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Drilling for profit

Dallas' Varel International, a maker of drill bits for the oil and mining industry, is expanding its regional presence.

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NEWS

Drill bit manufacturer bores into Oklahoma

DRILLING DOWN

NAME: Varel International
BUSINESS: Oil and mining drill bit maker
HEADQUARTERS: 1434 Patton Place, Ste. 106, Carrollton 75007
OWNERSHIP: Private
TOP EXECUTIVE: Jim Nixon, president and CEO
EMPLOYEES: More than 1,000 worldwide
FACILITIES: 10
ANNUAL REVENUE: N/A
PHONE: 972-242-1160
WEB: www.varelintl.com

Varel also has plans for expansion into Denver

BY MARGARET ALLEN | STAFF WRITER

As the emerging "little guy" among giant competitors, drill bit maker Varel International is expanding its regional U.S. presence with its latest office in Oklahoma City and a new location planned for Denver.

Varel, which employs 70 at its headquarters and manufacturing site in Carrollton, is the largest independent drill bit maker after four large, publicly held manufacturers. The company competes against Smith International Inc. (NYSE: SII), Baker Hughes Inc. (NYSE: BHI), Reed-Hycalog (NYSE: GRP) and Security DBS (NYSE: HAL).

Varel is the world's fifth-largest drill bit maker for the oil and mining industries. Worldwide, the total drill bit market is worth \$1.7 billion to \$2 billion in 2006, said William Burton, Varel's vice president of sales and operations for Western Hemisphere-North.

The 59-year-old Varel doesn't disclose revenue or market share. But the company has

MATRIX MOVE: A drill bit master craftsman hand-assembles a matrix drill bit mold at Varel's Houston plant.

spent recent years working to raise its profile and improve credibility. The effort is paying off, Burton said.

"We wanted to grow the technology, improve our customer-service performance and establish ourselves as a viable option," Burton said.

In the past three years, the company's market share has doubled. Also, the sales group has doubled in size, and the customer base has expanded, he said.

The difference is noticeable, according to Rod MacKenzie, general manager and president of Pendemak Industries Ltd. in Edmonton, Canada.

"They are getting more on the leading edge of the technology and engineering side," MacKenzie said. Pendemak — which imports, supplies, stocks and sells only Varel bits — for 26 years has been the company's largest contract supplier in Canada.

"Over the last five to six years, we've been able to step into markets that we weren't able to go into before," MacKenzie said. "So it's refreshing for us."

The company, originally known as Varel Manufacturing Co., was sold by its founder in 1998 to Scots-born oil man Jim Nixon, who led the buyout team. At the time, the transaction was labeled a \$60 million deal by the Aberdeen-based *Press and Journal* newspaper. The company was sold again in June 2005 to Denver-based KRG Capital Partners L.L.C., a private equity firm. A Varel announcement said then that the company had expanded



COURTESY PHOTO

beyond North America to a global market, tripling its revenue.

KRG executives also said Varel would establish sales offices in emerging regions to support its global marketing and sales goals. KRG's Web site says Varel generates about half its revenue outside North America.

Hiring in sales office

Booming business in the "mid-continent region" — Oklahoma, Kansas, Colorado, Wyoming and Montana — is prompting Varel to expand its sales office in Oklahoma City, Burton said. Varel will boost the number of employees there from 10 to 15 in coming months, as well as add another seven or so in the field. Within the next six months, Varel also hopes to open an office in Denver, he said. In May, it opened an office in Haslet for the Barnett Shale. Other locations include regional offices in West Texas' Permian Basin, East Texas, Houston and Charleston, W.Va. The company manufactures in Carrollton, Houston, Matamoros, Mexico, and Tarbes, France.

Customers include not only major oil companies, but also large independent producers throughout Texas, Oklahoma and Colorado, Burton said.

"Varel's main focus is more application-based," he said. "We're trying to align with what our customers' objectives are. We're trying to find solutions for specific objectives instead of just pulling something off the shelf."

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