Helmerich & Payne, Inc.

NYSE:HP

Earnings Call

Thursday, August 6, 2026 3:00 PM GMT

Call Participants

EXECUTIVES

Kris Nicol
VP, FP&A and Investor Relations

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

Raymond John Adams
CEO, President & Director

Todd Scruggs
Senior VP & CFO

ANALYSTS

Arun Jayaram
JPMorgan Chase & Co, Research Division

Derek John Podhaizer
Barclays Bank PLC, Research Division

Eddie Kam

Keith MacKey
RBC Capital Markets, Research Division

Saurabh Pant
BofA Securities, Research Division

Scott Andrew Gruber
Citigroup Inc., Research Division

Presentation

Operator

Good day, everyone, and welcome to the H&P Fiscal Third Quarter Earnings Call. [Operator Instructions] Please note this call is being recorded. stand.

It is now my pleasure to turn the conference over to Kris Nicol, Vice President of Investor

Relations. **Kris Nicol**

Welcome, everyone to Helmerich & Payne's conference call and webcast for the third fiscal quarter of 2026. On today's call, Frey Adams, our President and CEO, will be joined by Todd Skrugs, our Chief Financial Officer; 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 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.

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 quarter results. I will then turn to discuss the broader macro environment, current rig market dynamics and several key commercial developments, including a specific update on our activities in the Vaca Muerta in Argentina.

Todd will then walk through our financial results, share details on our financial framework and discuss additional cost optimization actions we are initiating. He will then provide guidance for the fourth fiscal quarter and full year. To wrap up, I will then return to summarize the key takeaways before opening 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 third quarter. We delivered strong financial and operational performance during the quarter, led by our operations in the U.S. Adjusted EBITDA was $236 million, coming in comfortably ahead of the implied midpoint of our guidance. We also generated strong free cash flows during the quarter.

One of the most pleasing aspects was exceeding the midpoint of our direct margin guidance in all operating segments despite ongoing disruption in the Middle East and recent market volatility. We experienced a strong rebound in activity in North America Solutions, averaging 142 rigs during the quarter and direct margins of $241 million, coming in at the high end of the guidance range.

Our talented teams and leading technology continue to deliver for our customers, generating industry-leading margins of $18,700 per day, up over $1,000 a day sequentially. Being able to deliver this margin growth across the largest fleet in the Lower 48 while reactivating 10 rigs during the quarter demonstrates our differentiated capability to efficiently and economically reactivate rigs.

Despite recent commodity price volatility, we have continued to experience strong customer demand and exited the quarter with 147 rigs running in the Lower 48. The combination of a stronger activity landscape and pricing environment has enabled us to increase our fiscal fourth quarter and full year guidance for North America Solutions.

In International Solutions, we saw a significant sequential increase in direct margins. During the quarter, we delivered a direct margin of $31 million, aligning with the high end of our guidance range. This was led by strong performance in our Latin America region as well as slightly less-than-expected impacts from the ongoing conflict in the Middle East.

We continue to closely monitor developments in the region, and I have just returned from a trip to Saudi Arabia last week. I spent time in the field with our teams and met with our customer and partners in the Kingdom. Despite the ongoing conflict, we continue to do an exceptional job in maintaining continuity of operations and navigating supply chain constraints. I look encouraged by our customer interactions, and we're seeing ongoing commercial momentum despite the conflict as we look ahead to 2027.

During the quarter, operational activity remained stable in the region. We continued rig reactivations in Saudi, although at a slower pace than planned. We closed the quarter with four rigs fully reactivated and our fifth rig began drilling early this quarter. This takes us to a total of 22 rigs operating in the Kingdom, and we expect to maintain this level of activity through the fiscal fourth quarter.

Even with these delays, the broader portfolio continues to perform as expected. We remain confident in achieving the midpoint of the annual rig guidance range we set out at the start of the year. We also remain on course to get the quarterly direct margin run rate to at least $45 million with strong growth in Argentina, offsetting some of the near-term conflict-related activity changes in the Middle East.

Our Offshore segment delivered another quarter of strong operational and financial 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. In addition to our robust operational performance, we have maintained a clear emphasis on strengthening our balance sheet and optimizing our enterprise. As we begin preparing for 2027, we are implementing several new initiatives to accelerate debt repayment, optimize our cost structure and position our portfolio to support the anticipated multiyear growth cycle. Todd will elaborate on these efforts shortly.

Looking at the broader macro environment on Slide 5. The Middle East conflict continues to dominate the direction of travel of commodity prices. Over the past three months, we have navigated a highly volatile pricing environment with prices initially retreating to pre-conflict levels before rebounding as geopolitical tensions once again intensified. Given the volatile situation, visibility remains somewhat limited.

Regardless, with the 12-month strip remaining around $70 per 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 in 2027. Beyond the short-term market dynamics, what has not changed is that 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 a 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 this calendar year, we have not seen any deviation from the recent ramp-up in drilling activity from private operators. We are on track to surpass 150 rigs during the quarter, which is at least 17 more than we were operating at a recent trough in February. We are confident that our rig activity will persist at these levels throughout the remainder of the year and is likely to continue into 2027, assuming commodity prices remain supportive.

