STELLA/JTG SPECIAL EDITION

Travel Daily AU
First with the news
SPECIAL EDITION Thu 29 Jul 10 Page 1
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Special edition

THIS exclusive 3-page supplementary edition of *Travel Daily* gives all the details revealed today in the Explanatory Memorandum covering the proposed merger between Stella Travel and Jetset Travelworld.

Four big holders

IF the merger is approved the combined JTG-Stella will have four major shareholders: Qantas with 29%, private equity firm CVC Asia Pacific with 26.9%, merchant bank UBS with 17.9% and Spiros Alysandratos with 12.6%.

Stella-JTG deal revealed

FULL details of the proposed merger between Stella Travel and Jetset Travelworld Group have been made public today, with the long-awaited release of the Explanatory Memorandum describing the deal (*Travel Daily* breaking news).

Described as a "merger of equals" the deal will be put into effect via the acquisition of Stella Travel by JTG, and the issuing of new JTG shares to the current owners of Stella.

"The proposed merger of Stella Travel with JTG provides a compelling opportunity to integrate two complementary travel businesses to create a significantly stronger and larger travel company," said JTG chairman Tom Dery.

Shareholders will benefit because the enlarged JTG will be able to "compete more effectively and explore growth opportunities in the Australian, New Zealand and international travel markets," he added.

On the retail side, JTG says the integrated group will also be able to better support its significantly larger agency network.

And the combined wholesale operation will enable JTG to get better pricing from suppliers.

The online development activities of each business would also be combined "to more effectively compete with other industry participants in this rapidly growing and very competitive segment of the market," Dery said.

Directors are unanimously recommending that shareholders vote in favour of the deal, saying they believe that "the future prospects of JTG would be significantly enhanced by implementation of the merger proposal".

There are further details of the deal, including never-before revealed financial information about Stella Travel, on pages two and three of this special issue.

If shareholders approve the deal it's proposed that the full merger be implemented effective from 30 Sep 2010.

Wholesale changes

THE proposed merger between Stella and Jetset Travelworld Group would provide the combined wholesale operations to "access improved pricing and inventory allocation from airline, accommodation and other travel suppliers," according to JTG chairman Tom Dery.

The Explanatory Memorandum says that JTG will be better positioned to negotiate air travel and land packages with the major providers "and pass these benefits to its retail franchise and affiliate customers".

No JTG dividend

JETSET Travelworld will suspend any dividend payment for the six months to 30 Jun 2010, in order to retain sufficient cash reserves to complete the integration of the two businesses.

The memorandum doesn't make forecasts about future dividends, saying that the payment and amount will depend on the earnings, financial condition, financing arrangements, requirements for future growth, the competitive environment and "any other factors the Directors of the enlarged JTG Group consider relevant".

In particular, major shareholders of the merged entity will include companies associated with private equity firm CVC and merchant bank UBS, who say they intend to propose that the new JTG Board "undertakes a review to determine the appropriate dividend policy for the enlarged JTG Group".

Cost synergies

THE Jetset Travelworld Group-Stella deal will have "material financial benefits through cost synergies," according to the Explanatory Memorandum giving details on the merger.

Jetset Travelworld has estimated that pre-tax benefits of at least $10 million a year can be achieved by 30 June 2012, after one-off costs of $4 million.

"These estimates are based on a detailed review of the potential cost savings areas and a robust risk assessment as to the achievement of these identified cost savings," the document says.

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Merged group staff

THE combined Stella/JTG will have about 2600 staff, with an experienced management team comprising members of both companies and led by Peter Lacaze as Managing Director.

However two of the proposed major shareholders, private equity firm CVC and merchant bank UBS, have advised that they intend to propose to the Board a "review of the staffing levels of the enlarged JTG Group".

Some staff within the group have already confirmed that they will be leaving after the merger, including Qantas Holidays gm Chris Rankin and QH sales chief Bettina Barker.

Senior Stella staff who are holding options as part of the Stella Management Employee Share Scheme will be covered by a special Deed which will see them issued Stella shares on the day before the deal completes.

Stella turnover down 10%

THE merger proposal for Stella and JTG contains a range of financial details about Stella, revealing that the company's total transaction volume for the year to 30 Jun is forecast to reach $3.3b - a 10.6% decline compared to the previous year.

The company said that the drop in airline ticket prices due to the global financial crisis had a "significant flow-on effect" impacting the profitablity of the travel distribution industry.

Stella says its forecast revenue for the year to 30 Jun is $213.8m - a drop of 13.7% on 08/09 - however cost saving initiatives implemented last year will see expenses also down 10.9%.

Staff cuts have seen employee costs down 12.2%, reflecting a comprehensive restructuring of a number of areas of the business including the consolidation of the wholesale and corporate travel divisions in NZ.

