



SEPTEMBER 2009 REPORT: HAVE WE BOTTOMED OUT?

Arguably the beginning of the recession for the hospitality industry started in September 2008, so this is a fitting time to reflect on how it is performing. On the surface, it looks like there may be signs of improvement with global reservations up year over year.

Is this a sign that performance has bottomed out? It could well be, however, once we look at 2009 figures compared to 2007 and 2008; we see that there is quite a way to go before we can say that there has been a recovery in room rates. The ADS channel in particular is still tracking below last year and substantially below 2007. The GDS channel has held up better, but it is still trailing last year and prior.

Looking forward, ADR (Average Daily Rate) appears relatively flat year over year through the last quarter of this year and the first of next. However, there may be some cause for optimism, especially on the ADS front, as recent booking patterns would suggest transactions will happen closer to arrival and so booking should be on a slight upward spiral. That said, ADR looks like it will continue to be challenged and so a slight rise in bookings year over year will not give rise to an increase in hotel revenue year over year.

GDS CHANNEL (CORPORATE TRAVEL FOCUS)

The GDS channel had a strong month in September; while net reservations were down -3.42% vs. September 2008, they increased +8.45% month over month (September 2009 vs. August 2009) and actually climbed close to +7% compared to September 2007. The ADR was the highest achieved this year at \$162. Unfortunately, despite the relative rises in ADR and net reservations for the month, the overall net revenue is down -15.22% YOY and -26.08% down YTD 2009 vs. 2008.

Looking forward for the next six months, the numbers are not terribly encouraging. October is up versus the same time last year and with the shorter lead time on bookings the picture may not be as bad from a reservations volume perspective. However, there does not appear to be any respite in sight from an ADR and therefore revenue perspective.

Global GDS (Mostly Corporate) - YTD Variances

| Month | Net Reservation CHG | Net ADR CHG | NetAvg LOS CHG | Net Revenue CHG |
|-----------------|---------------------|-------------|----------------|-----------------|
| JAN09 vs 08 CHG | (10.75%) | (17.85%) | (3.69%) | (29.47%) |
| FEB09 vs 08 CHG | (12.29%) | (20.33%) | (1.30%) | (31.10%) |
| MAR09 vs 08 CHG | (2.32%) | (21.95%) | (0.97%) | (24.57%) |
| APR09 vs 08 CHG | (12.94%) | (25.36%) | (0.77%) | (35.58%) |
| MAY09 vs 08 CHG | (12.80%) | (20.37%) | (1.70%) | (31.82%) |
| JUN09 vs 08 CHG | 0.09% | (18.27%) | (2.16%) | (20.06%) |
| JUL09 vs 08 CHG | (6.97%) | (18.26%) | (1.99%) | (25.54%) |
| AUG09 vs 08 CHG | (1.10%) | (14.95%) | (1.98%) | (17.62%) |
| SEP09 vs 08 CHG | (3.42%) | (10.79%) | (1.55%) | (15.22%) |
| YTD SEP CHG | (7.09%) | (18.87%) | (1.83%) | (26.08%) |

NORTH AMERICA GDS

GDS performance in North America continues to show positive growth in reservations volume; that's three out of the last four months with a positive growth in reservation volume.

Net reservations in September grew by +2.78% vs. 2008 and although ADR is down -9.69%, this is the first month in 2009 in which the fall has been less than -10% vs. 2008. This led to net revenues in September being down -11.03% vs. 2008 bringing YTD 2009 net revenue down -23.31% vs. 2008.

In general the movement of most of the statistics we are tracking is in a positive direction.

N. America GDS (Mostly Corporate) - YTD Variances

| Month | Net Reservation CHG | Net ADR CHG | NetAvg LOS CHG | Net Revenue CHG |
|-----------------|---------------------|-------------|----------------|-----------------|
| JAN09 vs 08 CHG | (12.39%) | (14.13%) | (4.63%) | (28.36%) |
| FEB09 vs 08 CHG | (13.61%) | (14.56%) | (4.84%) | (29.86%) |
| MAR09 vs 08 CHG | (6.05%) | (16.93%) | (4.00%) | (25.18%) |
| APR09 vs 08 CHG | (12.46%) | (16.09%) | (5.13%) | (30.40%) |
| MAY09 vs 08 CHG | (11.13%) | (16.79%) | (4.17%) | (29.26%) |
| JUN09 vs 08 CHG | 4.64% | (15.60%) | (3.25%) | (14.71%) |
| JUL09 vs 08 CHG | (5.08%) | (15.99%) | (2.86%) | (22.66%) |
| AUG09 vs 08 CHG | 2.89% | (14.19%) | (3.21%) | (14.67%) |
| SEP09 vs 08 CHG | 2.74% | (9.69%) | (4.01%) | (11.03%) |
| YTD SEP CHG | (5.81%) | (14.94%) | (4.14%) | (23.31%) |

