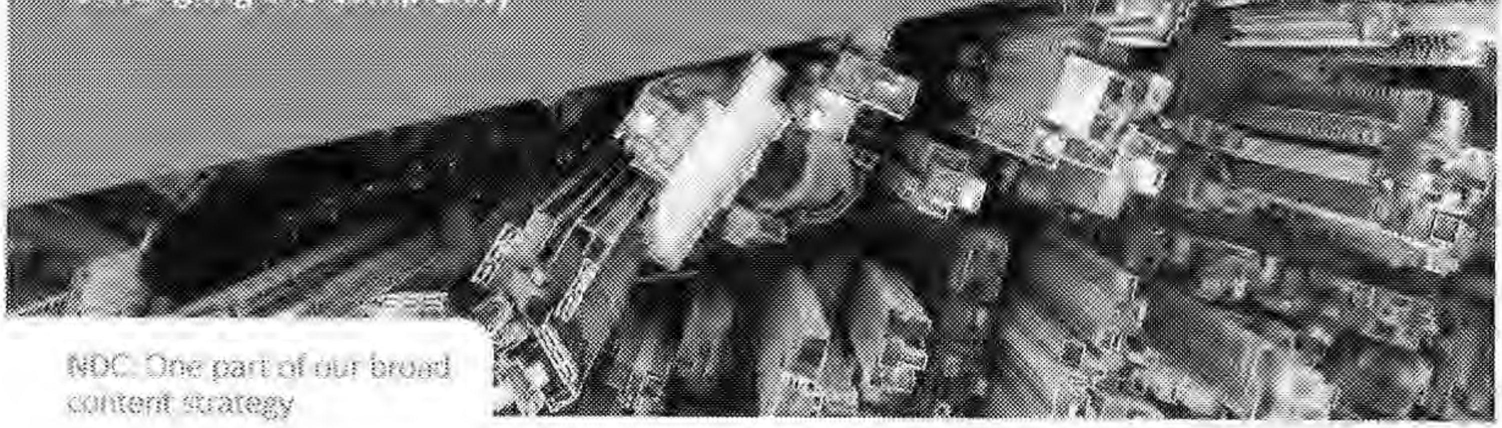
Distribution Disruption and New Distribution Capability (NDC)

Untangling the complexity



NDC: One part of our broad content strategy

From low-cost carriers to hotel booking agencies to airlines' direct distribution channels, effective corporate travel programs and the travel management companies that enable their success have long had to—and will continue to—embrace the reality of sourcing content (fares, fare classes, rates, amenities, etc.) from multiple channels. In this sense, NDC is a content evolution, not a revolution; content that comes through NDC standards will naturally form part of BCD's overall content strategy.

BCD's content strategy hinges on aggregating, processing and distributing a wide variety of quality travel content. Our goal is to maximize content quality, rates and the traveler booking experience; at the same time, we help customers understand current challenges in content distribution and work with them to mitigate the impact of those challenges.

At the foundation of our content strategy: core systems that deliver the right content at the right time to the right people, and drive the data from those content transactions into the downline processes and platforms our clients' programs depend on for seamless service, support and duty of care.

Distribution disruption is

- (A) A hot topic in the media
- (B) A source of confusion and concern for travel program stakeholders
- (C) Ripe for misunderstanding
- (D) All of the above

If you have a stake in your company's managed travel program, no matter what answer you chose—though we personally vote for (D)—we invite you to read this briefing. We'll help you untangle the complexity behind getting the airline fares (and ancillary content and full service and traveler tracking and data storage and analytics) your travelers and your program rely on—and share what BCD Travel is doing to help our clients navigate those challenges.

What is New Distribution Capability?

In simple terms, NDC is a set of new technical communication standards for distributing airlines' fares and services. Launched by the International Air Transport Association (IATA), NDC will give airlines greater flexibility to differentiate and sell their products via third party intermediaries (like global distribution systems, aggregators and travel management companies) or direct to consumers.

