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Conference Call Transcript

TSG - Sabre Holdings 2008 Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Sabre Holdings Earnings Conference Call. My name is Shanika and I will be your coordinator for today. At this time, all participants are in listen-only mode. We will conduct a question-and-answer session towards the end of this conference. (Operator Instructions).

I would now like to turn the presentation over to your host for today's call, Ms. Margaret Kim, Investor Relations. Please proceed.

Margaret Kim - Sabre Holdings - IR

Hello and welcome to Sabre Holdings Corporation's Conference Call to discuss fourth quarter and full year 2008 results. Sorry for the delay in getting the call started, but we had an incorrect number out there and we wanted to wait for everyone to get on. We are here today with Jeffery Jackson, Chief Financial Officer, Mark Miller, Senior Vice President and Controller, and Scott Thanisch, Vice President of Treasury and Corporate Development.

Before we get started, I'd like to remind all of you that any comments on matters such as our forecasted revenues, earnings, transactions, margins and cash flow, contractor business, and trend information would constitute forward-looking statements. These matters are subject to a number of factors that could cause actual results to differ materially from our expectations. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

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We have provided a reconciliation of our adjusted items to get net income in the PowerPoint presentation that accompanies this call. You can find this presentation and our summary financial statements on our website. After the call, we will be taking questions on fourth quarter and full year results only. We will not be commenting or taking questions on forward projections beyond what is contained in just prepared remarks.

As a privately-owned company, Sabre Holdings restricts access to selected financial information. Current or prospective holders of the Company's senior unsecured notes may be eligible to obtain access to a secure website that offers replays of our quarterly investor calls, the accompanying PowerPoint presentations, and full GAAP financial statements.

If you are transacting in securities of the Company, please note that all parties to the transaction should be made aware of the information about the Company contained on the secure website. To apply for access to the secure website, please visit our Investor Center at www.sabre-holdings.com. Finally, as a reminder, a replay of this call will be available on our website.

And now, I'll turn the call over to Jeff.

Jeffery Jackson - Sabre Holdings - CFO

Thanks, Margaret. Good afternoon, everyone, and thank you for joining us. You may be wondering why we're holding a public call today. We're doing so because we think it's prudent in this economic environment to share information more broadly and, frankly, there was a lot of misinformation about our company floating around and we wanted to set the record straight.

As you all know, 2008 was a tumultuous year for the travel industry and really for all industry segments. Although we started this year with a strong and on plan first half in terms of revenue and earnings and cash flows, the effect of the global economic downturn and the resulting volume declines were evident in the second half of the year. I anticipate we'll have another tough year ahead of us and we have put in place a plan for 2009 to execute successfully with those challenges.

Before I get into the fourth quarter and the full year financial results, I'd like to highlight some of the accomplishments this past year across our businesses. First, we've had great success with our cost savings initiatives since going private. We have grown the program from an initial \$120 million in estimated savings to achieving well over \$300 million in run rate cost savings. It is critical during these uncertain economic times to have an efficient cost structure and we believe ours gives us a competitive edge that will serve us well now and when the economy rebounds.

Our airline solutions team, again, set a new all time record of more than \$400 million in new contract sales for 2008. These sales numbers exceeded our prior best year by approximately \$100 million. The deals signed during the year, which include WestJet, Vietnam Airlines and Saudi Arabian Airlines, just to name a few, go a long way to increasing our global footprint. In addition, we're really excited about the deal we recently signed with JetBlue in February.

We made four small acquisitions during 2008, including two I'd like to mention. First was Flight Explorer, which is the leading provider of commercial aircraft situation display solutions, providing real time tracking, reporting and display of en route aircraft. This acquisition is part of Sabre's long-term growth plan and continual investments in the airline solutions portfolio.

Second, we acquired EB2 International Limited, whose Internet booking engine capabilities and advanced shopping capabilities will further augment the investment that we're making in our SabreSonic customer sales and service suite, the largest product in the airline solutions business.

In Travel Network, we signed an extension to our distribution agreement with United Airlines for two years and we signed a 10-year agreement with Emirates for distribution in the Middle East. These deals reinforce the value of the distribution channel, both domestically and abroad. The Emirates transaction, together with our partnership with Gulf Air, significantly increases our share in the Middle East marketplace.

