

Azul Day 2021

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Company Participants

- Abhi Shah - CRO
- Alexandre Wagner Malfitani - CFO
- John Peter Rodgerson - CEO
- Thais Haberli - Investor Relations Manager - Investor Relations Manager

Other Participants

- Bruno Amorim – Goldman Sachs
- Khalil Lima - Reach Capital
- Lucas Marquiori - BTG Pactual
- Victor Mizusaki - Bradesco

Presentation

Thais Haberli - Investor Relations Manager

Hi, everyone. Welcome all to our Azul Day. I'm Thais Haberli, Azul Investor Relations Manager, and thank you for joining us today. Sorry about the delay. We had Wi-Fi issues here over there, that is why we prefer to make events in person. Before I turn the presentation over to John, I would like to remind you that today, we will have John Rodgerson, our CEO; Alex Malfitani, our CFO; and Abhi Shah, our Chief Revenue Officer. We will present a small video, and then John will kick off the presentation. Thank you.

(Video Presentation)

Azul the largest airline in Brazil and number of cities served and departures. Everyday Azul flies 100,000 customers to 130 destinations on almost 1,000 daily flights. Since we started Azul in 2008, we have helped to double the size of aviation in Brazil. We did that by more than doubling the number of cities served in the country. Azul has by far, the largest network in Brazil, and that is only possible by flying a diversified fleet. From very large aircraft, like the A321 which has 214 seats, which have very low cost per seat to small aircraft like the ATRs with 70 seats which have very low trip costs, flying the right aircraft in the right market leads to higher profitability. It also leads to higher flexibility, to adapt to an uncertain environment. With that we're among the few airlines in the world to have recovered to pre-pandemic levels.

As we've rebuilt our network, we transformed Azul into a more efficient airline with higher productivity throughout all of our operations. Our broad network and efficient cost structure are complemented by unique service offering with extra legroom, live TV, onboard Wi-Fi, and free snacks and drinks. And a focus on customer service that let Azul to be voted the world's best airline by TripAdvisor. These competitive advantages also benefit our other business units. Such as Azul Cargo, our vacations business Azul Viagens and our loyalty program to Azul. These are fast growing high margin businesses, that will help us expand even more our industry-leading margins. We are a unique airline that has only become stronger over the last few years and we're very much looking forward to the future.

John Peter Rodgers - CEO

Welcome everybody, it's a pleasure being with you here virtually and in person. We're at our fabulous hangar that were very, very excited about. We haven't even yet inaugurated this with a party because it was open during the pandemic, but this hangar has been very important for us. It has allowed for us to rebuild the network much quicker than our competition have been able to. And so, we're very proud to host you in our hangar today.

Today is really about understanding the Azul story. Why we are different from our competitors and what are our unique competitive advantages as we move forward. So we're going to walk you through that today. We are going to have plenty of time for question and answer. I'm sure the consolidation topic will come up and we wanted the opportunity to talk about that, what the status of that is in the market. But we've said, let's get into the Slides and we'll kind of walk you through. Really today is about why is Azul unique, and we've really built over the last 13 years, a very unique Airline.

So we want to talk about our network, which is a huge strength of ours. We're going to talk about our service oriented culture, our diversified fleet and our fast growing high margin businesses that we have. But just kind of going to the next Slide, this is really important. This is a company led by founders Abhi, Alex, myself, David, Jason, Flavio we've all were at Azul before our first flight. We all had the opportunity to leave Azul to do other things, to go work at Breeze in the United States, to go work abroad, to do other things, but all of us have decided to stay because we believe in the potential that Azul has. We're very excited to see what this airline looks like over the next couple of years.

We have doubled aviation in Brazil since our founding. And we've been through a very trying time in the last two years but if you look at the last decade, I arrived in Brazil the real was 1.58 this week it is 5.68 and make it what we've been able to stimulate and build over that same period of time.

