Conference Call Transcript
Azul
4Q23 Results

Operator

Hello, everyone, and welcome to Azul's 4Q23 earnings call. My name is Zach, and I will be your operator for today. This event is being recorded, and all participants will be in listen-only mode until we conduct a Q&A session following the Company's presentation.

If you have a question, click on the Q&A icon at the bottom of your screen and write your name and company. When your name is announced, please turn your microphone on and proceed. For those who are listening to the conference on the phone, press nine to join the queue and six to accept the audio when requested.

I would like to turn the presentation over to Thaís Haberli, Head of Investor Relations. Please, Thaís, proceed.

Thais Haberli – Head of Investor Relations

Thank you, Zach, and welcome to Azul's 4Q23 earnings call. The results that we announced this morning, the audio of this call and the slides that we reference are available on our IR website.

Presenting today will be David Neeleman, Azul's founder and chairman, John Rodgerson, CEO, Alexandre Malfitani, our CFO, and Abhi Shah, the president of Azul, are also here for the Q&A session.

Before I turn the call over to David, I would like to caution you regarding the forward-looking statements. Any matters discussed today that are not historical facts, particularly comments regarding the Company's future plans, objectives, and expected performance, constitute forward-looking statements.

These statements are based on a range of assumptions that the Company believes are reasonable but are subject to uncertainties and risks that are discussed in detail in our CVM and SEC filings.

Also, during the course of the call, we will discuss non-IFRS performance measures, which should not be considered in isolation. With that, I will turn the call over to David.

David Neeleman – Azul's Founder and Chairman

Thank you, Thaís. Welcome, everyone, and thank you for joining us for our 4Q23 earnings call. I am happy to report that Azul had a record 2023. As you can see on slide three, we reported record revenues of almost R$19 billion for the year, with R$5 billion in a single quarter for the very first time.

Record yearly and quarterly RASK, and an EBITDA were of R$5.2 billion, R$2 billion above our previous year. 2023 was also transformational, thanks to the conclusion of our capital optimization plan, where we partnered with all of our stakeholders to create a win-win solution that set up Azul for long-term success.

And finally, in 2023, we continued to deliver exceptional operational performance by being the second most on-time airline in the world. I have to thank our incredible crew members for what they are doing each and every day. They are taking care of our customers and each other.

On slide four, you can see that our network strength is foundational to our structural and long-term competitive advantages. We continue to be the only carrier on 82% of our routes. This is a direct result of our unique network combined with our fleet flexibility, where we put the right aircraft on the right market at the right time.

In fact, I remember when we went public, investors would say as we grew, there would be more overlap. The opposite is the case. We have more than doubled in size over the past several years, always staying true to our business model, We have gotten stronger and stronger.

The construction of this unique network strategy together with our fleet transformation with the A320s and the E2s is a critical ingredient to our continued sustainability and profitable growth.

On slide five, we show a little more detail of why our network strength is so unique. We have always said that our mission is to grow the Brazilian market, to serve cities that have never been served before, and to provide connectivity and convenience like never before.

Let me give you an example: today, a customer can travel from Sorriso, a strong agribusiness market in the Midwest of Brazil, and with one convenient connection, our customer can be in Sao Paulo for a Monday morning meeting, a journey that would otherwise take 26 hours by car. This has never existed before, and it only does because of Azul. This is how we grow the market, and this is how we continue to profitably grow.

On slide six, I want to show you another example, our Recife hub. We have long identified Recife as a strong market in the northeast of Brazil, a growing city that has elements of strong leisure demand with a growing corporate demand in technology and automotive.

In 2017, we started to build out our Recife hub, connecting every major city via nonstop service and then onto the rest of our network. Today, Recife is better served than ever, rivaling cities like Brasilia in terms of departures and even Sao Paulo in terms of destinations served. Today, our entire fleet, from the Caravans to the A330s, fly in and out of Recife, bringing service and connectivity to Brazil and beyond.