Travel Network's hotel focused business, Synexus, continued its strong growth trajectory in 2008 with revenue growth of over 40%. This business has over \$50 million total annual revenue, a meaningful part of TN's hotel revenue.

And then in Travelocity, we've added significant revenue with our global media business. Total trip packaging has also performed very well. Through better pricing and better content, we've gained share in package sales in the past few months.

Last week, we signed a new deal with Yahoo! that expanded our relationship. You may recall that prior to this agreement, Yahoo! Travel used both our product and a meta product path. Today, Travelocity is the sole booking engine for Yahoo! Travel.

And finally, earlier this year, we successfully launched SAP in two of our largest Travelocity Europe entities, a major milestone in our business simplification efforts in Europe. We continue to simplify our business in Europe and I will talk more about that shortly.

Now, if you would turn with me to slide 4 of the presentation, I'll cover the consolidated financial results for the fourth quarter and full year 2008. Total company adjusted revenue for the quarter was \$603 million, a decrease of 10% year-over-year, a reflection of the difficult economic climate.

Fourth quarter EBITDA was \$88 million on an adjusted basis, a 29% decrease year-over-year, due to lower travel demand. The cost savings actions taken in the fourth quarter are expected to reduce the year-over-year decremental decline in EBITDA going forward. EBITDA margin for the quarter was 15%.

We had a GAAP net loss of \$319 million this quarter. This loss was primarily due to the fact that we, like many other companies recently, recorded an impairment charge of \$382 million for goodwill and intangibles. Annually, we look at the value of all of our goodwill and intangible assets as required under FAS-142 for purposes of determining any non-cash impairment.

Due to the current operating environment and multiple compression affecting most of our comparable company set, we were required to write off goodwill and intangible assets from acquisitions made several years ago. But most importantly, there is no cash or operating impact from this write-down and it does not diminish the strength of our business or our liquidity.

In the fourth quarter, we sold several of our businesses related to lastminute.com, which drove the \$15 million EBITDA loss posted as discontinued operations. The intent is to further align Travelocity Europe with its core strategies of focusing on product and customer experience excellence through its holiday autos and lastminute.com businesses.

Moving on to full year numbers, revenue for 2008 was \$2.9 billion, which was essentially flat year-over-year. Adjusted EBITDA was \$578 million, which was also basically flat year-over-year, pretty remarkable given this current environment. This represents an adjusted EBITDA margin of 20%. Our GAAP net loss for the year was \$320 million, due to the impairment charge I mentioned earlier.

Now, turning to slide 5, I'll highlight a few of the key business unit metrics. Starting with the Travel Network business, transactions totaled \$76 million for the fourth quarter, a 15% decrease versus last year. Full year 2008 transactions totaled \$383 million, a slight decrease of 3% year-over-year. Travelocity's global gross travel book for the fourth quarter was almost \$2 billion, a year-over-year decline of 15%. For the full year, gross travel booked was \$10.6 billion, a 1% decrease from the previous year.

Finally, our Airline Solutions business saw passengers boarded volume increase to 71 million this quarter, a growth of 10% year-over-year, driven by growth in areas outside the US. For the full year, we had 278 million passengers boarded, which represents a 6% improvement year-over-year.

On slide 6, we provide a reconciliation between our GAAP net income and our adjusted EBITDA. First, we reconcile the GAAP net loss to GAAP EBITDA. For Q4, we start with a GAAP net loss of \$319 million, then add back net interest expense, taxes and D&A to arrive at an EBITDA loss of \$336 million on a GAAP basis.

To get from GAAP EBITDA to adjusted EBITDA, we add back \$424 million in normalizing adjustments, the major adjustment being the \$382 million in goodwill and intangible impairment that I mentioned earlier. This produces an adjusted EBITDA of \$88 million for the quarter.

For the full year, we had \$504 million in normalizing adjustments. These included the \$382 million goodwill and impairment charge, \$73 million in costs to implement our cost savings initiatives, \$24 million in discontinued operations, and \$25 million in other costs, primarily consisting of stock compensation and management fees. These adjustments get us to an adjusted EBITDA of \$578 million for the full year 2008.

Now, I'll provide a brief overview of our condensed financial statements prepared in accordance with GAAP. If you'll turn with me to slide 8, we'll take a look at a few of the numbers from our income statement. For the 12 months ended December 31st, 2008, we had GAAP revenues of \$2.9 billion, with costs of revenue of \$1.6 billion, and SG&A and other costs of \$1.4 billion, our GAAP operating loss was \$100 million. Our GAAP net loss for the quarter was \$320 million due to the impairment charge that I described earlier.

