

The State of Travel Investment in a Turbulent Financial Climate

Mike McCormick

Managing Partner, Hudson Crossing LLC

Who is Hudson Crossing?



Mike McCormick, Managing Partner

20 years experience - successfully launched, funded, bought, sold, and led companies in the travel, search and media space

MWM Capital, Cendant TDS, PhoCusWright, Biztravel.com, Rosenbluth Intl.



Tom Christopoul, Chairman

20 years+ experience leading global enterprises as Chairman, Managing Director, CEO, Chief Administrative Officer

Resources Global (CEO), Somerset Shore, Apollo, Pilot Group, Cendant, RJR-Nabisco, Pepsi-Cola,



Tom Botts, Partner

19 years of travel industry experience in the airline, hospitality and online intermediary sectors. Extensive expertise in e-commerce, marketing, revenue management and technology

Starwood Hotels & Resorts Worldwide, Hotwire.com, Delta Air Lines



Andy Hermo, Partner

20 years experience with expertise in strategy, sales, strategic account management, business development and Six Sigma process improvement disciplines

Dun & Bradstreet, Cendant TDS, ForestExpress, GE Capital, GE Lighting



George Roukas, Partner

30 years experience, in-depth expertise in product management, technology and business dev.

Travelport, Cendant TDS, PhoCusWright, Biztravel.com, Room12.com, American Express, Colgate-Palmolive Co



Ed Silver, Partner

20 years experience running Technology & Operations divisions for both start-ups and established companies, expertise in the development and operation of complex hospitality technology systems

The Silver Group, Cendant TDS, Lodging.com, Internetwork Publishing

Hudson Crossing bridges the gap between plan and performance

Advisory Services

- We have capabilities including strategy, sales, marketing, product development, and technology that are specifically designed to address the needs of owners and operators of travel assets
- Our extensive experience operating previous travel organizations means that we will hit the ground running and you won't have to "teach" us about your business

Brand Representation

- There are occasional instances where the fastest route to success in the travel industry is to completely outsource specific functions
- Because we have long standing and deep relationships with influential executives in the travel industry, we're very well positioned to represent your brand to the travel industry marketplace
- We'll quickly open doors, schedule important meetings, and close deals

Transactional Services

- We know our way around funding, due diligence, and business assessment in the travel business
- As previous travel operators we've bought, sold, and founded entirely new travel enterprises
- Whether you're a travel operator or investor, we can get to the root of the value proposition to determine its market value and probability of long-term success

