

Sabre Corp.

SABR

Analyst: Nicolas Morand
Sector: Information
Technology

BUY on SABR

Price Target: \$38.06

Key Statistics as of 12/02/15

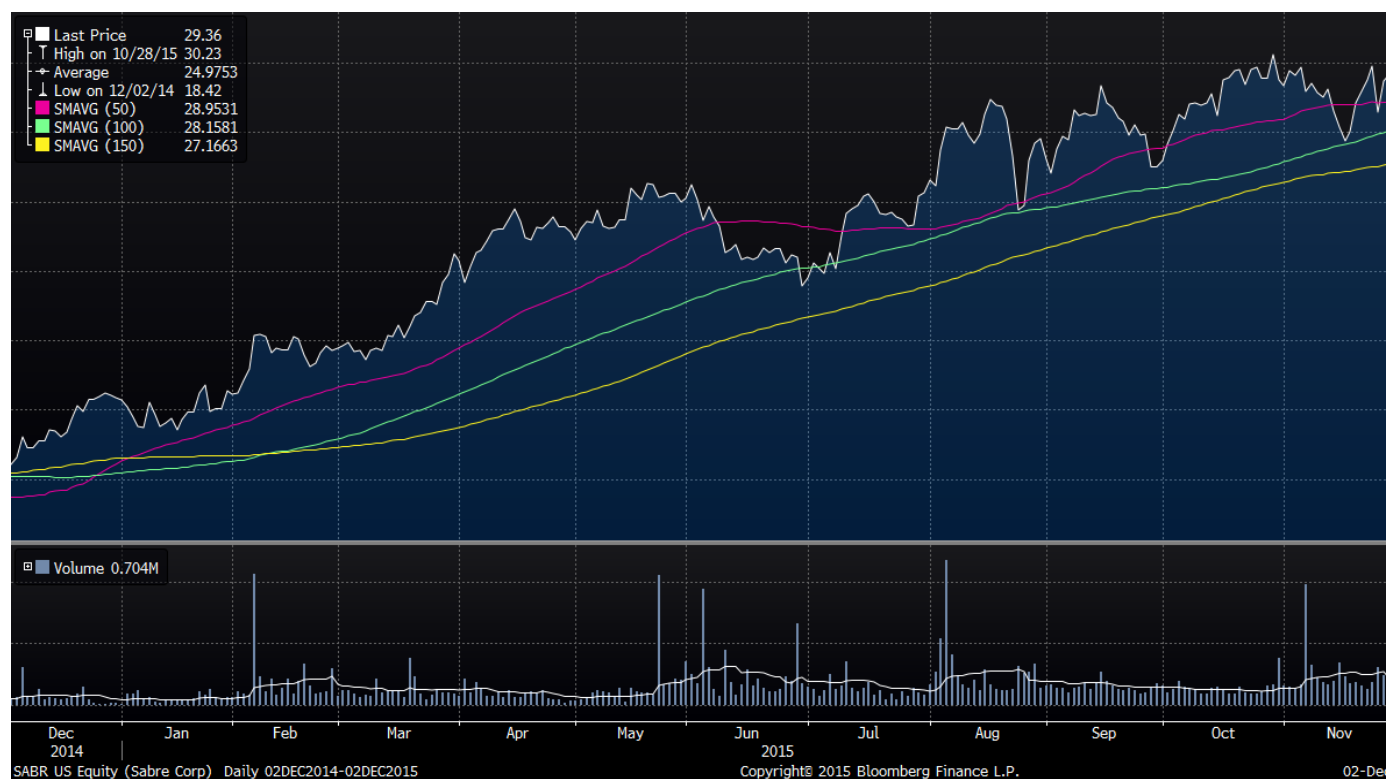
Market Price:	\$29.75
Industry:	IT Services
Market Cap:	\$8.3 B
52-Week Range:	\$18.15 - \$30.45
Beta:	0.93

Thesis Points:

- Sabre is a leader in the travel solution industry.
- Acquisitions reinforced their position and should allow them to gain market share.
- High revenue growth expectation.