ALL OTHERS GDS

The rest of the world's GDS performance is certainly not as strong as North America's. Net reservations actually fell further this month and are down -9.22% vs. September 2008, making the YTD decrease 8.51% vs. the same period in 2008.

However, there were some encouraging signs, namely ADR in September was "only" down -10.93% vs. Sept 2008, which was the lowest change this year to date. There was a slight increase in Length of Stay

(LOS) by +1.05% which overall meant that total net revenue for the month was, again “only” down 18.31%; this is the best comparative performance from a revenue perspective in 2009. It’s important to keep in mind that we are now making year over year comparisons to a time period that was already feeling the effects of the global recession.

All Others GDS (Mostly Corporate) - YTD Variances

| Month | Net Reservation CHG | Net ADR CHG | NetAvg LOS CHG | Net Revenue CHG |
|-----------------|---------------------|-------------|----------------|-----------------|
| JAN09 vs 08 CHG | (8.99%) | (21.34%) | (2.67%) | (30.37%) |
| FEB09 vs 08 CHG | (10.89%) | (25.61%) | 2.53% | (32.06%) |
| MAR09 vs 08 CHG | 2.01% | (27.10%) | 2.14% | (24.08%) |
| APR09 vs 08 CHG | (13.48%) | (32.41%) | 4.03% | (39.19%) |
| MAY09 vs 08 CHG | (14.60%) | (23.24%) | 1.09% | (33.76%) |
| JUN09 vs 08 CHG | (4.82%) | (19.59%) | (0.81%) | (24.13%) |
| JUL09 vs 08 CHG | (9.38%) | (20.02%) | (0.74%) | (28.08%) |
| AUG09 vs 08 CHG | (5.78%) | (14.95%) | (0.24%) | (20.09%) |
| SEP09 vs 08 CHG | (9.22%) | (10.93%) | 1.05% | (18.31%) |
| YTD SEP CHG | (8.51%) | (22.15%) | 0.79% | (28.25%) |

ADS CHANNEL (LEISURE TRAVEL FOCUS)

It appears that hoteliers who usually fill their rooms with the more lucrative corporate business travelers are turning to the leisure market to drive occupancy. The leisure market, powered by competitive shopping behavior and tools, is leading to continually falling ADR. It is worth noting that this shift to leisure is showing signs of slowing down. This strategy is working to drive bookings (up +16.38% September 2009 over 2008), but the lower ADR more than offsets the increase in reservations as we continue to see declines in YOY net revenue.

September’s net reservations growth reflects the largest monthly rise this year, giving an overall positive YTD net reservation growth of +2.09%. ADR is still down -17.29% Sept 2009 vs. 2008, however, this is the first month this has fallen below -20% (the average monthly drop has been -25%), and compares well with the overall ADR YTD 2009 vs. 2008 down -25.83%.

September saw a slight decrease in the look to book ratio (1,701 in September compared to 1,756 in August), however this is still up over September 2008, which was 1,296. This indicates that travelers are still shopping aggressively and hoteliers are keeping rates low in the market, to help make up the shortfall resulting from the decrease in corporate travelers.

The forward trend for ADS looks similar to GDS. On the face of it the variances suggest less bookings than at the same period last year, however, booking trends, especially with the discounts being offered closer to arrival, indicate that volume will be the same or greater as we finish out 2009.