The majority of these additions have originated from private and small independent operators who typically are more price sensitive. Larger operators have so far focused on adding term and additional technology to existing rigs. We are encouraged by this dynamic heading into 2027 as we believe all operators will need to increase drilling programs to maintain, if not grow production.

With utilization of the super-spec fleet already trending at 95%, we see further tightening of the market, which will be supportive of direct margins. As of today, we have around 10 rigs remaining that can go back to work relatively quickly for maintenance CapEx levels or less. Importantly, we are not solely reliant on operators in the Lower 48 picking up these rigs. We are seeing strong demand in the Vaca Muerta, Geothermal continues to grow, and we are in several discussions to strengthen our FlexRig footprint in the Middle East and Australia.

More specifically in the Middle East, as was the case last quarter, the uptick in activity remains less defined as the conflict continues to create disruption. However, we remain hopeful that more rigs will be required in 2027 with several of the NOCs stating plans to grow production. Lastly, offshore continues to be an area of strength for us and the market more broadly with several projects progressing. We are hopeful that we can continue to capture increasing scopes of work as operators seek to maximize output from existing assets.

In summary, we remain positive on the outlook despite the market volatility created by the ongoing conflict. This will be led by North American Solutions, our most important market, and supplemented by growth in Argentina and the ongoing recovery in the Middle East. Importantly, we believe this is the early innings of a multi-year upstream growth cycle.

Turning to Slide 6. On the commercial front, we continue to make progress during the third fiscal quarter. And while market conditions remain dynamic, we are encouraged by the level of customer engagement and the opportunities developing across our diversified portfolio. These opportunities are taking shape in North America Solutions, where demand for private operators drove 10 incremental rig additions during the quarter.

That activity reflects the constructive industry outlook that we discussed earlier as operators continue to advance development programs despite commodity price volatility. We also continue to advance the deployment of Flex Robotics with a second package now operating on a rig for a super major customer in the Permian Basin, marking another key milestone in the rollout of this innovative technology.

As these systems transition from initial commitment to field deployment, they are demonstrating the effectiveness of our automation strategy and strengthening the competitive advantage of our super-spec fleet. Beyond traditional oil and gas, geothermal activity continues to expand, representing an exciting opportunity to leverage our drilling expertise and technology in a growing adjacent market.

We recently signed agreements for three additional rigs to work on geothermal projects in the U.S. Combined with our existing projects in the U.S. and Europe, we are well on our way to hitting a double-digit rig count. That commercial momentum extends across our international operations. We're encouraged by the progress in Argentina, where activity levels and customer engagement continue to increase.

We are nearing 100% utilization, securing multiyear contracts for our remaining idle flex rigs available in country as well as contracts for an additional three rigs, which will be exported from the United States. Operational performance remains a key differentiator for us in the basin, and we are particularly pleased with the results being delivered through our technology portfolio.

In the Middle East, activity remained stable as conflict-related disruptions began to ease. As a result, we have now resumed operations on the two suspended rigs in Bahrain during the fourth quarter. Elsewhere internationally, Australia continues to gain momentum. We are pleased to announce the award for a third rig, which we'll be exporting from the U.S. as development activity continues to build in the Beetaloo Basin.

Lastly, in Offshore Solutions, we secured a multimillion dollar four-year contract renewal with an operator in Norway, strengthening the durability of our offshore backlog. We also continue to advance several opportunities, including potential multiyear contract renewals and possible rig mobilizations in the Gulf of America, which could further enhance the resilience and growth prospects of our offshore portfolio.

Taken together, these developments reinforce our confidence in the competitive position of our business. We continue to see opportunities to expand our technology footprint, deepen customer relationships and create long-term value for our shareholders.

Turning to the next slide. I want to spend some time on our operations in the Vaca Muerta. We have been in Argentina since 1998 and currently have nine rigs operating, which represents approximately 25% market share, making H&P one of the region's leading drilling contractors. The Vaca Muerta continues to gain momentum and is quickly transitioning into one of the most attractive and advanced shale basins outside the Lower 48.

Production growth continues to accelerate with Argentina's oil output recently reaching its highest level in more than two decades. The quality of the resource has never been in doubt, but several changes led by the Mile government, including the Rigy investment framework, are providing greater fiscal and regulatory stability. Combined with large-scale infrastructure investments, including several pipeline and LNG projects, the strengthening long-term demand visibility is influencing not only domestic operators, but several IOC to deploy capital across the basin.

Looking ahead, the rig demand outlook remains favorable. Welligence Energy Analytics forecasts Vaca Muerta production could grow by more than 50% between 2026 and 2030, supported by an approximately $60 billion of investment in unconventional resource development and infrastructure projects. Growing operator focus on reducing well costs and maximizing drilling efficiency continues to reinforce the value proposition of super-spec rigs and advanced technology solutions.

Recently, H&P drilled a record-setting well in the Vaca Muerta, completing the well 13% faster than the operator's previous record, while coming in 15% below the operator's budget. The project was executed under a performance-based contract, demonstrating our ability to translate operational excellence into tangible customer value.

