Transcript of Avianca Group International Limited Second Quarter 2024 Performance Call

August 9, 2024

Operator

Good morning, everyone and welcome to Avianca Group's Q2 2024 Performance Call. At this time, all participants are in a listen-only mode, and we will be opening for questions following the presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to your host, Maria Ricardo, Investor Relations. The floor is yours.

Maria Ricardo - Head, Investor Relations, Avianca Group International Limited

Thank you, operator. Good morning, everyone, and thank you for joining us today. With me today are Adrian Neuhauser, Chief Executive Officer of Abra Group; Frederico Pedreira, Avianca's Chief Executive Officer; Rohit Philip, Avianca's Chief Financial Officer; Gabriel Oliva, Avianca's Chief Operating Officer and Avianca Cargo CEO; and Matt Vincett, LifeMiles' CEO.

Financial statements for the period ended June 30, 2024, and the presentation that we will show you today are available at our investor 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 actual results to differ materially from those projected or suggested.

Today, the call will start with an overview of the state of the business, and then we'll continue with the second quarter 2024 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 Limited

Thank you, Maria Cristina, and thank you everyone for joining us today. We'll start the presentation on Slide 2, please, operator. Today, we'd like to show you what we've done in a quarter that has been particularly challenging, and we'll talk about that in a second.

On cost management, which is we've mentioned to you historically, is key to our business and we believe is ultimately our core differentiator, long-term strategic advantage and enables us to be less cyclical. We've continued to manage CASK to what we believe is an industry leading CASK in our region in spite of inflationary pressures, as you're all aware, and in spite of the continued strength of the Colombian peso, which also creates some additional challenges there that we've worked through, and that Rohit will speak to in a few minutes.

However, as you're all aware, we made a strategic decision in the fourth quarter of last year to grow the company pretty dramatically. We did that for two reasons. One was to replace capacity that had left the market with two airlines that had left, and the reallocation of the slots in domestic Colombia after that crisis. But the second was a decision by the authorities to increase the number of operations per hour that were being assigned in our core airport in Bogota, and our decision to take our proportional market share there and ensure that we protect those slots as a strategic asset for the years to come.

With those two things and with our competitors doing basically the same, just to give you a sense of what we're talking about, second quarter capacity ‘24 versus second quarter capacity ‘23, is up nearly 30%. And with that, we've obviously seen some excess supply challenges that have led to yield pressures. Our capacity year-on-year is up 16% through our network. But as I said, when you're looking just the domestic Colombia, the figure is actually 26%.

So, with that, again, we'll talk about it in a second. EBITDAR was an 18.8% margin, so that compares obviously negatively to last year. It is still a very high margin for us historically and in particularly our seasonally weakest quarter. So, continuing to drive the business forward, continuing to hold margins up high versus historical levels, but obviously a challenging quarter.

The CASK ex-fuel, again, we've managed to continue to bring down. It's at 3.9 cents, our cash balance holding strong at $928 million, and our debt continuing to hold at around 3.3 times, notwithstanding the pretty significant increase in our fleet that was necessary to drive the capacity growth that we mentioned.

In addition to that, we are starting to drive yields up by reentering markets where we believe we had left room, in particular premium revenue. So, after the strong performance that we've seen in our European Business Class, we've started extending Business Class services to our Widebody operation in the Americas and based on the success of that, we've recently reintroduced Business Class on select routes in Narrowbodies.

Turning to the next page, Slide 3, LifeMiles continued to add value to us. Cash EBITDA contribution was up 38% versus the same quarter last year to $39 million. And our gross billings grew by nearly 21% to reach nearly $60 million at June 30. And Cargo revenues continued to be ahead of business plan, $150 million during the quarter. It's a decrease due to yields and also to some capacity that the trend as we continued to work through the re-fleeting of our Mexican subsidiary.

We continued to lead the flower market from Bogota and Medellin during Mother's Day season. And we are seeing relative yields versus our competitors pick up pretty significantly as we continue to premiumize the service we provide there.

So key takeaways that, again I want to highlight. Continued cost containment, continued CASK dropping in spite of inflationary pressures, and in spite of a strong Colombian peso, we believe that's structural and it's a key differentiator. We are working through what we think is excess capacity in the market. We see that being absorbed over the rest of the year. To give you some sense of what this is relative to peak Colombia, the capacity this year will be up 6% versus 2022, which was the highest year on record for capacity in domestic Colombia and we see growth stabilizing into 2025.

