

S&P Global

Market Intelligence

LATAM Airlines Group S.A.

SNSE:LTM

Earnings Call

Tuesday, July 29, 2025 2:00 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	9

Call Participants

EXECUTIVES

Ricardo Bottas Dourado

Roberto Alvo Milosawlewitsch
CEO & Acting CFO

Tori Creighton
Head of Investor Relations

ANALYSTS

Gabriel Rezende
*Itaú Corretora de Valores S.A.,
Research Division*

Guilherme G. Mendes
*JPMorgan Chase & Co, Research
Division*

Michael John Linenberg
*Deutsche Bank AG, Research
Division*

Presentation

Operator

Hello, and welcome, everyone, to the 2Q 2025 LATAM Airlines Group Earnings Conference Call. My name is Becky, and I'll be your operator today. [Operator Instructions]

Before I turn the call over to management, I'd like to remind you that certain statements in this presentation and during the Q&A may relate to future events and expectations and as such, constitute forward-looking statements. Any matters discussed today that are not historical facts, particularly comments regarding the company's future plans, objectives and expected performance or guidance are forward-looking statements. These statements are based on a range of assumptions that LATAM believes are reasonable, but are subject to uncertainties and risks that are discussed in detail in the published 20-F 2025 updated guidance, earnings release, financial statements and related CMF and SEC filings.

The company's actual results may differ significantly from those projected or suggested and any forward-looking statements due to a variety of factors, which are discussed in detail in our SEC filings. If there are any members of the press on this call, please note that for the media, this is a listen-only call.

I will now hand over to your host, Ricardo Bottas, CFO, to begin. Please go ahead.

Ricardo Bottas Dourado

Thank you. Hello, everyone, and good morning. Welcome to our second quarter 2025 conference call, and thank you all for joining us today. My name is Ricardo Bottas, and I am the CFO of LATAM Airlines Group. Here with me is Robert Alvo, our CEO; Andrés Valle, the Corporate Finance Director; and Tori Creighton, Head of Investor Relations, and we will present our highlights and results for the second quarter.

I'll hand it over to Roberto to share opening remarks about the quarterly highlights. Once finished, I will present then in more detail alongside the financial results, Roberto?

Roberto Alvo Milosawlewitsch CEO & Acting CFO

Thank you, Ricardo. Good morning, everyone, and thank you for joining us today. I'm pleased to open our second quarter 2025 earnings call by saying that LATAM Group continues to sustain growth and profitability once again. [indiscernible] robust results, a clear indication of the strength of the group's operating model, its commercial strategy and above all, the extraordinary commitment of its people and the relentless dedication to improve the customer experience every day. Let me start with a few headwind numbers. During the second quarter, LATAM Group transported over 20.5 million passengers, expanded capacity by 8.3% year-over-year and reached consolidated load factor of 83.5%, all while maintaining operational stability and growing customer preference across all markets.

In terms of the LATAM Group product and experience, the focus is on strengthening the value proposition in every flight, every interaction and every decision that is made. This quarter, we have a few updates in investments we're making in customer experience that Ricardo will comment on, which are supporting improved levels of customer satisfaction. During the quarter, LATAM Group's Net Promoter Score matched the record high achieved in the first quarter of 2025.

Additionally, in June, at the 2025 Skytrax World Airline Awards, LatAm was named the best airline in South America for the sixth year in a row and Best Airline Staff in South America for the fourth consecutive year. These awards are based on over 22 million passenger both from more than 100 nationalities, and they reflect not just operational excellence, but trust, service and consistency.

From a financial standpoint, LATAM delivered another quarter of strong and balanced performance. Total revenues grew by 8.2% year-over-year, supported by healthy threats in both passenger and cargo segments. This top line expansion, combined with disciplined cost control and a favorable fuel

environment, growth and adjusted EBITDA of \$850 million with a margin of 25.9%, reflecting a strong 5.5 percentage point improvement from the same period last year.

