Sonder Holdings Inc. First Quarter 2022 Earnings Transcript

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Operator
Thank you for standing by, and welcome to Sonders Fourth Quarter and Full Year 2021 Financial Results Conference Call. (Operator Instructions) Please be advised that today's call may be recorded. (Operator Instructions) …I would now like to hand the call over to Nicolas Chammas, VP of Strategic Finance and Investment Analysis.

Ellie Ducommun *Sonder Holdings Inc. - Director of Strategic Finance*
Thank you, operator. Good afternoon, ladies and gentlemen. Thank you for joining us to discuss Sonder's first quarter 2022 financial results. Joining me on the call today are Francis Davidson, Co-Founder and CEO; and Sanjay Banker, President and CFO.

Full details of our results and additional management commentary are available in our first quarter 2022 shareholder letter, which can be found on the Investor Relations section of our website at investors.sonder.com.

Before we start, I'd like to remind you that the following discussion and the Q&A session at the end of this call contain forward-looking statements, including but not limited to: Sonder's strategies, market opportunities and future financial and operating results that involve risks and uncertainties that may cause actual results to differ materially from those discussed here. Additional information about the factors that could cause our actual results to differ from those expressed or implied in any forward-looking statements can be found in Sonder's periodic and other SEC filings.

The forward-looking statements and discussion of risks in this conference call, including responses to your questions, are based on current expectations as of today. Sonder assumes no obligation to update or revise them, whether as a result of new developments or otherwise, except as required by law.

Also, the following discussion contains non-GAAP financial measures. For a reconciliation of these non-GAAP financial measures to the most directly comparable financial measure calculated and presented in accordance with GAAP, please see our shareholder letter posted to our Investor Relations website.

Now I'll turn the call over to Francis Davidson, Sonder's Co-Founder and CEO.

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Thanks, Ellie. Good afternoon, everyone, and thank you for joining us today. I'm very pleased to be reporting on our strong first quarter 2022 results. My remarks today will span three core areas: first, I'll provide a quick snapshot of our financial performance for the quarter; second, I'll share some of our recent business and operational highlights; and third, I'll provide pertinent updates across each of our five main strategic priorities that we laid out in our year-end shareholder letter published in March, which was just about 60 days ago.

We're pleased to report strong year-over-year performance in the first quarter, growing RevPAR by 52% and revenue by 155%. We ended Q1 with over 7,700 live units in 39 markets across 10 countries. We also grew our total portfolio by 48% to approximately 19,300 live and contracted units.

In March, we commemorated our recent public listing by ringing the opening bell at Nasdaq in New York City, and we held corresponding team celebrations across our markets globally.

On the heels of this exciting milestone, we were named to TIME Magazine's 100 Most Influential Companies list, a compilation of distinguished businesses making an extraordinary impact around the world. This honor underscores the work of all Sonder employees worldwide to deliver an incredible guest experience and meet the evolving needs of the modern traveler as we build a tech-enabled, design-forward hospitality brand.

In Q1, we continued to make progress on all five pillars underpinning our aggressive growth strategy and framework for long-term sustainable value creation.

Our first lever is delivering an incredible guest experience. As a reflection of strong guest affinity for Sonder, our direct bookings remained over 40% in Q1.

We also entered 2022 armed with promising results from several pilot initiatives conducted at select properties in the second half of last year. These involved testing new offerings for many aspects of the guest experience, with the goal of employing technology and design to simplify and enhance the guest experience. By the end of Q1, properties that ran these pilot initiatives meaningfully outperformed our average customer satisfaction for the quarter. As a result of this success, we're extending these initiatives to several additional properties in our portfolio and continuing to layer in multiple other guest offerings to create an elevated and distinctive experience.

