Q1 2022 Earnings Call Prepared Remarks

May 3, 2022

Slide 1 – Title Slide

Good morning and welcome to the Sabre first quarter 2022 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 first 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 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. 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 – SABR Investment Thesis

Sean Menke, Chair of the Board and CEO

Thanks, Kevin.

Good morning everyone and thank you for joining us today.

It is no secret that the past two years have been a difficult period for the entire global travel ecosystem in which we reside. The beginning of the year was a continuation of those headwinds driven in large part by the rise in Omicron variant cases. Yet as history has shown, when we see a decline in COVID-19 cases and restriction are lifted, travel recovery can be robust. Since the decline in COVID-19 cases earlier this year, we have been increasingly encouraged by the trajectory of our business and have seen consistent sequential improvement in each of our key volume metrics week over week since January. Travel trends are improving globally and our business mix is normalizing toward pre-pandemic levels, resulting in higher unit profitability. The recovery which has historically been driven by domestic, leisure travel is being supported by strong improvements in both international and corporate travel. Accelerating activity in each of these sectors made April our best month compared to 2019 in terms of bookings recovery since the onset of the COVID-19 pandemic.

Recent forecasts by several airlines and travel agencies have been bullish regarding the outlook for the travel recovery, supporting the trends we are seeing.

Additionally, we are making solid progress toward our technology transformation, which remains on schedule to deliver expected significant savings by 2025. We believe our technology transformation will be one of the primary facilitators of higher margins and cash flow for Sabre when completed.

Bottom line, we are more bullish about Sabre's near-term recovery outlook than at any point since the pandemic started and our medium-term outlook continues to suggest the opportunity to drive EBITDA, EBITDA margin, Operating Income and Free Cash Flow higher than 2019 levels.

Slide 5 – Agenda

Turning to Slide 5 where you can see an overview of the topics Kurt, Doug and I will cover on today's call.

I'll start by providing a further update regarding the ongoing travel recovery, including specific booking, passengers boarded, and hospitality CRS transaction trends. I'll dig a bit deeper into trends than in past quarters to help provide additional perspective regarding the breadth of the current recovery.

Kurt will then provide an update regarding the solid progress we made in the first quarter on our technology transformation. Finally, Doug will walk you through the results of the quarter, and he will close with our financial outlook for 2022 and 2025.

Before I start, I want to thank my Sabre teammates around the world. As we put the challenges of the past two years behind us, I want to again express my appreciation for all that they are doing to serve our customers, support each other, transform our business, and enable a new marketplace for personalized travel.

Slide 6 – Experiencing fastest recovery since pandemic started

Turning to Slide 6.

In April, our key volume metrics, namely Distribution gross air bookings, IT Solutions passengers boarded, and Hospitality gross CRS transactions, were all at the highest level of recovery versus 2019 since the COVID-19 pandemic started. March 2022 was the second best month compared to 2019.

Hotel CRS transactions continue to lead and in April were 112% compared to the same period in 2019. On a same hotel basis, community CRS transaction volumes in April were about 82% of 2019.

IT Solutions Passengers Boarded have recovered 80% in April, versus the same period in 2019.

Finally, Distribution gross bookings recovery was 53% in April, versus the same period in 2019. If we look at Sabre and the GDS Industry recovery excluding Expedia in both periods, our Distribution gross bookings recovery in April was 64%, slightly better than the industry for the month.

Looking at the industry geographically, after a slow start in January due to the Omicron variant, the global travel recovery has been gaining substantial momentum. In particular, we are seeing a strong recovery trend in parts of the Asia-Pacific region. I'll provide more details regarding this trend in a few minutes.

Slide 7 – Leisure continues to lead the recovery

Turning to slide 7.

Domestic, leisure travel continues to lead the recovery. In April, with data through the 24th, the gap between the recovery in corporate Travel Management Company bookings and non-TMC bookings was largest in domestic markets, at about 7 percentage points. However, the overall recovery percentage versus 2019 was also greatest in domestic markets for both managed corporate, at about 66%, and leisure travel at about 73%.

International travel has recovered to about 58% of 2019, with short haul travel the least recovered due to a slower recovery in Asia-Pacific.