We also continue to extend our technology leadership in the basin, recently deploying AutoSlide drilling automation that enabled 0 manual slides. This success is creating opportunities to expand adoption of H&P's broader automation and drilling technology suite across customer programs. As operators shift to larger pads, longer laterals and more repeatable drilling programs, the importance of reliable execution continues to increase. These dynamics play directly into H&P's core strengths, particularly as the region remains in the early stages of its evolution.

In addition to the 9 FlexRigs we are currently operating in Vaca Muerta, we expect to activate our 10th and 11th rigs by the end of August. We have contracted our last Flex rig that is in Argentina and then plan to export three more from the U.S. later this year. This will take our total to 15 FlexRigs, which we expect to all be drilling by this time next year with potential to deploy more rigs through 2027.

As well as the strong growth, the most important aspect for us is the healthy margin rates we're able to achieve on longer duration contracts in country, adding further strength and diversity to our International Drilling Solutions portfolio. Overall, we view the Vaca Muerta as a basin with substantial long-term potential. With proven drilling performance and growing customer demand for Super-Spec rigs, we believe H&P is well positioned to expand alongside the basin.

To close, let me briefly recap. Our third quarter performance highlights the momentum we're building across H&P. We delivered a strong set of results, led by our operations in the Lower 48, where we gained share and increased margins. Latin America and offshore also made strong contributions alongside ongoing resilience in the Middle East. This strong performance is a testament to our teams around the world, and I want to thank them for their dedication and commitment to H&P and to our customers. We appreciate the continued partnership.

On that positive note, I will now hand it over to our new CFO, Todd Scruggs, to walk you through our financial results, our updated financial framework and our guidance for the fiscal fourth quarter and full year.

Todd Scruggs
Senior VP & CFO

Thank you, Trey. I'll start by reviewing our third quarter financial results and share details on the performance of our segments. As this is my first earnings call after stepping into the CFO role, I also want to provide an update on our financial framework as well as several projects we'll be embarking on across finance and the broader organization to accelerate our enterprise optimization initiative. I'll conclude by outlining our guidance for the fiscal fourth quarter and full year before handing it back to Trey.

Turning to Slide 9. We delivered strong financial and operating results in the quarter while continuing to navigate the dynamic situation in the Middle East. During the quarter, the company generated revenues of over $1 billion, up 11% sequentially. We generated $236 million of adjusted EBITDA and exceeded the midpoint of our direct margin guidance in all operating segments.

On EPS, we reported a net profit of $0.74 per diluted share. These results were supplemented by the gain from the sale of Utica Square. Absent this and other select items, we recorded a loss of $0.11 per share. Gross capital expenditures for the third quarter were $70 million, which continued to trend below anticipated spending levels. This was attributable to the reordering of capital expenditures from the third to the fourth quarter in NAS as well as delayed expenditure on rig reactivations in the Middle East. Free cash flow during the quarter came in strong at $98 million.

Let me now turn to our North American Solutions segment on Slide 10, which was a particular highlight this quarter. We experienced a stronger-than-anticipated ramp-up in activity, averaging 142 contracted rigs during the third quarter, coming in above the midpoint of our activity expectations. Segment direct margin for North America Solutions was $241 million, also exceeding the high end of our guidance range. The most impressive aspect of this result was our direct margin of $18,700 per day, up over $1,000 per day sequentially, led by strong pricing and performance-related bonuses during the quarter.

We also saw operating cost per day improve despite absorbing the recommissioning cost of 10 rigs. We added back more rigs at higher margins for a lower cost than anyone else in the industry. In addition to the 10 rigs I just mentioned, we still have enough capacity that can be reactivated at or below our $1 million maintenance capital level to reach 160 rigs operating in the Lower 48. But as Trey pointed out, some of these rigs could also go to Argentina or beyond.

Turning to International Solutions on Slide 11. The segment generated $31 million in direct margins, coming in at the high end of our guidance range. The Vaca Muerta, in particular, was an area of strength during the quarter. In the Middle East, we continue to navigate the dynamics around the ongoing conflict. During the quarter, our rigs in Iraq and Bahrain remain suspended, and we faced further delays in the reactivation of our rigs in Saudi.

As of today, we have five of the reactivated rigs turning to the right, taking us to a total of 22 rigs operating in the country. As Trey mentioned, we now expect to maintain that average throughout the balance of the fiscal year. Despite these challenges, we experienced a lower impact from the conflict on our direct margins than we expected as travel routes and logistical challenges incrementally eased throughout the quarter.

Lastly, with our Offshore Solutions segment on Slide 12, we generated a direct margin of $29 million during the quarter, which also came in ahead of the high end of our guidance range. We had three active rigs and 30 management contracts in operation during the quarter.

The strong performance of our Offshore segment was led by several performance-related bonuses that the teams achieved across our offshore fleet. We remain excited about this business and the consistent and stable results that it delivers. It requires minimal capital, generates steady cash flow and continues to provide strong diversification in our portfolio.

Turning to Slide 13. I want to provide an update on our financial framework and some of the details around our enterprise optimization initiatives, which include several projects we're working on across our global organization. This includes a broad spectrum of initiatives with the aim of making H&P a simpler and more profitable business. Many of you will welcome the news that we will also be examining ways in which we can simplify the way we report as well as the timing of our fiscal year-end.