Also worth highlighting, we recently announced our commitment to eliminate single-use plastic amenities in all units by the end of this year. To the best of our knowledge, Sonder is the only hospitality brand to commit to an elimination of all single-use plastic amenities within a one-year timeframe. Because of our rapid growth, we have the chance to make a really positive impact now that will compound over time. We're seizing the opportunity to work with great brands that are developing sustainably packaged products exclusively for us. This way, we create a positive experience for our guests that also aligns with our shared values. Additionally, it makes good business sense, driving long-term efficiencies and savings across our operations.

Our second lever is securing high quality properties at attractive economics. As I mentioned, we grew our total portfolio by 48% year-over-year to approximately 19,300 units, driven by the conversion of high quality deals from our late stage pipeline. We consider total portfolio growth to be our most important supply side metric as it provides the best forward-looking view of future live supply. Our current late stage pipeline of prospective deals has reached an all-time high both in terms of quantity of units and strength of deal economics, giving us confidence in our ability to continue growing our portfolio at an accelerating pace. We are also growing our real estate team and improving our processes to get new real estate professionals ramped as quickly as possible to support our portfolio growth. Finally, we're continuously improving our real estate systems to better track data and performance, and proactively identify and resolve deal blockers.

Our live units grew by 54% year-over-year to over 7,700 units. We launched several new domestic and international properties in the first quarter and opened our first property in Orange County, California.

Our portfolio of units that went live after 2020 almost entirely consists of properties where Sonder manages and operates the entire building instead of only a few floors or sections. While operating entire buildings delivers a more consistent guest experience and greater operational efficiencies, the potential for opening delays impacts larger numbers of units at once and can lead to variable live unit growth patterns quarter-over-quarter. These dynamics were in play during Q1 where, despite meaningful year-over-year live unit growth, supply chain disruptions and labor shortages were a challenge, and certain property openings originally scheduled for early this year have now been delayed to subsequent quarters. We have dedicated teams across the world focusing on several initiatives across inventory, technology and process mapping to reduce these delays and enable properties to be brought live faster at scale.

Our third lever is our capacity to generate strong RevPARs. We believe there's still a lot of runway on RevPAR growth and expect to continue to benefit greatly from overall travel market recovery. As a point of reference, U.S. upper upscale hotels achieved RevPARs of 72% of their pre-pandemic Q1 2019 RevPARs in Q1 2022, 200 basis points lower than their Q4 2021 relative recovery. This was the first quarter since 2020 where the overall market recovery has contracted. We believe Sonder's unique value proposition to guests has allowed us to rebound faster than the overall market, and we expect to continue to benefit from the overall market recovery, with U.S. upper upscale hotel RevPAR projected to grow by 39% in 2022.

In addition to capturing strong anticipated market recovery, we're also focusing on several initiatives to grow RevPAR. For example, in Q1 we began experimenting with a new pricing strategy targeting higher occupancy in order to take advantage of demand elasticity. We are marketing bookings further in advance, continuously improving our pricing strategy and developing additional sales and marketing capabilities to bolster demand. Early successes of this initiative were evident in Q1, as we increased occupancy rate by 700 basis points year-over-year to 73%, and we're still gaining traction through the first month of Q2. We're also continuing to implement a number of revenue-focused technology initiatives, including offering guests the ability to pay to upgrade rooms prior to their stay, improving our monetization of early check-ins and late check-outs, and implementing dynamic length of stay pricing as longer stays are margin accretive.

Additionally, we continued to make substantial early progress on our new corporate travel offering following its launch in the second half of 2021. We more than doubled our corporate travel accounts from over 100 at the end of Q4 2021 to nearly 250 accounts at the end of Q1 2022. We're seeing strong corporate transient growth with signed travel management companies, particularly with small and medium enterprise companies whose corporate travel has rebounded meaningfully. We're also seeing growth in group bookings, particularly in entertainment, production and sports, and corporate housing bookings such as summer internship programs and corporate relocations. We're still in the very early innings of our corporate travel offering, but have confidence that this is a huge opportunity and will continue to gain traction in the coming quarters.

