S&P Global
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Helmerich & Payne, Inc.

NYSE:HP

Earnings Call

Thursday, November 19, 2026 3:00 PM GMT

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Presentation

Operator

Good day, everyone, and welcome to the H&P Fiscal Fourth Quarter and Full Year 2026 Earnings Call. Please note this call is being recorded.

It is now my pleasure to turn the conference over to Mr. Kris Nicol, Vice President of FP&A and Investor Relations.

Kris Nicol
Vice President of FP&A and Investor Relations

Welcome, everyone, to Helmerich & Payne's Conference Call and Webcast for the Fourth Fiscal Quarter of 2026. On today's call, Trey Adams, our President and CEO, will be joined by Todd Scruggs, our Chief Financial Officer; Mike Lennox, Executive Vice President of the Western Hemisphere; and Ole Maier, Senior Vice President of Offshore.

Before we begin our prepared remarks, I'd like to remind everyone that this call will include forward-looking statements as defined under securities laws. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that the expectations will prove to be correct. Please refer to our filings with the SEC for a list of factors that may cause actual results to differ materially from those in the forward-looking statements made during this call.

Adjusted EBITDA, direct margin, adjusted EPS and free cash flow are non-GAAP measures. The most directly comparable GAAP measures or reconciliations are included in our earnings release and investor materials on our Investor Relations website. I also want to highlight that we have a presentation which supports the prepared remarks from the management team and can be found on the IR website.

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

Trey Adams
CEO, President & Director

Thanks, Kris. Hello, everyone. Thank you for joining us. As always, we appreciate your interest in H&P. I will begin with an overview of our strong fiscal fourth quarter results. I will then discuss the broader macro environment, current rig market dynamics and key commercial developments, including an update on our Offshore business, which had a particularly strong year. Todd will then discuss our financial results and provide an update on our ongoing portfolio and enterprise optimization initiatives. He will conclude with guidance for the first fiscal quarter of 2027 and for the full year. To wrap up, I will then return to summarize the key takeaways before opening the line for questions.

Turning to Slide 3 of the presentation. I'd like to begin by walking through some of our key highlights from the quarter. We delivered another strong quarter operationally and financially, generating adjusted EBITDA of $269 million, coming in ahead of the implied midpoint of our guidance. One of the most pleasing aspects was achieving direct margins in all operating segments at or above the high end of our guidance ranges.

In North America Solutions, we averaged 151 rigs during the quarter and achieved direct margins of $259 million, exceeding the high end of the guidance range. During 2026, we drilled over 14,000 miles in North America Solutions. That's more than halfway around the circumference of the Earth, drilling on average 519,000 feet per rig. These achievements are a testament to our talented teams and leading technology, which continues to deliver enhanced outcomes for our customers. Our direct margin per day was approximately $18,700 during the quarter, which included the impact of an approximately $4 million nonrecurring inventory write-down.

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Being able to deliver strong margin growth across the largest fleet in the Lower 48 while reactivating 5 rigs demonstrates our differentiated capability to efficiently and economically reactivate rigs. We have continued to experience solid customer demand and exited the quarter with 151 rigs running. Robust activity and pricing have allowed us to issue guidance that implies a strong sequential improvement in direct margins and if trends persist, strong year-over-year growth.

Our Offshore segment delivered another quarter of strong results, coming in above the high end of our guidance range. This was again driven by the achievement of several performance-related bonuses during the quarter. International Solutions saw the largest sequential increase in direct margins, rising to $42 million from $31 million in the prior quarter. Results included approximately $2 million in charges related to a nonrecurring inventory write-down and certain outstanding claims. Excluding these items, the underlying direct margins approached our quarterly run rate for the first time. Looking ahead, we expect strong margin progression in Argentina as we mobilize 3 rigs from the U.S. and increase our rig count to 15 by the middle of 2027.

In the Middle East, we continue to navigate the ongoing conflict and a mixed activity outlook. On a positive note, we recently agreed to deploy 2 upgraded rigs in Kuwait, which will start up in 2028. My recent trip to ADIPEC reinforced that commercial momentum remains robust, particularly around unconventional plays in the region. Our discussions with both NOCs and IOCs were constructive, and we are optimistic about the potential for future growth.

On the conventional drilling side, however, we continue to see activity reductions in Saudi Arabia. We now expect to operate 19 rigs in the Kingdom through the first fiscal quarter and expect our rig count to decline further in the coming quarters. We will also see some rigs roll off contract in Oman and Kuwait during the second fiscal quarter. Given the subdued outlook for conventional drilling in the Kingdom and the reduced likelihood that our older generation T-Series rigs will resume operations, we have taken action to impair the carrying value of assets and further rightsize our cost structure in the country. Despite these dynamics in the Middle East, we continue to expect strong year-over-year growth in international direct margins in 2027.

In addition to our robust operational performance across our operating segments, we have maintained a clear emphasis on strengthening our balance sheet and optimizing our enterprise. We have made great progress on both fronts in 2026, and I'm excited about the impact they will have as we progress through 2027.

Looking at the broader macro environment on Slide 4, we remain in a similar situation to our last earnings call, where the conflict in the Middle East continues to dominate the direction of travel of commodity prices. Despite this, our outlook for 2027 is anchored on 2 key points. With the 12-month strip remaining around $75 a barrel WTI, we are confident that our customers will be using higher planning price assumptions this budget season compared to what they used last year, pointing to upstream spending growth of at least mid-single digits in 2027. Secondly, the longer the conflict goes on, the more structural these impacts become, solidifying changing operator behaviors. We are already positive about the potential for a multiyear growth cycle led by increasing energy demand. Greater bifurcation of the energy system and increased focus on energy security will only be additive to the levels of investment required.

