# InvestorDay

06 March 2018

Sabre®

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# Capital Management Strategy & Medium Term Outlook

**Rick Simonson**
EVP & CFO

06 March 2018

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# Forward-looking statements

## Forward-looking Statements

Certain statements herein are forward-looking statements about trends, future events, uncertainties and our plans and expectations of what may happen in the future. Any statements that are not historical or current facts are forward-looking statements. In many cases, you can identify forward-looking statements by terms such as “strategy,” “outlook,” “expect,” “forecast,” “target,” “goal,” “estimate,” “guidance,” “momentum,” “will,” “believe,” “position,” “continue,” “preliminary,” “plan,” “anticipate,” “may,” “should,” “would,” or the negative of these terms or other comparable terminology. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Sabre’s actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. The potential risks and uncertainties include, among others, dependency on transaction volumes in the global travel industry, particularly air travel transaction volumes, exposure to pricing pressure in the Travel Network business, maintenance of the stability and integrity of our systems and infrastructure and the effect of any security incidents, the implementation and effects of new or renewed agreements, the effects of the implementation of new accounting standards, the effects of tax legislation, travel suppliers' usage of alternative distribution models, competition in the travel distribution market and solutions markets, the implementation and results of our cost reduction and business alignment program, failure to adapt to technological developments, dependence on establishing, maintaining and renewing contracts with customers and other counterparties and collecting amounts due to us under these agreements, changes affecting travel supplier customers, use of third-party distributor partners, dependence on relationships with travel buyers, adverse global and regional economic and political conditions, including, but not limited to, economic conditions in countries or regions with traditionally high levels of exports to China or that have commodities-based economies and the effect of "Brexit" and uncertainty due to related negotiations, risks arising from global operations, reliance on third parties to provide information technology services, compliance with regulatory and other requirements, including data privacy, our ability to recruit, train and retain employees, including our key executive officers and technical employees, and the effects of litigation. More information about potential risks and uncertainties that could affect our business and results of operations is included in the "Risk Factors" and “Forward-Looking Statements” sections in our Annual Report on Form 10-K filed with the SEC on February 16, 2018 and in our other filings with the SEC. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, outlook, guidance, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. Unless required by law, Sabre undertakes no obligation to publicly update or revise any forward-looking statements to reflect circumstances or events after the date they are made.

## Non-GAAP Financial Measures

This presentation includes unaudited non-GAAP financial measures, including Adjusted Operating Income (Loss), Adjusted EBITDA, Adjusted Operating Income margin, Adjusted EPS, Free Cash Flow, and the ratios based on these financial measures. In addition, we provide certain forward guidance with respect to Adjusted EBITDA, Adjusted Operating Income, Adjusted Net Income, Adjusted EPS and Free Cash Flow. We present non-GAAP measures when our management believes that the additional information provides useful information about our operating performance. Non-GAAP financial measures do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other companies. The presentation of non-GAAP financial measures is not intended to be a substitute for, and should not be considered in isolation from, the financial measures reported in accordance with GAAP.

## Industry Data

This presentation and accompanying comments contain industry data, forecasts and other information that we obtained from industry publications and surveys, public filings and internal company sources, and there can be no assurance as to the accuracy or completeness of the included information. Statements as to our ranking, market position, bookings share and market estimates are based on independent industry publications, government publications, third-party forecasts and management’s estimates and assumptions about our markets and our internal research. We have not independently verified this third-party information nor have we ascertained the underlying economic assumptions relied upon in those sources, and we cannot assure you of the accuracy or completeness of this information.

