Transcript of Avianca Group International Limited Third Quarter 2024 Performance Call

November 8, 2024

Operator

Greetings. Welcome to the Avianca Group's Q3 2024 Performance Call. At this time, all participants are in a 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, María Cristina Ricardo Head of Investor Relations. You may begin.

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

Thanks, 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's CEO; Matt Vincett, LifeMiles CEO; and Nicolas Alvear, Vice President of Treasury.

Financial statements for the period ended September 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 through 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, Adrian and Fred will start our call with an overview of the state of the business, and then Rohit will walk you through our third 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

Thank you, Maria Cristina, and thank you everybody for joining us today and for the time that you spend on understanding us and covering us.

Operator, if you could turn to Slide 2, please. So as is consistent with prior quarters, we continue to focus on delivering on a simplified customer promise being punctual, reliable and convenient and maintaining the cost discipline that you have seen that we believe is a characteristic of the business that we're now running. We think that makes us one of the most competitive airlines in Latin America, not just because of our cost structure, but also because of our network. And we'll tell you a little bit about the changes that we're making in our network as the year rolls by.

To kind of hit the highlights of what we've achieved during the quarter, EBITDAR was now flat to last year at $358 million at a 26.2% margin that compares to about 28% last year. So we're starting to converge back to last year's margins. Our CASK ex-fuel remained stable at 3.9 cents despite inflation, despite a significantly lower stage length than last year and highlighting our cost discipline.

Our cash balance strengthened. There's been some pluses and minuses there, and Rohit will take you through that in detail to reach $1.1 billion at September 30th, despite seasonal and timing impacts, and we used some favorable market conditions to raise additional liquidity in there. And our net debt to LTM EBITDAR just took up very slightly, largely as comparable quarter sort of moved along. That's in spite of pretty significant capacity growth and we'll show you that.

LifeMiles continued to generate solid results. Our cash EBITDA reaching $44 million compared to $30 million last year. We plan to continue to invest in the loyalty program, and we believe we're going to drive it to boost its contribution to our passenger network, and we'll talk a little bit about that on the next slide. And cargo revenues were $138 million during the quarter, aligning with last year as we saw the markets in Latin America begin to recover, and also partially, because we've started executing on our fleet renewal.

Turning to the next slide please, operator, Slide 3. So our transformation over the past three years, and you guys have seen this was focused on ensuring cost disciplined operation. We continue to maintain laser focus on that. You saw us holding to the 3.9 cents in spite of inflationary pressures, etcetera. But as we hold on to that cost advantage, we're now also adding in a drive to push up our yields and drive margin that way.

So a couple of initiatives that I want to highlight. The first one is going back to capture premium revenue. So we relaunched narrowbody business class service on 11 routes out of Bogota. We have a pretty distinctive hard product. We've talked about it, I think not in the past couple of calls, but in prior calls. Our configuration creates three rows of premium seats in the front that are similar to what you would expect in U.S. domestic first class in terms of hard product that we have been selling in sort of a big seat format.

On these 11 routes, we moved back to selling it as a fully loaded business class with distinctive soft service and also being able to market it as a business class through not just our direct channels as a bundle, but really as a business class price ticket through GDSs, and we've seen that to be very successful. So we're now expanding that service into additional routes. We're going to be at 34 routes by the end of the year.

We're also investing in our long-haul business class on widebodies. We're rebranding that long-haul business class to Insignia to distinguish it from this Americas business class on narrowbodies, and that's coming soon in November and we're driving up yielding there. And all of that is tied, as I mentioned to also how we're going to start redeploying the use of our loyalty program that is very distinctive in Latin America, because it is the only large loyalty program that's aligned with a major alliance, it's part of Star Alliance, and we think that drives a pretty distinctive position there.

The second part of this, and this will go to a theme that I'm sure you want to talk about more in Q&A, but we talked a lot about it in our last quarterly call, was the structural oversupply in Bogota. When you look at what happened in domestic Colombia over the last year, as a result of a decision by the regulator to allocate more capacity in Bogota and then consequential positions by us and by our competitors to each take our fair share of that additional capacity. There has been for at least the last three quarters a pretty significant oversupply, we believe, in domestic Colombia. And that was the largest theme of our underperformance in the second quarter.

