Michael Hill polishes expansion plans

Catie Low

Key points

New Zealand jeweller maps out ASX listing and major expansion for second brand.

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New Zealand jewellery business Michael Hill is mapping out a major Australian and North American expansion for its second brand, Emma & Roe, as the 37-year-old business seeks shareholder approval to list on the Australian Stock Exchange.

Chief executive Mike Parsell is confident an Australian sharemarket listing will attract new investors to the retail business, which he said was one of a select group of retailers to successfully expand into North America.

About 60 per cent of the company's Michael Hill and Emma & Roe stores are in Australia, and two years ago the New Zealand-listed business switched to reporting its financial results in Australian dollars.

Mr Parsell said about 64 per cent of earnings before interest and tax were generated by its Australian stores in 2015, and this was expected to increase following the rollout of 15 Emma & Roe stores in Queensland. The jeweller has plans to expand its Emma & Roe store network to 150 outlets in Australia as it takes on fellow contemporary high-street jewellery and charm brands such as PANDORA and the recently launched Alex & Ani label.

Former PANDORA Australia president Karin Adcock launched the US Alex & Ani label just before Christmas, provoking PANDORA to warn its retailers they could not stock PANDORA as well as Alex & Ani.

Emma & Roe will operate in this fiercely competitive fashion jewellery sector, which research house IBISWorld estimates is worth about $4 billion annually and expanding at a rate of about 2 per cent a year.

The brand has a lower average price point than the flagship Michael Hill stores, which focus on traditional diamond, gold and precious-stone designs, but Michael Hill said the stores in Queensland showed customers made more frequent purchases at Emma & Roe.

Mr Parsell said the Emma & Roe range spoke to customers who wanted to express themselves through jewellery and it was divided into customer segments, such as "inspirational fashionistas and sentimentalists".

Like Pandora and the recently launched Alex & Ani, Emma & Roe has a strong focus on charms, and Michael Hill has already introduced a select product range in its US and Canadian stores, which as a region contribute about 20 per cent of the group's business. Strong sales of the Emma & Roe product will probably lead to stand-alone boutiques in the future.

Michael Hill's proposed Australian sharemarket listing is on a one-for-one basis with the stock issued through its New Zealand listing, but Mr Parsell said he was confident investors and institutions would take more notice once it was listed on the ASX.

"The company has a lot of growth potential, it's been a good story, the company has generated a lot of shareholder wealth," he said.

Solomon Lew's recipe for retail stardom

Sue Mitchell

Australia's wealthiest retailer, Solomon Lew, says retailers can learn more from walking the shop floor than by completing a management degree.

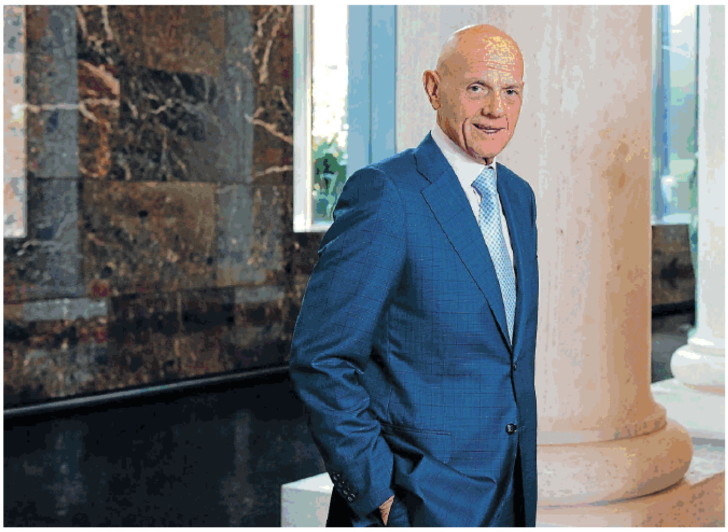
"In my companies, our senior management understands that, in retail, a degree in MBWA (Management by Walking Around) is much more valuable than an MBA," Mr Lew told the World Retail Congress in Dubai on Wednesday.

As retailing became increasingly globalised, homogenised and technology and data-driven, the concept of being close to the business and understanding how things really worked as distinct from how they should work must never be lost, Mr Lew said.

Mr Lew, 71, is the first Australian retailer to be inducted into the World Retail Congress Hall of Fame, which recognises the lifetime achievements of retail "legends".

Past inductees include Zara founder Amancio Ortega, the Arcadia Group's Sir Philip Green and IKEA founder Ingvar Kamprad.

Accepting his award, the billionaire chairman of Premier Investments and former chairman of Coles Myer said he was honoured to be recognised by his international peers, but pointed out that retail was a team effort.



Solomon Lew, 71, is the first Australian retailer to be inducted into the World Retail Congress Hall of Fame. PHOTO: JESSE MARLOW

"The nature of an honour such as this is to recognise individual achievement when, in reality, success in retail is a collaborative outcome," he said.

"When I look at the members of the Hall of Fame, I can see creative geniuses and others who have reinvented business models," he said. "But our common success lies in the ability to execute and to realise the vision, and that relies on the many talented people, at all levels of our businesses, who we work with every day."

