Q3 2020 Earnings Call Prepared Remarks

November 6, 2020

Slide 1 – Title Slide

Good morning and welcome to the Sabre third quarter 2020 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. Thanks for joining us for our third quarter 2020 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 trends, expected advancements, cost savings 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 Form 10-Q filed on August 10, 2020 and our 2019 Form 10-K.

Throughout today's call, we will also be presenting certain non-GAAP financial measures. All references during today's call to EBITDA, Operating Loss and EPS 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 – Today's call

Sean Menke, President & CEO:

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

Before we get into the details of the quarter, I would like to first thank my team members around the world for their sacrifices and ongoing endless effort. I am humbled and very proud of what they have done for our customers and our company.

During today's call, we will focus on a few specific areas, including comments on the ongoing response to the COVID-19 pandemic and customer engagement, the continued progress with our technology transformation and product enhancements, and finally, an update on our financial and balance sheet focus.

Early on in the course of the pandemic, we took swift and decisive actions to protect our people, our company, and our balance sheet to give us additional runway to help weather this pandemic. Those actions have allowed our team to focus on controlling what we can and using this unprecedented time to challenge traditional thinking, advance innovations and position Sabre for the future.

The COVID-19 pandemic continues to suppress travel demand and impact our customers, partners, and, of course, our financial results. Importantly, Q3 booking trends showed signs of improvement from the second quarter, and we have cautious optimism for ongoing improvements.

Even in these tough times, we continue to win new business and lock in long-term commitments with some of our largest customers. Our value in the travel industry continues to be well known, as evidenced by the 1,400 airline and agency deals we've signed year-to-date. Our customers trust us to be there for them, now and on the other side of this pandemic.

We took decisive actions to reduce our cost structure, manage cash burn, extend our debt maturities and add to our liquidity position. We've also continued to invest in our technology transformation and migration to Google Cloud, which will further reduce our costs and allow for more efficient product development and deployment.

As I'll discuss in more detail in a few minutes, our partnership with Google extends well beyond just a cloud deal. In just the past two weeks, we announced two major advancements. First, we are pioneering Artificial Intelligence technology for travel. The technology, known as Sabre Travel AI ™, is powered by Google's state-of-the-art AI technology and advanced machine-learning capabilities. Second, in partnership with Google, we will be accelerating availability of the travel industry's first smart, scalable retail engine. We expect to launch Sabre Smart retail engine, the first product powered by Sabre Travel AI ™, early next year. These advancements are the next steps in our Google Innovation Framework.

Putting it all together, we have taken decisive actions to manage through the COVID-19 global pandemic while continuing to execute and deliver on our technology transformation and product capabilities that will be necessary for our customers to rebound and excel once the impact of the pandemic recedes.

Slide 5 – Q3 Bookings show modest signs of improvement vs. Q2

Turning to slide 5, industry air net bookings improved in the third quarter, slowly but steadily. In July, GDS industry net air bookings were down 94%, August was down 88% and September down 82%.

Improvement has been most pronounced in our largest market, North America. The relative strength of our regional mix helped both Sabre's gross and net air bookings outperform the industry in the quarter. North American bookings continued to recover in October and demonstrated a 20 percentage point recovery versus July growth rates.

Turning to the other regions, Latin America has also shown continued signs of improvement. Asia Pacific has been slowest to recover but has trended in the right direction.

While all other regions showed continued positive improvement in October, the improvement in booking trends stalled in EMEA. Despite this, total industry global bookings were down 80% in October.

Slide 6 – All Sabre key metrics have shown improvement vs. Q2

On slide 6, you can see all Sabre key metrics have shown improvement since record declines driven by the COVID-19 pandemic. In April, all metrics were down approximately 90% or greater. But exiting October, gross bookings were down approximately 80%, passengers boarded down 70% and gross CRS transactions down 50%.

Slide 7 – Air bookings recovery led by NAM, our largest region

The negative impact from cancellations moderated in the third quarter, as cancellations have begun to stabilize in the past few months. Looking at the GDS industry data on a weekly basis through October, you can see net booking trends have continued to improve. As I previously mentioned, this improvement is most pronounced in North America, our largest region.

Slide 8 – Passengers boarded approaching a 40% recovery

Slide 8 demonstrates that passengers boarded have also shown continued signs of improvement. Excluding airlines that remain significantly impacted by government travel restrictions, passengers boarded for our top 20 carriers approached a 40% recovery in October, versus an effectively zero volume environment in April.

Slide 9 –Hospitality recovery by region

On slide 9, you can see hotel transactions continue to outpace improvements in air bookings and passengers boarded. Hospitality industry bookings were down about 50% in the third quarter. The positive trend we were beginning to see in the EMEA region flattened and reversed due to a new resurgence of COVID-19 cases and reimplemented travel restrictions in the region.