LATAM also reached record second quarter adjusted operating margin with 12.9% and 3.9 percentage point improvement from the second quarter 2024. A key sign of how strategy and execution are delivering results. Net income reached to \$242 million marking a 66% increase year-over-year. That figure brings first half net income to nearly \$597 million. These results are particularly significant when considering the context of ongoing macroeconomic volatility across several of our key markets. They highlight the strength of the group's diversified and flexible business model, the ability to adapt to shifting external conditions and the disciplined focus on both operational execution and financial strength. This performance also supported a robust capital structure with \$3.6 billion in liquidity and a 1.6x adjusted net leverage even after returning \$445 million to shareholders through dividends and the repurchase of 1.6% of LATAM's capital on the Santiago Stock Exchange.

Looking ahead, current booking trends remain solid across both domestic and international markets providing additional confidence in the demand environment for the coming quarters and reinforcing the outlook for the second half of the year. This is expressed in its improvements in most dimensions of LATAM's group full year 2025 guidance, narrowing the ranges given improved visibility for the year. This revision reflects the strength of the group's commercial momentum, driving more high-quality traffic through its network, the flexibility of this operating model and the disciplined approach to cost and investment that continues to guide the decision made. Ricardo will later elaborate a little bit more on these changes.

During the quarter, the group incorporated 12 aircraft, including 10 A320 neos, one A321neo and 1 wide-body Airbus 330 operating under a short-term lease. With this LATAM Group is on track with its fleet plan and has received 14 of the 26 aircraft scheduled for delivery in 2025. At the same time and consistent with the strategy, business development and demand growth currently being experienced, medium-term opportunities for incremental growth have been identified in most markets where LATAM Group affiliates operate.

In this context, during the quarter, 11 additional 820neo family aircraft were secured for delivery in 2026, along with the decision to delay the progressive retirement of 4 of our 319 aircraft. Moreover, there may be potential opportunities for further growth over the next 2 to 3 years. In this context, LATAM Group is analyzing the acquisition of additional aircraft from various manufacturers and the source. This includes additions to its wide-body and narrow-body fleet, the latter including aircraft from the A320 family as well as other similar jets from manufacturers such as Airbus and [indiscernible].

The primary focus of these additions will be to serve and grow passenger transportation within the region and cargo traffic in regional markets. As might be expected, the materialization of these options depends, of course, on several factors including aircraft availability and the evolution of the markets in which the group operates. The group continues, nonetheless, to maintain significant flexibility to adjust capacity if we need to.

Building on LATAM's strong results in June, shareholders approved a broader repurchase program of up to 3.4% of total shares. As part of that program, a second share repurchase for up to 2.4% of the company's outstanding shares is currently being executed through a 30-day pro rata mechanism on the Santiago Stock Exchange and is expected to conclude by the end of this month. We also carried out the final step in optimizing our nonfleet financial debt. In June, we fully eliminated our interest debt from 2022, high interest debt, I may recall, refinancing \$700 million of high-cost notes with a new \$800 million issuance at significantly lower rates. This is expected to generate \$33 million in annual interest savings.

In summary, we're very pleased to share with you the strong second quarter, the results and the confident and positive view on the remainder of 2025. Thank you again for being here today. I'll hand it over to Ricardo for the operational and financial review.

Ricardo Bottas Dourado

Thank you, Roberto. I'd invite you to move to the next slide, Slide 4. In terms of operational performance, LATAM Group continues to deliver solid year-over-year growth. Consolidated capacity measured in the [indiscernible] increased by 8.3%, driven primarily by a 10.9% expansion in Latin Airlines Brazil domestic operations, a figure that partially reflects the impact of the temporary closure of Salgado Filho International Airport in Portalegre during 2024, now fully recovered. As well as 9.6% increase in the group's international capacity, supported by positive momentum in both regional and long-haul travel. Commercially, domestic capacity across the group's affiliates in Chile, Colombia, Ecuador and Peru recorded a slightly decline of 0.3%. This is explained by the strategic reallocation of part [indiscernible] Colombia's domestic fleet to support growth in international rollouts. Both effects are lined with the updated 2025 guidance and reflects the ability to dynamically adjust capacity strategically towards high demand markets.

load factors remained healthy across all segments with the consolidated load factor reaching 83.5%, a 1.2 percentage point improvement compared to the same period last year, reflecting strong demand and disciplined capacity growth. During the quarter, LATAM Group transported 20.6 million passengers, a 7.6% year-over-year increase. In terms of consolidated passenger revenue per ASK, it remained stable year-over-year even as the group faced currency depreciation in several key domestic markets and [indiscernible] full price. This coupled with its continued growth and expansion speaks to the resilience of the commercial performance and the strength of LATAM's Group's diversified network.

