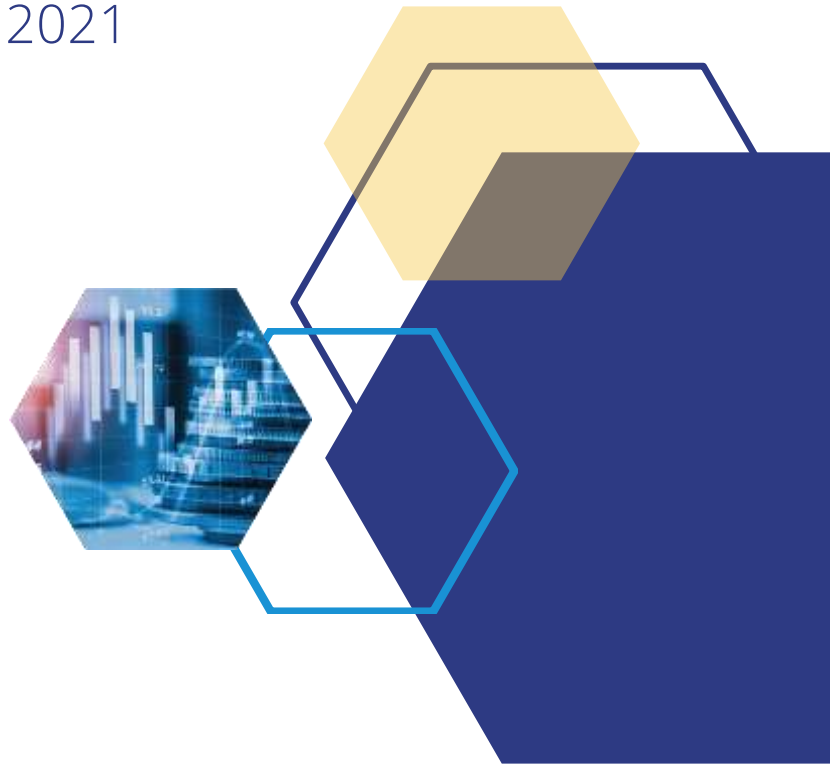
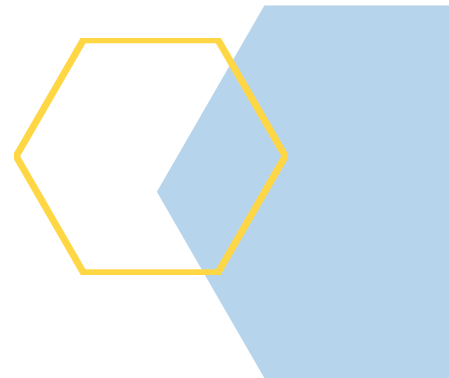




FIRST VIEW
September 2021



The Pandemic Has Been Hardest for Amadeus but it Remains Dominant





THE FACTS

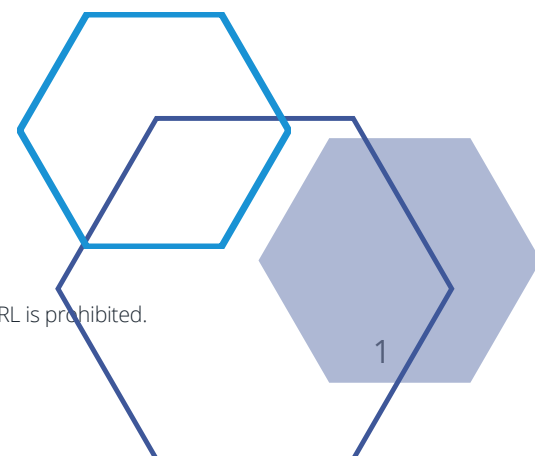
GOL Linhas Aéreas Inteligentes S.A. has completed its migration to the Sabre Passenger Services System. This change makes Sabre the market leader in the Latin American region with 35% more PBs from airlines in the top three tiers than its rival Amadeus.

THE ANALYSIS

2020 and 2021 so far have been strange years for the airline industry and the technology companies that support it. The migration of GOL from Amadeus Navitaire to Sabre is the first PSS move of any airline in the top three tiers this year. There was only one in the whole of 2020 and that was the forced move of Air Europa caused by SITA's decision to exit the market. GOL is a very significant airline in its region, not least because it acquired the business of Varig when the venerable Brazilian flag-carrier went under in 2008. It remains to be seen whether GOL's move, which was agreed pre-pandemic, marks the beginnings of a return to normality but in any case it provides a good checkpoint from which to take a look at the strategic positions of the top PSS providers.

