

**Remarks by Sam Gilliland
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Good afternoon, everyone! It's great to be here with all of you today. It's been awhile since I was here at PhoCusWright. As you might imagine, I've been busy working on Web 2.0, Travel 2.0, and more recently Long Tail 1.8... or maybe it's 1.9. Okay... apologies for a bit of my usual sarcasm to open my remarks.

It's very encouraging to look out on this room and see so many of you here! I understand this is a larger group than even last year. So, despite the grim headlines and reality about the economy – and the travel industry – the number of people in this room speaks volumes about the undeniable fact that travel will continue to be a driving force in our global economy. And I've been doing my own small part to help the economy bounce back. In the last few weeks I've been to London twice, New York, Mexico City, Chicago, of course, back home in Dallas, and now here in Hollywood. But don't get me wrong... I'm not complaining. I love to travel, for business and pleasure. There's no better way to connect with people... whether that's better

understanding another culture and its history, sharing perspectives with an important customer, or closing a business deal. Travel is the lifeblood that connects people, businesses and nations. And, as I heard TIA CEO Roger Dow say after the election two weeks ago, the travel industry is well positioned to help address two of President-elect Obama's most daunting challenges when he assumes office... namely, improving the U.S. economy and strengthening America's image around the world.

We should feel very fortunate, even in these challenging times, to be working in such an important industry, and I'm sure many of you feel the same way. Still, it's not without its challenges right now, and travel in particular is one of those segments most impacted by a down economy or recession... consumer-led or business-led. And that's what I'd like to talk about today... not the challenges per se, you get enough of that everyday over your morning coffee. But rather, how we find the opportunities in these unprecedented times. I could offer you up something you might hear from McKinsey, Bain, or BCG... that you need to migrate to some upper right quadrant. But I won't. Instead, I'll simply say... that now is the time to "Keep It Simple"... to focus on the core.

Again, the consultants will say it's time for disruptive innovation... pricing innovation, business model innovation, product innovation, service innovation, breaking through that innovator's dilemma. And those same consultants will be pleased to help you define it for a small fee. And I'll say... it's time for innovation all right, although I'll say most of the innovation will come from two things, again, keeping it simple: (1) delivering what customers are willing to pay for, and (2) driving efficiency in the way you do business.

So over the next few minutes, I'll give you my 50,000 foot view on the times we're in and a few examples of what I think we can do as we make our way through. I think there are some real opportunities to do things differently that can be positive not only for our own businesses, but also for our customers and the industry overall. And perhaps we can help out President-elect Obama – and the country's economy and the global economy – in the process.

These uncertain times

To restate the obvious, we are clearly living in a very unusual and uncertain time. We've seen difficult times before, but I think we all sense that this is a

bit different... that this downturn will be longer and harder. But this industry has proven itself to be extremely resilient. There's no question that under pressure, businesses are forced to change the way they do business in order to survive. Certainly, there will be some casualties, and we've already seen a handful; we'll no doubt see a handful or two more, here in the U.S., Europe and in Asia.

But history has also shown that during times like these, breakthrough innovations emerge that can change the course of an industry forever. Some of you in this audience know that the word "crisis," when written in Chinese, is made up of two characters: one that represents "danger," and the other "opportunity." I think that's a pretty darn good description of what we're facing today. So we ask ourselves, "How should we be managing our businesses differently... to mitigate the risk, while also taking advantage of the unique opportunities these times provide?"

I believe that if we're thoughtful about the changes we make... after all, this is not a time to panic... if we keep a long-term perspective, and if we stay focused on our customers' needs... maintain our relevance with customers... we can make our way through these times, stronger and in a better position

once the economy bounces back. That's my view anyway. Again, keeping it pretty simple.

50,000 foot view

So who among us could have imagined how this past ten or eleven months would have played out? We began the year facing some measure of economic uncertainty, mainly in the United States as a result of the looming mortgage crisis. Many wondered, "If the U.S. sneezed, would the rest of the world catch a cold?" Well it did, and we've watched that uncertainty unfold all around the world. There aren't any regions around the world that are immune to this, or at least I've not come across any. That's not what everyone predicted. It was believed by some that the emerging economies of the world – Brazil, Russia, India and China, principally – had become economically independent enough to "de-couple" their economies from the U.S. But in fact, through the recent economic turbulence, we've found that not to be the case.