Brazil has enormous challenges but has even greater opportunities and what we've proven is that we can be a very popular airline in a very difficult market and that's very difficult to do what we've been able to build over the last 13 years. This is just a look and many of you that are sitting online today, many of you that are here in the room have known us since 2008, when we first started a flight to Salvador on an Embraer aircraft and then our next flight was to Porto Alegre on the same day.

But look at what we've built in that time period, a 130 destinations to Europe, the United States and certainly all over Brazil. We're the only airline that truly serves all of Brazil, and there's more growth to come. And we're excited about that growth and we're proud to be a growing airline. With that, I'll turn it over to Abhi to talk about our network advantages.

Abhi Shah - CRO

Thanks John. Hey everyone, thanks for coming. We're in the hangar. We can hear airplanes taking off. So forgive me if I get a little bit distracted, I need to look every time something takes off but let's talk about the network, because that is really one of our most important competitive advantages together with the fleet that Alex will talk about.

Of course it's a very it's a very, very broad network covering now 140 cities, increasing to 145, 150 cities a lot of connectivity and that connectivity was really, really important as we got through the pandemic, and as we're coming out of the pandemic. And it's really allowed us to recover much, much faster and recover in our network, and if you see our growth going forward is very much focused in our network itself. So a lot of connectivity anchored by our three major hubs in Campinas, in Belo Horizonte and Recife but lots of little dots all over the network.

And one thing that we really, really, I think proud about is how we've grown all over Brazil. Our competitors, you know we talk about this a lot. And in fact even before we ever came to Brazil in the first place, aviation in Brazil was focused on three cities Sao Paulo, Rio and Brasilia, right. That's where the focus was. But when we came in the first game to Campinas, David, John, we all wanted to do something very, very different and that's what we've done over the last 13 years. The reason that Azul has contributed to 60% of the market growth in 13 years is because we serve markets, we serve routes that nobody else serves. And we do them outside of São Paulo, outside of Rio, outside of Brasilia. And if you look at the GDP growth in the last 13 years, that's where the country has grown much faster than in these cities. And for that's really powered our growth in Campinas, where we are here today, when we first started, there were ten flights a day total. Now, Azul has today, 150 departures, just today, leaving from Campinas. So that really has been the foundation of our growth, it is growing all outside Brazil.

And you can see that in this in this map here, right. And we've shown this before, maybe I should go on this side, but we've shown this map before, which is all of these blue dots that we have. This is where we are alone or where we dominate in terms of departures or in terms of destinations. And as a result of this footprint, that we have thanks to the fleet 80% of the routes that we fly, we fly alone. We talk about this a lot, we talk about this in all of our earnings presentations also.

And this number has actually increased over time and actually think that's a sign of discipline in the market. The entire market, the industry in Brazil, over the years, has learned to be more disciplined. Airlines are focusing where they are stronger and that works for us as well, our crew members ask us about Guarulhos, ask about Sao Paulo all the time. Why aren't we flying there more, why aren't flying there more.

And my response is let each airline focus where they are strong. We have today only 20 flights a day in São Paulo and Guarulhos, right. And its largest city in Brazil, all these kinds of things. But it just doesn't make sense for us. And so airlines are focusing where they are strong. Focusing where they can get the best results and that works for everybody. I think it's worked well pre-pandemic. And I think that discipline is going to remain as we go forward as we exit this pandemic as well.

And this in terms of the overlap, 80% of our overlap is we are alone. Look at an airport to airport basis. And again, as we look at our growth for next year, 2022, 2023 even our growth in post IPO 2019, our growth was in our network and that's provided the best results for us and I think for the industry overall, and that is absolutely our intention going forward. That's how we're going to get back to pre-pandemic margins or even higher.

