Q4 and Full Year 2022 Earnings Call Prepared Remarks

February 15, 2023

Slide 1 – Title Slide

Good morning and welcome to the Sabre fourth quarter and full year 2022 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 fourth quarter and full year 2022 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 our technology transformation and commercial and strategic arrangements, our financial outlook and targets, expected revenue, Adjusted EBITDA, free cash flow, 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 Q3 2022 Form 10-Q and 2021 Form 10-K.

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 Sean Menke, our Chair of the Board and Chief Executive Officer, Kurt Ekert, our President, and Mike Randolfi, our Chief Financial Officer.

With that, I will turn the call over to Sean.

Slide 4 – Agenda

Sean Menke, Chair of the Board and CEO

Thanks, Brian.

Good morning everyone and thank you for joining us today.

On Slide 4 you can see an overview of the topics Kurt, Mike and I will cover on today's call.

I'll review our many achievements from 2022, and then outline how these support our long-term objectives.

Kurt will then review the latest industry trends, and review our plan for 2023 and beyond. He will also highlight the substantial progress we made in the fourth quarter and in 2022 toward our technology transformation. Further, he will also provide additional detail on key commercial accomplishments and review the important partnerships that we renewed and expanded upon in 2022.

Finally, Mike will take you through the financial results of the quarter and year and our financial outlook for 2023.

Before I start, I want to thank my Sabre team members worldwide. 2022 was a year of progress and recovery. The global pandemic brought on by COVID-19 in 2020 had a significant impact on the travel industry, and Sabre. Despite those headwinds, the Sabre team in 2022 made significant forward progress with our technology transformation, provided best-in-class service to our customers and won new business. I am extremely proud of what we have accomplished to date and what we will do for years to come.

Slide 5 – At an important inflection point

Turning to Slide 5.

2022 was a year of many accomplishments. Our revenue recovered to $2.5 billion dollars, we returned to positive Adjusted EBITDA, we generated positive free cash flow as we exited the year, and we continued our significant progress on our strategic initiatives. Sabre reached an important, positive inflection point. With these key financial metrics now positive, we expect the trend to continue, which we believe will give us the opportunity to delever our balance sheet.

Our technology transformation is delivering financially and operationally in-line with our previously stated goals. With the end in sight, our cloud based infrastructure is more scalable, distributed, and secure than the prior mainframe environment. Just as importantly, it allows us to build more advanced and agile products and capabilities to serve our customers for the years to come in the way we planned.

We solidified key partnerships with travel management industry leaders BCD and AMEX GBT. We expect these partnerships will be a meaningful volume driver for Sabre going forward. In addition, we renewed and extended important agreements with many of our airline customers including American, United, and, most recently, JetBlue.

As you can see on this slide, in 2023, we expect to see meaningful growth in Adjusted EBITDA, and to generate full year positive free cash flow. We are very encouraged year-to-date by volume trends which are in-line with our plan. Over the long-term, we maintain our bullish view of a significant global recovery and growth, but our near-term management of the business will continue to be based on steady improvements in global volumes, with a strong emphasis on cost management to be free cash flow positive in 2023.

Slide 6 – Travel industry still recovering

Moving to slide 6.

We are optimistic over the long-term with regards to the travel recovery based upon historical booking trends, favorable indicators from airlines related to the demand environment and their desire to grow capacity, geographic regions continuing to open, and renewed improvements in corporate travel. As this chart shows, we believe the opportunity for volume recovery as global travel normalizes is significant.

In 2022, the demand recovery was uneven, driven by a resurgence in COVID-19 cases at the beginning of the year, airline and airport operational constraints, airline capacity limits, and regional travel restrictions. We believe some of these factors negatively impacted the recovery in the latter half of the fourth quarter of 2022. As mentioned in my earlier comments, we believe those negative impacts were temporary, and we have seen volumes improve in the new year.

To get into more of the details let me now turn the call over to Kurt.

Slide 7 – Recovery continuing into 2023

Kurt Ekert, President
Thank you Sean.

Before I discuss the latest industry trends, I will briefly revisit the guidance we provided in our last earnings call, and discuss why the results for the quarter did not meet our expectations. As Sean mentioned, shortly following our November earnings call, the upward trajectory of volume growth that we previously experienced was interrupted in corporate travel and in Asia-Pacific in late November and through the month of December.

As you can see from this volume chart, the trajectory of the recovery in 2022 was higher overall, but uneven.

The total Distribution bookings recovery in the fourth quarter was 59% versus the same period in 2019. This 59% bookings recovery equates to a 65% revenue recovery as a result of the higher booking rate achieved in the fourth quarter of 2022 versus the fourth quarter of 2019. Higher revenue per booking resulted from a continued favorable mix.