Slide 10 – Travel industry bookings have historically been resilient

It is clear the COVID-19 pandemic has been unprecedented. On Slide 10, we provide perspective for just how unprecedented. Over the last 50 years, global travel volume has grown at a multiple of GDP. In fact, during this time, there have only been six calendar years in which global passenger volume declined, and the maximum decline was less than 2%. Over the last five decades, average annual growth has been 3.8% at its lowest and 8.6% at its highest.

We have directly benefitted from this steady growth in global travel volume. Our resilient, volume-based business model filters out noise from fluctuations in the price of air tickets or hotel room nights. While our customers may have to put a $500 ticket on sale for $200 to stimulate demand, we enjoy a transaction-based revenue stream.

Because of this and the recovery data we have shared, we feel we will be well-positioned for an early COVID-19 recovery. We strongly believe there is pent-up demand for travel and that the industry will continue to recover from this extraordinary time.

Slide 11 – Signed 1,400 airline and agency deals year-to-date

Let me now turn to a commercial update. Despite the challenges presented by COVID-19, we continue to win new business and sign key renewals. As I mentioned, we've signed 1,400 individual airline and agency deals so far this year. These are in addition to several thousand hospitality deals also signed year-to-date. Let me take a second and highlight a few that closed in Q3.

In Distribution, we were very happy to announce a distribution renewal with one of our largest customers, American Airlines. In addition, we added SAS in Scandinavia and Jeju Air, a top South Korea low-cost carrier, to the list of marquis airlines we have renewed this year. You may recall we highlighted renewals with United, Emirates and Copa last quarter.
Airlines are turning to established, efficient, robust distribution channels, such as our GDS, to fill seats and distribute their inventory far and wide in this historic low demand environment. As further proof points of this, in Q3 we also signed <u>new</u> distribution agreements with Fly Gangwon and Air Premia, both in South Korea, Thai Smile Airways, a subsidiary of Thai Airways, Air Belgium, and Voyage Air in Bulgaria.

We've also made strong progress with agencies, including a new win and competitive takeaway with Bid Travel, the largest travel agency network in Southern Africa. We also signed incremental conversions with Royal Travel in the UK, Berg-Hansen in Norway and AlFursan in the Middle East. Finally, we signed other key renewals in the quarter, such as Travelstore, the largest TMC in California; TripActions, an online travel management company; Travelmatic in Italy; and Tandem Travel in New Zealand.

Turning to our IT Solutions portfolio, after only a couple of quarters of integration with the Radixx product family, we are already seeing positive movement even despite COVID. In Q3 we signed a new Radixx agreement with Vietravel, a major tour operator in Vietnam that launched its own flight operations. Vietravel is the third airline in Vietnam using Sabre capabilities. To help our customers navigate through COVID-19, we launched Radixx TouchlessGo, a complete, "no touch" check-in process that assists with boarding, bag tags and other services all from a customer's smart phone.

In IT operations, we implemented Recovery Manager Ops at Air China and China Eastern. We implemented Dynamic Pricing Engine for Etihad, which helps airlines navigate through this crisis without historical data to rely on. We delivered a Seat Reaccommodation solution in partnership with American Airlines, which enables optimal passenger seat reassignment after schedule or equipment changes based on algorithms and business rules. And finally, we implemented Proration Engine for Southwest Airlines, which allows airlines to see real-time revenue earnings for each segment in a multi-legged segment. This is a significant improvement versus the historical norm of seeing segment profitability 7-30 days later in accounting rollup. Southwest is the first airline to implement this innovative product.

Slide 12 – Sabre Smart retail engine with Google technology

As mentioned, I continue to be pleased with the progress we are making in our Technology Transformation. As a reminder, the move to the Google Cloud has many advantages, including greater stability, with higher availability, faster recovery, industry leading security and many other enhancements, all at reduced unit operating costs, with right-sized deployments, and the ability to scale up and down quickly.

Our tech migration is helping us already. We've significantly reduced our infrastructure footprint. Year to date, we have reduced over 2,500 physical servers across our major data centers in Texas and Oklahoma, which represents a reduction of nearly 30% and has resulted in millions of dollars of annual savings. As Doug will explain in more detail later, by the end of 2023, we expect the move to the Google Cloud and our new DXC contract to reduce our operating costs by more than $100 million per year.

Beyond the work to migrate to Google Cloud, we have discussed other important parts of our partnership with Google. Specifically, co-innovation to transform the future of travel. We are now beginning to execute on this aspect of the partnership.

