Q4 & FY 2021 Earnings Call Prepared Remarks

February 15, 2022

Slide 1 – Title Slide

Good morning and welcome to the Sabre fourth quarter and full year 2021 earnings conference call. I will be your operator. As a reminder, please note today's call is being recorded.

I will now turn the call over to the Vice President of Investor Relations, Kevin Crissey. Please go ahead, sir.

Slide 2 – Forward-looking statements

Kevin Crissey, VP of Investor Relations:

Thanks, and good morning everyone. Thank you for joining us for our full year and fourth quarter 2021 earnings call.

This morning we issued an earnings press release, which is available on our website at investors.sabre.com. A slide presentation, which accompanies today's prepared remarks, is also available during this call on the Sabre Investor Relations web page. A replay of today's call will be available on our website later this morning.

We would like to advise you that our comments contain forward-looking statements that represent our beliefs or expectations about future events, including the duration and effects of COVID-19, industry and recovery trends, benefits from commercial and strategic arrangements, expected revenue, costs and expenses, cost savings, margins and liquidity, among others. All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the statements made on today's conference call. More information on these risks and uncertainties is contained in our earnings release issued this morning and our SEC filings, including our third quarter 2021 10-Q and 2020 Form 10-K.

Throughout today's call, we will also be presenting certain non-GAAP financial measures. References during today's call to Adjusted Operating Loss, Adjusted Net Loss from continuing operations, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EPS, Free Cash Flow and Net Debt / LTM Adjusted EBITDA have been adjusted to exclude certain items. The most directly comparable GAAP measures and reconciliations for non-GAAP measures are available in the earnings release and other documents posted on our website at investors.sabre.com.

Slide 3 – Today's presenters

Participating with me are Sean Menke, our Chief Executive Officer, Kurt Ekert, our President, and Doug Barnett, our Chief Financial Officer. Scott Wilson, our President of Hospitality Solutions, will be available for Q&A after the prepared remarks.

With that, I will turn the call over to Sean.

Slide 4 – Agenda

Sean Menke, CEO:
Thanks, Kevin.

Good morning everyone and thank you for joining us. As we know the past two years have been extraordinarily disruptive. We, like others, have had to deal with numerous, unpredictable headwinds. Despite these challenges we never lost sight nor abandoned our focus on future opportunities. Some needed to be reprioritized; others, specifically the technology transformation, continued notwithstanding the challenging environment. During our earnings call in February of 2020, we articulated the importance and expected benefits of our technology transformation. Despite these headwinds, we with our partners continued to execute. 2022 is the midpoint of these efforts and we are intent on accomplishing our goals for the technology tranformation.   We are confident that we will accomplish these goals by the end of 2024, and we believe our advanced agile global technology footprint and efficient cost structure will be superior to our competitors. In 2025 we believe our full-year run rate efficiencies and accrued technology benefits will drive superior financial results under multiple scenarios when compared to 2019.

The global travel recovery was slow at the beginning of the year, but that has significantly changed. February month-to-date global GDS bookings are on pace to reach a similar level of recovery versus the same period in 2019 as November 2021, which was the best month since the onset of COVID-19.   For these reasons, we believe 2022 is shaping up to be a year of recovery and progress.

Turning to Slide 4, let me now provide an overview of the topics we will cover on today's call.

I'll begin by discussing the considerable opportunity we see for Sabre and our investors as recovery takes hold and we reach the other side of COVID. Next, I'll provide an update regarding the ongoing travel recovery, including specific booking, passengers boarded, and hospitality CRS transaction trends and how Omicron has temporarily affected the recovery. Then, I'll detail our expected strong financial performance under specific recovery scenarios in 2025 and the investments we are making in our technology transformation, to achieve these results. Finally, I'll turn the call over to Doug to walk you through the results of the quarter and financial outlook for 2022.

But before I start, I do want to take a moment and thank my Sabre teammates around the world. 2021 was another challenging year for the travel industry and for Sabre. I believe my team members are aware, but it is important for me to emphasize how much I do appreciate their extraordinary efforts, serving our customers, looking out for one another and at the same time executing our transformation to help enable a new marketplace for personalized travel.

I'd also like to welcome Kurt Ekert to his first earnings call with Sabre. Kurt joined us in January and is quickly learning the organization. Kurt's background and skills make him a perfect choice as President. He has an exceptional understanding of the travel marketplace, global air and hotel distribution, consumer ecommerce and corporate travel. I look forward to working with him in the years to come. His arrival will allow me to continue to focus on our long-term strategy and goals for 2025, as well as to spend more time externally with our customers, investors and other important constituents – something I'm eager to do. I won't ask Kurt to present our results just yet but thought it would be good for him to say a few words of introduction. Kurt?

