

Sabre Corp
Form 10-Q
May 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-36422

Sabre Corporation
(Exact name of registrant as specified in its charter)

Delaware 20-8647322
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
3150 Sabre Drive
Southlake, TX 76092
(Address, including zip code, of principal executive offices)
(682) 605-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No

As of April 25, 2019, 274,711,386 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

SABRE CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SABRE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended	
	March 31,	
	2019	2018
Revenue	\$1,049,361	\$988,369
Cost of revenue	787,563	692,857
Selling, general and administrative	151,391	130,111
Operating income	110,407	165,401
Other income (expense):		
Interest expense, net	(38,013)	(38,109)
Loss on extinguishment of debt	—	(633)
Joint venture equity income	533	1,171
Other, net	(1,870)	(1,106)
Total other expense, net	(39,350)	(38,677)
Income from continuing operations before income taxes	71,057	126,724
Provision for income taxes	11,843	36,275
Income from continuing operations	59,214	90,449
Loss from discontinued operations, net of tax	(1,452)	(1,207)
Net income	57,762	89,242
Net income attributable to noncontrolling interests	912	1,362
Net income attributable to common stockholders	\$56,850	\$87,880
Basic net income per share attributable to common stockholders:		
Income from continuing operations	\$0.21	\$0.32
Loss from discontinued operations	(0.01)	—
Net income per common share	\$0.20	\$0.32
Diluted net income per share attributable to common stockholders:		
Income from continuing operations	\$0.21	\$0.32
Loss from discontinued operations	(0.01)	—
Net income per common share	\$0.20	\$0.32
Weighted-average common shares outstanding:		
Basic	275,589	274,720
Diluted	277,605	276,844
Dividends per common share	\$0.14	\$0.14

See Notes to Consolidated Financial Statements.

SABRE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	\$57,762	\$89,242
Other comprehensive income, net of tax:		
Foreign currency translation adjustments ("CTA"), net of tax		
Foreign CTA (losses) gains, net of tax	(2,293)	2,975
Net change in foreign CTA (losses) gains, net of tax	(2,293)	2,975
Retirement-related benefit plans:		
Amortization of prior service credits	(278)	(278)
Amortization of actuarial losses	1,222	1,397
Net change in retirement-related benefit plans, net of tax	944	1,119
Derivatives and securities:		
Unrealized (losses) gains, net of taxes of \$1,596 and \$(2,021)	(5,409)	7,412
Reclassification adjustment for realized gains (losses), net of taxes of \$(555) and \$352	2,202	(1,749)
Net change in derivatives and securities, net of tax	(3,207)	5,663
Share of other comprehensive income of joint venture	28	129
Other comprehensive (loss) income	(4,528)	9,886
Comprehensive income	53,234	99,128
Less: Comprehensive income attributable to noncontrolling interests	(912)	(1,362)
Comprehensive income attributable to Sabre Corporation	\$52,322	\$97,766

See Notes to Consolidated Financial Statements.

SABRE CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$459,487	\$ 509,265
Accounts receivable, net	617,963	508,122
Prepaid expenses and other current assets	163,841	170,243
Total current assets	1,241,291	1,187,630
Property and equipment, net of accumulated depreciation of \$1,596,627 and \$1,524,795	753,949	790,372
Investments in joint ventures	27,333	27,769
Goodwill	2,550,983	2,552,369
Acquired customer relationships, net of accumulated amortization of \$716,140 and \$709,824	316,743	323,731
Other intangible assets, net of accumulated amortization of \$644,684 and \$634,995	279,828	289,517
Deferred income taxes	23,810	24,322
Other assets, net	665,626	610,671
Total assets	\$5,859,563	\$ 5,806,381
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$220,820	\$ 165,227
Accrued compensation and related benefits	64,503	112,866
Accrued subscriber incentives	353,037	301,530
Deferred revenues	92,682	80,902
Other accrued liabilities	239,075	185,178
Current portion of debt	75,548	68,435
Tax Receivable Agreement	101,497	104,257
Total current liabilities	1,147,162	1,018,395
Deferred income taxes	119,062	135,753
Other noncurrent liabilities	309,537	340,495
Long-term debt	3,318,203	3,337,467
Commitments and contingencies (Note 10)		
Stockholders' equity		
Common Stock: \$0.01 par value; 450,000 authorized shares; 293,909 and 291,664 shares issued, 275,629 and 275,352 shares outstanding at March 31, 2019 and December 31, 2018, respectively	2,939	2,917
Additional paid-in capital	2,262,424	2,243,419
Treasury Stock, at cost, 18,280 and 16,312 shares at March 31, 2019 and December 31, 2018, respectively	(420,301)	(377,980)
Retained deficit	(750,310)	(768,566)
Accumulated other comprehensive loss	(137,252)	(132,724)
Noncontrolling interest	8,099	7,205
Total stockholders' equity	965,599	974,271