Importantly, we are already seeing improvement in both corporate travel and Asia Pacific volumes in 2023 through early February. To put numbers behind it, the year to date recovery in our travel management company business is about nine percentage points above December levels, and has strengthened on a sequential weekly basis. Accordingly, we believe the late 2022 recovery set-backs we saw for both corporate travel and Asia Pacific are likely to prove temporary given the positive recovery trends we are now once again seeing. To illustrate this point, we're now realizing a return of group bookings coming out of Asia that are reminiscent of pre-COVID travel patterns.

Despite the fluctuations in air bookings in recent months, we believe several key trends are supportive of continued air traffic growth through 2023. Airline capacity is expected to rise as aircraft deliveries accelerate and operational constraints that have curtailed growth abate. We believe this additional capacity is likely to unlock robust consumer and corporate demand, evident from elevated air fares that have not limited industry load factor improvement.

As we look at the balance of 2023, we are optimistic on overall demand and recovery levels moving forward, but prepared for the possibility of further unevenness in 2023. Accordingly, we will be responsive to changes in volume growth and control costs as needed to focus on achieving positive free cash flow this year.

And while we will adjust as needed to external market conditions, we remain focused on the key long-term strategic opportunities for our business. We are confident in our ability to grow our Distribution business, underpinned by our solid partnerships with many of the largest travel management companies, brick and mortar, and online agencies in the world. We are winning consistently across both retention and conversion opportunities, and are pleased with our strategic positioning in our core GDS business. We believe the investments we are making in product and sales should continue to drive growth in our air bookings. To illustrate this, note that we have realized increased share with nearly three quarters of the largest 20 travel agencies, so far in 2023.

Turning to IT Solutions, Passengers Boarded recovered 90% in the fourth quarter, versus the same period in 2019. Looking ahead, we are encouraged by the opportunities to grow our PSS and airline commercial product offerings, including our innovation on next generation retailing and merchandising.

And Hotel CRS transactions in Q4 were 104% compared to the same period in 2019. We believe our Hospitality Solutions business is primed for strong growth both in its core CRS offerings as well as the new Retail Studio and Nuvola products.

As I mentioned previously, 2023 year to date volumes across each of our key businesses improved from December. Specifically, through February 9th, year to date Air Distribution bookings were 62% versus the same period in 2019, IT Solutions passengers boarded were 94%, and CRS transactions were 125%.

Slide 8 – A year of accomplishments in our tech transformation

Moving to Slide 8.

I am pleased with the progress we made in 2022 on our two key technology milestones for the year: the migration to Google Cloud, and the offloading of Passenger Name Record. During 2022, we completed the exit of our Sabre-managed data centers including Plano, Lewisville, Carrolton, and Austin. All told, during 2022 we decommissioned approximately 13,000 servers from these sites and another 1,500 servers from our Tulsa datacenters operated by DXC. We ended the year with approximately 66% of our total compute capacity in Google Cloud, ahead of our original goal.

Our mainframe offload program continued to make great strides, and we significantly exceeded our 2022 offload savings goal. Development work for offloading Passenger Name Records, our primary customer reservations database, has been completed, and customer migrations are on track to complete this year.

Additional key accomplishments during the year included moving all air shopping to Google Cloud, which enabled us to realize our planned savings in data processing costs due to the reduced cost of Google Cloud compute and multiple shopping optimization efforts. We also migrated our SynXis Central Reservations System and Property Management System to Google Cloud, thus fully completing the transition of our Hospitality Solutions business to the Cloud.

The chart on the right hand side of this slide reiterates the significant savings and margin improvement that we expect our technology transformation to deliver in the coming years.

Slide 9 – Driving our cost of compute lower

Turning to slide 9.

Consistent with our strategy, our unit cost of compute has continued to decline as we migrate our systems to our lowest cost infrastructure, Google Cloud. In the fourth quarter, our average monthly unit cost of compute fell 8% sequentially from the third quarter, and we finished 2022 25% below our 2021 unit cost of compute. And please keep in mind, this savings does not include the long-term opportunity to optimize our systems on Google Cloud, which we believe can drive additional cost efficiencies.

Slide 10 – Simplified technology infrastructure in Google Cloud

Turning to slide 10.

This slide again shows how Sabre's computing volume has changed over the past three years and how we expect it to change by the end of 2024. During the fourth quarter, we increased the proportion of our total compute volume on Google Cloud by 16 ppts from the third quarter. By the end of 2024, as per our original plan, we expect Google Cloud to represent nearly all of our computing volume. We continue to expect that, by significantly reducing the complexity and increasing the agility of our technology architecture, we can better serve our customers at a significantly lower overall cost.