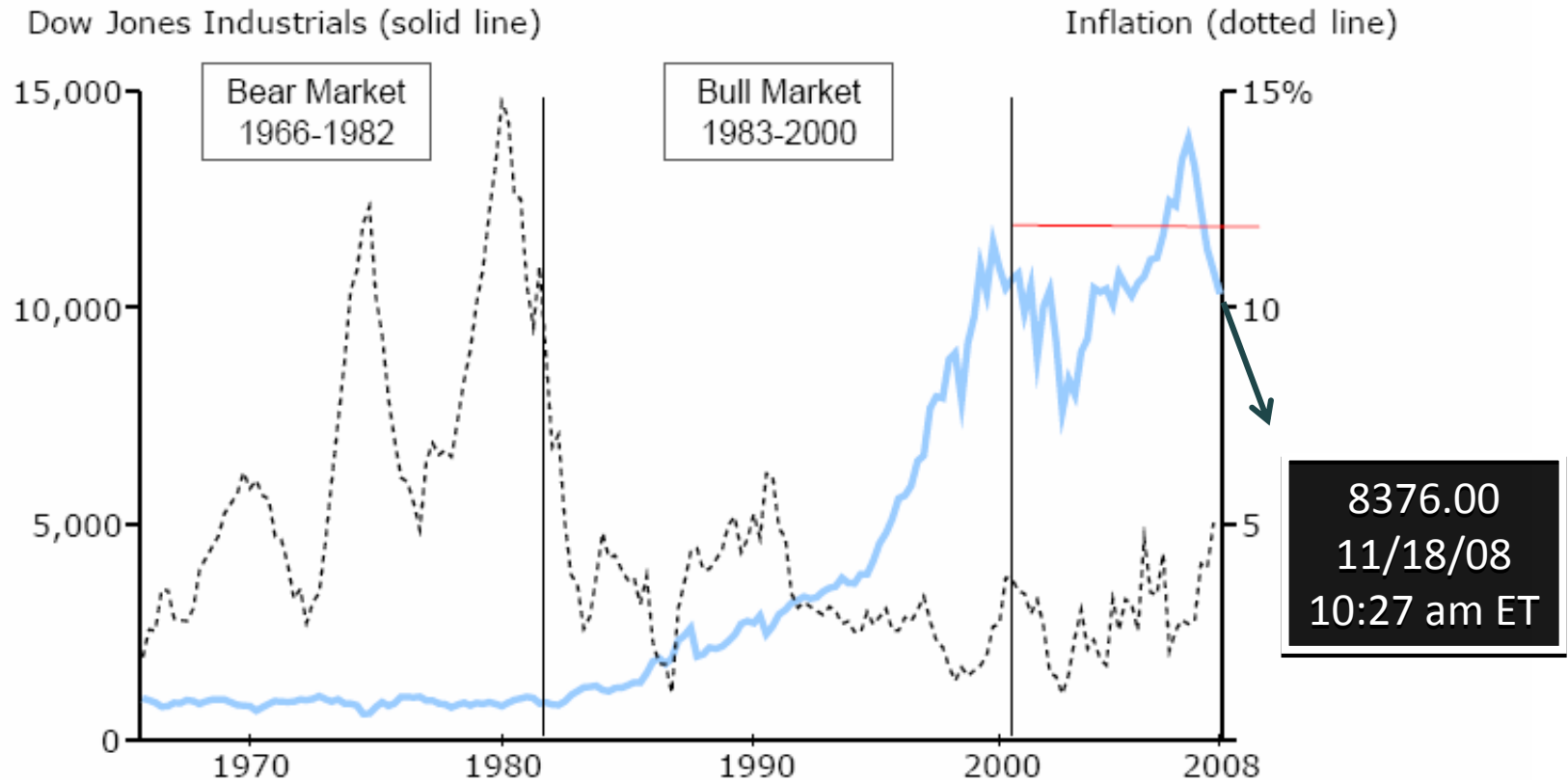
Agenda

1. Background and Perspectives
2. Market Review
3. The Hudson Crossing Travel Investment Survey
4. Predictions

Session Description

In December of 2007, Hudson Crossing predicted that investment within the travel sector would remain strong despite the prospect of a challenging credit climate ahead. As expected, 2008 has proven to be a strong year for investments in the travel sector with 30 venture deals closed ranging in size from \$3M to \$100M. A recent survey by Hudson Crossing of the venture capital and private equity community indicates that despite the challenging credit environment, investors remain bullish about the long-term prospects of travel as an investment category. Hudson Crossing reveals its 2009 predictions and highlights strategies leaders in travel should consider as part of their FY 2009 strategic plan.

What the @\$&!! just happened?



Source: Bureau of Labor Statistics, Dow Jones

A Confluence of Factors

Housing boom and bust



Consumer credit over-leveraged



Banks over-leveraged and unregulated



Ready supply of credit frozen



Dominos fall from banks to insurers to marketplace



Global economic dependencies fan the flames



Rescue and recovery

“(We are seeing) the birth pangs of a new global order.”

- United Kingdom Prime Minister Gordon Brown at the World Economic Summit, *November 15, 2008*

One Venture Capital Perspective



GET REAL OR **GO HOME**

The Skinny on Sequoia

What's right

- Sound market concepts
- Data driven analysis

What's wrong

- Self-serving messaging
- Wrong tone: Fear
- Underestimating the resiliency of entrepreneurs

Buy American

by Warren Buffett

INTERNATIONAL
Herald Tribune

- **In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary**
- A simple rule dictates my buying: Be fearful when others are greedy, and **be greedy when others are fearful**
- Most major companies will be setting new profit records 5, 10 and 20 years from now.
- Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month - or a year - from now
- In short, **bad news is an investor's best friend**. It lets you buy a slice of America's future at a marked-down price
- Over the long term, the stock market news will be good
- Today people who hold cash equivalents feel comfortable. They shouldn't
- Equities will almost certainly outperform cash over the next decade, probably by a substantial degree
- I'll follow the lead of a restaurant that opened in an empty bank building and then advertised: "Put your mouth where your money was." **Today my money and my mouth both say equities.**

The Skinny on Buffett

What's right

- Consider the source
- Calming voice in a crisis
- Perspective is valuable
- The long view is the right view