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Moving on to the balance sheet on slide 9, we ended the quarter with cash, restricted cash and marketable securities totaling \$209 million. At the end of 2008, the balance on our \$500 million revolver was \$297 million, which is basically unchanged from our last call, except for some small currency movements. Our total long-term debt on December 31, 2008 was almost \$3.8 billion.

One other item of note is our pension funding. We started the year fully funded, but a 25% decline in assets, less than most, contributed to the shortfall seen on page 27 of the financial statements. The impact on our future cash contributions should be minimal, as we are able to smooth the loss and use above minimum contributions in the past as credit against future obligations. Over the next several years, payments will likely be in the single digits.

And finally, on slide 10, I'll take you through our cash flow statement. For the 12 months ended December 31, 2008, cash provided by operating activities was \$39 million. Cash used for investing activities for the year was \$165 million, which includes \$136 million of capital expenditures and the remaining balance primarily consisting of acquisitions made this year. And cash provided by financing activities of \$240 million primarily includes draws on the revolver since the end of 2007.

In closing, there is still a lot of uncertainty about the economic environment in 2009 and, in fact, many companies aren't giving any guidance past the first quarter, if at all. We continue to keep a close eye on demand trends across the globe. As I mentioned on our last call, we built a 2009 plan that does not assume any volume recovery this year. We've conservatively modeled the same level of bookings we experienced in the fall of 2008.

If traffic remains at these levels, revenue will be down in the mid to high single digits year-over-year, but we expect to drive projected EBITDA growth in the single digits, primarily due to cost saving efforts. We also expect to generate well in excess of \$50 million in free cash flow this year. But we remain responsive to changes in the economy. We've made outstanding progress on our cost savings program and, most importantly, have several additional levers in place that we can use to counter an even weaker revenue environment, should that occur.

We are thinking about 2009 as crossing an economic chasm. We need to continue to make investments in key growth areas, continue to fortify our customer relations, and continue to manage our costs aggressively during this downturn so that when we get to the other side, we're a stronger company and a fiercer competitor with a stronger portfolio of global brands.

Now, I'll be happy to take your questions regarding our quarterly results.

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions)

You have a question from the line of [David Messlin] of Credit Suisse. Please proceed.

David Messlin - Credit Suisse - Analyst

Hey, guys. Can you just talk a little bit about on the consolidated -- just some clarification on the consolidated income statement. You've got these \$312 million of goodwill and intangibles, but you're adding back the \$382 million. Can you just kind of clarify the difference there?

Jeffery Jackson - Sabre Holdings - CFO

Hold on one second. Yes. Are you talking about the \$15 million in the 4Q and \$24 million in full year?

David Messlin - Credit Suisse - Analyst

No, sorry. The goodwill and intangible impairment of \$382 million.

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Jeffery Jackson - Sabre Holdings - CFO

Yes, yes.

David Messlin - Credit Suisse - Analyst

And then, when I look at the income statement, it says \$312 million. Where's the other \$70 million coming from?

Jeffery Jackson - Sabre Holdings - CFO

Yes, the rest -- the difference between those two -- I'm sorry. I was referring to the GAAP reconciliation table. The difference between those two is what we put into discontinued operations, which, again, is associated principally with the business that we sold that was part of our lastminute.com business.

David Messlin - Credit Suisse - Analyst

Okay. And just in terms of -- just another clarification, sorry, in terms of the balance sheet that you have on page 9 of the presentation, long-term debt of \$3.795 billion, but on the balance sheet, on kind of the financial statement, it's \$3.695 billion. What's the \$100 million difference?

Jeffery Jackson - Sabre Holdings - CFO

Let's see. That may be -- is that the headquarters facility? Oh, yes. Sorry, I needed some help on that one. On the balance sheet, it's the face value of the notes and the other presentation has net of markdowns along the way.

David Messlin - Credit Suisse - Analyst

Okay, got it. Okay, can you just -- kind of from a high level, can you go through the cost savings? I mean, it's been a while since you guys were taken private now and you've been going through kind of the cost savings for a while. And from when I just look at a high level and I look at the SG&A, we don't really see, if any -- maybe I'm just missing it, but we don't really see much of an impact on the SG&A line yet and I understand that next year, maybe, we see it and you get the EBITDA growth from that.