Company Description:

Sabre Corp is an American technology provider to the global travel and tourism industry worldwide. It has been created in 1960 by American Airlines, was spun off back in 2000 and has its headquarters based in Southlake, Texas, USA. The company offers a broad range of technology solutions that includes tours and travel services, data-driven business intelligence, software as a service solution for travel suppliers such as airlines, cruise, car rental companies, railways, hotels and tour operators and for travel buyers such as travel agencies, travel management companies and corporate travel department. The company operates under two segments: Travel Network and the airline and hospitality solutions.



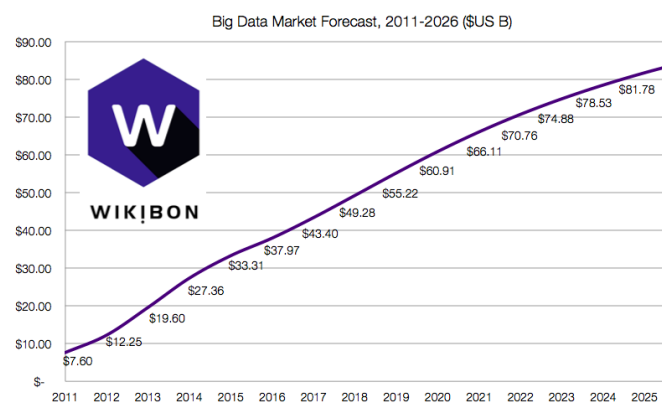
Thesis

Sabre Corp is among the leaders in the Global Distribution System (GDS) industry, and has been providing solutions for the travel industry for more than 50 years. Sabre's software, data and distributions solutions are used by more than thousands of hotel properties and hundreds of airlines to manage their operations, from guest registration to staff management and serves customers in more than 160 countries. On November 24 2015, Sabre Corp acquired the Trust Group, a central reservation, revenue management and hotel marketing supplier well established in Europe, Middle-East and Asia Pacific, in order to consolidate its presence in these area and grow faster. Companies around the world are more and more trying to improve both their efficiency and their competitive advantage through the investment in new technologies. As a result, Sabre's revenue should keep increasing. Besides, growth in revenue is expected to be higher in the coming years than it was the last few years because of the expansions of new information technology system. Furthermore, Sabre managed to efficiently decrease their operating cost so as to increase their net income overtime. The macroeconomic environment, the good strategic decision for expansion, and the expected growth in the information technology sector for 2016 led me to believe that acquiring Sabre's stock might be a good investment in the medium and long-term.

Industry Outlook

The Information Technology industry is central to nation's security, safety and economy. Businesses, citizens, governments and universities are more and more dependent on information technology. As the technology sector is moving faster every year, 89% of business leader believe that the Big Data will revolutionize our way of doing business operations. Within the travel and tourism industry, Global Distribution System platform are computing with each other to provide travel providers a lot of new expertise. There is a battle of gaining information on customers and their needs to best simplify the sales process. According to Wikibon, the Big Data market is expected to see an annual increase of 17% until 2026. In 2015, the market reached \$33.31B, up from 27.36% in the

previous year and is expected to reach \$84.69B in 2026. Sabre Corp understands that and introduced its Marketplace Analytics for Sabre Airline solutions, which will allow airlines to view shopping activity and traveler's demand so that they can adjust their product offering to convert demand into more bookings. Sabre's products are used by more than 200 airlines companies worldwide, which is why investing on Big Data will allow them to provide a strong portfolio of software to better serve their customers. According to the World Travel Tourism Council, the industry is again growing strongly with a contribution of \$7.58 trillion in GDP back in 2014. According to them, the travel and tourism sector will continue to grow at an annual rate of 3.8% for the next 10 years to reach \$11.4 trillion. Sabre is the world's leading provider of solution for the travel industry and should grow accordingly with these coming movements.



Porter's Five Forces

Bargaining power of suppliers: **HIGH**

Sabre Corp, as many technological solutions companies, mostly relies on third party provider such as software companies to provide them new expertise that they can sell to their customers, or international telecommunication companies which allow them to provide support to their customers. If any contract had to be terminated, Sabre would not be able to find an alternative source of technology to replace the previous one in a reasonable amount of time which would cause severe damage to the company and additional costs.

