



Helmerich & Payne
Fiscal Second Quarter 2026 Earnings Call
May 07, 2026, 11:00 am ET

Operator

Good day, everyone, and welcome to the H&P Fiscal Second Quarter 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 Investor Relations.

Kris Nicol

Vice President of Investor Relations

Welcome, everyone, to Helmerich & Payne's conference call and webcast for the second fiscal quarter of 2026. On today's call, Trey Adams, our President and CEO, will be joined by Kevin Vann, our Chief Financial Officer; Todd Scruggs, incoming CFO; and Mike Lennox, Executive Vice President of the Western Hemisphere.

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 and reconciliations are included in our earnings release and investor materials on our Investor Relations website.

I also want to highlight that we will have a presentation, which will support 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.

Raymond John Adams
CEO, President & Director

Thank you, Kris. Hello, everyone. Thank you for joining us. As always, we appreciate your interest in H&P. I'll begin with an overview of our fiscal second quarter results. I will then turn to discuss the broader macro environment, current dynamics in the rig market and several key commercial developments, including a specific update on our NAS business segment. Kevin will then walk through our financial results and provide guidance for the third quarter and full fiscal year. To wrap up, I will then return to summarize the key takeaways before we open the line for questions.

Turning to Slide 4 of the presentation. I'd like to begin by walking through some of our key highlights from the fiscal second quarter. Execution remains strong, leading to solid operational performance. Adjusted EBITDA for the period was \$178 million, which aligned with the lower end to midpoint of our implied guidance. This was primarily led by the impacts of the conflict in the Middle East. Specifically, during the quarter, we were able to utilize our in-house engineering and aftermarket capabilities to reactivate the rigs in Saudi Arabia, leveraging in-country equipment and circumventing supply chain constraints. This move enhances returns and importantly, avoided delays for our customers. However, it did lead to more costs being classified as OpEx, which had an impact on our direct margins. While these dynamics are important, our top priority throughout the quarter was our people.

I am pleased to report that our teams have remained focused and safe. We continue to closely monitor developments in the region. And despite a fluid environment, our team has done an exceptional job in maintaining continuity of operations, supported by strong local leadership and the dedication of our people in the region. During the quarter, International Solutions delivered a direct margin of \$11.5 million, aligning with the lower end of our guidance range. In addition to the incremental OpEx, the company experienced unplanned direct and indirect costs associated with the conflict in the Middle East, which Kevin will elaborate on shortly.

Overall, operational activity remained stable. During the quarter, we experienced 1 rig suspension in Iraq. Subsequently, we have received notification of the suspension of our 2 rigs operating in Bahrain for a period of up to 90 days. Outside of this, we continued rig reactivations in Saudi, although at a slightly slower pace than originally planned. So far, we've been able to spud 3 out of 7 rigs. 2 more are expected to commence drilling imminently with the sixth rig anticipated to be active later this quarter and the seventh rig to follow next quarter.

Even with these disruptions, the broader portfolio continues to perform as expected. We remain confident in achieving the 58 to 68 annual rig guidance range we set out at the start of the year with strong growth in Latin America, offsetting some of the weakness in the Middle East.

Turning now to North America Solutions. We averaged 136 rigs, slightly ahead of expectations. Our industry-leading technology and talented teams continue to deliver for our customers, generating average margins ahead of our peers. Due to significant shifts in the commodity market over the last 2 months, we are confident that last quarter will represent a trough for both our rig count and direct margins. As a result, we have revised our outlook for the second half of the year higher. This improving outlook is already showing up in the pace of our technology adoption.

FlexRobotics continues to perform ahead of expectations with our first rig now operating its fifth pad, maintaining its high performance straight out of the gates for a super major customer in the Permian Basin. As a result, I am pleased to share that we plan to deploy FlexRobotics on an additional 4 rigs led by customer demand. This will be a phased deployment with the first 3 to 4 systems expected to be operational this calendar year.

Our Offshore segment also delivered another quarter of robust operational performance, coming in above the midpoint of our guidance range. This was driven by the achievement of several performance-related bonuses during the quarter. We also announced an extension of a contract with BP in the Caspian Sea, which could achieve well over \$1 billion of revenues if all extensions are exercised.

Alongside strong execution, we've also remained focused on enhancing our balance sheet with a major milestone on the portfolio optimization front. We were pleased to announce at the start of April, the closing of the sale of our real estate property in Tulsa. The after-tax proceeds exceeded our divestment target of \$100 million and allowed us to retire the remainder of the term loan balance ahead of schedule and drive leverage lower towards our 1 turn target.

Stepping back from the quarter and looking at the broader macro environment on Slide 5. The Middle East conflict has exposed the fragility of the energy complex, and we believe has fundamentally changed the outlook for oil and gas within a matter of months. The effective closure of the Strait of Hormuz has had a seismic impact on energy flows with over 12 million to 14 million barrels per day of crude and condensate supply impacted and more than 20% of the world's LNG flows. As Wood Mackenzie puts it, this is the most serious energy supply shock ever.

In some respects, we have been surprised by the relatively sanguine response by markets and governments to the potential severity of this shock and see significant dislocation with physical markets. What has not changed is our belief that the world will require significantly more energy than it consumes today, driven by expanding populations and growing prosperity in emerging markets, along with rising power needs from AI advancements in many developed nations.

At the same time, the potential bifurcation of supply and energy security concerns caused by this shock support the view that we may now need even more energy supply. This dynamic strengthens our view that demand for oil and gas will persist and grow for many years to come and therefore, increases the need for our global drilling solutions and will now likely bring forward activity sooner than we anticipated.