And while the financial crisis is by far having the greatest impact on businesses everywhere today, I believe the most pressing issue specific to our industry has been the oil crisis we saw this summer. Now, you may be

thinking to yourself, “Sam, please, let’s not talk about oil prices, their impact on fuel prices and, therefore, the travails of the airline industry. Can we talk about something besides the airlines?” But I’ll say to you, as I said in Washington D.C. to many elected officials earlier this year, airlines are the power grid for the travel industry. And what impacts them, impacts all other segments of the industry.

So, I will continue... the price of oil was a huge problem when it hit \$140 a barrel, but even at \$55 a barrel it’s still a big problem. What we saw a few months ago can readily happen again... and it will. Oil prices went from about 15 percent of an airline’s operating expenses in the year 2000 to 40 to 50 percent this summer, and yet fares remained relatively flat over that same period. As the price of oil skyrocketed... with refined jet fuel at around \$170 a barrel... airlines were forced to do what? To innovate. You may not have recognized it as innovation, but it was. They dramatically cut expenses and capacity like we’ve never seen before and never thought was possible. In fact, I think we have seen transformational change in the discipline of at least the U.S. airline industry. And, not only was it a cost play, an efficiency play... as everyone in this room knows well, the airlines added new fees in order to survive.

And now that oil prices have come down by more than half, I suppose we can breathe a sigh of relief? Quite the contrary... I believe our entire industry will be forced to deal with the past crisis for many months – if not years – to come. We'll be forced to deal with the actions the airlines were forced to take... the innovations of the airlines.

First, the airlines cut flights to less profitable destinations. Most U.S. airlines have cut as much as 10 to 15 percent of their capacity... again... unprecedented. We've never seen that type of reduction in capacity across the U.S. airline system, not even with 9/11. During 9/11, we had many planes flying empty. Our problem, and solution, now is fewer planes flying full... that is, if demand holds. And I don't expect we'll see that capacity come back anytime soon; not until the airlines take delivery of more fuel efficient aircraft. And while the European and Asian airlines have taken less dramatic actions, their time will come as well, regardless of current oil prices. Theirs will be a demand problem as overheated economies cool down. And here's maybe the interesting thing... I actually believe that U.S. airlines are better positioned for the coming year, and perhaps for the long term, than those outside the U.S., for the first time in a long time.

Now, those capacity cuts have had – and will continue to have – an impact on follow-on businesses... back to my power grid analogy. Those that rely on airlines to bring travelers to them, whether for business or leisure, will be impacted. It's estimated that with a 10 percent reduction in airline capacity, hotels lose about four percent of their "heads in beds." Adding demand, or lack thereof, to the equation...and it looks even worse for hoteliers. And therein lies opportunity... what can we do to stimulate demand – for airlines and hotels – at a time like this? I'll get to that in a minute.

As I mentioned a moment ago, airlines also introduced new service fees in an effort to drive revenue and offset high fuel bills, and I don't expect to see those go away... ever. Again, that's an example of how businesses evolve under pressure and change the business models of the future. Like it or not, I think ancillary airline service fees are here to stay. The question is... how can the industry as a whole quickly evolve that model to what's best across the entire industry... for the airlines, for business and leisure travelers and the agencies that serve them? I'll come back to that in a minute.

But first I want to say that I think it would be a huge mistake to conclude that, because oil prices have come down, the industry is out of the woods. And in fact, we've seen more airlines go out of business, most recently several based in the United Kingdom... and I think several are in peril in Asia. There's no guarantee that oil prices won't rise again. We haven't really solved the issues that allowed them to rise in the first place. I think there will continue to be uncertainty about oil prices, as OPEC reduces supply and oil consumption continues unabated, or at least unabated over the medium and long term. While I've found no hard evidence that there is a supply and demand problem now, I am convinced there will be one in the three- to five-year time horizon.