So, with that, I'll hand it over to Fred who will take over on Page 4.

<u>Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited</u>
Thank you very much, Adrian. I will just start by mentioning a couple of highlights from the quarter for second quarter. We started operating 7 routes both domestic Colombia and international. We opened sales for a new European destination. It was Salvador, they started operating early July. And we also increased our frequencies in some of our key markets, one is worth mentioning is the Bogota-Madrid market where we went from three to four frequencies, historically a core market for Avianca with a very good performance.
We finished the quarter with 152 routes in 75 destinations.

Also worth mentioning in the second quarter we started the process of renewing our cargo fleet. We received our first P2F A330 and we are expecting two more by 2025. This is a key milestone for our cargo operation as will allow us a more reliable operation with reduced costs compared to the fleet that we're operating today.

As also Adrian mentioned, we reintroduced our business class service in the Narrowbody. We started with eleven markets out of Bogota and this due to the very good results we had in the Widebody's Americas business class. We are optimistic, so we already looking for new opportunities within the Americas to extend our Business Class service.

Going forward to Page 5 and just quickly mention our operational performance. Second quarter is a quarter where we normally face significant weather events in Colombia. So, we close – despite of that, we've closed up the quarter with 82.5% on-time performance, our scheduled completion of 98.1% and we continue with a world-class performance in terms of mishandled baggage. This is like what we call the core of our service which gets our passengers safe, in time, and with their luggage to their destination.

Going to Page 6 and talking a little bit about revenue metrics, and as Adrian mentioned, the second quarter was a pretty challenging quarter for us. We saw our PRASK went down by 7.4% compared to last year. That in part driven by the fact that we've seen seasonality return to our business. Last year we didn't have a low season in the second quarter, we saw it this year plus the capacity topic that Adrian mentioned. In terms of yields, yields went down 6.8%. Our load factor ended at 81% with a 16% growth in ASK.

Rohit, do you want to take it from here, from the cost?

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Yes. Thank you. Thank you, Fred, and good morning, everyone. On Slide 7, start on the cost side. As Adrian mentioned, we're proud of the cost management. We've been able to demonstrate here, and we had a CASK ex-fuel of 3.9 cents in line with 2Q '23 in spite of the impact of both foreign exchange and also a lower stage length.

So just some context here, when we gave guidance for CASK at the beginning of the year, we guided to 3.8 cents to 4.0 cents, which means a midpoint of 3.9 cents with a sensitivity on the foreign exchange rate which we mentioned. So, if you use the sensitivity, the implied guidance would have been 4.02. So, 3.9 is well inside that.

And we've done that with several hundred cost initiatives across the company that we continued to sort of vantage. As you all know, the big structural changes to the business model we've already implemented. So continued cost management is really about lots of small initiatives and creating a cost culture across the company and so that's what's driving the cost performance.

So total passenger CASK was 5.9 cents, again in line with last year, in spite of a slightly higher fuel cost year-over-year.

If you go to Slide 8, on Cargo, Cargo revenues year-over-year were moderated, about 6.7% lower than last year. This is in line with what we have always sort of signaled and contemplated previously and as evidenced even in the original emergence business plan, we had an expectation that cargo revenues would moderate and certainly, we've seen that. Having said that, we are seeing them sort of revenues now stabilize sort of at the pre-pandemic levels, but nonetheless, it was slightly lower year-over-year.

Moving to Slide 9 and LifeMiles, you can see a strong year-over-year performance with LifeMiles. We grew third-party gross billings, which is the middle chart on the page, by 21% with $59 million in third-party gross billings, which also got us back to pre-pandemic levels. The cash EBITDA also again returned to pre-pandemic levels with a significant year-over-year growth as well. So very good trends in LifeMiles' performance.

If you go to Slide 10 and look at consolidated EBITDAR, as Adrian mentioned, we were $221 million in EBITDAR for the quarter at 18.8% margin, which is lower than last year's EBITDAR in the same quarter of $271 million, really explained by the points that Adrian and Fred talked about, which is the seasonality and the impact of pricing based on the extra supplies, particularly in domestic Colombia, obviously offset by cost management, that has still allowed us to generate almost 19% margins in the quarter.

If you go to Slide 11 and cash flows, a cash balance of $928 million in the quarter, we ended the quarter with $928 million. The cash flow chart shows sort of the cash flow after the $221 million in EBITDAR, it's really the corporate debt, aircraft leases and Capex. If you combine that, that's going to be in line with the guidance I've given for the whole year. So that's sort of in the run rate between the $1 billion to $1.1 billion that we're given for the year. If you look at the three charts, the three numbers combined.