Looking more specifically at the rig market dynamics, the U.S. Lower 48 remains very constructive for us as we approach 2027. We continue to see strong activity levels from private operators, which have so far led most rig additions in 2026. Encouragingly, public operators have now started to add rigs. Combined with firm activity from private operators and a super-spec utilization already trending at 95%, we see further tightening in the market, which we expect will support our direct margins as highlighted on the slide. As of today, we have around 10 rigs remaining that can go back to work relatively quickly for maintenance CapEx levels or less. However, as we have stated previously, we expect that some of these rigs will be utilized outside of the Lower 48.

In international, the strongest and most attractive growth market is the Vaca Muerta, which we have signed agreements to take our rig count to 15 rigs by the middle of next year, and we expect to grow beyond that. In the Middle East, as I mentioned, we continue to manage through conventional rig

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reductions in Saudi Arabia as well as rigs rolling off contract in Oman and Kuwait. We assume without a near-term resolution to the conflict, activity levels will remain somewhat stop and start. Longer term, we remain optimistic on the growth trajectory, particularly in new unconventional basins. Offshore continues to be an area of strength for us and the broader market with several projects progressing as expected across key regions. Market fundamentals remain supportive of durable offshore activity over the medium to long term.

In summary, we are constructive in 2027. We expect this will be led by North America Solutions, our largest and most important market. Strong growth in Argentina is expected to mostly offset near-term activity-related weakness in the Middle East and Offshore is expected to remain solid.

Turning to Slide 5. Commercial momentum continued into the fourth quarter as we improved contract economics, increased our backlog and expanded our technology across our portfolio. Starting in the U.S. Lower 48, we recently announced an expansion of our FlexRobotics package with ExxonMobil. The program is scaling to 9 systems with a third deployment expected this week. This expansion marks another important step in the commercial adoption of FlexRobotics and demonstrates how automation can improve safety, consistency and performance.

As I mentioned, we are also seeing the shift in rig demand toward public operators translate into commercial activity for H&P. Recent public awards were secured at improved day rates, adding term coverage while supporting stronger margins. Notably, we have signed a contract with a public operator for multiple rigs, which stretches out into 2028. As demand builds, we remain selective about the work we pursue and are focused on contracts with the right economics for H&P.

We also commenced work with a fourth rig for Fervo, taking us to 5 rigs currently drilling geothermal wells in the United States, with a sixth rig expected to commence work by the end of the year. These activities demonstrate the versatility of our rigs and our drilling capabilities, providing another source of demand for the same fleet and expertise used in traditional oil and gas operations.

In Latin America, our Argentina position continues to strengthen. This quarter, we opened discussions to export additional rigs beyond the 3 already committed. Our growth in Argentina also extends beyond additional rig activity. We are seeing increased technology adoption across the fleet, creating incremental contract value while helping customers improve drilling performance. The combination of our high-spec rigs, technology and execution positions us well as activity in the Vaca Muerta continues to scale.

Elsewhere in Latin America, we continue to engage with operators regarding potential reentry into Venezuela. These discussions remain ongoing and the timing and scope of any potential activity are not yet defined. However, given our historical expertise and operating capabilities in the country, Venezuela could represent a strong medium-term opportunity if commercial and operating conditions support a return.

In the Middle East, as I mentioned earlier, we secured 5-year contracts for 2 rigs in Kuwait with work expected to commence in early 2028. These awards add meaningful long-term visibility and strengthen our position in an important international market. We also secured several short-term multi-rig contract extensions across the region, providing additional continuity. At the same time, we are managing through the suspension of conventional drilling rigs in Saudi Arabia. We now expect to operate 19 rigs through fiscal 1Q and expect further activity reductions throughout the rest of the year.

Finally, our Offshore Solutions business continues to provide durable backlog and revenue visibility. During the quarter, we secured a contract extension in the Gulf of America and continue to advance discussions regarding potential multiyear renewals across several offshore platforms. Overall, the quarter reflects continued progress in both the scale and quality of our commercial portfolio. We are expanding FlexRobotics, capturing the emerging shift in demand toward public operators, growing our position in Argentina, and adding revenue visibility across our International and Offshore Solutions businesses. Taken together, these developments provide a strong commercial foundation as we enter into fiscal 2027.

Turning to the next slide. I want to spend some time on our Offshore Solutions business. Offshore continues to be an important contributor to H&P's diversified earnings stream, generating high-quality

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earnings and durable cash flow through a capital-light business model. With more than 50 years of offshore operating experience, we've built a reputation for safe, reliable and efficient operations that have made H&P a trusted partner to many of the world's leading energy companies. Today, we operate across 32 offshore platforms and jack-ups, spanning the Gulf of America, East Coast Canada, Azerbaijan, the U.K. and Norway.

In fiscal 2026, the business generated approximately $720 million of revenue and $120 million of direct margin. What makes this business particularly attractive is the visibility and stability it provides. The majority of our work is performed under long-term contracts with leading super majors, including BP, Shell, ExxonMobil and Equinor. Many of these customer relationships span decades and continue to expand.

Our Offshore Solutions business consists of 2 primary service offerings. First, our operations and maintenance, or O&M business model provides personnel, maintenance support, management systems and operational expertise across 29 customer-owned offshore assets. Second, we own and operate 3 offshore rigs in the Gulf of America under traditional drilling contracts. Together, these offerings create a differentiated service platform with meaningful opportunities to expand the scope of work we perform for customers.

