Q2 2023 Earnings Call Prepared Remarks

August 3, 2023

Slide 1 – Title Slide

Good morning and welcome to the Sabre second quarter 2023 earnings conference call. As a reminder, please note today's call is being recorded.

I will now turn the call over to the Sr. Director of Investor Relations, Brian Roberts. Please go ahead, sir.

Slide 2 – Forward-looking statements

Brian Roberts, Sr. Director of Investor Relations

Thank you, and good morning everyone. Welcome to Sabre's second quarter 2023 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 advise you that our comments contain forward-looking statements that represent our beliefs or expectations about future events, including the ongoing recovery from the effects of COVID-19, industry trends, benefits from our technology transformation, commercial and strategic arrangements, strategic priorities, our financial outlook and targets, expected revenue, Adjusted EBITDA, free cash flow, costs and expenses, cost savings and reductions, 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 2023 Form 10-Q.

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 Kurt Ekert, our President and CEO, and Mike Randolfi, our Chief Financial Officer. Scott Wilson, EVP and President of Hospitality Solutions, will be available for Q&A after the prepared remarks.

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

Slide 4 – Agenda

Kurt Ekert, President and CEO

Thanks, Brian.

Good morning everyone and thank you for joining us today.

I'm pleased this morning to be joining you to discuss our accomplishments for the second quarter, and highlight the upward trend in the underlying fundamentals within our business. In the second quarter, we significantly exceeded our financial expectations and believe this performance is indicative of Sabre's ability to compete and win in the dynamic, global travel technology marketplace. We see positive momentum across our key business segments that gives us the confidence today to raise our 2023 Adjusted EBITDA guidance. We remain focused on the core strategic objectives that we outlined on our conference call last quarter, and I am pleased that Sabre is delivering on our priorities. Furthermore, we are on a durable path toward Sabre's 2025 financial targets of Adjusted EBITDA of greater than $900 million dollars and free cash flow of greater than $500 million dollars.

Before jumping into the detail of today's call, let's walk through the Agenda. On Slide 4 you can see an overview of the topics Mike and I will cover.

First, I will review our business highlights from the second quarter, and then I'll take a few moments to describe some of the underlying data that we're seeing that supports our near-term revenue expectations. Next, I'll provide detail on our customer successes during the second quarter, and then update the progress on our technology transformation.

Finally, Mike will take you through the financial results for the second quarter, and provide an update to our 2023 outlook.

Slide 5 – Q2 Highlights: Delivering on our priorities

Turning to Slide 5.

As a reminder, these are the four key strategic priorities that form the foundation of our long-term direction for the company. As I refer to each priority, I will provide proof points and recent accomplishments from the second quarter that highlight our progress towards achieving each of these objectives.

First, generating positive free cash flow and de-levering the balance sheet remain our most important financial objectives. Solid operational execution and improving business fundamentals combined to deliver better Q2 results than we had anticipated. As I stated previously, we are pleased to be able to increase our 2023 Adjusted EBITDA guidance here today, and we now also expect revenue to be within the upper half of the original guidance we provided on the February earnings call. During the quarter, we also refinanced a significant portion of our nearest-term 2025 debt maturities, which Mike will describe in more detail shortly.

Importantly, we see Sabre transitioning towards positive free cash flow generation beginning in Q3 of this year, and expect to be free cash flow positive in 2023 excluding the impact of restructuring, and then annually thereafter.

Moving to our second strategic priority, which is to deliver sustainable long-term growth, Sabre once again increased its share of industry air bookings on a year-over-year basis during the second quarter. In addition, excluding the impact of Expedia, our share of GDS industry volumes has improved versus both second quarter 2022 and 2019 levels. Our efforts to expand our business with agencies and new airline partners continues, and is the backbone of the distribution growth strategy that we outlined last quarter. We also achieved significant success with customers across each of our businesses during the second quarter that we expect will support our growth in the coming years.

Our third strategic priority is to drive innovation and enhance our value proposition with both existing and new customers. Our technology transformation remains a cornerstone competitive advantage in delivering our products and services quickly and reliably, and in a secure manner, to our customers. We achieved our technology migration milestones during the second quarter, and remain on track to achieve our longer-term financial and operational goals. In addition, we made important strides on several of our growth strategies that we believe will enhance our overall competitive product suite to fulfill our customers' evolving needs. For example, we expect our acquisition of Techsembly to accelerate our development of key products within Hospitality Solutions, including speeding our ability to deliver and scale our Retail Studio product suite to our hotelier customers.

Last, we have now completed the vast majority of the resource realignment and cost reduction program that we communicated last quarter. We are on track to realize $100 million dollars of reduced costs in the second half of 2023, and an estimated annualized $200 million dollars of reduced costs in 2024.