# Capital Management Strategy:

Maximize long-term shareholder value through disciplined allocation of capital

# Strategy for disciplined allocation of shareholder capital

Take advantage of business attributes that drive growth and cash generation

Benefit from our strong balance sheet and effective cash strategies

Strategically invest for competitive advantage and increased cost efficiency

Priority order for distribution of excess Free Cash Flow

# 4-Year capital management scorecard

**$2,300M**
Cash from operations

**$400M**
Raised through divesting non-core assets

**$1,200M**
GAAP CapEx

**$600M**
Strategic acquisitions

**$450M**
Dividends

**$300M**
Share buybacks

**6.1% → 4.0%**
Weighted average cost of debt

**4.4x → 2.9x**
Net Debt / Adjusted EBITDA

**B → BB**
Credit

**Maturity walls**
pushed to the right
Term loan B – 2024
Bonds – 2023
Term loan A – 2022
Revolver – 2022

## Take advantage of business attributes that drive growth and cash generation

**Global travel technology leader** across retailing, distribution and fulfillment

**Highly recurring revenue** driven by travel events, supported by growth at a multiple of GDP over many decades

**Scale, innovation and industry-leading** technology platform and products

Benefit from our strong balance sheet and effective cash strategies

## Financial flexibility

Current leverage of 2.9x. Free Cash Flow provides return of cash to shareholders and flexibility for M&A, de-leverage and/or opportunistic share repurchases

## No material debt maturity until 2022

>80% matures in 2023+

## Benefitting from lower effective tax rate

Expected effective tax rate in low-to-mid-20%s; expect to transition to US cash tax payer in 2020

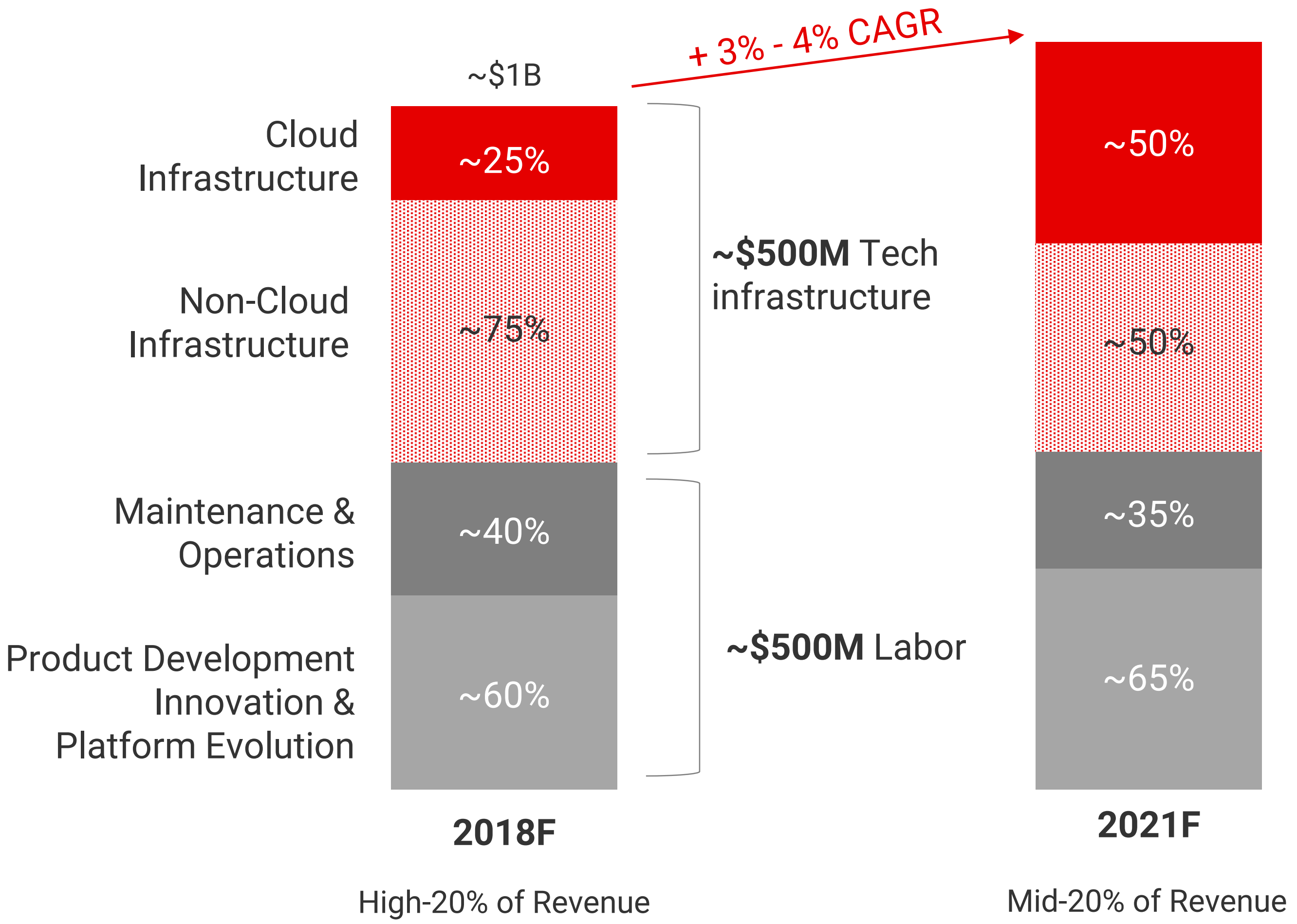
## Tax Receivable Agreement (TRA) payments