And also, just a reminder that, on the corporate debt side, this is the quarter we make semiannual debt payments on our bonds, which is $76 million each time and so the $110 million of corporate debt includes, obviously, the semiannual payment of $76 million this quarter.

So, if I move from Slide 11 to Slide 12 and looking at debt, you can see net debt at the end of the quarter was $3.9 billion, a year-over-year increase based on sort of the additional aircraft that we've added to the fleet to facilitate the growth, but we've managed to hold leverage virtually flat in this time period at 3.3 times.

And with that, I think that brings us to the end of the presentation. I'll hand it back over to our operator, Jenny, to start the Q&A.

<u>Operator</u>
Thank you very much. We will now be opening the floor for questions. [Operator Instructions] Thank you. Your first question is coming from Mike Linenberg of Deutsche Bank. Mike, your line is live.

Q: Oh, yeah. Hey, good morning, everybody. I guess, I'm just going to focus in on the capacity, initially the 30% year-over-year, what is that as we look out over the next couple quarters, do you guys have a sense of the competitive capacity looks like in domestic Colombia? Do we see it moderate? Where are we at on that?

<u>Adrian Neuhauser - Chief Executive Officer, Abra Group Limited</u>
Thanks, Mike. Thanks for joining. That's a really good question. Look, I think the basic answer is yes, it does moderate, right. One of the reasons that we decided to take the scale jump we did, right, to remind you, our network went from 600 flights a day to 750 flights a day in December right. And the reason we decided to do that was because we believe that it's a unique opportunity to capture market in Colombia.

Ultimately, Bogota airport is, we believe, above capacity, right. They declare basically programs every day to pull back capacity from the capacity they've allocated. It's very hard to imagine them allocating more capacity. Maybe it's not slot-controlled, but there isn't much room left there. And so, we saw it as critical to our business to retain capacity, so did everyone else. So again, the industry grew 28% second quarter where we grew 26%. This is a broad industry issue.

When you see it coming into the fourth quarter, you're looking at about 18% growth, and then when you're looking at the first quarter of next year, you're looking at single-digit growth. And at that point, most of it is driven by densification, correct.

Some low-cost players continue to add, you know, flights kind of around the margin in Cali and other markets. But that's not going to create really relevant pricing pressure like what we're seeing now really around a pretty significant growth in Bogota.

Q: Okay. Adrian, do you think that any of your competitors are actually making money in the domestic market right now? I mean, it would think that.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited

No, I mean, look, we're convinced that we are, the most or one of the most cost competitive, and versus the ULCC that we're competing against, obviously, pricing is pretty dramatically in our favor, and versus Latam, we think costs are pretty dramatically in our favor as well. So, no, we don't think anyone's making money in the market. But it is the nature of this step change in capacity. And one thing that I probably didn't spend enough time on, but it's worth mentioning is it's the step-changing capacity into what is seasonally the weakest quarter in Colombia.

Q: Yeah.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
So, combination of the two, given growth rate.

Q: Okay. Great. And then just for a follow up-here. Since I do have Adrian, since I do have you, and from maybe this is almost more of an Abra type, from the perspective of Abra, but seeing the commitment for the A350-900s, it looked like it read that those airplanes could either go to Avianca or Gol, which is very interesting, because Gol doesn't fly widebodies, but Brazil has lots of widebody opportunities in my view.

As well as this Wamos' acquisition, which to me that is a very low form, it's a low-cost form of lift, incremental lift, which could also help you extend the network. So just two sort of strategic questions, if you could just touch on both and how you're thinking about it? And thanks for taking my questions.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
No, no, thank you. And those are great questions. Look, Wamos is interesting to us largely because of what you said, right, it's a low-cost, pretty hedged form of adding lift. It's the lift we can move through our networks as ACMI. It also gives us a base in Europe, right? So, we can, with the Wamos acquisition, we have the ability to fly aircraft out of Europe and to rotate them through Europe eventually. That was the nature.

In fact, of the conversation of using Wamos is a remedy taker in the Iberia-Air Europa transaction that ultimately didn't pan out. But it's something we're still looking at, obviously in a smaller scale than it would have been as a remedy taker.