In particular, LATAM Airlines Brazil's domestic passengers, RASK in local currency grew was solid 7.8% year-over-year, reflecting strong underlying demand, however, when we express in dollars, LATAM Airlines Brazil domestic passengers RASK declined by 3.3% due to the year-over-year depreciation of the Brazilian real. In [indiscernible] passenger RASK in domestic markets of the affiliate spaces in Spanish [indiscernible] countries remained robust, supported by continued strength across geographics and the stabilization of capacity of [indiscernible] Colombia's markets.

Lastly, international passenger RASK held nearly flat despite a 9.6% increase in capacity, underscoring healthy demand dynamic and network optimization efforts across the long-haul markets. Moving to the next slide, Slide 5, beyond operational performance. LATAM Group continued to make progress on elevating the customer journey through investments in product, technology and service design. In particular, enhancements in the premium segment have elevated the overall experience and customer satisfaction while also driven a stronger revenue contribution.

Regarding LATAM Group retrofit, significant progress has already been made on the narrow body fleet, and the current focus is now retrofitting the wide-body aircraft. In May, a new premium business cabin was introduced in the [indiscernible] operation in select aircraft. These redesigned cabin features sweet doors for full privacy, full-flat seats 18-inch high-definition screens and layout inspired by South America landscapes and [indiscernible].

The new retrofitted aircraft are read reasonably with passengers, delivering an improvement in customer satisfaction levels of versus the previous generation of retrofitted aircraft. In terms of connectivity, WiFi is now available across the entire narrow-body fleet of LATAM Airlines Brazil and continue to scale rapidly across the region, reaching nearly 90% of all affiliate carriers, narrow-body aircraft operating domestic, international, intra-South America flights. The implementation remains on track to complete the rollout across the entire LATAM group narrow-body fleet network by the end of 2025.

Looking ahead, LATAM Group is prepared to expand connectivity with wide-body fleet beginning in 2026 through a commercial agreement with ViaSat. This next generation system will be implemented across long-haul aircraft operating intercontinental routes further strengthened LATAM's Group's commitment to offering a modern and connected onboard experience. LATAM Group is also elevating the premium on ground experience. On June 1, the new terminal at Lima International Airport opening its doors and LATAM launched its signature checking services for Black and Black Signature members, a feature that previously don't exist in that hub. With this addition, LATAM Group now offers signatory checking services at the 3 major hubs, Santiago, Sao Paulo and now in Lima.

Moving to the next slide, Slide 6. The results from these ongoing investments in the passenger experience are clearly reflected in LATAM Group's customer satisfaction metrics. During the second quarter, LATAM

Group maintaining an operational net promoter score of 56 points, matching the record high reached in the first quarter of 2025. Among premium passengers, NPS rose to 60 points, confirming the continued positive response to enhancements across our product and service [indiscernible] points. This progress was reinforced by a global recognition, as Roberto mentioned at the beginning. In June, at the 2025 Skytrax World Airline Awards that then received 9 distinctions, marking the first time the group won every award available in the South America category.

This included recognitions for best business and economy class, onboarding catering, cabin clearances and Creo and Lance. This broad recognition is a testament to the dedication of LatAm Group's teams and the strength of the travel experience [indiscernible] of the group after offer across the region. It also confirms its position as the airline group of choice in South America, not only because of the scale of its network, but because of the quality and consistency of the journey the group delivers.

Turning to the next slide, Slide 7, about the LATAM financial results, the second quarter reflect a strong and disciplined execution across all fronts. Total revenues reached \$3.3 billion, an increase of 8.2% year-over-year, supported by healthy demand across both passengers and cargo segments. Passenger revenues rose by 8.5% while revenues from premium travelers performed even better, increasing by 12% year-over-year. Cargo revenues also grew by 10.2% with notable performance during seasonal peaks, such as mother days, particularly in Colombia and Ecuador.