Recife is also a great example of market discipline, where we are focusing on our strengths, and the industry is focusing on theirs. This type of network development, supported by our flexible fleet, allows us to continue growing within our network.

Finally, on slide seven, I am excited and proud of the partnership we have with the Brazilian Olympic Committee. Azul is unique and uniquely Brazilian. The cities we serve, the warmth, and attention you feel when you fly with us, it is all unique to us and reflects the best of Brazil and the best of Azul. With that spirit, we are so happy to partner with the Brazilian team for the Paris 2024 games.

And with that, I will turn the time over to John, who will give you more details on our amazing results.

John Rogerson – Azul's CEO

Thanks, David. I would also like to thank our amazing crew members for everything they do. I have always said we are a people business, and our crew members are our greatest asset.

We know that sometimes the operating environment can be challenging, but the fact that we continue to deliver exceptional service and performance is all credit to them.

On slide eight, I want to highlight the big numbers for the fourth quarter. As David mentioned, 2023 was a record year, and particularly the fourth quarter, for the first time ever, we did R$5 billion in revenue, 60% higher than 2019.

We had a record RASK of 45.3 cents, up 6% year over year on top of a very strong base, and with 7% capacity growth. Fourth-quarter EBITDA of R$1.5 billion with a 29% EBITDA margin. These are direct results of our competitive advantages and profitable growth strategy.

On slide nine, I want to highlight a really important and strategic shift that has been happening at Azul over the past year. More than 25% of our RASK is now non-ticket revenue.

This is because our business units, vacations, loyalty, cargo, ancillary revenue, and charter, are all growing even faster than the base airline. This is a key diversification strategy that further extends our competitive advantages.

This strategy captures customers from all different segments and brings them into the Azul Universe, from where we can cross-sell across all of our products and services. Even better, business units like vacations and loyalty can grow faster by providing services such as hotels, experiences, shopping, travel on other airlines, products that do not depend exclusively on Azul's growth.

This diversification and contribution are a further example of why we are so confident in our profitable growth strategy going forward.

It is hard to believe, but the R$6 billion in revenue from these business units is almost the same as all of Azul's revenue when we went public in 2017.

Turning to slide 10, we show a bridge for 2022 EBITDA to 2023. You can see the R$2 billion increase David mentioned in EBITDA, with contributions from RASK expansion, network growth, lower fuel and currency, and offsetting effects from inflation, increased maintenance expenses, and investments in the future that I will discuss shortly.

We significantly increased margins, improved revenue performance, grew the airline, and therefore produced the best results in our history.

On slide 11, we bridge immediate liquidity from the third quarter to the fourth quarter. You can clearly see the operation generated positive cash flow, which was used to pay down debt and deferrals.

Cash flow from operations was significant enough that even after aircraft rent, CAPEX, and interest payments, we generated R$300 million in cash. This clearly shows that our EBITDA directly results in cash flow generation and deleveraging.

As a result, as we show on slide 12, our leverage at the end of last year was down to 3.7, a full two-turn improvement since 2022. And in line with our guidance, even more exciting is that thanks to the significant EBITDA generation in 2024 and the continued pay down in debt, our leverage at the end of this year will be a very solid three times.

This is lower than what we had in the 4Q19 when using the same methodology. We told you we would emerge as a stronger Company, and we truly are. A remarkable achievement by our team.

Transitioning now to the future, the exciting part about Azul. I want to talk about how we are preparing and investing to meet and exceed our updated EBITDA guidance of R$6.5 billion for 2024.

And even higher in the years to come, we realized late last year that we needed to invest in our operational capabilities to prepare for this growth. We invested in operational staffing, allowing us to reduce aircraft ground time and increase aircraft utilization.

We invested in fleet and engine availability, ensuring we have adequate spares engines. We invested in our maintenance facilities, bringing forward by three years additional heavy maintenance capabilities so that we are not dependent on external MRO capacity.

