

## Transcript of Avianca Group International Limited Second Quarter 2025 Performance Call

August 06, 2025

### **Operator**

Welcome to the Avianca Group's Q2 2025 Performance Call. At this time, all participants are in listen-only mode. A question and answer session will follow the formal presentation. [Operator Instructions]. Please note this conference is being recorded.

I will now turn the conference over to your host, Maria Ricardo, Head of Investor Relations. You may begin.

### **Maria Cristina Ricardo - Head of Investor Relations, Avianca Group International Limited**

Thanks, operator. Good morning and thank you for joining us today. Our speakers for today are Adrian Neuhauser, Chief Executive Officer of Abra Group; Frederico Pedreira, Avianca's Chief Executive Officer and Nicolas Alvear, Avianca's Chief Financial Officer. We will be joined for the Q&A session by Manuel Irarrazaval, Chief Financial Officer of Abra Group; Jorge Marin, Group's Financial Controller and Gabriel Oliva, Avianca's Chief Operating Officer.

Financial statements for the period ended June 30, 2025, and the presentation that we will show you today are available at our Investors site. Today's conference call is being broadcast, and the replay will be available at the same site shortly after the end of the call.

Before we proceed, I would like to remind you that during this call, management will make statements or remarks that may be forward-looking statements and may include, but are not limited to, financial projections or other statements of the company's plans, objectives, expectations, or intentions. These matters involve certain risks and uncertainties that could cause results to differ materially from those projected or suggested.

Today, we will start our call with an overview of the state of the business and then we will continue with our second quarter 2025 operational and financial performance. As always, our prepared comments will be followed by a question-and-answer session.

With that, let me turn the call over to Adrian.

### **Adrian Neuhauser - Chief Executive Officer, Abra Group**

Thank you, Maria Cristina, hi, everyone, and thank you for joining us today. If you turn to slide three, we'll get started. For context, I'll remind you that Q2 is seasonally Avianca's weakest quarter.

We're very proud to deliver the quarter that we're going to take you through now. I'll do a quick summary on this slide, and then I'll hand it over to Fred for details. If you look at point one, our EBITDAR this quarter reached \$355 million. It's a 61% year-on-year increase. It's a 25.5% margin. It's the highest ever absolute number EBITDAR and margin percentage for a comparable quarter.

Our PRASK was 5.7 cents, which is a small reduction year-on-year. Our yield was nearly flat year-on-year on an almost 11 percent stage length increase, and our load factor is improving sequentially from the first quarter. You'll recall those of you that joined our first quarter call, that we expected that trend to continue into the year as the capacity we deployed was absorbed.

Our CASK ex-fuel reflected our continuing cost discipline, increasing by only 1.2 cents and remaining below 4 cents, and we generated \$163 million of cash. We reached about \$1.35 billion in liquidity at the end of the year. That's at the end of the quarter. That's 24% of our LTM revenue, and that includes a \$200 million undrawn revolving credit facility.

Importantly, we've crossed the three-times threshold, so our net leverage is now 2.8x, decreasing nearly half a turn from the prior quarter. How are we achieving all this?

Two very important points. One, we've continued to optimize our network. You'll remember that we planned last year and then executed into this year a continuous reduction in capacity in Colombia and redeployment of that capacity internationally. You can see that in the last bullet under two, our capacity in domestic Colombia decreased by over 14 percent year-on-year. That capacity together with the incremental capacity that's come in is reflected in the increased stage length as we've deployed it into international routes. We launched six new international routes, so we've got 172 routes now to 83 destinations, and we've got three more announced for the second half of the year. So that backdrop where we are more aligned with, we are aligning supply and demand better in the markets where we play is giving us more balance and helping drive profitability.

But secondly, the business units. The business units are all performing very, very well. So, LifeMiles generated a cash EBITDA of \$56 million from third parties. That's an over 40% increase year-on-year, and that's driven largely by redemptions in Avianca, which is a very healthy backdrop for us, and by robust growth of our third-party billings.

