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HD **How the miners' drilling darling hit rock bottom**

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Fall from grace Craig Kipp's cautionary tale of how hesitancy cost the **mining** supplier

Two years ago, Craig Kipp was riding the **mining** boom as the head of the world's largest **mining** services provider, Boart Longyear.

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Fast forward to today and the former chief executive is examining the job landscape for new opportunities – and Boart is in on the brink. Reports this week that the **company** had begun talks with restructuring specialists to avoid bankruptcy sent the ASX-listed **company**'s stock plummeting 36 per cent to a record low on Wednesday .

The drilling **company**'s market cap now sits at about $40 **million**, a far cry from the $4 **billion** it peaked at in 2007.

As Kipp knows all too well, volatile industries such as **mining** and **mining** services turn around quickly.

"When I was with GE, Jack Welch always said, repeatedly, 'Unless you are on your game, you can lose a short cycle business in three months'," Kipp says.

"The drilling industry is short cycle but it is also capital intensive and very cyclical – the perfect storm."

Floated on the ASX in 2007 after being purchased by Macquarie Bank, Boart's $2.35 **billion** IPO was one of the largest of the heady years before the GFC time.

Macquarie originally held a 40 per cent **stake**, along with private **equity** firms Advent International and Bain Capital. Boart was floated just seven months after Macquarie gained control of the **company**.A case study in failure

Boart isn't the only **mining** services **company** under pressure, of course. But its incredible fall from grace is a case study in how a failure to adapt to changing conditions can destroy shareholder wealth. A decline in commodity prices and the cooling of **Chinese** demand over the past 18 months has lessened miners' demand for services such as drilling.

In the **lead**-up to the end of the 2013 financial year, more than two dozen ASX-listed **mining** services companies issued earnings downgrades.

Changes in leadership at BHP Billiton and Rio Tinto resulted in a renewed focus on cost-cutting and productivity across the industry, turning companies away from exploration and expansion.

Deutsche analyst Craig Wong-Pan says the **company** was ill-prepared and slow to act when the climate changed.

"Boart just didn't prepare its business properly for the downturn," he says. "It continued to build its inventory during 2012 and was very slow to reduce it."

Inventory peaked in 2012 at $US514 million, up from $US162 million in 2009. It now sits at $US334 million ($356 million).

"When the mining market turns, either up or down, the team does not have time to develop a new business model, hire consultants or implement the new grand strategy," Kipp says.

"You have to move. If you hesitate, you lose market share on the upside and bleed cash on the downside."

Speaking to AFR Weekend from his home in Utah, the executive, known for his frankness, seemed optimistic about his future, but was hesitant to comment on the company's.

In an August 2012 results presentation, in perhaps his most candid announcement, Kipp warned the company, shareholders and the market that the good times were over.

Less than three months later, he was sacked, with Boart explaining that it wanted someone who could better communicate with the market and improve its share price, after a 75 per cent slide in the previous six months.

"I was one of the first to say this market is changing and it is changing quickly," Kipp says. "That didn't go over well with some people.

"There is a downside to being first. As they say, the early pioneer gets all the arrows." Former Boart general manager for drilling services in the Asia Pacific region Ross Tilson says that he saw the downturn coming in early 2012.

"We noticed a gradual decline from April 2012 in line with the falling commodity price," he says.

"We started to see rigs come out of work and adjusted accordingly but we didn't begin cutting back until September 2012."Recovery hard to pinpoint

Wong-Pan says that the current market weakness isn't a permanent fixture but was reluctant to provide a time frame for recovery.

"The company does operate in a cyclical market so improvements will come at some point but it is very difficult to tell when," he says. "At this stage we are seeing no signs of improvement but the problem for Boart is that it has higher debt levels than its peers."

Boart's full-year 2013 total liabilities were just over $US1 billion.

In February, Boart reported a net loss for 2013 of $US620 million and admitted that only one-third of its fleet of drill rigs were in use.

It employed Goldman Sachs to conduct a strategic review of the business, which it said aimed to preserve the company's key divisions.

Current chief executive Richard O'Brien said at the time that he was confident the resources industry would begin to strengthen.

"While we cannot predict when our markets will recover, we have the experience of 120-plus years to know that mineral exploration spending will increase, as mining company reserves must be replenished to satisfy ongoing, worldwide commodity demand," O'Brien says.

There is speculation that the review, designed to sell assets or raise capital, may now be favouring a restructure.

Boart has denied that restructuring is the only option on the table, reiterating in a statement to the ASX this week that it is continuing to evaluate a range of options. Boart said the advisers had been involved in the review ever since it began in February.

But investors aren't listening. There was fresh pressure on the share price this week when Canadian fund manager Beutel Goodman cut its exposure by 7 million shares.

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