

# Travel Investment 2008

## Mid-Year Review



**Hudson Crossing LLC**

1133 Broadway

Suite 1025

New York, NY 10010

United States of America

+1.212.845.9893

[www.hudsoncrossing.com](http://www.hudsoncrossing.com)

[contactus@hudsoncrossing.com](mailto:contactus@hudsoncrossing.com)



## Mid-Year Review 2008

### What We Predicted: The Weak Dollar Spurs Foreign Investment

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

**What Happened:** The dollar continued to weaken as we predicted (see chart below). While there are many deals in the works, there have been very few that have closed, which is more a reflection of the condition of the debt market than it is an appetite for US travel assets.





## What We Predicted: Hotel Market Peak in 2008

**Our Thinking:** Hudson Crossing believed the hotel market would peak in 2008, with ADR and occupancy reaching a high watermark. In 2007, PriceWaterhouseCoopers predicted that U.S. lodging industry average daily rate (ADR) increases would decelerate as room supply additions accelerate, demand becomes constrained by a less robust U.S. economy, and consumers respond to the cumulative rate increases.

**What Happened:** One needs to look no further than once teflon-like Las Vegas market as an indicator of things to come in the U.S. overall. As evidenced, find this excerpt below from the Las Vegas Sands (LVS) Q1 Earning Call on May 15, 2008.

*The Venetian Las Vegas' average daily rate (ADR) was \$274, down compared to \$276 in the first quarter of 2007.*

- The Venetian's occupancy of available guestrooms decreased to 91.1%, down from 98.8% during the prior year period.
- Revenue per available room (REVPAR) at the Venetian decreased 8.4% to \$250 compared to \$273 in the first quarter of 2007. In its first quarter of operation,
- The Palazzo's ADR was \$244, while occupancy of available guestrooms was 79.1%, generating REVPAR of \$193.

...and the associated stock performance for 2008.





**What We Predicted:** Venture Capital Investment Accelerates

**Our Thinking:** Hudson Crossing believed 2008 investment levels would exceed 2007, with travel assets increasing disproportionately higher. Hudson Crossing believed the merger between Sidestep and Kayak would be a leading indicator of things to come, driving both Venture Capital investments and profitable exits in 2008.

**What Happened:** Bullseye. In the first 6 months alone there were 23 deals transacted in the online travel space. Here are the transactions of note:

- Goldman Sachs invested in Metaweb Technologies
- News Ltd. acquired Bezurk
- Wotif.com acquired Asia Web Direct
- TripAdvisor acquired Holiday Watchdog
- Thomas Cook acquired Hotels4U
- Venere acquired Worldby
- Priceline acquired Agoda Co.
- Equity Group Investments invested in Starwood Hotels
- BAF Spectrum invested in iXiGO.com
- Draper Fisher Jurvetson invested in Cleartrip
- Dace Ventures invested in EveryScape
- Venrock and Hearst Interactive Media invested in TurnHere
- SPARK Ventures invested in isango!
- Expedia acquired CarRentals.com
- Smarter Travel Media acquired Airfarewatchdog.com
- Travelport GDS acquired selected G2 SwitchWorks assets
- Sabre Holdings invested in TripIt
- Microsoft acquired Farecast
- Rho Ventures and Village Ventures invested in Travel Ad Network
- Sheralo, Kleiner Perkins and Draper Fisher invested in Cleartrip
- Lake Capital, JLA Ventures and Centiva Capital invested in VFM Interactive
- JPMorgan Chase, American Express, Oak Investment Partners, and Foundation Capital invested in Rearden Commerce
- Cityspace acquired Kizoom

We believe deal flow will slow during the summer months for a breather, and pick back up where it left off in the Fall of 2008.



### **What We Predicted:** Private Equity Cools

**Our Thinking:** Hudson Crossing believed private equity investment in travel would cool in 2008, as investors and debt providers watch to see how past investments pan out. After two record-breaking years, U.S. merger and acquisition activity will likely subside in 2008 as the credit crunch sidelines private-equity firms and an economic slowdown quells other deals.

**What Happened:** It's hard to believe, but the last major private equity deal was the acquisition of TravelCLICK in December 2007. As we predicted, the lion's share of deals transacted in 2008 have thus far been Venture Capital related. The credit crunch largely put an end to the days of easy money – buying assets with leverage and flipping them in 18 months. We believe that as goes the credit crunch and sub-prime related tightening, so goes the activity of private equity transaction in the online travel space.

---

### **What We Predicted:** New Distribution Concepts

**Our Thinking:** Despite more than 15 years of self-booking over the Internet (starting with EAASY SABRE in 1992) Hudson Crossing believed that online booking technology had yet to live up to its promise of fully replacing the scope of individualized traveler services provided by the traditional travel agent. Hudson Crossing believed the Big Four of online travel (Expedia, Orbitz, Travelocity, Priceline) would be challenged by a new very well-funded major player in 2008.

**What Happened:** The big announcement of 2008 in the online travel space that we were predicting hasn't happened... yet. Stay tuned.



### **What We Predicted:** Pond Crossing Doesn't Pay

**Our Thinking:** 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 predicted no. In short, a ton of new service at exactly the worst possible time – a soft dollar which makes Europe very expensive for Americans, tough visa and arrival headaches for visitors to the US which diminishes West bound tourism and a potential slow down in the US economy which will dampen both business and leisure demand. When these factors are coupled with massive increases in capacity we simply don't see demand following – at least not at traditional high summer yields.

**What Happened:** Another prediction right on the mark. Within aviation circles, the first-half of 2008 will be remembered as the time when new entrants such as EOS and MAXjet folded under the one-two punch of expensive oil and a weak dollar (not to mention recessionary fears). Look for more of the same in the next half of 2008.

---

### **What We Predicted:** Green, Green Everywhere

**Our Thinking:** We believed that “green marketing” in travel would be overdone, and there would be a dampening of the consumer response to green initiatives as the weight of green marketing created the foundation of its demise.

**What Happened:** It's still hard to tell where green marketing is going in the long term. There is certainly lots of fervor about “going green” thanks in large measure to the stratospheric ascent of the price of oil (not to mention Al Gore winning the Nobel Peace Prize and an Oscar). Time will tell whether green marketing in travel goes the way of the Atkins diet, or becomes ingrained as a new consideration when choosing to travel. How big is your carbon footprint?



## **About Hudson Crossing**

Hudson Crossing is a strategic advisory firm devoted to helping business owners raise the financial performance of their travel, tourism and hospitality assets. Through the execution of bold ideas, Hudson Crossing's team of experienced industry executives bridges the gap between plan and performance, helping companies achieve important growth metrics through business assessment, course correction and translating strategy into outcome. Visit Hudson Crossing online at <http://www.hudsoncrossing.com>.

### *Contact:*

Hudson Crossing  
Mike McCormick, Managing Partner  
[mike.mccormick@hudsoncrossing.com](mailto:mike.mccormick@hudsoncrossing.com)