Sabre

Q3 2022 Earnings Call Prepared Remarks

November 2, 2022

Slide 1 – Title Slide

Good morning and welcome to the Sabre third quarter 2022 earnings conference call. My name is…and 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 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 Q2 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 Mike Randolfi, 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, Mike and I will cover on today's call.

As usual, 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 the significant progress we made in the third quarter toward our technology transformation and provide further perspective for how our technology architecture is changing. He will also update you on a few key commercial accomplishments in the quarter.

Finally, Mike will take you through the financial results of the quarter and our financial outlook for the remainder of 2022.

Before I start, I want to thank my Sabre team members worldwide. Over the past few months I have been able to travel and meet with many of them. The fantastic work they are doing for our customers is helping drive us to be the premier global technology platform in travel.

Slide 5 – Recovery reaccelerated late in Q3 2022

Turning to Slide 5.

I am pleased to report that air booking volumes improved considerably throughout the quarter. Volumes, specifically in July were impacted by both airline and airport operational constraints. As the quarter progressed we saw solid improvements which translated into our best quarter of recovery since the onset of the COVID-19 pandemic. These positive trends continued in October. The current strength is attributable to the global recovery, with Asia-Pacific the most pronounced.

The total Distribution bookings recovery in the third quarter was 57% versus the same period in 2019. This equates to a 64% revenue recovery as a result of the higher booking rate achieved in the third quarter of 2022 versus the third quarter of 2019. Higher revenue per booking resulted from a continued improvement in international travel.

IT Solutions Passengers Boarded recovered 96% in the third quarter, versus the same period in 2019.

Hotel CRS transactions in Q3 were 104% compared to the same period in 2019.

Our key metrics remained strong in October. Specifically, as of the 26th of October, Distribution bookings were 60% versus the same period in 2019, passengers boarded excluding Radixx volumes were 86%, and CRS transactions were 109%.

Slide 6 – APAC recovery accelerating as travel restrictions relax

Moving to slide 6.

Last quarter we noted a $100 million annualized revenue opportunity if our Asia Pacific region were to recover to the average recovery of other regions. I am very pleased to say we are starting to see further positive signs in this region, particularly in international markets, which have been slowest to recover. As we've discussed before, international bookings are generally more profitable than domestic bookings for Sabre. Accordingly, as international flying returns more fully, we expect our profitability to improve.

Within APAC, our bookings improvement has been most pronounced in Taiwan and Hong Kong, where travel restrictions have recently been relaxed. Hong Kong bookings started Q3 at just 16% of the same period in 2019. By the end of the quarter, the recovery there was 29%. Taiwan is an even better story, with the quarter starting at a 17% recovery and ending at 45%.

Slide 7 – Air fares suggest continued demand strength

Turning to Slide 7.

Although we are aware of the concerns regarding global economic growth, we don't see evidence of a slowdown in either leisure or corporate demand. In fact, we have seen fares globally remain very strong and well above the fares prior to the COVID-19 pandemic. We see this effect for domestic and international flights, as depicted here, but also for leisure travel, which tends to book well in advance of departure, and for close-in corporate travel. Our own internal review of fares being sold at walk-up, advance purchase between 7 and 21 days, and 21 days and beyond are well above 2019 levels. It is also important to note that the average fare disparity between the purchase dates is very small. Historically there has been a more pronounced difference in the average fares based on advance purchase periods.

Higher air fares encourage airlines to increase the number of seats they plan to fly. In fact, we are seeing this materialize with the large US network carriers. Current marketing schedules loaded for these carriers in the first quarter of 2023 reflect an increase in total seats to be flown of 1.6 percent versus 2019. This compares to total seats being down eleven and nine percent, respectively, in the third and fourth quarters of 2022 versus the same periods in 2019. More importantly, international growth is outpacing domestic growth. In the first quarter 2023, seats to be flown internationally are currently up 3.4 percent versus being down approximately ten percent and 3.5 percent in the third and fourth quarters of 2022 versus the same periods in 2019.

Slide 8 – Airline bookings are typically resilient during recessions

---

Moving to Slide 8.