Total liabilities and stockholders' equity	\$5,859,563	\$5,806,381
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See Notes to Consolidated Financial Statements.

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SABRE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Three Months Ended March 31,	
	2019	2018
Operating Activities		
Net income	\$57,762	\$89,242
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	103,443	101,876
Amortization of upfront incentive consideration	19,128	19,456
Stock-based compensation expense	15,694	12,606
Deferred income taxes	(13,932)	20,413
Allowance for doubtful accounts	5,370	2,396
Loss from discontinued operations	1,452	1,207
Dividends received from joint venture investments	996	865
Amortization of debt issuance costs	993	1,003
Joint venture equity income	(533)	(1,171)
Loss on extinguishment of debt	—	633
Debt modification costs	—	1,558
Other	(1,189)	4,252
Changes in operating assets and liabilities:		
Accounts and other receivables	(95,354)	(89,417)
Prepaid expenses and other current assets	(24,429)	8,482
Capitalized implementation costs	(7,619)	(11,484)
Upfront incentive consideration	(22,052)	(25,699)
Other assets	26,078	(1,816)
Accrued compensation and related benefits	(47,150)	(53,525)
Accounts payable and other accrued liabilities	131,753	98,675
Deferred revenue including upfront solution fees	1,589	15,640
Cash provided by operating activities	152,000	195,192
Investing Activities		
Additions to property and equipment	(37,864)	(64,699)
Cash used in investing activities	(37,864)	(64,699)
Financing Activities		
Payments on Tax Receivable Agreement	(72,790)	(58,908)
Cash dividends paid to common stockholders	(38,594)	(38,560)
Repurchase of common stock	(32,146)	—
Payments on borrowings from lenders	(11,828)	(11,828)
Net payments on the settlement of equity-based awards	(6,842)	(4,797)
Debt issuance and modification costs	—	(1,567)
Other financing activities	(2,114)	(12,811)
Cash used in financing activities	(164,314)	(128,471)
Cash Flows from Discontinued Operations		
Cash used in operating activities	(48)	(1,139)
Cash used in discontinued operations	(48)	(1,139)

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Effect of exchange rate changes on cash and cash equivalents	448	(1,161)
Decrease in cash and cash equivalents	(49,778)	(278)
Cash and cash equivalents at beginning of period	509,265	361,381
Cash and cash equivalents at end of period	\$459,487	\$361,103

See Notes to Consolidated Financial Statements.

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SABRE CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

Three Months Ended March 31, 2019									
Stockholders' Equity (Deficit)									
Common Stock			Treasury Stock		Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity	
Shares	Amount	Additional Paid in Capital	Shares	Amount					
Balance at December 31, 2018	291,663,954	\$2,917	\$2,243,419	16,311,538	\$(377,980)	\$(768,566)	\$(132,724)	\$7,205	\$974,271
Comprehensive income	—	—	—	—	—	56,850	(4,528)	894	53,216
Common stock dividends ⁽¹⁾	—	—	—	—	—	(38,594)	—	—	(38,594)
Repurchase of common stock	—	—	—	1,491,521	(32,146)	—	—	—	(32,146)
Settlement of stock-based awards	2,245,107	22	3,311	477,357	(10,175)	—	—	—	(6,842)
Stock-based compensation expense	—	—	15,694	—	—	—	—	—	15,694
Balance at March 31, 2019	293,909,061	\$2,939	\$2,262,424	18,280,416	\$(420,301)	\$(750,310)	\$(137,252)	\$8,099	\$965,599

