Q1 2021 Earnings Call Prepared Remarks

May 4, 2021

Slide 1 – Title Slide

Good morning and welcome to the Sabre first quarter 2021 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. Thank you for joining us for our first 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 trends, expected advancements, depreciation and amortization, capital expenditures, 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 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.

Before we get into the details and trends from the first quarter, I'd like to take a moment to highlight a few items.

First, I am very pleased to welcome Phyllis Newhouse and Wendi Sturgis as newly elected, independent directors to our board. Phyllis and Wendi bring significant technology and cyber-security expertise, and we look forward to their perspectives and support over the coming years. On behalf of Sabre's board and leadership team, I'd also like to thank Joe Osnoss, Judy Odom, Renee James and John Siciliano, who retired from our board last week. Their counsel and guidance over the years has been extremely valuable.

Second, I'd like to personally congratulate four current Sabre team members: Traci Mercer, senior vice president – product segment; Amy Green, vice president – global business systems; Emma Wilson, vice president – marketing; and Corrie DeCamp, senior vice president – program management, for being named among the Top 50 Women in Travel by the Global Business Travel Association.

I'd also like our Sabre teammates in India to know our thoughts and prayers are with them as they navigate through the impact of the COVID-19 crisis.

Finally, I'd like to thank all my Sabre teammates around the world for their service to our customers, shareholders and each other, as we all navigate this pandemic.

Slide 4 – Travel trends are improving with vaccine rollout

Turning to Slide 4.

As we have done in prior quarters, on the next slides, I will walk you through specific booking, passengers boarded, or PB, and hospitality CRS transaction trends. But I will start with a bigger picture perspective.

Global travel trends continue to be reflective of COVID-19 case counts, cumulative and daily vaccination rates and regional travel restrictions. In the United States, part of our largest region, we are encouraged by the accelerating pace of daily vaccine doses administered, as well as the recent bullish demand comments and capacity plans made by U.S. airline executives. We have seen this confidence reflected in our North American bookings recovery. As expected, international markets vary significantly and collectively have been slower to rebound than U.S. domestic travel, including in regions in which vaccine distribution remains slow and daily cases remain high. As Doug will discuss in more detail shortly, this has resulted in a more pronounced rotation in our bookings mix.

To give further perspective on our largest region, North America represented 55% of our GDS bookings in 2019. As of April 30th, about 29% of the total US population has been fully vaccinated, and about 45% has received at least one dose of a COVID-19 vaccine. Since our Q4 earnings call, the daily vaccination rate has increased by a million vaccines daily, from about 1.7 million in February to 2.7 million per day in April. U.S. travel trends have picked up on this momentum. Our North American gross air bookings, which reflect new demand, have recovered to nearly 50% of 2019 levels over the last two weeks of April.

On this chart you can better see the pronounced rotation in regional booking mix towards North America. In the first two months of the year, our North American gross bookings were down 72 percent versus the same timeframe in 2019, whereas the rest of the world was down about 84 percent. By April, the gap widened, with North American gross bookings recovery accelerating to down 53 percent, and the rest of the world down 77 percent versus 2019 levels.

Looking ahead, we expect U.S. domestic travel to continue to lead the recovery as the vaccination rollout progresses and reported COVID-19 cases continue to decline. We have already seen an improvement in leisure bookings and have begun seeing green shoots in U.S. business travel with our large TMC customers.

We expect European and APAC markets to recover more slowly due to greater fragmentation, tighter travel restrictions, slower vaccination rates and new variant strains. However, based on what we have seen in the U.S., as these regions gain confidence from increasing vaccination rates, we expect bookings activity to follow. We remain confident there is pent up demand for global travel and that global travel will recover.

Slide 5 – Strongest bookings improvement in March & April

Turning to slide 5, industry air net bookings showed sequential improvement over the first part of this year, with the strongest sequential improvement in March and April. As compared to 2019, in January, GDS industry net air bookings were down 82%, and February and March were down 77% and 71%, respectively. April was down 70%, slightly ahead of March.

