

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.

A judge agrees with AA but the fight is still on

T2R Staff

The Facts

American Airlines has won a temporary restraining order (TRO) against Sabre biasing its displays for AA marketed flights. The order lasts until 24 January 2011 when the case will be heard in court. Sabre claims American breached the terms and conditions of their agreement with respect to provision of fares and pricing information for Sabre subscribers. AA claims it has respected the terms of the agreement.

AA is seeking damages for loss of goodwill, management time, revenues and punitive damages. The airline claims Sabre's actions are retaliatory for the termination of AA's contract with Orbitz. American wanted Orbitz to work with AA's direct connect technology for inventory and ancillary content. Orbitz's contract with Travelport limited its ability to develop direct connections with all airlines, including AA, in order to protect GDS booking volumes.

The Analysis

According to American's own documentation filed with the Court (Case 67- 249214-10) Sabre's subscribers generate a significant volume of AA's total sales volumes. Over \$7.5 Billion, or about 40% of AA's revenue is generated through bookings made in Sabre.

Sales Channel	M USD
Sabre GDS regions affected by display bias	6,162
Expedia sites no longer selling AA (Mix of Sabre, Amadeus and Travelport GDS (T2RL estimates 95%+ of these bookings are made in Sabre)	1,022
Sabre GDS regions not affected by bias	320
Travelport GDS - unaffected	2,051
Travelport GDS with Orbitz	592
Travelport GDS affected by bias	341
Amadeus GDS	1,230
AA.com, call centre, airport offices	6,781
Other Sources	447
Total Revenues	18,946

Sabre is clearly very relevant to AA in terms of distribution. Its control over AA's total demand in terms of revenue is significant. However this must be seen in the context of the fees and costs. The level of discount provided by Sabre for full content is substantial. At the time of contract T2RL's analysis shows that American would have received something equivalent to 50% discount for domestic bookings but no discount on international bookings.

On average Sabre was charging American \$2.78 per segment for US domestic bookings and \$6.84 for international bookings before the dispute. Without the full-

content agreement AA claims its average fees would rise to \$7.31 for domestic and \$7.36 for international segments. The total fees would increase by some \$157M.

By extrapolating from the data in American's court filings in court and some relatively simple arithmetic T2RL has estimated that Sabre generates some 40-42 million bookings. Between 33.3M and 33.5M are domestic bookings and from 6.5M and 8.7M are international. T2RL estimates that AA spent around \$150M with Sabre for the 12 months to November 2010.

Sabre has also increased its rack rate for domestic US bookings substantially in the period. Our calculations suggest a 5% increase per annum for US domestic bookings and 1.5% for international bookings.

This clearly explains AA's interests in developing direct connect, although it is clear from the court documentation that it cannot legitimately promote its direct connect with incentives under the terms of the current contract.

The Speculation

Should American be unsuccessful its costs will rise by \$157M, but it will be able to provide incentives to agents to move to direct connect. However few agents will want to give up their financial incentives from the GDSs without compensation in terms of commission. Any mass transition to direct connect will still take time and Expedia will seek more than a pound of flesh - probably for some time to come.

AA's distribution will cost more if it loses and it will be forced to pay a significant premium for screen position. The worst case is it may have to give up its push for direct connect. Sabre would seek to prevent American pursuing its subscribers again, and possibly even subscribers of other GDS subscribers, through the concept and contractual clauses associated with non-discrimination.

This is a high-stakes game. Sabre's timing is interesting. Successfully demonstrating any kind of market power is useful if Sabre is considering an IPO or a trade sale. Market pricing power is valuable. Even if Sabre loses the court case and cannot increase its fees for now - assuming the damages are not life threatening - it will still have an interesting negotiation with AA at the term of the contract. Enabling 40% of the airline's revenues gives Sabre a powerful negotiating stance. Perhaps it felt it had little to lose so the timing for this dispute was good.

An award of hundreds of millions of dollars however would rock Sabre's foundations and the owners, Texas Pacific Group and Silverlake, have no interest in this. Sabre will defend itself with vigour for this reason alone.

The most interesting thing is that yet again Amadeus is sitting pretty. Those airlines that generate the same levels of volume (ie in excess of 40M) in Amadeus are also likely to be shareholders, making any significant move to direct connect much more complex at this time. With the level of discounts enjoyed by AA, Amadeus may see some margin pressure in the next round of full content agreements, but we expect it to be very reluctant to provide 50% discounts to anybody, especially if it is chasing contracts and volumes with the larger OTAs like Expedia.

T2RL First View • A judge agrees with AA but the fight is still on • Page 2 of 2

Travel Technology Research Ltd. © 2011

Burnham House, 93 High Street, Burnham, Bucks, SL1 7JZ, UK. www.t2rl.com www.t2rl.net

All rights reserved. Reproduction or redistribution in any form without the prior permission of is prohibited..

Travel Technology Research Ltd (T2R) is an independent research and consulting company that specialises in the market place for airline IT systems. Based on data gathered and analysed since the year 2000 it has defined and tracked classifications of airlines and their IT providers. Its research is used by airlines to enable them to make informed choices of systems and vendors and by the vendors to help them develop products that best meet the current and future needs of the airline industry.