WILLIAM S. WOODSIDE

CLOSING REMARKS

1989 FALL PLANNING CONFERENCE

ACAPULCO, MEXICO

In fact, by the time Jim and I finish giving each other's main points, there isn't going to be much left of either of our remarks this morning. It really is kind of a third anniversary for me.

met most of you 3 years ago in this same place. I think I'd met Jim only a couple of weeks before. So to me the changes in these three years have really been dramatic beyond belief. It's hard for me to conceive of a company that has changed quite as much as Sky Chefs has in this brief period of time. When I go back and think about three years ago, this really was an organization that was very much on edge. You not only had this scarey entity called Onex standing out there someplace who owned you, but the sale of the concessions business was totally up in the air. At that point it was all Marriott, as you will recall, not Delaware North. There were about half of the people in the room who didn't really know whether they were going, staying, or just what was going to happen to them. Then to further complicate matters, if you'll recall, Dick Hall had just arrived on the scene and everyone was trying to convince you that the way he was going to view operations was going to be a way thatwas going to be worth following for all of you.

And I think everyone in the room remained to be convinced. And to top it off, here I was, Mr. X -- nobody knew what my role was going to be. Was I going to be a spy for Gerry Schwartz, was I going to be a help, just what was going to be the Woodside role?

I must compliment this group because in spite of all these things, all of these uncertainies three years ago, you have really accomplished a lot. You began to set targets for operating units, you began to focus hard on improvements in quality and in productivity, the same theme we talk about all the time. As Jim said, it was not a happy meeting, with the single exception of a rather boisterous boat ride up the coast to the Bay of Acapulco when I wasn't certain all of us were going to get back alive. It was the one bright point of the whole meeting. But it was a necessary meeting. It focused everybody on what was involved in running what was going to be your company, not just a division of some other large organization.

I did talk a lot about what greater independence was going to be like, what it was going to be like to control your own destiny. I was very optimistic and talked about you being in an organization positioned for new growth which certainly turned out to be the *case.* I was convinced that you were going to be better able to capitalize on all these new opportunities out there. So as we went through 1987 and '88, what I call the formative period for Sky Chefs, Jim had the great idea to involve everyone in the creation of the strategic plan for Sky Chefs. You all played a role in that or certainly most of you did. You decided where you were going and why you were going to go that direction. It wasn't something that was produced by somebody else and handed down to you. I think that was the single most effective way of coordinating and focusing this organization.

In those two years '87 and '88 you tackled short-term goals and programs. You set a lot of new targets. One of the great accomplishments was one of the most imaginative and interesting contracts I've ever seen with a major customer, the one with American Airlines. It moves us away from going up and down like a yo-yo with food values, and it also was a brilliant attempt to lock American to Sky Chefs with these big quantity discounts that are starting to kick in. You heard John talk about those yesterday; and John, of course, was one of the key players in the development of that contract.

We've done a lot to strengthen management at headquarters and the field in this company. I have a simple but tough theory of management. When you begin to get to the higher levels of middle management, at least 25% of your key people ought to be flowing in from outside. It's the only way I know of ensuring that an organization doesn't fall asleep of its own success, and I think that's always going to be an important issue. It behooves you as managers to broaden yourself as much as possible. I'm enormously pleased with the program that Joe was talking about yesterday. This company is going to pick up your education costs if you're interested in getting advanced degrees or whatever kind of degrees you want. I think that's going to play a critical role in both personal and Sky Chefs' success in the future.

We began also these last few years to move rather tentatively, I must confess, into industrial and institutional feeding. I'll come back to that in a moment. And most of you became owners.

This is really your company. A lot of clearing the decks took place in '87 and '88 as well as some key actions. We all talked about the enormous changes taking place in the airline business. We talked about strategy and excellent performance with costs dropping as productivity and quality improved. And those things all happened. As we begin to wind up 1989, it strikes me that you have had an absolutely incredible performance.

How you measure this depends on the numbers. So I'll pick the numbers that give the highest percentage increases at the moment. The earnings after tax figures in '88 jumped 32% over '87. And while not everybody will agree with my numbers, I would say that '89 is going to be jumping at close to 40% over 1988. We're talking about a compound earnings growth of these last two years of better than 35%. Now by any criteria in the world that's fantastic performance. It's something only the <u>very</u> best companies can do under very favorable circumstances. I think both of these things are true. You are one of the very best companies, and you had a lot of very favorable circumstances. Everyone is very pleased. Onex certainly is. Sky Chefs is the most successful of all of their acquisitions. It really is the income-driving force of the whole Onex organization at this point. I don't think that's going to continue for too long, but right now you are certainly the largest income producer in the Onex group and that's not bad. Onex today accounts for substantially over 2 billion dollars in revenues, and you are doing a magnificent job.

But most of all, you should be very pleased with what's happened. The book value has almost tripled from $5 a share to over $13 a share by the end of 1989. You as owners have obviously benefited. August performance is icing on the cake. It's the highest net income ever recorded in Sky Chefs' history, both pre- and post-acquisition. This is absolutely unheard of for an LBO. You did a fantastic job. Part of that obviously is a result of selling off the concessions, getting rid of most of the buyout debt that this company carried, and having close to zero in net interest charges against operations.