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BCD travel

The emergence of private channel agreements

GDS surcharges are introduced by some airlines as part of their own commercial strategy to recover costs and motivate GDSs to develop NDC more quickly. Airlines claim that the GDS channel is now a more expensive distribution option than their own direct and new indirect channels.

A private channel agreement is an agreement between BCD and the airline(s) that specifies what content we can access. As part of the agreement, we also commit to working with the airline and our chosen technology provider (a GDS, an aggregator or others) on NDC connectivity. These agreements allow our customers to avoid paying surcharges to access the airlines' otherwise restricted content, and to continue booking through BCD as their most efficient channel of choice. They also ensure that full servicing, data storage, traveler tracking, data analytics and full program management remain available to our customers.

We've already signed channel agreements with Qantas, British Airways and Iberia globally and Air France/KLM in major markets. We're also closely engaged with other airlines to make sure any new agreement guarantees access to content and protects our customers from future surcharges.

We believe the introduction of GDS surcharges unfairly penalizes corporate customers—who typically provide the airlines with a higher average number of "journey legs" within one ticket, the highest value tickets, the most loyal travelers and frequent repeat business.

What is BCD's position on NDC?

We fully support it. We think NDC will lead to a better customer experience if it:

- **Improves the traveler experience** with a rich variety of booking choices in one place, thereby eliminating the need to search multiple sites to determine best options.
- Allows travel management and travel technology companies to **easily integrate suppliers** in a consistent, comparable fashion.
- Lets customers buy "**ancillary products**" such as airline early boarding, preferred seating, special meals and anything else that adds to savings, productivity or trip enjoyment.

Is distribution disruption a new development?

Changes in distribution aren't a new phenomenon (see *Title of sidebar*). That said, there's no doubt that disruption is accelerating and taking many forms. Most recently, we've seen the advent of "exclusive agreements" between airlines and global distribution systems (GDSs). We believe this move is contrary to the best interests of the industry and the traveler. If more suppliers adopt this model, the industry will be left chasing the next "lost content" – which will drive up costs for everyone.

Our strategic approach

Our emphasis is on the benefits to the customer. We've always sourced content in multiple ways, by leveraging relationships with our technology partners. We're committed to continuing to source the content that's relevant to our clients' programs – whether that be GDS, NDC or low-cost carrier (LCC) content.

Our approach to NDC centers on the following principles:

We're investing in technology

We're investing heavily in our own technologies to deliver on the promise of NDC. TripSource®, our proprietary digital traveler experience platform, integrates reservations from GDS and non-GDS sources. We're also launching new agent technologies that allow our agents to efficiently view, book and service reservations across channels. This new technology allows us to manage a wider diversity of booking channels. Finally, we're committed to working closely with the GDSs to launch their new NDC capabilities as they come online.

We're investing in operations

As NDC changes technically over time, our processes will also have to align. We've already undertaken extensive reviews of the capabilities required to deliver NDC through our agent channels using the GDS and third-party aggregators. We're currently remapping our processes – in partnership with supplier partners – to anticipate these changes.

Airlines want to develop new distribution channels in order to ...

- Gain more control over their distribution strategy to allow differentiated offerings and reduce reliance on third-party distributors.
- Generate new revenue from expanded offerings, including ancillary products and services, to differentiate and market beyond a simple, text-based sort by price.
- Save through shifting and recovering distribution costs by applying surcharges in the GDS and leveraging commercial negotiations with distribution companies.
- Increase traveler engagement by enabling insight into shopper preferences and delivering customized offers.

We're focusing on the economics

As new distribution technologies and models take shape, they are affecting the basic economics of the distribution chain and requiring technology investment and higher servicing cost from TMCs. Our goal is to provide clients with flexible distribution choices at the lowest possible cost. However, not all distribution models, including NDC, have the same cost. We're committed to engaging with clients, so they can weigh the benefits of these new distribution models against the cost.

