

**From:** Jim Davidson  
**Sent:** Sunday, April 15, 2018 4:00 PM  
**To:** Theo Kruijssen; Michael Tully  
**Cc:** Bill Bianco  
**Subject:** RE: Sandler Capital Year End Report

A few optional edits in blue highlight. Thx. JIM

**From:** Theo Kruijssen  
**Sent:** Sunday, April 15, 2018 2:17 PM  
**To:** Michael Tully <mike.p.tully@gmail.com>; Jim Davidson <jdavidson@farelogix.com>  
**Cc:** Bill Bianco <bill@sandlercap.com>  
**Subject:** RE: Sandler Capital Year End Report

Mike see below my edits.  
Jim, pls review and add/change where you think it's necessary.  
Theo

**From:** Michael Tully [mailto:mike.p.tully@gmail.com]  
**Sent:** Saturday, April 14, 2018 2:15 PM  
**To:** Theo Kruijssen <tkruijssen@farelogix.com>  
**Cc:** Bill Bianco <bill@sandlercap.com>  
**Subject:** Sandler Capital Year End Report

Hi Theo,

Per previous cycles, can you help edit the commentary about Farelogix included in the 2017 annual report?

Below is what I have based on the semi-annual update as well the latest financials.

I am trying to close this out this week.

Mike

Farelogix is integrally involved in the transformation of the airline distribution and merchandising landscape. The company's SaaS Airline Commerce Gateway (the "Gateway") is a technology platform enabling airlines to be more flexible, creative, and customer-focused in how they create, package, and sell products and services to both leisure and corporate travelers.

Airlines globally sell approximately 1.4 billion tickets annually. Farelogix estimates that approximately 60% of these tickets are sold directly to consumers through airline websites, call centers, tour operators/charter and host direct (the "Direct Channel"), with the remaining 40% sold indirectly by travel agencies and major online travel sites (the "Indirect Channel"). Indirect Channel sales are made through the global distribution systems ("GDS"). The three major global GDS's are Sabre, Amadeus and Travelport.



During 2017, airlines have continued to shift away from commoditized selling of seat inventory to true product and brand differentiation. This has enabled airlines to increase revenue by offering customers more choice and convenience. For example, ancillary revenue increased from \$2 billion in 2007 to approximately \$8.262 billion in 2017<sup>2018</sup>, as reported by IdeaWorks in November 2017 (see Exhibit 2934). The scope of ancillary revenue has evolved from bag fees, to the selling of Wi-Fi, extra legroom, preferred boarding, lounge passes and premium seats, meals and beverages.

Merchandising strategy is integral to the evolving airline-customer relationship. Airlines have been able to technologically incorporate merchandising in their Direct Channel, but have had more difficulty in the Indirect Channel. A primary impediment in the Indirect Channel has been the technological limitations of the GDS's systems, which are inflexible, inefficient and limit the kinds of interactions that airlines need with their customers to generate increased ancillary revenue. In an effort to address these limitations, the airlines, through their largest trade group, the International Air Transport Association ("IATA"), passed Resolution 787, New Distribution Capability ("NDC"). This measure prescribed a modern industry-messaging standard to allow airlines to distribute new products to the Indirect Channel as efficiently as they do on their websites. NDC has recently become a full fledged disruptive distribution strategy, embraced by the world's largest airlines – American Airlines, United, Air Canada, Lufthansa Group, British Airways, Emirates, and Qantas, to name a few.

The Farelogix Gateway is the industry's only comprehensive airline distribution technology platform that is IATA NDC-enabled for the indirect distribution channel. At the same time, the Gateway offers an innovative and cost-effective core technology platform supporting an airline's entire distribution ecosystem. This highly scalable platform is comprised of five interoperable technology components, FLX Shop & Price, FLX Availability Calculator, FLX Merchandise and FLX Schedule Builder, and FLX Open Connect. The Gateway enables airlines to easily, efficiently, and dynamically create, control and deliver content, including custom-tailored product offers, to travelers across multiple distribution outlets.

