Q3 2023 Earnings Call Prepared Remarks

November 2, 2023

Slide 1 – Title Slide

Good morning and welcome to the Sabre third 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 third 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 impact and extent of 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 third 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.

We had a successful third quarter, and have a number of recent accomplishments to articulate on today's call, including financial results that exceeded expectations, new developments in our strategic partnership with Google, important commercial wins and development successes, as well as the continued execution of our technology transformation.

In the third quarter, we exceeded our financial expectations and this performance gives us confidence that our strategies to drive sustainable growth with a more efficient operation are delivering results. The positive momentum that we saw earlier in the year has continued. Our four strategic priorities, which I will review shortly, are unchanged and form the foundation of our resource allocation and strategic decision making.

Before jumping into the details of today's call, allow me to commend all of Sabre's employees for their hard work and dedication to meeting the needs of our customers. The strong results we are sharing this morning would not be possible without the commitment of all of our team members around the world.

Now I will walk through the agenda for today's call. 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 third quarter, and then I will describe trends that give us confidence in the fundamentals of our business and Sabre's ability to deliver on our priorities. Next, I will provide details on our customer successes and innovation achievements during the third quarter, and then update the progress on our technology transformation.

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

Slide 5 – Q3 Highlights: Delivering on our priorities

Turning to Slide 5.

As we have mentioned in recent quarters, these are the four key strategic priorities that drive the long-term direction for the company. As I refer to each priority, I will discuss our accomplishments 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 revenue growth and meaningful cost actions combined to deliver better Q3 results than we had anticipated. Our performance translated into nearly a 100% flow-through of revenue growth to Adjusted EBITDA, which helped deliver solid free cash flow in the quarter. This flow-through is illustrative of the strong operating leverage potential of Sabre tied to future top-line growth. And, as Mike will describe in more detail later, we have also taken significant steps towards de-risking our balance sheet by extending the vast majority of our 2025 maturities out to 2027 and beyond.

On our second priority, which is to achieve sustainable long-term growth, we again increased Sabre's share of industry air distribution bookings on a year-over-year basis during the third quarter. We also saw sequential share gains from the second to the third quarter as our efforts to expand our reach with both agencies and airlines continue to show positive results. In addition, I am pleased with our recent customer wins and new product announcements that we achieved this quarter, and I will provide more details on these topics in a moment.

Turning to Hospitality Solutions, our team continues to execute well and delivered excellent top and bottom line growth in Q3. And please keep in mind that the strong results delivered by the team this year do not yet include incremental business from our recently announced agreement with Hyatt.

I am excited about the recent developments that support our third strategic priority, which is to drive innovation and enhance our value propositions with both existing and new customers.

While our technology transformation to migrate from the mainframe to Google cloud has been moving at pace over the past few years, another team of Sabre engineers has been co-developing products and solutions utilizing Google's state-of-the-art AI and machine-learning capabilities.

Several of our recent announcements show the powerful results of this, and other, key strategic partnerships.

For example, our new agreement with Virgin Australia takes that carrier's revenue management capabilities to the next level by harnessing the power of Sabre's AI-driven retail intelligence suite, our next-generation solution powered in part by Google's machine learning technology. Under this unique agreement, Virgin Australia will deploy our Air Price IQ and Ancillary IQ solutions to utilize flight and market insights to move from static pricing rules to more dynamic, real-time airfare and ancillary offers.

In addition, we recently launched Sabre Upgrade IQ, a PSS-agnostic revenue management solution that will help our airline customers deliver more personalized and tailored offers to better manage premium cabin inventory. This powerful solution is the product of our strategic partnerships with both Google and Hopper. Upgrade IQ combines Google's AI technology with Hopper's advanced bidding platform to facilitate the premium seat bidding process by enabling airlines to communicate in real-time with travelers in multiple languages.

Also, we launched our new Lodging AI solution, which embeds Google's advanced machine learning technology, to expand our suite of intelligent retailing services to hotel distribution. This new offering marks the introduction of Sabre Travel AI capabilities into the lodging sector, where we see significant opportunities to better align hotel property attributes with customer trip segmentation and preferences to deliver more personalized offerings.