In October, we introduced Sabre Travel AI ™. This advancement is part of our Google Innovation Framework and is an industry first in travel. Sabre Travel AI ™ is infused with Google's state-of-the-art AI and advanced machine-learning technology. Specifically, Sabre

Travel AI ™ capitalizes on Google Cloud AI solutions and automated machine learning tools that sense, analyze and predict consumer behaviors using real-time shopping information and sophisticated travel-specific business insights. We expect Sabre Travel AI ™ can enrich products across all businesses we support – airlines, hotels and agencies – using next-generation technology advancements. We are integrating Sabre Travel AI ™ into certain products in our existing portfolio, with plans to bring these to market in 2021.

Earlier this week, we unveiled the first product powered by Sabre Travel AI ™ technology. Partnering with Google, we are accelerating availability of the travel industry's first smart, scalable retail engine, with launch planned in the first quarter of 2021.

Powered by state-of-the-art AI technology and advanced machine-learning capabilities, Sabre Smart retail engine will be the first of its kind in travel. Designed to be both PSS and channel agnostic, we expect the Sabre Smart retail engine to be available to both current and future airline customers, regardless of their business model, PSS or GDS.

Sabre Smart retail engine is a new innovation that integrates Sabre's dynamic offer management and customer segmentation capabilities with Google's proven and powerful merchandising solution to use real-time shopping data, available content and AI- and ML-based decision support models to test-and-learn and generate the most optimal offers available. These personalized offer bundles are dynamically priced using customer segmentation techniques, can include ancillaries such as seats and baggage and will eventually include third-party content, such as rental cars and hotel stays.

Ultimately, we are bringing together some of the brightest minds from Google and Sabre to build and connect the right offer to the right traveler, at the right time – to increase traveler satisfaction and provide airlines the opportunity to drive new and creative business opportunities. We are excited to bring Sabre Smart retail engine as part of our offer management strategy, one of our strategic initiatives announced at the beginning of this year and a step towards achieving our 2025 vision of delivering truly personalized travel.

These are examples of how we are thinking about the future. We are making the investments now that we expect will best position us for success post-COVID recovery.

With that, I'll turn it over to Doug.

Slide 13 – Q3 results significantly impacted by COVID-19

Doug Barnett, CFO:

The impact of the pandemic hurt our results significantly again in Q3, though certainly less than in the second quarter. Revenue was down 72% in the quarter, totaling $278 million versus $984 million last year. We've described how 15% of our revenue, or approximately $150M per quarter, is not tied to travel volumes. This remains the case. Because our net bookings are now positive, our revenue surpassed this figure.

Our Distribution bookings were down 86% in the quarter. Gross bookings were down 84%, 83%, and 81% in July, August and September, respectively. We report bookings on a net basis, meaning net of cancellations. Net bookings were down 91%, 87% and 81% in those same months. Consequently, our Distribution revenue in the quarter was down 84%, to $105 million. In terms of future cancellations exposure, we have recognized $30 million in revenue from bookings not yet departed and have a $33 million cancellation reserve.

Our IT Solutions revenue fared better, down 46% year-over-year, due to a higher percentage of revenue not tied to travel volumes. Hospitality revenue was down 40%, with a 37% decline in CRS transactions.

EBITDA, operating income and net income were all negative in Q3, reflecting the impact of the COVID-19 pandemic. The year-over-year decline in revenue was partially offset by a decline in incentives expense, headcount expenses due to cost savings initiatives we have already executed, and technology expenses due to the lower transaction volume environment.

In addition, Free Cash Flow was negative $201 million in the quarter. As expected, our Free Cash Flow was reduced by $20 million in severance payments and $13 million net cash outflows to carriers resulting from previous booking cancellations. Please note when we previously gave our monthly cash burn guidance, these two items were addressed as reductions to our existing available cash balance rather than specifically itemized as expected future uses of cash. Excluding these two items, our monthly Free Cash Flow was negative $56 million, compared to the $80 million monthly cash burn rate we discussed in a "zero booking, zero PB" environment.

Looking ahead to Q4, I'd like to mention three items that are expected to negatively impact our Q4 Free Cash Flow by approximately $90 million. First is the seasonality of our cash interest payments. Second is the timing of employee cash benefits. While typically paid in the first quarter each year, they will now be paid in Q4 2020. This is an acceleration of what has historically been paid in the first quarter, so we will see the offsetting benefit in Q1 2021. Third, we expect to make additional severance payments related to the cost reductions measures implemented earlier this year. We expect this to conclude the bulk of the severance payments association with the actions taken in 2020.

Slide 14 – Financial reporting changes

Last quarter, we talked about our business realignment, and that we expected changes to our financials as a result. Accordingly, our Q3 results include two changes to our financial reporting structure and a recast of historical results.

