

SABRE / FARELOGIX MERGER INQUIRY

SUMMARY OF HEARING WITH LUFTHANSA HELD ON 10 OCTOBER 2019

Lufthansa Group of airlines operates, inter alia, Lufthansa, Austrian Airlines, Brussels Airlines, Swiss and Eurowings.

Current use of distribution channels

Distribution channels used (airline.com, via GDS, direct connect)

Lufthansa said that it uses Amadeus, Travelport and Sabre as Global Distribution Systems (GDSs) and Farelogix as its IT provider for direct connect distribution solutions based on NDC to travel agencies. Lufthansa said Amadeus represents the largest volume of bookings in the indirect channel, followed by NDC (powered by Farelogix) with the second largest and Sabre with the third largest.

Lufthansa said it operates multiple airline.com distribution channels across its brands. Lufthansa said Datalex is a supplier of E-Commerce platforms for one of the airlines in its group, brusselsairlines.com. Lufthansa said it worked with Datalex to supply more airlines in its group to build up a common platform for all airlines. Lufthansa explained, however, that this did not happen due to difficulties in overcoming functional complexities and meeting the substantial scale of features required by the planned E-commerce platform.

Lufthansa said it chose to use direct connections or NDC APIs rather than distributing everything through a GDS. Lufthansa explained that a wholly GDS based approach would not allow its core commercial strategy to succeed. Lufthansa said the core of its strategy is to be a premium airline that will win market share based on features and services offered. Lufthansa said it needs to enable consumer shopping on the features (rich media, pictures, ratings and user reviews) that it offers for this commercial strategy to succeed. Lufthansa stated that limiting itself to the GDS system would not enable it to fulfil this strategy.

Types of customers by distribution channel (i.e. leisure v corporate)

Lufthansa said that the market can be roughly divided into Online Travel Agents (OTAs), tour operators and corporate travel agencies. Lufthansa said OTAs and tour operators are predominantly used by leisure travellers.

Lufthansa said that its greater technological capabilities has enabled it to connect OTAs and tour operators successfully and that it has been able to transition its volumes to NDC.

Lufthansa said that large Travel Management Companies (TMCs) are solely dependent on GDSs. However, Lufthansa stated that its use of a third party enables business travel bookings directly on Lufthansa.com while still giving travel managers all the same benefits, tools and visibility they get today on bookings made in via that

third party. Lufthansa said its connection with the third party tool will lead to a big uptake in Lufthansa's ability to connect travel management companies.

Lufthansa explained that a TMC using the third party would need to have a separate arrangement with airlines from a commercial perspective. Lufthansa said the TMC could source tenants from each airline and provide training and access to its users.

Do they use NDC enabled distribution?

Lufthansa confirmed it uses NDC enabled distributions and together with its other direct distribution channels (like .coms), this currently makes up 51% of total sales. Lufthansa indicated it also uses Altea, Amadeus' direct connect (low level), which is not NDC-enabled.

Use of distribution technology

Do they use Farelogix, a rival or in-house?

Lufthansa stated it works with Farelogix as its IT provider for NDC distribution solutions to travel agencies.

Lufthansa said Farelogix does not operate on behalf of Lufthansa's frontline and operates solely as an IT provider.

What were the factors in that decision?

Lufthansa said it selected Farelogix as its provider of solutions for alternative distributions on the basis that, at the time, Farelogix was the sole provider able to bridge the gap between the travel agency world and an airline's own reservation system.

Lufthansa said Farelogix probably remains the most advanced provider for an alternative distribution solution. Lufthansa explained this is because of Farelogix's ability to achieve complex integration with travel agencies and the greater number of agencies Farelogix enables connection with, compared to other providers, including the provision of a servicing platform (SPRK) which is focusing on agency processes.

Moreover, Lufthansa said Farelogix's functional depth still makes it unique despite alternative providers. Lufthansa said it operates a direct connect API to provide a simple solution to market. Lufthansa said Farelogix provides tools familiar to travel agencies, such as queue management and putting reservations on hold. Lufthansa concluded the functionalities Farelogix provides are not provided by other providers for NDC distribution solutions.

Growth of distribution channels

Where do they see growth opportunities?

Lufthansa said it sees growth opportunities in NDC and there has already been accelerated growth in the volume of NDC sales. Lufthansa said it doubled its total NDC volume between sales in August 2017 and August 2018.

Lufthansa said that direct sales and GDS sales currently make up 51% and 49% of total sales, respectively. Lufthansa said this has changed significantly since 2015 when 30% of total sales were through direct sales and the remaining 70% were through GDS. Lufthansa predicted the share of direct sales can grow to 60%.

Lufthansa said its growth in NDC is mainly from leisure travellers. Lufthansa explained that most users of OTA's and tour operators are leisure travellers. Lufthansa said these travel agencies are typically more 'tech-ready' than large TMCs. Lufthansa said it was able to transition its volume over to NDC more easily for these travel agencies.

Lufthansa said there are hurdles to overcome to distribute NDC to business travellers. Lufthansa said either commercial ties between TMCs and GDSs or the lack of readiness of the GDSs to operate any solutions were slowing growth in sales through NDC down for this group of customers.