Looking at the rest of the year, we have quickly moved from fears of oversupply in a soft OFS market to one that is tightening quickly, particularly in the Lower 48. Initial actions from operators have focused on accelerating the drawdown of DUC inventories. However, as I will elaborate on shortly, we anticipate this trend will be temporary.

Regarding rig reactivations, we have received several inquiries and firm commitments with most pickup so far originating from private and smaller independent operators. In line with this, the near-term outlook for North America is improving, and we now anticipate a higher full year rig count than we previously guided. The uptick in Middle East activity that was underway prior to the conflict is now less well defined. We continue to remain optimistic that more rigs could go back to work this year with several conversations being initiated after the start of the conflict. However, the situation remains dynamic with a wide variance of possible outcomes.

Offshore is another area that could benefit. Deepwater is already showing signs of strength and with elevated commodity prices, we could see several projects fast tracked, particularly in basins unaffected by the conflict. Overall, we believe the seismic change to oil and gas fundamentals in the past 2 months has significantly strengthened the tailwinds that will support our business, both in the Western and Eastern Hemispheres over the next several years.

Turning to Slide 6. On the commercial front, we saw strong momentum during the second fiscal quarter and advanced several important initiatives that enhance our competitive position and lay the groundwork for long-term growth. This progress was evident in North America Solutions, where we strengthened our backlog through multiple contract extensions from key customers and new rig pickups from our small private and independent operators.

As a result, we now have over 55% of our operating fleet on term versus spot contracts, up from just over 50% in the prior quarter. As I mentioned earlier, we plan to deploy an additional 4 FlexRobotics systems. This is a great example of our technology leadership in onshore drilling solutions and a testament to the dedication of our engineering and R&D teams. We have received several inbounds from a variety of customers and are excited by the potential to deploy FlexRobotics at scale across our super-spec rig fleet. Beyond traditional oil and gas, we are also seeing encouraging traction in new energy applications.

Interest in geothermal continues to build, providing a promising tailwind and expanding the reach of our portfolio. Taken together, these developments underscore the strength of our offering and opportunities ahead. That momentum is playing out across international markets as well. Our Latin America portfolio saw meaningful commercial progress with activity continuing to build across the region. In Argentina, operations in the Vaca Muerta accelerated, driven by both the host NOC and domestic independence. We currently have 9 rigs operating in the Vaca Muerta today and see a path to being 100% utilized with all 12 rigs in country active. Meanwhile, discussions in Venezuela remain active and represents a compelling medium-term opportunity as the environment continues to evolve.

In the Middle East, commercial momentum continued, highlighted by a 6-year contract extension covering 5 rigs in Oman, underscoring the strength of our operational performance and customer relationships. Reactivations in Saudi Arabia continue to progress with the potential for additional rigs to return to work later this year as activity builds. Elsewhere internationally, activity in Australia accelerated with a strong pipeline of work emerging as development gains pace in both the Beetaloo Basin and Taroom Trough in Queensland.

Lastly, in our Offshore Solutions segment, as previously mentioned, we secured a major win with a long-term contract renewal from BP in the Caspian Sea. The renewal carries a firm 5-year term with 3 additional 1-year extension options. We also continue to progress several prospects, including potential multiyear contract renewals, which would further strengthen the resilience of our offshore portfolio. Given the elevated performance in North America Solutions to our near- and medium-term outlook, I want to spend a bit more time here.

Turning to the next slide. I will discuss the dynamics that highlight the opportunity we have in front of us. For some time, we have seen a gradual decline in the rig count and a softening of activity levels, while production has remained stable. To hold production flat in the Lower 48, it is estimated that you need to bring around 15,000 wells online each year. This is getting harder every day as decline rates accelerate and rock quality degrades. In some ways, the efficiency and accuracy we bring to drilling the wellbore has helped largely offset these factors.

Service intensity continues to increase as wells are becoming more complex. We are drilling faster and longer than ever before. And with our digital applications automation and FlexRobotics, we are driving greater consistency and truly getting closer to manufacturing mode at scale. As we enter this higher priced environment, we anticipate activity picking up this year and continuing into 2027 and beyond. As I mentioned earlier, the first move by operators has been to draw down on their DUC inventory. But as we highlight on the slide, inventories are at historical lows and with roughly 2,000 locations remaining, it is likely they will be exhausted relatively quickly.

With that, we anticipate a steady increase in drilling activity just to hold production flat. If the call on the Lower 48 is to increase production, we could see an altogether more meaningful increase in the rig count. At the same time, spare capacity for super-spec rigs is already very tight. With around 430 super-spec rigs operating in the industry, utilization is currently above 80% and tightening fast.

In a recent industry survey, it was estimated that around 65 idle rigs could be brought to work for between \$1 million to \$4 million within a 6-month period. From an H&P perspective, we are uniquely positioned with unmatched scale in the Lower 48. Currently, we have 138 super-spec rigs operating, accounting for over 30% of the market. Additionally, around 60 super-spec rigs are currently idle. Of these idle rigs, we estimate that around 20 could be reactivated at maintenance CapEx levels. We are confident in our capacity to meet customer demand during this anticipated wave of increased activity.

We believe that we possess a greater number of super-spec rigs available for deployment at a lower cost to reactivate than any other competitor, which positions us extremely well to increase our market share and maintain, if not enhance, our industry-leading margins.

On that positive note, I will now hand it over to Kevin to walk you through the financials and our guidance.

J. Kevin Vann
Senior VP & CFO

Thanks, Trey. I will start by reviewing our second quarter operating results and providing details on the performance of our segments. I will then spend some time walking through our capital allocation framework and conclude by outlining our guidance for the fiscal third quarter and full year before handing it back to Trey.

