Q2 2022 Earnings Call Prepared Remarks

August 2, 2022

Slide 1 – Title Slide

Good morning and welcome to the Sabre second quarter 2022 earnings conference call. 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 second quarter 2022 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 our technology transformation and commercial and strategic arrangements, our financial outlook and targets, 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 Q1 2022 Form 10-Q and 2021 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 Income, Adjusted Net Income, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EPS and Free Cash Flow 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, Chair of the Board and Chief Executive Officer, Kurt Ekert, our President, and Doug Barnett, our Chief Financial Officer.

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

Slide 4 – Agenda

Sean Menke, Chair of the Board and CEO

Thanks, Kevin.
Good morning everyone and thank you for joining us today.

On Slide 4 you can see an overview of the topics Kurt, Doug and I will cover on today's call.

I'll start by providing perspective on the trends we are seeing in the travel marketplace, including specific bookings, passengers boarded, and hospitality CRS transaction trends.

Kurt will then discuss what we expect those trends to mean for our 2022 financial results and also describe the meaningful progress we made in the second quarter toward our technology transformation.

Finally, Doug will take you through the financial results of the quarter.

But, before I start, I want to thank my Sabre team members worldwide. They continue to do an exceptional job serving our customers while helping us become the premier global technology platform in travel.

Slide 5 – Strong recovery in Q2 2022

Turning to Slide 5.

There are a lot of cross currents in the market right now, with COVID travel restrictions receding but macro economic forecasts generally falling. I'd like to take a couple minutes to provide perspective on how we see the current environment.

As the impact of the Omicron variant receded in January of this year, more countries relaxed travel restrictions and bookings started to steadily improve again. Relative to 2019, the second quarter of 2022 actually showed the strongest sequential quarterly bookings improvement since the pandemic recovery started in June 2020. Corporate and international travel accelerated nicely during the quarter, driving our distribution revenue per booking higher. Hotel CRS transactions continued to lead the recovery and in the second quarter of 2022 were 102% compared to the same period in 2019. IT Solutions Passengers Boarded recovered 89% in the second quarter, versus the same period in 2019. The total Distribution bookings recovery was 57%, which equates to a 63% revenue recovery as a result of the higher booking rate achieved in the second quarter of 2022, versus the same period in 2019. The sequential quarterly recovery versus 2019 was greater than 10 percentage points in every region in the second quarter. APAC continues to be the slowest to recover and Latin America the most recovered. Excluding the impact of Expedia, our recovery was in-line with or better than the broader GDS industry recovery.

Late in Q2 and into July, we've seen the rate of recovery moderate. Globally, we believe the desire to travel continues to be very strong. In fact, consumer demand is so great that in a number of countries, particularly in Europe, travel demand currently outpaces the ability of airlines and airports to efficiently handle the passenger volume due to staffing shortages and other factors. This has caused delays, cancellations, lost bags, and lower customer satisfaction which we believe has constrained near-term net new bookings as passengers seek to avoid these issues.

We believe that in response to these operational challenges, airlines have reduced their schedules in some countries. They are still flying more seats than they were earlier in the COVID pandemic recovery but capacity constraints have limited their ability to fully match customer demand.

Consequently, airline seat capacity is currently below demand, which has driven airfares up significantly. For example, yield, or a passenger's price per mile, was up about 33% year over year in the second quarter of 2022 for the three largest US full service airlines, American, Delta and United.

So we believe we are temporarily in a capacity constrained period with higher than normal fares, but, importantly, also with consumers eager to fly despite these challenges. The good news, for travelers and for Sabre, is that airlines and airports are working aggressively to improve their operational throughput and have significant financial incentives to do so. Many airlines have been aggressively hiring and training not just pilots, but also other inflight personnel and airport operations staff to provide operational flexibility. This hiring has driven airlines' unit costs sharply higher and they want to increase aircraft utilization and seat capacity to help spread their costs. For example, several large US airlines suggested on their second quarter earnings calls that they expect 2023 capacity to be up more than 15 percentage points from current levels.

As we look forward to the balance of 2022, we are optimistic for a few different reasons. First, over the last 18 months, we have seen a strong correlation between hospitality and distribution booking curves with hospitality as a forward indicator of improvement. On this chart you can see the improving hospitality trend. Even though it is less COVID related than prior months, the correlation is still evident. Second, forward air bookings for travel in August, and more specifically September and October are tracking similar to that experienced in stronger recovery months. If these trends continue we would assume that passengers are currently looking beyond the near-term operational issues and that any recessionary pressure has not yet impacted future travel.