Our fourth lever is to continue driving operating efficiencies. We continue to implement meaningful enhancements to our technology that allow us to operate more efficiently, and we're seeing the impact of these efforts play out. For example, we rolled out a new task taxonomy in our hospitality operations application. By creating a flexible, yet robust data structure that provides the right information needed to solve guests requests, we were able to meaningfully reduce median task completion times. We also introduced smart clean shuffling, which allows us to optimize housekeeping personnel scheduling and enables us to fulfill early check-in / late check-out requests while still welcoming guests with a spotless room. The ability to deliver flexible check-in and check-out in an automated fashion adds real value to our guest experience, creating an ability to drive incremental RevPAR and improved CSAT. On the guest-facing side, we expanded our roll-out of mobile keys for iOS devices across a significant portion of our global portfolio. This will further optimize the contactless check-in process.

We're excited about the additional initiatives underway and confident in our ability to continue introducing technological and operational improvements to drive incremental efficiencies that further enhance our path to profitability.

Our fifth and final lever is our people and culture. Extending hospitality to all is among our leadership principles and we nurture a culture of inclusivity at all levels of the organization. This past quarter, we invested in ensuring our people embody this by delivering dedicated coaching in this area. We kicked off a two-part program of special training to all people managers, dedicated to conscious inclusion awareness and education to strengthen relationships and collaboration.

Also on the people front, our quarterly engagement survey from Q1 showed exceptionally strong and record engagement among our employees with respondents highlighting autonomy and ability to freely express their opinions being key drivers of engagement.

And to finish, I'd like to reiterate that we remain laser-focused on the execution of our strategy, powered by the levers I've outlined today. We believe that pulling these levers consistently will deliver strong free cash flow and value creation over the long-term.

I'd like to thank our employees across the world for their tireless work and express my gratitude to our partners and investors for their ongoing support. With that, I will turn the call over to our President and CFO, Sanjay Banker, to provide you with further details on our recent financial performance and an update on our outlook. Sanjay?

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Thank you, Francis. And good afternoon, everyone.

Our Q1 results are detailed in the shareholder letter we issued after the market closed today and supplemental information will be available in our first quarter Form 10-Q that will be filed later this week. This afternoon, I will provide a brief overview of our first quarter financial results and second quarter outlook, before we open the call to questions. Unless otherwise specified, all of the Q1 growth figures cited in my remarks are year-over-year comparisons.

In the first quarter, we delivered $80 million of revenue, representing a 155% increase compared to Q1 2021. Our Q1 revenue was fueled by 52% RevPAR growth, our new pricing strategy targeting higher occupancy, and the expansion of our live portfolio, which grew 54%.

Our key performance metrics improved year-over-year, including live units, bookable nights, occupied nights, and RevPAR. We ended the quarter with over 7,700 live units, representing 54% growth, through expansion in our existing markets with several new property openings. At quarter end, we had approximately 19,300 units in our total portfolio, representing 48% growth driven by the conversion of high-quality deals from our late-stage pipeline.

In Q1, we had approximately 689 thousand bookable nights, representing an increase of 68%, driven by our live unit growth. Additionally, late Q4 2021 property openings led to an increase in bookable nights in Q1 2022. Our live unit growth, coupled with our strategic focus on increasing occupancy, also drove significant growth in our occupied nights, which increased 84%. As a result, our occupancy rate increased 700 basis points to 73%.

Our RevPAR grew 52% to $117 and our ADR grew 39% to $160, though we did see the impact of travel restrictions and hesitancy due to the emergence of the Omicron variant compressing our Q1 RevPAR in excess of our typical seasonality patterns.

This Omicron-driven pressure on revenue also impacted our profitability metrics in Q1. However, we continued to demonstrate year-over-year progress in profitability margins: our property level loss margin improved by 3,300 basis points and our Adjusted EBITDA Loss margin improved by 6,400 basis points in Q1 2022.

