

From: Boyle, Chris
Sent: Fri, 20 Jul 2018 10:26:13 -0500 (CDT)
To: Menke, Sean[Sean.Menke@sabre.com]; Shirk, Dave[Dave.Shirk@sabre.com];
Simonson, Rick (Rick.Simonson@sabre.com)[Rick.Simonson@sabre.com]; Williams-
Ramey, Aimee[Aimee.Williams-Ramey@sabre.com]
Cc: Rosa, Christopher[Christopher.Rosa@sabre.com]; Kremer, Drew
[Drew.Kremer@sabre.com]
Subject: RE: Marlins Discussion Materials
Attachments: Marlins Recommendation Summary_DRAFT.pptx

I will bring a few copies, but I also added a page to reflect my thinking on the seller's logic and how that may play into our thinking and tactics – for discussion.

From: Boyle, Chris
Sent: Thursday, July 19, 2018 10:54 PM
To: Menke, Sean <Sean.Menke@sabre.com>; Shirk, Dave <Dave.Shirk@sabre.com>; Simonson, Rick
(Rick.Simonson@sabre.com) <Rick.Simonson@sabre.com>; Williams-Ramey, Aimee <Aimee.Williams-
Ramey@sabre.com>
Cc: Rosa, Christopher <Christopher.Rosa@sabre.com>; Kremer, Drew <Drew.Kremer@sabre.com>
Subject: Marlins Discussion Materials

All,

Draft materials attached to discuss tomorrow morning.

Regards,
Chris

Chris Boyle
VP / Corporate Development and M&A
Office [REDACTED] Mobile [REDACTED]



SABR-000145098




Sabre

Project Marlins Recommendation

DRAFT

Corporate Development

20 July 2018



SABR-000145099

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Sabre

Project Marlins Recommendation

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Corporate Development

20 July 2018

Deal Rationale & Recommendation

Summary Rationale:

- Accelerate our technology and commercial objectives in delivering next generation Retailing, Distribution and Fulfillment to airlines
- Leverage Marlins market position with key products in merchandising and NDC content distribution to create a leadership position and bridge to longer term Sabre vision for Travel Solutions
- Utilize the Marlins "seat at the table" to strengthen and grow our PSS market position with end-to-end integration. Fits into our view on the future of PSS as microservices driven
- Meaningfully enhance our ability to work with airlines in commercializing NDC standards and evolving the GDS business model to align with a holistic view on enabling airlines to grow and optimize revenue across all channels
- Leverage the Marlins team that has successfully launched products focused on Retailing and Distribution with large carriers and who may influence our technology and commercial development

Recommendation:

- Submit a non-binding LOI to acquire the stock of Marlins for cash consideration at close of \$250M, with ability to pay up to [\$400M] possibly via a 2019 revenue-based earnout and/or as a negotiating tactic



Adding Marlins technology creates an opportunity to **DRAFT** accelerate the vision of Travel Solutions

GDS + Marlins

Airline Value

- + NDC Offers integrated in the GDS sooner
- + Tighter collaboration decreases delivery timeliness and increases quality

Sabre Value

- + Opportunity to define standards (tech and commercial)
- + Immediate access to NDC API
- + Ability to scale NDC volume quickly
- + Mitigate risk from potential GDS bypass



PSS + Marlins

Airline Value

- + Adds NDC platform to existing product offering
- + Integrate production merchandising engine with PSS for E2E tech stack solution

Sabre Value

- + Ability to drive tech conversations with non-hosted carriers
- + Capture value from non-hosted airline direct connect and other GDS bookings

PSS + GDS + Marlins

Airline Value

- + Fully integrated E2E solution across tech stack and all distribution channels

Sabre Value

- + Accelerate Travel Solutions vision on retailing, distribution, and fulfillment
- + Deeper relationships with carriers

- Existing Sabre technology
- New technology

Marlins Product Summary

	Offer	Order
Products (# customers)	<ul style="list-style-type: none">Merch (18), Availability (2), Shop & Price (4), Schedule Builder (2)	<ul style="list-style-type: none">Open Connect, incl. NDC APIs (15)
Sabre Use Hypotheses	<ul style="list-style-type: none">FLX M replaces DR and ANCS, integrate to Sabre POSAvailability – use calculator for SSI, evaluate rules engine useNo clear use for Shop & Price or Schedule Builder	<ul style="list-style-type: none">Maintain FLX OC for current and near-term customersContinue organic build for modern NDC Offer and Order management solutionsEvaluate ticketing tech for possible TPF offload savings