Reduced by ~$58M due to U.S. tax reform; remaining payments of ~$170M expected to be paid out through 2021

Strategically invest for competitive advantage and increased cost efficiency

## Medium-term total Sabre technology spend
(CapEx + OpEx)

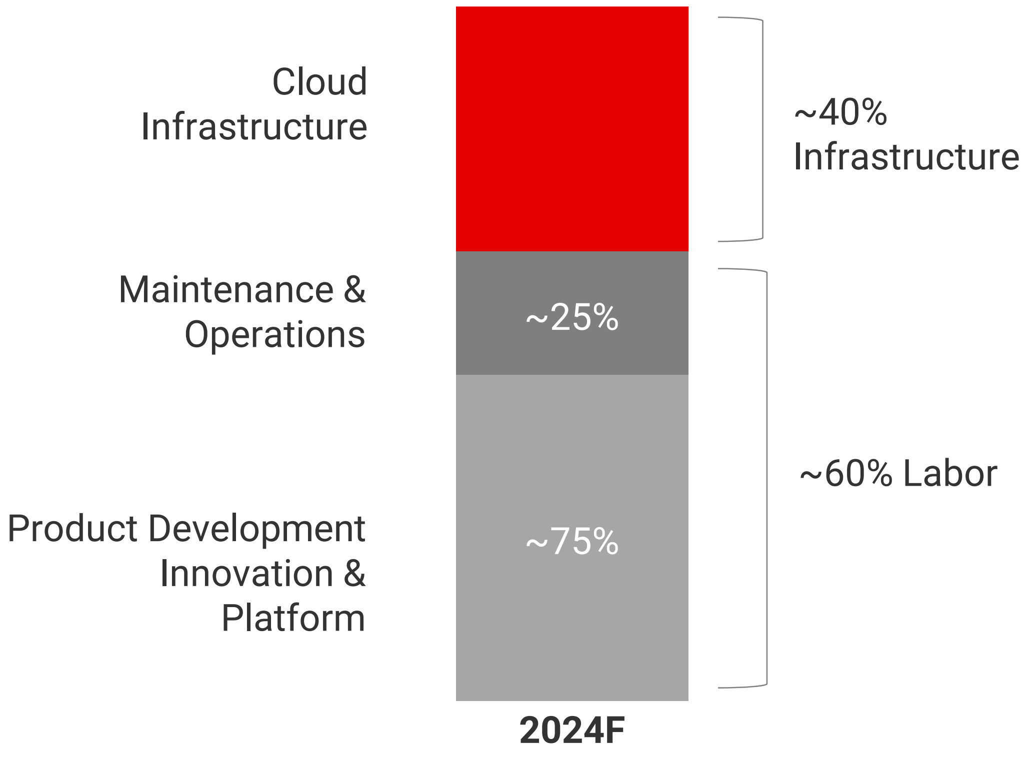



- Total tech costs expected to increase 3% - 4% CAGR per the medium term guidance
- Tech infrastructure continues to benefit from increasing rotation to cloud infrastructure
- Labor mix rotation to product development, innovation and platform evolution and away from maintenance and operations, enabled by
  - Version control across Airline Solutions
  - Development labor efficiencies
  - Cloud deployment decreases maintenance expense and accelerates platform evolution

## Strategically invest for competitive advantage and increased cost efficiency

# Target future state total Sabre technology spend
**(CapEx + OpEx)**




+/- Mid-20% of Revenue

- In 2024, expect ~20% reduction in infrastructure spend, or ~$100M+/year
  - Cloud migration completed in 2023
  - Contract with current provider expires
- Completing technology evolution enables further tech spend rotation from infrastructure to labor
- Within labor, platform architecture efficiencies unlocked allow for increased mix of spend on product development, innovation and platform evolution
- Total tech spend at +/- mid-20% of revenue allows flexibility to pace or accelerate investment as business conditions evolve

## Priority order for distribution of excess Free Cash Flow

**Invest in the business at or above ROIC target**

**Excess FCF**

Sustainable, regular return of cash to shareholders

Dividend targeted at 35% - 40% of Adj. Net Income

Share repurchases to offset dilution

Target leverage ratio of 2.5x – 3.5x with select M&A

Opportunistic share repurchases

**All investment targeting >15% ROIC**

# Targeted Financial Algorithm

# Sabre targeted financial algorithm 2018–2021

| | | |
|---|---|---|
| **Revenue** | Mid-to-high single digit CAGR | TN and AS at global travel growth +, double-digit growth in Hospitality |
| **Adj. Operating Income Margin** | Relatively stable | TN – modest decline, AS and HS – increasing, low-single digit D&A growth |
| **Adj. EPS** | ~10% CAGR | Mid-to-high single digits in 2019, higher in 2020-2021<br>Stable interest expense, low-to-mid 20% tax rate |
| **Free Cash Flow** | ~10% CAGR | Lower growth in 2020 due to U.S. cash taxes<br>CapEx declines to ~7% of revenue |
| **Free Cash Flow after TRA** | Low teens CAGR | ~$170M TRA payments<br>~$100M in 2019<br>$30M - 40M per year in 2020-2021 |

The information presented here represents forward-looking statements and reflects expectations as of March 6, 2018. Sabre assumes no obligation to update these statements. Results may be materially different and are affected by many factors in Sabre's 2017 Form 10-K.

# Appendix

# Tabular reconciliations for Non-GAAP measures

Reconciliation of net income (loss) attributable to common shareholders to LTM Adjusted EBITDA (for Net Debt Ratio)
(in thousands; unaudited)