This has been recognized, and if you don't mind, I'd like to read a letter from Jerry Schwartz to Jim O'Neill. He says:

"Dear Jim: Sky Chefs' August results achieved a record that has not gone unnoticed. It's almost unimaginable that four years ago we could have contemplated a fully leveraged Sky Chefs having its highest monthly net income ever recorded. Congratulations are due to you for an enormous personal achievement. As well, I hope you will find a way to pass on to your entire team my deep appreciation for this achievement. Kindest regards, Jerry."

That's your performance you're cheering, and I'm glad to see it. Now let's talk a little bit about 1989, and 1990, and 1991 and beyond. Was 1989 a perfect year? No. All of us in this room, can think about many things and projects we were involved in where we did not have satisfactory results. If you'll recall, Thursday night Dick Hall ran a long laundry list of targets we missed, performance measures where we were not doing well. It has been a great year, but as you look ahead, I'd like you to remember just occasionally, when you're feeling as good as you all should be feeling this morning, some of the glitches, and some of the things that haven't quite worked out. Please look at next year and the years ahead in a relatively humble frame of mind.

Now let me talk about 1990 and '91. I want to start with this point. I think this company is on a real roll. This happens occasionally in business, and it's generally a combination of a lot of things. In your case, you've got a main customer industry, the airlines business, which is a strong part of its growth cycle. And this is true of all the airlines going. I incidentally do not believe Eastern is going to go belly-up, again. I think Eastern's recovery is going to be pretty dramatic. But in addition to it being a strong growth situation for the entire industry, you are fortunate enough to be tied to the strongest performer in a strongly performing industry. If you look at it, United, Northwest, Eastern and Continental are all very highly leveraged. They totally lack American's financial power and flexibility. You're tied in with a very good customer who's got enormous strength which is being used very effectively right now to grow rapidly.

The second thing in your favor -- although it's a two-edged sword -- is that your key competitor, Marriott, is going to wind up being very highly leveraged. It's probably going to be consolidating rather than expanding. That's going to give you a hell of a lot of opportunities. It also presents some problems that we've talked about this morning in different ways. I think that as with all LBO's, Marriott's going to be stripping costs at many locations by going to zero-base budgeting, and changing some pay scales. But in general, LBO's strip their largest costs by stripping their headquarter's staff. They wind up getting rid of any function that does not have to do with the day's activites. That means all planning functions of any kind, all strategic fixes, go down the tubes. All marketing programs go down the tubes. This puts you under a lot of cost pressure, but it gives you an incredible advantage two years down the road. Because you're going to be doing the planning, you're going to have the strategies that they're not going to have.

You do need to have contingency plans in place in 1990, so that when Marriott makes a pass, which they will undoubtedly do as they attempt to fill individual kitchens, with enormous discounts in price for some of your customers, you will be prepared. You have to know what you're prepared to give up, what you're going to keep at any cost. My target for earnings improvement in 1990 is 25%, and probably 20% in 1991. And I think these are reasonable targets in light of the opportunities that we have right now.

All of us would love to be in a situation where we can have a nice year-after-year compound growth of 15%, but businesses don't grow that way. Businesses grow in real spurts, and I think you have to take advantage of the things that are in your favor now to grow as much as you can and put yourself in a dominant position in this industry.

What happens beyond 1990? I really have three targets. I think if we're going to continue to really power away at growth, we've got to first move very rapidly into institutional feeding. mean that by the end of 1991, early 1992, we must have a volume of $100-150 million in what is today SSA, or it is a business not worth being in. By the time I expect Sky Chefs' inflight business to run better than $600 million, and unless you have an associated business that amounts to 20% of total company volume, forget it. It doesn't get the management attention; it doesn't get the people skills; it doesn't get the money it really needs to grow. We have a long way to go from this $10 million in 1989 in institutional feeding to reach that target of $100-150 million.

We also have one huge unexploited area of inflight feeding where this company has never been involved and it has to be. We have to figure out how we're going to go about it. But we must have some powerful international connections, joint ventures. If I had my choice and I could only do one thing -- it would clearly be the Pacific Rim because I think that's where the action's going to be in the next decade. That's where the rapid growth is going to take place. The last time I was in Japan and Thailand, you had a 35-day wait before you could even get listed on a flight if you were flying from any of the major cities in the Far East. The whole area is about to explode, in terms of flights, passengers and passenger service. That, is an opportunity we cannot afford to overlook.

Nor can we afford to overlook Europe. We're not going to have the same kind of rapid growth as an industry, but as a company going from practically zero, we can have rapid growth in what is not a terribly rapidly growing market. I think a growing European position is absolutely essential if we're going to maintain a long-term growth rate in the 15-20% range.

I would also like to suggest as a third point that we need to keep an eye out for opportunistic acquistions that in one way or another relate to some of our skills. This is not something that we spend a lot of time looking for, but we have to spend enough time thinking about so that we can react instantly when something becomes available. We are an extremely fortunate company in that we have an enormous capital base. We in our industry are in the same position that American Airlines is in its industry. We've got all the money we need to acquire anything we want at any time.

What's in all this for you as managers besides all the aggravation and hard work that goes with the kind of program I'm talking about? I think there are going to be a great many new job opportunities and promotions if we can make even close to the kind of growth I'm talking about. We're going to have dramatically improved compensation and incentive programs as part of all this. You're going to have a dramatic increase in the value of your holdings in your company as part of it.

Lastly, there's the pride of playing a key role in building the number one company in this business. This is what makes any business career really worth it. Thank you.