We were pleased to see Covid-related restrictions and hesitancy begin to abate toward the end of Q1. We're highly encouraged by recent momentum in forward booking trends at the start of Q2, which indicate a snapback of travel demand in store for summer 2022. Combined with our continued focus on improving operational efficiencies, this gives us confidence in our ability to continue progressing on our path to profitability.

As a reminder, our presentation of Adjusted EBITDA takes the upfront cash benefits we receive in the form of initial rent abatement periods and owner-funded capex allowances and straight-lines them over the life of a lease in accordance with GAAP. These benefits can be substantial and result in cash landlord payments meaningfully lower than reported GAAP rents during periods of live unit growth. Therefore, as a management team, when calculating our internal measure of Adjusted EBITDA we consider these benefits in the period where we actually receive them as we believe it presents a better approximation of cash from operations. These factors are captured by adding back our GAAP rent to landlord payments adjustment and FF&E allowance realized adjustment, and these led to a positive combined benefit of $17M in Q1 2022.

Total costs and expenses increased by 72% to $176 million in Q1, inclusive of $7 million of stock-based compensation expense in the quarter. Total costs and expenses were driven by additional investments in research and development, sales and marketing as we build out our corporate travel capabilities, G&A expenses related to our ongoing needs as a public company, and operations costs related to the rapid expansion of our live units.

Our global headcount increased to over 1,700 to support our rapid live unit growth and prepare for our expected growth in 2022 and beyond.

As of March 31, 2022 we had $407 million in cash, including less than $1 million in restricted cash.

Although Q1 featured its own unique set of challenges given the effects of Omicron in addition to our typical first quarter seasonality, we are pleased with our execution in navigating these dynamics to start the year. Despite these temporary impacts, our large market opportunity and long runway for future growth remain highly compelling. Given the more recent uptick we've seen in forward booking trends as we've entered Q2, we continue to believe the time is right to responsibly pursue our growth strategy. We remain highly confident this will create significant long-term value for all Sonder stakeholders.

Turning to our outlook, in the second quarter of 2022, we anticipate revenue growth of more than 140% year-over-year versus $47 million in the second quarter of 2021, primarily due to our expectations around robust travel demand recovery into summer 2022, and continued growth in bookable nights and live units. We expect Adjusted EBITDA losses in Q2 of better than $80 million as we continue to rapidly expand our live units in Q2 and beyond and scale our personnel to support our expected portfolio growth this year.

The rebound in travel demand, combined with our visibility on live unit and bookable night growth, gives us the confidence to reaffirm the full-year 2022 outlook we provided in March. We continue to expect to grow full year revenue by between 100% to 110% as compared to full year 2021. We also continue to expect full year 2022 adjusted EBITDA losses to be lower than 2021 on a percentage of revenue basis, and higher on a dollar basis.

I'll close our prepared remarks today by reiterating that our growth pipeline remains robust and we continue to benefit from strong relationships with our existing and prospective real estate partners who agree that Sonder best represents the future of hospitality. We remain committed to - and relentlessly focused on driving - sustainable, long-term value for our stakeholders.

Thank you. We are now happy to take your questions. Operator?

Operator
(Operator Instructions) Our first question comes from the line of Jed Kelly of Oppenheimer.

Jed Kelly ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***
Congrats on a good quarter in a difficult environment. Just two if I - two to start off with. So can you kind of give us an update on the amount of live supply we should expect to go -- or the amount of supply we should expect to go live in the second quarter? And then on those Contracted units, how many -- what's the amount of supply we should expect you to have by the end of the year? And then my second question is on technology. Can you provide a status update on the tech rollout you highlighted in your last earnings and give us a glimpse into any new launches that you have in the coming quarters?

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
I'll start with the first part of your question around supply growth and then I'll pass it off to Francis to talk about technology. So, with respect to overall annual supply growth, as you pointed out, we have a strong signed unit pipeline that represents our backlog that will go live. We're not declaring guidance around 2022 end of year live supply. But as we said before and as we reiterated today, we're anticipating 2022 growth of 100% to 110%, which is a balanced diet, if you will, of RevPAR growth. substantial RevPAR growth, of course, given the recovery and rebound in travel, especially going into the summer as well as Live unit growth.