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Go To Market and Integration Highlights

External:

- Coordinated multi-prong approach to announce deal and its benefits to airlines in delivering on the promise of next gen retailing, distribution and fulfillment
 - Leverage industry conference if possible
 - Tailored customer roadshow
- Messaging not just about Marlins benefits but also should include Sabre specific highlights, activity, etc. to bring together an integrated story for end-to-end, intelligent Offer – Order – Fulfillment

Internal:



Critical Valuation Factors

Forecast Related:

- Marlins forecast shows very aggressive growth in 2019 and 2020, both in number of Offer product sales and in the hard-to-predict Order Transaction revenue
- The market seems to be available to sell products – current Marlins qualified pipeline is [REDACTED] for subscription product sales against [REDACTED] run rate go get for 2018 and [REDACTED] for 2019 (pipeline will likely grow)
- We don't believe that they can execute against growth plan with limited increases in sales, support, etc. and in this timeframe
 - Offer (FLX M, Avail, S&P, SB) and Order product sales are expected to be [REDACTED] in 2018 [REDACTED] in 2019 and [REDACTED] in 2020 (they were [REDACTED] in 2019), and at higher ASP
 - Sabre Case assumes a lower close rate for sales of [REDACTED] in 2018 [REDACTED] in 2019 and [REDACTED] in 2020 and at a lower average price
- The more significant driver is the adoption and integration to various POS for Open Connect that will drive transaction revenue (FLX OC contracts have both subscription and transaction components)
 - Transaction revenue from distributing tickets to non-GDS 3rd parties (NDC Connect) and to the GDS (NDC GDS Connect), with a target of [REDACTED]/ticket which equals [REDACTED]/segment at [REDACTED] segments per ticket
 - NDC Connect is similar in concept to our AS Direct Connect, though priced lower
 - Question is really around NDC GDS Connect and [REDACTED]
 - If we take away all NDC GDS Connect revenue it decreases overall DCF Enterprise Value by [REDACTED] Sabre Base Case assumes fewer tickets at a lower price

Market Related:

- Trading comparables indicate a revenue multiple of [REDACTED] 2018E is reasonable, implying [REDACTED] purchase price and multiples of 2019E Sabre Case revenue of [REDACTED]
 - Sabre trades at just under [REDACTED] 2018E revenue, Amadeus at [REDACTED] PROS at [REDACTED] and application software comps a [REDACTED] average
- Precedent transactions are mixed in usefulness as comparisons, but there are certainly vertical software deals traded for [REDACTED] revenue

Marlins Seller Logic / Thought Process

- Historical price expectation driving [REDACTED] value
- Built model to support price expectation - - aggressive build knowing we would cut it back
 - Supporting view on forecast through current robust market activity - 14 deals in 2018E forecast that builds to 2019E revenue of [REDACTED] closed, 3 in final contract negotiations, 2 in earlier contract negotiations, 6 developing proposals
 - 2017 existing + 2018 new wins leads to [REDACTED] out of [REDACTED] 2019E subscription revenue and [REDACTED] out of [REDACTED] total revenue
- They believe that we can afford to pay a price that meets their expectation and have the deal still be "cheap"
 - We would have to believe in meaningful revenue synergy for this to be true, almost regardless of their forecast - we currently only have minor synergy in PSS and Shopping. Do we believe one or both of the following?



- We have clearly communicated our skepticism on the forecast (# sales, transaction revenue), and have explained views and signaled our outcome to the advisor - this is unlikely to have changed their views
- If they go route of raising capital, assume 30% raised at [REDACTED] post money, investor needs to sell for [REDACTED] to get 3x cash
 - Not clear that Marlins Exec team wants to deliver on this and how much they will push for a deal now at a lower price than Sandler expects

