

SE Finance
HD **Mackenzie spurns deals to make BHP boring again**
BY DANNY FORTSON, RESOURCES
CR THE SUNDAY TIMES
WC 1,540 words
PD 17 March 2014
SN The Australian
SC AUSTLN
ED 1 - All-round Country
PG 18
LA English
CY © 2014 News Limited. All rights reserved.

LP

The CEO is focused on returns and efficiencies

ANDREW Mackenzie pinches a bottle cap between his thumb and forefinger, repeatedly picking it up and dropping it on to the walnut table. A contemplative tic.

TD

"As you get up to speed in being a proper CEO, I do find that some things are more challenging than I expected they would be," the BHP Billiton boss says in a soft Scottish accent.

"Running the business, doing the things you want to do, these are more obvious extensions of what I did before, whereas the external engagement with investors and the media is more obviously a big jump up."

We are in a sterile, paperless conference room on the top floor of BHP's headquarters in Victoria, central London. Ten months after his appointment as head of the world's largest **mining company**, the 57-year-old is still adjusting to being the front man.

Having spent a career as the power behind the throne, the prospect of talking about how he plans to cut the flab from the \$175 **billion** Anglo-Australian giant seems to have him on edge.

"If I were being honest, I'd say that I find it more challenging talking to the media," he says.

"With investors, if you are intimate with the business and know your numbers, which I usually do, you can handle them."

Professorial and understated, Mackenzie is a polyglot PhD who has made **millions** but potters around London in a Ford Fiesta. He is a **mining** boss seemingly forged for this moment in time.

The **mining** industry has returned to where it was in 2000, ignored or despised by investors. That's because executives spent the past decade frittering away **billions** on bonehead deals and expensive holes in the ground.

They were all chasing the same thing -- scale. It was needed to feed **China's** industrialisation drive, an event unprecedented in its scope and speed. It was branded the commodities "supercycle".

BHP was no exception. Marius Kloppers, Mackenzie's predecessor, launched a \$US147bn hostile bid for rival Rio Tinto just a month after he took over in 2007. That deal failed, as did two subsequent attempts to buy Rio.

The hard-charging South African later made a \$US40bn offer for fertiliser giant Potash Corporation of Saskatchewan. That also went nowhere. The takeovers he did pull off -- two shale gas deals in the US -- led to **billions** in writedowns.

In the meantime, the recession took hold. **China** hit a speed bump. Commodity prices collapsed. The top five miners wrote off more than \$US50bn on deals gone bad. And a lot of chief executives lost their jobs or moved on, including Klopfers.

Mackenzie, who ran BHP's non-**iron mining** arm for five years, was among the first of the new guard. His mission is to make BHP boring again. The mega-deals and corporate jousting of the boom years? Gone.

Productivity, capital efficiency, big data: these are the things that get Mackenzie out of bed in the morning. The empire is built, he says. "If we can get things really humming, like a perfect manufacturing operation, other opportunities might come. But, for now, (takeovers) are not something I spend much time on."

The industry will not see anything like the **China** boom again and has to get used to the new normal, he adds. "I don't think any part of the world further behind on the development path than **China** will ever get its act together on that scale. It was a once-in-a-lifetime phenomenon."

So what does that mean for the world's biggest seller of raw materials? It means Mackenzie must bide his time, sweat what the **company** already has and wait for the recovery to take hold. BHP is a big machine. It pumps **oil**, digs up **iron** and extracts **coal** on five continents and has more than 120,000 staff. So one incremental increase in efficiency across the organisation can make a huge difference. This is what gets Mackenzie animated.

Take trucks. "Across our fleet, if every truck ran 6000 hours a year instead of 4000 hours, you could measure the financial difference in nine figures. There is a lot of money at **stake** here."

He has slashed annual spending from \$US22bn (\$24.4bn) to \$US15bn. Sales have fallen, yet return on capital -- the amount of money the **company** makes for every dollar it invests -- has inched up. Last year, BHP sold assets worth \$US6.5bn, including a big Canadian diamond mine. Barbarians at the gate it is not. That suits Mackenzie just fine.

