Q3 2021 Earnings Call Script

November 2, 2021

Slide 1 – Title Slide

Good morning and welcome to the Sabre third quarter 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 third 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 second quarter 2021 10-Q and 2020 Form 10-K.

Throughout today's call, we will also be presenting certain non-GAAP financial measures. All 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, and Doug Barnett, our Chief

Financial Officer. Dave Shirk, our President of Travel Solutions, and 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, President & CEO:

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

We have a lot of material for you today, so let me give you a quick overview of the topics we will cover. I'll start today's call by discussing how Sabre's business strategy has evolved, taking into consideration changes in the travel ecosystem brought on by the COVID-19 pandemic. I'll also provide details regarding the announced sale of our AirCentre operations portfolio to CAE, and how that sale fits into our strategy. Then I'll provide an update regarding the ongoing travel recovery, including specific booking, passengers boarded, or PB, and hospitality CRS transaction trends. I'll also provide you with data regarding how the US opening for international travel starting in November has improved bookings trends. Then, I'll provide a commercial and technology update, where we are very active and making great progress. Finally, I'll turn the call over to Doug to walk you through the quarter results and key financial metrics.

But before I start, I'd like to thank all my Sabre teammates around the world. Sabre is moving at an accelerated pace, not just in response to the impacts of the COVID pandemic, but also as we rapidly advance modern retailing and develop a new marketplace for personalized travel. In this pursuit, my teammates are working extraordinarily hard, and I'm very appreciative and proud of their results.

Slide 5 – Focused strategy to accelerate unlocking shareholder value

Turning to Slide 5. The COVID-19 pandemic unambiguously impacted travel demand – whether business or leisure, domestic or international. We believe it also fundamentally changed the way the travel industry, Sabre included, will operate going forward.

Given this evolving landscape, we have been taking a critical look at Sabre, challenging norms, and re-examining the way we do business. Our review focused on industry trends and technology, current and future capabilities, desired growth and returns, ongoing investment requirements, and financial health and flexibility. We believe this exercise was necessary to help position Sabre for long-term success.

The assessment reinforced what we already knew – that our customers view incremental revenue generation via advanced merchandising, analytics, distribution and booking capabilities as a key priority on the path to recovery. It also showed that we arguably have some areas of our business, that while important to our customers, aren't core to our future or require substantially more investment to scale and achieve their optimal potential.

Given these conclusions and our strong belief in a broad, global recovery, across both business and leisure travel, we are focusing our strategy to capitalize on post-pandemic opportunities and with the goal to accelerate the unlocking of shareholder value. Specifically, our strategy is to:

- Narrow our current business and streamline specific aspects of our product portfolio,
- direct our investments and team member resources to the activities that generate revenue through the retailing, distribution and fulfillment of personalized travel experiences,
- execute on specific initiatives that complement and expand travel distribution capabilities,
- deliver our technology transformation, while continuing to accelerate our innovation and migration to Google Cloud,
- leverage the leadership team to bring us into the future, while attracting, developing and retaining key talent throughout the organization, and
- maintain our financial strength and flexibility to support our strategic plans.

We believe this focus will enable us to accelerate our growth. The sale of our AirCentre portfolio is an illustration of a step we are taking to achieve our objective of simplifying our business and streamlining our product portfolio.

Looking to the future, any other potential announcements would be made within the strategic elements identified.

Slide 6 – AirCentre sale to CAE Inc. supports strategy

Moving to slide 6. On October 28, we announced that we've entered into a definitive agreement to sell AirCentre to CAE Inc. for $392.5 million in cash. AirCentre is our airline operations suite that generated about $150 million in revenue, or about 4% of total Sabre revenue, in 2019, which we consider to be a more useful comparison than 2020.

Although AirCentre is a valuable suite of solutions designed to help airlines operate their businesses with efficiency and precision, its products are not associated with creating, distributing or fulfilling personalized retailing experiences. Therefore, we believe it now makes sense for another company to steer the AirCentre portfolio going forward.

