

SKY CHEFS MANAGEMENT CONFERENCE
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REMARKS BY

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SKY CHEFS MANAGEMENT CONFERENCE - 1988

FORTY YEARS IN DIFFERENCE BUSINESS, BUT
NEVER ONE LIKE THIS!

HOW DOES IT FEEL TO WORK IN SUCH A STODGY
INDUSTRY. HERE ARE JUST A FEW SELECTED
ITEMS FROM JUST THE LAST TEN DAYS.

ONE -- HELLO TRUMP SHUTTLE -- GOOD-BYE
EASTERN SHUTTLE.

TWO -- ICAHN'S FAILED BID FOR BALANCE OF
EASTERN.

THREE -- AS RESULT HE'S SOUNDING MORE AND
MORE LIKE HE WOULD SELL OFF T.W.A.

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FOUR -- AFTER FIVE YEAR OF LOSSES PAN AM
COULD CHANGE OWNERSHIP ANY DAY TO SOMEONE
WHO BELIEVES THAT CITIES AND GATES FAR
OUTWEIGH AN OBSOLETE FLEET.

FIVE -- THE GAME OF MUSICAL CHAIRS
CONTINUES TO THE POINT THAT SHOWING
ANYTHING LESS THAT FIVE AIRLINES ON YOUR
RESUME ISN'T CONSIDERED ADEQUATE. SO FOUR
MORE EXECUTIVES CHANGED CHAIRS.

YESTERDAY WAS SOME KIND OF TOPPER.
CRANDALL ANNOUNCES RECORD THIRD QUARTER
EARNINGS AND THEY TRY TO BURN DOWN THE
TOWER AT DFW TO CELEBRATE.

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YESTERDAY WAS PROBABLY A CONFUSING DAY --
HAD TO BE! FLEXIBLE BENEFITS ARE
APPEALING BUT IF YOU UNDERSTOOD IT ALL YOU
ARE CERTIFIED GENIUSES.

DO HAVE TO MAKE SOME DIFFICULT CHOICES.
YOU'VE GOT TWO YEARS TO GO BEFORE YOU FEEL
COMFORTABLE.

AND TODAY AND TOMORROW ARE GOING TO BE
DEMANDING WITH YOUR FOCUS GROUPS AS WE
DEVELOP WAYS TO MAINTAIN SKY CHEFS RAPID
GROWTH AS WE CARRY OUT OUR STRATEGIC
OBJECTIVES WHICH YOU HAVE HELPED TO
FORMULATE AND DEVELOP.

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I AM NOT REALLY GOING TO STAND HERE THIS MORNING AND GIVE YOU A LONG DRAWN OUT SPEECH. WHAT I HAVE TO SAY IS IN THE WAY OF FOOTNOTES TO THE THINGS THAT YOU'VE BEEN DISCUSSING AND DOING IN THE LAST YEAR. AND TO SOME OF THE QUESTIONS I'VE HEARD.

I'LL START WITH SOME STATEMENTS ABOUT SKY CHEFS OWNERSHIP.

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THE FIRST IS -- THAT NO INVESTOR CONSTRUCTS A LEVERAGE BUYOUT UNLESS THE INVESTOR HAS FAITH IN THE MANAGEMENT AND EXPECTATIONS OF GROWING PROFITS IN FUTURE YEARS.

SECOND -- ALL LEVERAGE BUYOUTS MUST SELL A PORTION OF THE COMPANY IN ORDER TO REDUCE THE EXCESSIVE DEBT CREATED BY THE BUYOUT.

IDEALLY, ONE WOULD LIKE TO SELL THE MOST MARKETABLE PART OF THE OPERATIONS AND KEEP THOSE PARTS THAT HAVE THE GREATEST PROFIT GROWTH POTENTIAL.

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THAT, OF COURSE, IS EXACTLY WHAT HAS HAPPENED WITH SKY CHEFS. CONCESSIONS HAVE BEEN SOLD OFF AND INFLIGHT SERVICES WITH THEIR GREAT FUTURE PROFIT POTENTIAL HAVE BEEN RETAINED.