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | Mar 31, 2017 | Jun 30, 2017 | Sep 30, 2017 | Dec 31, 2017 | LTM |
| Net income attributable to common stockholders | $ 75,939 | $ (6,487) | $ 90,989 | $ 82,090 | $ 242,531 |
| (Income) loss from discontinued operations, net of tax | 477 | 1,222 | 529 | (296) | 1,932 |
| Net income attributable to noncontrolling interests[1] | 1,306 | 1,113 | 1,307 | 1,387 | 5,113 |
| Income (loss) from continuing operations | 77,722 | (4,152) | 92,825 | 83,181 | 249,576 |
| Adjustments: | | | | | |
| Impairment and related charges[2] | — | 92,022 | — | (10,910) | 81,112 |
| Acquisition-related amortization[3a] | 35,181 | 20,259 | 20,226 | 20,194 | 95,860 |
| Loss on extinguishment of debt | — | — | 1,012 | — | 1,012 |
| Other, net [5] | 15,234 | 752 | 3,802 | (56,318) | (36,530) |
| Restructuring and other costs [6] | — | 25,304 | — | (1,329) | 23,975 |
| Litigation costs (reimbursements)[8] | 3,501 | 958 | (40,929) | 963 | (35,507) |
| Stock-based compensation | 8,034 | 14,724 | 11,655 | 10,276 | 44,689 |
| Depreciation and amortization of property and equipment[3b] | 61,300 | 63,810 | 66,332 | 73,438 | 264,880 |
| Amortization of capitalized implementation costs[3c] | 9,189 | 8,948 | 10,484 | 11,510 | 40,131 |
| Amortization of upfront incentive consideration[4] | 16,132 | 16,161 | 18,005 | 17,113 | 67,411 |
| Interest expense, net | 39,561 | 38,097 | 38,919 | 37,348 | 153,925 |
| Provision (benefit) for income taxes | 31,707 | (15,466) | 40,595 | 71,201 | 128,037 |
| Adjusted EBITDA | $ 297,561 | $ 261,417 | $ 262,926 | $ 256,667 | $ 1,078,571 |
| Net Debt (total debt, less cash) | | | | | $ 3,126,652 |
| Net Debt / LTM Adjusted EBITDA | | | | | 2.9x |

# Tabular reconciliations for Non-GAAP measures

Reconciliation of net income (loss) attributable to common shareholders to LTM Adjusted EBITDA (for Net Debt Ratio)
(in thousands; unaudited)

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | Mar 31, 2013 | Jun 30, 2013 | Sep '30, 2013 | Dec 31, 2013 | LTM |
| Net Income attributable to common shareholders | $ (24,736) | $ (125,868) | $ (3,869) | $ 17,275 | $ (137,198) |
| Loss (income) from discontinued operations, net of tax | 35,647 | 138,072 | 12,016 | (36,039) | 149,696 |
| Net income attributable to noncontrolling interests (1) | 584 | 837 | 714 | 728 | 2,863 |
| Preferred stock dividends | 8,972 | 9,005 | 9,242 | 9,485 | 36,704 |
| Income (loss) from continuing operations | 20,467 | 22,046 | 18,103 | (8,550) | 52,066 |
| *Adjustments:* | | | | | |
| Impairment and related charges (2) | - | - | - | - | - |
| Acquisition-related amortization (3a) | 33,094 | 33,353 | 33,222 | 33,016 | 132,685 |
| Loss on extinguishment of debt | 12,181 | - | - | - | 12,181 |
| Other, net (5) | 4,167 | (2,060) | 2,236 | (4,038) | 305 |
| Restructuring and other costs (6) | 1,850 | 1,404 | 5,435 | 19,232 | 27,921 |
| Litigation costs (reimbursements) (7) | 2,790 | 5,699 | 3,190 | 6,835 | 18,514 |
| Stock-based compensation | 927 | (764) | 1,176 | 2,048 | 3,387 |
| Management Fees (8) | 2,722 | 2,499 | 2,126 | 1,414 | 8,761 |
| Depreciation and amortization of property and equipment (3b) | 26,808 | 31,232 | 32,136 | 33,238 | 123,414 |
| Amortization of capitalized implementation costs (3c) | 10,440 | 7,272 | 8,001 | 8,430 | 34,143 |
| Amortization of upfront incentive consideration (4) | 9,599 | 9,752 | 9,385 | 7,913 | 36,649 |
| Interest expense, net | 82,530 | 63,669 | 63,454 | 65,036 | 274,689 |
| (Benefit) provision for income taxes | (4,423) | 10,658 | 18,363 | 29,441 | 54,039 |
| Adjusted EBITDA | $ 203,152 | $ 184,760 | $ 196,827 | $ 194,015 | $ 778,754 |
| | | | | | |
| Net Debt (total debt, less cash) | | | | | $3,442,675 |
| Net Debt / Adjusted EBITDA | | | | | 4.4x |