But what's been pushing it out and if you can kind of explain to the lender group here kind of what we're missing and what happened in 2008 where -- why we didn't see those type of cost savings pull through and why you think 2009 will be the year where we see them?

Jeffery Jackson - Sabre Holdings - CFO

Yes. The principal reason your SG&A point, and I can understand that question completely, is that that line has our advertising growth in it, and so that's the principal reason for that. If you want to talk about -- I think the last quarter, we talked about having significantly in excess of \$200 million on our cost saves. That number is, obviously, much higher now.

A couple of points I want to make. One is that a big chunk -- first of all, we continue to be actively working on our month-in and month-out cost savings programs and savings from those programs continue to flow into the P&L. And we've got a ways to go, which is very encouraging, because there are cost savings that we're going to be able to bring into the P&L for the next several years, projects of which are already underway, number one.

But another big reason for the jump is at the end of the year, in anticipation of planning conservatively, as I talked about in my remarks, in a declining revenue environment or a revenue environment that would be down in the low teens for the entire year on a year-over-year basis, we took very aggressive actions at the end of last year that accelerated our cost savings. And so, those are completed now. The one-time costs are behind us and the benefits from that are flowing into the 2009 income statement.

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David Messlin - Credit Suisse - Analyst

Okay. And just the last question. In terms of 2009, I guess you said you see EBITDA growth, but kind of how nervous are you guys? I think, if I'm right, you guys have a revolver covenant. What are things that you can do to step that -- I mean, how nervous are you that you're going to start getting close to those levels kind of as you enter -- as you kind of go through the step and the revolver covenant steps down, so as those levels step down, still maintaining compliance with that covenant?

Jeffery Jackson - Sabre Holdings - CFO

Well, a couple of comments. If I could make a little bit light of the situation, if you knew me, you'd know I'm always nervous. So, but -- that was supposed to be a little bit light. The -- my view is that if the revenue environment that we described -- that I described in my remarks holds, I feel pretty good about us having the EBITDA generation that we talked about and the cash flow that we talked about.

In terms of flexibility to do more, I would put it in a number of categories. First of all, as you might imagine, we are -- along the way, we're accruing for a bonus plan that would have a significant amount of cushion if we were not to achieve the EBITDA targets that I described.

And then, I think another category you can think of is delaying further product development. There's probably \$10 million to \$15 million in that kind of action. We are continuing to match on our 401(k) plan. That's a very easy lever to pull in order to find another \$15 million worth of cushion, if you will, against a further downturn. As a company, we have not felt the need to take salary reductions. That's another tool that many companies are entering into.

So again, we have been very aggressively investing in technology that drives a much more efficient cost base across our technology and product investment. That has been bearing fruit in terms of cost savings. We're going to continue to do that. But should things go awry on the revenue line or we're not able to convert as much of that revenue as we think we can in the EBITDA, we've got a lot of levers to pull.

Operator

Pardon the interruption. Your next question comes from the line of Jeff Harlib of Barclays Capital. Please proceed.

Jeff Harlib - Barclays Capital - Analyst

Hi, hi, Jeff. On the cost savings, can you just take us through, I think, how you go from the -- I think you had said on your last call you expected 75% of the \$200 million action by year end 2008 and now you're saying you're at \$300 million. Can you just talk a little more specifically about those actions and also, the cash costs relating to implementing those actions?

Jeffery Jackson - Sabre Holdings - CFO

Well, the cash costs are roughly -- the relationship that I've talked about continues to hold. So, the cash costs are roughly 50% of the \$300 million. A couple of other metrics that might be helpful to you are that about 50% of the \$300 million is already in the P&L and we've actioned about the same percentage of the \$300 million.

So, if you think about the \$300 million, there's 50% of it which is still to come that isn't in the P&L. That's probably the most important statistic for you. But in terms of confidence level of getting to the full amount, we've actioned 75% of it and so there's a significant amount that's just waiting for time to pass to flow through.

Jeff Harlib - Barclays Capital - Analyst

Okay. When you say in the P&L, do you mean in 4Q?

Jeffery Jackson - Sabre Holdings - CFO

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Yes. In prior quarters, exactly. So, a lot of the \$300 million -- so 50% of the \$300 million will flow in in 2009 or beyond.