What we are now doing to mitigate that is starting to redirect some of that capacity into international markets. That has several effects. Obviously, it deploys low margin capacity into higher yielding markets, which is good for us. It also takes capacity out of the domestic market, which is good for us with the remaining capacity that we have in the domestic market as we see supply and demand within that market start to align better. It also lengthens our stage length, so you'll see that the effects of that come through in the coming quarters. And the obvious and it allows us to continue to retain our slot share, which we see as a very significant asset in Bogota.

The obvious question is why did we not do that before and the answer is, because that requires flying more hours and flying more hours requires more equipment than what we had available to us when this initial increased allocation of slots was announced. So as we've taken more aircraft and we're able to start moving them around, we're seeing that capacity redeployed. We've launched nine international routes through September, but we're announcing another 14 that will start during the winter. So pretty significant network reallocation there.

And then finally, in other highlights, we announced and finally closed in October a strategic investment in Wamos Air. Wamos is about a dozen 330s operated in ACMI out of Madrid. It's an airline that has a consistent track record of profitability. It has been net income profitable every year of its existence, excepted to through COVID. It gives us a European certificate that we can align with. It gives us increased exposure to widebodies, and we think it's a very interesting play as we think about continuing to grow connectivity between Latin America and Europe, not only from Colombia, but from the rest of our basis.

So that's it for my highlights. And with that I'm going to turn it over to Fred and I'll be around for Q&A. Thank you so much.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited

Thank you, Adrian. Operator, Slide 4, on top of what Adrian just mentioned, a couple of things that are worth talking about 3Q. Number one, we had an all-time record passengers carried in the quarter with 9.7 million. And two, as Adrian was saying, this redeployment of capacity out of Colombia with our original plans for the year are consolidating our network and making it the most extensive network in our history.

We opened 26 new routes in 2024 and by the end of the year, we'll be flying to 167 routes to 81 destinations. That is by far the largest network in terms of connectivity that we had in our history. Also mentioning in Q3, we went back to some of our most iconic routes like Paris and we reconnected Latin America with Paris that will go to a daily service starting in December now.

The second point is that I want to mention and is the fact that in line with our vision of focusing in our core competencies, we are partnering with MRO Holdings. MRO Holdings is a leading MRO operator in the world and one of the biggest in the world. And they will become the operator of our Medellin-based MRO. For us that's subject to some regulatory approvals, but that will on one hand give us a high-quality service and ensures a high-quality service from one of the best operators in the world, whilst ensuring long-term competitive costs.

Other point worth mentioning, we are extending our codeshare agreement with Clic Air, a domestic carrier in Colombia. We started working with Clic in 2022. It's working really well. We're now extending to more routes and to more connectivity to our international flights that allow us to have a better reach and better connectivity in domestic Colombia towards our international flights.

Last but not the least, worth mentioning that the team is doing an incredible job delivering on over 150 cost saving initiatives that has allowed us to maintain one of the most competitive cost structures in the region. And as Adrian said, we're very proud of the 3.9 cents, especially when you consider that our stage length this year is smaller than last year.

And with that, operator, if you can move to Slide 5. In terms of operation, we continue committed to deliver a solid operational performance, and that despite that ramp up of flights and capacity in Bogota that Adrian mentioned at the beginning of the call. Our Q3 OTP was 85%, which is a world class result, scheduled completion of 98%, and our mishandling baggage indicator continues to be one of the best in the region.

If we can move to Slide 6, operator. Now starting to talk about our revenue and our revenue metrics. Our PRASK for the third quarter was 6.5 cents that represents a drop of 10% versus Q3 last year, but we've seen an improvement from Q2. The improvement for Q2 was in part driven by seasonality as we explained before, but also by this capacity redeployment that we started at the end of Q2 and impacted Q3.

Worth mentioning that we've seen some markets behaving better than others. We're seeing for instance North America for us behaving better than last year, but we continue to see markets like domestic Colombia that are underperforming versus last year as Adrian was mentioning a couple of slides ago. Our average fare for the quarter at $114 and our load factor at 83%.

And with that, I will pass on to Rohit. Rohit, go ahead.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited

Thank you, Fred, and good morning, everyone. On Slide 7, starting with the cost metrics. As Adrian mentioned, we had a passenger CASK ex-fuel of 3.9 cents despite lower stage length and inflationary pressures. We maintained 3.9 cents as we did in Q1 and Q2 as well. In terms of fuel CASK, we have a 1.9 cents fuel CASK, which is a 13% reduction year-over-year. And you can see while we have significantly helped by our lower price per gallon, so our average price per gallon in the third quarter was 2.3 cents versus 2.9 cents a year ago. We've also made improvements in fuel efficiency. So our fuel efficiency in terms of gallons per 1,000 ASKs was at 7 versus 7.3 last year.