AND IN VIEW OF CONCESSION PROBLEMS WE **CERTAINLY MADE THE RIGHT DECISION.**

AND THIRD -- ONE OF THE BEST WAYS TO **ENCOURAGE MANAGEMENT AND RECONFIRM INVESTORS SUPPORT OF THAT MANAGEMENT IS TO INCREASE THE NUMBER OF MANAGER OWNERS WITHIN THE OPERATING GROUP.**

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THAT IS EXACTLY
WHAT ONEX HAS DONE AND WE SHOULD VIEW
OURSELVES AT THIS POINT AS THE TRUE OWNERS
OF SKY CHEFS RATHER THAN AN INVESTOR LIKE
ONEX.

NOW LETS SKIP BACK IN TIME TO MY COMMENTS
TWO YEARS AGO AT THE MANAGEMENT CONFERENCE
IN ACAPULCO, I MADE THREE GENERAL POINTS
THAT I FELT YOU HAD TO FACE UP TO AS
MANAGERS OF SKY CHEFS. THEY WERE ALL
GENERAL STATEMENTS BUT I FELT THEY HAD
GREAT VALIDITY IN BUSINESS SITUATIONS SUCH
AS YOURS.

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THE FIRST POINT WAS SIMPLY THAT MANAGEMENT
INEFFECTIVENESS WAS THE SINGLE GREATEST
CAUSE OF DECLINING PRODUCTIVITY AND HIGHER
COSTS.

THE SECOND POINT WAS A COROLLARY OF THAT.
IF SKY CHEFS WAS TO MAKE MAJOR
IMPROVEMENTS IN QUALITY AND SERVICES AND
THEREFORE REDUCE COSTS, MANAGEMENT
BEHAVIOR PATTERNS HAD TO CHANGE.

AND BOTH OF THESE POINTS COULD BE COMBINED
INTO ONE SHORT SLOGAN.

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JUST AS TRUE IN 1988 AS IN 1986. AS CHARLIE BROWN SAYS -- "WE HAVE MET THE ENEMY AND THEY IS US."

YOU HAVE OBVIOUSLY RESPONDED VERY WELL TO THE CHALLENGES PRESENTED DURING THESE LAST FEW YEARS.

A QUICK LOOK AT 1988 PERFORMANCE SHOWS SUBSTANTIAL IMPROVEMENT FROM 1987 WHICH WAS SHARPLY IMPROVED FROM 1986.

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FIRST -- THERE IS MUCH BETTER QUALITY IN SERVICE AS MEASURED BY FEWER KITCHENS ON RED ALERT.

TWO -- THERE HAS BEEN A SHARP REDUCTION IN WORK-RELATED ACCIDENTS IN KITCHENS.

THREE -- THERE HAS BEEN A SHARP REDUCTION IN THE INCIDENCE OF AIRCRAFT ACCIDENTS OVER THE LAST TWO YEARS ALTHOUGH 1988 PERFORMANCE IS NOT GREAT.

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**FOUR -- THE BEGINNING OF COST IMPROVEMENTS
AS THE RESULT OF QUALITY IMPROVEMENTS --
ARE MEETING AND EXCEEDING TARGETS YOU SET
FOR YOURSELVES EARLIER THIS YEAR.**

**FIVE -- WE ARE STARTING A SOPHISTICATED
AND AGGRESSIVE DRIVE FOR NEW BUSINESS.**

**SO THAT I THINK EACH OF YOU IS TO BE
CONGRATULATED FOR THE EXCELLENT
PERFORMANCE OF 1988.**

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I JUST HOPE THIS IS NOT THE KISS OF DEATH
SINCE PROFITS ARE BEGINNING TO FALL BELOW
PLAN.

OUR WORLD, OF COURSE, CONTINUES TO CHANGE
AROUND US SO OBVIOUSLY THERE ARE FURTHER
ACTIONS NEEDED FOR 1989.

FIRST AND FOREMOST ONE -- A CONTINUED
DRIVE ON QUALITY AND SERVICE IMPROVEMENTS.
OUR WORST PROBLEM SEEMS TO BE DELTA
AIRLINES. (THIS NEVER SEEMS TO CHANGE)
AND NORTHWEST OUT OF PORTLAND.