On the cost side, LATAM Group benefited from a favorable fuel environment with jet fuel costs decreasing by 10.6% year-over-year. At the same time, it maintains a disciplined approach to controllable costs supporting margin expansions. As a result, LATAM delivered an adjusted EBITDA of \$850 million with a 25.9% margin, improving 5.5 percentage points year-over-year and reached an adjusted operating margin of 12.9%, the highest ever for our second quarter, a clear demonstration of improved operating leverage. Ultimately, net income for the quarter totaled \$242 million, up 66% year-over-year bringing first half net income close to \$600 million. Moving to the next slide, Slide 8. The strength of second quarter performance is not only the result of revenue growth of favorable [indiscernible] dynamics, but it's also a reflection of LATAM's long-standing discipline on cost containment.

In the second quarter, adjusted CASK ex [indiscernible] will remain at \$0.048 and an adjusted passenger CASK-ex [indiscernible] held at \$0.043, both aligned with the updated full year guidance. LATAM Group's cost strategy continues to be one of defining pillars of its business model. It is what allows the group to invest in the customer, expand the network and consistently deliver healthy margins.

Turning to Slide 9. Looking at LATAM's trailing 12 months performance, the company reached an adjusted EBITDA of \$3.5 billion from the last 12 months, with a margin of 26.2%, continued the upward trend we have seen over the past several quarters. This sustained growth reflects the strength of operating model, combining solid demand in strategic capacity deployment and strict cost discipline and also reinforce LATAM's ability to invest in the business, improve the customer journey and preserve financial flexibility, all while maintaining healthy leverage and delivering returns to shareholders.

Turning to next slide, Slide 10. The cash generation, as we showed in the slides, the second quarter, LATAM delivered another solid performance driven by a strong adjusted operating cash flow of \$753 million in this quarter, continued discipline in capital allocation. Throughout the quarter, the company maintained investment plans to support fleet growth and maintenance, resulting in a unleveraged free cash flow of \$522 million. After accounting for interest expenses, adjusted leverage free cash flow amounted to \$395 million.

Overall, LATAM generated \$367 million in net cash before implementing shareholder return initiatives. In total, \$445 million was returned to shareholders during the quarter, comprising \$293 million in dividends, equivalent to the 30% of the fiscal year 2024 net income and \$152 million through the first share repurchase program, as Roberto mentioned at the beginning. After accounting for these returns, LATAM's cash balance was largely unchanged with a slightly decrease of \$78 million quarter-over-quarter, supported by healthy underlying profitability and solid liquidity management.

Considering the first half of the year, LATAM has generated \$1.3 billion in net just in operating cash flow. \$743 million in adjusted unleveraged free cash flow and \$592 million in adjusted leverage free cash flow

and also net cash variation of \$111 million in the first semester. Looking ahead, LATAM remains confident that the operation will continue to generate cash throughout the second half of the year, in line with the updated 2025 guidance given the company the flexibility to support strategic initiatives, reinvest in the business and return value to shareholders in a sustainable and disciplined way.

Moving to the next slide, now Slide 11. About the capital structure. At the end of the second quarter, LatAm reported liquidity of \$3.6 billion, equivalent to 27.2% of last 12 months revenues. This strong financial position was maintained and supported by continued access to committed revolving credit lines even after deploying cash during the quarter to return capital to shareholders. In terms of leverage, LatAm closed the quarter with an adjusted net leverage ratio of 1.6%, which reflects the company consistent financial discipline and well below the financial policy target. LatAm Capital structure continues to be one of its key strength, both in absolute terms and relative to the industry. As we move forward, we will remain focused on protecting the solid financial position, staying within the parameters of our financial policy, while continuing to explore opportunities to enhance efficiency and create long-term revenue.

