Transcript of Avianca Group International Limited
Fourth Quarter and Full Year 2024 Performance Call

February 28, 2025

Operator

Good day, everyone, and welcome to the Avianca Group International Limited. At this time, all participants have been placed on a listen-only mode. [Operator Instructions]

It is now my pleasure to turn the floor over to your host, María Cristina Ricardo. Madam, the floor is yours.

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

Thanks, operator. Good afternoon 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; Nicolas Alvear, Avianca's Chief Financial Officer; and Gabriel Oliva, Avianca's Chief Operating Officer and Avianca Cargo's CEO.

The presentation that we will show you today is 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. Financial statements for the period ended December 31, 2024, will be available at the same site after the completion of the audit process in the second half of March.

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 several risks and uncertainties that could cause actual results to differ materially from those projected or suggested.

Today, we will start our call with an overview of the state of the business and its operational performance, and then we will continue with our fourth 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 very much, María Cristina. Hi, everyone. Thank you for joining. And thank you for joining on short notice.

Turning to Slide 3, we'll just give you a quick update of the quarter and the year. And it's a very exciting update, let you know that we feel we're delivering everything that we wanted to achieve through the year. So Q4, we continued redeploying the capacity from domestic Colombia to international markets as we'd said we were going to do. We launched 14 new routes, 8 new destinations that made this the broadest network in our history, 165 routes across 81 destinations. And we carried a record 38 million passengers last year.

We continued to roll out Business Class service across additional routes. We've now got 34 routes on Narrowbodies, out of Bogota, Medellín, and San Salvador, with our new Business Class product, and we've enhanced our Business Class service to Europe under a new brand, where we've segregated that flatbed long-haul Business product under Insignia. What that means is that the strategy to up yield, but to also remove excess capacity that we had in domestic Colombia has proven to be very successful.

Our EBITDAR in the fourth quarter was $420 million at a 28.7% margin, net income at $109 million, full year EBITDAR at a 24.1% margin and about $1.3 billion and net income of $117 million for the year. Important to highlight as Maria Cristina noted, these remain unaudited, and we are still concluding our audit process.

Q4 and full year CASK ex-fuel for passengers remained at $3.9¢, so we continue to be very disciplined about our cost, even as we add these additional enhanced products that allow us to up yield. We continue to think that that's a critical advance for us and continue to fight off inflation and hold that number off flat.

Liquidity ended the year at $1.287 billion, so about 24% of our total revenue. Of that, importantly about $1.1 billion is cash and $200 million is now in a committed undrawn credit facility reducing the negative carry that we have on our liquidity.

Net debt-to-EBITDAR for the year closed at 3.3x that includes consolidating all of the Wamos debt for that acquisition, it includes the lease liability, but it only includes a partial consolidation of the EBITDAR for the fraction of the year that we own them. So, Nico speaks to the performance effects of that when we get to it.

And our Business Units continue to deliver results. Importantly, other highlights. LifeMiles generated cash EBITDA of $51 million, that's 31% over the same quarter prior year and our full year cash EBITDA of $171 million, that's about 33% year-on-year, so continuing to outperform.

Cargo, very, very important turnaround in the quarter. Revenue at $173 million as the cargo market improved around us. And full year revenue at $613 million, we'll talk in more detail about the results there.

And then finally, I alluded to this when we talked about debt, but we closed the strategic investment in Wamos Air. Wamos, as we mentioned in other calls, is one of the world's leading Widebody ACMI operators. It's based in Spain, has a fleet of 13 A330 aircraft, and we think there's some really interesting opportunities and synergies that will come from that business in the future.

So, with that, I'm going to hand it over to Fred, who will go through this in more detail. Thank you.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
Thank you very much, Adrian. So, starting to talk a little bit about our capacity, as Adrian was saying, we continue to focus on that redeployment of capacity from domestic Colombia to international, that we started early Q3, and that we're seeing clearly the results in Q4. If you look at the chart on the right, you'll see that in December 2023, Colombia was almost 20% of our ASK, and in December 2024, it's now 15%. We were able to do so while maintaining our historical share of slots in Bogota, and by moving flights from domestic Colombia to the international operation.

We ended the year with 165 routes, and overall, in 2024, we launched 26 new routes and 8 new destinations, which makes the widest and the strongest network we ever had in the Company. Now growth, we've discussed it in the past, on a year-to-year basis, we grew 18%. However, that growth was very different on a quarter-to-quarter basis.