So, it gives us, what we think is kind of zero cost lift in the sense that Wamos is profitable. It's been profitable, I think, 19 out of its 21 years. And the two weren't profitable is during the pandemic. It's got a great ACMI business that it runs very well. The planes are deployed there when we find opportunities to deploy them at greater margins into our network, we can do that. And it, kind of you said, it gives us this incremental lift. And I think the other piece is what I mentioned, it gives us a Europe base.

The 350s were the result, even though it looked quick, they were the result of about a year and a half of analysis of a couple of things. One, whether we thought or not that there were opportunities for more widebody flying in our network, both at Avianca and Abra, and the answer is, yes. And then what the right fleet type is for that.

And so, what we're looking at with the 350s and this is true of both Brazil, but also Colombia, in certain specific routes, is that we have feed into some very, very thick routes between Latin America and Europe, right. In Colombia, there's obviously the connectivity between largely Bogota, but also Medellin and Cali right to Madrid. And in Brazil, you have all of the – you have the ability to consolidate all of the Gol feed into the obvious core routes there, into Portugal and into Spain, where there is a lot of – those are very thick routes.

And so, when you look at gauge and you think about gauge plays in your favor as long as you can fill the seats, ultimately the decision that we took was that that plane brings a huge CASK advantage to thick routes. And because we have thick routes where we can play, not oversupplying seats, we can play with frequency to basically keep the seat supply constant or even bring it down while up gauging, we decided that was the right play.

Where those planes eventually go in the network? Depends on a couple of things. They won't be delivered for a few years, and so it'll depend on supply and demand dynamics. It'll also depend on conversations with pilot groups to see how we ensure that those planes are deployed in a way that doesn't erode our current cost advantage.

Q: Great, great. Very good. Thank you.

<u>Operator</u>
Thank you very much. Your next question is coming from Neil Glynn of AIR Control Tower. Neil, your line is live.

Q: Good morning, everybody. If I could ask two questions, please. The first one on the premium strategy, I wonder, if you could touch on the evolution of distribution of tickets relationships with TMCs and GDS. I'm conscious, given the business model pivot, maybe there's some remedial work to do, or are you optimally set up at this point in time to push premium and corporate revenue?

And then the second question, and maybe this is linked, I guess speed bumps due to oversupply obviously happen regularly, too regularly in the industry. And you were very clear at the first quarter that seasonality would be restored to some semblance of normalcy at this point. But when I look at it, despite a good EBITDAR margin in a historical context, your EBT performance in the second quarter was weak versus pre-pandemic, which illustrates maybe a higher bar because of higher aircraft financing costs.

I wonder if you follow that logic as you reflect on your earnings power with your new business model, does it give you any pause for thought? I'm conscious that a lot of low-cost carriers around the world are suffering converting EBITDA margins to EBT because of what they're paying for airplanes. Thank you.

<u>Adrian Neuhauser - Chief Executive Officer, Abra Group Limited</u>
Sure. Let me take a stab at that and then Rohit and Fred can compliment. Thanks, Neil, for joining. On the first one, I think much has been said by different players about what our pivot has been. Our pivot has not been, from a distribution standpoint, as dramatic as you might think. We're distributing 50% of our sales through our website, and we're obviously proud of that.

The rest of distribution through traditional channels, although we've reduced the cost of those pretty significantly, both by changing the way we incent travel agencies, but also by reducing reliance on GDSs and moving to NDC and things like that. So, we've retained pretty significant relationships with travel agencies.

And in fact, what I would tell you is the decision to push premium revenue has largely been a discussion driven by them and partnership with them, because one of the things that unfortunately, we were unable to achieve in our, what's now proven to be a pretty long testing period is a sell-through of what we had as a premium product, right, which is effectively a big seat in many flights and things like that. Right.

What we realized is that because we do have corporate customers, because we do rely on traditional distribution for half our sales, etc. It was very difficult to get the revenue you wanted out of the seats, because you were making the customer go through rigmarole. You were asking the customer to basically call their travel agency, buy the ticket on the travel agency, and then either call our call center, go to our website, pay for the upsell, and then try to get their corporate travel to reimburse them the upsell, etc. So, it was a very customer unfriendly way of doing it.

So, by re-bundling it and putting it back into the GDS as a class, we saw a very, very dramatic and very quick pick-up in the sales. So, what I'd tell you is it's the other way around. Now, to be fair, and not oversell that, when we came into Avianca in 2019, one of the things that we diagnosed is that Avianca had a much smaller share than you would think in the corporate market, in particular outside Colombia, right.

