‘We won’t be withering’

DJs owner pledges to meet change head-on

JOHN DAGGE
RETAIL

WOOLWORTHS Holdings chief Ian Moir says there is no hiding from a “tsunami” of change pummelling the retail sector and businesses that do not confront it head on will “wither and die”.

The head of the South African retail conglomerate that owns David Jones also says it will continue to spend “what we need to” in order to build a department store chain that will thrive over the long-term. “We are in a very changing world,” Mr Moir said.

“The customer is changing, we have a tsunami of technology, there is increased competition and competition is globalising. The business models need to change.

“We are right in the middle of it and if you don’t change, if you don’t recognise it, don’t accept it, don’t change your business, adapt to the new changing world, you’re not going to succeed and as a retailer, going forward, you may not even be here.

“You either change or you wither and die and we are not going to wither and die.”

Mr Moir was speaking to *Business Daily* after David Jones revealed it had suffered a 25 per cent slide in profit to $127 million for the year to June.

It was the slimmest haul since Woolworths bought the nation’s oldest department store for $2.4 billion in 2014.

Mr Moir said David Jones had continued to win share in a market undergoing massive change.

David Jones will spend $300 million in the next few years moving its head office to Melbourne, expanding its flagship Sydney store and pushing deeper into the gourmet food sector.

It will relaunch its loyalty card program this year, combining the David Jones customer database with that of sister fashion chain Country Road, as well as overhauling its website.

“We will do the right things for the short term but more importantly we will do the right things for the long term and spend the money that we need to,” Mr Moir said.

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Angry flock to grow

GAMING

ROVIO Entertainment, the games company built around the Angry Birds franchise, is planning an initial public offering.

The Finland-based company says it is planning a float on the Nasdaq Helsinki exchange to raise about €30 million ($45 million).

Rovio said overnight Tuesday that one of the benefits of going public would be to let it use shares for potential acquisitions and to compensate employees.

Shares are expected to be offered to investors in Finland, Sweden and Denmark, along with institutional investors in Finland and internationally.

The company is best known for Angry Birds, first launched as a mobile phone game in 2009. Today, Rovio develops and publishes many games and produced 2016’s *The Angry Birds Movie* with Sony, which grossed $US350 million ($437 million) at the box office worldwide.

A sequel is in development, slated for release in September 2019. Under its new movie-rights licensing model, Rovio will not be investing any of its own capital in the production of the movie.

The company’s mobile games have been downloaded more than 3.7 billion times as of the end of June.

HEADS WILL ROLL AT LEGO

MANUFACTURING

TOY maker Lego will cut 1400 jobs, or about 8 per cent of its global workforce, after reporting a rare decline in sales and profit in the first half of the year.

The Danish group said overnight Tuesday it was preparing to “reset the company”, with a new chief executive due to take over next month.

He has the task of simplifying the privately owned business after years of high growth and expansion into new ventures such as film.

Revenue dropped 5 per cent to 14.9 billion kroner ($3 billion) in the first six months of the year, mainly as a result of weakness in core markets such as the US and Europe.

Profit slipped 3 per cent to 3.4 billion kroner.

“We are disappointed by the decline in revenue in our established markets, and we have taken steps to address this,” chairman Joergen Vig Knudstorp said.

Lego has appointed Niels B Christiansen, who headed thermostat-maker Danfoss for nine years, as its new chief executive.

MARKET WRAP

BATTERED BANKS KEEP STOCKS IN THE RED

THE Australian share market lost ground yesterday due to a broad sell-off of banks, insurers and other financials.

The benchmark ASX 200 index slid 16.5 points, or 0.3 per cent, to 5689.7 points. The broader All Ordinaries index fell 14.9 points, also 0.3 per cent, to 5752.9.