Finally, we invested in pilots and flight attendants hiring so that we can have the crew trained and ready to go. All of this, combined with our next-gen deliveries, especially the E2s this year, means that we are ahead of the curve and are more in control in terms of our fleet availability and capacity.

On slide 14, you can already see the results of some of these investments. While aircraft utilization improved in 2023, there's still an opportunity to grow it. Looking ahead at our planned network for 2024, reaping the rewards of operational investments and reduction in ground time, we can take significant steps to increase aircraft utilization.

All fleet types will once again increase aircraft utilization in 2024. These are opportunities that we continue to develop, but we're extremely excited about the progress we are already making in 2024.

On slide 15, we thought it would be important to give you a panorama of our OEM partnerships. For the A220neo fleet, we have the LEAP engine as well as the CFM34 for our Embraer E1 fleet. For our E2s and ATRs, we have partnered with Pratt and Whitney. For our wide-body fleet, we have partnered with Rolls-Royce. With each of these partners, we have ongoing long-term maintenance agreements that support the operational reliability of our fleet.

On the aircraft manufacturer's side, the majority of our future deliveries over the next few years will come from Embraer, a relationship that we are very close to and is an OEM that we believe is better positioned than others to deliver aircraft on time.

While the situation is still volatile, we strongly believe that these are the best possible partnerships, and with our own internal capabilities, we are well-positioned to continue our fleet transformation and growth plans.

As I draw to a close, I want to share that we released updated guidance this morning. As you can see on slide 17, we expect R$6.5 billion of EBITDA this year on an overall capacity increase of 11%.

Leverage, as I mentioned earlier, will be around 3, below 2019 levels. Our fundamentals are strong, our business model is very unique, and I'm very excited to see all the great results Azul will deliver.

Thanks to our incredible and passionate crew members, I am confident that Azul will deliver better than expected results on a going-forward basis. With that, David, Alex, Abhi, and I are here to answer any of your questions.

Questions and Answers

Operator

Ladies and gentlemen, thank you. We will now begin the Q&A session. Remembering that if you have a question, click on the Q&A icon at the bottom of your screen and write your name and company. When your name is announced, please activate your microphone and proceed. (Operator Instructions).

Let's go on now to the first question. It will come from Victor Mizusaki, sell-side analyst from Bradesco. Victor, we will open your microphone so that you can ask your question. Please, proceed.

Victor Mizusaki – Bradesco

I have two questions here. The first one, you mentioned a material fact talking about the audit rules or the audit financial statements. But at the same time, when we take a look at the Brazilian CVM, we can see almost all the financial statements.

So, my first question is: what kind of change can we expect for the other figures and if there's something related to the negotiations with leasing companies?

And the second one, talking about cash flow for 2024. You released the guidance for EBITDA but if you start to think about, let's say topic and working capital, in the case of working capital, we can see a drop in 2024 in terms of accounts receivables.

If you think about it in terms of days, is this a kind of a sustainable level for 2024? Can you also comment about CAPEX and what we can expect for this year? Thank you.

Alex Malfitani – Azul's CFO

Thank you, Victor. So, on the audit statements, no change. It is really more about our independent auditors finishing up their work and documenting, formalizing. We do not expect any changes to our financial statements, and that is why we put out both the earnings release and the complete financial statements, though they are unaudited. We do not have the audit report yet, but we will have it in a few days, and then we will update the market accordingly. So, we do not expect any change.

On the EBITDA, It is good for us to highlight that in Brazil, flows and differences between your cash balance and the account receivable balance do not mean the same thing as they mean in other worlds. That is why in other countries, we look at cash flow and receivables together.

For example, in quarters where we have big capital raises, like we did in Q3, we do not need to advance receivables because it costs not a lot of money to advance receivables, but it does cost a little bit.

So, if we do not need to advance receivables because we have a lot of cash that we just raised, normally, that quarter is a quarter where the receivable balance goes up. Normally, if you are looking at a company and you see the receivable balance going up, you think that is a problem.