Moving to the Slide 12, an important update a milestone for the group and the continued strength of LATAM's capital structure in June, last June, the second and the final stage of our post restructuring refinancing plans was completed with the issuance of \$800 million in senior secured notes during 2031 and 758 coupon. This transaction allowed us to fully repay the remaining high interest rate debt from 2022 with a strong reduction above 570 basis points in the cost of the refinance of debt. This represents an additional annual savings in interest, about \$33 million savings.

Together with the savings from last year negotiation, we are accounting now combined savings close to \$151 million. Let's turn to Slide 13. As LATAM Group moves into the second half of the year, the business fundamental remains strong, and there is less uncertainty in the macroeconomic environment. And in this sense, we are pleased to report that we have been closely monitoring demand trends and both passengers bookings and cargo have remained stable in the recent weeks. And in light of this, we have narrowed the range of LatAm group's guidance for the full year and made certain revisions and upwards adjustments, including capacity and some key financial indicators.

In terms of capacity, the company has narrowed its consolidated growth range while now expecting larger growth in the Brazilian domestic market with the updated guidance reflecting an increase from 7 -- between 7% to 9% to 9.5% and 10.5%. This is supported by stable demand trends and the group's ability to deploy capacity in markets with a strong performance and better opportunities. The company also expects an adjusted operating margin between 14% and 15%, up from a previous range between 13% to 15%. Additionally, adjusted EBITDAR is now forecasted between \$3.65 billion and \$3.85 billion, revised upward from \$3.4 billion to \$3.75 billion.

In terms of capital structure, the expectations for adjusted leverage free cash flow have been increased to above \$1.3 billion, up from above \$1.2 billion. The company is also reaffirming the targets of maintaining adjusted net leverage ratio at or below 1.5x. These updates reflect LATAM Group's consistent execution and confidence in its ability to generate sustainable value going forward.

Moving to the last slide before we move to the Q&A, let me quickly recap the main takeaways from this strong second quarter. First, we saw solid performance -- operational performance with continued growth and efficiency. LATAM Group transported over 20 million passengers in this last quarter and ended this quarter with a consolidated load factor of 83.5%, supported by strong demand across all business segments.

Second, financial results were robust. LATAM delivered a solid adjusted EBITDA and the double digit adjusted operating margin of 12.9%, supported by stable unit revenue, lower fuel prices and continued cost discipline. Third, we continue to deliver value to shareholders. LATAM reported net income of \$242 million for the quarter and close to \$600 million for the first half of the year, demonstrating consistent execution and profitability.

Additionally, the company returned \$445 million to shareholders through dividends and the repurchase of 1.6% of its outstanding shares in the Santiago Stock Exchange. Fourth, customer satisfaction remained at record levels, driven by the continued investments in premium cabins, enhanced onboard connectivity.

This is also reflected in the recognition that we have mentioned regarding the LATAM recognized as the Best Airline in South America in 2025 by Skytrax awards.

Fifth, we reached a major milestone in capital structure optimization through the recent \$800 million refinancing, significantly reducing our interest costs and unlocking over \$30 million in annual savings.

And finally, LATAM Group's fleet plans remain firmly on track. The group has already incorporated 14 new aircraft during the first half of the year and expect to receive 12 more in the second half, reinforcing its growth strategy and operational efficiency.

With that, now we can open the line for the questions. Thank you.

Question and Answer

Operator

[Operator Instructions]

Our first question comes from Guilherme Mendes from JPMorgan.

Guilherme G. Mendes

JPMorgan Chase & Co, Research Division

Two questions. The first one is on the growth outlook. You mentioned in the release on the intro you see growth opportunities for the next 2 or 3 years, but what does it mean in terms of ASK growth? I know there's no formal guidance beyond 2025, but any color on how each of the markets could grow would be appreciated.

And second point is on the capital allocation and leverage. It's clear that the company continues to generate free cash flow, reduce leverage and although we saw dividend payments and the ongoing buyback program, should we think that any gap between the current leverage and what you said as the 2x financial target could be distributed as dividends going forward.