With regard to our balance sheet, our focus remains unchanged. My top priority is to continue to drive our leverage towards 1 turn of net debt to EBITDA. In a relatively short time, we've made great progress, paying off our term loan of $400 million ahead of schedule, and we're now focused on retiring our $350 million bond due at the end of 2027. I'm eager to accelerate this program wherever possible.

Over the coming quarters, we will be streamlining our central functions, reducing duplication and deploying a standard operating model for all regions as well as harmonizing our ERP systems. We expect to see significant operational and financial benefits from this exercise and anticipate reducing our corporate costs by an annualized $40 million by the end of 2027. We're also looking at ways to further reduce our overhead costs, which will have a positive impact on our direct margins.

Additionally, there are several remaining areas of our portfolio and operations that we are looking to streamline and simplify. We will continue to exit noncore geographies and monetize assets where possible. Collectively, these initiatives will now help us raise over $160 million from asset sales, which we're targeting to complete by the end of fiscal 2027, if not sooner.

Finally, we're also conducting a thorough review of our working capital and inventory management practices to unify processes and enhance our free cash flow generation. All of these actions, when coupled with growing EBITDA and free cash flows in an improving market backdrop will enable us to quickly delever and reach our 1 turn of net debt-to-EBITDA target. At that point, our optionality to maximize shareholder value through effective capital allocation increases significantly.

Turning to Slide 14, I want to provide a bit more detail on how we think about our capital allocation evolution, particularly related to shareholder returns and capital expenditures. On the left-hand side of the slide, we're showing the current state, which will take us through the end of 2027. Our base dividend is a core element of our shareholder return strategy, and we are very proud that we've been able to consistently pay a dividend for 34 years.

During this deleveraging phase, we'll maintain our dividend, which accounts for around $100 million per year of spending. Beyond the dividend, our capital allocation is focused on the balance between capital investment and debt repayment in the near term. As illustrated on the chart, we break out our capital investment into three 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 costs, our total spend amounts to around $250 million annually for maintenance capital. Importantly, we feel confident that we can maintain this level of spend for several years.

Beyond that, we have what we call sustained 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 every year in these enhancements.

The last category considers growth projects, which may include new country entries or the expansion of fleets in key growth markets. We also include flex robotics within this category. To start with, all these investments must meet a return threshold. Beyond that, we assess the duration, scalability and durability of the geography and customer relationship.

Lastly, our ability to drive technology adoption and performance-based contracts are also key considerations. As we approach our deleveraging target, we expect to have significantly more financial flexibility from 2028 onwards, which we highlight on the right-hand side of the chart. This will be achieved through the discipline of our capital investment programs, higher cash flow from operations and the retirement of our $350 million bond. This frees up significant capital, which can be deployed most effectively to maximize shareholder value through a balanced combination of dividends and buybacks, further strengthening the balance sheet and disciplined investment in growth projects.

Now I want to transition to our fourth quarter and full year guidance on Slide 15. Looking ahead to the fourth quarter for North America Solutions, we expect our operating rig count to show solid sequential growth as we see no deviation from the activity ramp we experienced in the Lower 48 in the third quarter.

As a result, we expect direct margins in our fourth quarter to average between $245 million and $255 million based on an anticipated rig count of between 145 and 151 rigs during the quarter.

Given the better-than-expected result in the third quarter and our upgraded guidance for the fourth quarter, we're also raising our full year rig count range to 140 to 144 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.

For International, we anticipate the rig count to average between 60 to 70 rigs in the fourth quarter, and we remain confident in achieving the midpoint of the annual rig guidance range we set out at the start of the year. We are seeing increased levels of activity in Latin America as we move towards full utilization of the fleet in Argentina, offsetting some of the activity changes we've experienced in the Middle East.

We expect International Solutions to generate a direct margin between $25 million and $45 million. The wider range captures the spectrum of potential outcomes regarding the ongoing conflict in the Middle East. For offshore, we anticipate an average of 30 to 35 management contracts and operating rigs. We expect the direct margin rate in the fiscal fourth quarter to range between $26 million and $30 million.

Given the strong performance year-to-date, we're also upgrading the full year guidance range to $113 million to $117 million. CapEx came in lighter than expected during the quarter, largely due to the timing of spending on several projects across the business. This variance primarily reflects deferred spending rather than any change in project scope, and we, therefore, expect capital expenditures to increase sequentially in the fourth quarter.

Importantly, we expect to remain within our guidance range of $270 million to $310 million for the full year. Reflecting the tax impact of the Utica Square sale and stronger financial performance in North America Solutions, we have increased our cash tax outlook and now expect payments to range between $150 million to $180 million.

In summary, the positive tailwinds from activity and direct margins from the third quarter are expected to carry forward into the fiscal fourth quarter.

Despite some project timing shifts, which impact capital expenditures, the fundamentals of the business remain strong. We continue to believe we are well positioned to capitalize on continued customer demand and carry this momentum into fiscal 2027.

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

Raymond John 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. We delivered a strong third quarter, exceeding the midpoint across all three operating segments and demonstrating the strength of our people, technology and diversified portfolio. Activity in the U.S. Lower 48 continues to build.

Our international business is benefiting from growing opportunities in Latin America and offshore remains a consistent source of value and cash flow. While calendar 2026 got off to a slow start, we were confident that we had the discipline, the portfolio and the customers to make up the lost ground. Despite all the challenges and volatility created by the conflict in the Middle East, we are well positioned to deliver full year results, which exceed original expectations.

