

Sabre Corp.
NASDAQ:SABR

Analyst: Remy Fields
Sector: Technology

HOLD

Price Target: \$25.16

Key Statistics as of 04/08/2015

Market Price: \$24.87
Industry: IT Services
Market Cap: \$6.09 B
52-Week Range: \$14.86 – 24.97
Beta: 1.85

Thesis Points:

- Strong booking momentum in GDS business
- Airline Solutions momentum
- Untapped potential in hospitality
- Financial expectations

Company Description:

Sabre Corporation provides technology solutions to the travel and tourism industry worldwide. It operates in two segments: Travel Network, and Airline & Hospitality Solutions. The Travel Network segment operates a business-to-business travel marketplace that offers travel content, such as inventory, prices, and availability from a range of travel suppliers, including airlines, hotels, car rental brands, rail carriers, cruise lines, etc. The Airline Hospitality Solutions segment offers a portfolio of software technology products and solutions through software-as-a-service and hosted delivery models to airlines, hotel properties, and other travel suppliers. It offers software solutions related to managing sales and customer service across an airline's diverse touch points; strategic airline commercial planning solutions; and strategic solutions for planning and management of airline, airport, and customer operations. This segment's hospitality solutions comprise distribution through its SynXis central reservation system; property management through Sabre Property Management System; and marketing and consulting services related to distribution and marketing. The company serves travel suppliers; a network of travel buyers; travelers and other sellers of travel and consumers of travel information; airlines, including hybrid carriers and low-cost carriers, global network carriers, and regional network carriers; and other customers, such as airports, corporate aviation fleets, governments, and tourism boards. Sabre Corporation was founded in 2006; went public in 2013, and is headquartered in Southlake, Texas.



Thesis

Sabre Corporation is a HOLD because of their current valuation, but when considering them from a growth perspective and as a long-term hold they are a buy. This is because of the innovative solutions they provide in the travel industry. Sabre Corporation have positioned themselves well by continuing to be #1 or #2 across all of their product sets. Being best in class is Sabre Corporations competitive advantage against their competition. Their competitive advantage has led to strong booking momentum in their GDS and airline solutions business, which will help growth going forward. Furthermore, they have innovative solutions for companies in the hospitality industry, which is an untapped market. This untapped market will give them a new, significant, and growing revenue stream. Sabre Corporation is well positioned for growth and margin expansion in the upcoming years. SABR stock's multiple will re-rate higher as they continue to execute to deleverage and expand margins relative to peers.

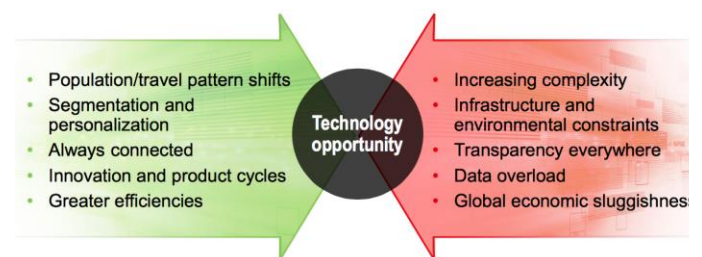
Industry Overview

The IT services industry is changing rapidly. The industry is also growing rapidly when compared to GDP. The industry has outpaced GDP 1.5x over the past two decades. This will continue to be the case due to the demand for advances from the consumers. Companies have to be where the clients want them to be, which has shifted from desktops and laptops to tablets and mobile devices. The quicker the average consumer increasingly uses their Smartphone, the faster businesses will feel the pressure to follow that change. This is because their employees will be the consumers that are using their mobile devices more often. In addition to that change, IT service companies must keep up with the shift to cloud. Businesses are finding more reasons, such as cheap costs, to move their data over to the cloud.

Moreover, Sabre and its competitors must find solutions for their consumers' needs. The travel industry is a 7 trillion dollar industry that continues to grow. The industry's growth is heavily linked to technology. The industry has been facing problems, like, increasing complexity, infrastructure and environmental constraints, transparency, data overload, and global economic sluggishness. At the same time, their consumers are always connected due to the popularity of Smartphone's.

The consumers travel patterns are shifting and they are looking for a more personalized experience. In between these problems and consumer desires lays a solution, technology.

The services that IT companies can provide would help increase efficiencies in the travel industries daily operations. The travel suppliers, which include airlines, hotels, rent-a-car services, railroads, and cruises already, have experiences tailored to the general consumer, but are looking for more ways to differentiate their experiences from their competitors. IT service companies can help the company create a competitive advantage through differentiation. They can do this through their innovative technologies that use data mining to better understand the consumers' wants and needs. The companies in the travel industry will not be able to come up with these technologies on their own because it is not what they do. They specialize in running their business, but with the innovations in technologies, they need to leverage technology companies with the background to keep consumers satisfied. Considering all of this, it is an opportunistic time to invest in the industry, but it is important to be part of a company that will outperform its competitors.