Another area we've seen encouraging momentum is performance-based contracting. Through operational excellence, technology-enabled solutions and a close collaboration with our customers, we've been able to improve performance and create value for our customers while generating additional incentive-based compensation for H&P. As we look ahead, we remain constructive on the outlook for Offshore Solutions. The business benefits from $3.5 billion in backlog with firm awards extending into 2031 and options reaching as far out as 2046, providing visibility into future activity levels and supporting durable cash flow generation for years to come.

The addressable market for O&M services is estimated at approximately $13 billion over the next 5 years. And we believe we can maintain, if not grow our share of this market through our leading solutions and strong execution. Our offshore exposure also provides opportunities to grow beyond our O&M scope as well as help deepen relationships with existing customers. We are no longer viewed as a single basin or single country drilling solutions provider. We now partner with some of the largest operators across their global wells portfolios, opening the door for more collaboration and lead generation, particularly as they seek to expand internationally.

Most importantly, Offshore Solutions aligns closely with our broader strategy. It generates durable direct margins, requires relatively little capital and has strong free cash flows. It provides geographic and customer diversification and offers a platform to grow in offshore markets. Backed by a differentiated service offering, we believe this business will continue to deliver long-term value creation for both customers and shareholders.

Turning to the next slide. I'd like to recap our recent Technology Day in Tulsa. More than 30 analysts and investors spent time with our leadership team and toured key elements of the H&P business system. Rig 918, our FlexRobotics test rig, the FlexRig Machinery Center where we manage the life cycle of our critical equipment and our remote operations center. We also hosted ExxonMobil, Devon Energy and Fervo Energy, 3 of our customers to participate in a panel discussion, showcasing our trusted partnership and illustrating the value H&P brings to their drilling operations. The event was designed to showcase what sets H&P apart from our rig floor automation technology leadership to our industry-leading asset management practices.

As we highlighted, our FMC facility has saved an estimated $100 million in CapEx and OpEx over the past 4 years alone, and it continues to differentiate us as we reactivate rigs while driving direct margins per day higher. For those who could not join us at the event, video recaps of the tours are now available on our Investor Relations website.

Turning back to the quarter. Our performance reflects the momentum we are building at H&P. We delivered strong fourth quarter results, led by our Lower 48 operations, where we grew both rig count and margins. Latin America continued to build momentum while we made operational progress in the Middle East and

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offshore made a strong contribution. This performance is a testament to our teams around the world. I want to thank them for their dedication and commitment to H&P and to our customers. We appreciate the continued partnership.

With that, I will hand it over to Todd to walk you through our financial results and our guidance for the first fiscal quarter and full year of 2027.

Todd Scruggs
Senior VP & CFO

Thank you, Trey. Turning to Slide 8. We delivered strong financial and operating results in the quarter while continuing to navigate a dynamic market environment and the ongoing conflict in the Middle East. During the quarter, the company generated revenues of $1.1 billion, up 6% sequentially. As Trey mentioned, we generated $269 million of adjusted EBITDA, up 14% sequentially, with direct margins in all operating segments coming in at or above the high end of our guidance ranges. On EPS, we reported a net loss of $4.91 per diluted share. The results were impacted by the $610 million noncash impairment charge primarily related to assets in the Middle East. Absent this and other select items, we recorded net income of $0.36 per share.

Gross capital expenditures for the fourth quarter were $87 million, and for the full year, CapEx totaled $287 million, which was in line with the midpoint of our guidance range of $270 million to $310 million and a good example of our ongoing commitment to continued capital efficiency and discipline. Free cash flow during the quarter was $46 million. Normalizing this result for working capital changes, which were larger than normal due to the impact of some onetime unusual items, we generated free cash flow of $109 million.

On Slide 9, we see some key annual results for the company, which included revenue generated of over $4 billion, up 9% annually. We generated $1.2 billion of direct margins and delivered adjusted EBITDA of $913 million, exceeding expectations set out at the start of the year despite the dynamic market environment and the ongoing conflict in the Middle East. Free cash flow during the year was $254 million, broadly in line with expectations.

Let me now turn to our North America Solutions segment on Slide 10, which was a particular highlight this quarter. We experienced a stronger-than-anticipated ramp-up in activity, averaging 151 contracted rigs during the fourth quarter, coming in at the high end of our activity expectations. Segment direct margin for North America Solutions was $259 million, exceeding the high end of our guidance range, which also was net of the impact of approximately $4 million of nonrecurring inventory write-down.

It's important to note that this performance was delivered against the backdrop of reactivating 5 rigs during the quarter. For the second quarter in a row, we're proud to have reactivated rigs while growing margins, which we're confident is unique in our industry and is only made possible by our uniform fleet and differentiated asset life cycle management capabilities. As we've stated previously, we still have enough capacity that can be reactivated at or below our $1 million maintenance cap level to reach around 160 rigs operating in the Lower 48.

Turning to International Solutions on Slide 11. The segment ended the fourth quarter with 67 rigs working and generated $42 million in direct margins, coming in at the high end of our guidance range. Results included approximately $2 million of charges related to a nonrecurring inventory write-down and certain outstanding claims. Excluding these items, the underlying direct margins approached our quarterly run rate target for the first time. The Vaca Muerta was again a particular area of strength as we increased our operating rig count to 11 rigs during the quarter, and we expect to continue growing that rig count over the next year.

In the Middle East this quarter, our rigs in Iraq and Bahrain resumed operations, and we were able to increase our margins despite activity reductions in Saudi Arabia. Subsequent to quarter end, we received further T-Series suspensions and now expect to operate 19 rigs in Saudi Arabia during the first fiscal quarter. That total includes our 8 FlexRigs. These suspensions, coupled with a variety of other factors, have led us to impair the value of our T-Series fleet as we expect rig activity levels to remain consistent

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with current levels going forward with only modest incremental increases. In conjunction with this impairment, we will continue to rightsize our operations to reflect the operating footprint during 2027.