What's wrong

- Global dynamics change everything
- We didn't hit bottom (yet)
- The past is not a good predictor of our economic future

Private Equity Players: Assets Under Management (2008)

1. Carlyle	\$55B
2. Blackstone	\$43B
3. TPG	\$30B
4. Bain	\$27B
5. KKR	\$27B
6. Goldman	\$27B
7. Thomas H. Lee	\$20B
8. Warburg Pincus	\$15B
9. Madison Dearborn	\$14B
10. Apollo	\$13B
11. Tracinda	\$10B
12. Providence Equity	\$9B
13. Silverlake	\$6B

PRE-CRASH RANKINGS



2008: An Active Deal Year In Travel

Name	Firm Invested	Date	Amount	Round	Niche
Metaweb Technologies	Goldman Sachs	01/01/08	\$42,500,000	Series B	Semantic web database
Bezork	News Ltd.	01/15/08	\$20,000,000	undisclosed	Comparison shopping site.
Asia Web Direct	Wotif.com	02/08/08	Undisclosed	Acquisition	Online Hotel Booking
Holiday Watchdog	TripAdvisor	02/14/08	Undisclosed	Acquisition	Travel Information Website
Holtels4U	Thomas Cook	02/15/08	\$44,000,000	Acquisition	Online Hotel Booking
Worldby	Venere	02/05/08	Undisclosed	Acquisition	Online Booking Engine
Agoda Co.	Priceline	01/04/08	Undisclosed	Acquisition	Online Booking Engine
Starwood Hotels	Equity Group Investments	02/08/08	\$737,000,000	Stock Purchase	Hotel Supplier
iXIGO.com	BAF Spectrum	02/22/08	Undisclosed	First Round	Travel Search Engine
Cleartrip	Draper Fisher Jurvetson	2/28/2008	\$18,500,000	Third Round	Travel Search Engine
EveryScape	Dace Ventures	3/5/2008	\$7,000,000	Series B	Destination Content
TurnHere	Venrock and Hearst Interactive Media	3/10/2008	\$7,500,000	undisclosed	Internet Video
isango!	SPARK Ventures	3/17/2008	\$8,000,000	First Round	Travel Search Engine
CarRentals.com	Expedia	3/17/2008	Undisclosed	Acquisition	Online Rental Cars
Airfarewatchdog.com	Smarter Travel Media	4/2/2008	Undisclosed	Acquisition	Airfare Aggregator
G2 SwitchWorks Corp	Travelport GDS	4/7/2008	Undisclosed	Acquisition of Assets	Travel Agent Software
Triplt	Sabre Holdings	4/18/2008	\$5,100,000	Series B	Online Travel Organizer
Farecast	Microsoft	4/18/2008	\$75,000,000	Acquisition	
Travel Ad Network	Rho Ventures, Village Ventures	4/21/2008	\$15,000,000	First Round	
Cleartrip	Sherpalo, Kleiner Perkins and Draper Fisher	4/23/2008	\$18,500,000	Second Round	Travel Search Engine
VFM Interactive	Lake Capital, JLA Ventures and Centiva Capital	5/6/2008	\$13,500,000	Second Round	Online video and rich media
Rearden Commerce	JPMorgan Chase, American Express, Oak Investment Partners, Foundation Capital	5/6/2008	\$100,000,000	Unknown	Web-based personal assistant
Kizoom	Cityspace	5/19/2008	Undisclosed	Undisclosed	
TravelGuru	Expedia	6/30/2008	\$17,000,000	Stock Purchase	Online Hotel Aggregator
L'Avion	British Airways	6/2/2008	\$100,000,000	Stock Purchase	Airline
Virtual Tourist	TripAdvisor	7/2/2008	Undisclosed	Undisclosed	
Kango/ Uptake	Shasta Ventures	7/3/2008	\$3,950,000	Series A	Trip planning
Bidstork	Sabre Holdings	7/15/2008	Undisclosed	Undisclosed	Online Hotel RFP Process
Venere	Expedia	7/15/2008	Undisclosed	Undisclosed	Hotel Search Engine
Yatra & Buzzintown.com	Intel Capital	7/24/2008	\$17,000,000	Third round	Travel Portal
Concur	American Express	7/29/2008	\$251,000,000	Stock Purchase	Spend-management
IDEaS	SAS	8/4/2008	Undisclosed	Stock Purchase	Revenue Optimization
Uptake	Trinity Ventures and Shasta Ventures	9/17/2008	\$10,000,000	undisclosed	Travel Search Engine
Leonardo Media	VFM Interactive	11/5/2008	Undisclosed	Undisclosed	Hotel Content
HomeAway	Technology Crossover Ventures, Institutional Venture Partners (IVP) and Redpoint Ventures	11/11/2008	\$250,000,000	Undisclosed	Online Vacation Rentals