Jeff Harlib - Barclays Capital - Analyst

Okay. And can you say what your cost savings actually realized in 2008 was on a total basis?

Jeffery Jackson - Sabre Holdings - CFO

Well, yes, I mean, it's about \$150 million.

Jeff Harlib - Barclays Capital - Analyst

Okay, was in the '08 numbers.

Jeffery Jackson - Sabre Holdings - CFO

Yes.

Jeff Harlib - Barclays Capital - Analyst

Okay, okay. And then, can you talk a little bit about Travel Network and Travelocity bookings into the first quarter, given we're in March now, just -- and they were down about 15%?

Jeffery Jackson - Sabre Holdings - CFO

Yes, I mean -- I'll speak very generally about early trends. I think in both businesses, we're tracking kind of close to our plan. Not without being too specific, I talked about some of the optimism we have on the online business. We've been investing a lot there and some of the higher margin products that I talked about in my remarks are bearing some fruit. So, that's encouraging and contributing to some of the performance I described.

But basically and generally, in both businesses, we're tracking at the volume levels that we planned for. So, maybe a little bit more nuanced is business travel is surprisingly, I think, to me, a little bit weaker than leisure or our online travel. But again, the most important thing is they're both pretty close to plan or above plan and we're continuing to sort of track the EBITDA volumes or the EBITDA levels that I've talked about.

Jeff Harlib - Barclays Capital - Analyst

Okay. And lastly, just 2009, rough CapEx estimate, if you could provide that.

Jeffery Jackson - Sabre Holdings - CFO

Well, it'll be down a bit from the level at 2008. So, we -- that's -- when we went through our year-end planning exercise and made the one-time cost action, a fair amount of that goes into capital expenditure, because it's capitalized labor. But -- so, we've trimmed \$20 million, \$30 million off of our capital expenditure, the run rate of the capital expenditure from last year.

Jeff Harlib - Barclays Capital - Analyst

Great, thanks.

Jeffery Jackson - Sabre Holdings - CFO

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But I do want to say one thing, which is from a customer perspective, there are some big investments going on in this company right now that will bear -- that will be very important to us in the years to come. So, one of the other philosophies we adopt is not only hitting our earnings targets, but if we need to make longer-term investments and we continue to make those in really all three investments.

Platform stabilization and convergence in Travelocity, market share gains in Travel Network, lots of new product investment in the Airline Solutions business, which, by the way, had a fabulous year, not only a sales year, but an earning and margins year. We are continuing to make those kinds of investments and if we want to make those longer-term investments, our philosophy is that we've got to find short-term tradeoffs to fund it and that's what we've been doing.

Operator

Your next question comes from the line of Peter Gingold of Angelo, Gordon. Please proceed.

Peter Gingold - Angelo, Gordon & Co. - Analyst

Hey, guys.

Jeffery Jackson - Sabre Holdings - CFO

Hi, Peter.

Peter Gingold - Angelo, Gordon & Co. - Analyst

On the adjusted EBITDA number that you guys put in the presentation, is that the covenant EBITDA number you're using or is there a different number there? I'm just trying to --

Jeffery Jackson - Sabre Holdings - CFO

I'm sorry. Is that -- I?

Peter Gingold - Angelo, Gordon & Co. - Analyst

You [miss me]? On the adjusted EBITDA number that you're providing in the presentation, is that the covenant EBITDA number you're using when you're calculating the leverage tax or is there other adjustments on top of that?

Jeffery Jackson - Sabre Holdings - CFO

There are other adjustments on top of that number, as you might imagine, in a negotiated covenant.

Peter Gingold - Angelo, Gordon & Co. - Analyst

So, are those -- I recall that there were a lot of add-backs from the cost saving plan.

Jeffery Jackson - Sabre Holdings - CFO

Yes. That's essentially it. It's an EBITDA number that also reflects our -- the cost saving actions that we're taking.

Peter Gingold - Angelo, Gordon & Co. - Analyst

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Okay. In the past, you've given the leverage number that you've calculated, I guess, using that. Are you no longer providing that number on these calls?

Jeffery Jackson - Sabre Holdings - CFO

We do, we do. The practice this quarter, this year, will be the same, which is that we will provide a detailed leverage calculation for the bank lenders probably in about a week.