Slide 6 - Large international opportunity, particularly in APAC

Moving to slide 6.

As we've discussed before, international bookings are generally more profitable than domestic bookings for Sabre. Consequently, as international flying returns more fully, we expect our profitability to improve.

To provide context for this opportunity, the table presented here shows Sabre's net air booking recovery by region broken out between domestic and international flying. On a global basis, in June Sabre's international recovery was only about 6 percentage points below domestic. However, we believe Expedia's share reduction masks the true international recovery opportunity because Expedia's bookings are mostly low-margin, North America domestic bookings. Excluding Expedia and its weighted bookings from the relevant periods, in June Sabre's global domestic recovery versus 2019 was about 25 percentage points more than international.

In Asia Pacific, international bookings have only recovered to about 40% of 2019 levels. The willingness to fly in that region is strong as evidenced by the domestic recovery, but current travel restrictions greatly curtail APAC international flying. We estimate that if APAC were to recover to the average of other regions, it would increase our annualized revenue by more than $100 million.

Let me now turn the call over to Kurt to walk you through what the trends I just outlined mean for our Financial Outlook and to provide an update regarding our technology transformation.

Slide 7 – 2022 Financial Outlook – Increasing Revenue and Adj. EBITDA outlook

Kurt Ekert, President

Thanks, Sean and hello everyone.

I'd like to echo Sean's thanks to my fellow Sabre teammates around the world. I've been here seven months now and really appreciate the hard work of each of my teammates to serve our customers and drive Sabre forward.

Turning to Slide 7.

Today we increased our 2022 revenue and Adjusted EBITDA outlook for each of the booking recovery scenarios. We expect Adjusted EBITDA to exceed our prior expectation by at least $85 million under each of the bookings recovery scenarios. The improvement in forecast includes our better than expected second quarter Adjusted EBITDA of $24 million, which was driven in part by stronger than anticipated revenue per booking as our business mix improved. In addition, we expect to add incremental bookings in the back half of the year from recent new customer contracts.

Slide 8 – Travel industry bookings have historically been resilient

Moving to slide 8.

Given recent concerns regarding a possible economic slowdown, we thought it would be useful to provide perspective for how COVID impacted global air travel in 2020 to 2022, and compare that to how recessions have historically reduced travel.

As you can see from the table on the right side of this slide, global airline passengers tend to grow at a multiple of GDP, and air travel also tends to be economically resilient. In past economic downturns, the largest calendar year drop in global passengers was only about three percent. Typically, when a recession occurs, airlines reduce fares and find price elastic passengers willing to travel at a discount.

The COVID pandemic's effect on air travel, as you can see in the chart, was completely different. For perhaps the first time in modern aviation history, due to global travel restrictions, there were essentially no customers able to take advantage of lower airfares. Airlines resorted to slashing capacity, reducing staff, raising capital and waiting for travel lanes to re-open. As the COVID crisis has receded, we are seeing airlines reverse these decisions. They are adding capacity, staffing back up, and preparing for more normal times.

We estimate about 1.5 billion fewer airline passengers will fly in 2022 than would have had the COVID pandemic not happened. This admittedly rough estimate represents the gap between how many global passengers we estimate will actually fly this year and the number of global passengers in 2019 grown at just 2.5% each year to 2022.

Slide 9 – We are advancing our technology transformation

Please turn to slide 9.

As we've highlighted many times, our technology transformation, including the mainframe offload and migration to Google Cloud, is a key driver of expected savings and margin improvement by 2025. Additionally, our technology transformation is expected to unlock many product enhancement opportunities while significantly increasing our productivity, flexibility and speed to market – which we believe will resonate with our customers.

I am pleased with the progress we made in the second quarter toward our 2022 technology milestones and our tech transformation remains on track to achieve stated goals by the end of 2024. As a reminder, our two key technology milestones for 2022 are to exit our Sabre-managed data centers and migrate to Google Cloud, and to offload Passenger Name Record, a customer reservations database, from the mainframe to Google Cloud and begin client migrations.

In the second quarter, we migrated Hospitality Solutions' Community Central Reservations System on-schedule to Google Cloud Platform. This was a solid win for our overall Cloud Migration efforts as the CCRS is the largest Hospitality Solutions' platform, with more than 30,000 properties. Our Hospitality business can now unlock the benefits of greater scalability, agility and velocity provided by Google Cloud.

