# Q1 2020 Earnings Call Prepared Remarks

*May 8, 2020*

## *Slide 1 – Title Slide*

Good morning and welcome to the Sabre first quarter 2020 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. Thanks for joining us for our first quarter 2020 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, 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 Form 8-K filed on April 13, 2020 and our 2019 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 President and Chief Executive Officer, and Doug Barnett, Executive Vice President and Chief Financial Officer. Dave Shirk, our

Executive Vice President and President, Travel Solutions, will be available for Q&A after the prepared remarks.

Today's call will primarily focus on COVID-19. Sean will provide perspective on its impact on global travel trends and our business. Doug will review the cost and liquidity actions we've taken in response. We will then open the call to your questions.

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

### *Slide 4 – Today's call*

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

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

Before I start, I'd like to recognize that although today's call will focus on the financial implications of the COVID-19 pandemic on our business, this is a human health crisis with severe impact to families and individuals around the world. We are all experiencing dramatic changes to our daily lives and regular routines. Nothing is more important to us than the health and safety of our employees, customers and the communities where we live and work.

I'd like to sincerely thank my Sabre teammates who have made great sacrifices in this incredibly challenging environment. Our Sabre offices around the globe have been closed for a number of weeks now as we practice social distancing.

Before Doug takes you through our financial results:

- I'll begin by discussing the unprecedented impact of COVID-19 on the global travel industry and provide detail on the decline in bookings and travel trends since its outbreak.
- Next, I will describe the actions we have taken in response to this challenge.
- Then, I will describe the impact these actions will have on our technology investments.
- Finally, I'll share why we believe Sabre is resilient and well-positioned for a post-crisis environment.

### *Slide 5 – Severe impact to global travel industry from COVID-19*

The COVID-19 pandemic, as we all know, is an unprecedented challenge facing the entire travel industry. Since its initial onset in late 2019, the outbreak has caused a sharp decline in industry bookings. As we exited the quarter in March, effectively zero new bookings and the impact of cancellations resulted in a negative bookings environment on a net basis.

Total GDS industry air bookings declined by 10%, 25% and 113% in January, February and March on a net basis, with the industry down 49% for the first quarter of 2020. All regions were impacted on a similar level. This is what was reported by the total global GDS industry and factors in no exclusions.

Sabre's new air bookings declined by 8%, 17% and 70% in January, February and March, respectively. On a net basis, including the impact of cancellations, Sabre's air bookings declined by 9%, 23%, and 111% for the same months.

### *Slide 6 – Decline peaked in late March across all regions*

Based on the weekly industry trends we've been monitoring since COVID-19's outbreak, it appears the decline in net air bookings peaked in late March across all regions. Data through April suggests the industry bookings decline was still exacerbated by cancellations.

### *Slide 7 – Cancellations hit peak as bookings decline plateaued*

Drilling into daily trends, cancellation activity peaked toward late March as COVID-19 restrictions went into place around the globe. This was concurrent with a very sharp decline in new bookings made. Since late March, Sabre's new air bookings have declined to less than 100,000 daily, or down by more than 90% versus a pre-crisis 2019 average of roughly 1.5 million daily bookings.

As of mid-April, we believe we have seen a normalization in cancellation rates. We believe we have flushed out most of the cancellation activity with respect to previously made bookings. Although new bookings remain severely depressed, net bookings activity improved in April versus the end of March.

### *Slide 8 – Metrics converged at high 90% declines at end of Q1*

In the first quarter of 2020, declines in passengers boarded and new hotel central reservation system transactions did not happen as fast as the decline in new air bookings. However, the declines in all three of our metrics – Travel Network air bookings, Airline Solutions PBs and Hospitality Solutions CRS transactions – converged at the high 90%s toward the end of March and remained at this level through April.

The future impact of COVID-19 is still unknown, and the travel environment remains highly uncertain. Air carriers' announced second quarter capacity plans indicate continued declines across all regions.

Based on data from OAG, global capacity in April declined approximately 70% year-over-year.  Looking to May:

- North American total scheduled capacity is currently down over 75%, with American, United and Delta down 75% to over 80%.
- EMEA is down 75%, with Lufthansa, IAG, and Air France KLM all down over 90%.
- Latin America is down over 80%, with Avianca, GOL and LATAM all down over 90%, and
- In Asia-Pacific, Air Asia, Cathay Pacific and Qantas are all down over 90%.

The numbers I just reported are scheduled capacity levels. Operated capacity is even lower than marketing schedules files. We expect significant schedule reductions in June and beyond. It is important to note that many airlines around the world are still selling a marketing schedule that isn't too different from last year. But the closer we get to the actual travel period, we see marketing and operating schedules being reduced. This strategy allows airlines to sell and consolidate into fewer flights.

## *Slide 9 – Focus is on liquidity and aligning costs to demand*

Because we are a mission-critical technology provider to the travel industry, our top priority is to be there for our customers both now and when the business environment improves. Given the current uncertainty in the travel environment, our current focus is on long-term liquidity. We have and will continue to take actions to align our cost structure to demand, both near-term and in 2021. Importantly, our cash position and aggressive, but thoughtful, management of the business afford us the flexibility to continue advancing technology capabilities to meet demands.