Peter Gingold - Angelo, Gordon & Co. - Analyst

In a week, okay. And then, my second question I had was -- now, I'm all of a sudden blanking. So, I'll get back in the queue. Sorry about that.

Operator

Your next question comes from the line of Bill Mastoris of Broadpoint Capital. Please proceed.

Bill Mastoris - Broadpoint Capital - Analyst

Thank you. Jeff, could you just review the capital structure? There seems to be a little bit of a discrepancy here. We do know that we have \$2.93 billion in, obviously, the term loan, \$297 million in a revolver. Did you buy back any unsecured debt at all? Because I'm assuming that we still have the \$800 million all outstanding, but the numbers seem to fall short by about roughly \$20 million.

Jeffery Jackson - Sabre Holdings - CFO

Well, no, we didn't buy anything back. Oh, there's -- that's right, there's a note outstanding to Abacus, which is a 35% owned affiliate that operates for us in Asia.

Bill Mastoris - Broadpoint Capital - Analyst

Okay. So if we review it, it's \$2.93 billion is the term loan, \$297 million is the revolver, \$800 million is unsecured, and then we have the \$35 million note. Is that correct?

Jeffery Jackson - Sabre Holdings - CFO

Yes, the -- okay, let me see if we can -- let me just step through what you're looking at. The term loan is [\$2.915 billion]. There's \$800 million of previously public notes, bonds. There's an \$85 million mortgage that secures our headquarters facility. And there's a \$15 million note to Abacus that I described, and the revolver which you accurately said was [\$295 million]. I think that's going to add up to what you're looking at.

Bill Mastoris - Broadpoint Capital - Analyst

Okay. And the \$15 million note to Abacus is -- what is that, unsecured or secured?

Jeffery Jackson - Sabre Holdings - CFO

It's unsecured.

Bill Mastoris - Broadpoint Capital - Analyst

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Okay. The next question just has to do with maybe you could drill down just a little bit more on just in terms of the decline in bookings. You had previously indicated that 15%, maybe even 20%, and this was last -- I believe the last call. Have you seen any acceleration recently such that we're now at the point where, year-over-year, for, let's say, March or even looking forward to April, that we might be at 20%?

Jeffery Jackson - Sabre Holdings - CFO

No. The short answer and the most accurate answer is no. We built our plan for 2009 based on sort of experience in the fourth quarter last year when it was, on a year-over-year basis, the worst. And so, that's the kind of levels we've planned for throughout the year until we get to the anniversary dates of the experience from last third and fourth quarter. So, we're right -- when I say we're kind of on our volume plans, it's the same year-over-year kinds of experience that we had in October and November of last year, holding stable.

Bill Mastoris - Broadpoint Capital - Analyst

Okay. So 15%, roughly speaking.

Jeffery Jackson - Sabre Holdings - CFO

Roughly.

Bill Mastoris - Broadpoint Capital - Analyst

Okay. The last question just has to do with on the cost saving find, the 75% that you talk about that has been actioned, does that mean it's been identified or you expect to realize it in the year 2009?

Jeffery Jackson - Sabre Holdings - CFO

It's been more than -- it's been identified and we've taken the steps that mean that it will come into the P&L either in 2009 or beyond.

Bill Mastoris - Broadpoint Capital - Analyst

Okay, okay. Thank you very much.

Jeffery Jackson - Sabre Holdings - CFO

Okay.

Operator

Your next question comes from the line of [Aaron Fishardi] of Credit Suisse. Please proceed.

Aaron Fishardi - Credit Suisse - Analyst

Hi, guys, thank you for taking my question. First, I just wanted to get a sense for working capital, roughly \$180 million in cash use, if I read the cash flow statement right. What was that in 2007 on an apples-to-apples basis?

Jeffery Jackson - Sabre Holdings - CFO

Let's see. It was -- well, this is an important question. Our -- the number I'm going to try to -- 2007 was roughly flat, okay. So, it was a big change and I would -- the first thing I want to -- so it was roughly down about \$150 million in 2008.

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Now, first of all and most importantly, this is the kind of experience you would see with any business in our industry that has got a lot of online sales that are based on the merchant model. So, without talking about competitors, but if a competitor has a largely online merchant business, which we do and many others do, they're going to have the similar kinds of experience.