Before I turn the call over to Mike, I want to highlight some of our many commercial accomplishments in 2022.

In 2022 we signed distribution agreement renewals with several global flagship carriers, including American and United. These agreements extend and enhance our partnerships with these carriers, and we plan to collaborate to utilize Sabre technology and solutions to help them enhance their product offerings, and respond faster to consumer demands in the evolving travel marketplace. We remain confident in the value we bring to our customers and expect to win additional distribution agreements in 2023 and beyond. We also recently announced the extension of our long-term and deep JetBlue PSS and distribution relationships, and should their proposed merger be approved, we believe we are well positioned to help JetBlue expand.

Back in November, we also announced a new partnership with Mastercard to accelerate the use of virtual cards for business-to-business travel payments. This announcement builds upon our acquisition of Conferma, which we acquired in August 2022, and furthers our strategy to create an open and independent travel payment ecosystem. We are excited to work with an industry leader with the scale and capabilities of Mastercard, and believe that the growth opportunity from virtual cards in the coming years will be substantial.

We also strengthened our relationships with travel agency leaders such as American Express Global Business Travel, BCD Travel, and Hopper. Our new agreements and joint technology partnerships with GBT and BCD are providing incremental bookings to Sabre's network, and are expected to continue to drive additional growth as migration continues, while also yielding opportunities to improve our customers' overall experience.

The key takeaway from the many partnerships that we expanded in 2022 is that many of the largest travel providers in the world want to do business with Sabre, and we continue to focus on providing the highest level of service and product innovation to our many global partners. Sabre processed over one billion total transactions in 2022, and we are excited to continue playing a central role in the global travel recovery in 2023 and beyond.

Mike, over to you.

Slide 11 – Financial improvement continued in Q4'22

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

Please turn to Slide 11.

As we discuss Q4, I'd like to begin by reiterating some context on recent trends, specifically how we saw volumes evolve throughout the quarter, and how that influences our plans going forward. During our third quarter conference call, we indicated expectations of a Q4 air bookings recovery in the low-60% range, and Adjusted EBITDA for the fourth quarter of approximately $30 million dollars. As Sean and Kurt stated, volume trends in late November and December were not as strong as we expected, which was the primary reason we missed our Q4 recovery and Adjusted EBITDA guidance. What we have learned over the last three years is that the volume recovery trajectory remains upward, but uneven. Given that context, we continue to have a heightened focus on cost control such that we are targeting for expenses to grow at a significantly slower rate than revenue to support our 2023 Adjusted EBITDA and cash flow targets that are aligned with the guidance we have provided today. We expect to be free cash flow positive on an annual basis in 2023, and believe we are on track for our 2025 targets. Additionally, I would like to reiterate that as we transition to generating positive free cash flow for the full year 2023 and beyond, we view the highest priority of that free cash flow generation to be reducing debt and delevering our balance sheet with the long-term goal of being between 2.5x to 3.5x Net Debt to Adjusted EBITDA.

Total Q4 revenue was $631 million, an increase of $130 million dollars, or 26% vs. last year.

Distribution revenue totaled $417 million, a 46% increase compared to $286 million in Q4 2021. Our Distribution bookings totaled 76 million in the quarter, a 32% increase compared to 58 million in Q4 2021. Our average booking fee was $5.49 in the fourth quarter, which compares to $5.38 last quarter, $5.35 in Q2 2022, and $4.96 in the fourth quarter of 2021. We continue to see favorable mix into more profitable regions and types of travel resulting in higher booking fees, and we believe this trend is likely to continue in 2023.

IT Solutions revenue totaled $157 million in the quarter. This is a decline versus revenue of $165 million last year. Passengers boarded totaled 168 million, a 30% improvement from 129 million in Q4 2021. To provide more context on this line item, on a year over year basis for the quarter, we experienced a $25 million benefit from higher volume, offset by no longer having AirCentre revenue of approximately $30 million dollars, and lower revenue from our airline IT business in Russia of approximately $4 million dollars as compared to Q4'21. We realized de-migration of our Russian airline IT business in Q4 as a result of changes in Russian law. Looking forward in 2023, we expect an approximate $100 million headwind to our IT Solutions revenue, the vast majority of which is the result of the impact of the Russian law. Additionally, as a reminder, we sold our AirCentre business at the end of February 2022, and in Q1’22 we realized approximately $35 million in revenue from this business. Please note that these impacts are incorporated into the guidance that we are providing today.

Hospitality Solutions revenue totaled $65 million, an improvement versus revenue of $54 million in Q4 2021. Central reservation system transactions totaled 27 million in the quarter and were 16% above 23 million in Q4 2021.