We thought it would be helpful, given the news flow regarding a possible economic slowdown, to present this slide again this quarter. We believe it provides perspective for how significantly COVID impacted global air travel in 2020 to 2022.

In short, even with the recovery to date, we believe the opportunity presented by a normalization of travel from COVID is significantly larger than the effect of any prior economic recession on global passenger traffic. Historically, the largest calendar year drop in global passengers was only about three percent. We estimate global passenger traffic in 2022 will likely be about 1.5 billion passengers below what we would expect in a normalized year, unaffected by COVID. Obviously, this is far greater than three percent.

Let me now turn the call over to Kurt to walk you through the latest regarding our technology transformation and a few commercial highlights.

Slide 9 – We are advancing our technology transformation

Kurt Ekert, President
Thanks, Sean and hello everyone.

I join Sean in thanking my Sabre teammates around the world. They are pressing hard to best serve our customers, achieve our goals and position Sabre for continued success.

Please turn to slide 9.

We made solid progress in the third 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 third quarter, we migrated Hospitality Solutions' Enterprise Central Reservations System to Google Cloud. In October, we migrated the Property Management System, which means we have fully transitioned all of SynXis to Google Cloud. This important accomplishment is expected to make our Hospitality business more agile, improve velocity and unlock the benefits of greater scalability provided by Google Cloud. Additionally, we expect that the cost bubble associated with these actions will abate by year-end, setting up for better financial performance for Hospitality Solutions in 2023.

During the third quarter, we also migrated all air shopping from AWS to Google Cloud. This was the final step on a long journey, with initial migrations starting in 2017 when we moved the first workloads into our datacenters. We now have the processing capacity we expect to need and can focus additional energy on product enhancements that we expect will generate additional value for Sabre and our customers.

And finally, as you can see in the picture, we decommissioned and emptied our data center in Plano Texas. We have also decommissioned more than 70% of the servers in our three other data centers, in Lewisville, Austin and Carrolton.

As we've outlined before, this technology transformation is a key driver of the expected savings and margin improvement outlook we've provided for 2025. Let me now provide a bit more context.

Slide 10 – Moving tech infrastructure to our lowest cost of compute

Turning to slide 10.

Our unit cost of compute has been falling as we migrate our systems to our lowest cost infrastructure, Google Cloud. In fact, our monthly server cost on Google Cloud is less than half the cost of our data centers, both Sabre managed and DXC managed. It is also about 15% cheaper than our current monthly server costs on AWS. And this savings is before we have the opportunity to optimize our systems on Google Cloud, which we believe can create further cost savings.

Slide 11 – Simplified technology infrastructure in Google Cloud

Turning to slide 11.

This slide depicts how Sabre's computing volume has changed over the past two and a half years and how we expect it to change by the end of 2024. The takeaway from this slide is how significantly less complex we expect our technology architecture will be. By the end of 2024, as per our original plan, we expect Google Cloud to be part of the key systems we operate and to represent approximately 98% of our computing volume.

Before I turn the call over to Mike, I want to comment on recent commercial activity.

In October, we announced distribution agreement renewals with two of the largest airlines in the world, American and United. These agreements continue our long-standing relationship with these flagship carriers, and we plan to collaborate to utilize Sabre technology and solutions to help advance their retailing objectives while also meeting travel buyers' need for efficient workflows, choice, and transparency.

We also strengthened our relationship with BCD Travel, one of the largest corporate Travel Management Companies in the world. As part of this new agreement, BCD will increase its commitment to Sabre and will invest in joint technology development over the coming years. We look forward to continuing our relationship with BCD.

We expect bookings conversions to accelerate in Q4 and through the first half of 2023, in connection with BCD and our previously announced expanded relationships with American Express Global Business Travel and Hopper. We believe these expanded relationships will benefit content suppliers and travelers alike.

Mike, over to you.

Slide 12 – Significant financial improvement continued in Q3'22

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

Turning to Slide 12.

Both revenue and adjusted EBITDA results improved year over year in the third quarter of 2022 as the travel recovery reaccelerated in mid-August from the July slowdown.

Total revenue was $663 million, a significant improvement versus revenue of $441 million in Q3 last year primarily due to the continued recovery in global air, hotel and other travel bookings.