Let me start with highlights for the recently completed quarter on Slide 9, where we delivered resilient financial performance in the face of a very dynamic situation in the Middle East. Alongside our continued operational performance, we were delighted to conclude the sale of Utica Square with the after-tax proceeds exceeding our divestiture target of \$100 million. This, in turn, helped accelerate the full repayment of the remaining balance of our term loan well ahead of schedule.

During the quarter, the company generated revenues of \$932 million. We also generated \$178 million of adjusted EBITDA, coming in between the low end and the midpoint of our implied guidance range. As Trey mentioned, we prioritized speed and returns in the face of growing supply chain constraints in the Middle East, which resulted in the refurbishment of existing equipment. This decision led to the allocation of rig reactivation capital expenditures to operating expense. This had an approximately \$3 million impact on International Solutions direct margins during the quarter.

On EPS, we reported a net loss of \$0.59 per diluted share. These results were impacted by a noncash impairment charge of approximately \$26 million. Absent those items, we generated a loss of \$0.38 per share. Capital expenditures for the second quarter were \$63 million, which continued to trend below anticipated spending levels. This was attributable to the reclassification of CapEx to OpEx in the Middle East, resequencing of capital expenditures from the second to the third and fourth quarters and continued improvement in capital efficiency across the portfolio.

While free cash flow came in negative during the quarter, the variance was driven by a very rare, at least for us, timing lag between the collection of some receivables versus disbursements made on payables. This was largely related to a handful of large customers where payments were made in April and will therefore normalize during our third quarter. Excluding changes to working capital, free cash flow during the quarter was \$74 million.

Let me now break that down by segment, starting with North American Solutions on Slide 10. We averaged 136 contracted rigs during the second quarter, slightly above the midpoint of our activity expectations. Segment direct margin for North America Solutions was \$215 million, which came in close to the midpoint of our guidance range. This was driven by the anticipated stepdown in rig count and our total direct margin tapering slightly to \$17,600 per day. Day rates remained relatively stable, while operating costs increased slightly as a result of reduced absorption of overheads from operating less rigs during the quarter.

As Trey pointed out earlier, we firmly believe that this will be the quarter where a trough occurred for both the rig count and direct margin. We exited the quarter at 137 rigs and as of last week, 138 rigs were working. We are also experiencing strong contracting trends with our operating fleet as customers look to extend the duration of contracts as the capacity to add new super-spec rigs to the market remains extremely tight.

Turning to International Solutions on Slide 11. The segment ended the second quarter with 61 rigs working and generated approximately \$11.5 million in direct margins, coming in around the low end of the guidance range. Again, this was largely the result of the decision to allocate rig reactivation expenditure to OpEx as we navigated supply chain constraints in the Middle East and impacted direct margin during the quarter by approximately \$3 million.

Regarding the unexpected and elevated costs caused by the ensuing conflict in the Middle East, we estimate that the impact on direct margins in the quarter was approximately \$3.5 million. This includes costs related to the crisis management response, supply chain cost inflation, slower-than-anticipated start of drilling activities from reactivated rigs and the suspension of a rig in Iraq. At this stage, we see most of the cost impacts incurred being discrete to the quarter, particularly regarding the elevated OpEx. We expect continued cost inflation pressures as supply chains remain constrained.

At the midpoint of our guidance range, we anticipate an approximate \$6 million impact to the third quarter results, assuming the Strait of Hormuz remains effectively closed. This is also inclusive of the impact of the rigs suspended in Iraq and Bahrain.

Lastly, with our Offshore Solutions segment on Slide 12, we generated a direct margin of approximately \$27 million during the quarter, which came in ahead of the midpoint of our guidance range. We had 3 active rigs and 30 management contracts in operation during the quarter. We were excited to announce the extension of our contract with BP in the Caspian Sea, and it is a great example of the types of projects we undertake in Offshore Solutions. The long duration of these contracts is a testament to the strong relationships and performance we have delivered for these operators on a consistent basis for many years.

As with our International Solutions business, we are starting to layer in elements of performance contracts to offshore. This has already started to help enhance the direct margin profile, and we continue to innovate in contracting structures to create win-win solutions for our customers. We are excited about this business and the consistent and stable results that it delivers. It requires minimal capital and generates steady cash flow and provides good diversification from the more cyclical and capital depending nature of our onshore portfolio.

Turning to Slide 13. I wanted to provide an update on our capital allocation framework. Our focus remains unchanged with the top priority being continued deleveraging and maintaining our investment-grade status. In a relatively short time, we've made great progress reducing our post-acquisition leverage and are very pleased to have achieved our near-term goal of paying off our term loan of \$400 million ahead of schedule. Our focus now shifts to our \$350 million bond due at the end of 2027.

In anticipation of that repayment, we plan to build cash as well as continue to pay our base dividend. With the combination of lower debt and the anticipated expansion of EBITDA, we are confident in achieving our 1 turn leverage target. At the end of the fiscal second quarter, we had cash and short-term investments of approximately \$199 million. Including the availability under our revolving credit facility, our total liquidity is approximately \$1.15 billion. We will balance our near-term deleveraging goals with potential investment opportunities that may arise as drilling activity increases.

Our disciplined approach will ensure capital is directed to the highest return opportunities. At the same time, we are making steady progress on several enterprise optimization initiatives. We have reduced our SG&A expenses by more than \$50 million compared to premerger stand-alone run rates, and we'll continue to identify opportunities to further streamline our cost structure and harmonize processes and systems across our Western and Eastern Hemisphere operations. These ongoing efforts will support the long-term cost-conscious culture at H&P. While we have completed the heavy lifting on portfolio optimization with the closing of the Utica Square transaction, we will continue to seek to monetize noncore and underutilized assets.