We're advocating within our industry

We're part of Sabre's NDC Global Travel Management Executive Council and speak regularly at industry events as subject matter experts on this topic. We're fully engaged in testing NDC capabilities with the GDSs. It's important for us to be included in discussions related to the future of distribution and NDC.

We're educating our partners

Since much of the NDC transformation will be delivered through our technology partners (e.g., the GDSs, aggregators, online booking tools), we're investing significant time with these suppliers to influence their strategies. Our goal: to make sure our corporate clients' content and functionality needs are met.

NDC isn't a "one and done" project for us. Given its scope, complexity and ongoing evolution, we'll release new functionalities in phases, ensuring that we deliver the benefits of NDC to our clients in a structured, prioritized manner.

The state of IATA NDC

Underlying NDC are the technical standards that IATA and its member airlines began deploying in 2012. Today, seven years on, we've seen multiple releases of the IATA NDC technical communication standards. Scalability of these standards (e.g., the ability to reliably handle transaction volume) is generally accepted for any standards version above 17.2.

Recently, 21 of the nearly 300 IATA airlines committed to being part of the IATA NDC Leaderboard, which pledges to deliver 20% of their indirect bookings through NDC by the end of 2020. We anticipate airline-driven NDC activity to proliferate over the next two years.

As interest accelerates, initial GDS-based solutions allowing "shopping and booking" through NDC alongside traditional GDS functionality will begin emerging this year. However, not all of the nearly 300 IATA airlines will adopt NDC in the same way and at the same time, adding yet another layer of complexity to the expectation that TMCs can integrate a world of NDC, non-NDC and traditional GDS content—not to mention hotel, car and rail—into one display.

Can GDSs meet airlines' future distribution needs?

We maintain that the scale and functionality required by the airline industry and global service providers like TMCs means that broad delivery of system-wide NDC solutions will be best delivered by the GDS companies. Doing so will require further investment and system evolution.

It's important to note that even when GDSs deploy NDC solutions, this doesn't guarantee that airlines will distribute all content through that channel in future. Some airlines have elected to move away from traditional GDS "full content" agreements (agreements that guaranteed parity with other channels). This indicates their clear intent to control who gets what in the future.

We've already seen the removal of certain low fares from traditional GDS channels with some European-based carriers. We recognize that ongoing airline commercial strategies may mean content will not be restored to the GDS. However, we also strongly believe that GDSs play a vital role in enabling transparent price comparisons, a keystone to any corporate program. As a result, we're pushing all players, including IATA and airline NDC adopters, to make sure comparison shopping is enhanced, not diluted.

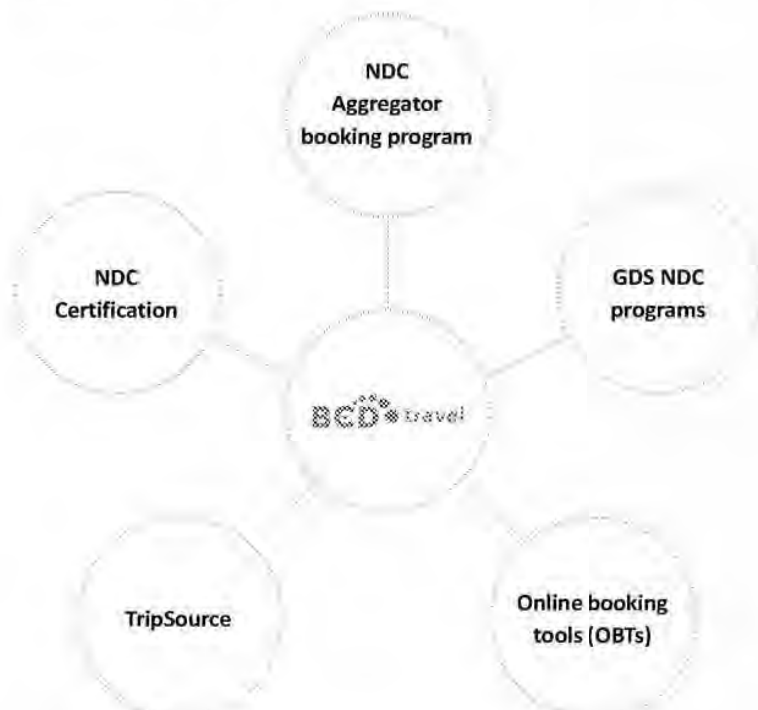
BCD is taking active steps to deliver NDC content