During the second quarter, we also completed a regional extension of Google Cloud Platform in Pryor, Oklahoma. This regional extension is expected to facilitate rapid migration of databases currently hosted in Tulsa.

Finally, we increased our share of servers on Google Cloud by another eight percentage points since the first quarter of 2022. As of June 30, we had 36% of our total servers in Google Cloud Platform and continue to expect to end the year with 65% of servers in Google Cloud and 90% of servers in a public cloud.

I'll now hand the call over to Doug.

Slide 10 – Significant financial improvement continued in Q2'22

Doug Barnett, CFO
Thanks Kurt, and good morning everyone.

Turning to Slide 10. Our financial results in the second quarter of 2022 came in better than expected as the travel recovery accelerated and our mix of business improved.

Total revenue was $658 million, a significant improvement versus revenue of $420 million in Q2 last year primarily due to the continued recovery in global air, hotel and other travel bookings.

Distribution revenue totaled $432 million, a near doubling of Q2 2021's $218 million. Our Distribution bookings totaled 81 million in the quarter. Compared to 2019, net air bookings recovered to 52%, 56%, and 60% in April, May and June and 56% in the quarter as a whole. Our average booking fee of $5.35 in the second quarter exceeded our forecast as our business mix continued to improve and cancellation activity was lower than expected. The $5.35 average booking fee in the second quarter compares to $5.28 last quarter, $4.96 in the fourth quarter of 2021 and $4.59 in the third quarter of 2021. Additionally, the average booking fee attained in 2Q was 10.7% higher than in the same period in 2019. The continued sequential improvement is consistent with the broadening of the recovery into more profitable regions and types of travel.

IT Solutions revenue totaled $168 million in the quarter, an improvement versus revenue of $155 million last year. This is a solid result considering we sold our Air Centre portfolio in the first quarter of 2022, which created a challenging year-over-year comparison.

Passengers boarded totaled 160 million, representing an 89% recovery versus the second quarter of 2019.

Hospitality Solutions revenue totaled $66 million, an improvement versus revenue of $51 million in Q2 2021. Central reservation system transactions were at 102% of 2019 levels and totaled 30 million in the quarter.

Adjusted EBITDA of $24 million showed significant year-over-year improvement as recovery from the COVID-19 pandemic continued. The strong year-over-year improvement in revenue in the quarter was partially offset by increased Travel Solutions incentives expense and Hospitality Solutions transaction fees from higher volumes. As expected, our technology costs increased due to higher hosting costs associated with the volume recovery, and higher labor and professional service expenses associated with our technology transformation.

Operating income, net income and EPS all improved versus the prior year quarter.

Free Cash Flow was negative $89 million in the second quarter. We continue to expect revenue, earnings and free cash flow to follow a pattern similar to what we experienced in 2021, with the back half of the year stronger than the front. We expect free cash flow to turn positive in the fourth quarter of 2022.

During the second quarter we closed our $80 million investment in shares of Global Business Travel Group, or GBT. This payment is an investing cash flow and therefore is not considered part of Free Cash Flow. We ended the second quarter with a cash balance of about $1 billion.

In conclusion, the second quarter of 2022 was better than expected, we are making solid progress on our technology transformation, and we continue to drive toward the medium-term financial objectives previously outlined.

Sean, back to you.

Slide 11 – Thank you

Sean Menke, Chair of the Board and CEO

Before I open the call for Q&A, I want to express my thanks to Doug and wish him a fantastic retirement. Doug's tenure with Sabre included the largest exogenous shock ever faced by the company – a global pandemic. Doug and his finance team quickly secured the liquidity and financial flexibility to ensure we could manage through the pandemic without having to stop investments critical for our future, including our technology transformation. During his time at Sabre, Doug also oversaw the execution of multi-year agreements with Google and DXC as well as the consolidation of our global headquarters, including its sale and lease-back. Additionally, Doug has led the investment in Global Business Systems expected to greatly improve our efficiency and support new business models for the future.

Doug will be retiring from Sabre at the end of October. You may have seen our announcement last week that Mike Randolfi will be joining Sabre as our new Chief Financial Officer later this month to allow a period of transition between the two leaders.

Doug, I know I can speak for all of our Sabre teammates in wishing you great happiness in your next adventures. Thank you for all you've done.

Operator, please open for Q&A.