So, if we can move to the next slide, to Slide #5. Here you see how our capacity has evolved since early 2023, and if we focus in 2024, you see that we started the year with a 26% capacity increase in Q1, and we ended with a 13% capacity increase in Q4. So, as we already had announced that we'll be slowing down the growth.

More important even is that the drivers of the growth within the year has changed as well. If you look in Q1, we had 26% growth in ASKs, but we have 30% cycle or departure growth. Q4, that departure growth went down to 7.5%. And, moreover, we've seen a negative stage length variation on a year-to-year basis throughout all of 2024, except on Q4, where our stage lengths slightly increase.

In other words, we start flying longer in international, and that has increased our stage lengths. So that has also contributed to increase ASKs. The other factor that was also important in Q4 for the ASK growth was that we were in the process of finalizing the reconfiguration of our 787 seats. And with that, we were adding 41 seats per 787. So that was the other factor that also contributed to that 12% growth in Q4.

Now, if you look at published capacity for Q1, you'll see that the trend will continue, meaning that you'll see an ASK growth in the low teens. However, you will see a flat departure growth. So, again, as we fly longer with more seats, you still see the impact in terms of ASKs. But, if you see the published capacity, you will see that our departures will not increase in Q1.

What were the results of that? If you can move to the next slide, Slide #6. The result of that is that we saw a positive trend on our unit revenue, where if you look at the first chart on the top left, you'll see our yield, year-on-year variation. And you see that we started a year with a drop of 4.5% in terms of yield. Q3 was the lowest point where you have a 7.4% year-on-year drop on yield. But Q4, for the first time, we see a flattish yield. Our load factor went slightly down, yes, in Q4, 1.6 points, but that also was driven by the amount of new routes and new destinations that were deployed.

But, overall, as you can see on the chart of the top on the right, now, that PRASK trend was positive. If you see on a quarter-to-quarter basis, we started Q1 with minus 3% PRASK. We went to minus 7.4%. We hit the bottom in Q3 minus 10%, and now we're back at minus 2.1%.

Again, main drivers here, on one hand, the capacity redeployment, but also on the other hand, we're also seeing a positive impact of our new Business Class operation that we started launching in last July, and then we reinforce it with 23 new routes in December 2024.

If you can move forward, please. Now, Nico, would you like to go through the CASK?

Nicolas Alvear - Chief Financial Officer, Avianca Group International Limited
Absolutely. Thank you, Fred, and good morning, everyone. I'm on Page 7 of the presentation. As you can see our unit cost ex-fuel remains steady at $3.9¢ per ASK for the quarter, despite the fact that we continue to see pressure from an inflation.

As we had mentioned in the past quarter, we've made a company-wide effort to keep improving productivity and cost efficiency across the board. Fuel CASK for the quarter decreased 24.6% year-over-year, driven by lower jet fuel prices and more efficient gallon consumption per ASK.

As you can see in the upper middle chart of the page, gallons per 1,000 ASK decreased by 5% year-over-year as a result of the Widebody cabin reconfigurations we executed this year, a more efficient fleet mix and other fuel consumption initiatives that continue to bear fruit. So, overall, total unit cost per ASK decreased by 8% year-over-year.

Back to you, Fred, to talk about operations.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
Sure. So, operations, as you can see in our full year OTP was 82%, was lower than 2023, at 85.6%. But the reality, and we've talked about it in the past, and the largest impact on our OTP has been Bogota. We've discussed it in other calls, we've been very vocal about it. But what's happening is that the airport in Bogota lacks the capacity to effectively manage the increased capacity.

So, starting end of 2023, we saw the capacity in Bogota moving from 68 operations per hour to 74. And we felt that impact through 2024. In particular, more at the end of 2024, because we had on one hand, air traffic control restrictions, and on the other hand, really bad weather season. Now, 82% still makes us very proud of our team with all the challenges they had to face last year. And what we're doing right now is that we're adjusting our operation to this new reality of air traffic control restrictions in Bogota.

In terms of schedule completion of 98%, still a good schedule completion for the year. And in terms of mishandled baggage, we're still on top of the class with 1.7 per 1,000 passengers.

And with that, Nico, would you like to talk about our performance of our Business Units?