And that comes from a couple of things. One is we have now densified some of our widebodies will have most of them densified by the end of the year. But those extra seats give you more fuel efficiency, so it also benefits fuel CASK. And in addition, the team has a number of fuel burn efficiency savings that we're doing. And we do have a mix of a few more Neos in our fleet than we had last year. Those are the drivers that give us fuel efficiency, but as a result, we have a 13% reduction in fuel CASK. So our total passenger CASK is at 5.8 cents.

As we move to the next Slide 8 and moving to Cargo. As Adrian mentioned, we saw for the first time this year a year-over-year, where our cargo revenues for the year were flat compared to last year. So the first half of the year, you saw sort of a worse than last year, and now we've seen sort of the market turn. We've seen overall the market sort of dynamics improved. And in particular, we've seen increased demand on southbound cargo. So we'll have especially electronics going from North America to South America. So those trends have helped us and overall improved yields.

And so in spite of the fact that we actually have a little less freighter capacity than we had a year ago, because what we did in spite of the fact that we had a low freighter capacity, we've generated similar revenue trends. In terms of the re-fleeting initiatives that we talked about as well, the Company in addition to the six dedicated freighters we have in our Colombian operation, we had five older aircraft in our Mexican operation, which were A300s and 767s. They have all been grounded and we're in the process of getting three A330 converted freighters into that operation. We only have one flying today. That's why you see slightly lower capacity that will ramp up over time. And also the Mexican operation has been restructured significantly from a cost perspective, which helps overall with profitability as well.

So overall, we've seen and we're very pleased with the direction with the cargo business. If we go to the Slide 9 and talk about LifeMiles. LifeMiles generated solid results. In terms of gross billings, in the middle of the page, you see $65 million gross billings for the quarter compared to $50 million a year ago and cash EBITDA at $44 million compared to $30 million. Also an important trend on the right you see in redemptions, the teams have worked really hard to make excess availability within the Avianca network available to LifeMiles.

You see that 68% of the redemptions in the quarter were on Avianca, which does two things. One is obviously, it lowers the cost of redemptions for us, which if there's excess seats on Avianca, it sort of sells certainly is the lowest cost redemption for us. But also by making available more redemption opportunities at attractive pricing levels, we get the engagement and the value proposition of LifeMiles to be improved. So a lot of work has gone into making that 61% to 68% sort of redemptions on LifeMiles. If you go to the next slide now on Slide 10 to talk about consolidated financial results.

As Adrian mentioned, we were at $358 million EBITDAR for the quarter at a 26.2% margin compared to $363 million last year, in other words, $363 million last year. In terms of net income, it's $58 million versus $82 million a year ago. Obviously, the similar EBITDAR with a slightly bigger operation, we have roughly about $20 million more of lease rent expense in the quarter. So we definitely need to generate at least $20 million more year-over-year in EBITDAR to sort of be in line with last year in terms of covering the increased sort of fleet cost.

So we're not quite where we were last year, but certainly the trendline is a lot better than 2Q and a lot closer to the trendline a year ago. With that, if I go to Slide 11 and go to cash, you'll see that we ended the quarter at $1.122 billion which was an increase of $194 million of total cash during the quarter. That does include $260 million of net new debt issuances. So in particular, we issued a $200 million credit card receivables backed facility.

We had sort of prepaid that a year ago, and we reissued that facility as well as we upsized LifeMiles by $100 million, LifeMiles term loan B by $100 million. That was netted off by some prepayments on some other engine-based facilities. So it was a net issuance of $260 million. You'll note that this was done also by the end of the quarter. Early in the first week of October, we did pay $140 million to consummate the acquisition of Wamos.

So this was before the Wamos acquisition. But overall, at the quarter, we ended at $1.122 million, you can see a couple points that I'd like to mention. The CapEx number in the quarter is a little high because of timing. You see a little bit of CapEx of the especially widebody engine CapEx got delayed and moved into the third quarter. So there was both on the 787 Trent 1000 engines as well as some events on the -- I mean, these are all scheduled sort of maintenance overhauls on the Trent 700 engines on the freighters, on the A330 freighters got squeezed into this quarter, but you'll see $42 million will be reimbursed through lessor contributions in subsequent periods.