Kurt Ekert, President:

Thanks, Sean. I appreciate the welcome. This is an exciting time to have joined Sabre. Having worked as an executive at one of Sabre's competitors and, more recently, at a top customer with CWT, I knew Sabre well from the outside. After just over a month, I am gaining better appreciation for Sabre's many strengths firsthand. Dynamic changes are coming in the travel sector, and I believe Sabre's people, compelling product offerings and strong customer relationships uniquely position us to capitalize on them. I am excited to partner with Sean and our global team to drive world-class innovation and financial performance. I also look forward to meeting our investors and analysts in the near future.

Sean, back to you.

Slide 5 – SABR Investment Thesis

Sean Menke, CEO:

Turning to Slide 5, I'd like to start today's call with what I consider to be some of the most important aspects of the investment case for Sabre. As we've seen in our bookings data over time, the demand for travel remains very strong but has been curtailed by global travel restrictions designed to counteract the COVID-19 pandemic. As COVID case counts fall, we once again see travel restrictions lifted, and know our revenues and earnings improve. We believe Sabre is a travel recovery investment opportunity in the near term, based on these points.

But Sabre offers much more as an investment than just travel recovery momentum. As we look ahead, we are investing to drive EBITDA, EBITDA margin, Operating Income and Free Cash Flow higher than 2019 levels. As mentioned, I will provide an illustration of what our 2025 financials look like under different recovery scenarios. Despite the challenges caused by the pandemic, our expectations for 2025 are in-line with or better than our pre-pandemic guidance provided in February 2020. Our ambitions are higher and illustrate the positive financial impact our technology transformation is expected to have on future earnings. We believe as we achieve these goals, value not currently recognized in the market will be unlocked.

Slide 6 – Bookings are recovering from Omicron Impact

Turning to Slide 6, our volume metrics, namely Distribution gross air bookings, IT Solutions passengers boarded, and Hospitality gross CRS transactions, have broadly tracked the inverse of COVID-19 cases over time. We saw a slowdown in travel bookings beginning mid-June 2021 associated with increased Delta variant cases, followed by a sharp recovery from September to the end of November. The Omicron variant hurt our booking trends in December and into January, but similar to past trends we are seeing a quick acceleration in booking recovery, with hospitality leading, followed by air as COVID case counts and restrictions abate.

Please note that we've changed our travel recovery slides to display a percentage recovery of 2019, instead of a percentage decline versus 2019.

Hotel CRS transactions continue to lead and have recovered 77% in January, versus the same period in 2019.

IT Solutions Passengers Boarded have recovered 68% in January, versus the same period in 2019.

Finally, Distribution gross bookings recovery was 31% in January, versus the same period in 2019. During the month booking recovery did accelerate, with the final week reaching 37% of 2019 levels.

Slide 7 – Omicron impact was largest in January but recovering

Turning to slide 7 where we present GDS industry data regionally. The global travel recovery was gaining momentum through most of Q4 but slowed again in December and January due to the Omicron variant. After this pause, month-to-date February's global GDS recovery is tracking over 50% versus 2019, similar to last November, the best month of recovery since the onset of COVID. We are encouraged by both the strength of the recovery and the better global mix versus the previous heavily weighted US centric recovery with lower margin bookings. Based on historical pre-COVID booking curves, and the absence of a future travel restrictive COVID insurgence, we are optimistic that the current momentum in corporate and international as well as leisure demand will accelerate into the strong seasonal travel months ahead.

We continue to be bullish on the return of corporate travel and recently expanded our commercial relationship in the more profitable corporate travel segment with American Express Global Business Travel. This long-term strategic partnership includes incremental bookings for us and a multi-million dollar annual investment in joint technology by GBT.

Slide 8 – Tech transformation expected to provide fast benefit

Turning to slide 8.

We've talked in the past about how the travel marketplace is evolving and how we are committed to helping lead our partners into the future. We've discussed strategic investments, such as, personalized offers, low cost carrier growth, distribution and NDC and our technology transformation. Our commitment and belief in the value of these initiatives has only strengthened over time and each are moving rapidly forward.

Today I'd like to give you further perspective regarding our technology transformation, which includes our mainframe offload and migration to Google Cloud. We believe our tech transformation is one of the primary facilitators of higher margins and cash flow for Sabre in the future. We've chosen to continue to invest in the tech transformation, despite the pandemic, because we expect it will produce an outstanding return on investment.

In 2019, we spent about $450 million in hosting costs to run our systems. By 2025, without our tech transformation efforts, we would have expected our annual hosting costs to increase about 50%, or $200 million to $250 million. We would also have needed to invest an additional $150 million to $200 million in CapEx to refresh our servers and data centers. Finally, we would not have been able to take advantage of the many product enhancements the technology transformation unlocks, including faster time to market, enhanced stability and security, a global distributed cloud footprint, reduced latency, easier customer deployments and lower cost of development. We believe we are ahead of our competitors in this endevour and the global distributed cloud footprint, reduced latency and other enhancements have been instrumental for us in winning new business.

