Q2 2021 Earnings Call Script

August 3, 2021

Slide 1 – Title Slide

Good morning and welcome to the Sabre second quarter 2021 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 second 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 first 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 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.

Sean Menke, President & CEO:

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

I'd like to start by thanking all my Sabre teammates around the world for their ongoing dedication to serving our customers, shareholders and one another. This has been a challenging period and I couldn't be prouder of what they have been able to accomplish.

Specifically, I'd like to acknowledge my colleagues across our offices in India and Singapore, as they continue to work resiliently despite ongoing challenges from COVID-19. In fact, our Bengaluru office was recently certified by the Great Place to Work® Institute as an organization that builds a High-Trust, High-Performance Culture™. Congratulations to Sabre India on a job well done.

As we have done in prior quarters, on the next slides, I will walk you through the impact of COVID-19 on specific booking, passengers boarded, or PBs, and hospitality CRS transaction trends. The takeaway is that the travel environment is beginning to improve at a faster pace versus the winter and early spring, led by growth in our largest region. As we reached this pivotal turning point in the recovery, we also gained commercial momentum and announced major new passenger service system, or PSS, wins. We feel competitively well-positioned as we progress on the important work related to our technology transformation and expect to benefit from the anticipated continued travel recovery.

Slide 4 – Recovery across key volume metrics accelerated in Q2

Turning to Slide 4, travel volume trends continued to improve across Distribution, IT Solutions, and Hospitality Solutions. In fact, the recovery accelerated significantly in the second quarter and showed the strongest sequential improvement since Q3 of 2020.

As has been the case since the start of the recovery, hotel CRS transactions are leading, down 22% in July versus 2019.

IT Solutions Passengers Boarded and Distribution gross bookings are also stronger, down 38% and 59%, respectively in July versus 2019. As you can see, some of the strong recovery trends in June regressed in July due to the impact of the Delta and other COVID-19 variants in some parts of the world. As we have learned, increases in COVID-19 case counts have correlated with a near-term impact on bookings. The promising news is that as case counts and travel restrictions subside, the underlying travel demand trends remain encouraging, and we believe the overall recovery arch remains positive.

We are sometimes asked about the reason for the difference in the rate of recovery between Passengers Boarded and Distribution bookings. The answer is that it is primarily reflective of the type of travel recovering fastest – leisure travel. A higher percentage of leisure passengers book directly on airline.com websites than do corporate customers. Consequently, these leisure travelers are captured in our SabreSonic and Radixx PB data, but not in our distribution bookings. Importantly, this does not reflect a change in customer behavior. It is merely a reflection of the type of travel recovering faster.

Slide 5 – North America continued to lead air bookings recovery

Turning to slide 5, the chart on the left shows weekly GDS industry net air bookings by region. The positive standout regions are North America, led by the United States, and Latin America. Asia-Pacific bookings remain significantly depressed.

As we have discussed in past calls, we believe there is pent up demand to travel, but conditions need to be met for this demand to be realized as bookings, notably safety and convenience. Passengers need to feel safe onboard planes and at their destinations. Vaccination levels moving higher have had a direct correlation with traveler confidence, as evidenced by booking and vaccination trends in the United States. This is shown on the chart on the right.

Today, we believe the greatest inhibitors to global travel recovery are the ongoing and changing travel restrictions throughout the world. As travel restrictions have relaxed or been removed, we have begun to see significant improvement. For example, following the recent announcement by the Canadian government to loosen travel restrictions, total GDS bookings recovery in Canada improved by 29 percentage points from down 90% in April to down 61% in July versus the same periods in 2019.

Similar to last quarter, US domestic leisure travel leading the recovery had a negative impact on our distribution revenue per booking. We expect increasing global vaccination rates and the removal of or reduction in travel restrictions, as illustrated by the recent changes by the Canadian government, will be a catalyst for improvement in corporate and international travel, which we believe would move our distribution revenue per booking back toward 2019 levels.