Looking ahead, we remain optimistic on the outlook for our business in 2027 and beyond. supported by our advanced technologies and strong operational execution. At the same time, we are excited by the value we can unlock from our enterprise optimization initiatives, all with the aim of simplifying our business, increasing profitability and maximizing the long-term value we create for shareholders.

Building upon this positive momentum, we hope to see you at our Technology Day on October 8, which we are hosting here in Tulsa. We will be providing a deeper look at our Flex Robotics technology as well as showcasing some of the critical technologies and solutions that truly differentiate H&P.

That concludes our prepared remarks, and we'll now turn it back to the operator for questions.

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Derek Podheiser with Piper Sandler.

Derek John Podhaizer
Barclays Bank PLC, Research Division

Just wanted to start things off here with maybe walking through the different puts and takes for your fiscal 4Q guide and how you expect to sustain this momentum that you're building into fiscal 2027. If you can hit on NAS, international and offshore, I think that would be great.

Raymond John Adams
CEO, President & Director

Thank you for the question. I'll start and then turn it over to Todd to give a bit more color on the full year and 4Q guide. But in general, the sequential improvement that we're seeing from Q3 to Q4 and our implied EBITDA guide, which is approximately 5% Q-over-Q is really underpinned by activity growth across the business.

And we talked a lot about North America Solutions and the activity adds that we've seen throughout that segment through Q3, and we're continuing to see rig count grow and be additive into Q4. But it's also the same story across International Solutions today. We've seen great growth in LatAm and really proud of the rig reactivation journey we've been on in the Middle East.

And then the third segment, our offshore segment, just provides such stability and durability to our portfolio. And so really proud of the performance contract journey and customer partnerships we have across that segment. All three of the segments together are what's guiding us up as we look through Q3 into Q4 and have been fairly constructive. Before I turn to Todd, just broadly across the market, I would say that customer conversations have been constructive. We're feeling very confident in our Q4. And then obviously, as we look beyond into FY '27, customer conversations constructive and a good backdrop for us.

Todd Scruggs
Senior VP & CFO

Yes. And thanks, Eric. This is Todd. I don't have a ton to add, but I do think there are a couple of things that are worth pointing out here. We feel like we can really grow our EBITDA over the next few quarters and into the next couple of years. And our fourth quarter guide is kind of emblematic of that, where we see continued organic growth in our International Solutions portfolio. That's going to be the fastest-growing part of the company.

And in this case, we're seeing some increased activity in Argentina. We're seeing increased activity in the Middle East. And we think that will continue for a little while until we get to our $45 million quarterly run rate, which we still have a lot of confidence in getting to. And then similarly, you continue to see sequential improvement in North America. And I think of the $250 million per quarter level as a really good level of profitability for us to benchmark.

We are probably a bit less focused on the exact rig count or things like that and more focused on just making that aggregate dollar amount go up every quarter. And then you continue to see offshore as a very steady, very ratable piece of business for us that we think is going to continue.

And then Trey mentioned this in his prepared remarks, but it is interesting to think about the trajectory into '27 -- kind of going into '26, things felt relatively bearish, but I do think it's quite a different story right now. And we think this fourth quarter is a pretty good marker for where we're going to be in '27. We actually think we'll be improving from this base into '27, but it's a good place to kind of start thinking about where EBITDA levels are going to be next year.

Operator

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

Scott Andrew Gruber
Citigroup Inc., Research Division

A lot of good trends going on here for HP. So good to hear. I want to unpack the outlook for NAS a bit more. You beat on fiscal 3Q NAS margins, but then 4Q is down a bit. How much are activation -- reactivation costs went on margins? How did you -- how much of the performance bonuses contribute to 3Q and how you think about those for 4Q? And then obviously, rates are rising.

So I'd expect that to be a bit of a tailwind. What I'm really trying to understand is if we stabilize, let's call it, around 150 rigs, where can margins get to as we start calendar year '27 here. So maybe unpack the kind of near-term trends and a little bit of color on kind of where you think you can get margins to in a couple of quarters.

Raymond John Adams
CEO, President & Director

Yes. Thank you for the question. This is Trey. I'll start, and then I'll hand it over to our Executive Vice President of Western Hemisphere and Head of Global Ops Support, Michael Lennox, to add in some further detail and more specificity to what we're seeing here in North America. But what I'd start with is just really proud of the team and really proud of the H&P enterprise overall. Our ability to reactivate 10 rigs in Q3 and sequentially grow margins $1,000 a day is a huge testament to what we've been building towards here at the company for the past two decades.

And it's been really, really encouraging to see. And obviously, we knew the machine was in place, but to see it really hitting top dead center was fantastic in Q3. More broadly with the market, I'll touch on the market more broadly in North America and then Mike can talk about reactivations, pricing and other aspects. But more broadly across U.S. Lower 48, our rig count and rig additions have been mostly underpinned by private E&Ps up to this point in time.

As the forward strip has improved and looks more constructive, those private E&Ps have been able to really use risk management tools and hedge positions to be more confident in their forward approach. And so that's been a real positive movement. We've seen similar and kind of consistent behavior from the public side of the fence up to this point in time.

