, because of the length of the lateral and the performance that's required.

Then just finally on the technology side, it's very, very difficult for a human to keep up with what a computer or the technology is going to do. So, this is 24x7 work, and the ability to have apps and algorithms that are doing the work, making the decisions as opposed to it being done by a human 24x7, it's night and day difference. So, the technology opportunity set is huge, and whether that's a two-mile lateral or a four-mile lateral, we're going to see more and more of that adoption, I believe, as we go forward.

Waqar Syed: Great, well, thank you very much.

John Lindsay: Thank you.

Operator: Our next question comes from the line of Kurt Hallead from Benchmark. Please go ahead.

Kurt Hallead: Hey, good morning, everybody.

Mark Smith: Hi, Kurt.

John Lindsay: Good morning.

Kurt Hallead: Hey, John, I'm curious, right, what your take might be on your conversations with your customer base, your customer base looking out beyond 2024. A lot of hope and opportunity with respect to exporting gas for these LNG facilities that are scheduled to come online. And then on top of that, a lot of discussion of late around the data centers and AI, and the need to power that dynamic and that needing more grid capacity and that need needing more natural gas.

Long-winded way of asking the question is, are any of these topics on the front of mind of your customer base, and how do you think about how that's going to translate into incremental drilling activity, first for LNG going into next year and then potentially looking at the dynamics related to the data center?

John Lindsay: Well, Kurt, it's a great question, and it's a question on everybody's mind, and, no doubt, there are a lot of opinions out there. And our opinion, our hope is that it's going to be sooner as opposed to later. I think at some point in time, it's definitely going to happen on the gas side. It's just that natural gas is just a great energy source for lots and lots of reasons, and there's a huge opportunity ahead; obviously, the unconventional gas, the opportunities that we see in the Middle East.

So, there's a market out there, and I think there's a huge opportunity ahead for us. It's just, as I said earlier, Kurt, it's hard to say when that's going to be. I think we are going to play a – H&P will play a very large role in that when that recovery takes off, just like we were playing previously before the correction in the natural gas activity.

Kurt Hallead: That's fair enough, thanks. And just follow-up on, I noticed here that you had very minimal, share repurchase activity during the course of the March quarter relative to the December quarter. Just kind of curious as to what those dynamics were driven by, and was it related to the Saudi contract or anything else that kind of you guys had to put the pause on?

Mark Smith: Kurt, thanks for the question. In our original capital allocation guidance in October for our supplemental plan, we outlined the fiscal 2024 supplemental dividend of $68 million plus "unallocated cash of $68 million." To date in this fiscal year, we've repurchased $52 million of shares primarily in fiscal Q1. That said, we have further projected free cash flow as well as cash-on-hand in excess of our previously stated target of $200 million.

We slowed calendar Q1 repurchases as the rig count looked to soften a bit, and as previously discussed this morning and due to macro uncertainties in the market overall, we will continue to be opportunistic while maintaining our longstanding financial stewardship.

Kurt Hallead: That's great, thanks. Appreciate the color.

Mark Smith: Thanks, Kurt.

Operator: Our last question comes from the line of Jeffrey LeBlanc from TPH. Please go ahead.

Jeffrey LeBlanc: Good morning, John and Mark. Thanks for taking my question. I just had a quick one. Given the success that you've had in maintaining margin and day rates, do you believe that operators will still be amenable to day rate increases to offset reactivation costs moving forward, particularly when you see natural gas prices recover?

John Lindsay: Well, Jeff, I can really only speak from the H&P perspective. The rigs that we have idled over the last year are rigs, at least in my view, would be ready to go to work, would not require much startup expense. We're not cannibalizing our fleet, so we have available capacity. I can't tell you right now for sure what that would be, but I wouldn't expect that there would be a lot of startup CapEx that would be required. Now, again, I'm making an assumption that that's happening in a year timeframe from being idle to going back to work a year, year and a half.

Jeffrey LeBlanc: I appreciate the color and I'll turn it back to the operator. Thank you very much.

John Lindsay: All right. Jeff, thank you.

Operator: That appears to be all the time we have for questions. I will now turn the program back over to Mr. John Lindsay for any additional or closing remarks.

John Lindsay: Thank you, Abby, and thanks to everyone for joining us today. We're very excited about the future and the opportunities ahead, and we'll now sign off. Thank you.

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