

## Operations Executive

**Cabo Drilling: Digging for Opportunity**

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Reading industry cycles can be more challenging than reading the future in tealeaves. But for John Versfelt, CEO of Cabo Drilling, predicting a price increase in the metals market was a winning forecast as the company switched its business platform to focus on drilling rather than exploration.

“We needed to find the best place for cash flow, and in late 2001, the mining business was at the bottom of the cycle. You could see things were going to turn around,” said Versfelt. “The best way we could find financing was to become a drilling company in the mineral sector.”



John Versfelt, CEO

Cabo was able to put together the financing needed to go public and acquire five drilling companies. The acquisitions gave Cabo a presence from British Columbia to Ontario, Quebec, and Newfoundland. The idea was to create a full-service drilling company capable of handling projects from early exploration to reserves drilling and everything in-between. The company now has about 110 drills, and its fleet is roughly 85% modernized.

**Mining for talent**

While the company was able to work anywhere in the country, it took several years to reorganize and create the Cabo culture. The company's preferred operating model sees a few people providing oversight and support from the head office, with the balance of employees in the field with the operating divisions. This model creates a decentralized focus on field work but a centralized outlook on things like HR and financial controls. The central office also provides payroll, accounting, and benefit support so the company's GMs can concentrate on managing teams in the field.

Cabo has assembled an experienced leadership team that understands the ebbs and flows of the industry. Merging five companies into one isn't easy; the key has been the leadership and experience of Cabo's management team, including the hands-on leadership of the GMs within each division. The company's leadership team also includes a special projects coordinator who addresses the company's inventory requirements, with an emphasis on the management of international projects, working to ensure each drilling team has all the resources required to complete the project.

Cabo Drilling also established centralized HR protocols to help the GMs find the right people to work with them. In 2006, Cabo hired an HR coordinator to help the company move forward with the development of a unified corporate culture and to deal with the anticipated turnover in the acquired companies. Since 2006, the company has been developing and implementing a multi-pronged HR strategy focused on training the company's management to create



This company made strategic acquisitions to get into mineral drilling at just the right time. According to John Versfelt, the infrastructure it created should help it grow stronger, even in a down market.

strong relationships with their workers, as well as creating a salary and benefit structure that would keep the company in the top quarter of the industry. The strategy also included a well-rounded HR program for drillers, which incorporated health and safety, including a drug and alcohol program and technical and operational training components to create a well-rounded employee.

Training, employee development, and corporate responsibility have also been emphasized in the company's international operations. With division offices now open in Mexico, Panama, Spain, and Albania and projects also underway in the US and Liberia, 20% of Cabo's operations are now outside of Canada. While finding experienced drillers in each county is challenging, Cabo is taking the time needed to cultivate a local workforce. The company is bringing in experience from the outside to train locals to become drillers and will eventually leave behind a solid operation run by domestic talent.

"It takes five years to become an exceptional driller with experience in all kinds of situations," Versfelt said. "But we are showing our people that we are investing in them for the long term on all levels."

### Careful expansion

As Cabo Drilling grows internationally, the tendency has been to utilize opportunities with clients it's had previously relationships with. Once an international division is established, the company focuses on finding new clients for the division. As mining's market cycle shifts back toward leaner times, finding new business can be difficult. The company has a recruiter helping to generate leads for its divisions. In good times, the recruiter focuses on finding people for divisions, such as drillers and field supervisors. In hard times, the company has the flexibility to switch the recruiter's focus from finding people to finding prospective clients.

After initial growth buoyed by equity financing brought in more than \$10 million by 2006, the company created a relationship with HSBC, a corporate bank that gave Cabo an initial credit line of \$4 million. It's since expanded to \$10 million, of which Cabo currently uses about half. That gave Cabo the flexibility it needed to grow. As its accounts receivable and payable increased, inventory did as well. The company invested in its drilling fleet, buying new equipment and rebuilding older assets.

"We've been able to properly manage our cash flow, credit lines with the bank, and the equity financing we obtained a couple years ago. That allowed us to grow from \$17 million to \$58 million in revenue in four years," said Versfelt. "The markets have leveled off, but we now have the management strength and inventories in place to provide us with a strong foundation to get through difficult cycles."

Although the company was built on acquisitions, the strategy now is to focus on growth through the success of each division. While acquisitions or mergers aren't off the table in the future, they aren't currently part of Cabo's growth plans. It's in part because the average price per drill has gone up markedly over the last few years, and acquisitions are more expensive than when Cabo bought the five companies several years ago.

Cabo's goal is to remain an entrepreneurial company and grow carefully. Although it may seem to some like its rapid growth during the last few years has been risky, the company managed to avoid incurring a lot of long-term debt along the way. It built its asset base and grew working capital this year to about \$7 million with positive cash flow. But now that the company has proven its ability to excel during industry peaks, it has to demonstrate it can also do so in the valleys. The key to that is keeping its drilling contracts in place by exceeding the expectations of its customers.

"Our customers are the ones that help us exist, so we created our Raving Fans customer service program," Versfelt said. "We want to go beyond simply having satisfied customers. This program is designed to help us understand our customers' needs and wants so we can deliver a product that is as close to perfect as possible."