We have already begun seeing green shoots in corporate travel, particularly in the U.S. In July, North American bookings recovery at our top TMCs improved by 20 percentage points versus April and is now nearly 50% of 2019 levels. Globally, we have seen the most meaningful improvements in the Materials, Government, Utilities and Real Estate sectors. Industries that have been slower to recover, but are starting to gain momentum, are Consulting, IT and Financials. These are encouraging signs.

As it relates to international travel, we are beginning to see some additional international markets open. We outlined the positive trends we are seeing in Canada, which is opening for non-essential travel for fully vaccinated travelers from the United States on August 9 and other countries starting September 7. However, we are also seeing some travel restrictions put in place in Europe and APAC in response to the Delta and other COVID-19 variants. Because of these puts and takes, we think volatility in recovery trends across EMEA and APAC are likely over the next several months.

The faster recovery in US domestic leisure travel has also impacted advance purchase trends. The North American average advance purchase window has actually lengthened 3 to 4 days over recent months compared to 2019, exiting June at about 37 days. This change relates to leisure bookings and we believe it is a healthy sign reflecting traveler confidence. We have yet to see Advance Purchase trends return to normal in the APAC region, where the average advance purchase exiting June was 20 days versus 29 days in 2019.

Slide 6 – Sabre's booking recovery outpaced the industry

Turning to slide 6. In June, Sabre's net air bookings were down 49% versus 2019, a sequential improvement of 17 percentage points versus March.

Our bookings recovery outpaced the overall GDS industry in the quarter by 5 percentage points because North America, which has shown the strongest recovery, is our largest region.

In July, total industry bookings were down 61% versus 2019 levels, a bit weaker than the June results due to the impact of the COVID-19 variants.

Slide 7 – Commercial & technology update

Turning to Slide 7. We remain very active commercially in each of our business lines. We signed or renewed nearly 650 agreements in the quarter across Distribution and IT Solutions, and many more in Hospitality Solutions. Some of the notable logos are depicted on this slide.

In Distribution, we added several airlines to our GDS, including Bamboo in Vietnam and Windrose in the Ukraine. We also renewed agreements with several carriers, including Virgin Australia, Aegean Airlines, and Icelandair. In July, we announced that we launched the full integration of Southwest Airlines' air content within the Sabre system, making it easier for travel management companies and corporations to shop, book and service Southwest flights on behalf of their business travelers. This milestone not only greatly expands Southwest's reach into the business travel segment, Sabre's travel agency and corporate customers will experience the increased efficiency, productivity and cost-savings that come from booking Southwest through our agency point-of-sale, Sabre Red 360 and our corporate bookings solution, GetThere.

On the agency side, we expanded our footprint with Polani Travel Group, one of the leading travel companies in the UK. We also renewed many other agency agreements across both the corporate and leisure segments, with notable renewals at online travel agencies Etraveli in Sweden and Mister Fly in France, and US-based travel consolidator, GTT.

In IT Solutions, we had a number of important customer wins and renewals. This includes new wins for SabreSonic, our full-service airline reservation system, with a certain, unnamed large carrier and also SCAT Airlines in Kazakhstan. We are excited that these wins are expected to bring nearly 40 million incremental passengers boarded, based on 2019 levels, to the

SabreSonic platform. This is on a base of over 740 million passengers boarded in 2019.

The signed, multi-year agreement we have for our full-service passenger service system for the unnamed carrier is expected to help our new customer advance its strategic growth plans. This large airline will also leverage other key Sabre products, including next-generation offer management, revenue optimization, Digital Workspace, Intelligence Exchange and others. We are really excited to expand our partnership with this airline and proud to be its trusted technology partner. We will have additional detail to share with you soon.

Clearly, Sabre is winning in a marketplace that is very active right now. We believe these competitive takeaways are proof points that our technology solutions and strategy are resonating with airlines around the world.