Cargo revenue was up 15% year-on-year to \$173 million, and we've continued our refueling program there. We've now added our second P2F freighter. That was after the close of the quarter, so we've now got eight A330 freighters, which is making our operation a lot simpler than the fleet complexity we had before. And Wamos, importantly, continues to perform very, very solidly; it contributed \$32 million of EBITDAR to us in Q2.

So, with that, I'll turn it over to Fred to share more details.

## **Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited**

Thank you, Adrian. So, page four of the slides.

In the second quarter, we grew about 14% ASKs. However, our cycles remained flat on a year-to-year basis exactly went up by 0.3%, that growth in capacity was driven by two things one the densification of 787 fleet that we explained in one of the latest calls but also that redeployment of capacity that Adrian was mentioning from the domestic to the international increased our stage lengths by 11% on a year-to-year basis. Now, how does our network look like with this effort of moving this capacity from domestic to international and the effort of optimizing the networks as a whole and please move to page five.

What we've seen is that today we operate our most extensive network in our history with 172 routes, 13% above last year, and 83 destinations. And in particular, in the second quarter, we opened new routes like Bogota to Dallas, or Guatemala to Miami, but also new destinations like Cordoba in Argentina. Also, as you might recall, we also opened new destinations in the first quarter like Tampa and Florida that continued to perform very well. This has allowed us not only to offer new services and new destinations to our customers but to overall improve the service pattern of our network.

For the second half of the year, we already announced that we are opening three new routes with two new destinations so Bogota to Monterrey, Mexico, Bogota to Belém, Brazil and one new route from Guayaquil to Miami. That translates into a very different ASK allocation per region compared to last year where, you know, naturally we've seen domestic Colombia go down from almost 20 percent of our capacity to 15 percent and an increase in capacity in both in Europe and South America.

If we can move to the next one, please. And this translates into the following in terms of revenue. One, as Adrian was saying, we're very disciplined in terms of pricing. So, our yields remain flat on a year-to-year basis. We continue to see an improvement in our load factors in the second quarter. The overall load factor was 78.5%, but for instance, June, we're already above 80%. And we will continue to see that in the third quarter. That said, our PRASK had a drop of 5% on a year-to-year basis. However, if you consider that those 11% of increased stage lengths actually our PRASK remained flat in the second quarter versus second quarter last year.

Another important point to mention on the revenue side, and if you can move to the next slide, is that we opened sales for our new business class routes. We mentioned that in the last call. So, starting September, all our international service are Bogota, Medellin, and El Salvador. We will have available the narrow body business class service within the Americas. As you might recall we start with a pilot last year about exactly a year ago, it was very well received by our customers. We increased a Phase 2 in December and now based on those results were extending for all international routes out of these three stations.

And to talk about our CASK, Nico.

**Nicolas Alvear - Chief Financial Officer, Avianca Group International Limited**

Thank you, Fred. Good morning, everyone. I'm on Page 8 of the presentation. Our CASK-ex for the quarter was 3.9 cents, up 1.2% year-over-year, and up 6.6% when adjusting for this year's higher stage length.

We are proud of our team's ability to contain unit costs in the face of inflationary pressure, higher network costs from operating more capacity in international stations, and our efforts to improve our premium product and our customer value proposition.

Fuel casks for the quarter decreased 19.5% year-over-year, driven by lower fuel prices and more efficient gallon consumption per ASK, which in turn is 5% lower year-over-year. Overall, total unit costs decreased 5.8% year-over-year or 1% when considering higher stage length.

**Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited**

And now talking about our operation in slide 9, so we're very proud to say that our operational performance improved in spite of all the challenges that we face, as you know, at our main airport, Bogota. So, we closed the quarter with an OTP of 84.5% and a scheduled completion of 98.6%. Also, our mishandled baggage remains at a world-class level at 1.6 per 1,000 passengers.

Now, talking about our business units, if we can move to the next slide, as Adrian mentioned, we had a very good performance from our business. Now, with cargo, we saw an increase in revenues of 15.5%. You might remember that we were cautious in the last call about demand, but we've seen very resilient demand in the second quarter for cargo.