In 2021 there is a very large gap between the top three providers that serve 75% of the market and the large number of smaller vendors that mostly contest the 11% of market volume represented by smaller airlines¹. The top three are Amadeus which, together with its subsidiary Navitaire, has over 38% of the market by volume, Travelsky which has almost 22% and Sabre, plus its subsidiary Radixx, which hold third place with around 16.5%. The next biggest vendor currently is Hitit which has just 1.5%. At a strategic level the fortunes of the top three providers create the environment in which 35 others compete for a large number of small contracts.

¹ The other 14% is made up of in-house solutions
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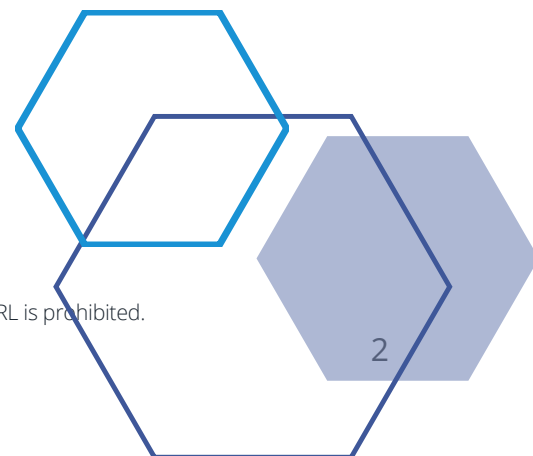


There is no question that Amadeus is the dominant player. Its 2015 acquisition of Navitaire ensured that position would be maintained whatever the relative importance of traditional airlines versus low cost carriers. At the time the regulators were persuaded by Amadeus's argument that these represented two distinct markets although many observers saw that airline business models were converging at the time and they have continued to do so in the succeeding years. Amadeus's profitability over many years has ensured that it has a very strong cash position that has enabled it to ride out the disruption of the Covid-19 pandemic. This has been necessary because the fortunes of Amadeus's PSS and GDS businesses alike have been more impacted by the near halting of international travel than its main rivals. In 2019 its PSS market share was 43%. Despite the loss of GOL Amadeus has had success in cherry-picking the more substantial SITA customers and expects to migrate Jeju Air of Korea before the end of the year. It has also recently announced that Etihad has agreed to return to Amadeus after eight years as a customer for the Sabre PSS. All current indications are that Amadeus will continue to add customers to both its traditional Altea PSS and Navitaire's NewSkies LCC system. At the time of writing it has 174 airline customers across the two systems and will expect to add to that total as pandemic constraints are slowly lifted. Coupled with organic growth of existing customers, many of which have been locked into contract extensions, as international travel takes off again it is likely that Amadeus's market share will head back towards 50%.

TravelSky has had a better pandemic compared with the others. Its dominant position in China means that it has benefited from the rapid return to near normal levels in the domestic market there. Prior to the pandemic its global market share was under 15% representing 32 mostly large, mostly Chinese, carriers. The increase of almost eight percentage points is driven entirely by the Chinese airlines on their domestic routes. As the pandemic subsides it is probable that TravelSky's market share will return to the sort of level it enjoyed in 2019.

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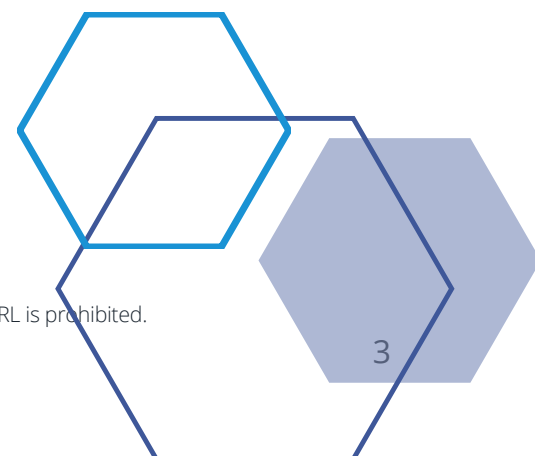
Sabre's position sits somewhere in between the other two. Its market share has fallen but only by around four percentage points. In a similar way to TravelSky it serves a large domestic market which is recovering much faster than the more international markets served by Amadeus. Sabre and Radixx together serve 73 airlines, only 42% of the number relying on Amadeus and Navitaire. It also is hugely reliant on just a couple of customers. In 2020 its top two airline customers represented almost 50% of its total volume. The corresponding figure for Amadeus was only 17%. It is probably the least financially stable of the big three but has been able to raise debt, a testament to the current management's ability to articulate their long-term strategy to lenders. As noted above Amadeus has a very strong cash position while TravelSky is backed by the Chinese state. Sabre's relative financial weakness is reflected in the much more drastic cost-cutting actions that it has taken over the last year to 18 months. This will make it more difficult to exploit any opportunities that arise as markets reopen. Business will pick up as the pandemic comes to an end – whenever that may be – but its recovery is unlikely to be as strong as Amadeus's.