So, for us, this is a great opportunity that we'd left on the table. It's one that we're grabbing and we're recovering it quickly, but it's not today a business of a scale similar to our competitors. And that's not because of kind of what you allude to in terms of relation – distribution relationships, etc. Those are actually, frankly better than they ever been. But it's more, how we position the brand, how we work through that over time.

So, it is a great shift for us, but it's not a wholesale turn and it'll create incremental opportunities for the next few years, and you'll see it happen, but it doesn't sort of change the fundamentals. And the fundamentals we continue to believe, and I think that's a little different from what, from what you've seen in other markets, right.

We did, one of the reasons we did not go, the narrative we give people, and there's no great term for this, right. And everybody hates the term hybrid because it means too many different things and we don't use that. But the narrative we give is, look, we are an extremely cost-focused carrier, but we keep a lot of tools in our tool chest whether it be long haul flying, which has performed really well for us, whether it be business class, which on the long haul had performed very well for us.

And so, we're bringing it back everywhere else, whether it be frequent flyer, whether it be cargo. We have not driven to simplicity over having multiple tools, because we've always believed, and we've said this on other calls, that being a one-trick pony is a dangerous thing. So, I don't think we've painted ourselves into the corner that people have in other places because again, we have many, many tools to react.

If you were to look at performance kind of across our network, what you would see is basically the entire network is performing really, really well, other than domestic Colombia, which is not performing well at all, and which is where we see this massive capacity problem that is, we think hard to overcome until the market absorbs it.

There's an obvious question that comes out of that, and I'm just going to posit it and answer it, which is, okay, well, if you know that the market's oversupplied, why don't you pull back capacity? And the answer is because we believe, if we do, the capacity doesn't leave, we pull it back and someone else puts it in.

Because again, it's a market that's basically full. It's a market where there's very few slots left and there's kind of clear visibility to demand converging to this excess supply over the next 12, 18, 20 months, whatever you want. And at that point, this stabilizing and being a long-term asset. And so, we weren't the only ones that grabbed our fair share. Everyone else, I think, did too. And I think it's a shared view, but we have to wait for demand to grow into supply there before there's much that we can do.

Now, as to the speed bumps, what I would tell you is we think we have our fleet at, sorry, the gap between EBITDA and EBT. We believe we have our fleet at extremely competitive costs, and that's not just because of the renegotiations we did during our Chapter-11, but it also has to do with – it will have to do as the orders start delivering with our order book that we think is very attractive.

What I would tell you is I think the gap there is driven more by interest, and that's obviously something that I think plays negatively against us versus our peers and that we'll work towards fixing in the next few months, which is we are more levered. And by being more levered, there's more drag from interest, and our cost of capital is higher too.

So, it's not just proportional drag, but it's ultimately escalated drag from interest. So, I think that's what's really driving the gap more than ownership costs and we're aware of that and we have a plan for that.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Yes. And just to add, I mean, I think we've always talked about the fact that we see sort of the ideal while we've de-levered the company significantly. We started obviously significantly through the restructuring, but even at emergence, we were 4.9 times levered, we've de-levered to 3.3 times now. But we definitely see sort of a target leverage more like in the low 2s. And when you get to that level, that sort of lets you drop a lot more EBITDA to the bottom line.

And we think that that happens. I think obviously the last couple of quarters were stressed with the increased growth. There's also a couple of minor things in there that affect, like we've got the three 787s that we added to the fleet that are not yet generating revenue, but we have the debt, and some payments related to those aircraft. So, there's some temporary sort of things that will reverse itself. But I think the bigger structural thing is to get to closer to low 2s in leverage, which would then get us to be able to structurally have more EBITDAR drop to the bottom line.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
And on the first question, I would just add that on the premium products that, as I mentioned before, we're seeing pretty good performance. And part of that is – an important part of that is driven by our traditional distribution and by our partners. So, clearly, it's a product that has seen a good reception from our partners, in particular travel agencies, and they're being fundamental in the deployment of this new product.

Q: Thank you all for such color.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
Thanks, Neil.

Operator
Thank you very much. Your next question is coming from Chris Reddy of BNP Paribas. Chris, your line is live.

Q: Great. Thank you. Good morning, everybody. Thanks for taking the time. I just had a couple of quick calls. Was the minor amount of soft we saw, is it just solely attributed to the Colombian market?

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
It is, Chris. Thanks for asking. It is. Again, the rest of our network is performing, frankly, on a net basis, I think better than we had expected. So, we're not seeing, we're not seeing this. We are seeing seasonality, which we had expected to see. But again, that was projected, and that we're seeing kind of a normal seasonal pattern that we see in different parts of our network. But what I would tell you is, net of that effect, we're seeing the network perform very, very, very positively versus what we would expect. And again, that was expected.