Bargaining power of customers: **HIGH**

Sabre Corp customers are travel providers such as airlines, hotels, car rental brands, rail carriers, cruise

lines, tour operators and travel agencies. Sabre Corp profit came almost exclusively from the fees they charged for the use of their Global Distribution System. In a time where the low cost is growing, many travel providers are looking for ways to decrease their costs to keep a high margin of return, which could result in actions to decrease their fees toward the IT solutions system.

Threat of substitutes: **LOW**

There is only two substitute possible to Sabre's product and services. The first one could be that travel providers companies deciding to sell their trip in a direct way to avoid third-party costs. The second one is travel providers deciding to launch their own software to replace the services even if this would be expensive.

Existing rivalry: **MEDIUM**

Like many other businesses, the success depend on the ability to both attract and keep existing customers. The key is to be competitive and to find way to increase market share. The Global Distribution System market is huge and about 4 international GDS provider dominate the market. Amadeus, Travelport and Sabre are dominating 95% of the market and the remaining 5% are owned by Abacus, a strong regional competitor in the APAC area (which has been acquired by Sabre Corp on July 1st).

Threat of new entrance: **LOW**

To enter this industry, a new company would have to spend a lot of money for maintenance and the development of the platforms so as to be able to compete with existing competitors. As explained above, Sabre Corp, Amadeus and Travelport share 95% of the market which make competitions even harder for new companies.

Product Portfolio

Sabre Corp provides technology services to the travel and tourism industry worldwide. It operates under two segments: Travel Network and Airline and Hospitality Solutions. The Travel Network segment work as a business to business model. It offers expertise such as inventory, prices and availability from a wide panel of

travel suppliers such as airlines, car rental companies, hotels, rail carriers, tour operator and cruise lines with a vast network of travel buyers. One type of customer which need this solution are agencies and travel management companies. By using Sabre's product, they would be able to have access to Sabre global distribution system of more than 400 airlines, 175,000 hotels, 17 cruise lines and 36 car rentals agencies. Having access to the huge database is just the beginning of the experience as customers will have access to various services provided such as online help, workbooks, training tutorial, consulting services to achieve revenue goals or hardware/software assistance. Another type of client is suppliers. Sabre manages to grow its customer's revenue and customer base thanks to both its global network of 425,000 agents around the world and its industry experts and services that it provides with its products. Sabre also provides services to corporations to help them maximizing the value of their trip by providing three main solutions to corporations. These three solutions allow travelers to create a single itinerary to create a complete view of the travel (including car rent, hotels, air planes, cruises...) using a shared graphical itinerary that allow both traveler and the firm to have easy access to these information. It also allows professionals to deal with last minute changes and receive notifications when the company wants to send a message to its employees in a specific area. It provides an effective booking experience online or through mobile applications and others services that will add value to the traveler's journey. Another client for this segment is the U.S. government. Indeed, more than 70% of the federal trips are planned using Sabre global distribution system as it allows the government to manage its military support logistic, to integrate military housing reservation and to beneficiate from exclusive access for air space, hotel and more. With over 1,000 employees dedicated to the customer service speaking ten different languages, its unique expertise, its advanced portfolio of products, its relationship with customers and the service it provides with its product, Sabre Corp is creating value for its customer, which has allowed them to gain new customers and to increase their revenue from \$2,631.4 million in 2014 to \$2,848.6 million LTM for a segment that represents 70% of their revenue. The Airline and Hospitality segment includes a portfolio of software technology product and solutions that helps managing sales and customers services. For example, in the hospitality business, SynXis, a cloud base system, helps the front office of a hotel by distributing