Here in the United States, we desperately need an energy policy... one that incentivizes the development of alternative energy sources and decreases dependency on foreign oil. The U.S. must stay focused on this, and I'm encouraged that President-elect Obama has said that he wants energy independence. My concern, though, is that falling oil prices could diminish the incentive to invest in alternative fuel sources, which would be a huge mistake... leaving us at the mercy of the oil cartel.

We, at Sabre, have been very vocal in Washington this year, encouraging lawmakers to take action. Of course, the economic crisis has taken center stage for the time being, but I'm hopeful we can still get some attention on pressing energy issues, because they have a very real impact on the economy. Earlier this year I was invited to participate on the U.S Travel and Tourism Advisory Board for the Department of Commerce, and I'm now chairing its Economic Sustainability subcommittee. We've had some very lively discussions on that topic, as you might imagine. Early next year, we will recommend that Congress and the next administration take the long view and get the job done on energy policy. In addition to reducing our dependence on foreign oil, we're revisiting cap and trade policy so airlines are not whacked by new fuel taxes, and we want to accelerate the approval and deployment of the Air Traffic Control modernization. Again, I'm encouraged that Mr. Obama has cited the Air Traffic Control system as a key area of concern among the nation's infrastructure challenges... but that's still a long way away, and we need to get on with it. I'm passionate about these issues because they are critical to the future of our industry. I think they're relevant in some form or fashion to everyone here today, and I encourage you to get involved in the public debate. This is another

opportunity where we can make a difference, particularly if we let our collective voices be heard on important matters.

So we've seen how the economic crisis and the oil crisis have taken their toll. Today the big unknown is demand. Will consumers spend their discretionary dollars on travel, or will their uncertainty keep them at home on their couches? We know part of the answer already... we've seen consumer spending change pretty dramatically in the last several months. While consumer demand hasn't fallen off a cliff, it's clearly down versus last year. And business travel is challenged even further. Corporations, faced with the choice of cutting costs and improving cash flow versus going back to the bank for financing, are opting for the former. They're pulling back on every cost lever, and certainly travel is high on the list. And, the cost of business travel today is on the rise. The National Business Travel Association recently released a study of more than 230 companies. It found that a typical domestic business trip costs up to \$175 more now than it did this time last year, and an international trip could cost as much as \$400 more. And last week, they issued their forecast for 2009... they project airfares to rise seven to ten percent next year, with ancillary fees potentially

adding another five percent to base fees, which would push average U.S. domestic fares to their highest level since early 2001.

Simple Economics 101 tells us that when price goes up, demand goes down.

I read in the news recently that U.S. airlines are saying they can withstand a little drop in demand now... or a reasonably big drop, if it comes to that.

They're saying the big fall in energy prices means they'll have billions of dollars more left in their pockets in the fourth quarter and next year than they had, until recently, been expecting. And that makes sense... that is if fuel prices stay down. It's certainly a no-brainer that it's easier for an airline executive team to manage through a decrease in demand than the \$140-per-barrel oil they faced this summer. But the question is... can the same be said for the rest of the travel industry? If travel demand stays down for an extended period of time as we think it will, what will be the impact on hotels, on car rental companies, on cruise lines... on all of us right here in this room?

What we can do to weather these times

Again, I come back to this theme of "Keeping it Simple"... investing or spending for a decent ROI. Novel idea, but often forgotten in healthier

times. And here, I'll lean on Mr. Warren Buffett, who has been in the national spotlight of late, for one of his insights. He said: "Price is what you pay. Value is what you get."

Certainly I would apply that to our own business. As we advertise our products online and offline at Travelocity, lastminute.com and ZUJI, we're looking for a strong return on those investments. And while you'll see us spending a lot less... a lot less... on marketing overall next year, you can bet we'll be spending our dollars with those that deliver decent ROIs. And actually, that means we'll be spending more of our advertising dollars with those within our industry... those with relevance to our customers... those that get us value.