Pending the timing of relevant regulatory approvals, which could impact our timeline, we are targeting a closing date in Q1 2022. At closing, CAE will acquire AirCentre, related technology and intellectual property, and AirCentre employees will transition to CAE. I want to acknowledge that this is a major change for those transitioning teammates, and thank the entire AirCentre team for the hard work and dedication that have made it a leading portfolio.

Subsequent to the closing of this transaction, a Transition Services Agreement, or TSA, will go into effect. The TSA estabilishes the period of time during which Sabre will assist CAE in building the necessary environment to operate the AirCentre portfolio, manage customer relationships and monitor the health of related systems. In return, CAE will compensate Sabre for the costs of these activities. Doug will provide additional detail on how the sale will impact our reported financials.

We believe this is a win-win-win scenario for everyone involved. This transaction is expected to benefit airline customers, CAE, team members, and Sabre. AirCentre customers, many of whom already work with CAE, get a technology partner who specializes in the vital role that AirCentre technology plays in airline operations and who has indicated they are committed to investing in future developments in this area. CAE acquires a product suite they see as a growth area for their business. The Sabre team members who currently work in AirCentre will move to CAE and become a part of a major player in the airline operations space. Sabre is able to keenly focus on its core assets, priorities and innovation related to personalized travel. The cash proceeds from the sale will create optionality for continued investment in our business, across a more streamlined portfolio in product areas we believe have the highest returns, and/or pay down debt.

Slide 7 – Travel Solutions will focus on next-gen airline retailing, distribution and fulfillment

Slide 7 depicts the IT Solutions products within Sabre's Travel Solutions business. On the left side are the capabilities that will remain with Sabre. These include our Passenger Service Systems, SabreSonic and Radixx, as well as the rest of our airline retail, distribution and fulfillment capabilities.

AirCentre is a distinct portfolio within Travel Solutions that is supported by about 500 employees. It includes operations software such as flight and crew management, recovery and airport resource management. Post-divestiture, we expect to no longer offer airline and airport operations software.

We intend to continue leading the industry in next-generation retailing. While operations software, such as crew scheduling, is important, we don't believe it drives revenue growth or customer loyalty for airlines. The flexible and intelligent nature of our retailing solutions, including our passenger service systems, helps airlines offer modern retail experiences, enable personalized travel and better serve the end consumer. We are also focused on advancing our intelligent retailing solution for hoteliers to optimize revenue while improving the guest experience.

With the use of artificial intelligence and machine learning capabilities, we believe we are helping to shape the future of travel retailing, and that we can provide the reliable performance, scalability, industry reach and global support to help airlines and hoteliers move forward in this dynamic environment.

Slide 8 – Financial impact of AirCentre sale

Slide 8 shows the mix of our 2019 revenue including and excluding AirCentre. Our mix of revenue remains relatively unchanged.

In 2019, AirCentre contributed revenue, EBITDA and CapEx of approximately $150 million, $55 million and $20 million, respectively. This year, we expect AirCentre to contribute revenue of approximately $115 million to $125 million, EBITDA of approximately $30 million to $40 million and CapEx of approximately $5 million to $10 million.

Therefore, the sale as a multiple of 2021 EBITDA was approximately 11 times.

Slide 9 – Better positioned post-divestiture

Turning to Slide 9. Before I provide an update regarding travel booking trends, let me summarize the AirCentre transaction. The sale adds $392.5 million of liquidity for 4% of our pre-COVID-19 revenue base. It allows us to focus our resources on our core compentencies to help generate higher returns. Finally, and very importantly, the sale does not change our expectation that Sabre will operate with higher margins and operating leverage post-COVID-19.

Slide 10 – Recovery picked up momentum again in September

Turning to Slide 10, after a slowdown in travel bookings beginning mid-June associated with increased Delta variant COVID-19 cases, we've seen volume trends start to improve again across Distribution, IT Solutions, and Hospitality Solutions.