In summary, during the second quarter, our team delivered on the priorities we outlined to you back in May, and we are laser-focused on achieving our 2023 objectives and executing on our durable path towards our 2025 targets.

Slide 6 – Airline fundamentals are strong

Now let's turn to Slide 6.

Underpinning our optimism for solid industry volume growth in the coming quarters is the expected increase in capacity that can be seen here in the chart. The latest global airline schedules suggest seat growth of 15% year-over-year in the third quarter of 2023, and 19% growth year-over-year in the month of October. Industry optimism regarding further capacity growth is being driven by a host of underlying factors including rising aircraft deliveries to global carriers, further mitigation of supply constraints from labor and training shortfalls, and a healthy yield environment and load factors that indicate demand for air travel remains robust.

Regarding business travel specifically, industry surveys indicate that corporate demand is expected to be healthy in the coming quarters. Respondents to a recent corporate travel survey indicated that they expect passenger volumes to grow by double-digits year-over-year in 2H'23 and in 2024.

Despite a strong industry backdrop, we have as we articulated last quarter conservatively planned for 1-2 points of sequential industry volume growth moving forward, and should industry growth exceed this level, we would expect to realize upside to the guidance and targets we have provided.

Slide 7 – Faster air bookings growth vs. broader industry

Turning to Slide 7.

During our first quarter earnings call in May we used this table to highlight the increasing share of GDS industry bookings that we achieved in Q1, and as you can see in this slide, our share in Q2'23 again expanded on a year-over-year basis vs. Q2'22. Importantly, after removing Expedia volumes, Sabre was again a larger proportion of industry air bookings in Q2'23 than in the second quarter of 2019 and 2022.

If you compare Q2 share of industry air bookings of 33.7% to the 34.0% from the first quarter, the slight sequential change was impacted by seasonal shift in the geographic mix of bookings between quarters.

Given signed but not yet converted business and a robust pipeline, we expect that our share of industry bookings will continue to increase as we deliver on our growth initiatives.

Slide 8 – Recent commercial wins driving sustainable growth

Please turn to slide 8.

Our team is delivering many successful business wins across both Travel Solutions and Hospitality Solutions, as you can see here on this slide.

We continue to realize increased momentum in Hospitality Solutions. Most notably, we recently announced a global agreement with Hyatt under which our Sabre SynXis central reservation platform will become the main CRS for Hyatt beginning in 2024. Our platform will offer enhanced reservation capabilities and improve the overall guest experience.

In addition to the Hyatt agreement, two well-known hotelier brands based in Asia-Pacific selected our SynXis platform to help combine and streamline their IT infrastructure.

In Distribution, we were pleased to sign a new agreement with Air Canada in which Sabre will provide agencies with significantly expanded access to content and offers, including the airline's dynamically priced fares and new ancillary services. This agreement provides Sabre with long-term access to all of Air Canada's content via NDC, and represents another important example of a leading airline increasing its level of participation with Sabre.

The Sabre marketplace is a highly efficient place to buy and sell travel content, incorporating NDC offers alongside other content sources. We see NDC and GDS, or edifact content, as complementary, with NDC expanding the breadth of product available in Sabre's multi-source content platform, and enhancing our value proposition to both buyers and sellers. Recently, SAP Concur, which has the largest share of corporate online booking volumes globally, shared that Sabre will be its first NDC integration with a GDS provider.

During the first half of 2023, we doubled the number of airlines distributing NDC content through the Sabre marketplace, and last quarter additions included United and Aeromexico.

And as we previously announced back in May, we were also able to bring Air India back onto our distribution platform, which is supporting our international bookings growth and industry positioning in one of the fastest growing regions for air travel globally.

On the agency front in the second quarter, we signed a significant number of agreements. Examples include a deepening of our relationship with Lastminute, and a new long-term commitment with Internova, a top-ten agency in North America.

In IT Solutions, we are pleased with the positive response we are getting from new and existing customers to our intelligent retailing solutions. SKY Airline, the low-cost Chilean carrier growing rapidly in South America, selected our SabreSonic passenger service system for its core IT needs.

In addition, Air Serbia recently renewed its PSS agreement and is utilizing some of the latest revenue generating solutions that we produce. We also expanded our relationship with All Nippon Airways through our enhanced agreement to improve the carrier's network planning and optimization capabilities for its domestic routes. We also had additional network planning software renewals in the quarter with Air China and Delta, among others.

Last, we are also realizing very strong growth in our Conferma payments business, however we do not expect to break out these details for the foreseeable future.

In summary, Sabre achieved a number of commercial wins during the second quarter that will help us deliver on our financial goals.

I will now move on to our technology transformation.

Slide 9 – Technology transformation remains on track

Please turn to Slide 9.