In Brazil, that is a sign of strength, showing that you just raised cash and you actually have a lot of cash from another source than in normal terms because selling in installments is a very unique Brazilian feature and a powerful sales tool. It's a very economical and a very good way to motivate our customers to buy tickets and to be able to afford travel and other purchases.

We sell in advance and then we sell in installments and then we advance these cash flows forward. And again, it costs just a little bit more than the risk-free rate in Brazil. So, I encourage everyone to look at the cash flows; receivable balance and fluctuations are more a question of whether there was a capital raise in the quarter or not.

That is the case with Q3. If you are comparing Q3 to Q4, you may think that the policy or the advancement of receivables changed, but it is really because they are fungible. So, no change there.

For CAPEX, we do not give guidance specifically on that, but I think the Q4 is a somewhat representative number. I do not think it was much higher or lower than what the average quarter will be going forward.

John Rogerson – Azul's CEO

And Victor, just to highlight a couple of things, we got the approved line with GE Celma, which is a $200 million credit line for CAPEX this year. But as you look at cash generation, take a look at what we did in the fourth quarter.

With that EBITDA, we paid the aircraft rent, we paid CAPEX, we actually paid the interest, and still had money left over. So, that is the plan going forward: to continue to pay down more expensive debt, generate cash operating the airline, and deleverage the Company as quickly as possible.

Victor Mizusaki – Bradesco

Okay. Thank you.

Operator

Thank you. The next question will now come from Savi Syth, sell side analyst from Raymond James. Savi, we will open your audio so that you can ask your question. Please, proceed.

Savi Syth – Raymond James

Good afternoon, everyone. You called out strength in domestic and international in the release. I was curious if you could provide a little bit more color on what you're seeing and your expectations for the second quarter and beyond.

Abhi Shah – Azul's President

Sure. So, first of all, even for Q1, we saw a 6.1% RASK improvement on an already very high base, more than 35% RASK versus 2019. So, the demand environment continues to be strong. What we thought was pent-up demand has continued and continues to be the case in the first quarter and second quarter of this year.

So, we feel pretty good about the demand environment. This year is going to be a little bit different in terms of seasonality. It feels to me like the second quarter is going to be stronger than we expect. One of the reasons is that last year, we had a lot of holidays throughout the year, especially in April.

So, we had a bit of a bunch of demand in March, and then a weaker April and May. If I look ahead right now at April, May, and June, which is seasonally the weakest quarter, all three months are actually running ahead of March right now in the domestic market. So, that gives me a lot of confidence going forward in the domestic market.

International is holding steady. We do have some capacity variations, especially now as we transition the A350 fleet, which stopped flying at the end of January. We have some wide bodies coming in now to replace that service from April, May, June, July onwards. But overall, I'm not seeing anything different in terms of international. It appears to be very steady, as last year.

The European summer I think is going to be very strong, especially with Paris hosting the Olympics, and even Lisbon as well. On the US side for us, it continues to be strong with Orlando and Fort Lauderdale, and with our partnership with JetBlue, TAP, and United.

So, I would say steady overall, and I think we're going to be pretty happy with the second quarter seasonality this year. Honestly, last year, I think we were disappointed, but I think this year it's going to behave differently, a lot more steady between Q1 and Q2. You can expect positive unit revenue growth in Q1 and then higher unit revenue growth in Q2. And then we get into strong second half seasonality.

John Rogerson – Azul's CEO

If I could just add something to what Abhi said, the demand remains very strong in Brazil, and we wanted to highlight the OEM relationships and the problems that the world is seeing because capacity is going to be in check for the foreseeable future with all the problems that the large OEMs are having in delivering aircraft with engine availability.

One of the unique strengths that Azul has is that all of our deals are on power by the hour, and we have the spare engine capability in place. So, we see a strong demand environment and we see capacity very much in check for the foreseeable future.

Savi Syth – Raymond James

That's a great point. And actually, it takes me to my second question if I might ask about the incremental addition in capacity. I was wondering where that's coming from and maybe just generally, if your thoughts have changed at all on where the capacity is going to be allocated this year?