We're very disciplined, focused on capital returns frameworks, very focused on their budgets. And we've actually seen some churn from public E&Ps through the summer months. But we're -- as we touched on in our prepared remarks, we're very confident as we look into FY '27 and the calendar '27 that the underlying elements and the base price points that our public E&Ps are going to be utilizing for budgets as they go into their budget season are just dramatically different in calendar '27 than they were in '26.

I know I don't need to remind everyone on the call, but crude was in the 50s towards the end of calendar '25. And so from a budget standpoint, there wasn't the same backdrop that there is today. The service intensity that's going to be required and continue to require to maintain production, much less grow it in calendar '27 is going to require more rigs. And I just highlight that we're 95% utilized today from super-specs. And so the market is tight. We'll touch on more about why the market is tight, but the market continues to be tight just based on U.S. demand points, much less the international demand points for those similar assets.

So I'll turn it over to Mike to provide a bit more specificity on pricing and some of the reactivations.

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

Scott, yes, thank you for the question. But before I answer it, I do want to thank our teams who have taken part in recommissioning all these rigs. And of course, that goes from the sales team to the operational team, to the crews as we train and bring these rigs out and do it safely.

And then lastly, to our customers just for believing in H&P and just recognizing the value -- as Trey said, in Q3, we've reactivated 10 rigs. But since our trough in March, it's actually been 17 rigs. And doing that while also having improved margins is just fantastic work by the leadership and team that we have in our Lower 48.

So, to answer your question, maybe a little more direct, a lot of it is due to the lumpiness in our bonuses. And some of its conservatism that's in there, but over half of our rigs are on performance-based contracts. And as we perform, some of those bonuses come in, again, lumpy. And so that's where you see some of the fluctuation. -- rig reactivations has been a small component of changing and affecting the margins -we have about 10 more roughly that we could bring out at CapEx-related cost. And then once we get past that, we hit another tranche.

As Trey had mentioned, our high-spec rigs are in demand. We have been upgrading rigs for additional setback, additional hook load to drill longer and more complex wells for quite some time. And so, we're going to continue that trend. And as a result of that, we're very well positioned.

We've also invested significantly in technology and technology matters as we drill these more complex wells -- it helps keep the bid on bottom and helps our customers as we add value. Maybe to end it, we've talked before, and it's not a question you asked, but I do want to highlight it. So, we've talked about the robotics. We have one rig that's deployed or running a robotic system.

Our second one is rigging up and should start drilling probably this weekend. But that rig is performing very, very well. And as we talked about on previous earnings calls, we brought that rig out with the expectation that it would perform at P50. And what we mean by that is at least as well as what our people are performing.

And out of the gate, it has exceeded that average. And today, for that customer, it is their top rigs, and they're running high 20s rig fleet, and it is their #1 rig in the fleet. And we're going to continue to see demand in that robotic space up to by February, having five robotic rigs deployed to the field.

Operator

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

Arun Jayaram
JPMorgan Chase & Co, Research Division

I wanted to dig in a little bit on your financial framework. You've kind of given us some interesting views on how you see capital progressing beyond 2026, you highlight, you call it a $300 million maintenance plus sustaining kind of program. Perhaps for you, Todd, I was wondering how you think about maintaining that level of CapEx just in an environment where your international activity will be growing.

Obviously, Trey highlighted all of the growth opportunities in Argentina. But talk to us a little bit about that kind of confidence on that because that could unlock a lot of free cash flow if you're able to keep capital that relatively low.

Todd Scruggs
Senior VP & CFO

Yes. Thanks for the question. And we thought it was important to lay this out just kind of right now as there's been some change at the company and as the company is evolving, it's good to just remind everybody of how we're thinking about these things and what our framework is.

Let me talk about capital in just a second, but equally important to us in the near term are some of the enterprise initiatives we laid out. I think we've got a lot of work to do internally on cost reductions, realigning internally as a global organization, finding ways to operate differently, think about where our core activity areas are going to be. And that all ultimately translates to the amount of capital spending and to the way we can return capital back to our shareholders. So I don't want to lose sight of that.

But on Slide 14, where we talk about our capital framework, I think the first observation I would make is that -- if you think about what H&P has done over the years, we have invested a lot of dollars in creating a uniform fleet with strong operating practices that are safe and efficient and that meet our customers' needs. And we feel like that's a really durable advantage for us.

And so as we think about capital allocation, we don't want our capital allocation to mask the underlying efficiency that our assets have. And so, the two big takeaways here, number one, we're going to remain committed to debt reduction in the near term. We have to hit our 1x net debt-to-EBITDA target. But number two, over the longer term is that we're going to remain very, very disciplined with our overall spending.

We think that we can unlock a lot of growth in the current portfolio without spending a lot of capital. We think there's a lot of areas that we can drive cash flow that don't really require incremental rig counts and rig adds. And so therefore, don't really require incremental capital. So that would be one thing I would say.

Secondly, I think it's important to remember, if you kind of zoom back a couple of years, part of the reason we've made the changes to the company we've made and we've made the acquisitions we made would be to have a global platform where we could grow without having to do major capital spending projects.