And so we continue to see those Contracted units turn into Live units. Of course, we don't control construction ourselves and therefore, part of our Live unit growth is largely dependent on the speed with which developers can turn that signed supply, get it through the construction or renovation cycle and deliver the keys to us.

And so that leads naturally to some lumpiness or variability, in particular, as we do larger and bigger deals and fuller buildings that creates quarterly or sequential lumpiness when those signed units turn into Live units, which is why we don't declare quarterly guidance around supply. But that's obviously a factor that feeds into our revenue guidance. And that revenue guidance for Q2 feels incredibly robust given the forward booking volumes that we see, 140% year-on-year growth for Q2 and 100% to 110% year-on-year growth for 2022.

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
And Doug, let me step in for the question on some of the progress on our technology and the things that we've rolled out. So, just to step back, where the ambition is to build the operating system for hospitality. So that's a suite of software that spans a lot of jobs within the company from supply signing to supply chain, to opening properties to operating day-to-day, generating revenue, both on sonder.com and through our distribution channels. And so, it's a really wide range of technology.

Let me maybe just focus on a couple of areas. Guest experience, this is one of the really important areas of differentiation for our business. And the core theme there is self-service, the idea that we want to provide guests the capacity to have access to information, send request, check themselves in and do that all seamlessly through the mobile app, which a vast majority of our guests use every day when they stay with us. So self-service is a big theme, just constantly (technical difficulty) features of the mobile app to make things faster and easier for our guests.

The second piece is messaging. So, really important update to our app for about 20% of our users that we plan on rolling that out to all users shortly, is a dedicated messaging tab. So, now at the tap of a button, you can start messaging with a Sonder representative who will reply instantaneously to the requests and information that you might be seeking. And what's really interesting about that messaging feature is that we don't have like kind of a session-based messaging where you kind of are connected to an agent and then after the conversation is done that conversation disappears forever. This is kind of the standard in hospitality for those that have a messaging feature.

Our messaging is much more kind of continuous. You can see a scroll of conversations that you've had in the past and you can set your phone aside for a couple of hours and take it back and take a look at the messaging and see what our team has answered to your question. So, it's just really something that feels more like texting a friend in a sense, but obviously, through the Sonder mobile app.

And then another thing is the rollout of our mobile keys. So on iOS and across the majority of our properties, it's possible now to just with a couple of taps on the app set up your phone to become your key. Of course, Sonder has always been a contactless check-in company and we've had -- we still -- it's still possible to enter by entering digits on the keypad, but now also we can even skip that and then just use the phone directly to access buildings. So, a lot of exciting stuff on the guest experience front.

And then the second piece I wanted to highlight is operations. I've mentioned at the top of the call, the rollout of task taxonomy. And so, this is a really important categorization of 1,500 different kinds of work streams that occur in the day-to-day operations of the hospitality business. But we very carefully figured out the hierarchy and the structure of all these interactions so that when guests say, "hey, I need this," we can easily collect the right information and map that and dispatch that work stream to the right person within Sonder, so that we can efficiently and rapidly resolve those guests requests. So, we've seen -- we've seen a measurement of the speed at which we can close those cases. And of course, this provides a really rich data set for us, so that we can pull our service promise and our service SLAs.

So, in the second example, I wanted to provide us on smart clean shuffling. So, there's a lot of initiatives that we rolled out around improving our capacity to automate upgrades, the monetization of early check-ins and late checkouts like we described. There's another piece of technology, which is our, what we call our shuffling algorithm, so that we can compact bookings into a calendar in the most efficient way possible, so that we can achieve really high occupancy rates.