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Holiday Web Direct	Wotif.com	02/14/08	Undisc		
Holtels.com	Thomas Cook	02/15/08	\$44,000		
Worldby	Venere	02/05/08	Undisc		
Agoda Co.	Priceline	01/04/08	Undisc		
Starwood Hotels	Equity Group Investments	02/08/08	\$737,000		
iXIGO.com	BAF Spectrum	02/22/08	Undisc		
Cleartrip	Draper Fisher Jurvetson	2/28/2008	\$18,500		
EveryScene	Dane Ventures	3/5/2008	\$7,000		
ErnHed	Venere	3/10/2008	\$7,500		
isango	SPARK Ventures	3/17/2008	\$8,000		
CarRentals.com	Expedia	3/17/2008	Undisc		
Airfarewatchdog	Smarter Travel Media	4/2/2008	Undisc		
G2 SwitchWorx	Travelport GDS	4/7/2008	Undisc		
Triplt	Sabre Holdings	4/18/2008	\$5,100		
Farecast	Microsoft	4/18/2008	\$75,000		
TravelAd Network	Red Ventures, Wilson Ventures	4/21/2008	\$15,000		
Cleartrip	Intel Capital, PE	4/23/2008	\$18,500		
VFM Interactive	Lake Capital, JLA Ventures and Centiva Capital	5/6/2008	\$13,500		
Rearden Commerce	JPMorgan Chase, American Express, Ga Investment	5/6/2008	\$100,000		
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Kango/ Uptake	Shasta Ventures	7/3/2008	\$3,950		
Bidstock	Sabre Holdings	7/15/2008	Undisc		
Genera	PE	7/15/2008	Undisc		
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Concur	American Express	7/29/2008	\$251,000		
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Leonardo Media	VFM Interactive	11/5/2008	Undisc		
HomeAway	Technology Crossover Ventures, Institutional Venture Partners (IVP) and Redpoint Ventures	11/11/2008	\$250,000		

Year/Quarter	Number of Funds	Venture Capital (\$M)
2003	151	10,622.8
2004	210	19,144.8
2005	232	28,557.0
2006	238	31,756.4
2007	250	36,105.7
YTD 2008	178	24,326.1
1Q'06	76	6,799.0
2Q'06	81	14,529.5
3Q'06	68	5,080.4
4Q'06	69	5,347.5
1Q'07	83	6,636.8
2Q'07	83	8,641.9
3Q'07	78	8,595.5
4Q'07	85	12,231.5
1Q'08	70	6,959.2
2Q'08	76	9,247.7
3Q'08	55	8,119.2

Source: Thomson Reuters & National Venture Capital Association

- \$1.76B in identified deal volume
- \$2.55B in estimated deal volume
- Venture was most active, with corporate activity second
- Venture fundraising on the decline



A Bit Of Perspective (circa Spring 2001)

DOWJONES



Venture Capital Falls, Especially For E-Commerce

Dow Jones Warns Of Rough Quarter

Tech Losses Rippling Through Region

Year Of Pain: Layoffs, Bankruptcies, Recession and Terrorism Take Their Toll

NASDAQ's Bust Batters Investors

After The Bust, Industry Looks To Washington

Venture Capital, Withering and Dying

Meltdown Recalls Lessons of Real Estate Bust in 1980s.

The New York Times

THE WALL STREET JOURNAL.

The Hudson Crossing Travel Investment Survey

In the Third Quarter of 2008 (and again in late-October 2008), Hudson Crossing conducted a first-of-its kind survey of private equity and venture capital professionals to better understand their attitudes and bias toward investment in travel-related entities.