Roberto Alvo Milosawlewitsch

CEO & Acting CFO

Hi, Guilherme. How are you. Nice talking to you again, this is Roberto on this side. So in terms of your first question, what we're seeing is, in general, solid demand in most of the markets without many impact from all the geopolitical things that we are seeing. We have been able to improve the connectivity, the quality of our network, our premium revenue is growing faster than our capacity is growing. The fact that we have remained at pretty much the same cost per ASK since before the pandemic. I think talks well about our discipline in cost. So all of that provides us with a good set of opportunities for growth in the upcoming years.

And as you well mentioned, we are still not providing any guidance on 2026 and onwards. But if you just take the fleet plan and think about how much operation comes from that, I think it's fair to say that, that would give you a high single-digits growth prospect for 2026. And that includes already the 11 aircraft that we have secured that I mentioned in the -- in my introduction. So I think that you can use that as a broad level indicator coming out of our fleet plan. And of course, we'll provide more detailed guidance towards the end of the year.

And 2027 onwards, I think it's still early to say. But again, if what we see in the market today in the upcoming months or quarters remains I think that we have interesting opportunities to keep a momentum on our growth for a little bit longer. And if I can give you just a little bit of market color again, so the overcapacity situation that we saw in Colombia in the first quarters of the year and late last year, it's been kind of balanced today. Domestic Brazil is in a good place as well as domestic Spanish-speaking countries. International is in a very solid stance as well. I would say that the only small concern is Chile to U.S. point-of-sale Chile as people are trying to understand U.S. policies regarding traffic between both countries.

Cargo has not been affected by the liberation Day announcements in early April, if you remember, that's within the quarter, just marginally, and we haven't seen any significant impacts. And again, our network our position in car has allowed us to continue improving our revenues and our capacity there. So in general, I would say that we see a good market situation for the time being. And on the second question, I'll pass it to Ricardo.

Ricardo Bottas Dourado

Okay. Thank you for your question, Gui. I think it's important to mention that the financial policy is part of the framework that we have to deploy capital to shareholders. So -- it's not only the leverage itself,

like you mentioned, but a combination of the performance of the liquidity. And remember that we should target to have under the financial policy, the liquid between 21% and 25%. And also to be below 2x under the financial policy, the leverage level, but we have the target for this year, as I have mentioned during the presentation, to be at the end of this year on at or below 1.5x.

And also, we have an ambitious to target BB+ rating. So we have to combine everything before discuss the alternatives we have to deploy capital to shareholders. But remember that we also together with the Board of Directors, we always evaluate all possibilities we have to deploy capital like incremental dividends, buybacks and other alternatives that we could suggest to shareholders and also to the Board of Directors. So under the financial policy, looking for the framework we have Martin prevented us to start and evaluating to propose an alternative.

Roberto Alvo Milosawlewitsch

CEO & Acting CFO

Just as a complement of Ricardo's question, I think it's important to point out 2 things. One is that we are able to do this distribution back to shareholders. At the same time, while we grow close to very high single digits. And I think that's -- that's very important because we have the ability to do at this moment in time, both things. And when you think looking forward, just keep in mind that, of course, the development of the business and seeking market opportunities, commercial opportunities will come of course, first. So within the guidance of the financial policy and after we review our growth prospects is when we will make decisions regarding further distribution to shareholders.

Operator

Our next question comes from Michael Linenberg from Deutsche Bank. Your line is now open. Please go ahead.

Michael John Linenberg

Deutsche Bank AG, Research Division

Very, very good results. I guess 2 questions here in revenue. you could see how well your cargo revenues held up despite deliberation Day announcements and Obviously, we've heard other carriers talk about some cargo softness. But your other revenue was down pretty meaningfully. I know it's not a big number, but what was driving that other piece? What's in there?

Roberto Alvo Milosawlewitsch

CEO & Acting CFO

So Tori, do you want to answer that?

Tori Creighton

Head of Investor Relations

Sure. Hi, Mike, this is Tori speaking. With regard to the other revenues that we had in the period. Nice to hear from you. Other income, so in this period amounted to \$36 million. It's not something that really moves the needle significantly or materially for us. Usually, what's considered in other income is a combination of our LATAM travel business. So all of our main -- our other businesses that are not the passenger business or cargo. So we have some revenues there that are considered from travel. Sometimes we see relative the other joint venture agreements, et cetera. So it's a little bit of everything.