And then the third quarter also in the working capital line, you'll see the third quarter is a seasonal burn quarter. Even last year, you'll see that we had sort of a cash burn on the ATL. That's just a seasonality issue. So those are the key highlights on the cash page. And then if we move to Slide 12, on debt, you can see we had net debt at the end of the quarter at $4 billion compared to $3.7 billion a year ago.

Now you can see that we are with the ASKs, we're a 17% larger airline. So while we've added $300 million of net debt, we're 17% larger airline. However, since EBITDAR has remained roughly flat, you'll see that our leverage has ticked up modestly. So we've gone from 3.3x to 3.4x. As we see EBITDAR sort of go up, we would expect the leverage to start to tick down again.

With that, I think that brings us to the end of the prepared remarks. Operator, if you can now begin the Q&A session, please.

<u>Operator</u>

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

Q: Hey, good morning everyone. All things considering, these are very strong results. I have a few here. Just on the Wamos acquisition, what is your stake from an economic perspective versus voting since I know there are EU restrictions? And how are you running that through the P&L then? That's my first question.

Adrian Neuhauser - Chief Executive Officer, Abra Group

Let me take this question and then Rohit will explain the accounting analysis to you. On the stake side and thanks Mike for the question. On the stake, we basically have 100% of the economics. It's approximate there's a piece that's retained by management as an incentive program at [indiscernible] but it's basically 100%. There is a structure where basically we have a management plus some European stakeholders that effectively bodes the majority of the board and that allows us to be compliant with EU rules.

It's frankly not inconsistent with the way some other major carriers currently or major airline holding companies, if you will, hold their assets in Europe and we believe it's completely compliant. So we're comfortable with it. With that, Rohit?

Rohit Philip - Chief Financial Officer, Avianca Group International Limited

Yes. And Mike, in terms of accounting, we'll finalize sort of the accounting in the fourth quarter, but we expect to fully consolidate Wamos results into Avianca Group International Limited in the fourth quarter.

Q: Rohit, when I think about the size of that airline, I mean, you told us what you paid for it. We know the number of airplanes. The ACMI business is actually, it's been quite profitable. Can you give us a sense of the margin uplift from consolidating this into your business given that it is a profitable company? I mean, are we looking at a couple of points of margin here, maybe any rough sense of what the potential uplift is?

Rohit Philip - Chief Financial Officer, Avianca Group International Limited

I'd rather sort of wait until we sort of consolidate the results and talk about it in the fourth quarter. But directionally, it's definitely slightly accretive. But when you look at sort of the volume and overall, it's not going to materially move the needle, but it's marginally accretive. But on the margin, it's accretive.

Q: Okay, great. And then just my second question, this is more of a big picture, just the headlines coming out of GOL and their restructuring. It does seem like that we're getting to the end of the road here, with the end of the process. I know that you do some cooperative type activity with GOL, but it's been pretty minor. I suspect that you're waiting for them to finalize the restructuring before you decide to do more interesting things, whether it's code sharing, marketing, frequent flyer reciprocity. It does seem like there's a lot of opportunity. When should we anticipate that some of the more, robust cooperative elements of Avianca and GOL, when do they roll out? Presumably, it's a 2025 event. What should we look for? What's the potential upside? Thanks for taking my questions.

Adrian Neuhauser - Chief Executive Officer, Abra Group

Yes. I'll take that one, Mike. You read it exactly right, right? I think one of the challenges that we've been dealing with through the bankruptcy there is Abra's position as both a creditor but also a significant equity holder in GOL and just making sure that there's no perception by any of the other stakeholders, right, that we're unduly influencing the company.

So what we've been able to do so far with GOL is be supportive on a lot of things that you're not seeing behind the scenes, but that have been helpful to us in terms of, for example, joint purchasing of certain things during negotiations with certain suppliers and OEMs. The client facing side started with a soft launch of reciprocity, a couple of weeks back on the frequent flyer program.

We're going to obviously significantly strengthen that going forward. And then as we look to integrate the networks more, you'll see more of that come on. You should start seeing more announcements, around that very, very soon, right as we now announce that we intend to kind of support, as ABRA, as we intend to support, GOL's kind of emergence and we have the agreement from both the UCC and the independent committee of the board to do that. We think most of the people's sensibility around potential conflict there is starting to clear up. So you'll see a lot of that more that come through over the next few months and certainly like you said into '25.