Where we're seeing a problem is Colombia. And again, it's a problem that to some extent we jumped into, and we did not think it would be – we did not think it would be without consequences, but it is a pretty dramatic softening in that market.

Now, what I will tell you is, again, passenger numbers, the height of the market was 2022, passenger numbers are up versus 2022. So, in spite of a slow Colombian economy, passenger numbers are growing. What you have is supply growth exceeding demand growth and we need demand to catch up.

Q: Right, and I mean, it sounds as though at least my understanding is that organically that the demand will grow into the capacity that's there, obviously capacity can change. But is there a reason the authorities expanded this? Did they have any sort of goal in mind?

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
So, it's a great question. So, two things. One, capacity can't change that much anymore. Certainly not in Bogota. So, Bogota is the airport with the most Ground Delay Programs in the world. It's basically every day. And so, the authorities have allocated more slots than air traffic is actually able to manage. Why they did it? Well, because there was political pressure to increase the number of operations, the number of operators, what have you. But there was no investment behind that.

There was no – and we were actually part of study that I added to it on trying to figure out what the structural capacity is at the airport today and then what a path is to increasing it. And the conclusions of that study, which we shared with the government were that structural capacity is pretty much around where it was before they stepped it up, so somewhere between 66 and 68 operations, they stepped it to 74 per hour.

So, we believe the airport and again, reality is proving that we're right that the airport's over allocated. Is there a path to more operations? There is, and we would be cooperative in that, but it requires investment in technology and air traffic control, in aprons, in gates, etc, in the way the airspace is utilized.

So, we don't see any significant capacity growth in the horizon after this. What we do see is demand being reasonably stable and growing. One of the really interesting things about the Colombian market is how resilient demand is. And it has to do with the geography of the country and then we always point this out. The country has bad rail infrastructure – no rail infrastructure, bad road infrastructure, no river infrastructure.

And so, communication between – and it is a country that is uniquely for Latin America, sort of distributed with three large cities, dozens of medium cities and hundreds of small cities. So, it does require connectivity, and the connectivity is by air. And so, the demand for air travel has limited substitution. And so, you see kind of pretty sustained growth there even through economic cycles.

So again, we expect to see demand converge. We expect to see very limited incremental supply in the core markets. People can connect smaller markets where there's still openings in the space, but really, there isn't that much you can do in peak hours in Bogota and Medellin anymore, so.

Q: Oh, great. Thanks. And then just two other quick questions. One, I guess Page 11 on the Capex, you say you're going to get $42 million on the $75 million you spent cash. Is that just, what is that from?

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Yeah. So that's just what we had historically – that's essentially lessor contributions. So, where we had a bunch of things where we had Capex being spent and we would get reimbursed by the lessor as part of the deal with the aircraft. And so that's just what it is. So, we spend the money and then get the Capex reimbursement back with our partner.

Q: Okay, great. So, net-net cash would effectively, assuming there was this timing discrepancy, you would have had a bit of a cash build instead of a slight drain.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
That's correct.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
That's right.

Q: Okay.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
And Chris, those deals are pretty common, right, because the lessor looks at the plane as their capital, they'll put the money up, but they want to know that the value has already gone into the aircraft before they put the money up.

Q: And I appreciate that, we don't normally get this level of transparency, so it's good to see. And then the last question, you mentioned that you want to have your leverage reduce. What are sort of the ideas that you're thinking about to do that?

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
So, Chris, I think the, obviously, the first and foremost is using free cash flow to continue to de-lever. Obviously, the last couple of quarters have been challenging to be able to do that, but we expect that like we have done in the last two years, we should be able to continue that trajectory going forward. So that would obviously be whatever free cash flow we build to use and EBITDAR growth would automatically help us de-lever.

The second part is, I mean, we do think over time, one of the things we've always been focused on is in an equity transaction, in the event we did an IPO, the use of proceeds we've always thought to be used to pay down debt. So that would give you that extra set of turbocharge, if you will, on the trajectory to de-lever. So those are kind of at a high level the tools we think can get us to the target levels.

Q: Okay, great. Thank you so much for your time. Really appreciate it.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Thanks, Chris.

Operator
Thank you very much. Your next question is coming from Ian Snyder of J.P. Morgan. Ian, your line is live.