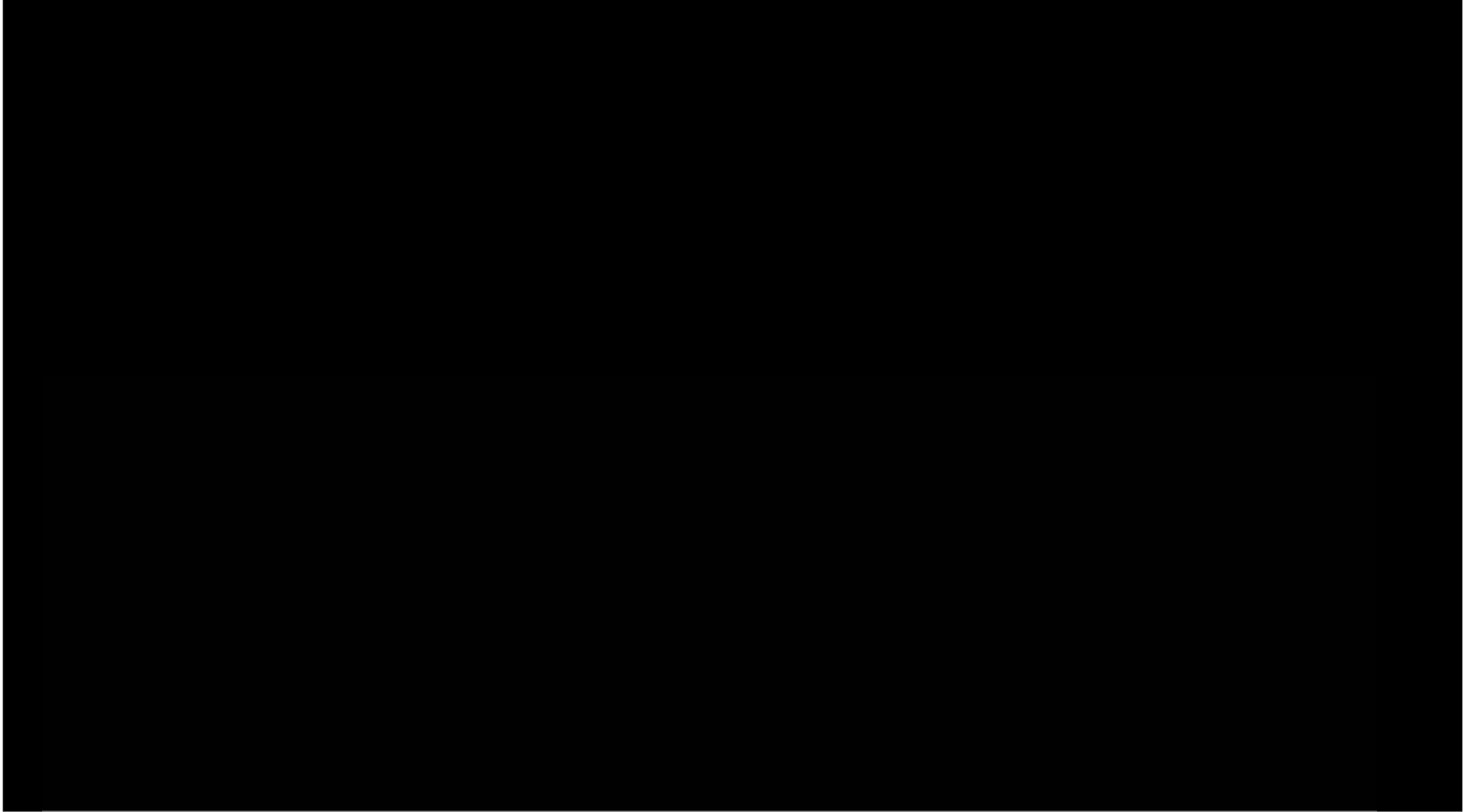
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Deal Model Case Comparison

\$ millions, ex per ticket	Mgmt. Case			Sabre Base Case			Sabre Synergy Case		
	2018E	2019F	2020F	2018E	2019E	2020E	2018E	2019E	2020E
Revenue Drivers									
Offer Products New Sales									
Offer Cumulative Sales									
Offer Products ASP									
Order Product New Sales									
Order Cumulative Sales									
Order Products ASP									
NDC Connect Tickets									
NDC Connect Rev / Ticket									
NDC GDS Connect Tickets									
NDC GDS Connect Rev / Ticket									
Offer Subscription Revenue									
Order Subscription Revenue									
Order Dedicated Team Revenue									
NDC Connect Transaction Rev									
NDC GDS Connect Transaction Rev									
Sabre Product Synergy Revenue									
Total Revenue									
% growth									
Gross Profit Margin									
Opex Synergy									
SG&A									
SG&A % of revenue									
EBITDA									
% margin									
Capex Synergy									
Integration Costs									
DCF EV Range									
30% Discount to DCF EV Range									