We estimate that over the next 10 years, the ROI of the technology transformation is expected to be between 30% and 35% with an NPV north of $300 million.

Slide 9 – Investing in tech transformation for expected savings

Turning to slide 9.

In 2021 we identified three key technology milestones. As a reminder, they were to:

- deploy Travel Solutions air shopping in Google Cloud Platform, or GCP,
- transition Hospitality Solutions CRS into GCP with a global footprint, and
- migrate 15% of our mid-range workloads to GCP.

I'm pleased to say we met or exceeded all of these previously communicated milestones. Travel Solutions air shopping and Hospitality Solutions CRS both moved to GCP, and we actually moved 18% of our mid-range workloads to GCP.

As we look ahead to 2022 and 2023, our technology transformation continues with many exciting and essential activities planned. The key milestones for the project are laid out on this slide. In 2022, we expect to invest an incremental $45 million versus 2021, or about $100 million in total, in the tech transformation as we exit our Sabre-managed data centers and migrate to the Google Cloud. We also expect to offload Passenger Name Record, PNR, from the mainframe to Google Cloud. You can think of PNR as the customer reservations database, which is obviously an important step forward.

Our tech transformation spend is anticipated to decline each year until we complete our goals for the mainframe offload of GDS functionality and our cloud migration, expected by the end of 2024. In addition to realizing the benefits of the cloud, by the end of 2024 we expect our annual run-rate technology savings versus 2019, assuming only an 80% recovery of 2019 volume, to be more than $150 million. 80% is only illustrative of the fact that we expect our technology transformation and what it encompasses will drive better adjusted EBITDA, adjusted EBITDA margin, Adjusted Operating Income and Free Cash Flow versus what we produced with higher volumes in 2019.

Slide 10 – 2025 Financial Targets

Turning to slide 10.

Building on my comments from the previous slide we take the stewardship of your capital very seriously and have carefully evaluated the investments we are making. The technology transformation, along with our other investments that support our business execution, are expected to unlock significant value for our shareholders as we drive the company to higher profitability and cash flow generation.

On this page we provide specific financial targets to which we are driving Sabre by 2025.

Obviously the extent of the travel recovery will affect our results, but even under an only 80% Sabre GDS bookings recovery scenario, we are targeting expected results to be better than 2019. Under a scenario in which Sabre GDS bookings return to 2019 levels, we expect our EBITDA margin to be greater than 26%. This is in line with the guidance we provided in February 2020, before the pandemic. Under a more positive illustrative scenario in which Sabre GDS bookings are 120% of 2019 levels, we expect our EBITDA margin to be greater than 28%. To be clear, our ambitions and associated investments in technology are not to just get back to 2019 levels. Our ambitions are much greater, but the comparison to 2019 is simply to illustrate the positive earnings potential driven by our technology transformation. The capabilities unlocked with a modern, agile, technology footprint and associated products we believe position us well to not only reach previous financial returns, but grow well beyond.

Note that these targets exclude the financial results of AirCentre, as we expect the sale to CAE will close as anticipated in Q1 2022. As a reminder, in 2019, AirCentre generated about $150 million in revenue and $55 million in EBITDA.

Slide 11 – Moving toward higher margins and Free Cash Flow

On slide 11, you can see an illustration of how we expect revenue, EBITDA, Operating Income and Free Cash Flow to trend through 2025 even under the more conservative 80% Sabre GDS bookings recovery versus 2019 scenario. Despite the near-term uncertainty regarding travel volumes, by 2025, we expect to manage Sabre to increasing levels of profitability and cash flow generation and to be able to de-lever and create value for our shareholders. We do not need a full travel recovery for Sabre to produce better financial results in 2025 than pre-pandemic 2019.

With that, I'll turn the call over to Doug.

Slide 12 – Significant YOY financial improvement in Q4'21

Doug Barnett, CFO:

Thanks Sean, and good morning everyone.

Turning to Slide 12, as expected, the COVID-19 pandemic continued to weigh heavily on our results in Q4. However, the fourth quarter showed significant financial improvement versus Q4 of 2020 and sequentially from Q3 2021.

Total revenue was $501 million, a significant improvement versus revenue of $314 million in Q4 last year due to the continued recovery in global air, hotel and other travel bookings.

Distribution revenue totaled $286 million, an improvement versus revenue of $131 million in Q4 2020. Our Distribution bookings totaled 58 million in the quarter. Compared to 2019, net air bookings recovered to 44%, 51%, and 39% in October, November, and December and 45% in the quarter as a whole. Our average booking fee in the fourth quarter was $4.96, versus $3.90, $3.84, and $4.59 in the first, second and third quarters of the year.