Lastly, on shareholder returns, a key element is the dividend. We view the base dividend as a core commitment to shareholders, and we remain confident in its sustainability. The dividend is well covered by cash flow, and our capital allocation decisions are structured to support it across commodity cycles.

Now I want to transition to our third quarter and full year guidance on Slide 14. Looking ahead to the second half of fiscal 2026 for North American Solutions, we expect our margins and operated rig count to show solid growth as we start to see activity ramp in the Lower 48. As a result, we expect direct margins in our third quarter to range between \$230 million to \$240 million based on an anticipated rig count of between 137 to 143 rigs in the third quarter. Given the strength of the pickup in activity, we are also raising our full year rig count range to 138 to 144 rigs and see a positive inflection in margin rates. As we have said, we see our second fiscal quarter as a trough for the NAS market and see continued momentum into 2027.

For International, we anticipate the rig count to average between 58 to 68 rigs in the third quarter and full year, which includes the remaining rigs being reactivated in Saudi and more rigs being activated in Argentina. This will partially be offset by rig suspensions in Iraq and Bahrain due to the Middle East conflict and the end of near-term geothermal drilling programs in Europe. We expect International Solutions to generate a direct margin between \$12 million to \$32 million.

As Trey mentioned, we expect to have 6 of the 7 rigs reactivated in Saudi by the end of the quarter. We also expect continued improvement in FlexRigs margins and growth in Latin America. The wider guidance range for International Solutions reflects a broad range of possible outcomes in the Middle East. At the midpoint, we are anticipating an approximate \$6 million impact on direct margins due to supply chain constraints and cost inflation if the Strait of Hormuz is to remain effectively closed for the duration of the quarter.

For Offshore, we anticipate an average of 30 to 35 management contracts and operating rigs. We expect the direct margin rate in the fiscal third quarter to range between \$24 million and \$28 million. As we progress through the remainder of the year, we anticipate the margin rate to step back up and remain confident in the \$100 million to \$115 million direct margin full year guidance we shared previously. Given the anticipated ramp-up in activity in NAS, the deployment of additional FlexRobotics systems and reactivations in Argentina, we now expect our 2026 gross capital expenditure budget to align more closely with the high end of the range of between \$270 million to \$310 million.

In line with this and delayed second quarter capital expenditure, we expect third quarter spending levels to be in the region of \$100 million to \$130 million. It is important to note that our capital guidance does not include spending in relation to additional reactivations beyond what has been announced. We are also only including spending on the 4 FlexRobotics packages that will begin deployment this year. As a result of the Utica Square sale, we now expect cash taxes to come in higher than previously anticipated and will now range between \$125 million to \$150 million.

With cash taxes, capital expenditures and working capital outflows all running higher than expected, our free cash flow conversion for the year will trend lower, but still represents a significant improvement from the prior year. In summary, while there were a lot of transitory items in the quarter regarding direct margins, CapEx, OpEx dynamics and free cash flow generation, we successfully paid off our term loan and our outlook for the back half of the year and beyond has improved significantly. We are seeing a clear strengthening of tailwinds, both in the Lower 48 as well as in our international portfolio and believe we are at the start of a multiyear up cycle for the OFS sector.

On a positive note, I will now sign off as CFO for H&P. It has been an honor to play a small part in the evolution of this remarkable company. I am excited to pass the baton to Todd Scruggs, someone who I have worked with throughout my career. With Trey and Todd at the helm, you're in good hands with a leadership team full of passion, energy and dedication, ready to capture the significant opportunities that lie ahead as H&P continues its journey as the world's largest and most advanced onshore drilling solutions provider.

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

Raymond John Adams
CEO, President & Director

Thank you, Kevin. It's been an honor working with you. The stability you provided during the KCAD transaction closure as well as your substantial contributions to our financial function and balance sheet have been invaluable. Everyone at H&P sincerely appreciates your service and extends their best wishes for your retirement.

Now turning to Slide 16. I'd like to conclude by refocusing on the opportunity we have in front of us and the compelling investment thesis H&P offers. We are unrivaled in our scale, technology leadership and geographic diversity to capture rising drilling activity, both in North America and international. We have witnessed a fundamental change to the energy system over the past 2 months and believe we are at the very early stages of a multiyear up cycle in which H&P is ideally positioned.

At the same time, we continue on our journey of enterprise optimization with several programs underway to streamline our portfolio, cost structure and deliver on the full potential of the KCA Deutag acquisition. Our near-term commitment remains on deleveraging our balance sheet, and we are confident in repaying our \$350 million note ahead of schedule. Beyond that, we believe we will have financial strength and flexibility to enhance our attractive shareholder return profile and further differentiate our portfolio.

Lastly, I am proud of the performance of the team during the quarter, particularly our team members working in the Middle East. Despite all of the disruption and elevated threat level, they have been able to maintain continuity of operations in all of our core operating countries. We believe this will only strengthen the relationships we have with customers in the region and is a testament to the commitment of our teams. While we may face some ongoing timing and market dynamics in the Middle East, our commitment is unwavering, and we believe that we will see strong growth from the region over time. We also believe the Lower 48 is set to accelerate and as a result, expect North America Solutions to exceed our original full year guidance.

I want to thank all of the employees of H&P for all of their efforts and look forward to what we can achieve together this year and beyond. That concludes our prepared remarks for the quarter, and we'll now turn it back to the operator for questions.

Question and Answer

Operator

And your first question comes from the line of Arun Jayaram with JPMorgan.

Arun Jayaram

JPMorgan Chase & Co, Research Division

Trey and Kevin, I was wondering if you could maybe elaborate on how you see the recovery in NAS kind of playing out over the balance of the year and into fiscal 2027 because it does appear that your guidance implies probably a rig count in the mid-140s. And perhaps you could also discuss kind of margin progression.