Model Case Drivers

1. Sabre Base Case changes:
 - a. Reduce Offer sales and ASP
 - b. Reduce Order sales and ASP
 - c. Reduce Order ticket volume, especially NDC GDS Connect
 - d. Reduce NDC GDS Connect per ticket revenue
 - e. GP flat 85%
 - f. Increase SG&A expense
2. Synergy Case changes:
 - a. Adds some Offer sales back
 - b. Revenue synergy from PSS and Shopping for '19-'20
 - c. Same GP%
 - d. Limited Opex Synergy
 - e. Limited Capex Synergy offset by Integration Costs



Analysis at Various Prices

Marlins Mgmt. Case

(\$ in Millions)

Purchase Price

Revenue Multiple

2018E
2019F
2020F

EBITDA Multiple

2018E
2019F
2020F

ROIC

2018E
2019F
2020F
2021F

Q4 Net Debt Leverage

2018E
2019F
2020F

Sabre Base Case

(\$ in Millions)

Purchase Price

Revenue Multiple

2018E
2019F
2020F

EBITDA Multiple

2018E
2019F
2020F

ROIC

2018E
2019F
2020F
2021F

Q4 Net Debt Leverage

2018E
2019F
2020F

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Pro Forma Sabre Financials

Sabre Base Case

Sabre Synergy Case

(Millions of USD)	2018E	2019F	2020F	2021F	CAGR '17-'21	2018E	2019F	2020F	2021F	CAGR '17-'20
Revenue										
Sabre Revenue										
<i>Growth</i>										
Marlins Revenue										
<i>Growth</i>										
Pro Forma Total Revenue										
<i>Growth</i>										
Gross Profit										
Sabre Gross Profit										
<i>Margin</i>										
Marlins Gross Profit										
<i>Margin</i>										
Pro Forma Total Gross Profit										
<i>Margin</i>										
EBITDA										
Sabre EBITDA										
<i>Margin</i>										
Marlins EBITDA										
<i>Margin</i>										
Pro Forma Total EBITDA										
<i>Margin</i>										
Free Cash Flow										
Sabre Free Cash Flow										
<i>Margin</i>										
Marlins Free Cash Flow										
<i>Margin</i>										
Pro Forma Total Free Cash Flow										
<i>Margin</i>										
Net Income										
Sabre Net Income										
<i>Margin</i>										
Marlins Net Income										
<i>Margin</i>										
Pro Forma Total Net Income										
<i>Margin</i>										