Abhi Shah – Azul's President

Not really. We still see a lot of opportunities in our network. In Belo Horizonte, for example, is doing very well for us. Belém has recently been a focus city for us. We added some flights there which are doing really well. Campinas as well.

So, again, as David talked about the network and how fundamental it is for us, just a factoid, we still had 77,000 departures in 2023 on the E1s, 77,000, all of which we want to go to the E2s as soon as we possibly can. 18 more seats, 25% lower trip costs on each and every one of them. So, there is a lot of opportunity to up gauge in our own network.

Savi Syth – Raymond James

Very helpful, thank you.

Operator

Thank you. The next question will now come from Gabriel Rezende, sell side analyst from Itaú. Gabriel, we will open your audio so that you can ask your question. Please, proceed.

Gabriel Resende – Itaú BBA

Thanks, and good afternoon, everyone. Just following up on the last topic regarding the demand and overall. What are you foreseeing in terms of yields? if you could comment a little bit about competition as well.

You just mentioned that the capacity for this industry remains somewhat capped given the supply chain bottlenecks we are seeing right now. But it would be great to hear once again how you are feeling that your competitors are behaving in terms of prices, at least in the first three months of the year and on the already booked flights as well.

And a second topic here, if you could comment about the labor expenses we saw in the fourth quarter. You saw them increasing on both a year-on-year basis and a quarter-on-quarter basis, looking at the unit expenses? You mentioned that you need to increase your number of pilots as well as crew members.

Just wondering if you already have seen a portion of this increase in the fourth quarter and the unit growth from here on to be more limited. Thank you.

Abhi Shah – Azul's President

Hello, Gabriel. I think the industry overall is doing as good as it can. I think it is pretty disciplined on the capacity side, as John said, and I think the industry is doing all of the right things on the far side as well. There have been several fare increases, and the industry is moving fares as fuel varies, as dollar varies and is doing a really good job of recapturing those costs.

So, I think the industry is very motivated to maximize results. Like I said, you can expect positive year-over-year RASK in Q1, even higher positive year-over-year RASK in Q2. And a big part of this is because the industry is doing the right things, in my opinion, on making sure that we maximize results, and if that yields, that's fine, and if that's load factor, that's fine as well.

So, I'm very comfortable right now with the overall industry environment, and looking ahead, I don't really see that changing, whether it's overall capacity, whether it's yields, and also competitive dynamics.

As we mentioned in the opening remarks, I see the industry focusing where each one is strong, and I think that actually generates the best results for everybody. And I don't see that changing in any meaningful way. So, overall, I think we can be pretty satisfied with industry discipline.

Alex Malfitani – Azul's CFO

Gabriel, and then on the labor side, I think we explained qualitatively what's going on in this quarter, but just to give you a little bit more color. I will separate it into two things: one is we found opportunities inside Azul to reduce total cost, but that is increasing the salary line and it's reducing another line. But on the net, it is providing a reduction in costs.

For example, we internalized a lot of maintenance services, and if we didn't have these maintenance services today with the supply chain issues and with the MRO restrictions that exist, we would never be flying as much as we're flying.

So, that is an example of the salary line going up but enabling the amazing revenue performance that we are seeing. But the net result is obviously very positive for Azul.

The same thing with insourcing. We saw that there were situations where we had third-party providers and outside people where it would be much more efficient, much more affordable, and we would have better quality if we just used our own crew members for that work. So, that's an example.

And then there's all the investment in the future that John and David mentioned. We had to hire pilots; sometimes you have to hire pilots six months before they are actually going to fly. We had to increase airport staffing, but in exchange, we got a decrease in minimum ground time, which again gives us more aircraft hours to fly, which more than pays for the incremental cost of staff.

So, what that means is that the number that you saw for Q4 will not increase significantly. It's also, I think, pretty representative of what the average quarter will be in 2024. That means we are going to grow into the staffing that we have already brought into the Company.