Raymond John Adams

CEO, President & Director

This is Trey. Happy to start, and then we'll turn it over to other members of the team to add some color here. Just a reminder, our position in the North America Solutions segment has been a robust one over the past really 2 decades. And if we reflect back to end of 2021, early '22, when we had the belief that we could grow share and grow margins through a different outcome-oriented delivery and more customer-centric approaches. We remain firmly committed to that approach today and are really proud of the foundation we have in North America. The second fiscal quarter, we had always knew kind of going into this fiscal year, the second fiscal quarter was going to be a trough for us.

And as Kevin and I discussed in some prepared remarks, that did manifest where the second fiscal quarter was the bottom for us for our fiscal year. And even before the conflict started, we felt and had a good belief that the market was firming up coming out of calendar '25 with crude in the 50s and the forward strip not looking as robust. That was changing even prior to the conflict as we entered into the month of February, where forward strip was looking more in the 60s and private E&P activity was starting to start to build. Now you look post conflict, that's changed even more. And obviously, you touched on some of our rig count guide and where we think we're going to be.

Largely, that's been driven by private E&P independent operator pickups. And in addition to that, we have started to see a little bit more movement in activity on the public side. Our publicly traded customers have been reporting over the past couple of weeks, and you're starting to see and feel some of that rhetoric start to manifest, which is all very additive and provide some good tailwinds for us through the second half of this fiscal year.

And on top of that, if you go back to -- in our prepared slide pack, I think it was Slide 7 in the slide pack where we referenced just the market dynamics that the U.S. Lower 48 was facing coming into this Iran conflict and DUC inventories were at historical lows. You have really, really tight super-spec market. And then this just continued need and draw on rig count and activity. We touched on 15,000 wells needed to maintain and balance production rates on an annual guide. All of it is constructive.

And then you layer on the fact that there's a statistic out there that's in the public domain that 70% of current U.S. Lower 48 production is from wells drilled within the last 2 to 3 years. All of that is a really healthy backdrop that would require what we do best. In addition to that, on the super-spec utilization front, the market is tight. We've been saying that for quarters. We've been saying that for some time. The market for rigs that have been inactive for less than a year is well over 80%. And then our position in that market is a substantial one.

In our prepared remarks, we touched on that there's 65 rigs estimated out there that could be brought back to work within the next 6 months at -- I think it was a \$1 million to \$4 million CapEx target. We estimate we have roughly 20 rigs that could be brought back into this market at maintenance CapEx levels. And these are rigs that are super-spec rigs that can come out, and I may actually let Mike touch on some of the operational statistics and our advantage in that growing market. But it's a real advantage for us when you think about our value proposition, what we deliver for customers and how quickly we can respond to this growing market.

Michael P. Lennox

Executive Vice President of Western Hemisphere Land Operations

Thanks, Trey. Arun, yes, thanks for the question. It's exciting quarters ahead for NAS at H&P, a structural advantage given our scale, our in-house engineering and our maintenance and overhaul capabilities. As Trey mentioned, today, we operate over 30% of the industry fleet in the Lower 48. We have more rigs operating in the Permian Basin than anyone else has in the Lower 48. We work for all customer types and leading market share in each customer segment.

As demand grows, we have 20-plus rigs available, as Trey just mentioned, to reactivate at that CapEx range of about \$1 million. And as we talk about the efficiencies, it takes a lot of planning and really want to commend our customers and our employees for what it takes to bring these rigs out. We did a study using third-party information looking back over the last 3 years, specifically at the Delaware Basin. And when we bring rigs out at H&P, we plan our business. But on the first well, we're 4.6 days ahead of our competitors. And by the 10th well, we are 5.3 days ahead of our competitors. That's awesome work. And of course, it takes a lot of planning and preparation to do that. But that's adding value to our customers.

After that 20-plus mark, we hit a new tranche. That new tranche is -- it cost a little more than the maintenance CapEx to bring those out. Hopefully, we get there, but time will tell. As far as pricing, we'd expect improved pricing really as rigs are brought out just due to basic supply and demand principles. We're excited about the FlexRobotics. Trey mentioned 4 of those. That's exciting times as well as the pickup in the growth that we're seeing in the geothermal space. So I'll wrap it up with just our scale, our capacity, technology really puts us in a great position and demands continued growth in our NAS business unit. So thanks for the question.

Raymond John Adams

CEO, President & Director

Yes. And just to address the second part, Arun, real quick. You mentioned a higher Q4 implied rig count. I do think if you look at where we're guiding in Q3 and then you look at the full year rig count, we continue to see a sequential increase in the number of rigs we're running, both from Q2 actuals to Q3 guide to what would be implied in the Q4 guide. And then along with that, like Mike just said, we see a tightening margin environment accompanying that as you see different kinds of operators pick up rigs at different times, different ones of our competitors bringing rigs back out and then us bringing rigs out to the extent it's economically justified. And so we feel pretty good about the trajectory of both our rig count and then our margins ending this year and then importantly, into fiscal '27 as well.

Operator

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

Scott Andrew Gruber

Citigroup Inc., Research Division

I appreciate all the color on the Middle East, certainly a lot of moving pieces these days. Your 3Q guide for international includes a \$20 million spread IV low. Can you provide some more color on what kind of drives the high end versus the low end? And how should we think about the trajectory into fiscal 4Q, assuming the 3 suspended rigs go back to work and you have at least 6 out of the 7 Saudi restarts, where could International GP rise to in 4Q? And ultimately, when can we see the business kind of get back to that \$45 million level of GP that you've been targeting post restart?