(1) A quarterly cash dividend of \$0.14 per share on our common stock

Three Months Ended March 31, 2018									
Stockholders' Equity (Deficit)									
Common Stock			Treasury Stock		Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity	
Shares	Amount	Additional Paid in Capital	Shares	Amount					
Balance at December 31, 2017	289,137,901	\$2,891	\$2,174,187	14,795,726	\$(341,846)	\$(1,053,446)	\$(88,484)	\$5,198	\$698,500
Comprehensive income	—	—	—	—	—	87,880	9,886	1,377	99,143
Common stock dividends ⁽¹⁾	—	—	—	—	—	(38,560)	—	—	(38,560)
Settlement of stock-based awards	1,774,147	18	3,609	384,599	(8,471)	—	—	—	(4,844)
Stock-based compensation	—	—	12,605	—	—	—	—	—	12,605

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expense										
Adoption of										
New										
Accounting	—	—	—	—	—	79,153	—	—	79,153	
Standards										
Balance at										
March 31,	290,912,048	\$2,909	\$2,190,401	15,180,325	\$(350,317)	\$(924,973)	\$(78,598)	\$6,575	\$845,997
2018										

(1) A quarterly cash dividend of \$0.14 per share on our common stock

See Notes to Consolidated Financial Statements.

SABRE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Information

Sabre Corporation is a Delaware corporation formed in December 2006. On March 30, 2007, Sabre Corporation acquired Sabre Holdings Corporation (“Sabre Holdings”). Sabre Holdings is the sole subsidiary of Sabre Corporation. Sabre GLOB Inc. (“Sabre GLOB”) is the principal operating subsidiary and sole direct subsidiary of Sabre Holdings. Sabre GLOB or its direct or indirect subsidiaries conduct all of our businesses. In these consolidated financial statements, references to “Sabre,” the “Company,” “we,” “our,” “ours” and “us” refer to Sabre Corporation and its consolidated subsidiaries unless otherwise stated or the context otherwise requires.

We connect people and places with technology that reimagines the business of travel. We operate our business and present our results through three business segments: (i) Travel Network, our global travel marketplace for travel suppliers and travel buyers, (ii) Airline Solutions, a broad portfolio of software technology products and solutions primarily for airlines, and (iii) Hospitality Solutions, an extensive suite of leading software solutions for hoteliers.

Basis of Presentation—The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Operating results for the three months ended March 31, 2019 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2019. The accompanying interim financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 15, 2019. We consolidate all majority-owned subsidiaries and companies over which we exercise control through majority voting rights. No entities are consolidated due to control through operating agreements, financing agreements or as the primary beneficiary of a variable interest entity.

The consolidated financial statements include our accounts after elimination of all significant intercompany balances and transactions. All dollar amounts in the financial statements and the tables in the notes, except per share amounts, are stated in thousands of U.S. dollars unless otherwise indicated. All amounts in the notes reference results from continuing operations unless otherwise indicated.

Use of Estimates—The preparation of these interim financial statements in conformity with GAAP requires that certain amounts be recorded based on estimates and assumptions made by management. Actual results could differ from these estimates and assumptions. Our accounting policies that utilize significant estimates and assumptions include: (i) estimation for revenue recognition and multiple performance obligation arrangements, (ii) determination of the fair value of assets and liabilities acquired in a business combination, (iii) the evaluation of the recoverability of the carrying value of long-lived assets and goodwill, (iv) assumptions utilized to test recoverability of capitalized implementation costs, (v) judgments in capitalization of software developed for internal use and (vi) the evaluation of uncertainties surrounding the calculation of our tax assets and liabilities. Our use of estimates and the related accounting policies are discussed in the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 15, 2019. Additionally, see Note 2. Revenue from Contracts with Customers for additional information on the use of significant estimates and assumptions in recognizing revenue.

Stockholders’ Equity—During the three months ended March 31, 2019, we issued 2,245,107 shares of our common stock as a result of the exercise and settlement of employee equity-based awards. In addition, we had \$7 million in net payments from the exercise of employee stock-option awards, which included a \$10 million payment of income tax withholdings associated with the settlement of employee restricted-stock awards. We paid quarterly cash dividends on our common stock of \$0.14 per share, totaling \$39 million, during each of the three months ended March 31, 2019 and 2018.