Well, all of these pieces of technology have implications when it comes to our housekeeping schedules. And before we had a schedule that had to be manually updated and now this process has been automated, so that we can optimize our housekeeping costs, but in a way that really blends in nicely with the other pieces of technology that kind of dynamically adjust which room a guest is going to be allocated to in an automated fashion. So, those are just a few examples, but there's a lot more. The landscape is really broad and the ambition that we have is a large one, but really good progress that we're happy to speak about today. Hopefully, that provides some color.

Jed Kelly ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***
Yes. That was great. And then Sanjay, just a follow-up, on the guidance, 140% revenue growth in 2Q sort of implies a decent deceleration in 3Q, despite a similar comp. Can you just talk about, is that just conservatism? Or can you talk about some of like how you're thinking about the back half because it does provide, so still good growth, but it does provide some sort of a step down in the back half?

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Yes. I'd say, it's a combination of conservatism. It's premature to have a more robust or forward-leading call for the back half and we have a great amount of visibility into Q2 given forward booking dynamics. So, we are comfortable making the call we are for Q2 given the early booking and the robust anticipated summer travel season, a lot of which is already on the books. That allows us to lean into our 2Q guide, for which we're very excited. We're obviously remain excited for the back half of the year too, but we'll be able to have more visibility with that as we get closer to the back half of the year.

Operator
Our next question comes from Ron Josey of Citi.

Ronald Victor Josey ***Citigroup Inc., Research Division - MD***
Maybe a quick follow-up just on Jed's question on Live units. Sanjay or Francis, can you talk about if the pressures you saw or the industry saw on Live unit growth in 1Q, they abated somewhat here in March, April, May? And then Francis, we spent a lot of time in the letter and on the call just talking about the path to positive free cash flow. And I think there, the recovery is far from complete. I think Sanjay, you just talked about some of the trends there. But any additional insights on forward bookings on pricing trends? I know RevPAR was talked about there as well, would be helpful.

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
I'll start with the first part of the question and Francis can take the second. So with respect to Live unit growth, I'd say Q1 definitely had the ongoing supply chain issues that we've talked about in the prior earnings call around the degree to which developers themselves are reliant and dependent on building material supply chain, labor and the like with respect to being able to deliver keys to us. And so we did see that continue. I'd also add, though, an important driver was the fact that we had a large Q4 Live unit growth, and that actually, to some extent, pulled forward some things that could have opened in Q1 that we accelerated, stepped on the gas and got them open before the end of 2021.

And so, if you look at our occupied nights growth sequentially in Q1 versus Q4, we saw 20% sequential growth in occupied nights. And that's partly a phenomenon of the fact that we had a large growth in Live units late in Q4 that really created our ability to have strong sequential occupied nights growth. And so, we still felt really good about our capacity growth in Q1, even though that was largely driven by a pull-forward of Live unit growth that came into the latter part of Q4 of 2021.

We do remain optimistic about supply growth going into the year, our Live -- sorry, our Contracted unit portfolio still gives us great visibility that while we can't control the exact month with which those properties go live, we do have strong visibility into a large number of properties going live here over the next 3 quarters of the year, which underpins our forecast for full year revenue guidance.

Ronald Victor Josey ***Citigroup Inc., Research Division - MD***
That's super helpful. Any insight on the recovery? Just -- I know you'd mentioned some part on 3Q, but just relative to the path to positive free cash flow?

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Yes, absolutely. Yes, let me step in here. So, Q1 was the first RevPAR recovery reversion since 2020 across urban markets. So, we've seen continuous improvements versus 2019 levels for every quarter leading up to Q1 of 2022. But as we just discussed, are feeling really optimistic about the forward booking trends and the snapback of travel.

We're really, really, really excited about folks that for a couple of years have been cooped up and hesitant to travel, but those are leisure travelers, whether those are business travelers and particularly in urban markets, but it really seems like the sentiment has shifted around the desire to go back on the road and explore and stay in those urban markets, and that's reflected in the data that we've seen for forward-looking bookings over the last month or so.