Our technology transformation continues to move forward and we achieved several short-term milestones in Q2. As of the end of the second quarter, we had successfully migrated 73% of our total compute capacity to Google Cloud, up from 69% one quarter earlier.

Additionally, by the end of the second quarter, we had fully decommissioned all 15 Sabre-managed data centers. We have now also decommissioned 68% of our DXC Tulsa midrange servers, and are on track to complete the remainder on schedule by year-end.

The chart to the right hand side of the slide shows the significant improvements we are seeing in our unit cost of compute.

Overall, Sabre is on track to complete the tech transformation at the end of 2024 and deliver annual expense savings of at least $150 million dollars in 2025.

Slide 10 – Delivered cost reduction program

Now to Slide 10.

In May we announced a resource realignment to improve our organizational structure, lower costs and achieve greater efficiency. We expect these actions to deliver 100 million dollars in cost savings in the second half of 2023, and an additional 100 million dollars in savings in 2024, for a combined 200 million dollars in annualized cost reductions. We were able to complete these actions sooner than we had anticipated, and began capturing savings in the second quarter, which gives us high confidence in the overall size and timing of these actions.

Slide 11 – Key strategic priorities

Now on to Slide 11.

In closing, we delivered on our priorities in the second quarter, and will continue to prioritize free cash flow and delevering, sustainable growth opportunities, the consistent enhancement of the value propositions that we deliver to our customers, and a more efficient organization with a lower cost structure.

I will now hand the call over to Mike to walk you through our second quarter performance and our new 2023 financial expectations.

Slide 12 – Financial results exceeded Q2 guidance

Mike Randolfi, CFO
Thanks Kurt, and good morning everyone.

Please turn to Slide 12.

The second quarter was a strong quarter for Sabre. We saw industry volume growth in-line with our expectations and significantly higher average booking fees compared to Q1’23 and prior year. As Kurt mentioned, Sabre continues to grow share on a year-over-year basis. Hospitality Solutions generated double-digit revenue growth with a higher revenue per transaction, and contributed to Adjusted EBITDA generation sooner than expected. In addition, we accelerated our cost reduction efforts, which helped drive strong bottom-line results and better than expected Adjusted EBITDA and free cash flow. Overall, in the second quarter, we gained significant momentum and are optimistic for the remainder of 2023 and beyond.

Now referring to the slide. As you can see from the table, we exceeded our expectations for second quarter revenue, Adjusted EBITDA, and free cash flow.

Slide 13 – Significant YOY financial improvement in Q2'23

Turning to slide 13.

Q2 revenue was $738 million, an increase of $80 million dollars, or 12% vs. last year.

Distribution revenue totaled $530 million, a $99 million dollar, or 23% increase compared to $432 million in Q2 2022. Our Distribution bookings totaled 90 million in the quarter, a 12% increase compared to 81 million in Q2 2022. Our average booking fee was $5.87 in the second quarter, up 10% from Q2 2022. We continued to realize favorable mix into more profitable regions and types of travel resulting in higher booking fees, and we believe that further growth in international volumes should support our booking fee at this level for the foreseeable future.

IT Solutions revenue totaled $140 million in the quarter. This was a $27 million dollar decline versus revenue of $168 million in the comparable prior year period. Passengers boarded totaled 172 million, an 8% improvement from 160 million in Q2 2022. Second quarter revenue growth from passengers boarded and other IT solutions business was more than offset by the impact of $29 million in lower revenue from de-migrations, the vast majority of which was the result of the impact of changes in Russian law.

Hospitality Solutions revenue totaled approximately $77 million, a $10 million dollar, or 16% improvement versus revenue of $66 million in Q2 2022. The 16 points of revenue growth was driven by 8pts of Central reservation system transactions growth, and 8pts of higher rate per transaction. Hospitality Solutions performed significantly better than our initial expectations and has generated $1.5 million dollars of Adjusted EBITDA on a year-to-date basis. While our initial expectation was that Hospitality Solutions would be break-even for 2023, we now expect Hospitality Solutions to be a meaningful contributor to Adjusted EBITDA going forward.

Adjusted EBITDA of $73 million in Q2 2023 vs. $24 million in Q2 2022 represented a $49 million improvement year-over-year.

Free Cash Flow was negative $57 million in the second quarter including the impact of restructuring charges, which was better than our prior guidance for a range of between negative $60 million and negative $80 million including restructuring costs.

During the second quarter, we paid down approximately $48 million dollars of term loans from the proceeds of the AirCentre sale. This amount was lower than our $80 million dollar expectation discussed on the last earnings call due to the acquisition of Techsembly and additional capital investments.

We ended the second quarter with a cash balance of $727 million.