Lastly, with our Offshore Solutions segment on Slide 12, we generated a direct margin of $34 million during the quarter, which came in above the high end of our guidance range. We had 3 active rigs and 29 management contracts in operation during the quarter. The strong performance of our Offshore segment was again led by several performance-related bonuses that the teams achieved across our offshore fleet.

Slide 13 provides our financial framework as we continue to focus on enterprise optimization initiatives across our global organization, including leverage reduction, portfolio simplification and capital efficiency. There are 2 updates on this page compared to last quarter that I wanted to highlight. First, you can see that we achieved a 7% reduction in our corporate costs in 2026 compared with 2025. Additionally, our guidance implies continued reductions as we expect our G&A and interest expense costs to continue declining. Secondly, you can see our capital investment guidance range for 2027 is $320 million to $360 million, highlighting our ability to generate industry-leading free cash flow while still maintaining our performance and technology advantages.

Turning to Slide 14. We see our capital allocation framework now with our expected guidance for 2027 included. As we laid out last quarter, we break our capital investment into 3 categories. Maintenance CapEx is the minimum amount of capital we need to allocate to keep our rigs running in the field. Based on today's activity levels and average maintenance CapEx cost per rig, our total spend is expected to be around $230 million. Importantly, we feel confident that we can maintain this level of spending for several years.

Beyond that, we have what we call sustaining CapEx. These are investments we consistently make to our rig fleet to maintain their technology and performance leadership. Examples of this type of expenditure include walking conversions, larger setbacks, heavier hook loads and rig floor automation packages. We plan to invest around $50 million in 2027 on these enhancements.

The last category considers growth projects, which may include new country entries or the expansion of fleets in key markets. We also include FlexRobotics within this category. We currently expect between $40 million and $80 million of growth CapEx during 2027, which reflects the already announced FlexRobotics expansion, export of rigs to Argentina and Australia as well as our rig upgrade project in Kuwait.

Now I want to transition to our first quarter and full year guidance on Slide 15. Looking ahead to the first quarter for North America Solutions, we expect our direct margins to be between $265 million and $275 million based on an anticipated rig count of between 148 and 152 rigs during the quarter. For the full year, we expect the rig count to range between 145 and 155 rigs. As we have said, we see continued momentum for the U.S. Lower 48 into 2027 and feel comfortable at least maintaining similar levels of activity and margins across the portfolio, assuming commodity pricing remains supportive.

I'd also like to emphasize that our continuing focus is to increase our overall profitability as we strive to increase total margins and cash flow versus absolute increases in rig count. For International, we anticipate the rig count to range between 55 and 65 rigs in the first quarter, which reflects some of the activity adjustments we are experiencing in Saudi Arabia. Despite this, we expect to generate more direct margin with less rigs as our cost structure improves. For the quarter, we expect to generate between $35 million and $55 million in direct margins.

For the full year, we anticipate rig count of between 50 to 60 rigs, which again takes into account the impact of the rig suspensions in Saudi Arabia. In addition, we have rigs coming to the end of their contract in Oman and Kuwait, partially offset by rigs ramping up in Argentina. This step down in activity and margins will be most pronounced in the fiscal second quarter, and then we expect activity and margins to pick back up in the back half of the year. Importantly, even with this lower rig count, we expect to deliver a strong improvement year-on-year in direct margins.

For Offshore, we anticipate an average of 25 to 35 management contracts and operating rigs for the full fiscal year. We expect the direct margin rate in the fiscal first quarter to range between $28 million and $32 million. For the full year, we expect direct margins to range between $105 million and $125 million.

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As we highlighted on the previous slide, we expect CapEx to range between $320 million and $360 million. Regarding corporate costs, we now expect depreciation of $600 million, R&D costs of around $25 million, and we see continual improvement in SG&A, which is now expected to range between $255 million and $275 million. We expect cash tax payments to range between $180 million to $220 million with interest expense around $85 million. Lastly, on free cash flow, we expect to show a strong improvement year-on-year from the $254 million we generated in fiscal 2026. We expect to generate enough free cash flow to retire our 2027 notes while maintaining an adequate cash balance at year-end 2027.

In summary, the positive tailwinds from activity and direct margins from 2026 are expected to continue into 2027. We believe we are well positioned to capitalize on rising customer demand and carry this momentum into next year and beyond.

And with that, I'll hand it back to Trey for some closing remarks.

Trey Adams
CEO, President & Director

Thank you, Todd. Before we open the line for questions, I'd like to leave you with a few key takeaways. 2026 can be characterized as a year of change for H&P. With our new leadership team in place, we bring fresh perspectives and energy to what we believe is an exciting new chapter for the company. I am proud of what our teams were able to deliver. Despite the dynamic commodity price environment as well as the ongoing conflict in the Middle East, we ended the year in a stronger position than we started it. We have an excellent platform for growth with the leading onshore drilling business by share, by margin and by technology leadership. I believe we are in all the right basins, which offer significant long-term growth opportunities.

As we move into 2027, the market backdrop is constructive, particularly in the Western Hemisphere. We are holding firm on capital discipline and accelerating the enterprise optimization, applying the standards that define our field operations across the company to drive higher profitability and long-term shareholder value.
That concludes our prepared remarks, and we'll now turn it back to the operator for questions.

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Question and Answer

Operator

We will now take our first question from Eddie Kim from Barclays.

