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“Industries under Stress: Updates on the troubled industry sectors of tourism and retail in the aftermath of Sept. 11.”

Slide – Opening

- Thank you, Rich. Good afternoon. I appreciate the opportunity to be here at The Washington Economic Policy Conference today.
- I’m not sure how I feel about being asked to speak on a panel called “Industries under Stress.”
- But the travel and tourism industry certainly is under stress. And we at Sabre have learned a great deal about managing through a stressful time in our marketplace.

Slide – Agenda

- First today, I’ll tell you a little more about Sabre – who we are, what we do – to give you some context.
- Then I want to spend some time focusing on the **global** and U.S. travel & tourism industries – giving you a perspective on size and influence.
- Third, I’ll discuss some of the effects of 9/11 on the travel industry -- and on Sabre.
- And finally, I’ll talk about how Sabre is working to help the travel industry recover -- and to position ourselves for the future.

SABRE

Slide – Sabre definition

- First, some background on Sabre:
- We are the leading provider of technology solutions, ... distribution ... and marketing services ... for the travel industry.
- *Our vision is to transform the business of travel through innovation.*

Slide – Sabre round-up facts

- Sabre is an S&P 500 company. We're traded on the New York Stock Exchange – under TSG.
- We're headquartered in Dallas/Fort Worth, where more than half of our 5,500 employees are based. And we have offices in 45 countries.

Slide – Sabre at a glance

- Sabre is composed of four main businesses:
- Travel Marketing & Distribution connects travel buyers and sellers by providing products and services for agencies, suppliers, corporations, and consumers. For the last eight years, we've been named the industry's best global distribution system (GDS) by World Travel Awards.
- Sabre is also No. 1 in providing airline solutions.
- Our award-winning Travelocity.com is the most popular Internet consumer travel site.
- And GetThere is the leader in providing corporations and travel suppliers with Web-based reservations systems.

Slide – Sabre connections

- Through the Sabre global distribution system (GDS), more than 60,000 travel agencies worldwide provide content from a wide array of travel suppliers, including airlines, hotels, rental car companies, cruise lines, railroads, and tour operators.

Travel & Tourism Industry Size & Scope

- With that as context, let's take a look at the worldwide travel & tourism industry.

Slide – Total Effects of Travel & Tourism Industry in 2000 – World

- The effects of travel & tourism on the world's economy are much larger than most people realize.
- Worldwide, this industry accounts for more than **\$4.5 trillion** in economic activity. That number includes everything -- airlines, airports, hotels, travel-related manufacturers, tour operators, travel agents, car rental companies, conventions and visitor's bureaus, credit card companies, and other related services.
- As one of the world's largest industries, travel & tourism is responsible for **11 percent of the world's gross domestic product**, and over **8 percent of the world's jobs**.
- Direct revenue generated by the travel industry is also impressive.
- For the **world** last year, it was around **\$641 billion** -- with the majority generated by airlines, and 35 percent by hotels.

Slide: One of the largest U.S. service exports - 2001

- In the United States, travel & tourism is one of our largest service exports.
 - \$103 billion is spent in the United States by international visitors each year.
 - \$89 billion is spent outside the U.S. by domestic travelers.
 - This creates a \$14 billion in trade surplus for the U.S.

Slide: One of America's largest employers – 2001

- The travel and tourism industry is one of America's largest employers:
 - \$174 billion in payroll income is directly generated from it.
 - 7.8 million people are directly employed by travel & tourism.
 - And 11.5 million people are indirectly employed by the industry.
 - That's 19 million total jobs -- or one of every seven people employed in the U.S. civilian labor force.

Slide: America's third largest retail sales industry - 2001

- Travel is America's third largest retail sales industry:
[Note: The largest is automotive dealers, and second largest is food stores.]
 - In the U.S., there were 1 billion domestic travelers last year.
 - And we had 51 million international visitors last year.
- That resulted in \$584 billion total expenditures -- This includes \$20.7 billion in spending by international travelers on U.S. air carriers for transactions made outside the U.S.
 - That's \$100 billion tax revenue for local, state, and federal governments.
 - \$957 more in taxes would be paid by each U.S. household without tax revenue generated by tourism.
 - And last year, spending by resident and international travelers in the U.S. averaged \$1.6 billion a day, \$67 million an hour, \$1.1 million a minute, and \$18,500 a second.
- *When the travel industry is affected, we are all affected.*

Slide – Domestic Travel Volumes in 2000 – United States

- For more mind-numbing statistics, let's look at travel **volumes** in the United States.
- Almost **25,000 domestic** flights took off on the average day in 2000 in the United States (according to the U.S. Department of Transportation). That's almost **9 million domestic flights** a year.
- Further, 2.6 million U.S. hotel rooms were occupied every day, and 1.8 million rental cars were in service.
- This is important to understand for all of the people who say, "Why don't we just implement travel security like what Israel has?"
- Israel's airline, El Al, has approximately **40 flights** per day.
- And if we extrapolate the U.S. volumes to the rest of the world, it means that in 2000:
 - Approximately 66,000 flights departed every day worldwide.
 - Roughly 10 million hotel rooms were occupied.
 - And around 3 million rental cars were in service.
- So, clearly, we are talking about a massive industry. Major security changes are being implemented -- and will continue to be implemented -- but they require large-scale planning, timing, and investment from many entities.