Like you mentioned, there's a lot of headroom for growth in that metric. Our comps are expected to -- or rather the industry is expected to grow RevPAR 39% year-over-year in 2022. This is Smith Travel Research, so very, very optimistic there about what the picture looks like. Like I mentioned on our side, how that relates to free cash flow. And let me just reiterate that free cash flow is an absolute top priority for the business. And we're not just talking about kind of the trivial long-term free cash flow over the next decade plus. But this is something that we're actively working on in the very much here and now. And we want to show some progress along that dimension. A lot of it comes from the improvements in market conditions that we're expecting to see over the next year or 2.

But that's not it. There's a lot of other initiatives that we've pursued in order to improve RevPAR, weekday RevPARs, corporate demand, where we've announced, right, our increasing accounts from 100 to 250 that really helps for weekday RevPARs and that's kind of all go get revenue for us. That wasn't there before. We launched our corporate travel program in the middle of 2021. So, a series of initiatives there and on operational efficiency, which is really technology and tapping into economies of scale.

So that variable, the cash contribution margin, as we've described it, which is our operating cash flow minus the kind of overhead other operating expenses, which was 10% in Q1 of 2022. It's kind of the baseline, but with a really weak market recovery scenario. As the market recovers, that number is expected to meaningfully improve. And so with that margin, as we apply more and more Live units, that generates a greater and greater quantity of cash.

And of course, we have to ensure that those units are coming under the really attractive terms and the shifts that we did in 2020 towards capital-light deals, meaning that property owners are funding the CapEx, the dollars that go into making a property a Sonder property, that really, really helps shorten the payback periods when we add Live units and makes that growth free cash flow accretive extremely rapidly at the company level.

And then the third piece is ensuring continued leverage of our other OpEx and the net CapEx. That's just -- across 2021, we've managed to grow those line items substantially more slowly than we did revenue. And so, we're very -- we have -- we apply a lot of scrutiny towards these numbers to ensure that we continue to benefit from really attractive overhead leverage. So, these 3 things really come in together for us to allow us to march on our path to free cash flow positively as rapidly as possible.

Operator
Our next question comes from Stephen Grambling of Goldman Sachs.

Stephen White Grambling ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***
In our investor conversations, it seems like there's just a lot more fear about recession around the corner, and I know you had some comments in the deck on this, but in the sense that you're in the process of recovery, but how do you think about sensitizing the model to a recession scenario and also ensuring that you have the right liquidity in the event of such a scenario and prolonged cash burn?

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Thanks a lot, Steve, for the question. I totally understand it. I appreciate you sharing that investor feedback. It's not -- no surprise to us that this is on people's minds, obviously, in the headlines. Needless to say, we think a lot about -- while we have a new crystal ball and we can make predictions about the macro environment, we do think a lot about this. And frankly, it's been in our DNA since long before COVID and long before the pandemic, those that knew us back in 2019, knew that we were running every recession scenario through our models and our forecast.

We even had a model where you could drop down and select which recession scenario you want to run, 2001, 2008 or et cetera, and run that through our forecast depending on when you thought it would start. Obviously, the pandemic was a deeper and more prolonged impact on travel than on any of those other recessions and in fact versus most of those recessions combined. And so, we feel like we've already been through an event called the pandemic that was orders of magnitude greater than any recession on record.

We think that we learned a lot. We learned how to keep occupancy elevated even when our travel competitors or hospitality competitors were not able to. We learned how to be incredibly disciplined on the cost side. We learned how to navigate and hustle our competitors -- our competitive set. And so that -- those lessons, I think, remain with us and will apply to how we might think about future recessions.

That said, it's really important to remember that our forward booking outlook for the summer is incredibly robust and whether you're looking at sequentially or year-over-year, even if the macro somewhat dampens the rate of recovery, the rate of recovery by all accounts and everything that we see today remains incredibly strong, and we're incredibly excited about macro being a big tailwind to our performance for the foreseeable future, regardless of what happens in the macro.

Stephen White Grambling ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***
That's helpful. Maybe one related follow-up. Can you remind us, is there any covenants or liquidity requirements

with your debt?