Raymond John Adams

CEO, President & Director

Scott, you're right on your comments on moving pieces. It's been a very fluid situation that we've navigated in the Middle East. To say the least, over the last 60 days, I may start and then turn it over to Kevin to provide some more specificity on the financials in the Middle East right now. I'll just start with just a highlight of thanks again to our employees in the region, we shared some of those remarks in the prepared portion of the conversation this morning. It's just a testament to our employees in the region. They've showed such great resilience and dedication and a really strong customer focus.

Our priority at the onset of the conflict, and it remains the same today, is really on our people and the safety of our people in the region. Our crisis management team and that muscle that we've been building organizationally is one that we've been very proud of and really levered through the duration of the conflict. And when we think about our operations and after Kevin gives a financial review, I may take can give some more specificity on this, but we've really been proud to have a really high level of continuity of operations in the Middle East throughout the conflict and really, really dedicated and focused to our team members that have been able to enable that. Kevin?

J. Kevin Vann
Senior VP & CFO

Thanks, Trey. No, Scott, I think to start, we do still firmly -- if you think about -- firmly believe in the \$45 million quarterly run rate, if you think about prior to the conflict, we had a pretty clear line of sight in terms of how we were going to get to that \$45 million quarterly run rate by our fiscal fourth quarter of this year. And with the activity and what's happened over the last 60 days, the winds picked up and it got a little dust in the air, and we're trying to figure out, okay, we still see the \$45 million run rate. It's just -- the air isn't nearly as clear as it was 75 days ago going into the conflict. So we still see it though.

It's just now at this point, the cost that we saw during the second quarter, again, in my prepared remarks, we estimated it was roughly about \$6.5 million when you consider the supply chain constraints, what we did in terms of how we were reactivating rigs and having to reallocate from an accounting perspective, some of the ways we were doing it generated hits the margin and not necessarily just capital costs being incurred. And again, the cash flows themselves weren't really changing. It was more just a reallocation of those costs from an accounting perspective. But we pivoted quickly in order to get those rigs back to working as fast as we could and the most economically advantageous way that we could.

As we look toward our third quarter guidance, yes, it's a wide range, and I think it's just representative of kind of the dirt and the dust that's in the air as these winds have picked up in our Middle Eastern operations. But again, we're learning how to manage it. I mean, just like everybody else is. And so we got ahead of it as much as we could by just really trying to stock up on some of the kind of the basics that were needed on the rigs in order to us to continue to operate. But as the Strait of Hormuz became shutdown, we started to look at other alternative ways to get things to the rigs, to get supplies to the rigs, and it's just added additional cost -- the way it added additional costs really across the industry.

If you look at our guidance for the third quarter, it's a wide range, as I mentioned earlier. And included in that \$22 million midpoint of margin, we've got roughly about \$6 million of further kind of supply chain constraint costs built into that. So we feel confident about that number. But if things get better, then I think you can see that go up. If it gets worse and the Strait of Hormuz were to continue to be shut down effectively longer than what we're implying in our third quarter guidance, which is basically through the end of our third quarter, so end of June 30, that \$45 million run rate might take another quarter to hit. Again, it's just -- at this point, as Trey mentioned, it's a fluid situation, and we're managing it the best that we can. And the \$45 million, we still firmly -- we still feel pretty firmly solid in that guidance. It's just whether or not it's the fourth quarter of this year or the first quarter of next year as things kind of clear up over there.

Raymond John Adams
CEO, President & Director

Yes, Scott. No, you're right. I mean the challenge is there, and I just want to just reinforce the continuity, the operational continuity in the region and provide a little bit more specificity on Saudi Arabia specifically, right? So we talked about rig reactivations. And I know you all know the math, but we had 17 rigs active prior to announcing the 7 reactivations. Today, we have 23 rigs that we would classify as operating. And that number comes from the fact that we have 20 rigs turning to the right today, 2 rigs sitting over well center that are ready to go as soon as we have some last boxes checked and then another rig that's rigging up on its first location today.

And so in the face of all the conflict and all the good Western Oklahoma and dust in the air that Kevin was referencing, we've been able to continue to progress on rig reactivations and really want to highlight that the seventh rig is actually being worked in our yard as we speak today. Outside of Saudi, we've had good maintaining of operations in Oman and Kuwait. Those have been really good positives for us. The only places where we've seen rig suspensions, as we've previously noted, is the 1 rig in Iraq. And then we have the 2 rigs in Bahrain that are on an up to 90-day suspension.

And then lastly, I just want to reinforce our commitment to the region, right? I mean, we went into the KCA-Deutag acquisition with the thesis and belief that we were going to be a more balanced portfolio going forward. We still fundamentally and really firmly believe that the Middle East is core and critical to H&P's future. And so we're going to remain long-term oriented. And I would highlight that the near-term dynamics that we're seeing in the region are largely being offset by growth nodes in North America and Latin America.

And so I really just want to stress the power of this global portfolio that we have at H&P and our ability to withstand some of these headwinds that we're seeing in the Middle East, offset them with growth nodes outside of the Middle East. And really, as you think about the macro and this bifurcation that we discussed on energy security and supply going forward, I mean it's really going to really play well into where we're geographically positioned. Our rigs, equipment, people, expertise is global today, whether it's onshore or offshore, we have the right people, right equipment, right expertise in the right regions to meet the needs of a growing market.

Operator

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

Derek John Podhaizer

Piper Sandler & Co., Research Division

I just wanted to ask about the different puts and takes on the guide here when we think about triangulating the fiscal 3Q guide with full year. How should we think about sequencing both NAS, which appears to have some upside and then international with the different moving pieces that's behind it? Just some help around sequencing would be great.