Our largest region, North America, improved the most, with a seven percentage point quarter-over-quarter recovery, and the positive trend continued into April. Other regions were largely flat quarter-over-quarter and into April.

Slide 6 – North America is leading the air bookings recovery

On slide 6, you can see this effect more clearly using weekly data by region. Positive trends continue to accelerate in North America. EMEA and APAC continue to lag behind the global average. Latin America, which had been showing a strong recovery over the winter, showed signs of improvement again in late April after a dip in the early spring.

Slide 7 – Key volume metrics trending positively since January

Slide 7 shows Sabre's volume metrics for air gross bookings, passengers boarded and hotel gross CRS transactions. After a slowdown in January, all metrics have trended in a positive direction with U.S. domestic, leisure travel driving much of the improvement. Hotel CRS transactions continue to lead the recovery and reached over 70% of 2019 levels in April.

Slide 8 – Commercial update

Turning to Slide 8. We continue to be very active commercially in all lines of business.

In Distribution, we've added several airlines to our GDS, including SkyUp in the Ukraine and Ego Airways in Italy. We also renewed agreements with carriers, including WestJet and Frontier. On the agency side, we added several new agencies, including Cleartrip, the largest OTA in the Middle East, Kiwi.com, Europe's fastest growing OTA, and Omega, one of the largest business management companies in the US. We also renewed agencies including Kanoo Travel, the largest travel company in the Middle East, and Travelgenio, one of Europe's largest OTAs. Travelgenio is also implementing Sabre Virtual Payments.

On the IT Solutions side, we've completed implementations of SabreSonic with ASKY and Zambia. We also added a couple new Radixx customers, including U.S. startup Avelo Airlines.

Air India Express and Evelop Airlines each renewed their Radixx agreements. Evelop is also adding Market Intelligence and other operations related products.

We also had some key renewals in our operations portfolio, including Flight Plan Manager with Spirit Airlines, Crew Control with Jet2.com and Crew Manager went live with JAL.

In Hospitality, in addition to the traction with enterprise hoteliers announced last quarter, we continue to be very active in the community segment with many new deals and renewals signed.

Despite the effects of COVID-19, we have a healthy sales pipeline and are well positioned to capture new opportunities.

Slide 9 – Continued progress in achieving our strategic initiatives

Turning to slide 9. We have talked about the importance of strategic initiatives to enable Sabre to capture opportunities created by evolving travel trends and to increase shareholder value. Let me now update you on the commercial activity that demonstrates our progress against these initiatives this quarter.

Personalized offers. We are moving aggressively to create new IT capabilities, methods and intelligence to allow suppliers, such as airlines, to deliver more customer-centric, personalized offers.

Examples of momentum in this area in Q1 include LATAM Airlines going live with Dynamic Pricing in key markets. We successfully migrated Jet Blue, Binter and ASKY to Revenue Optimizer, our revenue management tool that enables airlines to set optimal price-point availability and provides real-time data to better support decision making and performance analysis.

Additionally, phase one of our Sabre Smart Retail Engine ™ remains on track for rollout this spring. As a reminder, we expect Sabre Smart Retail Engine ™ to enable airlines to deliver personalized offers to their customers and better serve the needs of today's traveler while unlocking more value per passenger boarded.

The future of distribution and NDC. Airlines have been investing to differentiate their brands in a number of ways, including notably with ancillary products. Although this practice has created more choices for travelers, it has also created a challenge. While it is easy for consumers to determine the cost of travel, it has become more difficult to understand what the related travel experience will be. This quarter we announced a new, industry-first airline storefront to help solve this problem. The new storefront provides digital "shelves" that organize airlines' offerings to support product differentiation and provide more merchandizing opportunities for airlines, while allowing efficient comparison shopping for travel buyers based on the total value of the offer.

Delta Air Lines is one of the carriers who helped collaborate on the development of our new airline storefront. Yesterday, we announced a new, value-based, multi-year distribution agreement with Delta. This represents an industry-first model that we believe will create value for the travel ecosystem.