He grew up the oldest of five children in Kirkintilloch, a town near Glasgow which last year was named "the second-worst place to live in Scotland", beaten only by Kilmarnock.

"It wasn't that bad when I lived there," he chuckles. The big employers -- steelmaking and coalmining -- have since collapsed. "That's probably why it's fallen down the rankings," he says, before offering a silver lining: "The sausage skin factory is still there."

His mother was a family planning adviser and his father a GP, who would sometimes take the children on house calls at Glasgow's rough council estates.

"The 1960s was the time of the Glasgow gangs. It did inform me," Mackenzie says. "I still care a lot about the welfare of people in west Scotland."

Armed with a fierce intellect, Mackenzie left home at just 16 to study at St Andrews. By the time he finished at the age of 20, he had met his wife, Liz. While he waited for her to finish her degree, he worked as a parcels porter at Waverley station in Edinburgh.

Then his wanderings began. A PhD in organic chemistry took him to Bristol University, followed by three years of post-doctoral studies at the Institut Francais du Petrole and a stint at the nuclear research centre in Julich, Germany.

By the time he was recruited by BP, he had written more than 50 research papers. He vaulted up the group, where his achievements included writing algorithmic software that allowed BP's giant finance operation to manage interest rate risk.

He also ran the chemicals division in Chicago and managed projects from Indonesia to Alaska. When he was poached by Rio Tinto to run its industrial minerals division in 2004, he was seen as a potential successor to BP's chief executive, Lord Browne of Madingley.

"He was clearly one of the people competing for that job," says Browne, who now runs **energy** investor Riverstone Holdings. "He was a remarkable person, with a very large reservoir of intelligence and skill. The thing that was most interesting when he was with BP was his switch to understanding that you have to be radically open and transparent in modern business. He really pushed that."

When Klopfers lured him away from Rio in 2007, his former employer was furious, forcing him to take every day of his 12-month gardening leave.

Not one to lie on a beach, Mackenzie decided to learn Spanish, having already picked up German, French and Norwegian. It proved extremely helpful.

“In terms of **operations**, Spanish is the second language of the **company**,” he says. (BHP has big mines in Chile and Peru.) “When we have results I do internal webcasts, one in English and one in Spanish, and that goes down very well.”

Mackenzie may have left academia 30 years ago but he is still a scientist at heart. Whether it's how he divides his time or how he roots out inefficiencies, the chat is couched in terms of an equation. Is that how he sees it? “Absolutely. It's very numerical.”

Just as he took over, BHP finished installing a software system that measures the performance of every shovel and ship, every conveyor belt and drill. That has allowed Mackenzie and his team to set benchmarks and police them, so if a conveyor belt in Chile is running at half the capacity of one in Western Australia, they can find out why.

It may sound dull but it could pay dividends for investors. A substantial share buyback, similar to the \$US10bn program BHP launched three years ago, is on the cards once net debt is cut to \$US25bn, which could happen as soon as this northern summer.

“When we get to that number, we will have a serious and practical conversation on how we might increase cash returns to shareholders,” Mackenzie says.

And it's not as if **China**, BHP's biggest customer, has stopped growing. But the country is moving from a development economy to a consumer one. Now that the high rises are built from Shenzhen to Shanghai, the residents want fridges, TVs, iPhones and the electricity to run them.

With BHP's spread of commodities, from **iron ore** (construction), **copper** (electricity transmission) and **uranium**, **oil** and **coal** (**energy**), Mackenzie reckons it still has plenty of room to prosper, regardless of where the cycle turns next. “In the next 15 years there will be a 75 per cent increase in demand for commodities, and strong growth in almost everything that we sell.”

CO bkhlp : BHP Billiton Ltd | bltpc : BHP Billiton PLC

IN i211 : Metal Ore Mining | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying

NS ccat : Corporate/Industrial News

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB News Ltd.

AN Document AUSTLN0020140316ea3h0004k