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# How Corporate Travel Management is using apps to survive in a challenging market

"We've been able to win business from the global mega-agencies because we have innovative technology in the market and also that we have that personalised service," says Laura Ruffles. **Anthony Johnson**

by **Jessica Gardner**

Imagine you're a Sydney-based lawyer flying in to Melbourne for a meeting of the firm's partners. There are partners also coming in from Perth, Brisbane and Adelaide, so it would make sense for the travellers to share taxis, but no one knows anyone else's flight details.

Apathy wins and individual taxis are taken. But when the receipts get filed, showing multiple trips from Tullamarine to Collins St within minutes of each other at $70 a pop, the chief financial officer shakes her head.

Corporate Travel Management has created an app for its business travellers to use that fixes this problem, and many others. Clients love it because it helps to save them money, but in the challenging business travel market, it is exactly the sort of thing the $1.5 billion sharemarket darling needs to survive.

Since listing in 2010 CTM has wowed investors with its string of profitable acquisitions of corporate travel agents and also made chief executive Jamie Pherous very rich, with his 22 per cent holding worth about $320 million. The stock has soared from its $1 listing price to over $14 on Friday and the market is full of true believers. Not one broker has a negative rating on the stock.

But some doubters have begun to emerge with concerns that the aggressive roll-up of small agents in a fragmented industry may deliver strong headline revenue and earnings growth numbers, but it disguises deteriorating returns on invested capital and sluggish organic growth.

## Boosting returns

Global chief operating officer Laura Ruffles, who has been with the business since 2010, says the detractors are not

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considering how the company's investment in technology is boosting returns for the company.

"Customers are looking for savings from travelling more efficiently," she tells *AFR Weekend* from a hotel in Hong Kong. "We've been able to win business from the global mega-agencies because we have innovative technology in the market and also that we have that personalised service."

Ruffles estimates that since listing, even though the market has shrunk as companies tighten the purse strings for travel, the company's Australian market share has grown to about 15 per cent, from 5 per cent.

The app, provided to all CTM clients' employees, has a range of other functions including the ability to share hotel reviews, hold travel information, and alert about gate changes, flight delays, security and weather events. It also allows for direct booking of travel, but provides a forecasting tool to show cheaper flights or hotel rooms on subsequent days. Ruffles says one client was able to save 14 per cent on travel within the first quarter of using the service.

The company has also moved to take advantage of its investment in back-end booking technology by breaking into the leisure travel. Corporate Travel Management's software powers the Flybuys travel website in a joint venture with supermarket Coles. The company also benefits from bookings made through the site because increased volumes deliver better terms from tourism suppliers, like airlines and hotels, in the form of more lucrative commissions.

## Main driver

Diversification may be smart because although the Global Business Travel Association reckons business travel spend in the US will increase 3.2 per ent in 2016 and 3.5 per cent in 2017, it concedes that price, not increased travel volume, will be the main driver of that growth.

Although it started in Australia, CTM has burgeoning operations in Europe, North America and Asia. Ruffles points out that there is plenty of room to grow. "If I look in the US we're less then 1 per cent of the market there. We think we've got a lot of ground in some very large markets and there's a lot of head room to continue growing."

But some investors are readying for that growth to falter. Those who are betting the share price will fall, short sellers, control 7.7 million shares according to the latest ASIC data, or 7.9 per cent of its shares on issue. This puts CTM among the market's top 20 shorts.

Credit Suisse hedge fund sales trader Sujit Dey made his scepticism clear in a recent analysis sent to clients. Dey gave CTM a gold star for its cashflow conversion – an important marker of whether earnings growth from acquisitions is "real". But he questioned the level of organic growth once acquisitions were stripped out.

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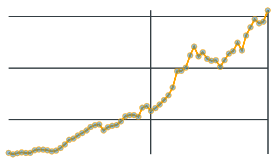

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In the first half of 2015-16, overall revenue rose 39.5 per cent to $116.9 million. Australia and New Zealand was relatively flat at 0.7 per cent, while North America and Asia jumped 26.1 per cent and 33.3 per cent respectively. But placing the magnifying glass over North America shows that once currency effects were removed, revenue growth was just 2.4 per cent and once recent acquisitions were removed, revenue went backwards by 10.3 per cent.

## Currency risk

For Asia, the mathematical boxing does not deliver such a knockout blow, showing organic revenue growth of 8.2 per cent once currency and acquisitions were stripped out. This is promising, given the GBTA has estimated the Asian business travel market is set to expand four times as quickly as the North American market and more than twice as fast as the European market.

And while Dey gives credit to the "decent" growth in Asia, he says the overall growth profile should not command such a high price-earnings multiple. CTM is trading at 25-times forward earnings.

Dey warns that if the Australian dollar stops depreciating and acquisitions stop "the company could see negative earnings growth". Although it is clear the roll-up strategy is unlikely to be abandoned, the currency is out of CTM's control.

Ruffles says the company should be judged on its full-year numbers, out in August, and its guidance for 2016-17. Even Dey says CTM should hit these targets easily, but it's beyond that point where the short sellers are forecasting an interruption to smooth flying.

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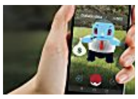
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