As has been the case since the start of the recovery, hotel CRS transactions are leading, down 10% in October through the 28th, versus the same period in 2019.

IT Solutions Passengers Boarded are also stronger, down 33% in October through the 28th versus 2019.

Finally, Distribution gross bookings recovery in October is trending to be back in line with what we saw in June, down 54% through October 28th versus 2019. In fact, the 7-day moving average toward the end of October is the highest point of recovery we have seen to date. We are encouraged the that current recovery is being driven by all regions. Most importantly, we are seeing improving international and business booking trends, which are higher margin versus the lower margin leisure bookings specific to the U.S. that were an early driver of travel recovery.

Slide 11 – Latin America is leading the air bookings recovery

Turning to slide 11, the chart on the left shows weekly GDS industry net air bookings by region. The positive standout region is Latin America, which recently passed North America as the region with the strongest recovery, at 68% of 2019 bookings in October through the 28th. This should benefit Sabre, given our position in the region. Asia-Pacific bookings, even though still depressed, have seen significant improvement in the trendline as more markets begin to reopen.

The chart on the right shows the inverse relationship between COVID-19 new case counts in the United States and North American GDS bookings. With vaccinations continuing to increase globally and new COVID-19 cases declining again, we feel optimistic about the near-term bookings outlook.

Slide 12 – Air bookings showed strongest recovery in October

Turning to slide 12. This is a different view of the data, but the themes are the same. The global travel recovery, which was quite strong through mid-June, slowed in July and August but reaccelerated in September. October data through the 28th showed further improvement in all regions for both the GDS industry and for Sabre.

Slide 13 – U.S. bookings increased as restrictions were reduced

Turning to slide 13. As we've expressed on previous calls, we believe the greatest inhibitors to global travel recovery are the ongoing, and changing, travel restrictions throughout the world. The latest proof point for this view is the increase in bookings into and out of the United States in response to the announcement made on September 20th that inbound travel restrictions will become more relaxed starting November 8th. Despite the US still requiring foreign travelers to be fully vaccinated and show proof of a negative COVID-19 test or documentation of COVID-19 recovery, daily bookings made to and from the US have nearly doubled since the announcement.

We remain optimistic about the return of corporate travel. With nearly 60% of the US population now fully vaccinated, companies are starting to bring employees back to offices and planning in-person meetings and gatherings. We strongly believe there is pent-up demand for businesses to resume travel to cultivate relationships and compete. In late September, the Global Business Travel Association's "Coronavirus Recovery Poll Results" reported that 73% of respondants have already resumed or plan to resume traveling domestically for business by next year, and more than a third of travel managers say their company relies more on TMCs now than before the pandemic.

We have seen these encouraging signs reflected in the North American bookings at our top TMCs, which recovered to nearly 55% of 2019 levels by the third week of October. The improving corporate travel trends we have seen in our bookings data is in line with the positive trending outlooks at most major US airlines, who have indicated that they expect near-term inflection points in business demand.

Since our last call in August, and subsequent to the impact of the Delta variant on bookings thereafter, we began to see a positive shift in mid-September with pronounced improvements in both corporate and international bookings. These trends have accelerated as markets throughout the world continue to open and corporate travelers begin to hit the road. These trends are also encouraging not only for the volume increases, but because they also represent higher revenue and margin bookings.

Slide 14 – Commercial & technology update

Turning to Slide 14. As has been the case, we remain very active commercially in each of our businesses. We signed or renewed hundreds of agreements in the quarter across Travel

Solutions and Hospitality Solutions. Some of the notable logos are depicted on this slide.

In Distribution, we were happy to welcome Emirates back to our GDS marketplace with a new long-term agreement that includes the creation and distribution of NDC offers. We view this agreement as the latest proof point that full-service carriers recognize the value of the GDS and look to Sabre to help drive revenue and growth.