And two things that were mentioned. One is we continue in that process of optimizing our refueling. Last year we stopped flying the A300s and 767s and received our first P2F A330 and in July this year, we started operating our second P2F A330. Also worth mentioning is we closed a commercial agreement with Amazon Air Cargo, including a daily operation between Bogota and Miami that would allow us to have more capacity between Bogota and Miami.

And with that, the other business unit that performed very well was LifeMiles.

**Nicolas Alvear - Chief Financial Officer, Avianca Group International Limited**

Yeah. On page 11, you'll note that LifeMiles continued to deliver an outstanding performance this quarter. Third-party gross billings grew 26.9% year-over-year on the back of strong performance of our co-branded credit card portfolio and member direct sales. Cash EBITDA for the quarter reached \$56 million, growing 43.8% versus last year. And importantly, redemptions in Avianca reached 77% of total miles redeemed in the quarter, which is about 13 percentage points higher versus last year. As we've highlighted in the past, these results underscore the high engagement of our members with the program as we continue to build brand loyalty among our passengers.

Moving on to page 12, you can see that we generated \$355 million of EBITDAR in the quarter, up 60.6% versus last year, at a margin of 25.5%, which is 67 bps higher than last year. This translated into EBIT of 133 million at an operating margin of 9.5%. As Adrian mentioned at the beginning of the call, these results are record-setting and we are proud of posting them in our seasonally weakest quarter of the year.

On the right-hand side of the slide, looking at our performance over the last 12 months, you can see we generated an EBITDAR margin of 26% and an operating margin of 13% percent. Looking at cash flow in the following slide, we generated \$163 million in the quarter.

A couple of highlights to consider. First, you can see we generated \$129 million from working capital, mainly because this quarter we built air traffic liability. Sales were higher than flown revenue, heading into high season, and we also saw some sequential lengthening of our booking curve.

We also have had a few timing benefits, some \$15 million in overhaul CapEx that will be incurred in the second half of the year due to higher turnaround times, and another \$20 million in corporate interest expense that was prepaid as part of last quarter's bond refinancing process.

Taking into account our \$200 million undrawn committed revolver, our total equity at the end of the quarter was \$1.35 billion, equivalent to 24% of last 12-month revenues.

Moving on to slide 14, we finished the quarter with net leverage of 2.8x EBITDAR, decreasing sequentially from 3.2x last quarter. Last 12 months, EBITDAR increased sequentially, as we saw in the previous slide, and our net debt decreased primarily because of cash flow generation and lease amortizations that more than offset a slight increase in gross debt, mostly because of PDP financings and the financing of two A330 freighters under long-term leases. We are really proud to continue heading in the right direction in terms of maintaining a healthy balance sheet and overall capital structure.

And with that said, I'll turn it over to Adrian to deliver key takeaways before moving on to Q&A.

## **Adrian Neuhauser - Chief Executive Officer, Abra Group**

Thank you, Nico. Key takeaways, just to highlight what we had said. Robust financial results, our highest-ever second quarter EBITDAR, both on a margin basis and on absolute numbers. Net leverage, we're very proud of, again, 2.8x, dropping from 3.2x. And solid cash generation, taking our liquidity in nearly \$1.4 billion. The network optimization is a key part of this. It's been the critical move in getting capacity into the right place but also getting it out of the wrong places.

As you know, in this industry, everything is correlated. So, when you take out capacity, you drive and align it more with supply, you drive yields, you drive load factors, so RASK gets the double benefit of that, but you also then create steeper pricing curves and that

drives the booking curve increase working capital. So, all of that has been going in the right direction for us.

And finally, the business units all contributing solidly and delivering outstanding results. So, with that, again, very proud of the quarter we're delivering. We'll open it up to you for questions.

## **Operator**

Certainly. At this time, we will be conducting our question-and-answer session. [Operator Instructions]. Your first question for today is from **Mike Linenberg from Deutsche Bank**.

**Q:** Hey, good morning, Adrian, Fred, Nico, Maria. Nice job this quarter. As we think about, exit rate 2025, where you think your leverage will be net debt to EBITDAR, and if you could just give us a sense of what full-year CapEx, what the plans are?