Q: Great. Thanks, Adrian. Thanks, Rohit.

Adrian Neuhauser - Chief Executive Officer, Abra Group

Excellent.

Operator

Your next question for today is from Chris Reddy with BNP.

Q: Hey, guys. Sorry about that. Appreciate your time. Thanks for telling me I was on mute. I didn't know at all. So with the quarter, you had a really good quarter. You're now starting to work on improving yields and cutting costs and continuing to cut costs. Could you give us a sense of the scope of the cost saving initiatives still to come that you have cited on Page 4?

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited

Yes, sure. I'll take that question. Last year, we finished like the big initiatives in terms of transformation of the company. And once that was over, we start like really start looking on a line-by-line approach to where we still have opportunities within the company. That was essential this year to -- on one hand offset the inflationary pressure, but also as you know, we're running on a lower stage length. So that longlist of initiatives that I can tell you that there are over 150 were essential to ensure that at the end we got to that 3.9 cents.

What does those initiatives cover? A wide range since airport negotiations, ground operations, the way that we manage our IT costs, the way that we look at efficiency in our frontline headcount per aircraft. So they're really across the board, of course that some of the ones with the higher yield I've just mentioned, but they're really across the company.

We believe that there's still a little bit more to come. We don't want to be overly optimistic, but we believe that we're already at a very good cost position and we are pretty comfortable that or pretty confident that we will continue, if not to improve, but to maintain a really competitive cost position in the region with all this the future opportunity to come.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited

And just to add to that, Chris. From my perspective, I think the really important thing that we're trying to do here is to build sort of a cost-focused culture. And so I think one of the great things Fred has done is to sort of make everyone accountable for the costs. So it's not really me as a CFO, the finance team sort of driving the costs. It's like we're more just a coordinator and everyone in every group is sort of looking at what they can do to contribute to the overall mission.

So I think that's really the important message here, and that's why there's lots of different line items that we're managing and we expect this to be a continuous process, not a one-time process.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited

You're totally right. And again, it was coordinated by finance, but I think the biggest change was a cultural change in a mindset that we believe that will continue and it will really transform the way that our company and our people look at cost.

Q: Great. Thank you. The second question I have is, I guess, it's around Bogota and Colombia, and then yields. So last quarter, the government opened up all the capacity, everybody ran in. I guess people realized it was just very destructive for yields. Now you are moving some aircraft out to higher yielding areas. Could you give us a little bit of an insight into your strategy and the competition in Bogota, and then how that sort of speaks to your yields in other geographies and where are things performing better, where are things performing well, worse, and how that will impact what we're looking at a quarter or two from now from a route structure?

Adrian Neuhauser - Chief Executive Officer, Abra Group

Chris, let me take a first off at this, and then I'll ask Fred, Rohit to complement. This didn't happen last quarter, right? This happened in the middle of year end, right? The biggest growth was into kind of December, etcetera, right, when the IATA season was announced and then kicked in. What you need to, basically, the government allocated 15% more slots in Bogota, right? That has a bunch of consequences, right? You can see Fred alluded to it when he was talking about operations. You can see that our OTP is still very good. It's not as outstanding as we'd like it to be, because the airport gets more complicated.

We think the capacity that is allocated today in Bogota is the highest capacity that has ever been allocated historically, and there's been no change to the airport. There's no additional infrastructure, there's no additional air traffic controllers or air traffic control strategy, right? And so you're seeing the consequences of that.

The reason I'm highlighting that is because this is, we think there's more capacity than the airport can hold physically and still be reliable, but it's certainly the most that it's ever given and I don't think there's a strategy from the government to give more. So when you think about the decision from the government to do that, and not just us, but our competition saying, hey, Bogota was -- Colombia was performing really, really well last year. It was an attractive market. All of a sudden, there's an additional allocation of slots. Those slots are valuable. They may not be valuable day one, because it is very rapid growth into a market that is not consuming that.

But ultimately, 15% growth is not something that takes 10 years to consume, right? It's something that takes one, two, three years to consume, right? So not just us, but our competitors basically said, we're going to grab those slots and if it's going to, and because they are using or losing, we're going to use those slots. And if that means we're going to over allocate capacity in Colombia for a while, so be it, because on the other side of it, we're going to have a very solid position in a market that has structural limitations for more capacity to come in and at that point, it becomes very valuable.