Gabriel Resende – Itaú BBA

Thanks, Abhi and Alex. Very Clear.

Operator

The next question will now come from Alberto Valerio, sell side analyst from UBS. Alberto, we will open your audio so that you can ask your question. Please, go on.

Alberto Valerio – UBS

Thank you for taking my question. I have two questions on my side. The first one is about guidance. If we take the fourth quarter results and analyze it on a seasonable basis that is a little bit stronger than the other quarters, we remain a little bit adding the 11% capacity expansion for 2024. In my estimate, it will be lacking R$300 million.

I would like to know if you are expecting, as a result from the up-gauging aircraft, if you are expecting higher yields or higher margins for 2024. This is my first question.

My second question is about the quarter over quarter results. If there is some different mix on the quarters, we see a little bit lower RPKs from the third quarter to the fourth quarter, and as well, the margins were a little bit below 2.5 percentage points.

If this was just for this year or if you think we can see a different trend for 2024, and afterwards on this seasonality during the year. Thank you.

John Rogerson – Azul's CEO

Yeah, let me just address your second question first, and then we'll go back to your first question. Keep in mind that, I think we did 1.6 or 1.7 billion of EBITDA in the third quarter, but fuel increased about 16-17% quarter-over-quarter, so from the third quarter into the fourth quarter, fuel was up significantly.

We delivered almost the same amount of EBITDA with significantly higher fuel prices in the fourth quarter compared to the third quarter. So, I think that shows the strength of the business.

As we are going into 2024 where we are today. Keep in mind, we are significantly increasing our capacity by 11%, but that capacity is next-gen capacity and utilizing the existing aircraft we have even more, and we should have a lower fuel price, an average lower fuel price in 2024 than in 2023.

So, you will see margin expansion because of that, and we should be getting more economies of scale as we grow this business.

Alberto Valerio – UBS

So, seasonality should remain the same? It was just more one quarter to the other due the fuel, right?

John Rogerson – Azul's CEO

It was just fuel. Take a look at the average fuel price in the fourth quarter versus the third quarter.

Alex Malfitani – Azul's CFO

We use Bloomberg to forecast fuel going forward. We use HOA. So, you can also see what we expect for Q2, Q3, Q4 is very different from what you saw in Q4. So, multiplied by four, it's a very easy way to say that it doesn't take much for you to see that our exit rate of 2023 provides us great momentum into the R$6.5 billion that we guided for 2024.

And then you add the capacity growth and then you add the fact that we are already paying for staff in Q4 and Q1 that's going to produce EBITDA in the full year of 2024 that there are maintenance lines that we installed in our hangar that did not work necessarily for all of Q4, but they will work for all of 2024. So, there's a lot that's more about the run rate than about the seasonality.

John Rogerson – Azul's CEO

I think it's also important. I want to really address this point on OEMs. There's a battle worldwide with the OEMs. People are fighting over spare engines, they're fighting over slots at engine facilities, and the fact that we have a long-term relationship with GE/CFM, with Pratt and Whitney, I think that's a competitive advantage that we have locked in, going forward, and what you saw in the fourth quarter was us ensuring that we have the assets in place to grow.

Alberto Valerio – UBS

Makes total sense. Thank you very much, both.

Operator

The next question will now come from Bruno, sell side analyst from Goldman Sachs. Bruno, we will open your audio so that you can ask your question. Please, proceed.

Bruno – Goldman Sachs

Thank you for taking my question. I just have a follow-up on the outlook for this year. If we look at the fourth-quarter results, if we adjust for what happened with fuel prices since then, to your point, and if we account for the growth in capacity, for the improvement in the competitive environment.

We can easily get to the margin that you are guiding for this year just by taking into account the jet fuel benefit and on top of that, you have the capacity growth, improving the competitive environment. Is it fair to say the guidance is conservative or am I missing something here? Thank you.