First, we have implemented a change to our reported business segments. We will now be reporting two segments: Travel Solutions and Hospitality Solutions. As part of our Travel Solutions reorganization, we combined the Travel Network and Airline Solutions businesses into one segment. We will no longer be reporting Travel Network and Airline Solutions as separate segments, as these teams and activities have been combined. We will continue to report the revenue and key metrics you are accustomed to seeing and modeling. This includes our GDS transactional revenue, now called "Distribution" revenue, and bookings detail. We will also report "IT Solutions" revenue, or revenue generated from our airline reservations systems and commercial and operations products, and will continue reporting Passengers Boarded. Please note the majority of what was formerly reported as Travel Network "Other" revenue is now recognized under IT Solutions. As mentioned, we will continue to report Hospitality Solutions as a separate segment.

Second, in an effort to continue to provide clarity on our technology spend, we are now presenting "Technology Costs" as a separate line on our P&L. Therefore, our main cost buckets are now Cost of Revenue, Technology Costs and SG&A. While there is no impact to other financial measures, as a result of these changes, our Adjusted Gross Profit is more favorable than previously reported as it now excludes technology costs. This is expected to provide a more transparent view of variable expenses and gross margin, direct accountability of expense-to-revenue ratios to drive productivity and closer benchmarking to peer tech companies.

We have disclosed reclassified financials that reflect these changes for Q3 & YTD 2019 and 2020 in our earnings materials and in the "Sabre Historical" Excel file posted on our IR website at investors.sabre.com. We expect to provide reclassified quarterly financials for 2018 through 2020 when we release our Q4 and FY 2020 results in February.

Slide 15 – $275M expected annual cost savings by 2024

We are on track to achieve $275 million of non-volume-related cost savings in 2020 vs. 2019. Remember, this is primarily headcount-related expenses and partial savings from our renegotiated DXC contract. Natural savings in incentives and technology hosting expenses caused by the lower volume environment are incremental.

On a go-forward basis, we expect a minimum of $200 million of non-volume-related cost savings per year compared to 2019. Of this, approximately $175 million in savings is driven by lower headcount expenses from reductions that have already been executed. To be clear, these cost savings are NOT driven by temporary factors like staff furloughs. Approximately $25 million impacts the fixed portion of our technology costs and is driven by savings from our new DXC contract.

By 2024, we expect an incremental $75 million per year of fixed technology cost savings, once we have largely completed the technology transformation and our migration to the Google Cloud Platform. These expected savings are already in place, supported by our strategic partnership with Google and our new contract with DXC. Ultimately, with the cost savings actions implemented this year and financial benefits of the technology transformation work, we expect a total of $275 million in annual cost savings starting in 2024 versus 2019. Please note that as we execute the tech transformation, some of these incremental cost savings may be realized prior to 2024. However, we expect the majority to be realized in 2024 and beyond.

Incremental to these figures are anticipated savings from lower unit costs on transaction volumes as we migrate to the cloud, which has favorable economics.

Slide 16 – Strengthened liquidity & extended debt maturities

As you are no doubt aware, we took quick action to raise additional liquidity in the event the COVID-19 pandemic persists longer than expected, although we hope this isn't the case and continue to see signs of modest improvement in bookings.

We closed on three important offerings in the third quarter. We generated $598 million in net proceeds from our common stock and mandatory convertible preferred offerings. We also pushed out our debt maturity schedule. We issued $850 million in new senior secured notes due in 2025 and used the proceeds to pay down earlier maturing debt, and we extended the maturity on a portion of our bank facility.

As you can see on slide 16, we do not have a material debt maturity until the fourth quarter of 2023, and the majority does not mature until 2024 and beyond, subject to springing maturity conditions. For ease of presentation, we have excluded the immaterial mandatory debt repayments. It's also important to note that the Material Travel Event Disruption leverage ratio covenant waiver language remains. Consequently, our leverage ratio covenant under our Amended and Restated Credit Agreement has been suspended, and we expect this to continue through at least the end of 2020 and possibly through 2021 based on current IATA volume projections.

To summarize, we have strengthened our liquidity position, reduced our costs, extended our debt maturities and are seeing improving booking trends. Finally, we ended the quarter with a cash balance of $1.7 billion and have no significant near-term uses of cash.

Sean, back to you.

Slide 17 – Thank you

Sean Menke, President & CEO:

Thanks Doug.

In summary, we remain focused on the future, are confident travel will rebound and feel competitively well-positioned post-COVID-19.

I want to once again thank my Sabre teammates around the world for their dedication to serving our customers, shareholders and each other during this difficult time.