In terms of NDC progress, this quarter we achieved IATA Level 4 certification as an IT Provider after previously reaching that certification milestone as an NDC Aggregator. This certification confirms our technical ability to support a set of criteria related to full offer and order management capabilities. We also expanded access to NDC offers from Singapore Airlines to more than 25 agency locations. Eligible agencies can now not only shop and book Singapore's NDC offers but also void, refund and exchange NDC orders.

Additionally, this quarter we announced the launch of NDC offers from Qantas to travel agencies in Australia and New Zealand with plans to expand to agencies in other regions over time.

Finally, NDC content can now be booked through our corporate online booking tool, GetThere.

Low cost carrier growth. We've talked on previous earnings calls about the investments we are making in the low cost carrier segment, and how we are expanding the capabilities of Radixx to increase sales opportunities in this faster growing, leisure segment of travel. This quarter we made important progress in this pursuit, including the integration of SabreSonic Inventory for Availability into Radixx. This improves Radixx's ability to scale to larger airlines. We continue to view the LCC segment as an important growth avenue for Sabre.

Hospitality Solutions growth. We continue to grow our Central Reservation System business. As a reminder, our CRS is industry-leading and serves more than 42,000 hotels, resorts and chains across nearly 200 countries and territories. SynXis Central Reservations allows hoteliers to distribute rates and inventory to more than 400 online channels across the world, including all major GDS systems, as well as hundreds of online travel agencies.

Last quarter we signed two new enterprise wins representing over 1,600 hotel properties across 54 countries, with the majority coming from Louvre. This quarter we made progress in support of these new enterprise CRS deployments and our Hospitality Solutions business generally, including setting up Google Cloud environments in two of our four global regions.

We are optimistic about the growth outlook for our Hospitality Solutions business as hoteliers are increasingly turning to Sabre to broaden their distribution and reach and to drive incremental revenue opportunities.

Finally, our technology transformation. I'm excited about the progress we are making in our tech transformation. This quarter we moved Travel Solutions Agency Air Shopping to Google Cloud. We believe running our future air shopping growth on GCP is important in a post-COVID-19 recovery because of its scalability and lower costs. This was one of our three major technology milestones for 2021, with the other two being moving at least 15% of our mid-range workloads and transitioning Hospitality Solutions' CRS to the Google Cloud Platform. These milestones are on track.

Additionally, in Q1 we created a GCP region only about 30 miles from our existing data center in Tulsa operated by DXC. This close proximity, combined with high-bandwidth linkage, is expected to create an extremely low latency connection to simplify migrations of capacity from DXC to GCP.

Finally, we successfully offloaded some compute-heavy mainframe capabilities, including Display Inventory for most airlines and schedule changes for the majority of non-hosted airlines. As we continue to migrate compute from the mainframe, we expect to realize further savings.

In conclusion, despite the challenges presented by the pandemic, we are making essential technology investments, developing innovative, new products, advancing our strategic initiatives, and seeing commercial success. We believe Sabre is well positioned competitively as the travel environment rebounds.

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

Slide 10 – Significant & negative impact from COVID-19 in Q1'21

Doug Barnett, CFO:

Thanks Sean, and good morning everyone.

As expected, the COVID-19 pandemic continued to weigh heavily on our results in Q1. Revenue was down 50% in the quarter, totaling $327 million versus $659 million in Q1 of last year.

Versus last year, distribution revenue in the quarter was down 62%, to $152 million. Our Distribution bookings were down 55% year-over-year in the quarter, with air bookings down 52%

and lodging, ground and sea bookings down 72%. Gross air bookings were down 80% and 73% year-over-year in January and February, respectively, and up 4% year-over-year in March. We report bookings on a net basis, meaning net of cancellations. Net air bookings were down 79% and 69% year-over-year in January and February and up 409% year-over-year in March as cancellations were exceptionally high in March last year.

We believe comparisons to 2019 may provide more useful information. Compared to 2019, gross air bookings were down 82%, 77%, and 69% in January, February and March and net air bookings were down 81%, 76% and 66% in those same months.