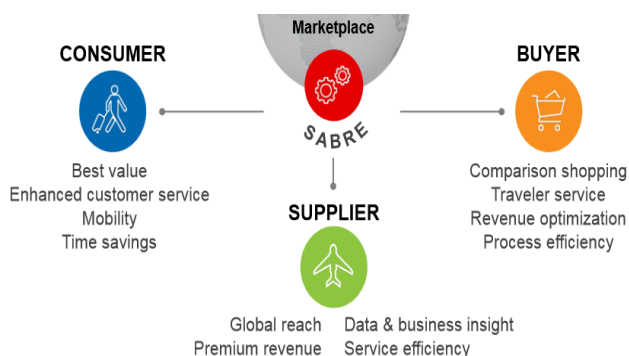


Sabre Corporation is well positioned in their industry because of their innovative products, which can serve as efficient solutions to the problems airlines, hotels, and the other businesses in the travel industry. In the hotel industry they have an enterprise platform called SynXis. This platform provides hotels with technology to create efficiencies in distribution, operations, and retailing. The platform also allows the hotels to personalize their guest experience, which would lead to a better experience for their consumers. Sabre's ability to help their customers is seen in their 98% customer retention rate. Sabre has become more than a solution provider to the hotels; they have become a business partner. Their customer retention rate is almost perfect because their customers see their products making a difference, whether its through cost cutting efficiencies because of the

technological advances or increasing the top line through a personalized guest experience that increases the consumers' willingness to buy their products. They have also created a friendly user-experience by building apps that work on tablets and mobile devices.

Airline & Hospitality Solutions	Travel Network
\$786M of 2014 Revenue	\$1.86B of 2014 Revenue
SaaS technology solutions for travel suppliers' mission critical processes	Leading Americas and APAC Growing EMEA Strong customer segments
Strong customer momentum Deep sales and implementation pipelines 12-14% midterm growth	Best-in-class product Suppliers, fare search, user interface
	Headwinds behind us 4-6% midterm growth

Sabre Corporation also delivers innovation throughout the travel industry. They have recently created the world's first revenue management system, large-scale crew planning model, O&D fleet-assignment model, crew-pairing system with long-haul crew augmentation, and demand-forecast based on consumer-choice models. Sabre's innovation will continue because it is in their DNA, which has gotten them to #1 in the industry.



Strong booking momentum

As the US economy continues to recover, which I expect to continue leading to a positive trend in GDS bookings for SABR. These bookings will continue to increase because as the economy continues to recover the US airlines will be willing to spend more on SABR's services to increase personalized offerings to their consumers. SABR also expects to increase their market share, even as they are already the market share leader in the US. Sabre Corporation has been suffering from unfavorable pricing impacts because of American Airlines and US Airways merging, but this should be behind them from here on out.

Airline solutions momentum

Sabre Corporation is well positioned to outperform peers in the growing travel industry because of the innovative technology solutions. They have recently had some big wins, which include, American Airlines, Air Berlin, Alitalia, and Copa Airlines. These wins have the company's growth in software at the lower range of 12%, but it is likely they will increase that in 2016 to 14%.

Untapped potential in hospitality

Sabre corporations hospitality enterprise platform, SynXis has had significant growth, but there is much more room for additional progress. Sabre plans to spend 40% more on hospitality technology, which will help them build scale. Increasing their economies of scale will expand margins in the future. This is important because by creating scale they will be creating value for their shareholders. Sabre will be able to reach the large scale they are aiming for because hotels are more frequently outsourcing solutions. Sabre currently has 5% market share in the mid-size hotel market and have recently added Wyndham as a customer. This win should be indicative of the future success they will have in their expansion into this market. Sabre has also been able to cross/up sell their existing customer base as their contracts are up because of the quality of service that has been provided. SABR's product has become something that their customers need.

Financial Expectations

Sabre Corporation has been deleveraging its balance sheet ever since its IPO in 2013. The company understands it can be run more efficiently and add value for their shareholders by cutting out the parts of the business that are not up to standards with their best performing products. SABR should be able to reach 500 million in free cash flow by 2017 because of the savings on interest expense from deleveraging the balance sheet. Sabre should save 13 million dollars annually. In addition to the savings, SABR will see incremental revenue growth because of the favorable industry trends. SABR will also be able to expand EBITDA margins cross/up sells its broad solution offerings. As Sabre Corporation becomes more financially stable, their investors will be rewarded with a re-rating of the stock's

multiple. As of now, Sabre's multiple is lower than its peers because of their financials, but this should change as they decrease the riskiness of their financials.

Forecasts

In conclusion, SABR is a HOLD because of the valuation. Based off the assumptions of the long-term growth of the company to be 1.5x greater than GDP, revenue increases due to the positive economy, and the expansion of margins because of scalability prices SABR at \$20.69, which is lower than their current market price. Their growth prospects for the long-term are the reason for the HOLD. SABR has positioned themselves in a nicely for long-term growth because of the market share they have in a fast growing industry. Innovation continues to occur at the company, which will lead to continuing growth of the company. With the company recently expanding its product line they will be able to expand margins and revenues by cross/up selling their current and future customers.