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
So -- I didn't answer the liquidity part of your question. So we've got -- we closed Q1 with over USD 400 million of cash in the bank. And so, we feel like we have more than ample liquidity and no concerns around covenants and the like with respect to our liquidity outlook. And so we feel really good about having the cash on the sheet to fund the plan, be able to invest in the business and drive really attractive growth.

Operator
Our next question comes from Andrew Boone of JMP Securities.

Matthew Dorrian Condon ***JMP Securities LLC, Research Division - Research Analyst***
Matt on for Andrew. Just two quick for me. Can you just help break down the ADR improvement year-over-year in the quarter? How much of that was market driven? And how much of that was your revenue management? And then secondly, just on the higher occupancy strategy. Just can you just talk about what led you to make this decision? And how it relates to model going forward and how we should think about that?

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Yes. So I'll take the first part of that question around ADRs. So, as Francis mentioned earlier, Smith Travel Research projects a 39% year-on-year RevPAR growth for 2022. We think that our -- when we look at our comps, urban upper upscale hotels in North America, Q1 of 2022 was about 72% of Q1 of '19. So significant headroom, significant outlook for additional market growth. That said, our RevPAR growth was even more robust than anything that you would look at when you look at kind of market metrics, right, 52% year-on-year growth in Q1.

And so the punchline is, we think that we outperformed market and that it was Sonder driven. Now, of course, Q1 still had a significant omicron impact and Q1 is a seasonally slower quarter, right, in typical years, say, 2019 before the pandemic, Q1 was about a 15% discount to the full year 2019 RevPARs. And so, overall Q2, Q3, those are our strongest quarters. And so, we're really excited about getting into the mid of the year here, both because of seasonality as well as the abating of pandemic restrictions, meaning a big snapback in travel. And keep in mind that all of that lift, if you will, in RevPARs drop through to the bottom line. So, the margin impacts are also exciting as well on top and bottom beyond just the RevPAR impacts.

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Yes. Let me jump in here for the occupancy lift and our strategy to pursue a higher occupancy rate. So, we've launched this in mid Q1 of '22 to drive incremental revenue and free cash flow. So, we're very careful in ensuring that we don't just sell rooms for their own sake, but that we're carefully take into account the fact that higher occupancy means more cost to serve and ensuring that the RevPAR we generate is in excess of the incremental cost required to serve this incremental occupancy.

So there's -- the math that led us to that decision is simply the fact that we've ran some sophisticated demand elasticity studies to try to identify what are some areas in which we might be able to improve RevPAR by fluctuating price and improving our occupancy rate. And we saw that quite a lot of value could be generated that way. Another value driver of this strategy is that we can extend the booking window and so start generating bookings for future in advance and -- which has cash flow benefits and allows us to improve our pricing strategy with better forward-looking visibility into demand patterns and incentivizing longer stays as well.

So with a higher occupancy rate strategy, our pricing is a little bit more attractive for stays that are longer. This is something that's an innovation at Sonder or capacity to price not just based on a night, but having a continuous discount curve that applies based on length of stay and the discount curve that is a function of what we expect demand to look like for these length of stay durations and what we expect our cost structure to be like for the length of stay duration. So, it's a really interesting optimization that I consider to be a strength for Sonder. So, very excited about our initial results, right, in Q1, 73%, which was 700 basis points improvement year-over-year and very strong traction into Q2.

Operator
At this time, I'd like to turn the call back over to Francis Davidson for closing remarks. Sir?

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Yes. Well, thanks so much, everyone, for dialing in and listening to our call today. We've got some really interesting important things that we've outlined in our shareholder letter. I've started with the CEO letter in the first couple of pages that kind of breaks down some of the themes that we discussed today in further detail. So, I really encourage you to go and take a look. And thank you so much for your engagement. We look forward to speaking to some of you in future investor conferences. Thank you so much.

Operator
And this concludes today's conference call. Thank you for participating. You may now disconnect.