Sungeun Kim
Barclays Bank PLC, Research Division

The fiscal first quarter guide looks strong, but just wanted to understand how you're thinking about quarterly cadence of direct margins throughout the year. In North America, it looks like the full year rig count is more or less where the first quarter guide is. So maybe that's steady or flattish throughout the entire year, but the full year international rig count is a bit lower than the 1Q guide. So that probably trends lower, though may be offset by some cost reductions. I guess, put simply, is first quarter direct margins a good run rate for the year? Or should we expect some fluctuations? Any color on the quarterly cadence would be great.

Trey Adams
CEO, President & Director

Eddie, thank you for the question. This is Trey. I'll start and then turn it over to Todd Scruggs to talk about the shape of 2027. I do want to take just a moment and highlight the fourth quarter of fiscal '26. Obviously, we're very proud of the performance of the teams, great execution across all 3 segments. Our North American Solutions teams did a fantastic job of continuing to add rig counts and grow margins sequentially Q-over-Q. In International, we were getting closer to the $45 million a quarter number, right at $42 million for the quarter, but that was really led by Argentina growth and improvement in our Middle Eastern operations. That's been a key focus for us where we're going to continue to optimize our operations in the Middle East.

There's a lot of cards that are still in our hands to play, and we're going to continue to be focused there to continue to drive better per day economics across that fleet. And then offshore remains solid and steady. The performance bonuses that we're able to capture offshore, I think, is a great highlight and a testament to what we're able to do in terms of transferring great learnings and practices. I do want to recognize the team and the people at H&P. Fiscal year 2026 was a challenging year. We started the year with a big macro commodity overhang. And then the midpoint of our fiscal year in '26, the Iran conflict kicked off. Our teams responded well. The way we ended the fiscal year in the fourth fiscal quarter was a great result.

And then that leads us into where we're thinking about the first quarter and to your question, Eddie, about the first quarter of FY 2027. We expect our North American Solutions rig count to remain resilient in the first quarter. We do expect margins to accrete higher and to continue to grow. And you can see that in our implied midpoint of our guide for that segment. In addition to that, our International Solutions segment, we've been pointing skis towards the $45 million per Q number for some time now. And if you look at the midpoint of our implied guide for the fourth -- for the first fiscal quarter of 2027, that's right where we're traveling as we sit around the table today and very excited about that. I mean it just highlights the diversification of our portfolio, some of the growth we're seeing in Argentina.

And then the last comment I'll make before turning it to Todd to kind of talk through the shape of the year is the enterprise optimization efforts that have been going on in fiscal '26 will continue into '27. We remain committed to improving the cost structure at H&P and committing to get our portfolio right fit and rightsized for the future.

Todd?

Todd Scruggs
Senior VP & CFO

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Yes. Thanks, Trey, and thanks for the question, Eddie. Yes, I'll just add a couple of things here. As we walk through the 3 different business units following what we think was a really great fourth quarter and a really strong first quarter guide. For North America, we did provide guidance for the full year showing that the rig count is relatively flat. I think that's consistent with our view that activity levels will remain strong, but we're not internally banking on a large rig count increase. So that would be the first factor. Secondly, our focus is really on driving margins and profitability up rather than just adding rigs. And so I think that's reflected in our guidance.

For Offshore, as we've talked about many times, it is a very steady business for us, and we think year-on-year, that's going to remain the case. There's a bit of seasonality with the Offshore business where our fiscal Q1 and Q4 are a little stronger than fiscal Q2 and Q3. But overall, that's pretty much in line with where we've been and where we think we're going.

I think on International is where we have the most variability. As Trey just mentioned, there's a couple of cross currents going on here. First of all, we are taking a hard look at all of our geographies and businesses and assessing where we can be the most profitable as part of our enterprise optimization efforts. And so you see that reflected in our rig count. In International, just like in North America, we're focused on overall profitability rather than the absolute number of rigs. So that's one factor.

The second factor is that we do have some contract expirations in the Middle East, particularly in Oman, and then our Saudi rig count is going to be a little bit lower than we initially expected, call it, 2 or 3 quarters ago. And so we think that our fiscal Q2 and our fiscal Q3 rig counts will be a bit lower than where we're at in our fiscal Q1. And then we think in fiscal Q4, you start seeing margins improve again as our Argentina rig adds really kick in.

When you look at the full year for International, even though the rig count is a little bit lower, if you think about our margins relative to consensus, it's pretty in line. And so I don't think that there's a big deviation there from where we expect profitability to be. And like Trey mentioned, we are still anchoring around the $45 million, both for this current quarter, and then we think we'll exit the year around that level as well.

Last thing I would say on sort of the shape of everything is for cash flow for the full year, we expect that to be sequentially very strong. And our overall goal is to return to the 1x leverage metric. We think we'll do that. There is seasonality to our cash flow. We typically spend a bit more CapEx in our fiscal Q1, and then there's some seasonal factors on our cash flow from ops. And so cash probably builds throughout the course of the year a little bit. But hopefully, that provides a little bit of color on the various cross currents over each quarter of the year.

Operator

Your next question comes from the line of Josh Silverstein from UBS.

Joshua Ian Silverstein
UBS Investment Bank, Research Division

Just focusing on North America, can you bridge the margin improvement into 2027 between pricing, the performance contract incentives, the new technologies that you have or maybe customer mix? And then it still sounds like you see potential for margins to improve throughout the year. So what drives that? And can you still grow margins if you do activate a few more rigs?