So, if you think about the stuff that Mike's team is doing an amazing job on right now with moving these rigs to Argentina, that doesn't really look that different than recommissioning a rig in North America and then effectively putting it on the boat. We're not spending tens of millions of dollars on those rigs.

So I feel like we're really at a point now where we are set up to generate a substantial amount of free cash flow. And then on the right side of the page, what we're trying to illustrate is that we don't look at that free cash flow as just a new way to spend money. We look at it as a way that we can potentially return more capital to our shareholders. And we want that return of capital to be perceived as sustainable and durable.

And so what that means by definition is that we can't just ramp up the spending because there's additional cash there. So I mean, we want to take advantage of opportunities as they come up, and we're going to. But the point here is that we do think we're pretty differentiated amongst oil and gas companies in terms of our ability to generate that cash, and we're going to make sure that we stay disciplined and true to that, not only over the next year when we need to reduce debt, but over the longer term when we have a little bit more flexibility.

Operator

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

Saurabh Pant
BofA Securities, Research Division

Yes, Trey, I think you talked about your recent visit to Saudi. I saw some good pictures of that on LinkedIn. So thanks for sharing. But just quickly reflecting on that, Trey, can you talk to what you are seeing in the region, Middle East in general, Saudi, in particular, in terms of current operations, new opportunities? I see you have successfully got to five of the seven Saudi rigs that you were supposed to bring back after the suspension. But can you talk to the time line on the other two, Trey? And then how should we think about opportunities for more rigs beyond the seven that are coming off suspension?

Raymond John Adams
CEO, President & Director

Yes. Thank you for the question. And yes, it was great to spend time in Saudi Arabia last week with our teams, our partners and our customers in the Kingdom, I left really encouraged, and I'll share kind of one that I thought was funny last week is someone who spent most of their oil and gas career in the U.S.

Lower 48 and from the state of Texas to be told that now I'm a real oil man and we're a real oil company because we're present in Saudi Arabia.

It was a big crowd marker for us as we really grow and become fully fledged there in the Kingdom. But what I want to highlight is just the strength and resilience of our team throughout the GCC in Saudi Arabia. You think about reactivating five rigs, you touched on reactivating five of the seven rigs, reactivating five rigs.

And I think outside of maybe one or two, all of them were reactivated since March in the midst of the conflict. It's really a testament to our great teams and our customers' ability to be very stable and reliable, think long term and provide a great backdrop for us to reactivate those rigs on.

The overall environment there, and I'll hit kind of conventional and our rig reactivations first, and then I'll talk about Jafurah and our unconventional story. But the five rigs we've reactivated right now is a great baseload for us. We're at 22 rigs in the Kingdom, very happy with the 22 rigs we have. Obviously, the other two rigs, we're not adding to our forecast or our guide into Q4.

And right now, we're really focused on the number that Todd had shared as it relates to our financial framework of getting our International Solutions segment to $45 million a quarter. We believe we have all the cards that we need to play in front of us to achieve that. And so when we think about discipline, simplification and a focus on our core business, that's where our heads are right now. We're at 22 rigs. We want to get stability. We want to create economic viability there in Saudi Arabia.

And as time lines manifest and improve on rigs six and seven, we'll be certain to update everyone on those time lines. The Jafurah story in Saudi unconventionals is a really positive one. We have eight FlexRigs running in Jafurah today. I was able to spend time in the field last week with our team members and see the direct application and some of the mirroring elements to our story, whether it's in the U.S. Lower 48 or Vaca Muerta in Argentina.

And it provided a lot of tailwinds for me coming off the trip because we're not starting from 0 there. We're adding and layering in a lot of benefit, accelerating well programs. And our rigs are just so well suited for that environment to unlock efficiencies and do them safely that I believe it's going to position us very uniquely going forward as that resource base continues to expand and grow.

I was thinking about an analog for my trip last week and I was reflecting on early days and some time spent in the Permian Basin. And it reminded me of being in the Permian not too long ago, where every single day, there's some new 22-inch or 16-inch whole section well record being broken. and production section record being broken. And obviously, we're a huge part of that story and will be continually as we look forward.

Beyond Saudi across the broader Middle East, we see obviously, stability today. We've been very encouraged to bring back our two rigs in Bahrain. So those have been reactivated as of this summer. And then our customers in the region don't think short cycle. They're thinking long term. There's been production increase targets that have played out. We're active in those geographies. We're active in those markets, having really constructive conversations with customers.

And you layer all that into this unconventional story and outside of Jafurah, there's a lot of great unconventional stories manifesting across the region. You look at those key IOCs that are participating in those exploration programs, there's a desire and a need for them to draw out exact parallels to what's going on here in the Lower 48, and they're going to require a similar set of services and service contractors.

So I think it positions us well as we look into FY '27 and into calendar '27. I left very encouraged. But I would just love to reroute us back to our focus is $45 million plus per quarter for our International Solutions segment. And there's a lot that we can do that's right in front of us to increase the economic viability of our current assets that are operating today.

Operator

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

Keith MacKey
RBC Capital Markets, Research Division

Just on Argentina, in your presentation, you quoted a 25% market share in the Vaca Muerta with nine rigs today expanding to 15. With that significant expected unconventional investment in the basin through 2030, how do you see the competitive landscape evolving? And as you export those three rigs from the U.S., can you help us understand the reactivation timelines and margin economics you're writing on those contracts relative to, say, the international average?