Effects of 9/11

- Of course, we all witnessed the tragic terrorist attacks of September 11 and their terrible aftermath.
- For Sabre, the effects were immediate.

Slide -- Daily Year over Year Growth (post 9/11)

- Sabre's bookings reached an all-time low point of down almost **73 percent** in the week following the attacks, and – with many starts and stops -- they began climbing to the point that they've been down only in the low teens for the past few months.
- Other events have caused peaks and valleys in the gradual climb back – including America's initial attacks on Afghanistan, ... President Bush's initial warning of more possible attacks, ... and Attorney General John Ashcroft warning of possible attacks.
- But the travel & tourism industry is recovering gradually, as you can see.
- And we expect the gradual recovery of the travel industry to continue throughout the year.

Slide – 2002 Bookings Growth

- For Sabre, our bookings assumption for 2002 is that total global bookings will be down 7 percent from 2001 levels. This was derived by starting the year with a current run rate of mid to low teens. We then assumed a gradual improvement throughout the year – and by the end of the year, we see positive year-over-year growth.

Slide -- Variation in Passenger Traffic (1989-2001)

- I want to try to show you the magnitude of the 9/11 attacks on the travel & tourism industry.
- This chart tracks airline revenue passenger miles (that's an airline moving one paying passenger one mile). RPMs are typically good indicators of other travel activity.
- You can see here that at the start of the **Persian Gulf War** in 1991, passenger traffic dipped around **8 percent globally** and **6 percent here in the United States**.
- Following the bombing in the **World Trade Center in 1993**, we saw a dip of **4.5 percent worldwide**, and **6.7 percent domestically** in air travel.
- The Oklahoma City bombing in 1995 didn't cause a negative dip.
- By contrast, during the quarter following Sept. 11, RPMs were down approximately **22 percent globally** -- and by **27 percent** in the United States.
- This is almost **three times** worse than the Persian Gulf War effects **worldwide**, and **four 1/2 times** worse **domestically**.

Slide -- Layoffs in the travel industry announced in 2001–U.S. & World

- We have seen a real economic impact -- in terms of lost jobs in the U.S. travel industry.
- Based on airline announcements, more than **110,000 U.S. airline employees** have lost their jobs already.
- But in the U.S. **hotel** industry, it's approximately **450,000**. Unfortunately, many of the hotel layoffs are employees in food preparation, service, and housekeeping – who can least afford to miss a paycheck.
- For the **U.S. car rental** segment, an estimated number is **30,000** people.
- The good news is the layoff trend is starting to reverse. Airlines are putting capacity back in. You can't pick up the paper now and not see a fare war. Forty flights were added in the Dallas-Fort Worth hub in just the last two weeks, for instance.
- Also, all of Latin America is back up to capacity for the major carriers and, again, heading toward 10 percent down in capacity over the next couple of months.
- On the employment front, American Airlines recently recalled 400 flight attendants, 800 reservations agents, and hundreds of airport and ramp personnel. Other airlines have followed: United Airlines brought back 1,200 flight attendants in late February, and earlier this month, Air Canada announced it was rehiring employees it had laid off after Sept. 11.

Slide – Security and predictability became primary issues for travelers

- Also since 9/11, security and predictability have become the primary issues for travelers – and as a result, for the travel industry.
- In survey after survey, travelers tell us that it will take time and **additional security** for them to get back to their previous levels of travel.
- According to a recent Triple-A survey, most Americans (72 percent) say they would accept more burdensome screening procedures, if the result were better airport security.
- Almost 70 percent say they would be willing to endure longer lines, and almost 60 percent say they would even be willing to pay an air security surcharge.
- And while we absolutely must respond as an industry to this trend, we also need a strong response from our governments.
- In a speech to the Travel Industry Association of America this month, Norman Mineta, the Secretary of Transportation, said, “No weapons, no waiting – that’s our goal.”
- To that end, Congress created the Transportation Security Administration after September 11 to manage security at U.S. airports, and it is now hiring personnel to screen passengers and baggage.
- Both government and industry are considering a variety of new systems including the *Trusted Traveler ID* card. And most travelers – especially frequent flyers – indicated in a

Travelocity.com survey that they were very receptive to this idea.