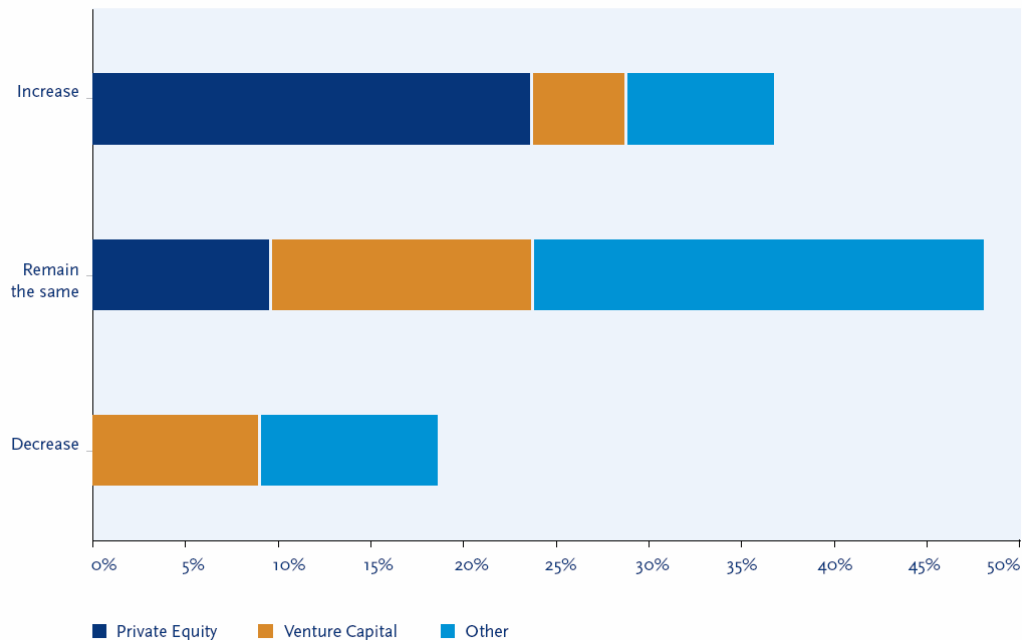
Taken together, their responses provide guidance and insight into future investment trends within the travel sector and the relative attractiveness of specific segments of the travel industry.

We solicited input from over 500 pre-qualified senior-level investment professionals. This is what they told us...

Private Equity Is (Still) Bullish On Travel

PRIVATE EQUITY IS BULLISH ON TRAVEL INVESTMENT OPPORTUNITIES

Investment Activity

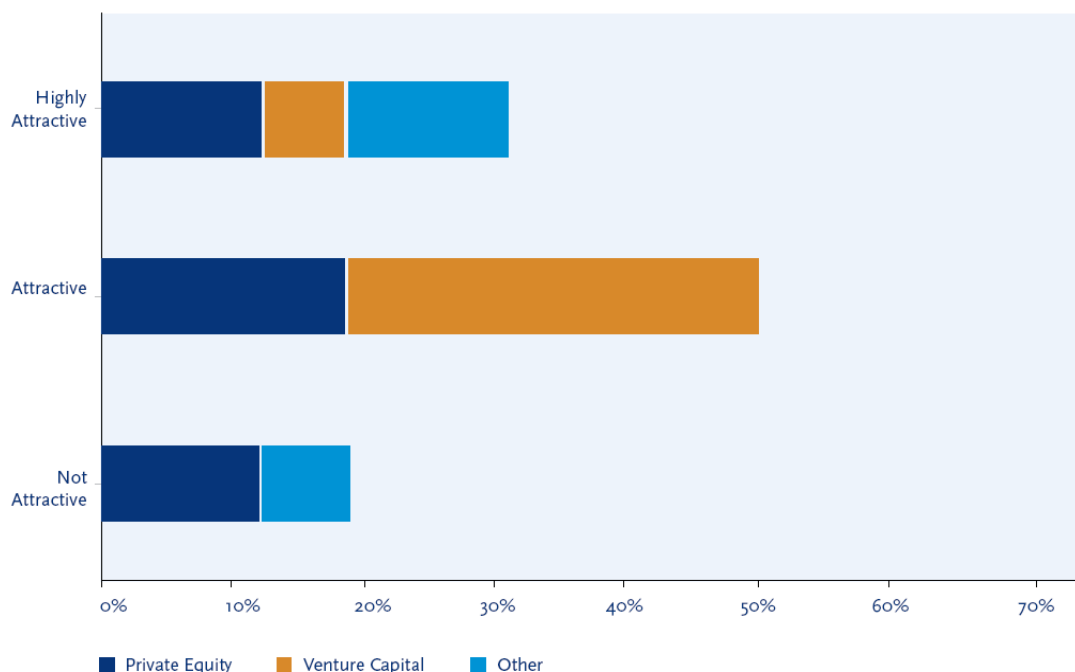


Despite lack of available debt financing, future investment interest in travel remains strong in long term