Alex Malfitani – Azul's CFO

We usually try to underpromise and overdeliver. So our guidance, I would not say is our 50/50 number. But it's the beginning of the year. It's Brazil, but you're right. I mean, there is a lot that we talked about when we finalized our capital optimization plan. We are very proud of that plan.

I think we're proud of the support that we got, but obviously, it took a lot of work. It took a lot of energy and time from the senior management team. Now we can just divert all that bandwidth to our Azul and to do what we'd like to do, which is to take care of the business, take care of our customers and look for opportunities.

I'm not going to say that there's a lot of betting, but I think it is on us to absolutely work all year to deliver something better than the 6.5%.

John Rogerson – Azul's CEO

Bruno, rest assured we're shooting higher.

Operator

Moving on to the next question. It will come from Daniel Mackenzie, sell side analyst from Seaport Global. We are going to open your audio so that you can ask your question, you may proceed.

Daniel McKenzie – Seaport Global

The first question is about heating oil prices. What is the capacity flexibility that we have, and what is the willingness to put back on growth to help support loads and run through?

Abhi Shah – Azul's President

We want to be disciplined overall. We want to grow within the network, we want to up gauge. So I think we'll do what maximizes the result and what makes sense. In terms of delivery flexibility, I think we do have a little bit of flexibility in the second half of the year on the E2 side.

It depends on how Embraer delivers, but I think there is a bit of flexibility there to anticipate if we want. But, we are going to focus on making sure we maximize margins, maximize the result, and still stay disciplined to the overall market because we think that's healthy now and we think that's healthy long term. So, I think we will do what makes sense and what's right for the market overall.

Daniel McKenzie – Seaport Global

The second question is about corporate volume and revenue trends. What are your expectations throughout the year? The economic backdrop has surprised the upside? Is that driving an uptick in corporate travel?

Abhi Shah – Azul's President

Corporate travel has been strong and was very strong in the second half of last year, especially in the September, October, November timeframe. We actually had periods where we crossed over 100% in corporate volume recovery. Revenue, just to remind everybody, yield is way ahead, more than 50% ahead because the average fares and the yields are up so significantly.

So, we are not seeing any resistance in terms of corporate revenue, in terms of corporate volumes. We think Brazilians are flying, they are flying on leisure, they are flying to meet their customers, they are flying to make new deals. We are not really hearing any resistance from corporate customers at all. So, I think now it's just kind of moving forward, up gauging the network, and continuing to capitalize on the strong environment.

Daniel McKenzie – Seaport Global

The last question is regarding the government support to create a fund to help the airlines. Is there a sense that the fund would be competitive with the capital markets with respect to borrowing, and is the fund something that Azul would want to tap?

John Rogerson – Azul's CEO

I think there's been a great dialogue with the Brazilian government. I think the three airlines are working jointly to show some of the main concerns that the Brazilian industry has faced over the last few years, one of which is having the highest fuel prices in the world. It holds growth in place because of that. And so we have kind of shown that to the Brazilian government, I think they are very receptive to those concerns.

Also, there's a lot of lawsuits in Brazil, and we represent 3% of the world's flights, and 90%+ of the world's lawsuits. And so the Brazilian government is working jointly with the airlines, and I think it's a very open dialogue.

But credit is where we're getting the most traction overall, and there is a significant burden on the airlines because the cost of capital has gone up significantly.

And because the Brazilian industry did not get any government aid at all. A lot of people are talking about a bailout package in Brazil. Really, what we are talking about is access to credit at more competitive rates than the capital markets.

And so, if there are more competitive rates in the capital markets, then we would certainly access that, and that would help us continue our growth plans going forward, bringing more capacity into the market.

And I think that the Brazilian government would like to see more capacity because the demand environment is very strong. But I think the dialogue with the Brazilian government has been very good, they have been very receptive, and we have an agenda and we are working through that agenda jointly. So, we are excited about what that could mean for the industry as a whole moving forward.