In addition, Lufthansa said it intends to continue to work with GDSs to attempt to reach customers with its NDC offers (when they are ready to scale NDC). Lufthansa stated that its goal is not to move volume away from GDSs but to ensure that maximising volume of sales allows Lufthansa to differentiate its brand and services.

What incentives do they use to encourage traffic in certain distribution channels?

Lufthansa said it offers incentives to the travel agent where a travel agent buys a ticket from Lufthansa through an aggregator. Lufthansa said incentives are, in part, from the 'NDC partner programme'. Lufthansa explained that this programme provides commercial conditions for travel agents who choose to work with Lufthansa using NDC. Lufthansa indicated the 'NDC partner programme' provides superior conditions compared to the normal agency incentive programme. Lufthansa added that it also offers incentives to travel agents as part of its normal commercial operations.

Merchandising solutions

Lufthansa said Farelogix operates Lufthansa's merchandising solutions.

Lufthansa said it considered there are only a few alternative providers of merchandising solutions that offer valuable systems. Lufthansa explained it selected Farelogix in 2009 to operate its merchandising solutions when there were even fewer alternative providers. Lufthansa said that it was a natural next step to select Farelogix to operate Lufthansa's travel-agency direct environment.

Lufthansa said that the competitors to Farelogix as a merchandising solutions provider are the two large PSS providers, Sabre and Amadeus. Lufthansa said Amadeus and Sabre could potentially offer similar propositions in merchandising. Lufthansa said Amadeus provide an IT product is comparable to Farelogix in its features. Lufthansa indicated that Sabre or Amadeus do not have the incentive to deploy their capabilities into the travel-agency environment because it could damage other aspects of their businesses.

Importance of NDC

Plans to invest in NDC, direct connect, and/or via a GDS (GDS pass-through)

Lufthansa indicated that NDC and future airline distribution may provide an uplift on earnings before tax and interest (EBIT). Lufthansa explained this uplift will be achieved through improved segmentation, improved retailing, better meeting of end-user's needs, higher conversion at specific price points and the generation of higher revenue. Lufthansa said the uplift on EBIT would also contain a significant cost-saving aspect.

Lufthansa indicated that it plans to continue to reach customers with its NDC offers.

Take up of NDC and direct connects by travel agents

Lufthansa said its strategy agency partners generally connect to Lufthansa via NDC API as opposed to simply accessing the offer and fares through a GDS. Lufthansa said it will support GDSs acting as NDC aggregators, receiving NDC content once they are ready to fully support end-to-end processes for TMCs and other travel agents.

Lufthansa said that it has connected OTAs and tour operators together effectively. Lufthansa stated it has been able to transition its sales volumes from the GDSs to NDC channels.

Role of aggregators

Lufthansa said it believes alternative aggregators will compete in the market once Lufthansa have fully enabled NDC on GDSs. However, Lufthansa acknowledged this will depend on the commercial structure of the GDSs. Lufthansa added that it would be very difficult for new entrants to operate sustainably in the market if GDSs are able to recreate today's model of paying high incentives to travel agents via NDC.

GDS exposure to competitive pressure

Lufthansa said that over the past four or five years GDSs are more receptive in adopting some NDC standard and letting content pass through GDS. Lufthansa said that the increased receptivity of GDSs to NDC is primarily because GDSs were missing out on volume vs. direct distribution channels.

Lufthansa said it is putting pressure on GDSs through only offering certain content on NDC and its direct channels. Lufthansa suggested pressure is also coming from other airlines.

Lufthansa said it is in a better position today, as opposed to five years ago, in terms of having additional leverage as a result of being able to move a low-double digits number of bookings to Lufthansa's direct channel. Lufthansa added that this results in lower end-prices for consumers due to non-existence of distribution charges.

Lufthansa said only a small proportion of the GDSs' business is at risk of being replaced by other channels such as direct connect and direct channels. Lufthansa said this may explain why some GDSs have been slower than others to respond to the increased pressure.

Sabre

Lufthansa said Sabre has far less advanced NDC technology and features than Amadeus. Lufthansa said Travelport is further still behind Sabre and Amadeus. Lufthansa suggested Travelport has been experiencing more intense market pressure to move towards NDC.

Lufthansa suggested that, besides the attempt acquisition of Farelogix, Sabre would be several years behind Amadeus should Sabre begin to invest in NDC.

Role of GDS

Lufthansa said it does consider GDSs continue to be necessary for comparison shopping to be provided. Lufthansa said that comparison shopping happens where travel agents meet customers. Lufthansa explained that some travel agents, such as OTAs, operate their own online booking engine where customers can compare offers. Lufthansa said GDSs only perform this role where travel agents decide to use a GDS instead.

Lufthansa said TMCs, such as Carlson Wagonlit, has a mandate from corporations to provide comparison shopping. Lufthansa explained that it wants to team up with TMCs and develop its comparison shopping for two reasons. Lufthansa said the first reason is its desire to match travellers with the products it offers. Lufthansa said the second reason is because it recognises that corporations manage TMCs to perform tasks such as comparison, cost reporting and other corporate aspects.