NDC Aggregator booking program

Our landmark NDC agreement with the Lufthansa Group allows our agents to offer the most cost-effective choice to our pilot customers. The program is using an NDC certified and LH Group approved third party aggregator to validate key components of the NDC process—such as efficiency of booking, servicing capabilities and limitations, billing, data capture and flow of [illegible], allowing us to fine-tune our investments for the real world. After our initial pilot, we began implementing an initial phase of NDC booking using the approved aggregator in April in key European markets, starting with Germany, Belgium and the Netherlands.

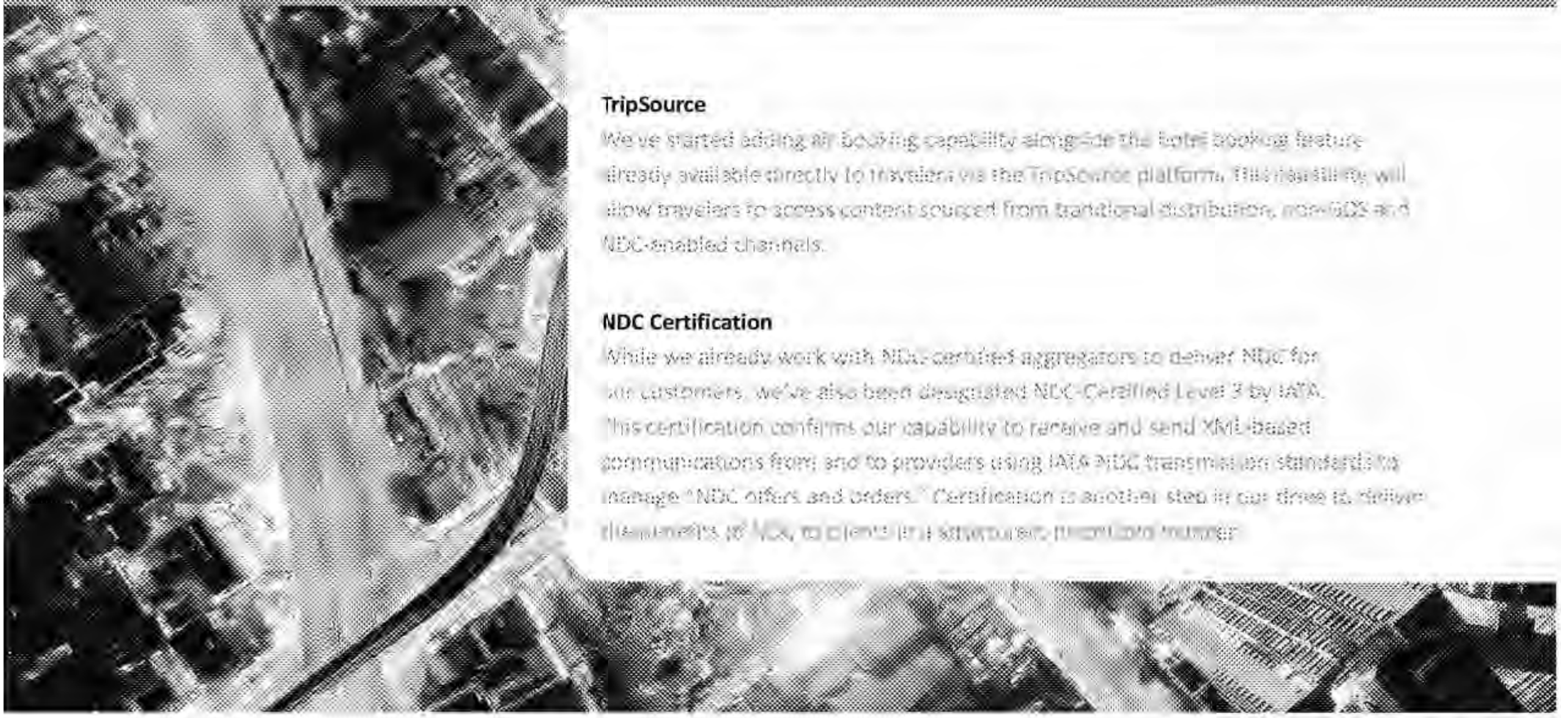
GDS NDC programs

We've partnered with Amadeus (NDC-X), Sabre (Beyond NDC) and Travelport. These partnerships are a natural evolution in our long-standing collaborative relationship with the GDSs and are part of our broader vision for further digital transformation of the booking environment. We expect to test more robust and scalable GDS-based NDC solutions beginning in the second half of 2019.



Online booking tools (OBTs)

Integrating NDC content into OBTs naturally broadens the options available to travelers when they book. We continue to work with our key OBT partners to certify their ability to pass bookings and data to us to ensure customers have the appropriate blend of content to suit their travel portfolio. Each OBT is taking a different route in its NDC development strategy: some are working with aggregators, others are working with GDSs or airlines. Each is at a different stage of overall NDC readiness—and each presents gaps in the traveler experience and the data we need to process and service bookings. Regardless of the route, we're working with the OBT to ensure our customers will have access to all fares, products and rate types that make sense for their program.



TripSource

We've started adding air booking capability alongside the hotel booking feature already available directly to travelers via the TripSource platform. This capability will allow travelers to access content sourced from traditional distribution, non-GDS and NDC-enabled channels.

NDC Certification