Nicolas Alvear - Chief Financial Officer, Avianca Group International Limited
Sure, Fred. Please, operator, let's move to Page 9. As you can see, our Cargo business had another strong quarter in the 4Q. While capacity was slightly up year-over-year, revenues were 16% higher. We saw continued sequential market strengths, both in terms of yields and load factors. And, overall, full year revenues ended up flat year-over-year, despite a more challenging first half of the year. Importantly, the cost restructuring of our Mexican Cargo operation is translating into overall improved Cargo profitability versus last year.

Moving on to Page 10, you can see that LifeMiles continues to perform extraordinarily well. Third party gross billings ended up 16% year-over-year and cash EBITDA up 31% year-over-year, aided by the fact that redemptions in our own network now represent 72% of total miles redeemed, which is more than 12 percentage points ahead of 4Q 2023. The business is now fully recovered versus pre-pandemic levels. And as we alluded to in our last call, we are investing in our loyalty program to make it even more attractive for our members to earn and burn their miles.

Let's go to the next slide. On October 15th, we closed our investment in Wamos Air, acquiring substantially all of the economic rights in compliance with European regulation. As Adrian mentioned in the past, this asset is not only quite profitable in its own right but will also be a strategic piece for the Avianca Group, allowing us to bolster connectivity between Latin America and Europe.

We made an upfront net investment of $121 million, which covers the purchase price and prepayment of existing financial debt net of cash. And, furthermore, we consolidated a lease liability of $127 million under IFRS at year end. The business contributed $14 million in EBITDAR from the closing date through December 31, 2024, but the full figure would have been closer to $65 million.

In connection with the investment, we also closed in December with a $23 million 5-year debt facility at the Wamos level, which includes an incremental future committed tranche of $15 million. The upfront tranche was drawn on January 6, 2025.

Let's go to the next slide, Page 12. You can see that we generated $420 million of EBITDAR, up 27% year-over-year, at a margin of 28.7%, which is almost 300 basis points higher than last year, and 250 bps better than the prior quarter. This translates into EBIT of $242 million with a margin of 16.5%, and net income of $109 million for the quarter at a margin of 7.4%.

On the right-hand side, you can see we managed to finish with full year EBITDAR of $1,272 billion, and EBIT of $645 million, 5.8% and 5.5%, respectively, above last year, despite a very challenging first half, and the fact that in 2024 we had, on average, 14 more aircraft flying than in 2023.

Let's move to Page 13 to look at the quarterly cash flow. You can see that by year-end, we ended up with a cash balance of $1.1 billion, which is $35 million lower than the balance at the beginning of the quarter. However, when considering that we prepaid our $100 million revolving credit facility and made the $121 million net investment in Wamos, we really generated $186 million of cash during the quarter.

A couple of things to bear in mind. First, in addition to generating very strong EBITDAR, we had a positive seasonal working capital effect from very favorable sales in November and December. That's because we collect airport fees and VAT taxes when we make those sales, and we pay them to the authorities early in the first Q of next year.

Second, we also had fewer engine overhaul CapEx events in the quarter. Finally, I'll mention that in November of last year, we upsized and extended our Revolving Credit Facility, which now remains fully undrawn, increasing our total liquidity to close to $1.3 billion or 24% of full year revenue.

Moving on to the next page, for the full year cash flow, you can see that we generated $46 million of cash. However, the incremental debt we raised, net of the prepayments of the RCF and engine facilities and the Wamos investment net of fees amounted to about $40 million, meaning that we basically broke even versus the beginning of the year. However, note that we managed to pay down $75 million in scheduled principal payments of our debt and $260 million of the amortization component of our lease liability.

Moving on to the last page in the section, you can see that we finished the year with net leverage of 3.3 times last-twelve-months EBITDAR, decreasing sequentially from 3.4 times, but increasing slightly versus last year. The uptick in net leverage versus last year partly reflects the fact that while we are consolidating the full lease liability of Wamos, we are only considering 2.5 months of EBITDAR. If we were to consider a full year of EBITDAR for Wamos of $65 million, the net leverage would have basically been 3.1 times, which is in line with last year.

Before I turn it over to Q&A, I wanted to bring up one thing to your attention. With respect to our USA V Flow $200 million debt facility, we found out on Wednesday of last week that one of our suppliers who processes less than 1% of credit card collections that are collateral of that facility, unilaterally and in breach of its contractual duties, decided to withhold collections required to be deposited into the borrower's PV's accounts for an amount of $1.3 million.

