Sonder Holdings Inc. Cash Flow Positive Transcript

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Operator
Thank you for standing by, and welcome to Sonder's update on its business plan and financial projections. (Operator Instructions) Please be advised that today's call may be recorded. I would now like to hand the call over to Ellie Ducommun, Director of Strategic Finance.

Ellie Ducommun *Sonder Holdings Inc. - Director of Strategic Finance*
Thank you, operator. Good morning, ladies and gentlemen. Thank you for joining us despite relatively short notice to discuss Sonder's business and financial outlook update. Full details are available in our press release and investor deck both issued earlier this morning, in 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 Cash Flow Positive plan, its restructuring plan, our guidance for Q2 and full year 2022 and our 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 non-GAAP financial measures to the most directly comparable financial measure calculated and presented in accordance with GAAP, please see our investor presentation posted to our Investor Relations website.

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

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Thanks, Ellie. Good morning, everyone, and thank you for joining us. Today, we're announcing a new refocused plan to more rapidly achieve positive free cash flow without additional fundraising and while preserving a robust cash cushion. While our business has never performed better than it has over the last months, it's increasingly clear that broader market conditions have changed, and the greater urgency needs to be applied to shift our focus from hyper growth towards sustainable, positive free cash flow.

Our Cash Flow Positive plan forecasts that we'll reach positive quarterly free cash flow within 2023, getting there using 4 key levers: cutting cash costs, reducing planned signings pace, raising the bar on incremental signings and focusing on rapid payback RevPAR initiatives. I will now walk you through each of these levers in more detail.

Our first lever is to plan to reduce cash costs by approximately $85 million on an annualized basis before onetime restructuring costs. Nearly $55 million of these annualized costs are driven by our recent restructuring, which will result in an approximately 21% reduction of existing corporate roles and a 7% reduction of existing frontline roles.

Of note, these cash cost reductions are measured against Q1 2022 actuals. Cash cost reductions against our annual budget are much deeper. We've done our best to support our departing colleagues with care, dignity and compassion and are providing severance packages, including benefits, continuation and other support to assist in their transition. In conjunction with these actions, we expect to incur $3.5 million to $5.5 million in onetime restructuring costs, approximately 80% of which are expected to be paid out in Q2 2022 and approximately 20% of which are expected to be paid out in the second half of 2022.

The remaining $30 million of our expected annualized cash cost savings come from reduced preopening costs and net CapEx associated with incremental units going live due to our focus on signing 100% capital-light units going forward. Our second lever is proactively reducing our planned signings pace. Less aggressive signings growth enables us to lower head count across the board, lower preopening costs and net CapEx, cut back on planned geographic expansion and simplify the business.

As a reminder, as of March 31, 2022, we had approximately 7,700 live units with an additional 11,600 contracted units that are planned to go live over the coming quarters and years. Given the upfront costs to originate and find these deals were already incurred and a majority of these deals are capital light, this contracted unit portfolio will be cash accretive as they come live. This leads me to our third lever, which is increasing our already high threshold for incremental unit signings.

Any new units we choose to sign will target 100% capital-light terms, so they'll be immediately cash accretive to Sonder. We will focus new signings in countries where we already have scaled operations in order to leverage existing fixed costs most effectively. Our current late-stage pipeline of potential signings primarily consists of deals that fit these criteria and we are confident in our ability to source additional, immediately cash-accretive deals.

Our fourth and final lever is focusing efforts on improving free cash flow through rapid payback RevPAR initiatives. Given our fixed line lower payments, a small increase in RevPAR translates to a much larger increase in cash contribution margin. We expect our unit economics and free cash flow to continue to benefit greatly from the anticipated recovery of urban travel though we remain prepared in the event that a potential recession impacts the pace of recovery.

In addition, we're focusing on several rapid payback RevPAR initiatives, including our higher occupancy strategy to take advantage of demand elasticity as well as growing our new corporate travel offering, among others. Beyond our focus on these 4 key levers, we will continue to deliver our signature, tech-enabled design forward experience to guests around the world and look to attract a growing share of travelers across both business and leisure segments.

We would also like to take this opportunity to underscore how immensely thankful we are for the work and contributions of our colleagues who are leaving the business. They are incredibly talented individuals, and we wish them well. We'd also like to thank and acknowledge the ongoing contribution of our team who remain committed to delivering value for our guests, our partners and our shareholders.

With that, I will turn the call over to our President and CFO, Sanjay Banker, to provide you with an update on our financial outlook. Sanjay?

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Thank you, Francis. Good morning, everyone. Today, given the unique market environment, we're going to disclose certain information that we don't plan to share on an ongoing basis. We believe it is important to share added insights today as it will help to better frame the measures we are taking to achieve our Cash Flow Positive plan.

Starting with revenue. We are reaffirming our second quarter 2022 guidance of revenue growth better than 140% year-over-year compared to $47 million in Q2 2021, driven by robust RevPAR recovery and moderate Bookable Nights growth. More specifically, given the strong demand we are witnessing for summer travel, higher-than-usual degree of advanced booking and how far along we are in the quarter, we are comfortable on a onetime basis guiding to Q2 RevPAR of over $160.