Key Diligence Issues

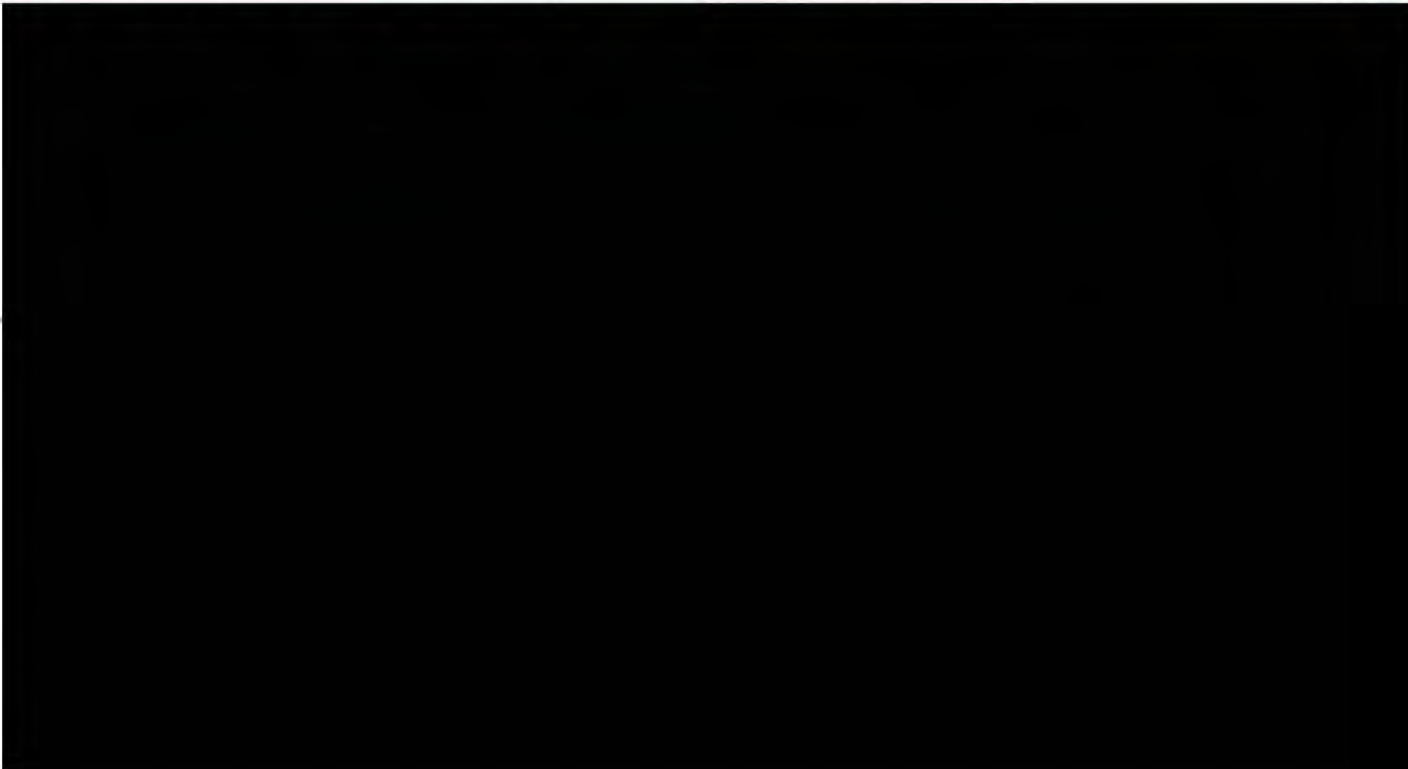
- Continued business diligence including named pipeline analysis
- Contract evaluation and tie to revenue
 - We believe majority of contracts have change of control termination, though commercial benefits should persist
 - Evaluate details of revenue model, obligations
- Continued and more detailed technology diligence, including cyber / data security
- Legal diligence
- Capitalization and employee ownership and implications on retention
- Accounting diligence, including full balance sheet diligence and impact of applying 606
- HR diligence

APPENDIX



Tech Diligence Call Findings – Offer Management

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Product	Key Diligence Findings	Proposed Use
Merchandise		
Availability		

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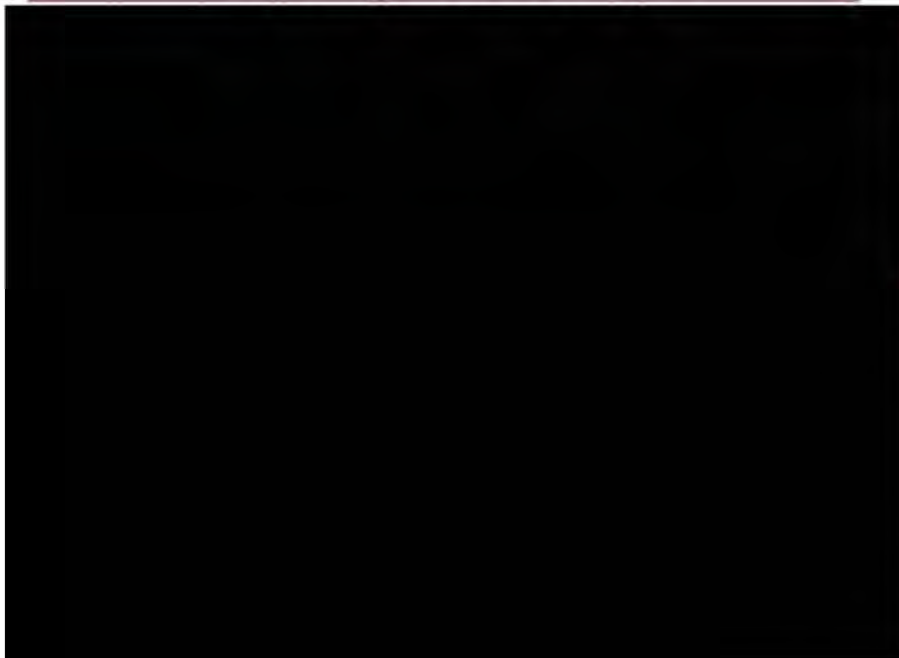
Tech Diligence Call Findings – Offer Management