We are also gaining commercial momentum across other areas of our IT Solutions portfolio. For example, Dynamic Availability continues to gain traction, including with new revenue share pricing agreements with Alaska and Air Serbia. At both Alaska and Lion Air, some of our largest SabreSonic customers, we signed long-term PSS renewals and expanded our footprint of solutions.

In Hospitality, I'm pleased to highlight new SynXis Central Reservations System agreements with Curator Hotel & Resort Collection and Onomo Hotels, the largest African hotel provider in the mid-range segment. We signed a number of renewals, including with Mandarin Oriental, Noble House and others.

The outlook in Hospitality remains strong. As I noted, reservation growth has led the recovery. Our incoming project work is now above 2019 levels, driven primarily by North America and Latin America. This implementation work sets the foundation for higher transactions volumes in the future.

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 (GCP),
2. transition Hospitality Solutions CRS into GCP with a global footprint, and
3. migrate 15% of our mid-range workloads to Google Cloud Platform.

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

We've previously announced that air shopping for agencies is running in GCP production. We now have 100% of shopping for airlines in GCP production and are in the process of decommissioning the hardware previously used for this service in our Texas datacenters. At this point, all Sabre air shopping is running in public cloud environments.

In Hospitality, SynXis CRS is running in production for Louvre, one of our new enterprise hotel wins, in our European GCP regions. We have further SynXis cutovers to GCP planned for the fall.

Finally, we are continuing to make progress building Google Cloud foundations in support of our mid-range workload migration. We have several GCP regions with full availability in North America and already have regions with limited availability in Europe. We have also completed the integration of many Google Platform services, including Google Kubernetes Engine and Spanner database.

We remain excited about our strategic partnership with Google and believe it provides us with an important competitive advantage. We are continuing to develop Sabre Travel AI in partnership with Google and other initiatives under our innovation framework. With respect to Sabre Travel AI specifically, we are already seeing promising results across early customer-like simulations. Some initial proof points we have seen include:

- Accuracy improvement with Market Intelligence to improve forecasts of future travel demand,
- Conversion increases with Sabre Smart Retail Engine, which enables personalized offers to be generated at the right prices, and
- Significant run time reduction with Crew Management, which enables us to produce better results while reducing compute costs and footprint.

Finally, there is one other topic I would like to address before turning it over to Doug. In June, American Airlines filed a breach of contract lawsuit against Sabre related to the release of our New Airline Storefront and our new value-based incentive model with agencies. We believe this lawsuit is without merit and designed with one purpose – to stifle innovation in the travel marketplace, and we plan to vigorously defend ourselves in the lawsuit.

We remain on a path to create a new marketplace for personalized travel, which includes a shift in the way we view the future of travel and how we operate. To fulfill our vision, and to deliver the innovation and solutions that customers want, we remain committed to our strategic initiatives to evolve our business and create a next-generation marketplace that will better align with the future needs of our travel partners.

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

Slide 8 – Significant YOY financial improvement in Q2'21

Doug Barnett, CFO:

Thanks Sean, and good morning everyone.

As expected, the COVID-19 pandemic continued to weigh heavily on our results in Q2. However, our results came in at the top end of our revenue expectation and exceeded the EBITDA expectation provided in our recently filed Form 8-K.

The second quarter showed significant financial improvement versus Q2 of 2020, when the COVID-19 pandemic caused an unprecedented disruption in global travel.

Total revenue was $420 million, a significant improvement versus revenue of $83 million in Q2 last year due to continued gradual recovery in global air, hotel and other travel bookings.

Distribution revenue totaled $218 million, an improvement versus revenue of negative $48 million in Q2 2020. Recall that in Q2 2020, we were operating in a zero gross bookings environment and had significant cancellations activity that resulted in net negative bookings.

Our Distribution bookings totaled 57 million in the quarter. Compared to 2019, which we believe is a more useful comparison than 2020, net air bookings were down 65%, 62%, and 49% in April, May and June, and down 59% in the second quarter as whole.