# Non-GAAP financial measures

We have included both financial measures compiled in accordance with GAAP and certain non-GAAP financial measures, including Adjusted Operating Income (Loss), Adjusted Net Income from continuing operations ("Adjusted Net Income"), Adjusted EBITDA, Adjusted Net Income from continuing operations per share ("Adjusted EPS"), Free Cash Flow and ratios based on these financial measures.

We define Adjusted Operating Income (Loss) as operating income (loss) adjusted for joint venture equity income, impairment and related charges, acquisition-related amortization, restructuring and other costs, acquisition-related costs, litigation (reimbursements) costs, net, and stock-based compensation.

We define Adjusted Net Income as net income attributable to common stockholders adjusted for income (loss) from discontinued operations, net of tax, net income attributable to noncontrolling interests, acquisition-related amortization, impairment and related charges, loss on extinguishment of debt, other, net, restructuring and other costs, acquisition-related costs, litigation costs (reimbursements), net, stock-based compensation and the tax impact of net income adjustments.

We define Adjusted EBITDA as Adjusted Net Income adjusted for depreciation and amortization of property and equipment, amortization of capitalized implementation costs, amortization of upfront incentive consideration, interest expense, net, and remaining provision (benefit) for income taxes.

We define Adjusted EPS as Adjusted Net Income divided by the diluted weighted-average common shares outstanding.

We define Free Cash Flow as cash provided by operating activities less cash used in additions to property and equipment.

# Non-GAAP financial measures

These non-GAAP financial measures are key metrics used by management and our Board of Directors to monitor our ongoing core operations because historical results have been significantly impacted by events that are unrelated to our core operations as a result of changes to our business and the regulatory environment. We believe that these non-GAAP financial measures are used by investors, analysts and other interested parties as measures of financial performance and to evaluate our ability to service debt obligations, fund capital expenditures and meet working capital requirements. We believe that Adjusted Operating Income (Loss), Adjusted Net Income, Adjusted EBITDA and Adjusted EPS assist investors in company-to-company and period-to-period comparisons by excluding differences caused by variations in capital structures (affecting interest expense), tax positions and the impact of depreciation and amortization expense. In addition, amounts derived from Adjusted EBITDA are a primary component of certain covenants under our senior secured credit facilities.

Adjusted Operating Income (Loss), Adjusted Net Income, Adjusted EBITDA, Adjusted EPS, Free Cash Flow, and ratios based on these financial measures are not recognized terms under GAAP. These non-GAAP financial measures and ratios based on them have important limitations as analytical tools, and should not be viewed in isolation and do not purport to be alternatives to net income as indicators of operating performance or cash flows from operating activities as measures of liquidity. These non-GAAP financial measures and ratios based on them exclude some, but not all, items that affect net income or cash flows from operating activities and these measures may vary among companies. Our use of these measures has limitations as an analytical tool, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

- these non-GAAP financial measures exclude certain recurring, non-cash charges such as stock-based compensation expense and amortization of acquired intangible assets;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash requirements for such replacements;
- Adjusted Operating Income (Loss), Adjusted Net Income and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our indebtedness;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us;
- Free Cash Flow removes the impact of accrual-basis accounting on asset accounts and non-debt liability accounts, and does not reflect the cash requirements necessary to service the principal payments on our indebtedness; and
- Other companies, including companies in our industry, may calculate Adjusted Operating Income (Loss), Adjusted Net Income, Adjusted EBITDA, Adjusted EPS or Free Cash Flow differently, which reduces their usefulness as comparative measures.