Travel Sector Remains (Relatively) Attractive

THE TRAVEL SECTOR IS HIGHLY ATTRACTIVE FOR ALL TYPES OF INVESTORS

Attractiveness of the Travel Segment



Travel sector dynamics are still fundamentally attractive to all types of investors

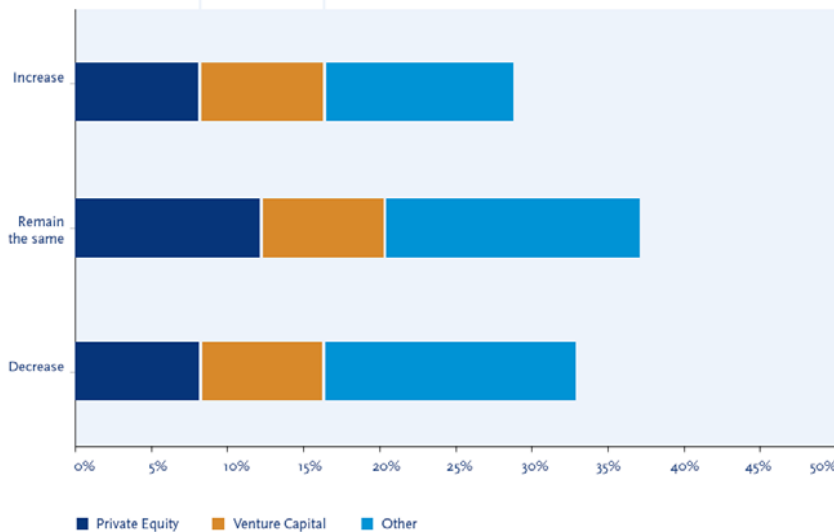
What investors liked about travel... they still like about travel

- **Large market:** The world's largest industry is still travel and tourism
- **Good foundation:** Airlines are managing capacity; hotels are poised for a decline but are better at managing ADR and occupancy tradeoffs
- **Room for innovation:** Large gap still exists between Travel 1.0 players and Travel 2.0 functionality. And there is still plenty of room for improving the effectiveness of the sites and tools that already exist!
- **Great online fit:** Over 50% of travel is booked online, with shift continuing worldwide

But as expected, expectations have been dampened considerably for the next 12 months