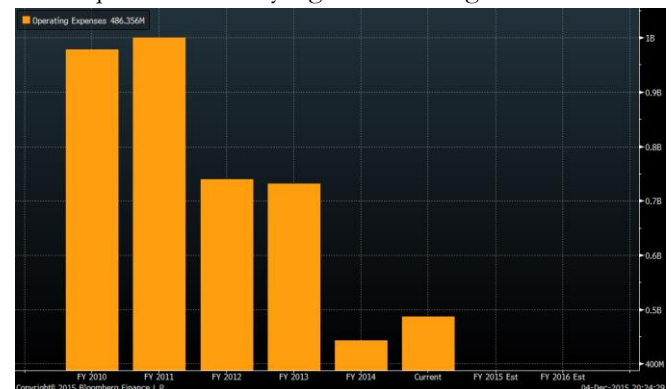
automatically room rates and inventories to online travel agencies, helps to collect data to manage reports, helps to manage accounting, includes online training so that employees could use the system efficiently and provide support and services to deliver their customers the best experience of the system. By adopting this system, professionals from the hospitality industry managed to improve their efficiency, increase their profit per reservation and save time by eliminating manual data entry. On the Airline industry side, Sabre provides a portfolio of solution to help its customer better market, sell, serve and operate their business. Sabre's products are designed to help cargo management, planning and schedule management, fares management and revenue management. The solutions provided help them to increase the number of ticket sold whether it is online or in agencies. Sabre Airline Management is use by more than 200 airlines worldwide and nearly one out of five passengers in the world is boarded using these solutions tools. Another tool provided is a checking tool that allows passengers to receive trip notifications and alerts for any change, including last minute changes that might simplify their travel. The last tool provided helps to manage airport's daily operations efficiently. This includes the management of airport staff and led to improve performance which benefits their customers. Sabre Airline Solutions provide a panel of solutions for the millions of activities that are necessary from the booking process to the travel itself. The Airline and Hospitality Solutions segment represents the other 30% of Sabre's revenues.

Financials

Consolidated Statements of Operations Data:	Year Ended December 31,				
	2014	2013	2012	2011	2010
Revenue	\$ 2,631,417	\$ 2,523,546	\$ 2,382,148	\$ 2,252,446	\$ 2,105,811
Operating income (loss)	421,345	380,930	(6,586)	331,112	340,011
Income (loss) from continuing operations	110,873	52,066	(215,427)	113,477	81,941
Loss from discontinued operations, net of tax	(38,918)	(149,697)	(394,410)	(193,873)	(365,941)
Net income (loss) attributable to Sabre Corporation	69,223	(100,494)	(611,356)	(66,074)	(268,811)
Net income (loss) attributable to common shareholders	57,842	(137,198)	(645,939)	(98,653)	(299,611)

Looking at LTM, it has been a very profitable year for Sabre Corp. The company managed to increase its revenue from \$2,631.4 million in 2014 to \$2,848.6 million for the last twelve months based on September, which represents an increase of 8.25% for the year. Sabre's analyst are expecting a growth of 13.8% in revenue for the coming year with expected revenue around \$3.37 billion .On July 1st, Sabre acquired

Abacus, a leading company in the Asia-Pacific market, which is right now the world's growing region for travels with an expected annual growth rate between 6% and 9%. Sabre sees opportunities to increase their market share in this area as the Sabre Asia pacific booking tool increased by 6% even if the Chinese slowdown have impacted some markets. Middle-East, Africa, South-America and Asia area represents 25% of Sabre's revenue and is expected to continue to grow in the future. Recently, Sabre also Acquire the Trust Group on November 24th. The Trust Group provide central reservation services, revenue management, and marketing in the hotel industry and is well establish in the EMEA and APAC area. Such an acquisition will reinforce Sabre's presence in both the EMEA and APAC which would enable Sabre to grow quicker. The Travel network segment saw an increase of nearly 30% in the quarter driven by a global bookings increase.



The above graph shows Sabre managed to constantly decrease its operating expenses through the years from \$1,000.1 million back in 2011 to \$486 million in the last twelve months while increasing its revenue. As a result, Sabre's Income from Continuing Operation increase by 122% compare to 2014 from \$110.9 million to \$246.3 million for the LTD. This year, Sabre manage to record positive extraordinary gains that drove the Net Income higher at a level of \$462.4 million which represents an increase of 700% compare to 2014 Net Income of \$57.8 million as computed in the last 10-K report above. On the downside, Sabre Corp have a lot of debt which increase their riskiness. They manage to decrease their long-term debt, which is exclusively long-term borrowing, from \$3.6 billion in 2013 to \$3.06 billion in 2014. This amount is still very high and increases their vulnerability to general adverse industry and economic condition in general.

Valuation

The valuation of Sabre Corp is based on a proforma that values the company with a discounted cash flow and focuses on Sabre's return on invested capital. You will find a summary of the outputs used for the valuation attached at the end of this report. An average decay growth rate has been utilized to determine the speed of reversion toward long term stability. The intrinsic value of the stock is extremely sensitive to risk premium and a 1% risk premium has been added to the United States 5.5% because 25.6% of Sabre's revenue came from outside of the United States and Europe. The revenue growth estimates for FY 2015, 2016, 2017 are based on the twelve analyst estimates growth. Following years have been compute to decline so as to reach a 3% growth in revenue in the long run, which is the long term GDP growth.