Raymond John Adams

CEO, President & Director

Yes. Thanks, Derek. I may start and then turn it over to our new incoming CFO, Todd Scruggs, to take the remaining part of the question. But really, as we've discussed a few times, I mean, we see the year improving. The second half definitely looks more bullish. We have some tailwinds and some good wins at our back. I think we're well positioned to deliver strong EBITDA in the back half. Todd?

Todd Scruggs

Vice President of Corporate Finance & Treasury

Yes. No, thanks, Derek, for the question. And yes, I agree with Trey. I definitely think that there's going to be sequential improvement coming as we look throughout the year. I mean let's kind of start and look at Q2. If you think about our results, our direct margins in our operating segments were really relatively in line with what we expected outside of the impact of what was going on in the Middle East and the way we wanted to handle some of our recommissioning costs.

And so next quarter in the Middle East and for the international business, you see a nice sequential improvement. We have left the guidance range relatively wide just because of the macroeconomic uncertainty, but we see continuing improvement into that \$45 million run rate coming, whether the \$45 million is sort of by the end of this fiscal year or early in the next fiscal year, we see that coming. Offshore continues to be steady and consistent. And then we've already covered NAS, where we see a sequential increase in both margins and rig count.

And so when you add all that up and think about where we could see margin shaking out, it's really pretty consistent with, I think, where consensus probably is for our fiscal Q3, somewhere in the \$215 million range. And then when you fast forward into the balance of the year, we see continuing improvement in both international and NAS. International, I think the aggregate direct margin, we continue to see ramping up into the \$45 million level.

And then we see NAS with the rig count continuing to strengthen. I think on the last quarterly call, we were relatively bullish on where North America could be this year, and we feel even more strongly about it than we did before. So overall, we're really excited about the trajectory of the year. We're really excited about how EBITDA is going to look going forward. And so we think like has been said before, Q2 was really kind of the low point for us in fiscal '26.

Operator

Your next question comes from the line of Saurabh Pant with Bank of America.

Saurabh Pant

BofA Securities, Research Division

Trey, you noted in your slide deck, you were talking about that in your prepared remarks, right, about how drilling and completion efficiencies have been largely offset in rock quality, right? So just on that theme and technology adoption. How are you at H&P working to continue to improve efficiencies going forward because we have come a long way already, right? So the question that gets asked is how much more there is on the efficiencies front. And then specifically on FlexRobotics, Trey, can you walk us through the cost benefit of the system from both an H&P perspective and an operator perspective? And then ultimately, how big can this get? How many rigs do you think can ultimately end up using FlexRobotics? And then lastly, just what commercial model you plan to use? Is it going to be a day rate plus model or anything else along performance-based lines that you're thinking?

Raymond John Adams

CEO, President & Director

Yes. Thank you for the question. And I'll start on the efficiency narrative here and let Mike Lennox weigh in as well. The journey of drilling efficiencies has been just an incredible one here in the U.S. Lower 48. And we're not going to sit here on the call today and say there's not more meat on that bone. We're going to continue to drive drilling efficiencies. Do we think that the rate of change is the same that we've seen over the last decade? No. But at the same time, you're seeing well complexity, lateral lengths, et cetera, continue to extend, and therefore, you need the right partners, the right rig equipment and the right technology offering to complement those programs. So we see, obviously, more efficiencies still coming.

I think what we're seeing on the digital and app and automation side, that's happening. And then I'll let Mike talk about some of the FlexRobotics and other technologies, but we're seeing a lot of opportunity, that robotic offering for us working for our customer in the Permian is delivering some fantastic wells.

Michael P. Lennox

Executive Vice President of Western Hemisphere Land Operations

Yes. Thanks, Trey. So I'll start with current operations. As we've talked about in the previous call, we have 1 rig that's operating out in the Permian Basin, and it's doing fantastic. It's #2 in the fleet for the customer that it's working for. As you also may recall, when we brought the rig out, our goal was to be at P50. We're exceeding that -- which P50 is average wells out in the Permian Basin, and we're exceeding that. So as a result of that, we've seen quite a bit of demand. We announced 4 more. So we'll have a total of 5 rigs that are robotic by early 2027.

The deployment cycle on that, we'll have our second one -- besides the one that's already out, we have our second one out this summer. We'll have 2 more deliver in the fall. And then like I said, the last one would be early 2027. As far as how big is this, I'll start with 1/3 of our rigs today are running what I call Level 1 automation. That's our hex grips and slip lifters, and it's really the benefit in that is removing people from the floor, the exposures that are there on the floor. So that's 1/3 of our fleet.

So over 40-plus rigs are running that. I think the opportunity for robotics could get to that 1/3 of the fleet. That's not what we're announcing today. We do think in relatively short order, it could probably get to double digits as far as rig count. On the commercial arrangements, the first 4 that we're talking about here, it's a large lump sum. There is a day rate associated with it over a time period as well as you also have to remember that these rigs that we're talking about, this customer want a performance base. So there's upside by the better -- the better we perform, we have the opportunity to win in that as well and get paid additional. So a good structure there.

I mentioned the benefits on our end. The other thing to note besides the safety aspect, our wells continue to get longer and deeper and faster. We used to drill 30-day wells that were 1-mile laterals. We're drilling 10-day wells that are 4-mile laterals today. So something has to give. And so when you throw in the automation, it allows for our people to plan and do preventive maintenance and prepare, which obviously keeps NPT time up on our end.

From a customer's perspective, obviously, the safety component, they care about safety as well. But for them, it's just the consistency and the automation and what it brings, the repeatability, the predictability. So when we bring a rig out, it's at P50 or better on well #1 and going forward. So it's just -- it takes out that variability for them and provides consistency.

Operator

Your next question comes from the line of Eddie Kim with Barclays.