THE SPECULATION

In many ways the pandemic has pushed the industry into a state of suspended animation. As airlines recover it is tempting to assume that the state of the vendor market will revert to the status quo ante. This would see Amadeus continuing to grow towards a 50% market share, TravelSky retaining a near-monopoly in China with almost no business elsewhere and Sabre declining gradually or maintaining position hoping customers like LATAM, GOL, JetBlue and Westjet recover faster and take share from competitors. However there are factors that could change that picture in the medium to long term at least.

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The regulators that allowed the acquisition of Navitaire may wish to revisit that decision as Amadeus becomes more dominant across the globe. If it were operating in a consumer market there is little doubt that its current dominance would ring alarm bells but B2B propositions seem to get a little more leeway. It is still possible though that as the 50% threshold is reached there may be pressure to break up the company either by splitting off Navitaire again or by separating the GDS business from the PSS.

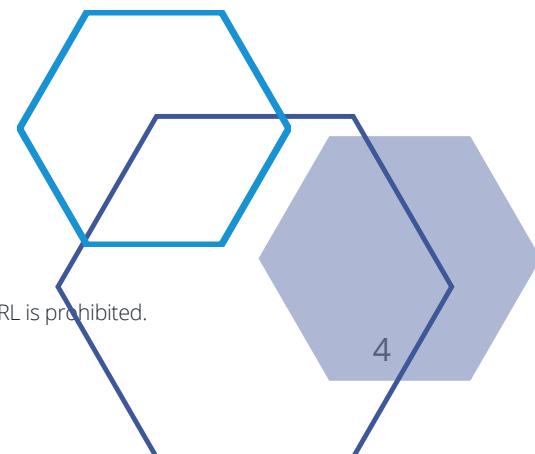
Neither of these things could be accomplished quickly and the success rate of anti-trust action against existing entities is not encouraging. By allowing the Navitaire merger in the first place the regulators may have missed their chance to influence the destiny of Amadeus.

Perhaps a more significant threat would be if airlines no longer needed a dedicated PSS. Supporters of IATA's NDC and ONE Order initiatives certainly saw this as a possible outcome of their work. These technologies were conceived as a way to break the mould of existing airline systems and allow carriers to use general purpose software from the likes of Oracle, SAP and IBM. More realistically they may open a path to the reduction of the significance of the PSS. New and advanced functionality would be provided outside the traditional PSS and communicate with a slimmed down (and cheaper) version using the XML schemas. If this is going to happen it will take many years for the technologies to mature. So far there is no example of an airline committing to a general-purpose software provider for its core passenger management functions.

For Sabre to grow it must do two things. It must ensure that it does not lose its relationship with American Airlines and it must find ways of expanding its product offerings so that it makes more revenue from each customer, displacing other providers and adding additional value. The Google relationship shows considerable promise in this respect. As the vendor with the broadest set of products in the market it has at least a fighting chance to achieve this although it will need ruthless focus from management.

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It must also find a way to replace some of the talent it has lost in the cost-cutting of the last 18 months, Sabre's long-term relationship with Google and its army of engineers will help considerably.

In many ways TravelSky is the least predictable. For the time being its financial position is assured based only on the Chinese market. Ambitions to expand onto a global stage seem to have been set aside for now. If there is no change of strategy it is likely to continue pretty much as it is with its market share tracking that of the Chinese airlines.

One way in which it could revive its international ambitions would be if it were directed by the Chinese government to support the campaign to increase Chinese influence in Africa and along the Silk Road. Currently the African market especially is fragmented with many small airlines and smaller technology companies. As part of a greater Chinese project that supplied incentives and assistance it is possible to envisage TravelSky creating a group of African and West Asian customers. However to do this it would need to develop capabilities in international sales and customer service that have previously eluded it. The best approach might be the acquisition of one of the smaller PSS providers that already has those capabilities and invest in growing them out.

T2RL 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. For further information, visit our website at www.t2rl.com.

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