Trey Adams
CEO, President & Director

Josh, this is Trey. I'll start and then turn it over to Mike Lennox to provide additional color and deeper details on the full year. Really excited about the beat we saw in the fourth quarter of FY '26. And then as you see that fourth fiscal quarter turning into the first fiscal quarter of '27, you're continuing to see that margin improvement Q-over-Q. And to your point, that is largely driven by our ability to price to value that we're delivering for customers and clients every day. Our performance-based contracts play into that, obviously. And then as we're delivering more value for our customers, we expect the compensation,

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and we're anchoring towards the compensation and remuneration to be attributable to that value we're delivering for them on every single well.

In addition to that, we did see activity increase over the fourth fiscal quarter, which was exciting to see in North America. We also saw more digitization apps automation be delivered to our clients. That continues to embed itself very deeply and throughout our entire U.S. Lower 48 portfolio. And then the FlexRobotics story that we highlighted in our prepared remarks and that you all have heard continues to show great legs and very bright signs for us for the future, going to 9 of those kits throughout the rest of the calendar year and throughout the rest of the fiscal year and very excited about the progression there.

I will say before I turn it to Mike, I just want to highlight and thank our teams, right? When you think about growing your margins per day sequentially Q-over-Q and then pointing towards sequential growth into the first fiscal quarter in the face of reactivating rigs, in the face of wage inflation and other cost inflationary pressures, it's just a testament to our team, and it's a testament to the differentiating elements we have at H&P today. Those of you who are able to attend our Technology Day, we were able to tour our FlexRig Machinery Center, our remote operations center and see some of the differentiating elements in the H&P value chain. All of it is brought to bear to help us drive margin sequentially higher. And we believe we do that in a very differentiated way, and it's unique to the H&P story.

Michael P. Lennox
Executive Vice President of Western Hemisphere Land Operations

Trey, I want to add to that, just thanking our employees for a successful quarter. We could not have done it without your focus on safely executing. So we do appreciate that. I also want to acknowledge our customers, just them recognizing the value that we bring. We have such strong collaboration and teamwork with them, and it helps us deliver the results that we expect. Trey had mentioned it in his earlier remarks, in 2026, our average footage per rig improved to 519,000 feet in our U.S. operations, which I would say is probably second to none. We also drilled roughly 450 of those wells that were 3-plus mile laterals. We're only able to do that because of the investments that we've made in our people, our rigs and then our digital solutions.

Demand for our rigs is strong from all customer types. As we've seen with the independents, we've had rigs churn. We've been able to continue to keep them working at improved margins as the demand for super-specs continues to tighten. We've also seen, as Trey mentioned, publics looking to pick up rigs and sign up, and we've recently extended some contracts into 2028, which is exciting with improved margins. We've also commented on roughly 10 rigs are deployable. That could be in the U.S. It could be in Argentina, maybe other operations, and that is at that $1 million or below CapEx -- maintenance CapEx that we talk about all the time. Also on the robotics, rig #3 should be deploying this weekend. We've had very, very strong results. As we've publicly stated, we're going to 9 rigs.

And I'll just finish just with wells, they're getting longer, more complex. We're very well positioned just due to, like I said, the investments in our people, our rigs, our technologies to continue to deliver in that area.

Operator

Your next question comes from the line of Arun Jayaram from JPMorgan.

Arun Jayaram
JPMorgan Chase & Co, Research Division

I had just a broader question on the Middle East. Perhaps you could start with maybe some puts and takes on Middle East activity as we think about the expected range of the international activity, which you expect to be in that 50 to 60 range for international as a whole. I guess my question here is, Trey, what do you think is driving some of the lower conventional activity in Saudi? Is this the security situation, the mix shift towards more unconventionals, other budgetary factors? Just trying to understand what's maybe driving this dip that we are seeing at least over the next couple of 2, 3 quarters.

Trey Adams
CEO, President & Director

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Yes. Thanks for the question. I'll maybe start in the Middle East and then end a bit more broadly, maybe check in LatAm and some unconventionals as well. But you're right, there's a lot of kind of puts and takes happening across the Middle East today. Specifically in Saudi, we've talked and we described in our prepared remarks, running 19 rigs through -- averaging 19 rigs through Q1 of FY '27. Obviously, that's down, represents a few rigs being suspended Q-over-Q that were directed at conventional drilling activity.

As we think about the rest of FY '27, we're going to continue to see some activity reductions, specifically on the conventional side of gas and drilling in the Kingdom. Those continued activity reductions will happen throughout the year. And so it's a very dynamic and fluid situation with our customer and discussion. Some of those rigs will work through a couple of quarters. Others will work through probably more than a couple of quarters or less, but we're going to continue to see like further contraction there.

And the way I would summarize it is on the conventional side is budgetary discipline and some rig efficiencies that are driving some of the decline in count there in the Kingdom. I do think, though, as I have wearing my Kingdom of Saudi Arabia button down on the call today, I do think that there are positive signs beyond '27 in the conventional space. And so it's a 2027 budget discipline rig efficiency story where we're going to see a little contraction on the conventional gas and drilling side of the fence.

On the unconventional side is where I would tip it to much more of a positive story. Our 8 FlexRigs in Jafurah are unaffected right now by anything we're describing. They're drilling incredible wells for our customer. The per day well economics continue to trend down and improve. Our well cycle times continue to trend down and improve. And really the true H&P differentiation story is starting to manifest there in Jafurah.

And then if you kind of unpack the rest of the Middle East, I'll touch on Kuwait for a second. In Kuwait, we're going to see less than 2 rigs running through fiscal 2027. But towards the end of the calendar year and as we approach 2028, we have 2 rigs that are being upgraded and in progress right now. Really proud to contract those 2 rigs on 5-plus year term agreements. Those rigs are going to be drilling challenging Paleozoic wells. There's a big need for additional gas in Kuwait today. They're still burning oil for domestic power. And then they have oil growth ambitions as well. And so I think it's a great growth play for us, specifically in deep complex, technically difficult wells.