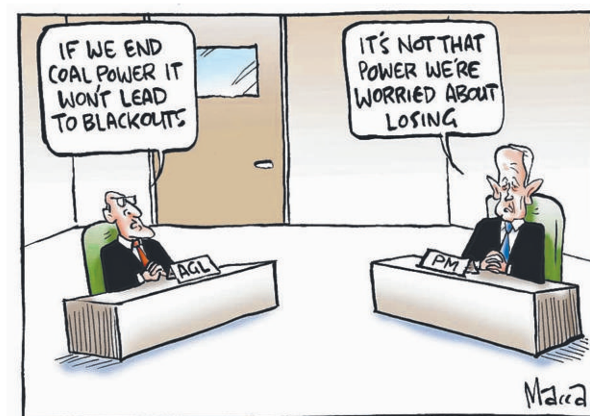
CommSec analyst Steven Daghlian said the financial sector, led by the big four banks, had fallen 2 per cent in the first week of September, on top of the 3 per cent shed in August.

“The major banks continue to weigh on the market, they failed to shoot the lights out again,” Mr Daghlian said. “In the neighbouring insurance space there are a few stocks trading ex-dividend placing broader pressure on the sector as a whole.”

The **Commonwealth Bank** was again the weakest of the banks, down 89c, or 1.2 per cent, to $73.70, **Westpac** shed 34c, or 1.1 per cent, to $30.95, **National Australia Bank** fell 20c, or 0.7 per cent, to $30.15 and **ANZ** was 15c, or 0.5 per cent, lower at $29.20.

Insurance Australia Group was trading ex-dividend and lost 25c, or 3.9 per cent, to $6.20, while **Medibank Private** fell 6c, or 2 per cent, to $3, **QBE** fell 21c, or 2 per cent, to $10.10 and **Suncorp** was 27c, or 2.1 per cent, weaker at $12.53.

Utility **AGL Energy** was 6c stronger at $23.71 as it said it had no plans to sell its Liddell power station, due to close in 2022, despite the enthusiasm of the federal government to extend the life of the plant.



DOLLARS & SENSE by MACCA

Only one ending when price-to-earnings ratios get too silly

THE SHORT CUT with ROGER MONTGOMERY

BACK in the 1960s a group of companies listed on the New York Stock Exchange called the Nifty Fifty grabbed the attention and dreams of a generation of savvy investors.

Investment advisers called these stocks “one-decision” investments, with their growth for decades assured.

Enthusiasm for their collective potential — and their blue-chip status as buy-and-hold investments — drove the so-called “go-go” years of the stockmarket in the late 1960s and early ’70s.

As a result of their almost certain growth, investors ascribed very high price-earnings ratios on these chosen few; 50 times earnings was not uncommon.

Eventually, and with the benefit of hindsight, somewhat predictably they collapsed under the weight of expectations they couldn’t possibly hope to meet. So began the bear market of the 1970s, with most of the Nifty Fifty underperforming the broader market.

Many of the Nifty Fifty not only exist today, but have also prospered handsomely.

Companies in this category include McDonald’s, Disney and Walmart.

But not all companies that were hailed as world beaters met the expectations of their investors. Xerox, Polaroid, Kodak and Simplicity Pattern hurt investors who mirrored management in their inability to foresee the changing competitive landscape’s impact on their technology and business models.

In 2000, it all happened again with the Nasdaq’s price-to-earnings ratio hitting a dizzying 150-times.

Big-cap components of the index, including Cisco, Qualcomm, Oracle and Amgen were all selling at extraordinary multiples even though many had little or no earnings and collapsed, losing all of their investors’ money.

Today the Nasdaq 100 is dominated by a few names as investors pile, indiscriminately, into index funds that care little about future prospects or value. Tech titan Apple alone accounts for 12 per cent of the Nasdaq 100 index, while Alphabet, at 9.4 per cent, Microsoft, at 8.2 per cent, Amazon, at 6.9 per cent, and Facebook, at 5.5 per cent, are the next four largest companies.

Importantly, a significant part of the gain in both the Nasdaq and the S&P 500 indices this year can be attributed to these five companies.

In the long term, however, which of the 100 companies in the Nasdaq will still dominate?

Is it possible that a few stumble causing the de-rating of many of their peers?

With Netflix, GoDaddy, Yelp and Salesforce on price-to-earnings ratios of more than 200 times, can you discern the difference between the future winners and losers?

The outcome is no mystery, only its timing and it will be essential that global investors employ fund managers who can tell the difference.

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