Global ADS (Mostly Leisure) - YTD Variances

| Month | Net Reservation CHG | Net ADR CHG | NetAvg LOS CHG | Net Revenue CHG |
|-----------------|---------------------|-------------|----------------|-----------------|
| JAN09 vs 08 CHG | (4.21%) | (20.23%) | (5.57%) | (28.75%) |
| FEB09 vs 08 CHG | (10.88%) | (25.84%) | (5.70%) | (38.34%) |
| MAR09 vs 08 CHG | (1.56%) | (27.80%) | (5.04%) | (32.94%) |
| APR09 vs 08 CHG | (7.87%) | (27.38%) | (5.45%) | (37.15%) |
| MAY09 vs 08 CHG | (4.71%) | (25.91%) | (6.34%) | (34.12%) |
| JUN09 vs 08 CHG | 9.38% | (30.31%) | (6.56%) | (28.88%) |
| JUL09 vs 08 CHG | 9.72% | (29.30%) | (4.87%) | (26.21%) |
| AUG09 vs 08 CHG | 12.67% | (23.04%) | (4.13%) | (16.82%) |
| SEP09 vs 08 CHG | 16.38% | (17.29%) | (6.43%) | (9.86%) |
| YTD SEP CHG | 2.09% | (25.83%) | (5.75%) | (28.93%) |

NORTH AMERICA ADS

The positive trend we have seen over the past five months continues with a growth in reservations for September of +21.19% compared to the same month in 2008, giving YTD growth of +8.01%. However, the growth in reservations continues to be fuelled by low ADR, with September 2009 vs. 2008, down 17.24%, giving an overall drop of -21.54% YTD vs. YTD 2008. The net revenue change for the month is continuing to get closer to parity with last year, but as stated earlier, this is being driven by more reservations at a lower price.

N. America ADS (Mostly Leisure) - YTD Variances

| Month | Net Reservation CHG | Net ADR CHG | NetAvg LOS CHG | Net Revenue CHG |
|-----------------|---------------------|-------------|----------------|-----------------|
| JAN09 vs 08 CHG | 5.49% | (12.81%) | (7.25%) | (15.10%) |
| FEB09 vs 08 CHG | (2.77%) | (18.97%) | (7.01%) | (27.03%) |
| MAR09 vs 08 CHG | 3.97% | (21.33%) | (5.68%) | (23.04%) |
| APR09 vs 08 CHG | (1.98%) | (20.45%) | (6.44%) | (27.23%) |
| MAY09 vs 08 CHG | 0.32% | (20.29%) | (7.15%) | (25.85%) |
| JUN09 vs 08 CHG | 15.01% | (26.84%) | (7.23%) | (21.85%) |
| JUL09 vs 08 CHG | 13.92% | (27.75%) | (5.77%) | (22.31%) |
| AUG09 vs 08 CHG | 16.48% | (22.34%) | (5.31%) | (14.11%) |
| SEP09 vs 08 CHG | 21.19% | (17.24%) | (8.52%) | (7.88%) |
| YTD SEP CHG | 8.01% | (21.54%) | (6.82%) | (21.06%) |

ALL OTHERS ADS

ADS bookings from the rest of the world do not show the same recovery in volume as North America. That said, the movement is encouraging as the negative YOY variance for each of the statistics covered shrank in September.

Net reservations are down -7.27% September 2009 vs. 2008 (down -26.47% YTD 2009 vs. 2008), ADR shows some "relative" improvement down -13.26% September 2009 vs. 2008 (down -31.54% YTD 2009 vs. 2008). However, the LOS has increased by +5.82% over September 2008 to 2.05 nights. This led to net reservations being down -15.83% from September 2008 (down -50.22% YTD 2009 vs. 2008).

All Others ADS (Mostly Leisure) - YTD Variances

| Month | Net | | | |
|-----------------|-----------------|-------------|----------------|-----------------|
| | Reservation CHG | Net ADR CHG | NetAvg LOS CHG | Net Revenue CHG |
| JAN09 vs 08 CHG | (36.34%) | (29.73%) | (0.66%) | (56.90%) |
| FEB09 vs 08 CHG | (41.59%) | (36.11%) | (0.05%) | (63.77%) |
| MAR09 vs 08 CHG | (26.82%) | (39.60%) | (1.39%) | (57.29%) |
| APR09 vs 08 CHG | (34.51%) | (38.21%) | (0.20%) | (60.42%) |
| MAY09 vs 08 CHG | (30.48%) | (35.06%) | (1.38%) | (56.06%) |
| JUN09 vs 08 CHG | (20.98%) | (33.86%) | (1.82%) | (49.28%) |
| JUL09 vs 08 CHG | (17.14%) | (29.86%) | 2.93% | (40.66%) |
| AUG09 vs 08 CHG | (11.37%) | (20.94%) | 5.30% | (26.89%) |
| SEP09 vs 08 CHG | (7.27%) | (13.26%) | 5.82% | (15.83%) |
| YTD SEP CHG | (26.47%) | (31.54%) | 0.67% | (50.22%) |