INVESTMENT EXPECTATIONS MIXED BECAUSE OF UNCERTAIN ECONOMY

Survey respondents expect investments in the travel sector to



Increase → Remain the same

Remain the same → **Decrease**

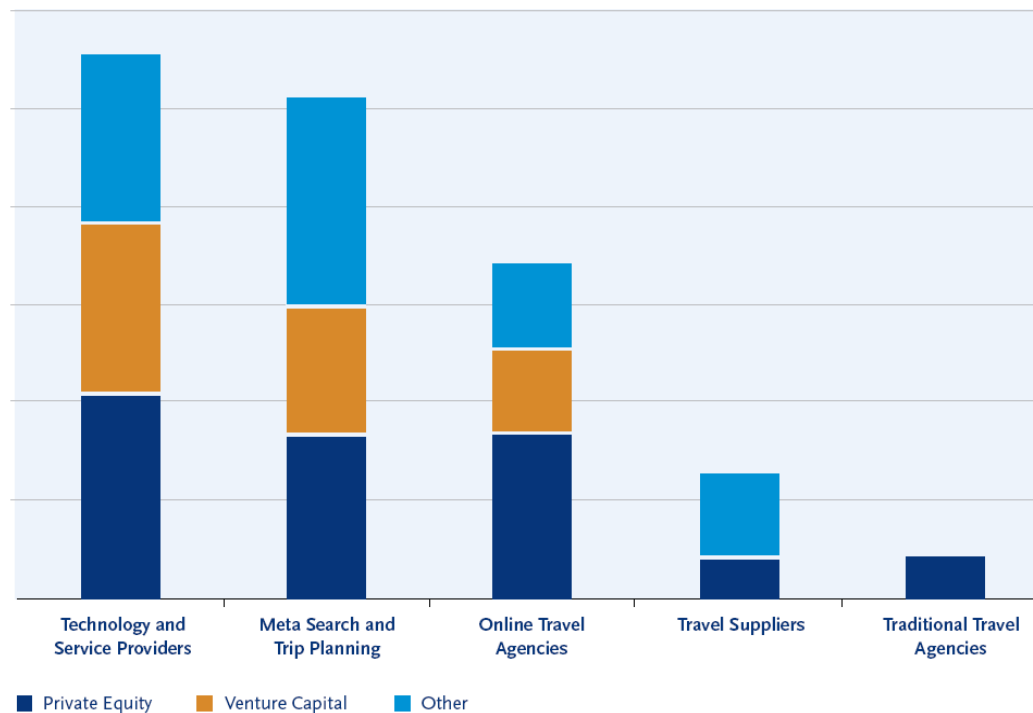
Decrease → **Substantially decrease**

Expectations about the performance of travel investments have gone from “mixed” to “dampened” between 3Q 2008 and 4Q 2008

Travel 2.0 and Technology Providers (Will Still Be) In Demand

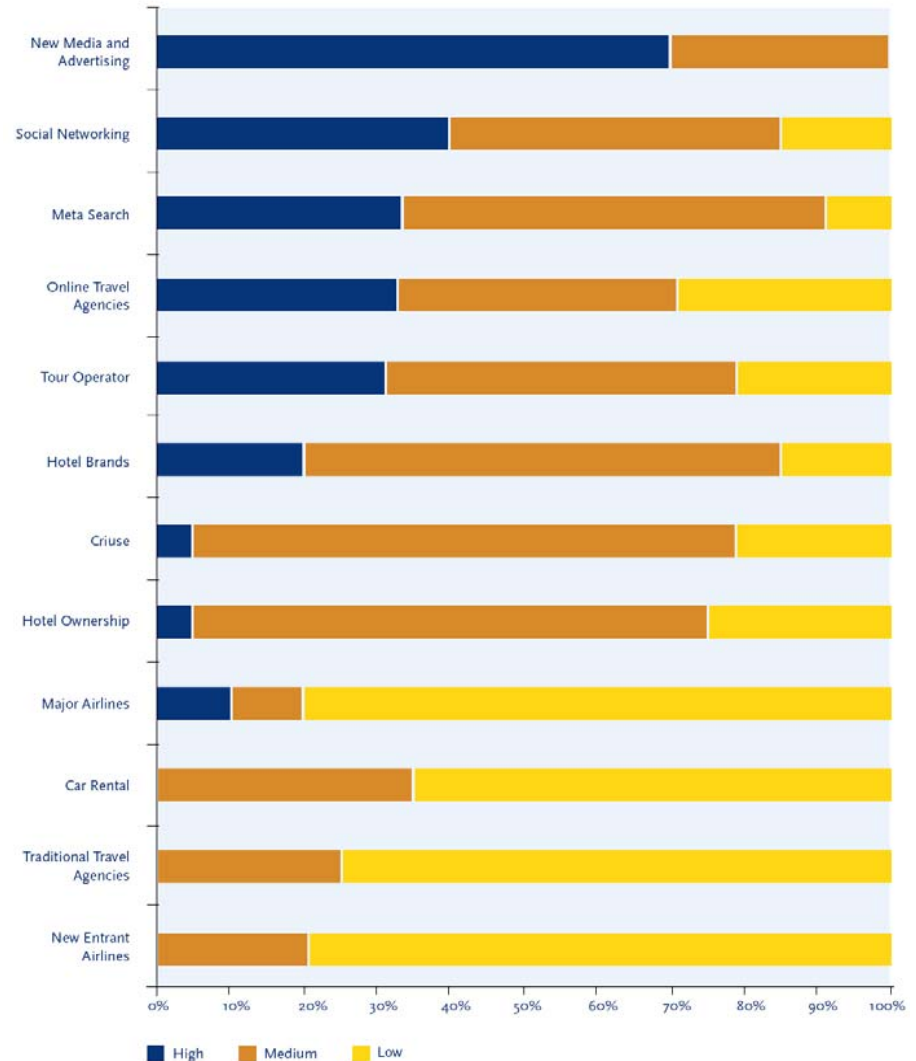
TRAVEL 2.0 INTERMEDIARY AND TECHNOLOGY PROVIDERS ARE IN HIGH DEMAND

In which travel sectors does the survey respondent expect the greatest investment?