Slide 8 – Corporate travel recovery is accelerating

Turning to slide 8.

The chart on the left shows the bookings recovery of domestic travel since the beginning of 2021 booked through corporate TMCs and other domestic bookings, which largely represent leisure travel. As I indicated earlier, domestic leisure travel has recovered more significantly than corporate. However, as the graph on the right details, the difference in the recovery between corporate and leisure has narrowed significantly as corporate travel has accelerated.

We are also happy about what we are seeing in terms of the breadth of the corporate recovery from a sector perspective. Though still below the total recovery of most other sectors, the financial, consulting and IT sectors, which are historically heavy travellers, ended Q1 accelerating rapidly – faster than at any point since the pandemic started. These sectors also ended the quarter at their highest levels of overall recovery since the pandemic began.

Slide 9 – Domestic / International capacity is rebalancing toward normal

Turning to slide 9.

As you'd expect, airlines around the world have been trying to match their flight schedules with anticipated demand while factoring in potential global travel restrictions. This approach resulted in a capacity mix which heavily skewed toward domestic capacity, which is less profitable for Sabre, and away from international capacity, which is more profitable for Sabre. However, we are now beginning to see this reverse back toward pre-COVID-19 pandemic capacity mix, as borders reopen and testing requirements are loosened or removed.

Slide 10 – Most of Sabre's top countries are recovering quickly

On slide 10 we provide a heat map showing Sabre's top 20 countries in 2019 based on point of sale bookings and how each has been recovering weekly since the beginning of the year.

The first takeaway from this slide is that an increasing number of countries are moving out of the red into green, which is a good indicator of a geographically broadening recovery. With the exception of Russia, all of our top countries in North America, Latin America and EMEA are more than 50% recovered. Countries in the Asia-Pacific region generally continue to be slower to recover than the rest of the world but even there we are seeing improvement.

The second takeaway is that as travel restrictions are reduced, bookings tend to accelerate very quickly. We've noted this effect on prior earnings calls but the data for Australia is another example. On February 7th, Australia announced it would reopen to tourists starting February 21st. Quickly the bookings recovery in Australia went from 34%

of 2019 on January 31st to 66% by mid-March to 82% by April 18th.

I'll conclude where I started. Travel trends are improving globally and our business mix is normalizing toward pre-pandemic levels, resulting in higher unit profitability. Based on the most recent trends, we are optimistic about the outlook for our business and continued recovery.

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

Slide 11 – We are advancing our technology transformation

Kurt Ekert, President
Thanks, Sean and hello everyone. Please turn to slide 11.

On last quarter's earnings call we described how our technology transformation, including mainframe offload and migration to Google Cloud, is expected to drive a strong return on investment of over 30% and an NPV north of $300 million. We also detailed how the tech transformation is expected to prevent a 50% increase in hosting costs and avoid large capital expenditures to refresh our servers and data centers.

Finally, and perhaps most importantly, we highlighted the many product enhancements the technology transformation is expected to unlock, including faster time to market, enhanced stability and security, a global distributed cloud footprint, reduced latency, easier customer deployments and lower cost of development.

I am pleased with the progress we made in the first 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 the Google Cloud and to offload Passenger Name Record, a customer reservations database, from the mainframe to Google Cloud.

Specifically, in the first quarter, we increased our travel agency shopping volumes on Google Cloud from about 5% at the start of the 2022 to about 50/50 between Google Cloud and AWS by the end of the quarter. Additionally, all airline shopping is on Google Cloud.

In the first quarter, we also launched new Google Cloud regions in Australia and Singapore, enhancing our global footprint and allowing for faster response times.

Finally, we increased our share of servers on Google Cloud by 10 percentage points since the fourth quarter of 2021. As of March 31st, we had 28% of our total servers in Google Cloud Platform and expect to end the year with 65% of servers in Google Cloud and 90% of servers in a public cloud.

I'll now pass the call over to Doug.

Slide 12 – Significant financial improvement continued in Q1'22

Doug Barnett, CFO

Thanks Kurt, and good morning everyone.