FORWARD LOOKING INDUSTRY TRENDS

Looking at the bookings received for the next two quarters, the GDS, in the short term, starts off positively enough but then appears to dramatically slow down. However given the change in booking lead time, the expectation is that we will see a significant pick up closer to arrival.

FORWARD LOOKING OCT09-MAR10 - Global GDS

| Month | Net | | | |
|---------------------|-----------------|-------------|----------------|-----------------|
| | Reservation CHG | Net ADR CHG | NetAvg LOS CHG | Net Revenue CHG |
| OCT09 vs 08 CHG | 1.27% | (15.27%) | 17.69% | 0.89% |
| NOV09 vs 08 CHG | (18.52%) | (17.51%) | (2.08%) | (34.25%) |
| DEC09 vs 08 CHG | (27.60%) | (18.37%) | (4.59%) | (43.65%) |
| OCT-DEC09 vs 08 CHG | (4.20%) | (17.52%) | 12.02% | (11.58%) |
| JAN10 vs 09 CHG | (36.31%) | (20.23%) | (2.77%) | (50.83%) |
| FEB10 vs 09 CHG | (36.79%) | (17.39%) | (10.82%) | (53.87%) |
| MAR10 vs 09 CHG | (32.40%) | (18.52%) | (6.32%) | (48.40%) |
| JAN-MAR10 vs 09 CHG | (35.72%) | (19.09%) | (5.82%) | (51.26%) |

Forward looking trends are more encouraging for ADS than GDS but still reflect decreases in reservations and revenue versus the same time prior year. However, the shortened lead time we are seeing for ADS bookings should lead to much more encouraging results as we move forward.

FORWARD LOOKING OCT09-MAR10 - Global ADS

| Month | Net | | | |
|---------------------|-----------------|-------------|----------------|-----------------|
| | Reservation CHG | Net ADR CHG | NetAvg LOS CHG | Net Revenue CHG |
| OCT09 vs 08 CHG | 9.27% | (20.80%) | (2.41%) | (15.81%) |
| NOV09 vs 08 CHG | (7.25%) | (27.13%) | 2.81% | (31.30%) |
| DEC09 vs 08 CHG | (12.04%) | (30.39%) | 3.21% | (37.28%) |
| OCT-DEC09 vs 08 CHG | 4.13% | (23.93%) | (1.59%) | (22.46%) |
| JAN10 vs 09 CHG | (11.32%) | (26.95%) | 1.79% | (34.59%) |
| FEB10 vs 09 CHG | (6.28%) | (26.17%) | 1.21% | (31.37%) |
| MAR10 vs 09 CHG | (7.25%) | (21.05%) | 0.90% | (28.64%) |
| JAN-MAR10 vs 09 CHG | (8.94%) | (25.34%) | 1.47% | (32.20%) |

KEY TAKEAWAYS

The recession really started to take hold this time last year, so parity with 2008 does at least indicate that we appear to have bottomed out.

On the GDS front, North America is beating last year from a booking perspective, but ADR and therefore net revenue are lagging. This would seem to support the general view that the U.S. will lead the way out of the recession. That said, there doesn't appear to be a strong indicator in the forward-looking data that the purse strings have been fully loosened just yet.

The ADS bookings are continuing to show strong growth year over year, again led by North America. While ADR was more severely impacted through this channel, that too is starting to turn. We would expect continued growth in this channel going forward, although this isn't immediately apparent from the forward looking numbers.



Mike Kistner
President and CEO, Pegasus Solutions

A handwritten signature in black ink, appearing to read "Mike Kistner".



Ric Leutwyler, CMO, Pegasus Solutions
President, Utell Hotels & Resorts

A handwritten signature in black ink, appearing to read "Ric Leutwyler".

ABOUT PEGASUS

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