Share Repurchase Program—In February 2017, we announced the approval of a multi-year share repurchase program (the "Share Repurchase Program") to purchase up to \$500 million of Sabre's common stock outstanding. For the three months ended March 31, 2019, we repurchased 1,491,521 shares totaling \$32 million pursuant to this Share Repurchase Program. Repurchases under the program may take place in the open market or privately negotiated transactions. Approximately \$332 million remains authorized for repurchases under the Share Repurchase Program as of March 31, 2019.

Adoption of New Accounting Standards

In October 2018, the Financial Accounting Standards Board ("FASB") issued updated guidance that permits use of the Overnight Index Swap ("OIS") rate based on the Secured Overnight Financing Rate ("SOFR") as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the Direct Treasury obligations of the U.S. government, the London Interbank Offered Rate ("LIBOR") swap rate, the OIS rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Markets Association Municipal Swap Rate. We adopted this standard in the first quarter of 2019, which did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued updated guidance requiring organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases, when the lease has a term of more than 12 months. The updated standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. In the first quarter of 2019, we adopted the new standard using the modified retrospective approach and elected the package of practical expedients and the hindsight practical expedient. See Note 9. Leases for more information on the impacts from adoption and ongoing considerations.

Recent Accounting Pronouncements

In August 2018, the FASB issued updated guidance on customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. Under this updated standard, when the arrangement includes a license to software developed for internal use, implementation costs are capitalized and amortized on a straight-line basis over the related contract terms, and a liability is also recognized to the extent the payments attributable to the software license are made over time. When the cloud computing arrangement does not include a software license, implementation costs are to be expensed as incurred. The updated standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We do not expect the adoption of this updated standard will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued updated guidance for the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. Under this updated standard, the current "incurred loss" approach is replaced with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, allowances for losses will now be required rather than reducing the instruments carrying value. The updated standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

2. Revenue from Contracts with Customers

Contract Balances

Revenue recognition for a significant portion of our revenue coincides with normal billing terms, including Travel Network's transactional revenues, and Airline Solutions' and Hospitality Solutions' Software-as-a-Service ("SaaS") and hosted revenues. Timing differences among revenue recognition, unconditional rights to bill, and receipt of contract consideration may result in contract assets or contract liabilities. Contract liabilities are included within deferred revenues and other noncurrent liabilities on the consolidated balance sheet. Contract liabilities totaled \$169 million and \$166 million as of March 31, 2019 and December 31, 2018, respectively. During the three months ended March 31, 2019, we recognized revenue of approximately \$18 million from contract liabilities that existed as of

December 31, 2018.

Contract assets are included within prepaid expenses and other current assets and other assets, net on the consolidated balance sheet. The following table presents the changes in our contract assets balance (in thousands):

Contract assets as of December 31, 2018	\$79,268
Additions	5,795
Deductions	(11,961)
Contract assets as of March 31, 2019	\$73,102

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Our trade accounts receivable, net recorded in accounts receivable, net on the consolidated balance sheet as of March 31, 2019 and December 31, 2018 was \$610 million and \$501 million, respectively. Our long-term trade unbilled receivables, net recorded in other assets, net on the consolidated balance sheet as of March 31, 2019 and December 31, 2018 was \$49 million and \$50 million, respectively. These balances relate to license fees billed ratably over the contractual period and recognized when the customer gains control of the software. We evaluate collectability of our accounts receivable based on a combination of factors and record reserves as reflected in Note 1. Summary of Business and Significant Accounting Policies in our consolidated financial statements in our Annual Report on Form 10-K filed with the SEC on February 15, 2019.

Revenue

The following table presents our revenues disaggregated by business (in thousands):

	Three Months	
	Ended March 31,	
	2019	2018
Air	\$640,478	\$593,245
Lodging, Ground and Sea	90,287	84,117
Other	43,203	43,774
Total Travel Network	773,968	721,136
SabreSonic Passenger Reservation System	127,228	120,022
Commercial and Operations Solutions	83,558	84,568
Other	2,141	2,013
Total Airline Solutions ⁽¹⁾	212,927	206,603
SynXis Software and Services	64,214	60,270
Other	8,617	7,858
Total Hospitality Solutions	72,831	68,128