

T2RL'S First View is our rapid analysis of breaking news. It helps provide perspective, putting the facts in the context of our wider and deeper knowledge of the market.

Amadeus Scores for 2010

T2R Staff

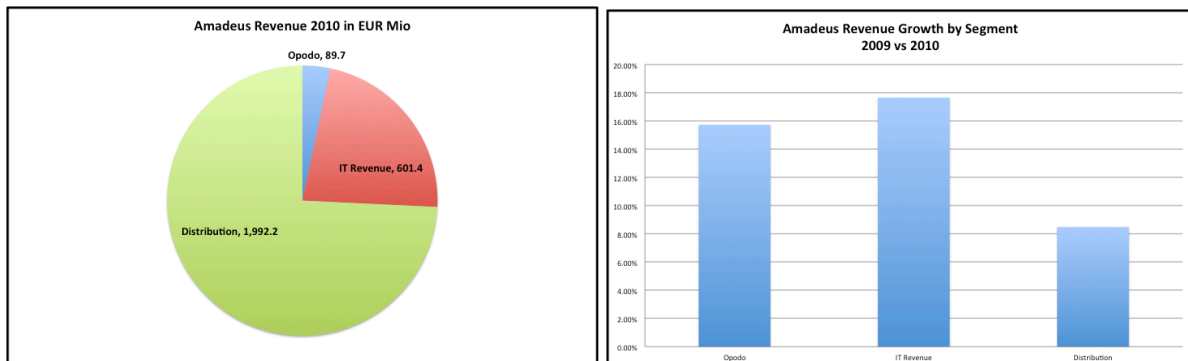
The Facts

Amadeus published its full year financial results for 2010 on 25 February 2011.

The Analysis

Amadeus's results are remarkable for a number of reasons:

- 1) Superlative financial performance
 - Revenue growth of 10.5% to € 2.7 Bn including Opodo
 - Nearly 18% growth in IT Revenue at 68% contribution
 - 37.6% EBITDA margin excluding Opodo at € 976.4 M and 1% growth
 - Reduction of debt by over € 1Bn from the proceeds of the IPO and positive cash flow
 - Shareholder dividend payments of € 134M to be paid in 2011.



- 2) Significant on-going investment in what Amadeus refers to as R&D
 - Amadeus claims investment in R&D of some € 325M for 2010, up 33% on 2009.
 - This includes the costs associated with migrating airlines to the Altea platform (27 in 2010) and the costs of preparing migrations at Cathay Pacific and Singapore Airlines
 - It also includes development work on new products such as revenue accounting, revenue management and services for distribution and increased content (availability processing, rail and hotel)
 - On-going TPF decommissioning
- 3) Productivity increases
 - Personnel and related expenses increased 8.8% to € 663M. This represents an increase in productivity of about 2% over the period.
 - Costs related to the IPO totalled some € 312M.

4) Solid GDS Performance

- Amadeus's travel agency subscribers generated 382.4M bookings, up 30M from 2009.
- Amadeus increased its market share.
 - T2RL believes that Amadeus measures its market share against Abacus, Sabre and Travelport only and does not include Japanese GDSs Axess and Infini or China's Travelsky.

5) An improved market position in Airline IT

- Amadeus claims to have processed 372.3 M passengers boarded in 2010, up nearly 60% on 2009.
- According to T2RL's own research Amadeus will process some 500M passengers in 2011.

Vendor	PAX		Airlines	
Amadeus	495,154,140	18.24%	97	12.08%
Sabre	394,444,603	14.53%	78	9.71%
In House Mainframe	366,176,906	13.49%	19	2.37%
Navitaire	290,557,968	10.71%	50	6.23%
Travelport	253,738,839	9.35%	7	0.87%

Source: www.t2rl.net. Based on 2009 passenger numbers and current vendor/airline relationships over a full 12 month period

The Speculation

Amadeus' new CEO, Luis Maroto, will want to make his mark in 2011. As CFO and deputy CEO he has long been involved in the business. 2011 will bring him both challenges and opportunities.

The challenge will be to streamline the Amadeus organisation and drive efficiencies.

- All GDSs are faced with the need to reduce travel agency incentive payments to improve margins but in the face of competition and the need to maintain relevance through a broad subscriber base this is particularly challenging. Only significant product improvements (content and functionality) can provide some defence and this requires even more development effort.
- Airline IT has been incredibly successful and Amadeus's position is pretty much unassailable given the long-term nature of IT service agreements. However HP will become a clear and present danger to the long-term position should it continue its success in bringing over top-tier US carriers. It is hard to see Amadeus as an acquisition target for HP, but Sabre could be more attractive as its GDS margins come under further pressure from American Airlines and others¹. An HP with strong airline IT and GDS interests would be a formidable competitor indeed.
- Booking volume recovery may not be sustainable in the remainder of 2011. Fuel costs are on the rise again and fares will have to move to accommodate. Inventory demand, although much improved, is still precarious. Continued unrest in the Middle East may add to both fuel cost and demand reductions. Japan is also a large market for travel and events there may yet take a significant turn for the worse.

¹ See T2RL FirstView "[A judge agrees with AA but the fight is still on](#)" 17 January 2011

Nevertheless, Amadeus is well placed financially and functionally to meet the challenges. Cost cutting may be difficult to justify after such exceptional financial performance but it is something Señor Maroto will have to consider for 2011 in such a volatile environment.