Michael Lindberg – Deutsche Bank

The first question is a follow-up on the government's support. I think it's going to be a R$1.2 billion credit line. I want to know how it's going to be divided among the airlines and what would be the terms of the credit line?

John Rogerson – Azul's CEO

I don't think it's fully defined yet, but in our conversations with the Brazilian government, they are talking about roughly from 6 to R$8 billion divided kind of equally between the main airlines in Brazil. That is what we are looking at. Still, ongoing conversations. I will be in Brasilia next week to discuss this again.

And as I said, I think we are getting some great traction, and this is very positive overall. Reminding everybody there was no help given previously, and so this is an opportunity for the Brazilian government to help the industry grow, and helping the industry grow is helping Brazilians travel more, which is really good for the economy.

Alex Malfitani – Azul's CFO

And just to add what John said, I think sometimes in the press, this is portrayed as a negotiation or a rescue package and that's, as John said, that's not it. What I think both the government and the industry has seen is that Brazil has a huge potential, and we want to unlock that potential.

So, we are going after the root causes of why that potential has not been materialized yet, but we are confident that we can work together and work on a few of these structural issues that are going to be great for Brazil, great for the consumer and great for the industry.

John Rogerson – Azul's CEO

And one thing, Alex always likes to remind us, none of this is in our forecast. And so, if we can reduce judicial claims, that's upside, if we can get a better cost of capital, that's upside, if we can get traction on fuel prices in Brazil, that's upside.

Michael Lindberg – Deutsche Bank

The second question is an update on the Embraer deliveries. Are you seeing the same type of delays that airlines are seeing from Airbus and Boeing? Are you on track to get the 13 aircraft this year, or could that be delayed?

Abhi Shah – Azul's President

Mike, we feel good about where we are with Embraer. Obviously, we are working very, very closely with them to ensure the deliveries flow. We had three aircraft already entered in service in January of this year, and from June onwards, you will start to see a steady stream of aircraft deliveries between June and January of 2025.

So far, we are on track, obviously talking very close with them and with the engine manufacturer to make sure that the engines are in place as well for the deliveries. So far it seems good. We may have a little bit of upside potentially in our plan, but we are on track for now.

John Rogerson – Azul's CEO

I think the only thing I would add is that our deliveries are backloaded, like most OEMs. So, I believe Azul's exit rate of 2024 is going to show a much larger company than certainly we had entering 2024, mainly because a lot of those deliveries are scheduled for the second half of the year.

Operator

Thank you. Moving on to the next question. It will come from Guilherme Mendes, sell side analyst from JP Morgan. Guilherme, we will open your audio so that you can ask your question. Please, proceed.

Guilherme Mendes – JP Morgan

Good afternoon, everyone. Thanks for taking my question. My question is on the liability management front, specifically regarding the equity insurance that's coming up in the third quarter of this year, going up until 2027.

Assuming that the stock won't be at R$36, how do you guys think about the potential use of proceeds to compensate for the source? Potentially additional equity dilution or using that for cash flow or whatever, if it's included in the leverage guidance for this year. Thank you.

Alex Malfitani – Azul's CFO

So, we have the option. When we finalized our plan, we communicated this as an equity structure that we had the option to pay in cash. if the option is fully on us you could also pursue, you could also look at this in a different way.

You could look at this as debt that matures over the course of 14 quarters, all the way into 2027 with zero interest where I have the option if I want to give shares instead of cash.

So, if you look at it that way, I think it's a great facility that fits within our cash flow generation. Obviously, we are going to look at the stock and make a determination on whether we think the stock is fairly priced and decide whether we pay that in cash or we pay that in shares.

Operator

This closes the Q&A session. I'll turn to John for the final remarks.

John Rogerson – Azul's CEO

Thanks everybody for joining us today and a special thanks and shout out to all of our great crew members who continue to deliver fantastic results. Feel free to reach out to any of us in our investor relations team. We look forward to seeing you over the coming weeks.

Operator

Thank you. This concludes Azul's audio conference for today. Thank you very much for your participation and have a good day.