Pro-forma total pre-tax earnings for Stella for the year to 30 Jun, before impairment, are forecast to be $20.1m, down 33% on last year's $31m result.

However the results from both years were hit by massive writedowns, with the 2008/09 figure impacted by $130m, giving a net result of a $100m loss.

The expected 2009/10 result after impairment is a profit for Stella of just $2.5m, with the result affected by a further $17.6m writedown in relation to the value of intangible assets.

Stella is continuing to value its goodwill and brands at about $265 million, a carrying value which it says is supported by the "expected future cashflows of the Stella Group businesses".

The figures also reveal that 87.1% of Stella's TTV is related to its businesses in Australia, with 11.1% coming from New Zealand and the remainder from Fiji, North America, Asia and its South African HWT joint venture.

Stellla's non-recurring transaction costs associated with the merger are estimated to amount to a total of $3.6m.

15 month escrow

MAJOR shareholders in the merged company will be restricted from selling or disposing of their shares for at least 15 months after the deal is completed.

JTG says it wants to implement these escrow requirements "to provide security for JTG should it need to bring a claim under the Merger Agreements," by designing them to require the Stella parties to sell some of their JTG shares to fund any successful claims.

Expert: deal is "fair and reasonable"

ACCOUNTING firm Deloitte was commissioned to prepare an Independent Expert's Report on the merits of the merger proposal, with the consultants concluding that it's "fair and reasonable and therefore in the best interests of JTG shareholders."

The equity in JTG has been valued at betwen $133m and $145m, while the equity in Stella is valued at $132-$153m - meaning that the proposed 50/50 split in the merged group is appropriate and fair.

The independent expert has also concluded the deal is reasonable because it will provide stronger growth prospects for the businesses relative to a stand-alone basis due to increased scale, synergy benefits, enhanced commercial agreements with Qantas, and diversification of revenue streams.

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"Umbrella agreement" with Qantas

THE merger proposal includes a new "umbrella agreement" between Jetset Travelworld, Qantas and Stella Travel.

The agreement covers a number of areas, with the aim of ensuring that JTG can operate on a stand alone basis from Qantas after the deal completes.

It will facilitate a transition to arrangements directly between JTG and relevant third party suppliers and "provide for the continuation of the ordinary course of business activities of JTG and the Stella Group".

This includes a National sales agency agreement, setting out the basis upon which the merged JTG will promote Qantas products in return for financial benefits and marketing support based on performance and volume standards.

The Qantas agreement also covers a number of services such as accounts, payroll, staff travel, workers compensation and IT currently provided by Qantas and the extent to which these will be provided after the deal settles.

There's also a 'Labour recharge agreement' setting out the basis on which certain Qantas employees will be made available to JTG for the performance of "operational, financial, marketing and other roles within the businesses of QBT and Qantas Holidays post Completion".

The agreement also provides for the variation of two existing trade mark licence agreements between Qantas and Qantas Holidays, and Qantas and QBT, extending the term of the licence.

And there's also a variation to the current qantas.com agreement which deals with the use of QH and QBT content on the carrier's website.

A separate Qantas Frequent Flyer Agreement will also continue, with QF agreeing to waive any rights that it may have to terminate the agreement due to the merger.

Qantas has agreed to provide a credit of up to $3.7 million to JTG to be applied against services it provides, to be paid in monthly instalments up to 30 Jun 2011.

ACCC clearance

THE proposed merger is subject to a number of conditions, including written confirmation from the Australian Competition and Consumer Commission that it will not object to the proposal.

JTG and Stella said they have made submissions to the ACCC detailing why the pact will not "result in a substantial lessening of competition in any relevant market."

The ACCC has indicated that it anticipates completing its enquiry on 12 Aug, with a formal decision announced on 02 Sep "although this time line can change".

The Explanatory Memorandum also points out that "the parties can always agree that this condition can be waived".

Subject to finance

THE merger deal is subject to a financing deal, under which either Stella and JTG can reach an agreement with external financiers to refinance the Stella Debt currently funded by shareholder Swiss bank UBS of about $90 million; or consent by UBS to roll over the debt to JTG.

Times still tough

FINANCIAL information about JTG contained in the Explanatory Memorandum confirms that trading conditions have still not returned to levels before the global financial crisis.

JTG is predicting a pre-tax pro-forma profit of $23.3m for the year to 30 Jun 2010, down 18% on the same period last year.

Wholesale transaction values are down 17% - of which more than a third is related to the loss of the Flight Centre business.

Wholesale has also been hit by $9m in one-off costs including settlement of disputed accounts and an an onerous lease provision.

Business travel TTV is forecast to be down 27% due to reduced corporate travel activity and lower ticket prices.

The one bright spot is the retail division, with total transaction volume from JTG's franchised and affiliated retail network forecast to be up 10%, with more agency members and the collective purchasing agreement with Travellers Choice "substantially offsetting the impact of the global financial crisis".