Distribution revenue totaled $431 million compared to Q3 2021's $245 million. Our Distribution bookings totaled 80 million in the quarter. Compared to 2019, net air bookings recovered to 50%, 58%, and 59% in July, August and September and to 56% in the quarter as a whole. Our average booking fee was $5.38 in the third quarter, which compares to $5.35 last quarter, $5.28 in Q1 2022, and $4.96 in the fourth quarter of 2021. The sequential improvement is consistent with the recovery extending into more profitable regions and types of travel. Additionally, the average booking fee achieved in 3Q was 13% higher than in the same period in 2019.

IT Solutions revenue totaled $173 million in the quarter. This is an improvement versus revenue of $145 million last year despite a challenging year-over-year comparison caused by the sale of our Air Centre portfolio in the first quarter of 2022.

Passengers boarded totaled 180 million, representing a 96% recovery versus the third quarter of 2019.

Hospitality Solutions revenue totaled $67 million, an improvement versus revenue of $55 million in Q3 2021. Central reservation system transactions totaled 32 million in the quarter and were 104% of 2019 levels.

Adjusted EBITDA of $34 million was significantly better year-over-year as the 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.

Adjusted operating profit, adjusted net income and adjusted EPS all improved versus the prior year quarter.

Free Cash Flow was negative $123 million in the third quarter. To provide some context, it is important to note there were some disbursements in the third quarter that typically have fallen in the second quarter. These disbursements include payroll timing and agency incentives, totaling about $40 million. In addition, we had about $10 million dollars in cash restructuring costs in the third quarter. Adjusting for these items, we would have reported meaningful sequential improvement in free cash flow from the second quarter to the third quarter.

Sabre's fourth quarter has historically been a seasonally strong period for free cash flow. Accordingly, free cash flow will turn positive in the fourth quarter of 2022, driven in part by the continued travel recovery and typical seasonal cash flow favorability.

We ended the third quarter with a cash balance of $804 million.

Slide 13 – Debt maturity profile

Moving to slide 13.

You can see a profile of our debt maturities on this slide. Our nearest maturity is $536 million of our Term Loan B in February 2024. We refinanced about 70% of this term loan in two transactions earlier this year, which was supported by strong demand by both previous and new lenders. At LIBOR plus 200, the Term Loan B is our lowest cost debt and meaningfully below what is available in markets today, which is a primary reason we have refinanced it over time. Our next nearest debt maturities, after our Term Loan B, are in April 2025. We are currently evaluating market opportunities to efficiently refinance our obligations, including our Term Loan B maturing in February 2024.

Our annual interest expense based on our current debt profile, prior to any additional refinancings, and current interest rates, is about $319 million. Our net fixed-to-floating debt is about 60%/40%. Every 25 basis points in interest rates changes our annual interest expense by about $4 million.

Given the recent moves in the US dollar, you may be wondering about our foreign exchange exposure. We have historically had about 10% of revenue and 20% of expenses denominated in foreign currency. With our weighting toward a net expense exposure, we have experienced a modest benefit from the stronger dollar. However, the impact was immaterial to our third quarter results.

Slide 14 – FY2022 Financial Outlook

Turning to slide 14.

Moving to guidance. We expect fourth quarter 2022 revenue to be slightly higher than the third quarter as the benefit of the recovery is partially offset by seasonally lower bookings. We also expect adjusted EBITDA in the fourth quarter of 2022 to be approximately $30 million, assuming a Distribution Bookings percentage recovery in the low 60s compared to the same period in 2019.

For the full year 2022, we expect adjusted EBITDA of approximately $90 million, assuming Distribution Bookings of approximately 55% versus 2019. This outlook is better than the mid-point of our prior EBITDA guidance for a recovery range of between 50% and 60%.

Importantly, free cash flow will be positive in the fourth quarter and is expected to be positive annually thereafter.

Slide 15 – Thank you

In conclusion, travel demand has remained strong and the travel recovery is extending around the world, we are on track to achieve our technology transformation goals, and we expect higher profitability going forward.

Operator, please open for Q&A.