Last, our technology transformation to the cloud continues on schedule. We are realizing both cost efficiency gains and strategic, go-to-market advantages from our cloud infrastructure and Google partnership. In addition, we are seeing significant financial benefits from our cost reduction efforts, and we are on track to realize, in 2024, the full $200 million dollars of annual reduced costs that we have previously discussed.

In summary, during the third quarter, our team delivered on these priorities and we remain focused on creating long-term value for our customers, our employees, and our shareholders.

Slide 6 – Strong sequential AEBITDA progression

Now let's turn to Slide 6.

As I mentioned previously, our efforts to drive sustainable revenue growth with a lower cost structure resulted in meaningful margin expansion and generated strong Adjusted EBITDA and free cash flow growth. As this chart shows, the trajectory of our Adjusted EBITDA improvement accelerated in the third quarter, and we continue to see opportunities for further growth ahead.

Slide 7 – Faster air bookings growth vs. broader industry

Turning to Slide 7.

During our most recent two earnings calls we used this table to highlight the increasing share of GDS industry bookings that we have achieved, and as you can see, our share in Q3'23 again expanded on both a year-over-year basis vs. Q3'22, and on a sequential basis vs. last quarter.

We are pleased with these results to-date and expect that signed but not yet implemented GDS deals, a robust pipeline, and our strong competitive distribution offering position us well for continued share gains and future growth.

Slide 8 – Commercial wins driving sustainable growth

Please turn to Slide 8.

I am pleased to review a number of successful business wins and differentiated product offerings with you today that span both Travel Solutions and Hospitality Solutions.

We continue to see significant momentum in Hospitality Solutions. Most notably, we are well advanced in our implementation work with Hyatt to provide them with our SynXis central reservation system technology. Our platform will offer enhanced capabilities that will allow Hyatt to improve the experience of its guests. We expect to begin to go-live with Hyatt starting in the first half of 2024.

In addition to our work with Hyatt, Staywell, the large Australian hospitality provider, recently selected our SynXis platform to enhance and improve their IT infrastructure.

In Distribution, we were pleased to sign a new agreement with Air France-KLM that includes enriched NDC-sourced content along with edifact content to deliver modern travel retailing technology. This agreement will provide global travelers with increasingly sophisticated offers with greater choice and transparency, while enabling Air France and KLM to distribute customized NDC offers powered by continuous pricing and the ability to tailor personalized offer bundles.

In addition, we announced a second agreement with Air India, a Top 10 global airline within the GDS industry, earlier this week to bring that carrier's domestic content to Sabre's platform. This complements our existing agreement for Air India's international content that we announced in April. Importantly, Air India's domestic content was previously exclusively offered by only one GDS, and this new agreement highlights the value of Sabre's global scale and reach to our customers, and our potential to outpace the rate of growth in our industry.

We also recently signed an enhanced agreement with LATAM Airlines Group, Latin America's largest airline, to distribute that carrier's traditional edifact content, as well as its NDC offers, to the global network of Sabre-connected agencies. Once this new NDC connection goes live, it will enable hundreds of thousands of Sabre-connected agencies and travel buyers to have an even richer experience with a broader range of LATAM's products and services.

In addition to these important agreements, we also signed with Scandinavian Airlines and Virgin Australia to provide agencies with significantly expanded access to content and offers from those carriers, including dynamically priced fares and new ancillary services. These agreements are further evidence that leading airlines seeking modern travel technology solutions continue to choose Sabre.

And, we are hard at work building the leading next generation multi-source travel ecosystem to seamlessly incorporate personalized NDC offers alongside other content.

On the agency front, we signed a number of agreements with both new and existing customers in Q3, some of which we have announced. Examples include our new win with Unififi, a high-growth Chinese business growing into North America, a deepening of our relationship with Lastminute, one of the top European OTAs specializing in dynamic packaging, and a renewal with Tide Square, a large and fast-growing agency based in Korea.