Roberto Alvo Milosawlewitsch

CEO & Acting CFO

Another revenue like sale of assets and stuff like that. So it's a combination of very small things, Michael.

Michael John Linenberg

Deutsche Bank AG, Research Division

Okay. No, no, that's good. And I didn't know if there's a loyalty piece in there or some sort of reclassification. That's all I was getting to.

Roberto Alvo Milosawlewitsch*CEO & Acting CFO*

No, FFP revenues, royalty revenues are within the passenger dimension.

Michael John Linenberg*Deutsche Bank AG, Research Division*

Okay. Okay. Great. And then just my second question, and this is more sort of big picture. I mean the June quarter historically was always the tough quarter when you think about LATAM from a seasonal perspective. And the margin that you just put up in that June quarter, that's eye opening. And I have to go back many years. That may be one of your best June quarters ever. from a profitability standpoint. And I just -- as it speaks to seasonality and it may be just as your network has just grown and expanded and also the strength that you have within your domestic markets, are we at a point where the June quarter, I guess, will still always be maybe a seasonally more challenging quarter for LATAM. But when we think about the balance of your network today, -- is it just -- is it going to be less of an impact than we would have seen in the past? I mean, it feels like you've kind of moved into the sort of next level. It's like the next chapter of LATAM, where you've now found enough markets and you have such a diversified revenue stream that you basically mitigated the seasonal impact that we used to see. I mean there was some time where you would actually lose money in the June quarter. And this margin, this is going to be one of the -- amongst some of the best margins of for carriers that the June quarter is seasonally 1 of their strongest quarters. So I'm just -- if you can speak to that because it does feel like there's some structural changes underway that may be permanent that are helping your overall full year profitability.

Roberto Alvo Milosawlewitsch*CEO & Acting CFO*

Thanks, Michael. Yes, I mean, second quarter is going to be -- I mean, the -- we have holidays in January, February and in July in this part of the world. So and no holidays or not important holidays in the second quarter to take that into consideration, people come back from the large summer holidays as well. So I think that, that trend will be there. It's not linked to demand. Having said that, yes, I think that we have seen a little bit less from the demand side seasonality than in the past. I'm not sure I can point out to passenger -- changes in passenger behavior yet probably we will need a little bit more time to do that.

What is true is what you mentioned in terms of the diversification of our network. Not all the countries have the same seasonality. We have been able to drive significant growth on premium traffic revenue that is less seasonal than the leisure revenue, and that is certainly helping to change a little bit the seasonality curve as well. And that's important. So for me, the bottom line here, if you ask me, is we're in this position where we have the financial strength to take opportunities in the market. We have cost discipline. We are investing a ton of time and effort in increasing our customer experience. And what we have seen is, I think, an untapped, an untapped avenue of premium revenue that we hadn't identified in the past. And shame on me in the past, there was the commercial guy, and I didn't see it. But now we're seeing it and that helps as well. And together with that, I think that we have a good demand profile.

So I can't speak for second quarter 2026 yet, but I think that some of the things that you point out sounds that that makes sense. But if you want to leave with one message from all this conversation is, again, premium traffic is less seasonal and our mix is changing, and that will help the second quarter.

Operator

[Operator Instructions] Our next question is from Gabriel Rezende from Itaú BBA. Please go ahead.

Gabriel Rezende*Itaú Corretora de Valores S.A., Research Division*

I just wanted to do a follow-up over your guidance update. So just trying to understand what is underpin your higher than anticipated capacity as part of the full year. Just trying to break this down on LatAm's ability to receive the aircraft maybe at a faster pace than anticipated or whether this is solely related to a better-than-anticipated demand across the board for your geography. Again, trying to understand how

strong this demand at this point that it might also have benefited from aircraft being delivered earlier than you thought.

And just trying to follow up again on the profitability discussions for the coming quarters. If you could help us to understand where you're seeing more upside for cost projections to understand that you're benefiting from a good mix on your top line? But just trying to understand what are the other opportunities for you to continue to increase efficiency from a cost perspective line by line on your income statement?