And so that sort of speaks to why the capacity went in, why everybody took up their slots instead of just saying you don't take them up, right? Then the question is, okay, well, how do you use slots and grow from 600 operations a day to 750 without taking a lot of additional planes? Well, you do it by shortening stage length, which means you use those the planes you have to fly shorter distances so that the plane can go and come back several times in a day and use several slot pairs and that basically means you allocate a lot of your capacity into the domestic market. And that's what we did and that's what a lot of our competitors did.

Now what has happened, now that is not a long-term strategy, right? That is a way to say we want our slots, we have the right to our slots, we're using our slots. Now is when you see us sort of start to say, okay, what do we do with those slots, right? And that's where as we take delivery of a few additional planes and we're able to sort of go back to where we would like to choosing where we put the capacity in, but also going back to stage lengths that are more reasonable for our networks, you've seen those over 20 international routes that we've added.

Those in many cases add spokes as well to Bogota, which is creates a nice virtuous circle of creating more feed, both flights going in other directions, etcetera. They make the network more robust, but they also they take a slot that is currently deployed in a place that has overcapacity and puts them into places that we think have better margins. But that also means that you are reducing the overcapacity as you take a slot that you've directed into the Colombian market and you direct it internationally. You got two benefits, right? One, that aircraft that was in an over or the aircraft that was flying that was in an overcapacity situation and it was hard to fill it goes into a market where it's more attractive, it's easier to fill, etcetera, but also you took capacity out of the domestic Colombia where it's over allocated.

And so the remaining aircraft in Colombia have increased demand for or are more aligned with demand, right, over time. And so there's a tipping point, right? We haven't reached it yet, but we think there's a tipping point where between the natural growth of the domestic Colombia market, between the reduced allocation of our capacity and hopefully our competitors' capacity to that excess supply market and into others, you get not only the direct benefit of the redeployment, but also a more balanced supply demand situation in domestic Colombia, which also benefits the capacity that you leave in that market.

So that's what we're working towards. Our strategy is, we believe we are the best carrier for Colombia. In Colombia, we offering the best network, the most frequencies. We think the best and most suited service and a very, very cost competitive and therefore price competitive offer. And we intend to remain and retain that position. We think we are at Colombia's airline. Internationally, we benefit from being the most important operator in one of Latin America's most important markets and from the geographic position that gives us to be able to build a robust international network that allows us to connect not just Colombia, but all of the Caribbean, South America, and Central America to North America and to Europe and we continue to build on that.

Q: Great. Thanks for that explanation. And then just with regard to different markets, are you seeing certain markets with more robust yield structures and others with, I guess much worse ones?

<u>Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited</u>

Yes, we are, and I've mentioned a couple already, but let me give you two examples. One is a positive trend. We're seeing a positive trend on North America markets. And when I say a positive trend both North America to Central America, North America to South America. And in part is driven by the fact that we've seen several U.S. Carriers reducing capacity and we've taken advantage of that. Some of them are reducing capacity in markets that we operated.

And we believe that if it happens, because we do have a better cost structure that they have and that has benefited us. So the first one is positive trend in North America. And then smaller markets, but with a positive result. I will tell you for instance that Mexico, Caribe and Ecuador although they represent a smaller share of our network, but they've been performing pretty well this year.

Q: Okay, great. And so is really…

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited

To complement, Adrian, it will take time for domestic Colombia to absorb the capacity, but we do, we're seeing some smaller trends. For instance, you'll see that the capacity growth for the fourth quarter domestic Colombia will be significantly reduced compared to the third and the second. And moreover, we're also seeing that the number of our passengers in domestic Colombia increasing on a quarter-to-quarter basis. So again, it will take time, but we are seeing these smaller trends.

Q: Okay, great. Thank you for your time. I really appreciate it.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited

Thank you.

Operator

Your next question for today is from Ken Monaghan with Amundi.

Q: Hey, Adrian. There's obviously a lot going on, and but I didn't know if you could care a comment at all about thoughts on still on an IPO having filed for Avianca itself. And I recognize that since then, LATAM is not a transaction, but Mexico when Mexico, our friends here in Mexico delayed. And obviously, you're looking at the exit of GOL at the same time, but I didn't know if you wanted to update us on what your thoughts are as you're kind of reading key leads here on the market opportunity.