This action could have resulted in an event of default under the facilities loan agreement. And we immediately worked with the processor to cure the bridge. We notified our auditor and obtained a waiver from the lenders of that facility. We continue to evaluate with our auditors how this event will be disclosed in our year-end financial statements. And we wanted to be upfront and transparent about this in this call.

And with that being said, I'll turn it over to the operator to begin our Q&A.

Operator
Certainly. Everyone at this time, we'll be conducting a question-and-answer session. [Operator Instructions] Your first question is coming from Mike Linenberg from Deutsche Bank. Your line is live.

Q: Hey, good morning or good afternoon, everyone. I have a couple here. Just the $65 million EBITDAR on Wamos, what would be the underlying EBITDAR margin? What would that imply?

Nicolas Alvear - Chief Financial Officer, Avianca Group International Limited
Good morning, Mike. The EBITDAR margin for that would be in the mid-20s. It would be 25% basically.

Q: Okay. Perfect. And then just that Wamos facility, the 5-year $23 million facility, does that actually show up anywhere in the cash flow, the full year cash flow or the fourth quarter? Is that actually in one of those buckets?

Nicolas Alvear - Chief Financial Officer, Avianca Group International Limited
No, Mike. The reason why is because we closed the credit agreement on December 31st, but we actually drew on the loan on January of 2025. So, you are going to see that cash inflow and the debt reflected in the first Q financials.

Q: Okay. Great. And then, the allocation of your Colombian capacity or allocation of your capacity to Colombia domestic going from 19% to 15%, where do you stand on a market share basis, whether it's, seat share, revenue share? Where were you in the fourth quarter versus the prior year, Colombia domestic?

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
So, we were overall in the system. If you compare December to December, we were down 3 points. This is based on the AeroCivil official data for overall Colombia, domestic and international. If you would just look at domestic Colombia, we were down 5 points. But in Bogota, we're basically down 4 points. So in 2023, we had 60% of share, and now we're at 56% of share. So, as I mentioned before, we did an effort to basically protect our historical seat share. And we've been able to do so.

Adrian Neuhauser - Chief Executive Officer, Abra Group
And the way to think about, or the way we think about it, Mike, remember we talked about this in prior calls. By the way, you've got an unbeaten record of having the first question. Thank you for that. But the way we think about it is, we protect the slots in Bogota in peak hours. Those are critical to us. They're valuable. We're not going to allow that share to

dilute. We protect the frequencies that we have in Medellin in peak hours, because we think that airport is close to being at capacity.

We're not going to fight kind of a broad market share fight around the rest of the country, because frankly that is easy enough market share for us to recover if we want to in the future. It's places where we think our competitors are breeding cash. It's just simply not worth the battle. And we continue to focus on having competitive costs to ensure that we can go back into whatever market we'd like and have margins comparable to whoever wants to capture market share in those markets. So really, this was in the cards since last year.

We probably had too much market share last year, because we over-deployed capacity there to protect slots as we've been able to take delivery of aircraft and extend the stage length and move those flights out of the market, you see kind of the two effects: we're using those slots more profitably, which allows our margin to go up on the planes that are flying those slots, but we're also taking excess capacity out of the domestic market, and that's helping the remaining capacity in Colombia be more profitable.

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
I would just add, Adrian, that one way to see it as well is that the new entrants in Bogota have been able to gain about 5% of share, whilst they've been mostly redeploying their capacity out of sight of Bogota, where they'll now have approximately 20% of share.

Q: Great. Yeah, so Fred and Adrian, if I'm hearing you right, it sounds like your revenue share has maybe fallen by less, or it may even be up, and it sounds like your profit share in domestic Colombia has actually moved up meaningfully, because of the actions you've taken.

Adrian Neuhauser - Chief Executive Officer, Abra Group
I think that's right. I think our math on the last point, which I can speak to is, in domestic Colombia, I think we're the only ones turning the profit right now. But, broadly, that's true.

Q: Great. All right. Thanks, everyone. Appreciate it.

Operator
Thank you. [Operator Instructions] Your next question is coming from Christian Reddy from BNP Paribas. Your line is live.