## **Nicolas Alvear - Chief Financial Officer, Avianca Group International Limited**

Yeah, absolutely Mike. Thank you for the question. So, we finished with the quarter at 2.8x, and we've mentioned in the past that our target is to be somewhere below 2.5x. We think this quarter, if we continue performing as we are, we are going to be probably somewhere between 2.6 and 2.7. And with respect to CapEx, remember that, over 80% of our CapEx is engine overhaul, and we are trending at a run rate for the full year of somewhere around \$450 million plus.

**Q:** Okay, that's good. Just a second question, I guess this is probably to Fred or Adrian. Your domestic Colombia, what was your share in the June quarter this year versus a year ago? And what do you think is the optimal domestic market share for Avianca?

## **Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited**

We don't think about there's an optimal market share. I think that we'll look in terms of what is the most profitable network that we can operate. What we saw effectively, if you compare one year versus the other, our market share is slightly dropped in Colombia. We saw effectively that overall, today, we are about 50%, give or take, of the entire system. But it's a very different balance between Bogota and outside Bogota. Because in Bogota, we remain more stable. Outside of Bogota, as you know, there are new players that have increased operation, and there's no slots in Bogota, they basically deploy the capacity outside of Bogota.

But, bottom-line, yes, we saw a drop on a year-to-year basis that was driven by that ex-Bogota operation. But just to remind you, the ex-Bogota operation is about 24% of total capacity. We're focused on optimizing the network base in Bogota.

## **Adrian Neuhauser - Chief Executive Officer, Abra Group**

Yeah. And Mike, a different way to think about it to complement what Fred said is, we have lost no slots in Bogota, so we retain our slots from Bogota. We've increased our share in Medellin, Medellin's behaving like a slot-controlled airport now. So, we're staking



out kind of our strategic position there. And once we have these beachheads, then the way we think about it is, there's not much value to us oversupplying ourselves, right?

So, at that point, we basically regulate capacity to what we think matches market demand, and then over time, we can increase the capacity we deploy. But fighting for market share by overflying ourselves when we've protected the strategic slot positions just doesn't seem like an accretive thing to do.

**Q:** Yeah. No, agreed 100%. And if I could just squeeze in one more. I know in the past calls, Fred, you've given us a nice overview of sort of strengths and weaknesses, and I'm particularly focused in some of the routes, where we're seeing some weakness into the U.S., and I think some of it in response to some of the changes in the administration's immigration policies. And so, we've heard about weakness, say, from Mexico to the U.S., but also Central America to the U.S. And the fact that, when I look at some of the new route announcements, you're sort of leaning into your Central American franchise, this release you have Managua to Fort Lauderdale, or San Salvador to Chicago, and Guatemala to Miami.

And I'm curious if you're seeing some softness there in some of those new markets. I realize they're just the minority of some of the things that you're doing. So, if you could give us kind of a view on what you're seeing regionally and whether or not your flows are being impacted by some of the changes that are going on in the U.S.? Thanks for taking my questions.

**Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited**

Sure. Listen, it didn't change a lot from the last time we spoke. I believe we have some markets that continue to behave very well on a year-to-year basis, overall, and I'm going to talk about point of sale. So South America, performing very well, Europe, as a whole domestic Colombia, and North America's point of sale as well, they've been very resilient. There are two markets now talking about the flight regions that we've seen have dropped. One is Mexico, and the other one, and again, when I say it's a relative drop, it continues to be a profitable market for us, was Central America to North America when you compare on a year-to-year basis.

My answer to your question is that basically we've been optimizing our capacity within Central America, for instance, you will see that we've announced a couple of cancellations recently that we're using to deploy in routes that we continue to see with demand. An example is we're canceling Managua-Fort Lauderdale, but we are increasing one frequency between El Salvador and JFK. So, in Central America, we see it more as optimizing the capacity we have there, but overall continues to be, maybe it's not the party that was last year, but we continue to see a profitable performance.