Let me summarize the **cost actions** we have taken to date:

- In early Q1, our immediate response to COVID-19 was the implementation of a hiring freeze, elimination of pay increases, restriction of employee travel and reduction in consulting spend.

- As the impact of the virus continued to spread globally and bookings fell dramatically in mid-to-late March, we announced cost savings initiatives expected to result in $200 million savings in 2020. This includes pay reductions for US salaried employees, suspension of our 401(k) match, voluntary retirements, voluntary separations and various pay reductions around the globe. I'm very grateful and proud of my colleagues around the world who have participated in these programs.

- In mid-April, we announced plans to reduce 2020 costs by an additional $125 million, including the very difficult decision to furlough one-third of our global workforce. To my teammates around the world currently on furlough, I understand how difficult this is for you and your families. We will continue to work with rigor and resiliency, to ensure we are an even stronger company in the future.

Because two-thirds of our cost structure is variable, it provides protection. It also provides the ability to take further actions, although we hope they will not be needed.

Next, let me summarize the actions we have taken to **enhance our liquidity position**:

- In mid-March, we suspended our dividend and share repurchases, effective after the March 30, 2020 payment.
- We also drew down on our revolver for $375 million.
- On April 17th, we raised $1.1 billion of incremental capital through upsized senior secured and exchangeable notes offerings.
- Doug will share more detail, but with the $1.1 billion capital raise, $325 million cost savings initiative and other actions, we believe our current liquidity is sufficient for more than a year and a half, even in a zero bookings, no travel scenario.

In addition, effective May 1, 2020, Sabre and Farelogix agreed to terminate the Farelogix acquisition agreement.

One question we are often asked is how the cost reductions we are making impact the business, including our previously announced incremental technology investments. Let me walk you through some of what will and won't change as a result of our cost saving initiatives.

To be clear, we are still:

- Proceeding with our technology transformation and transition to Google Cloud. Our technology transformation is expected to lower costs, accelerate innovation and provide competitive differentiation.
- We continue to expect approximately $100 million in annual cost savings by 2024, when we expect the technology transformation to be largely complete.
- Our partnership with Google is off to a great start, and I couldn't be happier with the collaboration so far. We are already executing on the innovation framework we have in place with Google.
- Today, I am pleased to announce we have entered into a new commercial agreement for Sabre to provide availability data APIs for consumption by Google's flight search products.

We are delaying:

- Our billing system upgrade and
- Our full-service property management system in partnership with Accor, primarily due to Accor's furlough of 75% of their workforce.
- We continue to advance NDC-related projects with our current set of actively engaged airline, agency and corporate partners. We have made progress and reached important milestones over the last several months. However, certain incremental investments in NDC have been slowed down as many of our customers redirect their focus on financial and operational priorities.
- Each one of these projects is important to Sabre's future, and we expect to return to them after we have better insight on an industry wide recovery.

To state the obvious, we do not know when travel demand will recover, or what the travel industry will look like on the other side of this crisis. We are fortunate that we have access to global data in real time and are monitoring the significant insight this gives us for early indications of improvement throughout the world. Previous industry downturns suggest travel demand is unlikely to return to 2019 levels for at least several years. Customers need to feel comfortable in restaurants, on trains, in airports and on planes. The timing for this level of comfort in crowded places may vary around the world. We are hoping for the best, but as I have described, planning for the worst.

We suspect leisure travel will return more quickly than corporate travel as companies carefully consider their duty of care to employees, and as leisure travelers are tempted by lower fares and room rates. Travelers may stay closer to their home market, where they better understand the health risks. The North American market may remain the most stable given its relative pre-crisis strength, but even North American carriers are retrenching significantly.

Ultimately, we expect a smaller travel market for some time and are positioning Sabre for this new reality. We are confident the strength of our liquidity position, flexible cost structure, longstanding customer relationships and experienced management team will allow Sabre to endure this period of prolonged uncertainty.

Doug, over to you.

### *Slide 10 – Q1 results significantly impacted by COVID-19*

Doug Barnett, CFO:

Thanks Sean, and hello everyone. Before I begin, I'd like to acknowledge this is a difficult time. Our thoughts are with those around the world impacted by the COVID-19 pandemic.

We are in a time of unprecedented disruption to the travel industry. As Sean mentioned, the latest IATA projection is a 55% reduction in passenger revenue in 2020. Approximately 15% of our revenue is not tied to travel volumes, which partially mitigates the exposure we have to COVID-19's impact on travel. However, our first quarter results were significantly impacted by the pandemic.

In the first quarter, revenue was down 37%.

Travel Network bookings were down 45%. Remember we report bookings on a net basis, which means net of cancellations. In the quarter, new air bookings were down 32%, but there was significant cancellation activity as COVID-19 restrictions were put in place. As of quarter end, we have recognized $105 million of revenue from bookings not yet departed and have a cancellation reserve of $44 million on our balance sheet. We believe we hit peak cancellation rates at the end of March and have flushed through most of the initial incremental COVID-19 cancellation activity as of mid-April. Remember that about half of our cancellation risk is offset by reductions in incentive payments.