So, let me try to get you roughly to \$150 million. We had a -- in 2008, we had a bonus payout of \$40 million. We had some year-end noise. What I mean by noise is payments that occur maybe a day earlier, just on December 30 or 31, which kind of -- since we measure it on a precise point in time, it sort of pumps the number up. I think that's roughly \$20 million to \$25 million. And then, we have about a \$90 million supplier liability decrease, which is related to the merchant model.

So, the easy way to sort of think about that was in 2000, we had roughly a 24% kind of decline in this account and that was driven by volumes being down 15% and then a couple of other things, like ADRs being down in the hotel business and average unit rates as consumers trade down to more cheaper packages, those kinds of things. So, that all added up to a supplier liability account going up by about \$90 million.

Aaron Fishardi - Credit Suisse - Analyst

Okay. That's helpful. And then, I just wanted to get a sense for --

Jeffery Jackson - Sabre Holdings - CFO

Actually, let me take you to 2009, since I went into that kind of detail, because it's the next -- it's a logical follow-on question. And I said VCP, that's our incentive plan. In 2009, because of the performance in 2008, we will not have that sort of incentive plan payment. So, that's a \$30 million to \$40 million positive swing in cash flow.

Since we measure this working capital at a point in time, again, at year end, when we are expecting to anniversary the volume decline, we don't expect to have anywhere near the same drain from merchant model outflows. And then, our cost savings initiatives, although they continue, the investments that we're making or the one-time costs that we're making, which are going out of the company, are declining by probably \$30 million or \$40 million next year.

And then, the last piece is the working capital that I talked about -- I'm sorry -- the capital expenditures that I talked about declining. All that adds up to what I guided you to, which is a free cash flow number of in excess of \$50 million.

Aaron Fishardi - Credit Suisse - Analyst

Okay. Great. So you addressed my follow-up, as well. And then, I just wanted to -- on the cost savings, I just wanted to get a sense for where the incremental cost savings is coming from. Is it like Travel Network or Travelocity or Airline Solutions? Because it's a fairly significant incremental number versus what you've told us before.

Jeffery Jackson - Sabre Holdings - CFO

Across all the businesses, probably more in Travel Network and Travelocity than Airline Solutions, since that business is -- there's a lot more revenue growth in it, in the Airline Solutions business. So, it's less volume-dependent, a lot more recurring revenue from the product sales. So, more in Travel Network and more in Travelocity across the globe, a lot in savings related to our investments in our technology, which drives a more efficient cost structure.

We took down some product spend, but not a dramatic amount, and the other kinds of things that you would expect across the company, overhead, vendor sourcing. We're continuing to increase the amount of technology, software code that's written in low cost locations. So, our Poland operation is growing, our India operation is growing, our Montevideo and Buenos Aires operations are growing quite successfully, and so that drives down some of the costs, as well. So, that's the major categories.

Aaron Fishardi - Credit Suisse - Analyst

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Okay, that's helpful, again. And then, did you say that you were going to give us the covenant EBITDA or give us a rough level of where leverage is versus your covenant?

Jeffery Jackson - Sabre Holdings - CFO

What I said was we'll be providing the covenant calculation for the bank lenders in about a week.

Aaron Fishardi - Credit Suisse - Analyst

But you can't share it with us on this call?

Jeffery Jackson - Sabre Holdings - CFO

No.

Aaron Fishardi - Credit Suisse - Analyst

Okay. And the last one was really, in the beginning of the call, you had talked about some rumors that you wanted to address. Specifically, what were they and could you address them?

Jeffery Jackson - Sabre Holdings - CFO

Well, not rumors at all. Just I thought it might be somewhat of a curiosity on part of the listeners as to why we were having a public call, whereas before our call was only to bondholders or prospective bondholders.

And the reason is in an economic environment like this, where there's a lot of volatility, mostly on the downside, with revenues and things, that I thought it was important to make sure this was widely broadcast and to clear up some of the unfound -- I didn't use the word rumors, but there's a lot of misinformation out there and we wanted to just sort of set the record straight, at least on the types of things we addressed on this call.

Aaron Fishardi - Credit Suisse - Analyst

Okay, understood. Thank you.

Jeffery Jackson - Sabre Holdings - CFO

All right. I think I have time for one more call -- one more question, I'm sorry.

Operator

You have a question from the line of [Mahesh Baklarishna] of Oak Tree. Please proceed.

Mahesh Baklarishna - Oak Tree Capital - Analyst

Hi, Jeff.

Jeffery Jackson - Sabre Holdings - CFO

Hi, Mahesh.