Mr Lew said the award also recognised that the Australian retail sector had come of age and was "one of the most vibrant and competitive in the world". "A strong retail industry is the lifeblood of a strong economy and society. It has an immense economic and social multiplier effect, both before and beyond the point of sale, on so many levels," he said.

"Retail also provides the opportunity for many of us to express both our creativity and demonstrate that beyond the 'science' of retail there is also the subjective but essential 'art' of retail; the love of not only 'touching and feeling' but also truly understanding your customer, product and the ability to execute with a mix of both intuition and experience."

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Healthe in box seat for China growth

"In the past 20 years, a lot of foreign investors have looked at China. Some companies like Ramsay have tried to do [joint ventures]. Some have built hospitals to service the expats or the very rich. None of that has really worked," Mr Wang said.

"When things change in China, they tend to happen very fast. Doctors and practitioners forming their own doctor groups is something that never would have happened until last year. They are now leaving the public sector and forming their own groups, and once that gains momentum, you will see it rapidly become more westernised."

Mr Wang said the trend is moving away from big general hospitals to smaller, more specialised, service providers. He said the doctor groups striking out on their own need operational expertise.

"The government attitude has changed. All the right ingredients are there for us to take advantage and rapidly expand in China and we think Healthe Care can help us in designing and managing these hospitals," Mr Wang said.

The idea is not to parachute Australian executives into China, but to export the way Australians manage their hospitals, including finances, procurement, risk and clinical control.

"I expect you'll see, in time, structured medical programs, and we'll go up there [to China] and do training and bring middle managers down here. In clinical areas there will be doctor mentoring and nursing programs," Mr Atkins said.

Luye Medical has already started building some specialist dental and rehabilitation hospitals in China.

Alongside the longer-term China growth strategy, delivering growth in Australia is a key and more immediate goal, and Luye's ownership of Healthe Care has drastically changed its position.

Mr Liu has accelerated 10 hospital expansion projects, adding new beds, equipment and operating theatres, at a cost of about $300 million.

Healthe Care was built out of a carve-out from Ramsay Health Care's acquisition of Affinity Health in 2005-06 and grew under the ownership of private equity firms CHAMP Ventures and, subsequently, Archer Capital.

Now the company has a long-term shareholder, Mr Atkins believes it is well placed to participate in public-private partnerships, which were difficult under private equity ownership.

Relationships between Luye Medical and Australian government figures are already being developed.

On Saturday, Mr Liu, Mr Wang, Mr Atkins and NSW Health Minister Jillian Skinner will meet in Shanghai.

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Fortescue chief insists value trumps volume

production strategy that increases value as opposed to trying to push the maximum tonnes out," Mr Power said.

"We will continue to read the market. I don't think there is any justification right now for increasing volumes, or certainly not for spending any money to increase volumes. So we will stay in a very tight cash conservation mode to strengthen our balance sheet and evaluate the market going forward."

Fortescue remains open to selling minority stakes in its mining assets, although Mr Pearce stressed the miner has never believed that was necessary.

"That's probably more clear now than ever," he said. "But regardless of that, we are open to the concept. We are the only producer in the Pilbara that owns pretty much 100 per cent of everything. The others have already had, let's call it, their de-gearing event, by having joint ventures in their structures.

"We are open to it, but it [would have to be the] same criteria, it has to be a really good counter-party and at appropriate long-term value."

The miner is also assessing mergers and acquisition, but at "appropriately small" opportunities, and not just in iron ore. But Mr Pearce said "none of them in any way are distracting us from the main game".

He stressed that the miner's core focus was its iron ore business and "cash generated is going to be used to pay down debt".

Fortescue continues to chip away at costs. It shaved cash costs in the March quarter by 6 per cent – one component of a miner's break-even price and the key one it can control – to $US14.79, compared with $US15.80 in the December quarter.

Despite the rise in the Australian dollar working against Fortescue – and the broader Australian industry – Fortescue is sticking to its cash costs target of $US13 a wet metric tonne by June.

> **We are the only producer in the Pilbara that owns pretty much 100pc of everything.**
> Stephen Pearce, Fortescue Metals Group chief financial officer

The miner has said every US1¢ move in the Aussie affects costs by US18¢.

Mr Power said "ongoing reductions will be more challenging, given the strong Australian dollar and oil price".

Mr Pearce agreed. "Clearly the next dollar is going to be harder than the last dollar."

He said the biggest opportunity for Fortescue in reducing its break-even cost – currently sitting around $US32 to $33 a tonne – was finance rather than in its mining operations, particularly through reducing interest repayments.

Last month, Fortescue shocked the market in revealing it had inked a preliminary agreement with Brazil's Vale that could lead to the Brazilian iron ore giant buying a stake of 5 to 15 per cent in Fortescue, as well as stakes in its mining assets.

In the initial stage of the arrangement, the two companies will blend about 80 million to 100 million tonnes of their iron ore a year at a facility in China.

Mr Power said he expects the blending deal to be finalised within two to three months.