

# FINANCIAL REVIEW

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HD **Virgin to keep majority stake in Velocity**  
BY Jamie Freed  
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Virgin Australia Holdings will maintain a majority stake in its Velocity loyalty business even if part-owner Affinity Equity Partners chooses to exit its 35 per cent stake via a float or trade sale three years from now, says Velocity chief executive Neil Thompson.

Virgin last week revealed to new bondholders that Affinity could choose to exit three years after the \$336 million purchase closed last month, although Virgin would have the first right of refusal in certain circumstances and would also have the right to participate in Affinity's exit mechanisms.

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Mr Thompson said it was too early to say whether a float or trade sale of part of Velocity was likely.

"It is very, very early days to say what might or might not happen," he told The Australian Financial Review on Monday after Velocity unveiled a new partnership with petrol retailer BP. "I think in these types of deals, you always build in options. As for what happens, who knows? It is a volatile industry. Virgin will retain a majority stake."

Mr Thompson exited the Velocity board in the wake of the Affinity deal but Virgin CEO John Borghetti is the chairman. The other members include Virgin chief financial officer Sankar Narayan, Sydney-based Affinity partner Brett Sutton and Hong Kong-based Affinity chairman Kok-Yew Tang.

Rival Qantas Airways in August announced it would keep full control of its frequent flyer program after investigating a potential float of a minority stake. But Virgin believes having a partner could help it grow its program from 4.5 million members to 7 million by 2017. Qantas has 10.3 million members in its loyalty program, which is much older than Velocity. Rewards for filling up

The new partnership with BP will allow Velocity members to earn points when buying petrol and retail items at the oil company's 1400 service stations across Australia. It will be Virgin's first points-earning partnership for everyday spending, along the lines of the deal Qantas has with retailer Woolworths, although Velocity members can also earn points on purchases through linked credit cards.

Details of how Velocity members will earn points with BP will be announced before the program begins in the first quarter of next year. Mr Thompson said options included basing it on dollar spending or on the number of litres of petrol purchased.

"We did customer research ahead of this that confirmed certainly that this would be an attractive offer – not only for their customers but also for our members," Mr Thompson said.

"For our members, the key things were it was a category that is of a lot of interest to people, not surprisingly. The unique feature of airline programs versus other programs is that accumulation effect, where you can earn points at multiple channels. And if you use your credit card you can be double-dipping across all of it as well."

Mr Thompson said Velocity would continue to unveil new partnerships to make the program more attractive. It will also consider raising debt financing to help it further invest in technology, marketing and more employees.

He said the Velocity website would also add more features, such as being able to redeem points through bookings from all of the program's airline partners.

"There is a program of work that is going to be delivering things progressively through the coming months," he said.

The reporter travelled to Melbourne as a guest of Virgin Australia.

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