As I've been touring around the world of late and visiting with numerous hoteliers, I've heard a little about brand spending... something along the lines of "To Hell with Brand Spending Right Now"... and a lot more about how to get "heads in beds" even at depressed ADRs. Hoteliers are looking for real value in their online promotional spend, and it's up to this industry and us as a company – through the high ROI advertising vehicles we provide at Travelocity and through the GDS channel – to deliver customers to their

front doors. Travelocity, and OTAs more broadly, as an example, have an incredibly affluent, high-value consumer that spends four to five times more than the average online visitor across all online e-commerce. A real opportunity for advertisers. At Travelocity, we've gotten more advanced in our ability to do targeted promotions versus across-the-board discounts... that can drive a lot of volume very quickly. And back to what I said earlier about the opportunity to help drive demand for hotels during this downtime... our "Race to Savings" sale, which was held in conjunction with the Amazing Race television show, drove 40 percent year-over-year growth for participating hotels. We are also ramping up personalized email campaigns, and we're seeing a 15 percent year-over-year increase in bookings from that channel, showing that we can inspire consumers in these times with relevant offers.

Finally, I'd like to go back to the question I posed earlier about the airlines' introduction of ancillary fees or "a la carte pricing" as some call it... the question of whether the model can evolve to one that's best across the entire industry, for airlines, agencies and travelers. We look at this industry change from all three perspectives, because with our portfolio of businesses, airlines, agencies and consumers are all Sabre customers.

From the airlines' perspective, they need to generate new revenues and differentiate themselves from one another. That's straight-forward. Some are adopting new ways to price and "merchandise" their products... bundled fares, branded fares, unbundled pricing and the like. We help some of them do that today... for example, Qantas and a few others use our Branded Fares solution in the GDS and other carriers use it in their direct channels.

Midwest Airlines' launched Sabre's Pay-for-Seat capability in both the direct and indirect channels.

Some airlines are taking a pretty simple, straight-forward approach to this, while others, in my opinion, are making it very, very complex. Every airline seemingly has a different view on which is the best approach. But I would venture to say that an airline that makes it too complex may be in for a bit of a surprise. This complexity may unwittingly drive their customers away from their web site and straight into the welcoming arms of their competitors. To quote the same gentleman, Warren Buffett, he said: "There seems to be some perverse human characteristic that likes to make easy things difficult." My view, particularly in these times... is that simple will win the day.

From the travel agency and consumer perspective, our challenge – and our opportunity – really lies in how to merchandise these various travel options in multiple channels... and how to make it simple for corporations and consumers to consume those options.

Earlier this week, here at the PhoCusWright Travel Innovation Summit, we provided a glimpse into what we think will be a game-changing merchandising solution for airlines, travel agents and consumers... what we call our Attribute Based Shopping solution. This solution will make it easier for consumers to navigate the wealth of travel content that's available today, particularly as airlines both bundle and unbundle their product and service offerings. And when I say “navigate” I mean it will help them shop for an airline ticket and ancillary products based upon the amenities that are relevant to their individual travel needs.

Ultimately, consumers and corporations will decide... which says to me that we should all be working toward solutions that are in their best interests... solutions that allow them to buy products and services in the most convenient way for them, not for us. I've talked before about the need for better cooperation among the various sectors of the industry, and this is a

perfect example of where it makes sense. We certainly don't need merchandising to become "e-ticketing 2.0." Did we not learn anything from that experience?! In case I need to remind you, it took our industry 10 long years... and a lot of arm-twisting... to develop and implement a solution that worked for suppliers and buyers. I see the merchandising opportunity as very similar to e-ticketing: we can waste a lot of time and money working on one-off solutions based on self interest. Or, we can cooperate on solutions, which will be in our industry's long-term interest... because it will be in our customers' best interest. Keeping it simple.

What we all can do

So I'll wrap this up and just say that I offer these ideas as ways for you to think about the industry and your business right now. It is certainly about innovation... and we've seen examples of that over the past several days. But those innovations need to be simple. They need to meet the customer on their turf... on their mobile phones as one shining example. I think Mr. Buffett has it right... "Value is what you get." And buyers broadly, whether it's employees of a multi-national corporation or a family headed to Orlando for their once-in-a-lifetime vacation, are looking for value... very simply.

And finally, I would ask that you look just a bit further down the road than 2009... think about two and three years from now... and even decades from now... and get engaged in the debate on energy policy that's so important to us all. The opportunities are there if we look for them. As poet and philosopher Ralph Waldo Emerson said, "When it's dark enough, you can see the stars."

Thank you.