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Mahesh Baklarishna - Oak Tree Capital - Analyst

Hey. So, a few questions. One, just going back to what you mentioned about the cost savings, that \$150 million is in the P&L. Is that on a run rate basis or was it the full \$150 million was in 2008?

Jeffery Jackson - Sabre Holdings - CFO

The full \$150 million was in 2008.

Mahesh Baklarishna - Oak Tree Capital - Analyst

Okay, okay. And then, sort of another question on the adjustments. When I look at how you get to adjusted EBITDA on page 6, the tax number there is different from the tax number in the income statement. Is that, again, something to do with the discontinued operations or --?

Jeffery Jackson - Sabre Holdings - CFO

Yes.

Mahesh Baklarishna - Oak Tree Capital - Analyst

Okay, okay. Then, a couple of other questions. On the Travelocity side, your bookings were down 15% and that seems somewhat higher relative to the levels that some of your competitors were announcing. Was anything sort of a one-time thing that was different this quarter versus other quarters?

Jeffery Jackson - Sabre Holdings - CFO

No. I would say it's -- I mean, the comparative data is all over the map. It's roughly in line with one or two of our competitors domestically. We're continuing to invest in our European business and so maybe a little further behind in Europe than some of our competitors. But I do -- it really depends by product. There are a couple of our key products where we actually gain share in the fourth quarter, not getting into specifics, but I mentioned earlier one of our higher margin products, we gained share in the fourth quarter.

So, I guess I'm pretty optimistic again that that share gain in that particular product will play out nicely in 2009. And so far, that's kind of what we've seen. So, I'm not going to elaborate on that too much, but that's generally some of my thoughts.

Mahesh Baklarishna - Oak Tree Capital - Analyst

Right. And then, you may have mentioned this, the other liabilities line item in your balance sheet, that went up from the previous quarter. Is that the under-funded pension or what is that? It's a \$337 million number and was \$200-and-some million last quarter.

Jeffery Jackson - Sabre Holdings - CFO

Hold on.

Mahesh Baklarishna - Oak Tree Capital - Analyst

Yes.

Jeffery Jackson - Sabre Holdings - CFO

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I'm looking at -- are you -- I'm not looking at the same --

Mahesh Baklarishna - Oak Tree Capital - Analyst

Looking at the line item below deferred income taxes.

Jeffery Jackson - Sabre Holdings - CFO

Yes, I'm looking at a number that's relatively flat. Other accrued liabilities?

Mahesh Baklarishna - Oak Tree Capital - Analyst

Not that one. Below the current liabilities, there's other liabilities, which is just right above the revolver. That's \$337 million and the previous quarter that was \$228 million.

Jeffery Jackson - Sabre Holdings - CFO

Yes, I think that's the pension decline in funding that I referred to in my notes, in my remarks.

Mahesh Baklarishna - Oak Tree Capital - Analyst

So, would it be right to assume the under-funded pensions, is that about \$100 million or --?

Jeffery Jackson - Sabre Holdings - CFO

Yes. I think that's in the right range. I think it's less than that. I think it's around [\$75-ish million], which is footnoted in some detail in the financial statements which are on our website.

Mahesh Baklarishna - Oak Tree Capital - Analyst

And then, just one last question, which is --

Jeffery Jackson - Sabre Holdings - CFO

And I think since you've asked about that, I assume you can understand that -- that my remarks on that, which are important, that that decline doesn't dramatically impact our funding requirements over the next few years.

Mahesh Baklarishna - Oak Tree Capital - Analyst

Understood, yes. And the last one was there was some small cash number that actually went into a JV, it was an investment in a JV of seven-odd-million for the year. I think that's this quarter, right? There was some investment in the JV that shows up in your cash flow statement. What was that?

Jeffery Jackson - Sabre Holdings - CFO

Yes, there's a number of things, but one of the things that we think that you're -- we have a joint venture in Mexico. It is probably a little bit there. We have a joint venture together with Amadeus in the settlement business, principally focused on hotels. There's some funding that went in there. If I had to guess, it was those two things.

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Maresh Baklarishna - Oak Tree Capital - Analyst

Okay. Thanks for taking my questions, appreciate it.

Jeffery Jackson - Sabre Holdings - CFO

All right. Well, thank you, everybody, for your time and your good questions and we will talk again in another quarter.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

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