Before moving to guidance, let's discuss the actions we took during the second quarter to begin refinancing our 2025 debt maturities.

The private facility financing we completed in June, when combined with the successful tender offer on the majority of our April 2025 bonds, helped de-risk our balance sheet by reducing a significant portion of our nearest-term bond maturities.

In addition, we believe the option to defer cash interest on this facility in favor of payment-in-kind, provides substantial optionality and flexibility to our balance sheet, and we expect to utilize this feature of the facility for the foreseeable future.

With regards to the remaining 2025 maturities, our intent is to refinance our obligations with a focus on efficiency and flexibility.

Slide 14 – 2023 Financial Outlook: Raising Adjusted EBITDA Guidance

Moving to Slide 14 to discuss our guidance.

We expect third quarter 2023 revenue of approximately $725 million dollars, Adjusted EBITDA of approximately $100 million dollars, and positive free cash flow of approximately $20 million dollars, inclusive of restructuring. If you exclude the restructuring impact, we would expect positive free cash flow of approximately $50 million dollars.

With regard to sequential trends, we expect Q3 revenue to be slightly lower than Q2, driven by typical seasonal differences between the quarters. The primary driver of the expected sequential improvement in Adjusted EBITDA in Q3, to approximately $100 million dollars, from $73 million in Q2, is a near full-quarter impact of our cost reduction efforts.

And on free cash flow, we expect to generate approximately $50 million dollars in Q3, excluding the impact of restructuring, due to the sequential improvement in Adjusted EBITDA, and typical, favorable seasonality in working capital dynamics.

As a reminder, our mandatory preferred shares will convert into common equity on September 1st, 2023. Following this conversion, our share count will rise by approximately 47 million shares, and our $5 million dollar payment on September 1st will be our last quarterly dividend payment on these shares.

We expect fourth quarter 2023 revenue of approximately $700 million dollars, Adjusted EBITDA of approximately $110 million dollars, and positive free cash flow of approximately $70 million dollars, inclusive of restructuring. Excluding restructuring, we expect positive free cash flow of approximately $85 million dollars.

With regard to sequential trends, as noted, we expect Q4 revenue at approximately $700 million to be roughly $25 million dollars lower than in Q3, driven by typical seasonality in air distribution bookings. As a reminder, and as discussed on prior earnings calls, the fourth quarter typically generates approximately 10% fewer air distribution bookings than the quarterly average for a given year.

Despite sequentially lower revenue in the fourth quarter vs. the third quarter, we expect a sequential improvement in Adjusted EBITDA in Q4, to approximately $110 million dollars, from $100 million in Q3, driven by the full realization of our cost reduction efforts.

And on free cash flow, we expect to generate approximately $85 million dollars in Q4, excluding the impact of restructuring, due to the sequential improvement in Adjusted EBITDA, and typical, favorable seasonality in working capital dynamics. Sabre's fourth quarter has historically been a seasonally strong period for free cash flow driven by timing of when we receive partner receipts in the fourth quarter, versus when we make agency payments in the first quarter.

For the full year 2023, we now expect revenue to be within the upper half of the original revenue guidance range provided on the February earnings call, and is now expected to be between $2.9 billion and $3.0 billion dollars.

In addition, we now expect higher adjusted EBITDA for the full year 2023 of approximately $340 million, above our prior guidance for Adjusted EBITDA of between $300 million and $320 million dollars. We believe the favorable revenue performance we have seen in the second quarter and the cost actions we have already taken support the higher Adjusted EBITDA guidance. While we are very optimistic about the potential for air distribution industry volume growth, we continue to conservatively base our projections on a 1-2 percentage point sequential improvement going forward.

Also, as noted on our prior earnings call, we expect to be free cash flow positive for the full year 2023, excluding the impact of restructuring.

Included in our assumptions for free cash flow in 2023 are restructuring costs of approximately $70 million dollars, and capital expenditures of approximately $80 million dollars. We increased a portion of our investment spending to support development of certain strategic growth initiatives, such as our multi-source content platform, including NDC, and Hospitality Solutions. We will continue to focus on consistent improvement through product optimization and expect that it will allow us to proactively meet the needs of the evolving travel marketplace. We expect capital expenditures to be in a similar range as 2023 in future years based on this increased investment.

We also now expect approximately $375 million dollars in cash interest costs for the full year 2023. Additionally, our working capital initiatives are on track and we expect to generate at least $125 million in positive cash flow benefits this year from these actions.

The second quarter was a meaningful step forward towards the strategic priorities that Kurt highlighted earlier. We continue to believe the company is on a durable path towards achieving long-term targets of greater than $900 million dollars in Adjusted EBITDA and greater than $500 million in free cash flow in 2025.

And with that Operator, please open the line for questions.