As noted, domestic leisure bookings recovered faster than both international leisure and corporate bookings and represented 50% of our total bookings in the second quarter. Domestic leisure bookings are our lowest booking fee segment. Now that cancellation activity has normalized, the impact of this mix shift on our average booking fee can be more easily seen in our Q1 and Q2 results. We expect a negative mix impact on our average booking fee to persist until international and corporate bookings make a more meaningful recovery.

Our IT Solutions revenue totaled $155 million in the quarter, an improvement versus revenue of $104 million last year. Passengers boarded totaled 104 million, down 43% versus the second quarter 2019. The second quarter benefited from some upfront revenue recognition due to new implementations that went live in the quarter. Because the installation of licenses to our customers were completed ahead of schedule, we came in at the top end of our previous revenue guidance. And because this revenue has high flow-through to EBITDA, we exceeded our previous EBITDA guidance. This benefit is nothing new for the IT Solutions business, but it is magnified in this lower volume environment. We do not expect this similar benefit in Q3.

Hospitality Solutions revenue totaled $51 million, an improvement versus revenue of $29 million in Q2 2020. Central reservation system transactions totaled 24 million in the quarter, down 17% versus 2019.

EBITDA showed meaningful year-over-year improvement but was 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. Recall that in the second quarter of 2020, temporary cost measures, such as furloughs, salary reductions and suspension of certain employee benefits, were put in place to partially mitigate the unprecedented impact of the COVID-19 pandemic on the business. Accordingly, labor and professional service expenses also increased compared to the prior year quarter.

In the third quarter of 2020, our longer-term cost savings actions were put into place, including the renegotiation of our DXC contract and reduction of about 15% of our workforce. Exiting this June, our headcount was down approximately 20% versus 2019 year-end.

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

As expected, our cash burn rate improved sequentially versus Q1. Free Cash Flow was negative $152 million in the second quarter, versus Free Cash Flow of negative $204 million last quarter.

Looking ahead to the third quarter, we expect our revenue to largely be a function of travel volumes and bookings mix. The variable components of our cost structure, including incentives, are expected to move in line with volumes. We expect our technology and selling, general and administrative costs to increase sequentially in the third quarter primarily due to a lower capitalization rate, increased hosting costs from higher volumes, including shopping, investments in business systems and labor inflation.

Slide 9 – Extended debt maturities; no significant cash uses

Turning to slide 9. As you are no doubt aware, we took quick, decisive actions to raise additional liquidity at the onset of the COVID-19 pandemic. We closed on a series of transactions over the last 15 months to bolster liquidity and maintain flexibility.

Most recently, our July refinancing eliminated certain restrictive financial covenants and further extended our debt maturity profile with a pro forma average maturity of over four years. We did this while keeping our weighted average cost of debt flat, and therefore expect our annual interest expense to remain unchanged at $260 million. After this refinancing effort, all our debt now matures in 2024 and beyond.

Finally, we ended the quarter with a cash balance of $1.1 billion and have no significant near-term uses of cash.

Slide 10 – Sabre is positioned for long-term strength

Before I turn it back to Sean, let me remind you of Sabre's investment case.

We believe Sabre is positioned for long-term strength:

- Travel and booking trends continue to show meaningful improvement,
- We are continuing to make measurable progress in achieving our strategic initiatives,
- We have long-standing customer relationships,
- We expect high incremental margins during the travel recovery after the fixed cost base is covered,
- We expect operating leverage over the medium term,
- We have no near-term significant uses of cash and extended our debt maturities,
- And finally, with our important technology transformation, we are positioning the company for an expected larger revenue opportunity and lower costs.

Sean, back to you.

Slide 11 – Thank you

<u>Sean Menke, President & CEO:</u>

Thanks Doug.

In conclusion, the bookings environment has improved, and we are gaining traction with new commercial wins, including new major PSS deals. We are progressing along our technology transformation and Google partnership. As travel demand returns, we expect to be positioned with larger addressable opportunities, more advanced, innovative products, and faster sales cycles and product deployments.

I’ll end by once again thanking my Sabre teammates around the world for their dedication and hard work.