Roberto Alvo Milosawlewitsch
CEO & Acting CFO

Yes. Thanks for the question. So on the capacity growth, I think that this is a factor of seats. One is, yes, we have been able to receive the aircraft that we were expecting in time. And we don't see many risks with respect to that. We're monitoring very closely the brand Whitney AOG situation, which has remained relatively stable during the last months. And we expect that to be stable for the remainder of the year. We have improved our expectation on 787 [indiscernible] in the first part of the year, I think we were a little bit more cautious with that. We've done great work, and we've also been extremely supportive and hopefully, we will be cleared out of [indiscernible] next month. In the last call, if I recall, we had 3 or 4 787 so that helps as well.

We have 3 wet lease aircraft that we secured last year to support this that we will operate during the second half of the year nonetheless. And then finally, the benefit of the large network, which allows us to mix and match our aircraft and increase our utilization, our attrition numbers are slightly better than 2024. And we see a little bit of further opportunity going forward as well. So I think that all those factors add up to us putting ourselves in the high end of the old capacity guidance. And then the rest is just balancing capacity between the markets as we see how the opportunities evolve. One of the beauties of LATAM is that even though we operate in several market we can move assets around relatively quickly and adjust to market opportunities. And this is not only a factor of diversification that we have, but also the fact that we have -- we have built an operational machine, if I can call it like that, that allows us to put that very quickly.

So in general, we feel confident with respect to the capacity outlook and the reasons are the ones I just mentioned. The second.

Gabriel Rezende
Itaú Corretora de Valores S.A., Research Division

The efficiency from costs in terms of advantage.

Roberto Alvo Milosawlewitsch
CEO & Acting CFO

Second question on cost efficiency. I mean -- so let me tell you 2 important things here. We don't do this cost-cutting program that we launched one day that were we intend to save millions or hundreds of millions of dollars. We do that every day. And this is very much embedded in the quarter. We have -- can you hear me? Sorry, we had a little bit of IT. Can you hear me?

Gabriel Rezende
Itaú Corretora de Valores S.A., Research Division

Yes, I can hear you. The line was breaking -- I can hear you.

Roberto Alvo Milosawlewitsch
CEO & Acting CFO

All right. So take that into consideration. We -- all -- every day, all day, we're looking at opportunities. And at the end of the day, there's always a little bit of drops that you can extract to the lemon as you squeeze it. If you ask me going forward, I think that a big change is the inception of technology. Everybody talks about AI and technology and all of this regarding the customer and personalization and offering and so on,

which I think is true, and we're working hard on that. But I think that technology has the opportunity of streamlining, changing the way we operate.

I don't think that we will see in the next 20 years, any new or 15 years, any new significant technology changes in the hardware -- so the aircraft we're operating today are probably going to be the aircraft we will operate in the next decade or so. So the change in this industry in the next 10 or 15 years in terms of efficiency is going to come from the let me call it, software side rather than the hardware side, which is how do we use technology in a way of changing the way we operate. And there's, in my mind, significant opportunity for that. And we are very focused today in that we have the whole maintenance organization, for example, is moving into a digital organization internally.

We're transforming all of the cargo operation as well as we speak at the same time and -- and we have, I think, a good runway to continue looking at efficiency improvements as we understand how to use technology more broadly in our operation.

I hope that I answered you questions.

Operator

Gabriel, just to make sure were you able to understand the first answer.

Gabriel Rezende

Itaú Corretora de Valores S.A., Research Division

Yes, yes. It was breaking a little bit, but I could hear you, yes.

Roberto Alvo Milosawlewitsch

CEO & Acting CFO

Thank you.

Operator

Thank you. We currently have no further questions. So I'll hand back to the management team for closing remarks.

Roberto Alvo Milosawlewitsch

CEO & Acting CFO

So thank you all for joining us today. And if you have any further or other questions, please make a contact and we are fully available for you all. Have a nice day. Thank you.

Operator

This concludes today's call. Thank you for joining. You may now disconnect your lines.

Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2025 S&P Global Market Intelligence.