In IT Solutions, as mentioned earlier, Virgin Australia selected our intelligent retailing solutions. This partnership will bring the power of Sabre's Air Price IQ and Ancillary IQ solutions to help Virgin Australia move to more dynamic pricing and intelligent, real-time offers, all powered by Sabre Travel AI.

During the quarter, we also signed a SabreSonic contract extension with Air Serbia, a Radixx renewal with Safair, and an agreement to migrate Saudia's network planning and optimization to SaaS.

In summary, Sabre achieved a number of commercial wins during the third quarter that will help us deliver on our strategic priorities.

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 on track to deliver our previously articulated cost savings and operational targets. As you can see in the table at the right, our unit cost of compute continues to decline. The significant efficiency gains we have seen from moving off of the mainframe to Google cloud helped drive the 10% decrease in our overall adjusted technology costs that we reported in the third quarter on a year-over-year basis.

In terms of operational milestones, we are on track to complete the Tulsa midrange server exit by year-end, as we have communicated previously.

Overall, our technology transformation and innovation are cornerstones of our competitive capabilities, and we expect to continue to leverage our important strategic partnerships and offerings to deliver better overall experiences to both buyers and suppliers within the global travel marketplace.

Slide 10 – Key strategic priorities

Now to Slide 10.

In closing, we again delivered on our priorities in the third quarter. We generated significant margin expansion and strong free cash flow, signed important customer agreements, and launched compelling new products that utilize the best-in-class technology capabilities of our key strategic partners. I am proud of our team for delivering these results and I am confident that Sabre is well-positioned to continue delivering on our strategic and financial priorities in the coming quarters.

I will now hand the call over to Mike to walk you through our third quarter performance and our full-year 2023 expectations.

Slide 11 – Q3 Highlights: An inflection point

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

Please turn to Slide 11.

As Kurt mentioned, we have a number of accomplishments to share with you that highlight the hard work of our Sabre team members.

The third quarter was a strong quarter for Sabre, and an important inflection point in several of our key financial and strategic metrics. We exceeded guidance in the quarter on solid revenue growth and cost actions that led to significant margin expansion and strong free cash flow generation. Our technology transformation and previously announced cost reductions helped drive operating costs down on a year-over-year basis. The powerful combination of steady revenue growth and falling costs led to a nearly 100% flow-through of incremental revenue dollars to Adjusted EBITDA. As you can see on this slide, Sabre generated strong year-over-year improvement in cash from operations and free cash flow. Hospitality Solutions continues to drive better financial results faster than we had anticipated earlier this year, and is now on track to produce an approximate $40 million improvement in Adjusted EBITDA this year versus last year. Additionally, our recent debt exchange offer to extend our 2025 debt maturities out to 2027, better aligns future prospective free cash flow with our debt maturity schedule. Overall, the third quarter represents an inflection point. We are delivering on the actions we set out to achieve and are generating strong financial results that represent a meaningful trajectory shift from the last few years and highlight the potential of Sabre's path forward.

Slide 12 – Financial results exceeded Q3 guidance

Please turn to Slide 12.

As you can see from the table, we exceeded our expectations for third quarter revenue, Adjusted EBITDA, and free cash flow, and we are encouraged by the momentum we are seeing in our financial results. Strong revenue generation coupled with the actions we have taken to lower our cost base, has driven margin expansion, and increased our free cash flow generation. This quarter's free cash flow generation is the highest in approximately four years.

Slide 13 – Significant YOY financial improvement in Q3'23

Turning to Slide 13.

Total Q3 revenue was $740 million, an increase of $77 million dollars, or 12% vs. last year.

Distribution revenue totaled $525 million, a $94 million dollar, or 22% increase compared to $431 million in Q3 2022. Our Distribution bookings totaled 89 million in the quarter, a 12% increase compared to 80 million in Q3 2022. Our average booking fee was $5.87 in the third quarter, up 9% from Q3 2022, as we continue to realize favorable mix into more profitable regions and types of travel resulting in higher booking fees.

IT Solutions revenue totaled $147 million in the quarter. This was a $26 million dollar decline versus revenue of $173 million in the comparable prior year period, driven by de-migrations, the vast majority of which is the result of changes in Russian law.