Sungeun Kim

Barclays Bank PLC, Research Division

I wanted to ask about free cash flow expectations for the full year. You mentioned free cash flow conversion is now less than what you had anticipated previously due to higher CapEx, some working capital headwinds and higher taxes after the Tulsa sale. But taking all that together, is there a range of free cash flow conversion we should expect to be modeling for this year? And then looking ahead, just in terms of use of free cash flow going forward, based on your commentary, it does sound like your main priority is still debt pay down, specifically the bond that matures at the end of next year. So is it fair to assume that any potential increase in shareholder returns over and above your base dividend is probably more of a 2028 event at this point? I know there was a couple of questions in there, but any thoughts around that would be great.

Todd Scruggs

Vice President of Corporate Finance & Treasury

Eddie, this is Todd. Let me take a couple of those, and then Kevin will chime in as well. But yes, I mean, big picture, we definitely see our overall free cash flow picture improving as we ramp throughout the year. I think Kevin will get into a little bit of what went on in the last quarter. But we remain pretty committed. We remain firmly committed to our onetime debt-to-EBITDA target.

We see as that free cash flow balance increases over somewhat in our fiscal Q3, but especially in our Q4 and then into '27, we really like to go to work on our next maturity, which is late 2027. And we want to balance that debt maturity with what we are optimistic about on some growth investment opportunities coming into late this year and into early next year. But big picture, that 1x debt-to-EBITDA target is still there. I do think it's probably 2028 until we really start seriously considering incremental return of capital back to our shareholders. Clearly, that's a high priority for us. I think we've paid our dividend for multiple decades in a row, and I don't see that changing anytime soon. The leverage reduction is the #1 goal for us with our free cash flow at this time. Kevin, anything else?

J. Kevin Vann
Senior VP & CFO

No. And I would just kind of add on to that, that as Mike and Trey have mentioned, we see a lot of -you're right, we see a lot of growth opportunities that will require some additional capital that will be kind of a draw on the free cash flow over the next, call it, several quarters. But as Todd mentioned, having a goalpost or a post that we can tether to in terms of the balance sheet of a turn of leverage, that's getting there by not only paying down the debt that -- the first bond maturity that Todd mentioned that we've got coming at the end of 2027, but it's -- we're going to see some EBITDA growth. We're planning on EBITDA growth.

Again, despite the pickup in the winds and the dust that we're seeing in the Middle East, we -- if you get past the third and fourth quarter of this year, talking about that \$45 million run rate, we're not going to stop there. And so that will be a little bit of a draw for a few quarters. But at the same time, the amount of free cash flow that I think the portfolio is going to generate by the end of 2027 going into 2028 is this going to give us a whole lot more flexibility to be able to pivot to some shareholder return mechanisms that we had at H&P prior to the acquisition and the growth that we're seeing in that's going to help contribute to that as well.

In terms for the quarter, again, it was just -- I talked about it in my prepared remarks, we had some delay in the payment on some receivables. That's clearing up or has cleared up in the third quarter. Our property -- it's always a good thing when your taxes are going up because that means that you're making more money. And so just -- again, the sale of Utica Square helped us take a big step forward in our deleveraging efforts. But yes, it created another \$20 million, \$25 million of additional taxes that we've got to tack on to the money that we're making.

So anyway, again, I think longer term, I think probably we're targeting around 40% conversion rate on free cash flow. It will be a little bit of a step change to get there. I think for the full year, we're probably in that 30% free cash flow conversion rate. As we look into '27, '28, we see that number going up to 40%, 45%.

Operator

And the final question comes from Keith MacKey with RBC.

Keith MacKey
RBC Capital Markets, Research Division

Just wanted to turn to Latin America for a little bit, specifically Argentina. Where would you say you fit in within the competitive landscape there in terms of relative scale, spec and customer scope? And what are you seeing in terms of demand trends that underpin your comments about getting from 9 to 12 rigs in the near term? And then maybe just finally on Venezuela. You know it's a medium-term opportunity. Are there any active bids there you're participating in or any other updates you can provide us at this time?

Michael P. Lennox

Executive Vice President of Western Hemisphere Land Operations

Keith, this is Mike. I'll take this one. I appreciate you asking about Latin America. Specifically Argentina, it's been great for us. We've been in that country for about 30 years. More recently, just due to the political environment, it's been the best that it's been for us. We do see some long-term potential down there as growth and demand continues to pick up. Our current operations down there, we're running 9 rigs. We have line of sight to be at 12 rigs, which would put us at full utilization.

We are in discussions with our customers down there, plan to make a trip here in the next few weeks to talk about even potentially looking at how we'd get more rigs in country. So a lot of good opportunities down there. When it comes to margins, our margins are strong. They're not too far off what you see here domestically. We are upgrading the rigs that we have in country. They're all Flex3s, we're upgrading them to be able to run our full suite of technology, which we should be able to see some additional income as a result of that.

As far as Venezuela, again, it's something that we have been studying and exploring. And interestingly, as far as demand, we have seen some. We -- actually, in a few weeks here in short order, we're going to take a trip down there. One of our customers asked us to jointly visit with them, take a trip down there. And so we're doing that. We have several inbound, and we're exploring our options down there is how I'd frame that up.

Operator

And I will now hand the call back over to Trey Adams for closing remarks.

Raymond John Adams

CEO, President & Director

Yes. I just want to say thank you for the time this morning, and thank you for your interest in H&P. I also want to share a big thank you to Kevin Vann. He's had an incredible impact on H&P and has had an incredible impact on the energy sector as a whole. His career started in the audit space, and then he's had just a really diverse career with spending from midstream to energy trading, E&P and now he's ending his career at the most exciting part of the value chain with a big smile on my face on the services and drilling side. But really thankful for Kevin and all that he's done at H&P. And with that, I will close the call.

Operator

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