Q: Good morning, Avianca team. Thanks for taking my question. Apologies, if this was already mentioned, I got this connected briefly. But were one of your competitor's calls yesterday, and large topic was liability management. Do you have any plans to do liability management across the capital structure this year or even buybacks of bonds in the open market? And that's it for me.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Hi, Ian, it's Rohit. At this point, we're not actively looking at liability management. I think once, I think, as I've always signaled, once the cash builds significantly beyond $1 billion, we'd look to deploy that cash to pay down debt. But at the current levels, we're not actively looking at liability management, but it's something that we would look at as the cash balance builds.

Q: Great. Thanks a lot. That's it for me.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Thanks, Ian.

Operator
Thank you very much. Your next question is coming from Michael Kaufman of Redwood Capital. Michael, your line is live.

Q: Thank you. Hey, Adrian, hey, Rohit, thank you. Thank you for the call today. I've got few questions. The first is, do you have a sense as to how long it'll take for demand to catch up in the Colombian domestic market?

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
I wish I had a crystal ball, Mike, it's a great question. I mean, look, what we're seeing is relative growth tempering, right. Just because of the year-on-year jump happened in December of last year, so by the time you get to the end of this year and into next year, growth in supply slows down pretty significantly. So, I don't want to speculate. It's not a one-quarter thing, but it's also not a five-year thing, you can drive a truck through that, through those bookends. But what I'll tell you is, again, it's starting to happen. It's just, it'll take as long as it takes.

Q: And in terms of the other, well to clarify, the capacity pressure, it's the domestic Colombian market. If you look at Colombia to intra-South America and into Europe and North America, are you seeing a capacity pressure there? And if you can make any other comments on, I think it performs very strong also.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
No, it's a great question. Again, we've grown pretty dramatically throughout the network. And again, I want to say it's like 15% and one second, we've got the stats here, for the full network.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
For the year?

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
Yeah.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
For year today. So, our forecast for the year, the last time we mentioned about for the year about 21%, it's going to be lower than that. So I would say today that we expect the growth around 18% to 19%.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
Yeah. So, the entire network, if domestic Colombia is growing, 25%, 26%, the entire network is growing mid to high teens, but everything else is performing. And in fact, in some places, this is interesting because it goes back to the question that Neil asked about do we lack tools, because we've moved into lower cost. We think we have all the tools that we had previously, we just have a lower cost structure and we're seeing places where we had some pretty significant competitive pressures, like Central America, actually recede and perform better.

So, what I would tell you is that the rest of the network is good to better than expected, and it really is a domestic Colombia problem today.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
And I would even add that even in markets where I see that the market is growing as a whole, like, for instance, Europe, where we have – where we've seen competitors adding a lot of capacity, our performance continues to be very good. And despite that additional capacity increase from our competitors, Europe is a good example.

Q: And when you say performing well, are you still seeing strong unit economics, so after rent in those other markets?

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
Yeah. We're seeing margins hold steady again or better than what we projected. Again, that's exactly what we mean.

Q: Got it. Thank you. Is there any way to quantify the seasonality? It's a little hard for us on the outside. I know, it's hard for us to compare historically, it's very different airline and we do hear it continuously from your peers, both you compete with, and you don't, that seasonality is back and it's different than it was pre-covid. Is there any way for you to quantify the impact of seasonality in this quarter? And then secondly, can you remind us in this new environment what the peak versus tough quarters are?

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
Yes. So yeah, sure. So overall, traditionally the weakest quarter is the second quarter and the reason for that is that you're not impacted by none of the high season months in the second quarter. So that's like the overall view. Some changes a little bit, but between March, April. Then you have a second slowdown traditionally that happens between September and October. But when you look at the quarters, because in the third quarter you have July, there is a strong month and in the fourth quarter and you're back to high season again. Of the fourth – of the four first quarters, second one is traditionally the most weak.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
Second one is the worst. Second one is consistently the worst. First quarter is consistently second worst. And then, as Fred was saying, it's somewhere of a CASK of between third and fourth.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Third and fourth are roughly similar depending on the year.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
So, third quarter you have July, fourth quarter you have December.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
Yes. I'm not sure that we've done analysis then, and it's not – we'll happily do it and circulate it to you, but I'm not sure that we've tried to quantify how much of this is seasonality versus not. I think it'll obviously be easier to tell once we're through third quarter. But we'll do some back of the envelope work and share it.

Q: Great. Thanks. And then two quick housekeeping ones. On Slide 11, that corporate debt cash outflow of $110 million, does that include the LifeMiles' amortization payment?

