
Corporate Profits and Society Benefits

"The Westpac Scholarship Program is an initiative of the Westpac Bicentennial Foundation. The Foundation is celebrating Westpac's 200th anniversary in 2017 with a \$100 million gift to future generations of Australians. With the sole aim of educating and advancing Australians, we'll ensure those with a passion to contribute to our nation's growth and prosperity have every chance to do so."

----- bicentennial.westpacgroup.com.au

"Walk extra miles for others."

"Dear Clients,

When Jetstar*¹ launched its first operations in 2004, air tickets from Melbourne to Sydney were advertised for just \$29 one way, the sensational price was the talk of the town. As I had some relatives visiting Melbourne from overseas, we decided to take advantage of the lowest ever fare and take a quick trip to Sydney for sightseeing. Luckily (unlucky) we were able to book 7 tickets from Avalon airport to Sydney.



National Museum of Australia, Canberra

What we didn't realize was Avalon airport was really far away, about 70km away from home (compared to 30km to Melbourne airport) and it was also a rainy day. It took us 1 hour 40 minutes to drive there. The departure time was 9am, and we rushed to the check in counter at 8:03am, thinking we might just make it as the airplane from Sydney had not yet landed. Extremely disappointed, we were told by an unfriendly assistant that check in must be one hour before the

departure time and that we would have to pack and leave (of course the \$29 tickets were all forfeited).

Shocked, upset and depressed, we rushed out and hailed two taxis (as we had to park the car there for the return flights) to the Melbourne airport and paid whatever price to get onto a Virgin*² flight to Sydney, as hotel and tours had already been booked.

Anyway after a couple of nice days in Sydney, visiting the zoo, taking the Captain Cook harbour cruise lunch tour, and spending more than \$7000, we flew back to Melbourne. Even though we were still unhappy with Jetstar, as we had bought the tickets to Avalon, we used them and the return flight was uneventful. Later we discovered that everyone knew that Jetstar had adopted this rigid policy and it was a hot topic on TV. That was the humble beginning of Jetstar, it has improved a lot since then.

The point of the story is that lots of businesses depend on those cheap (or expensive) flights. It is those flights that bring life to many of the cities and inject big money into the local economies. As my Sydney Jetstar example shows, because of the cheap flight, we ended up spending more than \$7000 in Sydney for hotel, shopping and dining. All those trips added up are a big bonus for the local economy.

I can see airlines like Qantas (Jetstar) and Virgin always facing structural challenges such as high capax, big fluctuations in oil prices and so on, and sometimes it is hard to make a profit. In its 2017 half yearly result, the Virgin Group's profit before tax was \$42.3million (including its subsidiary Tiger Air's \$6.2m). Jetstar did much better with \$275 million (but that's after 12 years of up & down). You could argue some of the cheap fares are due to the airlines needing to encourage people to travel as some trips are price sensitive, they need the loading factor and they also have obligations under the government's aviation policies. ***But what we can see is that they make a much greater contribution to other people's lives and contribute a great deal to our economy compared with the level of the profit they make.*** We recognize them as good corporate citizens.

How corporations produce profits for shareholders and contribute to society (which they depend on for their survival) is a big question for their CEOs and boards.

New technologies and new business models also have a great impact on our society. For example WhatsApp and We Chat (a Chinese version of WhatsApp, with more functions) you can basically get many things for free, such as making free video-phone calls or chat with people. Google Translate can now translate many languages into English, and vice versa for free. Our society has benefitted greatly from these technological advances. I sometimes wonder how those companies can give us such wonderful things for free and still make a profit.

In some industries, they have structural advantages, and with better management, some companies become very profitable. But to what extent they need to look after the shareholders and return some benefit to the society is open to argument. Of course the basic obligations are that they need to pay their fair share of tax.

Westpac*³ (Happy 200th year old birthday in April 2017) led by Chairman Mr Lindsay Maxsted and former CEO Mrs Gail Kelly in 2014 donated \$100 million to set up the Westpac Bicentennial Foundation. That was a great initiative, and will return something back to the society it relied on, it makes great sense. We hope other companies in the sector follow this lead and make our country greater.

Best Wishes,

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Notes & Disclosure:

*¹Qantas (QAN.ASX) is the parent company of discount airline Jetstar

*²Virgin Airlines (VAH.ASX) is the parent company of discount airline Tiger Air

*³123 Investment & Growth Fund has Westpac share in the portfolio at the time of writing

123 Investment Management Pty Ltd is the Investment Manager for **123 Investment and Growth Fund (123 IGF)**. Charley Wang is the CIO of 123 IGF, he has been working in the financial industry for over 20 years, including 15 years with Morgan Stanley Wealth Management (formerly Smith Barney Citigroup).

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