And then Todd touched on Oman a bit in his prepared remarks. But we've known about some Oman contract roll-offs for the last 12, 24 months. These were planned and budgeted. If you think about those 5 rigs, they're fluid as well. We're in ongoing discussions about contract extensions with those as we said on the call today. And then when you think about those and the material impact of those rigs, they're not on the same per day economic threshold as some other areas we operate in our International Solutions portfolio. And so you won't see a major material impact as those rigs roll. But we are excited about Oman, IOCs and NOCs, both present there in Oman, growth ambitions. And so we're excited about the future state.

Beyond that, we touched on Argentina in our prepared remarks. I won't get too deep into the growth there, but we're going to continue to grow. There's opportunity to grow beyond the 15 we've announced in 2027. And then in unconventional basins globally, we have a rig that is drilling in North Africa today. Algeria is going to provide a good opportunity for us. Our teams are engaging in commercial discussions right now in Algeria, unconventional. We have a third rig being deployed to Australia in the fiscal year. Excited to have 2 rigs drilling in the Beetaloo, another rig drilling in Queensland.

And then the other exciting growth area for us in the Middle East is the UAE. I was at ADIPEC a couple of weeks ago. The energy levels were high, as high as ever. And the primary customer there is moving at pace. FID-ed a big unconventional development program. And if you put that alongside what's going on with other key IOCs in the UAE, it's going to provide a really good growth story, and it fits with what H&P does elsewhere around the globe. It fits with what Mike's team is doing in Argentina, what we're doing in U.S. Lower 48 and what we're doing in Australia. So anyway, there's a high level.

Let me turn it to Todd to provide some additional color and detail on this.

Todd Scruggs

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Senior VP & CFO

Yes. I don't have a ton to add other than to say there's a couple of crosscurrents at work. We are super excited about the long-term potential in the Middle East and expect to be growing our rig count there over time for a long time. Having said that, we are looking at where we can be most effective. And like Trey said, we think unconventional, highly complex, technically challenging operations are where we're really going to excel. That's what's differentiated us in the United States, and that's what's going to differentiate us as well in the Middle East. And so you will see our rig count move around a little bit as a result of some geographies that are probably less core to us longer term, but do impact our rig count.

I think the key thing for us is that we are still strong believers in hitting our overall direct margin target of the $45 million regardless of the rig count, and we think that's going to grow pretty substantially going forward. I think now is probably a decent time to just mention, we did record an impairment this quarter on some of our Middle East assets. I would just point everyone to the fact that we're always going to be guided by whatever the accounting literature and guidelines are. And as we looked at that guidance and we looked at where we think our near-term activity levels are going to be, we just felt like that was an appropriate thing to do at this time, but it in no way diminishes our overall excitement about and commitment to our operations in the Middle East.

Operator

Your next question comes from the line of Scott Gruber from Citigroup.

Scott Andrew Gruber
Citigroup Inc., Research Division

The growth projects for you guys are spooling up, which is good to see. How are you thinking about balancing between the growth projects and deleveraging? And it does sound like free cash flow should still be healthy in '27, which puts your leverage target of 1x in sight. Where would you want to take leverage longer term? And how do you think about balancing taking that lower versus enhancing shareholder returns longer term?

Todd Scruggs
Senior VP & CFO

Yes. Thanks for the question, Scott. And this is Todd. I'll take that one. You're right. We feel really good about our ability to generate free cash flow in 2027. We think that's going to be higher than where we are in '26. And so we feel really good about our ability to achieve our -- what I'm going to term our intermediate target of 1 turn of debt to equity. When you think about our CapEx buildup in '27, we laid out during our prepared remarks the way we think about maintenance capital and sustaining capital, which takes you up to somewhere in the neighborhood of the high $200 million of our CapEx budget. And then the rest of the range for this year is driven by both the committed projects we have.

And so that includes incremental rigs to Argentina and Australia. That includes FlexRobotics, and that includes these upgrade projects that we're really excited about in Kuwait. But the range is also driven by the fact that we think there's additional commercial opportunities that we'll be successful in achieving. And so we wanted to make sure that we built that into our overall capital guidance. And that takes us through '27.

As we get into '28, I think to more directly answer your question, we've laid out on this page the fact that even once we hit our 1 turn of leverage target, we are still going to be very disciplined and balance our need for growing the top line. We feel really excited about our opportunities to do that with continued deleveraging and then starting to think through incremental shareholder return ideas. And we're going to balance all 3 of those things. I do think our leverage can go lower over time and will go lower over time. I also think that our growth projects will kick up a bit over time. And then I think we'll be able to enhance our shareholder returns.

And that may sound like a lot, but I think if you compare our ability to generate free cash flow, I think '27 is a good example of that with what some of the rest of the industry can do, I think that we're going

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to have the dollars available to do all 3 of those things, and we're really excited about balancing all 3 of those, whereas today, really the highest priority is debt reduction, but we do expect in '28 to be able to provide a little more forward outlook on additional debt reduction and incremental shareholder returns.

Operator

Your next question comes from the line of Keith MacKey from RBC.

Keith MacKey
RBC Capital Markets, Research Division

I'd like to dig a bit more into the outlook for the offshore side of the business. It looks like the '27 direct margin outlook is stable to down slightly. So can you maybe walk through that dynamic a bit and then go into the strategy and long-term potential of the business as well? Just broadly speaking, is this a backlog stability or backlog growth story over the next few years? And how would you expect the growth in capital requirements to compare to your other 2 segments of H&P?