New Media,
Advertising,
and Meta Search
(Will Still) lead the
investment categories
for two-year ROI
expectations

Expected two – year return on investment



Current Travel Investment Factors



1. Cost of a funding a startup from idea to launch remains low



2. Debt market is frozen, prohibiting significant private equity activity



3. Venture funding has been very active in 2008, but criteria for new investment are being aggressively re-evaluated



4. Travel 2.0 functionality adoption has grown, but still plenty of room for growth in the mainstream



5. The valuation gap between buyers and sellers is still too wide

“(There will be) a dip in investing over the next several quarters as the full effects of the global financial crisis take hold. We also do not see venture funding drying up. Venture capitalists have slugged through difficult times before.”

- Tracy T. Lefteroff, who oversees the venture industry for PricewaterhouseCoopers, *Mercury News*, November 6, 2008

Bridging The Valuation Gap

- Like the housing market, current travel asset valuation expectations are too high
- Corporate and venture investors are still ready to play, but will wait it out until the price is right
- Sellers must laser- focus their proposition
- Sellers must tightly manage their burn rate
- Previously tried and (sometimes) true methods could help bridge the valuation gap:
 - Earn out schedules
 - Performance incentives
 - Tiered investments
 - Convertible strategic relationships

The Hudson Crossing Outlook

A Review of Our Predictions From 2008

Trends In Travel Investment for 2008

1. The Weak Dollar Spurs Foreign Investment

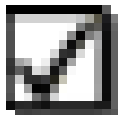
Hudson Crossing believes the weakening of the dollar will continue at least through Q308 as the economy continues to weather the negative effects of the housing sector. This continued weakening will make US travel assets particularly attractive at bargain prices for European investors and strategic buyers.

2. Hotel Market Peak



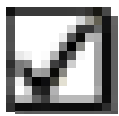
Hudson Crossing believes the hotel market will peak in 2008, with ADR and occupancy reaching a high watermark.

3. Venture Capital Investment Accelerates



Hudson Crossing believes 2008 investment levels will exceed 2007, with travel assets increasing disproportionately higher (and 2007 was an active year in the travel sector).

4. Private Equity Cools



In contrast, Hudson Crossing believes private equity investment in travel will cool in 2008, as investors and debt providers watch to see how past investments pan out.

Trends In Travel Investment for 2008

5. New Distribution Concepts

Hudson Crossing believes a similar dynamic will play out in the travel industry, where the Big Four of online travel (Expedia, Orbitz, Travelocity, Priceline) will be challenged by a new very well-funded major player in 2008.

6. Pond Crossing Doesn't Pay



Is the North Atlantic (and London Heathrow in particular) as lucrative as all the planned new capacity pouring into the marketplace seems to indicate? We predict no.

7. Green, Green Everywhere

We believe that “green marketing” in travel will be overdone, and there will be a dampening of the consumer response to green initiatives as the weight of green marketing creates the foundation of its demise.

8. The Philadelphia Phillies Win The World Series



Okay, nobody predicted this...

The Hudson Crossing Outlook

A Preview of Our Predictions for 2009



2009

A Preview Of Our Predictions

- #1: A major OTA brand will be sold.
- #2: Previously insulated from market forces, luxury travel will suffer a significant global downturn.
- #3: Corporations (instead of venture capital) will lead the investment activity.
- #4: The US airline industry, due to reductions in capacity and (relatively) lower fuel prices, will ride out the current downturn with better than expected performance (and without government subsidy).
- #5: The global hotel industry will manage this downturn better than 2002-2003, but will feel the full brunt of the economy in late-2009.
- #6: Online advertising and media oriented businesses will be the sole bright spot in short-term travel investment performance.
- #7: Mobile will begin to emerge, converge and finally arrive in travel.

The 2009 Hudson Crossing Travel Investment Predictions will be officially released in December 2008.



Hudson Crossing is a strategic advisory firm devoted to helping business owners raise the financial performance of their travel, tourism and hospitality assets.

Bridging the Gap between plan and performance

VISIT US ONLINE AT WWW.HUDSONCROSSING.COM, OR CALL US AT +1.212.845.9893

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