We are also reaffirming our full year 2022 revenue growth guidance of between 100% to 110% year-over-year compared to $233 million in 2021, driven by robust RevPAR growth and moderate Bookable Nights growth.

Moving on to free cash flow. We expect Q2 2022 free cash flow burn of better than $50 million before onetime restructuring costs, representing at least $15 million sequential improvement compared to Q1 2022.

For the second half of 2022, we expect total free cash flow burn of better than $70 million combined for the third and fourth quarters. Lastly, we are committed to reaching positive quarterly free cash flow within 2023. While that is as much detail as we're planning to share regarding the specific timing of achieving our Cash Flow Positive plan, going forward, you can expect to regularly receive free cash flow guidance for the following quarter so that our progress towards breakeven and beyond can be easily followed.

We will drive these results by pulling the 4 key levers of our Cash Flow Positive plan, which Francis spoke about in detail: cutting cash costs, reducing planned signings pace, raising the bar on incremental signings and focusing on rapid payback RevPAR initiatives. I'll close our prepared remarks today by reiterating that our business fundamentals remain strong, and our market opportunity is enormous.

We are focused on driving sustainable, long-term value for all of our stakeholders via our Cash Flow Positive plan and continue to revolutionize hospitality for all.

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

Operator
(Operator Instructions) Our first question comes from Ron Josey with Citi.

Ronald Victor Josey ***Citigroup Inc., Research Division - MD***
I have 2. If you could maybe, Francis, you talked about the business has never performed better than the last month. And Sanjay, you talked about the stronger summer travel. Just can you give us an update on market conditions that require the shift? What caused you to do this now relative to, call it, prior plans? And also as part of the plan, you talked about slowing the growth in contracted units. Any insights on how this might impact your longer-term growth outlook would be appreciated and maybe how we might think about growing just contracted units.

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Thank you so much for your question, Ron. So on the first one, listen, the market dynamics have shifted clearly from a growth-oriented market to one that prioritizes cash flow positivity. And so we think it's important in the context of the shift to adjust our plan to accelerate the timetable for our cash flow positivity. Of course, cash flow was an important theme for us, even the prior calls that we've had. I think what we're announcing today is that we want to go and pull that forward by using the 4 levers that we described today.

And as you mentioned, and maybe this is a pivot to your second question, the growth rates that we anticipate will be slower than what we described earlier, though still very fast, right? We've got 150% embedded growth already just in our contracted properties. And so we're going to be adding a lot of units online that we've already incurred the upfront costs for and that's going to generate a really attractive growth rate.

Of course, we're going to be reducing our planned pace of signings by shifting to 100% capital light. And so we're not going to seize our new signings. So we're going to see the total portfolio keep growing. But we expect the majority of the openings in the near term to come from already contracted units.

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
And Ron, just to clarify in the way you set up the question initially, we are still incredibly enthusiastic about the summer travel dynamic. We think that the market -- we've shared guidance around Q2 RevPARs coming in at $160. We're incredibly excited for travel. We have a really attractive on the books, reservation for Q2 and even into Q3. And so we're -- nothing that we're announcing today has anything to do with our enthusiasm for the travel market going into the next couple of quarters?

Operator
Our next question comes from Jed Kelly with Oppenheimer.

Jed Kelly ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***
You mentioned in the supply strategy pulling back on certain geographies, certain international markets. But just zeroing in on the United States, can you talk about your strategy in the United States. You're going to focus on less cities. And then can you talk about what this means for your hotel strategy as well.

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Thanks so much for your question, Jed. So in our communications, we laid out the international expansion as one of the levers of simplification that allows us to reduce our expense base as a business. And let me clarify that we're not going to be exiting from current markets. We're simply going to change our plans when it comes

to our aggressive geographic expansion pace that we had priorly.

And so going deeper in markets we know, we think is not only important to get overhead leverage, but it also reduces the, call it, the risk of execution of our plan because we have a deep familiarity with the markets in which we currently are. So it gives us great confidence that this will accelerate our path to cash flow positivity.

In North America, similarly, there is an opportunity for us to expand to a lot more markets than the ones that we're currently in. And this isn't necessary to pursue as aggressive an expansion pace in this new plan. So again, we can concentrate in the markets in which we are, achieve better overhead leverage and do so with less risk.

Jed Kelly ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***
And then, I mean, I figure you're not going to pause all supply [addition] strategy. But can you talk about how the increase -- the recent increase in interest rates is changing any conversations with developers or how that's changing contracts? And have you guys and with some of your existing properties [has] higher interest rates caused you to sort of circle back and change any of the contracts?

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Yes. We think that property owners -- the deals that we have with property owners tend to be multiyear deals. And so we don't sort of mark-to-market these multiyear deals based on sort of short-term fluctuations, whether it's at rates, inflation or otherwise. So we do have a very large book of properties that were signed in the last couple of years. As multifamily rental rates climb, there's a tremendous amount of embedded value in that book of signed but not yet live contracts that we are really excited about.