Adrian Neuhauser - Chief Executive Officer, Abra Group

Yes. Look, I mean, because we have paperwork on file, we are limited in what we can comment. But the answer is, we haven't changed in our strategy. We continue to believe that it is important for us to create liquidity for the complex to be able to raise equity and as we see the markets turn and remain constructive, we continue to monitor them. You've seen a significant rerating of the U. S. carriers, which for us is, targeting, right? And you have not seen that in our region yet.

We hope that when people start trying to figure out where there's value in the market today, right, with all of the upward movements in the stock market, right, we think hopefully people will start looking in this direction. So we're monitoring it.

Q: Thanks.

Operator

[Operator Instructions]. Your next question for today is from Michael Kaufman with Redwood Capital.

Q: Hey everyone, thank you for the time and congratulations on the quarter. A couple housekeeping questions. The first one is on the CapEx side with the reimbursements that you show, take this quarter for example, so $153 million in the quarter $42 million expect to be reimbursed. Is the right way for us to think about that, that the $42 million is the reimbursed component is tied to up gauging or cabin refreshes as opposed to true maintenance CapEx, meaning like engine overhauls and C and D checks. So when we look at the aggregate CapEx number, we should take out the reimbursements and that number is the way to think about maintenance CapEx?

Rohit Philip - Chief Financial Officer, Avianca Group International Limited

That's correct. So I think what you're speculating is correct. In the first year and a half after the emergence of Chapter 11, we had negotiated with a bunch of lessors to pay for the first engine event, but that was in that period. Now you don't see any reimbursements for that. The reimbursements are tied to the cabin densification projects. And so that's what you see and there's both the cabin densification as well as we have the three aircraft that we took the three 787s that we took from Norwegian, which required a bunch of CapEx to get them sort of ready to fly and some of that CapEx is reimbursable. So it's a combination of cabin densification plus the 787 CapEx that is reimbursable. But yes, that's how I would look at it.

Adrian Neuhauser - Chief Executive Officer, Abra Group

I think just to clarify one more thing, right, because what both of you have said is correct, but there's one more piece of lumpiness that you need to be aware of, right? And the lumpiness is the narrowbody engine events are pretty smooth, kind of through our operational cycle and there's a lot of them, right? So averages sort of average out, right? The 787 engine costs we've got on a kind of fully loaded cash pay PBH.

So you're seeing the cash go out and you're seeing the expense accrue and both of those things are pretty smooth and they're kind of properly reflected, right? Where is their lumpiness? And some of it hit us this quarter, which is why I think it's worth remarking on, right? There's lumpiness in there's some residual lumpiness in the 787 engines because of the way we changed the deal during Chapter 11.

There were some payouts that we had to do to sort of move to the new deal when the first engine happens. So you'll see some of that lumpiness happen because in our old deal, it was pay at shop visit, now it's pay as you go, right? So at that first shop visit, we're paying the pay as you go, but when the first shop visit happens, we're also making up some of the last piece of the paid shop visit, right? So that's we're paying the pay as you go, but some residual piece of the old shop visit happens in that first one post the bankruptcy. And then the other piece is that the Trent 700s are still on a pay shop visit kind of cycle.

So when the 330 engine events happen, those are lumpy because they're big and because we don't have enough of them, then you can say that they just sort of average out like the 320s, right? So those are just it's nuanced, but it's not unimportant because you actually see it in this quarter's cash flow. Sorry. Rohit, I don't know if you disagree with anything I said there, but just look. Thanks.

<u>Rohit Philip - Chief Financial Officer, Avianca Group International Limited</u>

No. No. I think you summarized it well.

Q: Great. Thank you. That's very helpful. And so when we look at the full-year number and we take out the reimbursement amount, should we use that as a proxy for and I appreciate the lumpiness that you talked about, but is that a reasonably good proxy for go forward annual maintenance CapEx spend?

<u>Rohit Philip - Chief Financial Officer, Avianca Group International Limited</u>

I think so. Yes, it is. And we'll -- like we did for this year, we'll give you more guidance of sort of this consolidated fixed payments, including lease payments, CapEx and debt payments that will be still trending for the full-year to the guidance I gave at the beginning of the year. But yes, I think there is a little bit of lumpiness, but you will see a little bit of that on an annual basis still there. So I think if you look at the annual numbers this year and you sort of use that as a proxy for going forward, it will be pretty close.