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TWO -- INTENSIVE EFFORTS TO STRENGTHEN TRAIN AND FOCUS MANAGEMENT. GOOD MANAGEMENT COMBINES ABILITIES TO LEAD AND ABILITY TO FOLLOW. STRONGER TEAM EFFORTS ARE REQUIRED TO EXECUTE OUR STRATEGIES. MANAGEMENT HAS TO REINVENT ITSELF EVERY YEAR.

THREE -- REDUCE DEPENDENCE ON AMERICAN AIRLINES BY AGGRESSIVE MARKETING EFFORTS AIMED AT TEXAS AIR, NORTHWEST, QUANTAS AND OTHERS.

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FOUR -- AT THE SAME TIME WE MUST FOCUS VERY SHARPLY ON QUALITY AND SERVICE AT AMERICAN AIRLINES. EFFORTS TO REDUCE **DEPENDENCE ON AMERICAN AIRLINES ARE HELPFUL BUT NEVER FORGET THAT AMERICAN AIRLINES WILL ALWAYS BE YOUR MAJOR CUSTOMER. SKY CHEFS CANNOT SURVIVE WITHOUT AMERICAN AIRLINES.** NEVER TAKE AMERICAN FOR GRANTED.

AND IF WE DO THESE THINGS, PROFITS WILL INCREASE SUBSTANTIALLY OVER THE NEXT TWO YEARS WHICH SHOULD MAKE BOTH US AND ONEX VERY HAPPY.

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WHY ONLY TWO YEARS? THAT'S AS FAR AS WE CAN SEE. THERE IS CERTAIN TO BE AT LEAST A MODERATE RECESSION DURING THE NEXT ADMINISTRATION, BE IT REPUBLICAN OR DEMOCRAT, AND IN THAT PERIOD IT WILL BE DIFFICULT TO SUSTAIN EARNINGS.

FIVE -- THE REAL CHALLENGE IS TO CONTINUE TO LOWER COSTS AS PROFITS GO UP. MANY COMPANIES FACE THIS DIFFICULTY BUT WE SHOULD NOT! WE SHOULD NOT BE READING OUR PRESS NOTICES AND PATTING OURSELVES ON THE BACK. WE SHOULD BE ENCOURAGED TO MAKE MORE PROGRESS -- NOT REST ON OUR LAURELS.

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WE SHOULD HAVE A DIFFERENT PERSPECTIVE AT SKY CHEFS BECAUSE WE ARE OWNERS, NOT EMPLOYEES. THOSE ARE OUR PROFITS, NOT THEIR PROFITS AND THE VALUE OF OUR OWNERSHIP WILL INCREASE WITH PROFITS. GROWING PROFITS SHOULD ACT AS A STIMULUS, NOT AS A DRAG ON YOUR DRIVE TO IMPROVE QUALITY AND SERVICE WITH LOWER COSTS FOLLOWING.

PARTICIPATIVE MANAGEMENT AND QUALITY FIRST
-- LOWER COSTS WILL FOLLOW.

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ONE LAST POINT, NEVER WORRY ABOUT THE ACTIONS OF THE MAJOR SHAREHOLDERS. CERTAINLY IT'S ALWAYS POSSIBLE IF MARKET CONDITIONS ARE RIGHT TO HAVE AN INITIAL PUBLIC OFFERING TO SELL SOME OF ONEX'S SHARES.

EVEN THIS, IF THE MARKET TIMING IS RIGHT, WILL BE DONE TO OUR BENEFIT BY CREATING A STOCK WHOSE VALUE IS A HIGH MULTIPLE OF ITS CURRENT AND FUTURE EARNINGS.

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BUT ALWAYS YOU SHOULD CONCENTRATE ON YOUR
OWN ACTIONS -- THAT WAY LIES JOB SECURITY,
PROMOTIONS AND INCREASED VALUE FOR YOU --
THE REAL OWNERS OF SKY CHEFS.