We're obviously always in dialogue with our property owners to make sure that the deals work for both parties. But the current rate environment, while it's obviously front of mind for all of our negotiations and conversations with prospective real estate partners, there are a lot of variables that play in how we set up a deal and rates and rents are only one piece of that. And so we don't really think of that as a front-and-center issue in setting up these deals.

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
(inaudible) realize we didn't address directly the question on hotels. And so we're going to still be pursuing hotels in an inflationary environment. There's still just as many independent hotels that we can go and knock on their door and pitch them Sonder and generate a lot of value through our technology, which optimizes the cost structure with our distribution and revenue generation capability. So that doesn't stop. The value proposition remains just as strong.

And then so far as projects are a little bit more challenging -- development projects are a little bit more challenging to finance in a heightened interest rate environment, this also has a meaningful benefit when it comes to slower market level supply growth, which translates to better RevPARs. And so there are puts and takes with any changes in the economy, but we think that there are opportunities as well with a higher inflation, higher interest rate environment.

Jed Kelly ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***
And I guess, the layoffs, I guess the majority of them were in the corporate part of the business, [what] you did reduce your workforce to 7% in local operations. Are you going to have -- I mean, because you talk to hotels and other hospitality providers, they're having trouble getting staff and (inaudible) you just want to maintain a certain level of quality? So do you believe you have enough employees and operations to sort of maintain your

quality standards after these job cuts?

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Yes, absolutely. Prioritizing a great guest experience is crucial for this business. And so the reductions in our frontline employees were primarily in contact centers or related to openings and these contact centers are simply going to be shut down and it's crucial for us to be able to deliver on a really high service standard though we've got many, many geographies in which we can provide that support in which we've demonstrated that we can hire really rapidly, extremely talented individuals.

Operator
And our next question comes from Andrew Boone with JMP Securities.

Andrew M. Boone ***JMP Securities LLC, Research Division - Director & Equity Research Analyst***
Two, please. The first is, as we think about the signed portfolio and as you guys reassess international, is there any [reduction] to the existing signed portfolio? How do we think about any changes there? And then secondly, on RevPAR. If I go back to the initial Sonder's slide deck and look at initial 2025 guidance and look, I understand a lot has changed since then. The 2025 RevPAR [hauled] for $170, and you guys are now talking about $160 for this quarter. Is there a way for us to think about the ceiling for RevPAR? I understood you guys have outperformed peers. But how do we think about just further growth in that $160. Any construct there would be super helpful.

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Thank you so much for your question, Andrew. Let me start maybe with the second question on RevPAR, maybe [ask for] clarification on the first one. So we think there's a lot of headroom for growth on RevPAR. There are a lot of levers that we can pull in order to improve RevPAR, mainly our weekday RevPAR performance is still much slower than best-in-class comps in the industry.

And so this relates to our corporate travel strategy, where we're signing up more and more businesses to stay with us and to keep our properties full and add more demand -- add more people to the auction for weekday stays. Our performance on the weekends is really strong, although we think there's still a lot of opportunity there.

We don't have a formal loyalty program as an example. There are revenue management technologies that we're deploying that are expected to improve RevPARs. There are ancillary revenue streams that we haven't tapped into. Very, very small proportion of our revenue today is ancillary, and it represents a much greater share for best-in-class comps.

And so there are many, many levers still that we're going to be pulling in order to disproportionately impact Sonder's RevPAR performance. In addition to this, the CBRE, Smith Travel Research, as an example, predict that we're still in the early innings of the RevPAR recovery for urban markets.

And so 2023, 2024 is expected per their latest forecast to see meaningful RevPAR growth. And this ties to a statistic that Deloitte put out, which is that Q2 of 2022 business travel is expected to be in the mid-30s recovery versus 2019 levels. But we expect -- or they expect that to be in the mid-60s by Q2 of 2023.

So a year from now, we expect nearly the doubling of business travel per Deloitte. So there's not fully a recovery to 2019 levels just yet, but there's really a powerful amount of demand growth that will come from not a complete return to normal to business travel, but an increase per those third-party forecasts.

So there's a couple of levers there, both market recovery and what we can do. Of course, inflation flows through hotel prices as well. And we believe that there's more headroom beyond the $160 guide that we're putting out for this quarter.

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
And Andrew, I think your first question, if I followed it right, is whether we're anticipating any changes, meaningful changes to the signed, contracted units' portfolio. If that's the question, the answer is we're not anticipating any meaningful changes. There's always a typical nipping, tuck-in or some handful that fall out, but that's a very normal rate that's already built into our modeling and we're not [disbanding] anything significant changing to that.

Of course, we're going to still continue to sign new units. And as we outlined at the top of the call, the bar for those signings have gone up, but we'll still be adding to both the top of the funnel and our deal sourcing as well as actual signed units to the book every quarter.

It will just be with a lot greater focus at a much higher bar in particular around upfront capital outlays required getting those to be fully landlord covered so that they're immediately accretive when they do go live.

Operator
Thank you. And that's all the time we have for questions. This concludes today's conference call. You may now disconnect. Everyone, have a great day.