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Yes, it does. It includes the $10 million amortization payment on LifeMiles, it includes the interest on LifeMiles debt, it includes the $76 million coupon on the bonds, it includes everything, principal and interest on all the debt.

Q: Great. And can you disclose how much the rent is on or the aircraft payments is on the three 787s that are not currently flying?

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Yeah. It's in the order of – well, I don't want to give up the monthly lease rent. So, it's a pretty good rate when you think about a market rate of the monthly lease rent. But think about three 787s monthly lease rents that's going out the door without generating revenue, but lower than what today's market rate.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
Yeah. Think about what you think a good lease rate is for a 788, and then multiply that by three and you'll get a reference.

Q: Great. Thank you very much.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
It's not insignificant drag, right, so.

Q: Yeah, I think, what I was trying to get, I wasn't not so focused on what you're paying specifically for that plane. I understand the competitive dynamics here. I just wanted to get a sense for how much of the – what is the drag or there are other drag items that pulled the 221 of EBITDAR down this quarter, similar to the 13-ish or so that you had mentioned last quarter.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Thanks, Michael.

Q: Thank you.

Operator
Thank you very much. [Operator Instructions] Our next question is coming from Lewis Corson of Millennium. Lewis, your line is live.

Q: Hi, guys. Thanks for taking the question. Just curious how the IPO process is going so far? And what the expected use of proceeds across the capital structure? And then the potential timing for the IPO?

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
I don't think we can say much about any of that. I think our lawyers would limit us to what we've already put out as press releases in terms of we're getting a document on file and we're looking at opportunities. I think that's the extent what all I can say.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited
Unfortunately, Lewis, as you probably can imagine, we've been advised not to be able to talk more than that about that process.

Q: Okay, understood. And I guess the second question is more of a domestic market question. What's the state of the Colombian consumer right now, from your perspective?

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
It's not great. I mean, again, you've got Colombia income per capita basically growing negatively. So, the consumer is not in a great spot. And that's why I point out that even in spite of that, you're actually seeing passenger counts go up and that speaks to the core need of flying in that market. It can't be substituted by getting in a car. And therefore, we think it speaks to the resilience of that market. But it is price-sensitive. It is a weak economy today. And whether we like it or not, we are growing capacity pretty significantly into that. So, we all hope for better times for the economy, but it's not great today.

Q: Okay, thanks.

Operator
Thank you very much. Well, we appear to have reached the end of our question-and-answer session. I will now hand back over to Adrian for closing remarks.

Adrian Neuhauser - Chief Executive Officer, Abra Group Limited
Thank you. Thank you, operator. Thank you all for joining the call today. As we mentioned, it has been a challenging quarter. There's no secret there. You can see it. We're proud of our continued execution on cost. We continue to believe that's critical to our long-term success. We believe that – we continue to believe that the decision to deploy the capacity into Colombia that we did and to retain our slot share and market share is the right one for the long-term, but obviously, you can see the challenges that we're facing with that. You'll see us over the next few quarters as we work through that.

We are happy with the traction we are getting on some of our up-yielding initiatives, and that will be another tool that we'll continue to deploy as we work through this and we continue to execute on our plan. So, thank you very much, and we'll see you again in about three months.

Operator
Thank you very much. This does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day and a wonderful weekend. Thanks for your participation.

About Avianca Group

Avianca Group includes Avianca – a Star Alliance member –, LifeMiles and Avianca Cargo. In passenger transportation, Avianca, with more than 104 years of continuous operation since 1919, is the leading airline in Colombia, Ecuador, Central America and has one of the largest air operations in Latin America with more than 150 routes, 3,800 weekly flights and a passenger fleet of 147 Airbus 320 and Boeing 787 Dreamliner aircraft, connecting to 75 destinations in 25 countries in the Americas and Europe. In 2023, Avianca carried 31.9 million passengers with the operation of more than 187,000 flights. Its loyalty program, LifeMiles, is one of the largest in Latin America with more than 12 million members and over 350 commercial partners. In cargo transportation, Avianca Cargo is a leader in the region, serving more than 60 destinations to over 30 countries with a fleet of Airbus 330 freighters, in addition to operating bellies in passenger aircraft. In 2023, Avianca Cargo transported more than 500,000 tons of cargo. Avianca today has a team of more than 13,000 people committed to providing safe, convenient, affordable and friendly service to its customers. More information at www.avianca.com.