Hospitality Solutions revenue totaled approximately $79 million, an $11 million dollar, or 16% improvement versus revenue of $67 million in Q3 2022. The 16 points of revenue growth was driven by 7pts of Central reservation system transactions growth, and 9pts of higher rate per transaction. Hospitality Solutions generated $6.4 million in the third quarter and $7.9 million dollars of Adjusted EBITDA on a year-to-date basis and is tracking to an approximate $40 million dollar Adjusted EBITDA improvement this year versus 2022. In addition, our recently announced CRS deal with Hyatt, which we expect to go-live in 2024, should contribute to the momentum we are already seeing in Hospitality Solutions.

Sabre's Adjusted EBITDA of $110 million in Q3 2023 vs. $34 million in Q3 2022 represented a $76 million improvement year-over-year. Before I move on, I will highlight the significant impact that our cost reduction program is having on our financial performance. The $76 million dollar year-over-year increase in Adjusted EBITDA in Q3 represents virtually a 100% flow-through of the $77 million year-over-year increase in revenue we achieved over the same period.

Free Cash Flow was $39 million in the third quarter including the impact of restructuring charges, which was better than our prior guidance for free cash flow of $20 million. Free cash flow, excluding the impact of restructuring, was $58 million, which was better than our prior guidance of approximately $50 million. This was the first third-quarter since Q3 2019 that Sabre has delivered positive free cash flow.

We ended the third quarter with a cash balance of $623 million. During the quarter we used $130 million in cash from the balance sheet in connection with our most recent financing.

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

Slide 14 – Maturity profile better aligned with prospective free cash flow generation

Turning to Slide 14.

I cannot thank our team enough for their hard work in shifting our financial trajectory, which facilitated the actions on our debt maturities. Our recent debt exchange offer and the private facility we executed in June have addressed the vast majority of our nearest term 2025 debt maturities. Importantly, the cash we have on the balance sheet at the end of the third quarter exceeds the cumulative debt maturities through the end of 2026.

Slide 15 – 2023 Outlook: Raising AEBITDA guide to ~$345M

Moving to Slide 15 to discuss our guidance.

For the full year 2023, we still expect revenue between $2.9 billion and $3.0 billion dollars, unchanged from last quarter, but at the higher end our initial expectations for 2023 that we provided in February for revenue of between $2.8 billion and $3.0 billion.

Moving to Adjusted EBITDA. We now expect higher adjusted EBITDA for the full year 2023 of approximately $345 million, above our prior guidance last quarter for Adjusted EBITDA of approximately $340M, and about 10% above the midpoint of the initial guidance we provided in February for Adjusted EBITDA between $300 million and $320 million dollars. We believe continued revenue growth coupled with the significant cost actions we have taken to improve our efficiency and expand our margins is supportive of improving Adjusted EBITDA generation moving forward.

And on free cash flow, as noted on our prior earnings call, we expect to be free cash flow positive for full year 2023, excluding the impact of restructuring. This includes an assumption of approximately $80 million in 2023 for capital expenditures, and approximately $375 million dollars in cash interest costs for full year 2023.

We are currently in our annual and long-term planning process and we expect to provide more details on our 2024 outlook and 2025 targets during our Q4 earnings call in February. As a reminder, our 2025 targets for $900 million in Adjusted EBITDA and $500 million in free cash flow include an assumption for industry air volume growth of 1-2 points sequentially per quarter. In recent quarters we have seen industry air volume growth come in below these levels. As indicated on our May earnings call when we discussed our long-term targets, each one point of air bookings growth between 2023 and 2025 is worth approximately $12 million in Adjusted EBITDA on an annual basis.

In closing, steady revenue growth and operating performance drove significant margin expansion for the quarter, and nearly 100% flow-through of revenue to AEBITDA, which resulted in meaningful free cash flow generation. In conjunction with these items, our debt exchange offer and extension of our 2025 maturities represented an important step in delivering on the strategic priorities that Kurt outlined earlier on this call.

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