Raymond John Adams
CEO, President & Director

Yes, I would be happy to, Keith. This is Trey. I'll start before turning it over to Mike, who will dive into much more detail and color. Overall, Argentina has been a real positive for us. I touched on the tightness of the super-spec supply earlier today. And I just want to reinforce that, that the assets we're talking about going to the Vaca Muerta, the assets we have in country today are very much alike and very similar to what we run and operate here in the U.S. Lower 48.

And so, it puts us at a great spot when you think about the fleet optimization that we're able to apply, the operational expertise, the technology. And so, I'm very encouraged by it. The customers down there are not wanting to start at 0. They're wanting to come in with automation apps and technology.

So I feel like we're in a great spot, and I'll turn it to Mike to add additional color.

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

Yes. Keith, thanks for the question. I've been spending a lot more time in country and just really the opportunity as the infrastructure is being built out and it's coming online, it's created more and more opportunity for us -- and so as a result of that, as we've said, yes, we have line of sight to have 15 rigs down there. I will tell you, there are a lot of discussions about more.

And so, I don't know that we have to stop at 15. I think, obviously, we're going to be disciplined and understand the economics before continuing to send more, but it's pretty bright for down there. As far as the time line, within the next six to eight months, those rigs will be sent down there. As far as the margins on those, they're very much in line with really what we're seeing here, and they have the opportunity for that because of the technology expansion. They're early innings in using technology down there. And so, we have a great opportunity to continue to send more and do more with technology down there.

On the cost front, I know Todd had mentioned that in his comments earlier on the question. But you think about -- it's rigs that are similar here. So, the cost to bring them out in the U.S. is similar with the exception of -- you obviously have to truck it to the port, has to be packs and on the boats and on the ship to Argentina and then truck to Nkana and the Vaca Muerta. So those costs are added.

And then when you think about the -- some of the equipment, top drives, well control equipment, those have API requirements and time lines of five years, which, again, these contracts are on five years. We are going ahead and changing out top drives well control equipment, so we don't have to replace it two years in. And the beauty of that is the equipment that we're taking off can be repurposed and used domestically.

Operator

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

Eddie Kam

Just wanted to touch on your involvement and opportunity in geothermal. You mentioned you recently signed agreements for three rigs on geothermal projects in the U.S. and said you have some other projects in the U.S. and Europe. So, with these three rig adds, how many rigs will you have on geothermal projects in total? And do you expect you'll get to double digits maybe by sometime next year? And just in terms of the return profile, just curious how the returns of your geothermal rigs compared to oil and gas, sort of similar, worse or better? I know there's a lot in there, but any color on that would be great.

Raymond John Adams
CEO, President & Director

Yes. Thank you for the question. And I'll start and Mike can touch on just more of the details around counts and pricing and why there's a great transference of the expertise and technology that we have on our rigs. But yes, geothermal has been a great story for us. We've learned in pretty hard into enhanced geothermal projects across the globe.

And so we have a good covey of geothermal projects going in Europe today. Several of those have bounced between different countries in Europe and have been a great stable part of our business. In addition to that, enhanced geothermal here in the U.S. Lower 48 has continued to expand. But the great thing about geothermal is the fact that there's an efficiency angle and cycle to this that we're able to apply that is directly transferable from our U.S. Lower 48 fleet.

And so we've been encouraged by the growth. I'm going to say a similar line that I said earlier is that this geothermal demand is continuing to pull on the same supply base that the U.S. Lower 48 and the Vaca Muerta is. And so when we talk about tightness of supply, this is all very additive to the tightness story that we've been projecting, and we do believe that the market is very tight with super-specs right now for Lower 48 adds, geothermal adds and the Vaca Muerta pool.

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

Yes, Eddie, maybe to layer in, just 6 rigs in the U.S. operations is kind of what we're thinking. There's obviously discussions for more. And really, that's exciting for us just as you have a concentration of rigs in an area. Obviously, the efficiencies on our side will continue to improve. As Trey mentioned, the application of our rigs is very similar to other basins with technology.

Again, it's very, very hot rock, obviously, as well as very hard rock. And so keeping that bit on bottom with some of the technology that we have is very helpful and meaningful for our customers. As far as the margins, again, they're very much in line with the rest of our Lower 48 margins.

Eddie Kam

Got it. And just a clarification. So how many rigs do you have currently in geothermal across both the U.S. and Europe? I think you said six in the U.S. How many Europe currently do you have?

Raymond John Adams
CEO, President & Director

It's still below the double-digit mark. But we think that, that double-digit marker is a good one for us to project towards. We're not guiding exactly to that number today. But we think that this geothermal story for us could be, call it, a mid-Continent middle of America, Oklahoma style rig activity baseload for us. And it's a key part of what we believe we do well, right, expertise, technology, accelerating well programs, delivering high levels of customer value.

Operator

Due to time constraints, this concludes our question-and-answer session. I will now turn the call back to Trey Adams for closing remarks.

Raymond John Adams
CEO, President & Director

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

Operator
This does conclude today's call. Thank you for your participation. You may disconnect at this time.