**Adrian Neuhauser - Chief Executive Officer, Abra Group**

And Mike, again, what we need in terms of revenue to make a flight work is different from our competitors, right, I mean, at our CASK, because it's worth pointing out, right? We've managed to keep CASK pretty flat now for over 3 years running, right? And so, as other

people have sort of inflated away from us, that just continues to give us a bigger and bigger advantage. So, we don't need, I mean, just look at the quarter we delivered with a sub-80% load factor, right, across the network. We don't need load factors that are that high or yields that are that high to make those markets work for us.

**Q:** Very good. Thanks everyone.

**Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited**

The only thing that changed since the last time we spoke in terms of that performance from sales is that as Nico mentioned, we saw an increase in advanced purchase. So, people, last year we mentioned it a couple of times that our AP was shrinking. And since over the last 2.5 months, we saw a very marked trend where our AP started to grow, and not just on the typical long haul where you see longer APs, but also in markets like domestic Colombia. That was something that we saw as the market changed since the last time we spoke.

**Q:** But Fred, since you brought that up, could I just ask how, like, what percent of your fourth quarter, your December quarter, would be booked at this point in time, given the lengthening of the booking curve?

**Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited**

For the fourth quarter, it's still very low. I'll give you another data point. For September, for instance, now we have about a third of our bookings, okay, for September. It continues to go down. However, if you compare that AP on a year-to-year basis, it's significantly increased.

**Q:** Okay, super helpful. Thank you.

**Operator**

Your next question is coming from Chris Reddy with BNP Paribas.

**Q:** Good morning, everybody. Thanks for your time. Congratulations. Really great quarter. I want to ask you about the network optimization out of Colombia into the international markets. This has been going on for about a year. Could you explain to us how much longer this duration will be for this optimization? And then can you also talk about the maturation of these new routes, if it's getting quicker for them to become profitable, and then anything around that might be of use to us?

**Adrian Neuhauser - Chief Executive Officer, Abra Group**

Let me address the first one and I'll let, Fred, to address the second one. Look, I think most of the reshuffling out of Colombia and into the international market is done. I'll remind people and the math is weird, right? But if you go back and that's why Fred had a slide saying we haven't increased departures, right, in order to take capacity out of Colombia we needed more planes, because each plane that's flying out of Colombia needs to fly more kilometers, right? So, most of the redeployment required the aircraft that have delivered over the last 2 quarters, and so to a large extent that's done.



You'll see little adjustments here and there, we've partnered with a local carrier that flies ATRs to fly some capacity, but for the most part it's done. What you're seeing now is really, because the ASK growth itself has been large, now the network is at lower load factors than we'd like it to be, and you're going to see that capacity absorbed. I was asked in the last call how long we thought it would take, and we said 12 to 18 months, we continue to think that that's the case, right? The trend in this quarter might lead you to the shorter end of that, but there's enough volatility in the world that I'm not sure we can commit to that, right? But that's sort of what you should expect, right?

Fred, on the new route...

**Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited**

Yeah. On the ramp up with all the disclaimers, the usual disclaimers about certainty. Following up on Adrian's, we cross our 80% load factor in June. The third quarter, we expect something around 81% to 82%, right? And then, those routes I think changed a lot between how fast in terms of the profile of the route. Their routes were longer stage lengths normally takes more to for that ramp up.

But on the other hand, we have some exceptions. I'll give you another one, which is we open Cordoba, and Cordoba behaved very well, and quickly, or Tampa. We've seen others going back to one that we opened last year, which was Paris, that took longer to fill up. But overall, I would say that they are behaving as we were expecting, right? And we should continue to see that positive trend on a quarter-by-quarter basis that you guys are seeing.

**Q:** Great. Thank you very much. I appreciate your help.

**Operator**

Your next question for today is from Bob Terra at Terra Capital Partners.