Product	Key Diligence Findings	Proposed Use
Shop & Price		
Schedule Builder		
Global Observations		

Tech Diligence Call Findings – Order Delivery

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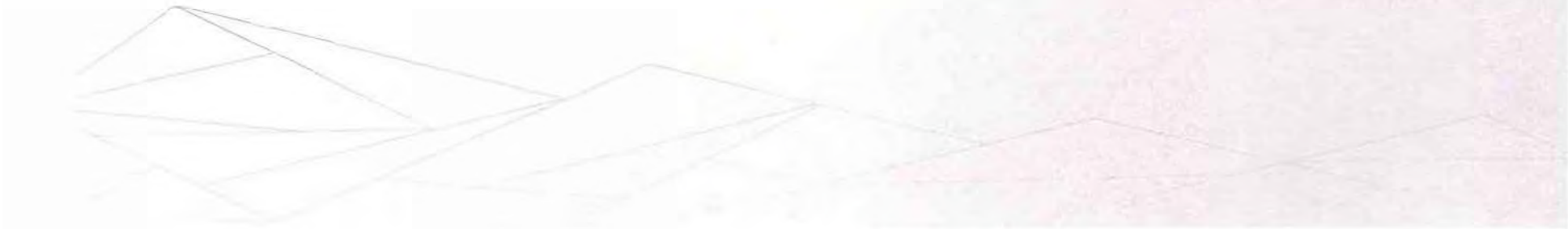
Key Diligence Findings



Summary

- Farelogix Order products could provide a stepping stone as airlines transition from legacy to NDC compliant distribution allowing Sabre to get NDC in production sooner; [REDACTED]
- Planned move away from Teletype / EDIFACT communications will eliminate need for Open Connect