Adjusted EBITDA of $1 million was better year-over-year as compared to negative $26 million in Q4 2021. The year-over-year improvement in revenue in the quarter was partially offset by increased Travel Solutions incentives expense and Hospitality Solutions transaction fees from higher volumes. As expected, our technology costs increased due to higher variable hosting costs associated with the volume recovery, and higher labor and professional service expenses associated with our technology transformation.

Free Cash Flow was $22 million in the fourth quarter which benefited from seasonally strong working capital inflows.

Our team also successfully refinanced the remainder of our Term Loan B in November, with our nearest debt maturity now being April 2025. In addition, we entered into an accounts receivable securitization on February 14, 2023, which we expect to contribute approximately $100 million to our available liquidity base when funded. This transaction will be recorded in the financing section of our cash flow statement. We view this securitization program as a very efficient financing that is largely debt neutral when taking into account the paydown associated with the AirCentre proceeds.

As a reminder, pursuant to our sale agreement of AirCentre, we are required to pay down debt with any uninvested proceeds from that sale by May 24th, 2023. Currently, we expect that amount to be approximately $80 million dollars.

We ended the fourth quarter with a cash balance of $816 million.

Slide 12 – 2023 Financial Outlook

Turning to Slide 12.

Moving to guidance. As we look to our earnings cadence throughout the year, we remind you that our first quarter is the seasonally strongest bookings quarter of the year. With that, we expect first quarter 2023 revenue of approximately $725 million dollars, and Adjusted EBITDA of approximately $50 million dollars. As we discussed last quarter, the fourth quarter is typically the most favorable from a working capital and free cash flow perspective. Following that, the first quarter typically experiences higher working capital and cash flow outflows. Therefore, it is typically the weakest quarter from a free cash flow perspective. This seasonality is driven primarily by timing of when we receive partner receipts in the fourth quarter, versus when we make agency payments to partners in the first quarter. Additionally, during the first quarter, we will have cash outflows of approximately $60 million dollars for our 2022 annual incentive compensation payments. Hence, we expect negative free cash flow of between $80 and $90 million dollars. As we progress through the year, we expect meaningful sequential improvement in free cash flow generation.

For the full year 2023, we expect revenue between $2.8 billion and $3.0 billion dollars, and adjusted EBITDA between $300 million and $320 million dollars. To provide further context for our revenue projection, for Distribution, this outlook assumes continued incremental improvement in the travel recovery and some benefit from a higher average booking fee. Regarding IT Solutions, as a result of the $100 million dollar headwind and impact of the AirCentre disposition in Q1'22 mentioned earlier, we would expect modest year over year declines in IT Solutions revenue throughout 2023 with the year over year decline being largest in Q1'23. For Hospitality Solutions revenue, we expect it to exceed 2019 levels. We expect our 2023 total revenue growth to have strong flow through to Adjusted EBITDA, given that, at current volume levels, our cost structure is roughly 40% variable and 60% fixed. Additionally, we see efficiency including the benefit of a lower cost of compute, helping to offset other inflationary pressures.

In 2023, we expect to generate approximately $25 million dollars in working capital benefits from growth in our business, and we are targeting $125 million dollars of working capital initiatives which we expect to begin delivering value in the second quarter. We expect 2023 capital expenditures to be between $50 and $60 million dollars. Our annual net cash interest expense based on our current debt profile and expected interest rates, is approximately $390 million. Our net fixed-to-floating debt is about 70% to 30%. Every change in interest rates of 25 basis points, changes our annual interest expense by about $3 million.

Collectively, we expect to generate positive free cash flow in 2023, and on an annual basis thereafter.

As we look at our 2025 targets that we have previously provided and are reiterating, we expect Adjusted EBITDA to grow at least $600 million dollars between 2023 and 2025 and to be greater than $900 million in 2025. At a high level, the contributions to Adjusted EBITDA growth are expected to come from three key drivers, each having a roughly equal contribution to our goal.

For the first driver, we expect a continued travel industry recovery and ultimately higher distribution and passenger boarded volumes than today.

For our second driver, our technology transformation, which we expect will enhance our product development cycle, is expected to also result in meaningful expense reductions by 2025 as compared to today.

The third driver is an expected mix of additional opportunities supported by recent agency wins, growth in IT Solutions, a shift to Adjusted EBITDA generation for Hospitality Solutions, growth in virtual payments from Conferma, and a continued emphasis on cost control.

Slide 13 – Thank you

In conclusion, we are confident in our ability to deliver on our long-term strategic and financial objectives. We expect our technology transformation to provide substantial operating leverage to our business, and we remain optimistic that the global travel recovery will continue, but plan to be responsive, if necessary, to ensure we achieve positive free cash flow in 2023.

Operator, please open for Q&A.