- And while experimenting with new systems continues, several wide-scale security enhancements have already been made.
 - Most North American airlines have already reinforced cockpit doors on all planes.
 - And we have seen sky marshals added to many North American routes.
- In a recent Gallup poll, eight out of ten Americans felt airport security had improved since September 11 – so there is progress.

2001 Sabre Actions

- Now, I'll tell you some of the things Sabre did immediately following the attacks – as well as what we're doing today to help the travel industry weather this storm – and come out stronger.

Travel Agencies

- Immediately following 9/11 we took several steps to help travel agencies recover:
- We relieved travel agencies of booking productivity measurements, and we waived their access fees on selected services on our computer reservations system for September through the end of 2001.
- We subsidized half of their membership fees to rejoin the American Society of Travel Agents, a group that provides educational opportunities.

Airlines

- We gave airlines booking fee credits for reservations canceled between Sept. 11 and Sept. 14.
- Our Airline Solutions group immediately implemented a security innovation called BagMatch, which matches luggage to passengers on a flight.
- Days later, we joined airlines in lobbying the U.S. government for financial assistance to airlines and other travel companies hit hardest by the terrorist attacks.

Travelers

- Within hours after the attacks, we launched Travel Bulletin Central on our *Sabre Virtually There* Web site. Travel Bulletin Central provided all travelers with up-to-the-minute details on changes in security procedures, travel alerts and restrictions,

contact information for airlines, airports, and other travel suppliers, and answers to many frequently asked questions.

Security and Convenience

- We're also continuing to do what we can to improve both security and convenience for travelers.
- We're working on a self-authenticating biometric identification card. Biometric data could be stored either in a central database or on the card itself and matched to a name when scanned at a security check-in.
- We plan to implement biometric ID into our Sabre Aerodynamic Traveler product suite and make it available this year.
- And on the convenience front, our Flight Notification service sends a wireless text message to travelers if there is a gate or terminal change, a flight departure delay, or a flight cancellation.

Cost-cutting/downsizing

- In the wake of 9/11, we updated our 2002 business plan immediately -- to get our costs more in line with reduced revenues.
- We aggressively attacked each budget and each budget line, making tough decisions across the board.
- We cut contract labor, advertising and promotions, and products with longer payback periods.
- We chose to forego pay increases for 2002.

- And the most difficult decision of all was reducing the size of our Sabre team by 470 people -- or 8 percent.
- These decisions were not taken lightly. We purposely paused to get more data and didn't move out immediately, as some of our customers and competitors had to do.
- Because we had a strong balance sheet, we were able to slug it out until the end of the year. We kept everyone on the payroll until year-end and then triggered severance.
- Did we make all the right calls? I doubt it. But we made the best calls we could with the information that was available.

Preserved capital

- Fortunately, throughout 2001, we had already been managing costs aggressively.
- With the additional expense reduction and cost avoidance steps we took after 9/11, we expect to result in full annual savings of approximately \$100 million this year.
- And we strengthened our balance sheet by paying down \$850 million in debt.

Sabre Strategy

- What's also important to note is that following 9/11, we did not alter our core strategy.
- We continued on the course we had set to redefine how travel is bought and sold in years to come. We did not hunker down. Instead, we moved forward with purpose and resolve.
- Our strategy is to serve the traveler -- to move closer and closer to the end traveler.
- We're continuing to grow our leadership position in all travel distribution channels.
- We're certainly investing in online travel. Travelocity and GetThere are the best examples of that.
- We're investing in high-value IT products and services. So, we're continuing to invest in our airline solutions -- software and reservations for airlines.
- And we're continuing to invest in innovations, some of which I mentioned earlier -- with biometrics and our Sabre Virtually There tool.

- As a reminder, here's:
 - Travelocity.com
 - GetThere
 - Airline Solutions
 - Incubation
 - Innovation -- We're building on our industry-leading technology ...
 - And we're maintaining our financial strength.

Slide - Closing

- In closing, I hope you've gained a better understanding of the size and economic impact of the travel industry -- on the world and domestically.
- September 11 will always be remembered by each of us who experienced it. And its effects will be felt in a lasting way by all travelers.
- But the industry is gradually recovering.
- And Sabre is working to lead in these efforts. The theme of our 2001 annual report – soon to be released -- is “Defining Times. Defining Company.” We believe that just as adversity reveals a person's character, stressful times reveal what a company is made of.
- At Sabre, we chose to lead in recovery efforts. And we are focused on defining how the industry will look on the other side of recovery. We believe that's what leaders do. And it's what we've tried to do since 9/11.
- Thank you.