Conclusion

Management is very confident in the firm's ability to increase its sales. The firm stated that they are gaining market shares around the world as their customer base is increasing faster than the rest of the market. They do believe that sales are going to keep following an increasing trend as their Travel Network segment is expected to grow by 13% or more for the coming quarter thanks to both their position toward the market and their new acquisitions. They do believe in the fact that their business is global enough to be able to absorb some potential shock that might happen and to record positive return if an area grow at a softer rate than expected. The historical performance of the company and the economic outlook led me to believe that this company has room to grow. They are undoubtedly one of the leader of a growing market and provides value to their customers. I recommend a buy on Sabre Corp with a 12-month price target of \$38.06, which represents an increase of nearly 36%.

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Sabre Corporation	SABR	Analyst Nicolas Morand	Current Price \$29.75	Intrinsic Value \$38.06	Target Value \$40.08	Dividend Yield 1%	1-y Return: 35.93%	BULLISH	
General Info		Peers		Market Cap.		Management			
Sector	Information Technology	Global Payments Inc	\$9,202.28	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014	
Industry	IT Services	Travelport Woddwide Limited	\$1,643.83	Klein, Thomas	Chief Executive Officer, President, Director, &	\$0	\$5,119,312	\$7,122,675	
Last Guidance	October 29, 2015	Vantiv, Inc.	\$7,528.03	Gilliland, Michael	Chairman Emeritus and Adviser	\$0	\$3,133,518	\$2,366,624	
Next earnings date	February 18, 2016	Total System Services, Inc.	\$10,296.05	Simonson, Richard	Chief Financial Officer and Executive Vice Pre	\$0	\$6,288,881	\$2,353,658	
Market Data		Fiserv, Inc.	\$21,994.59	Kerr, Deborah	Chief Product & Technology Officer and Exec	\$0	\$5,191,004	\$2,048,926	
Enterprise value	\$11,021.18			Gonzalez, Rachel	Executive Vice President and General Counsel	\$0	\$0	\$1,961,986	
Market Capitalization	\$4,449.48	FleetCor Technologies, Inc.	\$14,166.10	Webb, Gregory	Vice Chairman	\$0	\$0	\$1,868,265	
Daily volume	0.22	Fidelity National Information Services, I	\$17,964.72	Past Earning Surprises					
Shares outstanding	273.97	Blak Knight Financial Services, Inc.	\$2,359.10	Revenue		EBITDA		Norm. EPS	
Diluted shares outstanding	277.39	WEX Inc	\$3,642.81	Standard Error of "Surprise"					
% shares held by institutions	26.01%	Current Capital Structure		Last Quarter	0.23%	1.33%	0.00%	0.41%	
% shares held by insiders	0.39%	Total debt/Common Equity (LTM)	0.47	Last Quarter-1	3.77%	5.89%	12.50%	2.63%	
Short interest	1.42%	Cost of Borrowing (LTM)	5.82%	Last Quarter-2	1.86%	8.84%	8.00%	2.20%	
Days to cover short interest	2.10	Estimated Cost of new Borrowing	9.56%	Last Quarter-3	-0.08%	-1.83%	0.00%	0.60%	
52 week high	\$30.46	Altman's Z	1.11	Last Quarter-4	-0.59%	1.32%	4.00%	1.33%	
52-week low	\$18.15	Estimated Debt Rating	D	Standard error	0.8%	0.8%	2.4%	1.06%	
5y Beta	0.00	Current levered Beta	0.92	Standard Error of Revenues prediction	0.8%	Industry Outlook (Porter's Five Forces)			