Turning to Slide 12. Our financial results in the first quarter of 2022 came in better than expected as the travel recovery accelerated after a slow start in January. As I'll describe shortly, we also benefitted from $24 million in previously deferred IT Solutions revenue recognized in the first quarter related to an IT Solutions customer located in Eastern Europe.

Total revenue was $585 million, a significant improvement versus revenue of $327 million in Q1 last year primarily due to the continued recovery in global air, hotel and other travel bookings.

Distribution revenue totaled $343 million, an improvement versus revenue of $152 million in Q1 2021. Our Distribution bookings totaled 65 million in the quarter. Compared to 2019, net air bookings recovered to 29%, 45%, and 52% in January, February, and March and 42% in the quarter as a whole. Our average booking fee in the first quarter was $5.28, versus $4.96 last quarter, $4.59 in the third quarter of 2021 and $3.84 in the second quarter last year. The sequential improvement from the fourth quarter is consistent with the broadening of the recovery into more profitable regions and types of travel. Our average booking fee was also aided by reduced cancellation activity in the quarter.

There are a couple of puts and takes in IT Solutions this quarter. Overall, IT Solutions revenue totaled $191 million in the quarter, an improvement versus revenue of $137 million last year. This result includes $24 million in revenue recognized in Q1 2022 related to a customer located in Eastern Europe for services provided and fully paid for. The revenue had previously been deferred but became fully recognizable when a change in circumstances assured it was no longer probable that the revenue would be reversed. Additionally, the first quarter of 2022 includes only two months of revenue from AirCentre as we sold this airline operations portfolio to CAE for $392 million at the end of February.

Passengers boarded totaled 129 million, representing a 69% recovery versus the first quarter of 2019.

Hospitality Solutions revenue totaled $56 million, an improvement versus revenue of $42 million in Q1 2021. Central reservation system transactions were at 100% of 2019 levels and totaled 23 million in the quarter.

Adjusted EBITDA showed meaningful year-over-year improvement and was slightly positive in the quarter, reflecting the $24 million revenue recognition item just discussed but more importantly, the continued recovery from 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, primarily related to the technology transformation.

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

Free Cash Flow was negative $156 million in the first quarter. As we noted on our Q4 earnings call, the cash flow impact of the Omicron variant largely affected Q1 2022 rather than Q4 2021. Additionally, annual incentive compensation was paid in Q1 2022 and contributes to the seasonality in our Free Cash Flow. 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 also continue to expect free cash flow to turn positive during the second half of 2022.

During the first quarter we refinanced $625 million, or about a third of our term loan "B" facility maturing in early 2024, which extended the maturity to 2028. Subsequently, we also entered into interest rate swaps relating to about $200 million of this debt, converting floating-rate to a fixed rate basis. In total, our debt is now about 60% fixed rate and 40% floating, on a net basis. We ended the first quarter with a cash balance of about $1.2 billion.

Slide 13 – 2022 Financial Outlook – Reiterated

Turning to slide 13.
Although cosmetically the slide looks different than last quarter, our 2022 financial outlook remains the same. We removed the AirCentre scenarios as the sale of AirCentre officially closed in Q1. We also included the incremental technology transformation and SG&A investments detailed last quarter.

Looking ahead to Q2, we do not expect a repeat of the $24 revenue recognition benefit from our Eastern European IT Solutions customer and, of course, AirCentre's results will not be included in our financial results. We also expect our average booking fee in the second quarter to be between the $4.96 result in Q4 2021 and Q1 2022's $5.28 but generally trending higher over time as our mix continues to improve. For perspective, excluding Expedia bookings, our 2019 average booking fee would have been 10% to 15% higher than our reported $4.82. Finally, subject to closing, we expect to make a $80 million investment in American Express Global Business Travel during the second quarter. For clarity, this payment is an investing cash flow and therefore is not considered part of Free Cash Flow.

Slide 14 – 2025 Financial Targets - Reiterated

Turning to slide 14. Although unchanged from last quarter, we've included our 2025 financial targets in this presentation again as a reminder of our financial objectives.

We expect our revenue, profitability and Free Cash Flow to grow in the short-term as travel recovers globally. In the medium-term, 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.

We continue to 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.