Q: Great. And then second question I had is…

<u>Rohit Philip - Chief Financial Officer, Avianca Group International Limited</u>

Yes, excluding the lessor reimbursements.

Q: Sorry, what did you say?

Rohit Philip - Chief Financial Officer, Avianca Group International Limited

If you look at our annual spend and you back out the lessor reimbursements, that would be a good proxy for what you would expect go forward CapEx to be.

Q: Great, thank you. And the second question I had is on the let's go back to some of the yield differences that you're seeing across geography. Are there if you can comment directionally outside of the domestic Colombia market were yields up or down? And if you have any comments on market-by-market that would be helpful.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited

I can give you an overview. So on a year-by-year basis, I've mentioned that for instance Caribe, Mexico, Ecuador, we had a pretty good performance on year versus year. We have other markets that are negative as we discussed Colombia and then I will tell you that North America positive as I mentioned and some other markets that have remained more or less stable. I will tell you that also a little bit on the negative side, we have South America to South America and that's overall. If I have to summarize, I'll tell you positive, we've seen North America, Caribe and Mexico and Ecuador.

Negative, we've seen domestic Colombia being the most and then we've seen also negative South America to South America and Central America to South America as well as negative. That's kind of high level.

Q: Thank you. And in that Intra South America or Central America to South America market, which I think is a big chunk of the correct me if I'm wrong, but I think that's a material part of the capacity. How do you see that yield trending over the next couple of quarters based on the visibility you have? Like is ex-supply demand improving or?

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited

I'd say it changes a lot from country-to-country. It's not the largest chunk of our network, it represents about 15% of our network give or take, right. And it's been very different from a country-to-country basis. We've seen as Adrian was mentioning in the beginning, the effect of adding more spokes give us also a better connectivity through our hub and more options to connect passengers from South America to Bogota and then Caribe Europe or North America. So I'll give you a couple of ballpark figures. We have markets that continue to behave very, very strong like Argentina or Brazil, right. Other markets that we've seen, Santiago, yes, you're right, Rohit.

So yes, good point, Rohit. So Chile that we've seen a drop on a year-on-year basis, right. Another market that we've seen that is South America to Central America that we've seen a drop is from Ecuador to Central America. So it's a mix, but I'll tell you that we've seen the 80:20 is some really good performance on Brazil and Argentina, some drop in Chile.

Q: Very good. Thank you very 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 everyone for joining us again. Thank you for the time you spend thinking about us, analyzing us, investing in us, trusting you with your money and with your investment. We're much happier with this quarter than we were with last quarter. Obviously, some work still to get back to the margins that we want, but as we told you, we have a bunch of initiatives that are working on that.

I don't want to finish this call without highlighting the massive contribution that Rohit has been to us. We asked him over three years ago to agree to commit, three years of his professional career to us. He's committed significantly more than that. It's an emotional and physical challenge, obviously, with a lot of travel, etcetera. And so, as he begins this orderly transition that he's leading and as we elevate Nico into this role, you'll continue to see and hear from Rohit, and he will be around, to help us through this, for the next few months later.

But we could not be where we are without him, and we're tremendously grateful for the effort and thought leadership that he's brought to us over the last few years. So I did not want to attend today's call without pointing that out. So with that, we hope to see you again. Sorry, go ahead Fred.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited

No, I was just saying to Adrian on my side, I would like to make your words mine as well and name of Avianca. A big thanks to Rohit, he will not go away. Right now, he will stay with us a couple of months, but yes, just reinforce your words and Rohit, big thank you. A lot of this won't be possible if you were not around.

Rohit Philip - Chief Financial Officer, Avianca Group International Limited

And thank you, Adrian and Fred for the kind words. I obviously have, it's been an extremely fulfilling part of my professional career to be part of this journey with the team here. It's been an incredible sort of ride, if I think about when we started some years ago and where we've come. And I think there's a very sort of solid path now going forward. So I feel very proud of the work I've been able to do with the team and but I also feel very good about leaving a very solid finance team and a very good successor with Nico taking over.

He'll be I think we'll have a seamless transition and I've committed to Adrian and the team to be around several months to help make sure the transition goes smoothly. So with that, thank you and thank you to all of you on the call for all your support with the business. So thank you.

Adrian Neuhauser - Chief Executive Officer, Abra Group

Thank you all, and we'll see you again in a few months to go over this quarter's results. Thanks again.

Operator

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