Trey Adams
CEO, President & Director

Keith, thanks for the question. This is Trey Adams. I'll start, and then I'll turn it over to Ole Maier, who leads our Offshore Solutions segment. We're proud to have him here. He's a good Norwegian and was leading us in the Norwegian row this morning to get us ready for the call. He didn't actually do that. But we agree. It's a great part of our business. It's had a great year, and it's a bit of a different model. As we touched on in our prepared remarks, the O&M model is not what we typically deploy in the U.S. Lower 48 or on land environments. Overall, the segment provides a ton of just diversity, stability and durability for us. Todd talks about it quite a bit, but the capital-light and strong free cash flow nature of this business has been a great one for us to have.

And as it relates to the rest of the year and how you think about it, I'll turn it to Ole Maier to answer the rest.

Ole Fredrik Maier
Senior Vice President for Worldwide Offshore Operations

Thanks, Trey. So I just want to start with that I'm really proud of what the team have delivered through the fiscal of '26. We had a strong and safe execution in all our regions, capturing several, as mentioned, several performance-related bonuses and ultimately also exceeded the expectations. So for '27, the Offshore Solutions outlook remains quite constructive with the progression expected to be quite similar to 2026. And that also includes normal seasonalities that Todd mentioned for the winter months, especially, which we normally see then in the fiscal of Q2.

Also important to note is that we don't assume the same bonuses captured in the midpoint of the guide. So -- but clearly, we hope to achieve them. So most of our contracts, they are long term with long-term relationships with our customers. So we don't expect too much yearly variations. I think a great example of that is that both parties had a -- we had a long-term relationship with the BP and the renewal of the Caspian contract is quite important for us that shows that long-term stability of the business. That includes, as you know, probably 8 rigs with a 5 years firm contract with another 3 years options with a contract value of more than $1 billion, which also had an upside driven by performance contract.

So if you look at our long-term contracts, we have roughly $3.5 billion backlog that provides a strong visibility for long term for Offshore. The platform O&M market is around $13 billion over the next 5 years, and it's healthy, but it's not necessarily a growing market. Just to remind everyone, we have a market share of more than 30% in that region. So growth will mainly be led by contract innovations and expanding our scope of work inside the existing contracts. And of course, we're always targeting and displacing our competitors.

So more than 50% of our contracts now have performance elements included, which is really important for us to create that win-win for both the customers and us. And also mentioning, we are currently in dialogue

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with several extensions and renewals of the existing contracts. And we're also looking into other areas where we can deploy our offshore capabilities and deploy the O&M contract model that we have.

Trey Adams
CEO, President & Director

And before we turn it back to the operator, I just may share just a few other just quick comments on Offshore. It's a great business. I touched on the free cash flow generation. The business generates enough free cash flow essentially to cover our dividend. And then beyond that, if you think about something that it's been a big from-to for me personally over the past couple of years that Ole was highlighting, it's just the transferability of the business and the performance mindset we have organizationally. It's not a coincidence that we have over 50% of our land contracts on performance-based agreements and 50% of our offshore contracts on performance-based agreements.

The customer archetypes are very similar. We've seen an elevation in dialogue where we're not sitting around the table just talking to a U.S. Lower 48 leader at an IOC today. We're sitting around the table talking about how we solve problems for IOCs globally onshore and offshore. And it wouldn't be possible without our great offshore business and our ability to do and deliver great outcomes for our customers, both in the land environment across the globe and in offshore. And so really thankful for Ole and his team.

Operator

Your next question comes from the line of Derek Podhaizer from Piper Sandler.

Derek John Podhaizer
Piper Sandler & Co., Research Division

Trey, hoping we could dig in a little bit on Argentina, the Vaca Muerta opportunity that you've been discussing. Maybe if you could start at a pretty high level from a macro perspective, how many rigs are in the country now, where do you think this could scale to over time? You'll have 15 in the country, you have 3 that you're exporting down there from U.S. You've talked about potential upside to that number. So I would just love a little bit more how we could think about the scaling of your Argentina opportunity above those 15 rigs. And then maybe if you could talk a little bit about how we should think about the margin profile of Argentina versus North America and where you could see potential improvements as we work through the next couple of years?

Michael P. Lennox
Executive Vice President of Western Hemisphere Land Operations

Derek, Mike Lennox here. I'll take this question. I'm glad you asked it. We're obviously very excited about the Vaca Muerta, Argentina specifically. It's our strongest international growth opportunity. You asked about margins. They're comparable to our NAS margins. From an operational standpoint, the Vaca Muerta is closest to our Permian operations. The customers there, they're focused on performance, reliability, total well economics. We're currently running 11 rigs. The 12th rig will go to work next month in December.

We'll have 3 rigs that we're taking from our U.S. operations down to the Vaca Muerta. So that will get us to 15 rigs. The conversations are very healthy with all customer types that are down there, got a great relationship with those customers and continuing to build. So as far as what we can expand to, it's significant. 5-plus rigs down there is what that opportunity could take.

As far as the contracts, they're 5-year contracts. There's a lot of opportunity to deploy additional technology as their wells become more complex and longer Today, we have investors that are down there. There's a lot of interest. We have investors on rigs, the H&P rigs today down there looking at them. And so we're very, very excited about our Argentina footprint. It's growing. We've been down there operating for over 27 years now. So we -- our leadership team down there has done a fantastic job just building trust and value for our customers.

Operator

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And that concludes our question-and-answer session. And I will now turn the call back over to Trey Adams for some final closing remarks.

Trey Adams
CEO, President & Director

Thank you to everyone for joining the call today. Operator, you may now close the call.

Operator
This concludes today's conference call. Thank you for your participation, and you may now disconnect.

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