Our IT Solutions revenue totaled $165 million in the quarter, an improvement versus revenue of $145 million last year. Passengers boarded totaled 129 million, representing a 69% recovery versus the fourth quarter of 2019.

Hospitality Solutions revenue totaled $54 million, an improvement versus revenue of $41 million in Q4 2020. Central reservation system transactions were at 90% of 2019 levels and totaled 23 million in the quarter.

EBITDA showed meaningful year-over-year improvement but remained slightly negative in the quarter, reflecting the continued impact of the COVID-19 pandemic. The significant year-over-year improvement in revenue in the quarter was partially offset by increased Travel Solutions incentives expense and Hospitality Solutions transaction fees due to higher volumes. As expected, our technology costs and selling, general and administrative expenses increased due to volume recovery trends and increased labor and professional service expenses.

Operating income, net income and EPS also all showed improvement versus the prior year quarter.

Free Cash Flow was negative $30 million in the fourth quarter, aided by working capital seasonality.

As a reminder, AirCentre assets are being treated as "held for sale" on our balance sheet, while their operating results remain in our P&L. When the sale to CAE closes, which we still expect to occur in the first quarter of 2022, Sabre will no longer recognize revenue and earnings associated with AirCentre products. Although our reported passengers boarded will not be impacted, our revenue per passenger boarded for IT Solutions will be lower as a result of excluding AirCentre related revenue. Additionally post-close, AirCentre employees will transition to CAE and a Transition Services Agreement will go into effect. We will be compensated by CAE for the costs related to the Transition Services Agreement activities.

We ended the quarter with a cash balance of about $1.0 billion and have no significant near-term uses of cash. The sale of AirCentre is expected to further strengthen our liquidity position. We expect cash proceeds of $392.5 million from the sale of AirCentre upon closing.

We feel confident in our current liquidity position, anticipate free cash flow turning positive during the second half of 2022, and continue to examine refinancing opportunities in the credit markets. We maintain our medium to longer term leverage target of 2.5x to 3.5x.

Slide 13 – 2022 Financial Outlook

Turning to slide 13. The near-term outlook for travel remains very difficult to forecast due to the evolving COVID-19 backdrop. The 2022 financial outlook we present here is not intended to suggest we know the bookings recovery we will experience in 2022. Rather, it is designed to provide a frame of reference for you to understand how our financials could look this year at different levels of Sabre net air bookings recovery.

We presented the scenarios with and without AirCentre for ease of comparison to help ensure its expected sale is taken into account, including its impact on revenues, earnings and revenue per passenger boarded. As mentioned before, in 2019 AirCentre generated about $150 million in revenue and $55 million in EBITDA. The sale is still expected to close in Q1.

As Sean discussed, in 2022 we expect to invest an incremental $45 million versus 2021 in our tech transformation. We are also investing in global business systems, such as our billing system, cyber security, and increased compensation to attract and retain our highly sought after talent. These incremental investments are expected to total $40 million and to improve processes and increase workforce efficiency while also helping reduce risks. Investments in our internal business systems will also allow us to better support our customers as modern retailing strategies advance and new commercial models emerge. Additional detail on the breakdown of these investments is listed on the slide. Of the incremental investments, we anticipate that only cybersecurity insurance and increased compensation should be viewed as ongoing expenses. The balance of the spend is bubble related to activites underway and we expect that they will revert once work is completed.

As I mentioned earlier, in Q4 net air bookings recovered at a 45% pace. With the impact that we have seen from Omicron and even with the pick-up in bookings in February, we do not expect the recovery in Q1 to reach Q4's level. Please keep in mind that cash settlement occurs after bookings so the cash flow impact of Omicron is expected to largely affect Q1 rather than Q4. We do, however, expect continued quarter over quarter bookings recovery resulting in strong momentum as we exit 2022. Therefore, from a revenue, earnings and free cash flow standpoint we expect a similar pattern to what we experienced in 2021, with the back half of the year stronger than the front.

Even without AirCentre's financial contribution and including the incremental investments we outlined, assuming a Sabre bookings full year recovery of just 50%, we'd expect free cash flow to turn positive during the second half of 2022 and continue trending positive thereafter.

Slide 14 – SABR Investent Thesis

Turning to slide 14. I'll end where Sean started, with the investment thesis we see in Sabre over the next few years. We expect our revenue, profitability and Free Cash Flow to grow as the travel limitations caused by the pandemic continue to subside. The investments we are making in technology are expected to create the opportunity for unit cost savings and higher margins than pre-pandemic levels by 2025, even if travel volumes do not return fully to 2019 levels. We strongly believe this opportunity is not fully reflected in the market today.

Slide 15 – Thank you

Thanks for joining us today. Operator, please open for Q&A.