MARLINS OVERVIEW



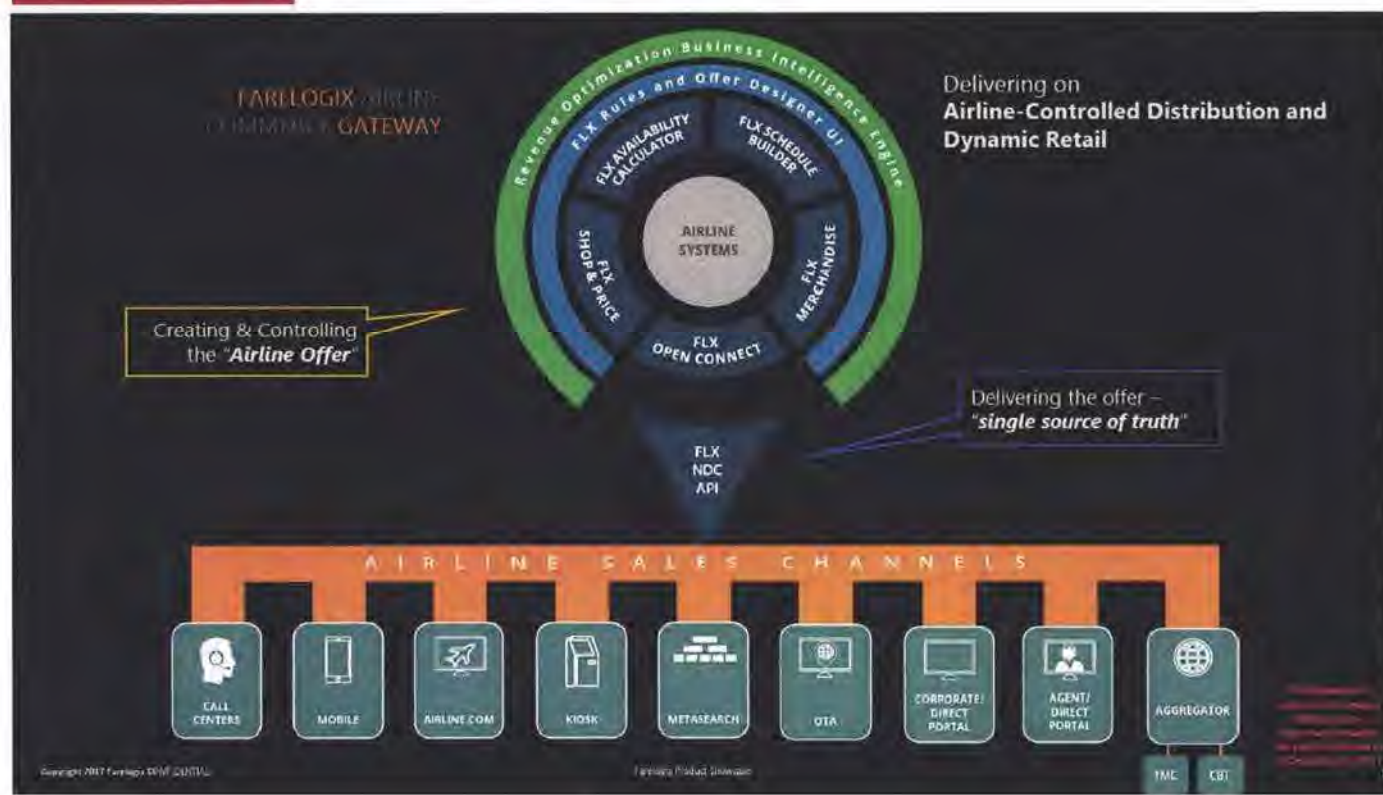
Marlins Business Overview

- Founded 1998
- Headquarters in Miami, FL with offices in Toronto, Canada and Dubai, UAE
 - ~200 employees, 145 in Miami and ~100 of total are developers
- Raised \$10M in funding from Sandler Capital across two rounds ¹
- Offer 5 products, which can be deployed as a suite or individually
 - FLX Open Connect, FLX Merchandise, FLX Shop & Price, FLX Availability Calculator, FLX Schedule Builder
 - FLX Merchandise and Open Connect currently viewed as biggest value drivers for Sabre
 - Legacy SPRK agent portal no-longer actively sold
 - Only SPRK customer believed to be Lufthansa

1) Funding information per Crunchbase

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Marlins Product Overview



- Positioned as a comprehensive offer control and order management engine
- Interoperability, scalability, PSS flexibility and distribution cost reduction are tenets
- Modular, customized offering
- FLX has made significant inroads with NDC Connectivity, Ancillary APIs and a rules-based Merchandising Engine
- Unclear at this point what is fact and fiction in terms of portfolio capability, scalability and market adoption

Marlins offers a set of products which can be deployed individually or as a suite

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Product	Description	Customers Implemented
Open Connect	<ul style="list-style-type: none"> Distribution to 3rd parties (formerly "direct connect"), including NDC APIs and a distribution manager 	[Redacted]
Merchandise	<ul style="list-style-type: none"> Offer assembly – PSS agnostic flexible rules engine 	
Shop & Price	<ul style="list-style-type: none"> Shopping, offer, and pricing engine 	
Availability	<ul style="list-style-type: none"> Calculates availability outside of the PSS 	
Schedule Builder	<ul style="list-style-type: none"> Builds schedules in airline control without caching 	None
SPRK Agency Desktop	<ul style="list-style-type: none"> Travel agent GUI which aggregates content. No active focus, not selling in market 	[Redacted]

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Marlins Customer Overview

Customer	PSS Provider	Offer Management			Order Delivery	
		Merchandise	Shop & Price	Availability	Schedule Builder	NDC API
[REDACTED]	Amadeus	✓				✓
	Sabre	✓	✓			✓
	In House	✓				✓
	Sabre	✓				
	Sabre	✓			✓	✓
	Amadeus	✓				✓
	Amadeus	✓				✓
	In House	✓		✓		
	In House	✓				✓
	Sabre					✓
	Navitaire					✓

Marlins Customer Overview (Cont.)

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Customer	PSS Provider	Offer Management			Order Delivery	
		Merchandise	Shop & Price	Availability	Schedule Builder	Open Connect
[REDACTED]	In House	✓				
	Sabre	✓				
	Amadeus	✓				✓
	Amadeus	✓	✓	✓	✓	
	Amadeus					✓
	Amadeus	✓	✓			✓
	Amadeus					✓
	Amadeus	✓				✓
	DXC	✓				✓
	In House (Delta)	✓				
	Sabre	✓	✓			✓