Additionally, Southwest Airlines' migration to full GDS participation was completed this quarter. We believe their increased participation is helping drive corporate travel for them and corporate booking volumes for us. A win-win result.

On the agency side of Distribution, the environment remains dynamic. We were notified of Expedia's intent to shift a significant portion of its GDS business in North America away from Sabre, but we expect to retain higher margin bookings that are not related to intra-North American travel. Although we expect this shift will result in the loss of some volumes, it is important to remember that not all share is created equal in the GDS. As we have discussed, US domestic leisure bookings are our lowest revenue and margin bookings. Therefore, this volume shift is anticipated to have a favorable impact on our overall average booking fee – as is evident in our Q3 results, which Doug will discuss in further detail.

On the flipside, we are seeing agencies moving more of their bookings to Sabre to consolidate their GDS strategy in response to the pandemic. For example, this quarter we won incremental North American business from the three largest corporate travel agencies of a competitor. These wins include accelerating migration of bookings to Sabre at CTM and Travel & Transport, as well as a new win with American Travel Associates.

In IT Solutions, we continue to be very pleased with our net Passenger Service System, PSS, wins. Based on the recent successful cutover of fast-growing GOL in Brazil to our SabreSonic PSS combined with other recent wins, including SCAT Airlines in Kazakhstan, we expect Passengers Boarded to be up substantially.

Additionally, this quarter we added another SabreSonic win. We expanded our presence in Asia with a long term agreement with Biman Bangladesh Airlines that also includes Digital Connect and Digital Experience.

Our low cost carrier PSS, Radixx, also had a strong quarter with three new wins including Toki Air, a Japanese startup.

Outside of PSS wins, we had key IT Solution renewals at several carriers, including Copa. We also implemented our first flight planning software in China, with Flight Plan Manager at China Eastern. Finally, our team members continue to work closely with customers to assist with changes to code sharing and alliances as airlines adjust routes, destinations and alliance structures to help prepare for life after the pandemic.

In Hospitality Solutions, in addition to many renewals including Sonesta, we added new agreements with Rebel Hospitality and several hundred Red Lion Hotels in North America, BookAssist and CitizenM Hotels in EMEA and Alvarez Arguelles in Latin America. Additionally, I'm happy to announce that the latest version of SynXis Property Hub, our modern, cloud-based, limited service property management system is broadly available to all customers. With the release, our launch customers are implementing SynXis Property Hub across more than 450 properties, and we expect that number to climb into the thousands over the coming year.

Turning to technology. We've previously identified three key technology milestones for 2021. As a reminder, the milestones are to:

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

I'm pleased to say these milestones are all on or ahead of schedule. Let me briefly provide more details.

As previously discussed, all Sabre air shopping, including both agency and airline, is running in public cloud environments. As a result, we've been able to decommission almost 2,000 servers from our Sabre-managed datacenters.

In Hospitality, we had a very successful SynXis CRS cutover for Louvre, and are now actively processing OTA and GDS reservations for them in our European GCP regions.

Finally, we are continuing to make progress building GCP foundations in support of our mid-range workload migration. We are on track to meet or beat our goal of having 15% of midrange workloads migrated to GCP by year end.

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

Doug Barnett, CFO:

Thanks Sean, and good morning everyone.

Slide 15 – Significant YOY financial improvement in Q3'21

Turning to Slide 15. As expected, the COVID-19 pandemic continued to weigh heavily on our results in Q3. However, the third quarter showed significant financial improvement versus Q3 of 2020.

Total revenue was $441 million, a significant improvement versus revenue of $278 million in Q3 last year due to the continued recovery in global air, hotel and other travel bookings.

Distribution revenue totaled $245 million, an improvement versus revenue of $105 million in Q3 2020. Our Distribution bookings totaled 54 million in the quarter. Compared to 2019, net air bookings were down 60%, 65%, and 62% in July, August, and September, and down 62% in the quarter as whole. Said another way, bookings recovered to 38% of 2019 levels in the third quarter.