As expected, domestic leisure bookings have recovered faster than both international leisure and corporate bookings and represented 50% of our total bookings this 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. 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 was down 36% year-over-year with passengers boarded down 55% in the quarter. As a reminder, IT solutions has a higher percentage of revenue not tied to travel volumes than Distribution and Hospitality Solutions.

Hospitality Solutions revenue was down 29%, with a 16% decline in CRS transactions. Because our property mix, particularly in the enterprise segment, is less dependent on city centers and conference venues, we continue to see relative outperformance in our Central Reservation System Transactions versus Distribution bookings and passengers boarded.

EBITDA and operating income were negative in Q1, reflecting the impact of the COVID-19 pandemic. The year-over-year decline in revenue was partially offset by declines in Travel Solutions incentives expense and Hospitality Solutions transaction fees due to lower volumes, headcount expenses due to the ongoing benefit from cost savings initiatives we previously implemented, and technology expenses due to the lower transaction volume environment. Additionally, our provision for expected credit losses, which impacts SG&A, decreased by $39 million versus the prior year quarter.

Net income and EPS were also negative in the quarter. Year-over-year, the declines were driven by the factors impacting operating results, as well as increased interest and a lower tax benefit.

In addition, Free Cash Flow was negative $204 million in Q1. As we mentioned on our last quarterly call, we expect Q1 Free Cash Flow to be the lowest of any quarter in 2021. This is primarily due to timing of large working capital items that will have offsetting benefits over the rest of the year, as well as $8 million in severance.

We ended the quarter with a cash balance of $1.3 billion and have no significant near-term uses of cash.

Slide 11 – Financial reporting change

Turning to slide 11. In response to a routine comment letter from the SEC regarding our calculation of Adjusted EBITDA, we are no longer excluding amortization of upfront incentive consideration from our Adjusted EBITDA calculation. We believe this change will provide enhanced transparency and facilitate analysis of our company. This change has no impact on Revenue, Adjusted Operating Income, Adjusted EPS, or Free Cash Flow. We will continue to break out amortization of upfront incentives in the operating section of our cash flow statement.

As a reminder, in the GDS industry, travel agency incentives are typically paid over time with bookings, as well as upfront at contract inception or renewal. In the latter case, typically there is a related customer volume commitment. From an accounting perspective, these upfront cash incentive payments are amortized over the life of the contract.

Amortization of upfront incentive consideration was $78M in 2018, $83M in 2019 and $75M in 2020. Over the medium term, we expect annual amortization of upfront incentive consideration to be between $50 and $70 million.

Slide 12 – Updated D&A & Capex expectations

Turning to Slide 12. As we have previously discussed, we began migrating our systems to the cloud and transitioned to full adoption and maturity of agile development methods, resulting in a decrease in the percentage of our technology spend eligible for capitalization under US GAAP.

In 2018, we capitalized 24% of our total technology spend. In 2019, we capitalized 9%, and in 2020, just 5%. This shift in capitalization mix temporarily burdened our P&L with both the increased portion of technology spend that is expensed in current periods, plus the depreciation and amortization from previous capitalization.

Going forward, we expect our capitalization rate to remain at 5% or below. Therefore, we expect our CapEx to remain low, or to range between $50 and $90 million annually over the next five years.

Because of this, we are also seeing our depreciation & amortization expense fall. We expect annual D&A to fall from about $200 million in 2021 to $110 million by 2025, which would provide earnings leverage over the medium term.

Sean, back to you.

Slide 13 – Thank you

Sean Menke, President & CEO:

Thanks Doug.

Despite the pandemic, we have continued to make critical investments, including in our products and our technology migration. With the $200 million annual cost reductions we've already made, if revenue returns to 2019 levels, we'd expect to have 5 percentage point higher EBITDA margins, all else equal. We continue to expect our annual cost savings to increase to $275 million by 2024, which would further increase our margins, again assuming all else equal.

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.

Operator, please open for Q&A.