While we already work with NDC-certified aggregators to deliver NDC for our customers, we've also been designated NDC-Certified Level 3 by IATA. This certification confirms our capability to receive and send XML-based communications from and to providers using IATA NDC transmission standards to manage "NDC offers and orders." Certification is another step in our drive to deliver the benefits of NDC to clients in a structured, [illegible] manner.

In summary

While many airlines are already operating to the IATA standard, development and implementation varies by airline. We're committed to being at the forefront of NDC discussions and helping our customers make the best decision for their travelers. NDC, however, is just one area of focus within the proliferation of technology across the travel industry. These areas of change have created a very confusing picture right now in the buyer marketplace, and we expect the confusion to continue for some time.

Multiple channels will co-exist

We believe that industry-wide NDC solutions are best delivered by the GDS companies, but some industry participants will continue to choose different distribution strategies. We'll support our supplier and technology partners' enhanced capability—when it meets market needs—while educating our customers on the changing landscape. We expect conditions to continue to evolve further in the next year.

Flexibility and diversity

NDC holds the promise of greater flexibility in distribution and more customer choice in the future. TMCs can leverage the advantages of NDC by integrating with content aggregators such as global distribution systems more easily. But connecting directly with suppliers requires costly and time-consuming manual processing and, in most cases, creates additional costs. NDC provides some advantages to corporate travel programs, but not without cost and not without some potential loss of buyer privacy and shopping transparency.

Time will tell

Looking back, even technologies that produced major cost savings for virtually every player in the travel industry [illegible]. NDC won't be adopted overnight, and no [illegible] will [illegible] legacy distribution to NDC. The transition will be [illegible] and lengthy. We're committed to ensuring the interests of corporate buyers, and we're placing travelers at the forefront as our technology and supplier partners [illegible].

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Case No. 1:19-cv-01548-LPS DX0283 Page 5