As Sean mentioned, our third quarter bookings were impacted by some share shift activity. Even though booking volumes went down sequentially this quarter, largely driven by seasonal trends and the COVID-19 Delta variant, our Distribution revenue increased quarter over quarter. Meaning, we made more money off a lower bookings base due to a more favorable business/leisure and domestic/international mix shifts, as well as the accretive impact the share shift had on our average booking fee. Our average booking fee in the third quarter was $4.59, versus $3.90 and $3.84 in the first and second quarters of this year. We expect the Expedia share shift activity to result in a bookings impact of approximately 55 million to 70 million and an EBITDA impact of approximately $15 million to $20 million in full-year 2022.

Our IT Solutions revenue totaled $145 million in the quarter, an improvement versus revenue of $132 million last year. Passengers boarded totaled 116 million, representing a 62% recovery versus the third quarter of 2019. Sequentially, recall that the second quarter benefited from some upfront revenue recognition due to new implementations that went live ahead of schedule.

Hospitality Solutions revenue totaled $55 million, an improvement versus revenue of $45 million in Q3 2020. Hotel bookings continued to lead the COVID-19 travel recovery. Central reservation system transactions recovered to 88% of 2019 levels and totaled 27 million in the quarter.

EBITDA showed meaningful year-over-year improvement but remained 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, increased labor and professional service expenses including internal investments in risk and security, business systems and consulting related to our business strategy, as well as increased litigation costs.

Recall that in the third quarter of 2021, we began to anniversary the longer-term cost savings actions put into place in Q3 2020, including the renegotiation of our DXC contract and reduction of about 15% of our workforce. Exiting September, our headcount was down 21% versus 2019 year-end.

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

Free Cash Flow was negative $83 million in the third quarter, a significant sequential improvement versus Q1 and Q2 of this year.

As Sean mentioned, the agreement to sell AirCentre to CAE Inc. for $392.5 million in cash represents approximately an 11 times multiple of 2021 EBITDA.

When we report fourth quarter 2021 results and until the transaction closes, the AirCentre assets will be treated as “held for sale” on our balance sheet, while their operating results will remain included in our P&L. When the transaction closes, which we expect to occur in the first quarter of 2022, Sabre will no longer recognize revenue associated with AirCentre products. Although our reported passengers boarded will not be impacted, our revenue per passenger boarded for IT Solutions will be lower. Additionally post-close, AirCentre employees will transition to CAE and the Transition Services Agreement will go into effect. We will be compensated by CAE for the costs related to the TSA activities. Any additional costs associated with transitioning the business will be excluded from our Adjusted results.

Slide 16 – Strengthened and flexible liquidity position

Turning to slide 16. We ended the quarter with a cash balance of $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, which is expected early next year. This divestiture creates optionality with regard to how we invest going forward. We plan to continue to invest in our business, across a more streamlined portfolio, and in product areas we believe have the highest returns. Our target leverage ratio remains unchanged at 2.5x – 3.5x. Therefore, this sale also creates optionality to potentially pay down debt.

As you are no doubt aware, we have taken quick and decisive actions since the onset of the pandemic to reduce our cash usage and raise additional liquidity. In addition to the proceeds from the expected sale of AirCentre, we announced that we established an at-the-market equity distribution program in August. This ATM program is a continuation of our thoughtful approach on liquidity. To date, we have not sold any shares pursuant to the ATM. However, we maintain the flexibility to raise up to $300 million before the end of 2022, as-needed or opportunistically. We expect to update you on the ATM program on a quarterly basis.

With that, I'll turn it back to Sean.

Slide 17 – Thank you

Sean Menke, President & CEO:

Thanks Doug.

In conclusion, with the travel environment continuing to improve, the benefits of our technology investments taking hold and with our focused strategy, we believe Sabre is well positioned to take advantage of post-pandemic opportunities and unlock shareholder value.

I'll end by once again thanking my Sabre teammates around the world..

Operator, please open for Q&A.