First quarter EBITDA was positive. It was down significantly year-over-year. Our cost savings initiatives were not announced until mid-March, so we expect most of the savings will be recognized over the balance of the year.

After depreciation and amortization and interest expense, we had an operating loss and negative EPS in the quarter.

Finally, we generated positive Free Cash Flow of $12 million in the quarter.

Our normal-course earnings results slides are in the appendix of our earnings presentation, which is available on our IR web page.

## *Slide 11 – Largely variable cost base and levers to manage*

Let me provide some clarity on our cost structure. Two-thirds of our cost structure is variable, which provides protection in a downside scenario.

Based on 2019 results, our variable costs are composed of:

- Approximately $1.3 billion for Travel Network incentive expenses, which are variable and tied to bookings volume,
- Approximately $250 million in semi-variable technology hosting costs, and
- Approximately $500 million in headcount-related and other costs, including R&D labor. This is where our cost savings initiative is targeted.

Only one-third, or $1 billion based on 2019 results, is fixed. This includes critical headcount, including maintenance R&D labor, and fixed technology hosting costs.

Our high proportion of variable costs affords us the ability to take further actions, if needed.

## *Slide 12 – $325 million in expected 2020 cost savings; ability to increase*

In response to COVID-19, we announced a $200 million cost savings initiative in March. In April, we increased the scope and are now targeting $325 million in total cost savings in 2020.

Breaking down the $325 million:

- $200 million is related to one-time or temporary headcount-related savings. One-third of our staff is currently furloughed, and we have also implemented pay reductions and suspended certain benefits.

- $50 million is related to permanent headcount-related cost savings. This is the expected 2020 benefit, not the annual run-rate savings.
- $50 million is related to technology project delays. As Sean described, outside of our technology transformation and migration to Google Cloud, we have paused investment in the strategic initiatives discussed on our previous earnings call.
- Finally, $25 million is related to third-party and vendor spend savings.

The expected cost savings resulting from these activities have been included in the liquidity analysis that I will discuss shortly. These are tough actions, but we have the ability to further increase the scope if necessary. I want to thank my Sabre colleagues around the world for their support during this challenging time.

### *Slide 13 – Significant liquidity to withstand prolonged downturn*

In addition to the cost reductions, we have taken several liquidity actions and expect to have significant liquidity to withstand a prolonged downturn.

In addition to $325 million in expected 2020 cost savings:

- We suspended dividends and share repurchases in mid-March, effective after the March 30, 2020 payment of $39 million. For context, we spent $154 million on dividends and $78 million on share repurchases in 2019.
- We drew down on our revolver in the amount of $375 million.
- We raised $1.1 billion from the issuance of senior secured and exchangeable notes. Final pricing was 9.25% on $775 million in senior secured notes due in 2025 and 4.0% on $345 million exchangeable notes also due in 2025.
- Although we were in compliance with our Q1 leverage ratio requirement as of March 31, 2020, we believe that a Material Travel Event Disruption has occurred. Therefore, we expect our leverage ratio covenant under our Amended and Restated Credit Agreement will be suspended. Current carrier capacity forecasts lead to our expectation that this suspension will remain for the balance of the year.
- Effective May 1, 2020, Sabre and Farelogix agreed to terminate the acquisition agreement. We recorded a termination fee of $46 million in the first quarter, $25 million of which is related to advancements already paid and $21 million in aggregate termination fees that have already been paid in the second quarter of 2020.

### *Slide 14 – 1.5+ years of liquidity in a zero bookings environment*

Taking a closer look at our liquidity position, we ended the first quarter with a cash balance of $684 million.

We have a cash balance of approximately $1.7 billion pro forma for the following items:

- $1.1 billion raised in our recent notes offerings, less

- $30 million in refunds owed to airlines for Q1 cancellations,
- $52 million in incentive payments delayed from Q1,
- $44 million in cancellation reserve and
- $21 million in termination fees paid to Farelogix in Q2.

We estimate we have total liquidity of approximately $1.5 billion after taking into account minimum cash to operate the business of $150 million.

We estimate we have a monthly cash burn rate of approximately $80 million in a zero bookings environment. This estimate is composed of:

- $50 million in revenue from the 15% of our revenue not tied to travel volumes,
- $80 million in fixed costs, from our $1 billion in previously described annual fixed costs,
- $20 million in variable costs, reflecting a decline in Travel Network incentives and semi-variable technology hosting costs, as well as the impact of cost savings initiatives, and
- $30 million in other cash expenditures, which is primarily interest, debt repayment, and CapEx.

This all results in our expectation for approximately 18 months of liquidity in a zero bookings, no travel environment.

Given that we believe we have more than a year and a half of liquidity, we do not expect to participate in the CARES Act loan program for the aviation industry.

As a reminder, we withdrew the guidance provided on our February earnings call and are not issuing guidance at this time.

Sean, back to you.

## *Slide 15 – Thank you*

Sean Menke, President & CEO:

Thanks Doug.  And thank you to our Sabre teammates around the world for their dedication to serving our customers, shareholders and each other during this difficult time.

Together, we will get through this. We will make travel happen again.