Farelogix has successfully integrated its FLX Open Connect with the leading global airlines. Its North America customers – including American Airlines, United Airlines, Air Canada, WestJet, AvroMexico, and Virgin America/Alaska – represent approximately 50% of the total annual North American tickets. In Europe and the Middle East, its customers include a number of leading carriers – including the Lufthansa Group (Lufthansa, Swiss, Austrian and Brussels), Aegean, Olympic, Emirates, and Qatar.

FLX Open Connect is well-positioned to take advantage of a trend towards airlines promoting NDC and accelerating a shift away from the traditional indirect (i.e. non-NDC) channel. For example, in 2015, FLX Open Connect customer Lufthansa announced a surcharge of Euro 16 per booking for all tickets booked through its traditional indirect channel. Additionally, in early 2017, British Airways/Iberia announced a similar commercial program, including a surcharge of £8 per flight segment. Finally, American Airlines announced in June 2017 a \$2.00 incentive for each NDC flight segment. This announcement was made including Farelogix as its NDC partner. Most recently, Lufthansa Group announced that its "Best Lines" would only be available on its web site and through the IATA NDC channel (see Exhibit 2934). It is expected that other major airlines will follow with their own programs to increase the NDC channel and Farelogix is well positioned with FLX Open Connect to take advantage of these initiatives.

FLX Merchandise has been deployed to [redacted] airlines including, United Airlines, Delta Air Lines, Air Canada, Hawaiian, [redacted], FlyDubai, Alaska [redacted]. It has emerged as a leading merchandising platform in the airline industry helping airlines to generate billions of dollars annually in new revenues from the sale of ancillary products.

FLX Shop & Price, FLX Availability Calculator and FLX Schedule Builder, are the company's newest products and are designed to allow airlines to control all aspects of its offer, including customized schedules, availability and dynamically priced offers. An initial version of FLX Shop & Price was deployed with Olympic Airlines in Europe and Westjet, a Canadian airline, in 2015, and full functionality is being deployed by Qantas, the largest airline in Australia, as well as Norwegian. The Company is also involved in discussions with another major airline targeting deployment Q4 2018. FLX Schedule Builder has been deployed by American Airlines, while FLX Availability Calculator made its debut with Delta Airlines in August 2017.

Revenue growth for full year 2016 and first half 2017 resulted from growth of existing 2015-2016 customer airlines as well as new contracts. In 2017 Farelogix signed new, multi-year contracts

While these new contracts yielded revenues in 2017, these contracts will fully ramp to annual subscription revenues of [redacted] after two years (and [redacted] in 2018). Any transaction revenue associated with the new FLX Shop & Price contract with United will be in addition to these subscription revenues. During this period, an important FLX Open Connect integration with American Airlines and Sabre also was completed and started generating revenue by mid-2017. Travelport and Amadeus continue to integrate and currently integrating the FLX Open Connect technology with American Airlines and Qantas. Integration with Travelport in late 2017. These integrations are significant because, when completed, Farelogix will start realizing significant transactional revenue, as each American and Qantas booking generated by travel agencies using Travelport, Amadeus and Sabre, will generate a transaction fee to Farelogix. The company also believes that it is well positioned to continue to secure contracts with a number of additional airlines for FLX Merchandise as they continue to strive to expand their merchandising capabilities. In addition, it also anticipates generating revenue from airlines deploying FLX Shop & Price, FLX Availability Calculator and FLX Schedule Builder.

For full year 2017 in the second half of 2017, Farelogix reported [redacted] in revenue, an increase [redacted] over the same period of 2016, with over [redacted] from recurring transaction revenue and yearly subscription fees. The company's EBITDA was [redacted] for full year [redacted], a decrease of [redacted] over full year [redacted] the same period of 2016. The [redacted] was "controlled" and was due [redacted]

Farelogix's gross margin was approximately [redacted] during 2017. Gross margin will increase again to [redacted] as FLX Shop & Price replaces Farelogix' use of external pricing providers. While revenue for the second half of 2017 was [redacted]

Additionally, Farelogix continues to make [redacted] technology and process upgrades in the areas of cyber security and data protection.

The company's 2018 budget includes revenue of [redacted] million, a [redacted] growth over 2017, and EBITDA of [redacted], approximately [redacted] above 2017. EBITDA is expected to increase significantly in 2018 as the investments described above are more than offset by increasing revenues.