# Non-GAAP footnotes

1) Net income attributable to non-controlling interests represents an adjustment to include earnings allocated to non-controlling interest held in (i) Sabre Travel Network Middle East of 40% for all periods presented, (ii) Sabre Seyahat Dagitim Sistemleri A.S. of 40% beginning in April 2014, (iii) Abacus International Lanka Pte Ltd of 40% beginning in July 2015, and (iv) Sabre Bulgaria of 40% beginning in November 2017.
2) Impairment and related charges represents an $81 million charge in 2017 associated with net capitalized contract costs related to an Airline Solutions' customer based on our analysis of the recoverability of such amounts.
3) Depreciation and amortization expenses:
    a. Acquisition-related amortization represents amortization of intangible assets from the take-private transaction in 2007 as well as intangibles associated with acquisitions since that date. Also includes amortization of the excess basis in our underlying equity interest in Sabre Asia Pacific Pte Ltd's ("SAPPL") net assets prior to our acquisition of SAPPL on July 1, 2015.
    b. Depreciation and amortization of property and equipment includes software developed for internal use.
    c. Amortization of capitalized implementation costs represents amortization of upfront costs to implement new customer contracts under our SaaS and hosted revenue model.
4) Our Travel Network business at times provides upfront incentive consideration to travel agency subscribers at the inception or modification of a service contract, which are capitalized and amortized to cost of revenue over an average expected life of the service contract, generally over three to five years. This consideration is made with the objective of increasing the number of clients or to ensure or improve customer loyalty. These service contract terms are established such that the supplier and other fees generated over the life of the contract will exceed the cost of the incentive consideration provided upfront. These service contracts with travel agency subscribers require that the customer commit to achieving certain economic objectives and generally have terms requiring repayment of the upfront incentive consideration if those objectives are not met.
5) In 2017, Other, net includes a benefit of $60 million due to a reduction to our liability under the TRA primarily due to a provisional adjustment resulting from the enactment of TCJA which reduced the U.S. corporate income tax rate, offset by a loss of $15 million related to debt modification costs associated with a debt refinancing. In 2016, we recognized a gain of $15 million from the sale of our available-for-sale marketable securities, and $6 million gain associated with the receipt of an earn-out payment related to the sale of a business in 2013. In addition, all periods presented include foreign exchange gains and losses related to the remeasurement of foreign currency denominated balances included in our consolidated balance sheets into the relevant functional currency.
6) Restructuring and other costs represents charges associated with business restructuring and associated changes implemented which resulted in severance benefits related to employee terminations, integration and facility opening or closing costs and other business reorganization costs. We recorded $25 million and $20 million in charges associated with announced actions to reduce our workforce in 2017 and 2016, respectively. These reductions aligned our operations with business needs and implemented an ongoing cost and organizational structure consistent with our expected growth needs and opportunities. In 2015, we recognized a restructuring charge of $9 million associated with the integration of Abacus, and reduced that estimate by $4 million in 2016, as a result of the reevaluation of our plan derived from a shift in timing and strategy of originally contemplated actions. As of December 31, 2017, our actions under this plan have been substantially completed and payments under the plan have been made.
7) Litigation (reimbursements) costs, net represent charges and legal fee reimbursements associated with antitrust litigation. In 2017, we recorded a $43 million reimbursement, net of accrued legal and related expenses, from a settlement with our insurance carriers with respect to the American Airlines litigation. In 2016, we recorded an accrual of $32 million representing the trebling of the jury award plus our estimate of attorneys' fees, expenses and costs in the US Airways litigation.
8) We paid an annual management fee to TPG Global, LLC ("TPG") and Silver Lake Management Company ("Silver Lake") in an amount between (i) $5 million and (ii) $7 million, plus reimbursement of certain costs incurred by TPG and Silver Lake, pursuant to the management services agreement (the "MSA"). In addition, we paid a $21 million fee, in the aggregate, to TPG and Silver Lake in connection with our initial public offering in 2014. The MSA was terminated in conjunction with our initial public offering.