**Q:** Hey, guys. Congrats on the quarter. Yeah, I was just curious, particularly on sort of some of the other people alluded to it, but sort of some of the capacity growth and kind of yield trade-off. It seems like this quarter you kind of saw nice sort of stabilization. It's sort of growing capacity 13%, kind of low mid-teens, but like you noted, I yield that up on a stage length adjusted basis and you're seeing a nice increase in average fares. I guess I'm just curious kind of how that sort of translates into going forward capacity growth plans. You're seeing some of your competitor's highlight weakness as you grow on their routes, causing kind of their yields to decrease. And right now, though, given sort of your margins and your EBITDAR growth, it seems like it still is the right trade-off.

But at what point do you, I guess, how do you conceptually strategically how are you thinking about sort of, when you grow capacity on those international and domestic routes competing with your peers, low-cost peers, that trade-off over time, how do you see that continue to evolve? Thank you.

**Adrian Neuhauser - Chief Executive Officer, Abra Group**

Sure. Now, look, I mean strategically the way we think about it is just to be blunt, right? We grew more than we would have liked to over the last couple of months, right? We needed to remember that the whole movie starts with increasing in declared capacity in Colombia, us taking our fair share of slots to be defensive, us using the aircraft we had to fill those slots, which meant we brought them into the domestic market so they could turn many times, and then us taking additional aircraft and to redeploy that capacity into longer stage lengths. So, all of that movie ultimately means, we grew faster than we'd like to.

What we hope is that the fact that we're being disciplined about filling that capacity and pricing it correctly instead of chasing our own tail to fill the seats when we don't need to sort of turns into more rationality in the market broadly, right? So, the way we think about it is, we want to fly the network at mid-80s load factors, it's not there. We want to fill those extra seats, we want that to be upside and be incremental revenue, not to be dilutive to the current fares. And that capacity is already there, our competitors can see it, it would be irrational for them to overfly it. So, it's a nice position for us to stake out and as demand grows over the next, we said, now I guess doing the math correctly, 9 to 15 months, we should see that capacity get absorbed and the seats fill up.

Our cost advantage allows us to not be desperate about filling it up, right? And that's why, again, we put ourselves in this position that we think is great, time will prove us right or wrong, but we put ourselves in this position where we think we're the ones sort of setting the rhythm on capacity and then as long as we're rational on fares, other people should be incentive to follow, they don't have a cost advantage vis-à-vis us. So, what all of that comes together with is you should expect us to ramp down the pace of growth a little bit and allow us to fill itself up before you see a sort of spring forward. Does that help?

**Q:** Yeah. Thank you so much.

**Operator**

We have reached the end of the question-and-answer session, and I will now turn the call over to Adrian for closing remarks.

**Adrian Neuhauser - Chief Executive Officer, Abra Group**

Thank you, operator. Thank you. Thank all of you for joining the call. Thank you all, again, for the support that you've given us as you've followed our story over the last few years. This is another quarter where I think we're delivering on the plan that we set forth. We're executing on a story that really excites us, which is expanding margins and reducing leverage, and we hope to continue delivering and earning your confidence. So, thanks, again, and we'll talk to you in another 3 months.

**Operator**

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

**About Avianca:**

Avianca, part of Abra Group, encompasses Avianca — a Star Alliance member — LifeMiles, Avianca Cargo, and Wamos Air. In passenger transportation, Avianca, with over 105 years of operation since its founding in 1919, is the leading airline in Colombia, Ecuador, and Central America. It operates one of the largest air networks in Latin America, offering 172 routes, more than 700 daily flights, and a fleet of 162 Airbus A320 and Boeing 787 Dreamliner aircraft, connecting over 81 destinations across 28 countries in the Americas and Europe. In 2024, Avianca transported nearly 38 million customers and operated more than 258,000 flights. Its loyalty program, LifeMiles, is one of the largest in Latin America, with over 14 million members and more than 350 partner merchants. In cargo transportation, Avianca Cargo is the leading operator in various markets across the Americas, connecting over 60 destinations through its 190 weekly cargo flights, passenger flight network, and interline agreements. Additionally, Wamos Air, a world leader in air charter and wet lease services based in Spain, strengthens the Group's global reach by providing flexible, high-quality aviation solutions. For more information, visit [www.avianca.com](http://www.avianca.com)