6-month volatility	27.17%	LTM WACC	7.76%	Imputed Standard Error of Op. Cost prediction	1.7%	Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (100th Percentile), Intensity of Existing Rivalry (100th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th Percentile), and Overall (100th			
				Imputed Standard Error of Non Op. Cost prediction	1.5%				
Proforma Assumptions									
Convergence Assumptions		General Assumptions		Items' Forecast Assumptions			Other Assumptions		
		Money market rate (as of today)	0.37%	Base year (LTM)		Convergence period (Sub-industry)		Adjustment per year	
All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years		Risk-Free rate (long term estimate)	2.93%	Operating Cash/Rev.	4.66%	Tobin's Q	80%		
		Annual increase (decrease) in interest rates	0.1%	NWV/Rev.	-2.29%	Excess cash reinvestment	Money market rate		
		Marginal Tax Rate	37.5%	NPPE/Rev.	20.49%	Other claims on the firm's assets	\$0.00		
		Country Risk Premium	6.5%	Dpre/NPPE	33.43%	Capitalization			
				NOPAT MARGIN	15.12%	100% of all rent expenses are capitalized and amortized 'straightline' over 10 years			
Forecast Year		Revenue Growth Forecast		Revenue (\$) Forecast		Op. Exp./Rev.		Valuation Focus	
		LTM	\$2,848.58	SBC/Rev.	1.04%	E&P expenses are not capitalized		DCF Valuation	
FY2015		4.2%	\$2,968.12	Rent Exp./Rev.	1.09%	SG&A expenses are not capitalized		Relative valuation	
FY2016		13.8%	\$3,378.77	R&D/Rev.	0.00%			Distress Valuation	
FY2017		7.2%	\$3,621.57	E&D/Rev.	0.00%			Monte Carlo Simulation Assumptions	
FY2018		6.5%	\$3,856.55	SG&A/Rev.	16.97%	Revenue Growth deviation		Normal (0%, 1%)	
FY2019		5.9%	\$4,084.36	ROIC	44%	Operating expense deviation		Normal (0%, 1%)	
FY2020		5.4%	\$4,305.83	EV/Rev.	3.53x	Continuing Period growth		Triangular (6.305%, 6.5%, 6.695%)	
FY2021		4.9%	\$4,518.46	EV/EBITA	16.41x	Country risk premium		Triangular (2.91%, 3%, 3.09%)	
FY2022		4.5%	\$4,719.69	Debt/Equity	47%	Intrinsic value σ(ε)		\$0.09	
FY2023		4.0%	\$4,907.01	Unlevered beta	0.71	1-year target price σ(ε)		\$0.10	
FY2024		3.5%	\$5,078.00	Dividends/REV	3%				
Continuing Period		3.0%	\$5,230.34						
Valuation									
Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share	Monte Carlo Simulation Results	
LTM	0.0%	7.8%	\$610.66	\$14,263.60	\$4,221.09	273.97	\$0.00		
FY2015	64.4%	7.4%	\$598.08	\$14,919.54	\$4,329.20	273.97	\$0.00		
FY2016	88.0%	7.8%	\$686.21	\$15,652.18	\$4,200.69	273.97	\$0.00	The 3σ(ε)-adjusted intrinsic value is \$38.06; the 3σ(ε)-adjusted target price is \$40.08; and the analysts' median target price is \$33.18	
FY2017	81.8%	7.8%	\$740.36	\$16,360.16	\$4,023.06	273.97	\$0.00		
FY2018	80.4%	7.9%	\$798.00	\$17,111.20	\$3,822.04	273.97	\$0.00		
FY2019	78.7%	8.0%	\$856.50	\$17,908.77	\$3,587.74	273.97	\$0.00		
FY2020	77.1%	8.1%	\$914.70	\$18,758.12	\$2,541.13	273.97	\$0.00		
FY2021	75.6%	8.1%	\$971.21	\$19,644.31	\$2,219.23	273.97	\$0.00		
FY2022	74.2%	8.2%	\$1,025.01	\$20,592.90	\$1,853.11	273.97	\$0.00		
FY2023	72.9%	8.3%	\$1,075.24	\$21,612.27	\$1,441.76	273.97	\$0.00		
FY2024	71.8%	8.5%	\$1,121.16	\$22,712.21	\$984.94	273.97	\$0.00		
Continuing Period	71.8%	8.5%	\$1,814.20						
Sensitivity Analysis									
Revenue growth variations account for 95.9% of total variance									
Risk premium's variations account for 2.5% of total variance									
Operating expenses' variations account for 1.4% of total variance									
Continuing period growth variations account for 0.2% of total variance									