Q: Good morning, guys. Thanks for hosting the call. Another quarter of good results. Could you just go over what's going on with Colombia, but I'm curious, with all the capacity adds you've had, will there be a certain timeframe for those flights to actually mature? And could we possibly see already good yield performance and good load factors improve on those routes?

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
Definitely. As I mentioned during the presentation, we saw when we deploy new routes

that they will take time to mature. And we're seeing in some of them, they're still with load factors below our average. And we'll continue to see that throughout the first quarter. Nevertheless, still with lower load factors, we seen two positive effects is that about 90% plus of those routes that we deployed capacity into are already positive, which is actually above what we're expecting.

And, we had a second positive impact is that less capacity in Colombia is also making that our markets that we're present on are more profitable. So, overall, the strategy is paying. There are some markets where we're still a lower load factor, and you'll continue to see that lower load factor across the first months of the year, but the results in terms of overall PRASK, trend and profitability are positive with our results.

Adrian Neuhauser - Chief Executive Officer, Abra Group
And what's implicit in your question is, you're right, there's upside there, we're holding the CASK down, the load factor is lower, and yet profitability is still up. As demand grows into those routes, there's basically additional cash at very little marginal cost that those routes are going to generate.

Q: Great. And then one follow-up, how is market reaction to the introduction of the Business Class at the new levels, and what's the customer reaction?

Frederico Pedreira - Chief Executive Officer, Avianca Group International Limited
I would say very good. We were very upfront about it, when we exit Chapter 11, our vision was to maintain only Business Class in the 787. We saw that there was demand for Business Class. We started in July with 11 routes. And actually, one week after starting to operate those routes, those 11, when we saw those booking curves, we decided we had to expand because there's clearly demand. And we expanded to those additional 23. So, all of those, even the ones that we just started in December, the impact is positive, despite the fact that they've been flying for 2 months. So, it's revenue positive in the overall routes.

And on top of that, what we realized is that there's more demand for the Business Class products in those routes than just for the big seat. As you might recall, well, our configuration in the front of the plane is a 2-2 configuration. And what we've seen is that when we start to launch those Business routes with the Business Class service, instead of just the big seat, our load factors increased. So, the passenger is asking for a full Business Class service and not just the bigger seat.

And of course, there's an advantage there because when you're selling Business Class, you're also being able to sell Business Class through indirect channels. And by selling in the GDS, you do have an upside there, and we've seen that. So I will not get into a lot of details, but we're not stopping here.

Q: Great. Thanks for your time, guys. Appreciate it.

Adrian Neuhauser - Chief Executive Officer, Abra Group
Thank you.

Operator
Thank you. That concludes our Q&A session. I will now hand the conference back to Adrian Neuhauser for closing remarks. Please go ahead.

Adrian Neuhauser - Chief Executive Officer, Abra Group
Hi, everyone. Thank you again for joining on short notice. Thank you for continuing to follow us. Again, we're extremely proud of the quarter we've delivered. We're very happy with the way the strategy that we started deploying early in the year has played out. It's a quarter that we think proves that bearing with us and allowing us to redeploy this capacity and protect the slots was the right decision, and we look forward to our next conversation in a couple of months. Thanks again.

Operator
Thank you. Everyone, this concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.

About Avianca:
Avianca, part of Abra Group, encompasses Avianca — a Star Alliance member — LifeMiles, Avianca Cargo, and Wamos Air. In passenger transportation, Avianca, with over 105 years of operation since its founding in 1919, is the leading airline in Colombia, Ecuador, and Central America. It operates one of the largest air networks in Latin America, offering 165 routes, more than 700 daily flights, and a fleet of 149 Airbus A320 and Boeing 787 Dreamliner aircraft, connecting over 81 destinations across 28 countries in the Americas and Europe. In 2024, Avianca transported nearly 38 million customers and operated more than 258,000 flights. Its loyalty program, LifeMiles, is one of the largest in Latin America, with over 14 million members and more than 350 partner merchants. In cargo transportation, Avianca Cargo is the leading operator in various markets across the Americas, connecting over 60 destinations through its 190 weekly cargo flights, passenger flight network, and interline agreements. Additionally, Wamos Air, a world leader in air charter and wet lease services based in Spain, strengthens the Group's global reach by providing flexible, high-quality aviation solutions. For more information, visit www.avianca.com