So, our network is obviously very, very connected and it's very interesting because during the pandemic we actually had gotten to 65% connecting traffic. Now we are coming back a little bit because local demand, corporate demand is starting to come back. And so now we are more towards the 55% connecting traffic, which is still very, very high on average. And it starts with our hub in Campinas, which is where we are now, we have 136 average departure, 150 on peak days by far the most destinations of any single domestic hub in South America, domestic destinations and our entire fleet flies here, right. We have the ATRs, we have Airbuses, we have Embraers, we have the A330s flying internationally and domestic. And so, this is where we really build our hub. Now, it's interesting because we're going to go through each of our hubs here, each hub is designed to do something different. It doesn't make sense to have hubs doing the same thing. And so our Campinas hub is for the South of Brazil the South East of Brazil interior of Sao Paulo really bring all of that demand into our network and also where our long-haul flights go from.

The next one is Recife. Recife was the first to come back to our network post pandemic. We have 80 departures a day, we are well over a 100% in terms of capacity and it serves as our Northeast hub obviously, we connect to all the capitals in the Northeast. And we collect all of the

demand from the Northeast and we distribute it to São Paulo to Belo Horizonte, but also within the Northeast. It also is a highly, highly connecting hub. And so we have local demand, connecting demand, but it really allows us to serve a completely different geography than our Campinas hub.

And finally, we have Belo Horizonte. Belo Horizonte was the last to come back post pandemic. Belo Horizonte as a city was the slowest to recover, I think the slowest to reopen the economy compared to Campinas certainly compared to Recife, but it works as our Mid-continent hub. All of the Minas cities, interior of Minas works very well. Some Brasilia connectivity, Cuiaba as well, and it's a shorter distance from Belo Horizonte to places like Belem, places like the north of Brazil, where we don't fly non-stop from Campinas, but we fly from Confins. It's a shorter flight, and we can drive connectivity through there.

So, we talk about our three hubs, which is Campinas, Confins and Recife, it's really, really important that they each do different things. It doesn't make sense to replicate the same demand in three different places. You'd just be stealing from yourself actually. And so each of our different hubs has a different purpose and that's the idea as we go forward as well. That is the idea in Cuiaba, in Belem and all our different focus series. And it's destinations, right. So wherever we focus, we try and serve the most destinations to the most departures. And that's been our focus in our hubs and our focus cities, like Cuiaba for example, which is also our agro hub, and we have a lot of ATR, and a lot of secondary cities from Cuiaba that we serve and we connect to São Paulo, we connect to Rio, we collect to Belo Horizonte, we connect to Campinas and to the South of Brazil. So, that's the idea, is each of our hubs does something very, very different, and that's how this network has been created and that's how it's going to keep growing.

John Peter Rodgers - CEO

Abhi, I just want to highlight, I mean, 21 destinations from Cuiaba, I mean, that's pretty remarkable, how many destinations we serve from a city in the Midwest of Brazil.

Abhi Shah - CRO

Exactly. And it's one of the parts that, reasons that's growing very, very fast. And what's important to remember is that each of these markets actually has very little demand by itself, right. We fly to Sinop, we fly to Sorriso, we fly to Parana, all these kinds of places. They cannot sustain a non-stop flight by themselves. In fact, many of our destinations in Campinas, do not sustain non-stop flights by themselves. It would be very hard for us to fly 10x a day, to Cuiaba without having these 21 connecting cities. So by themselves the markets are small, but when you aggregate them in the network, that's what really drives the demand through our system.

We're also starting to focus more and more in our international partnerships. And we announce our codeshare with Emirates, we have more partnerships down the line, obviously we have our largest codeshare with United, with TAP, Copa. Our network in Guarulhos is small, which is primarily where this international players fly, so we do have some connectivity, but that is something we're trying to develop overtime, for us what is something really important, also, is our connectivity in the US, and in Lisbon for our long haul flights. I think I've mentioned this many times before, it is the long-haul airline that uses this connectivity a lot more than short-haul airlines. So, when we fly to Fort Lauderdale, we flight to Orlando or we fly to Lisbon, we need that connectivity, that connectivity is very useful for us with JetBlue, for example, in Florida or with TAP for example, in Lisbon. So that really expands your network and allows you to add more frequencies and add more capacity if you have that kind of partnership.

So in Brazil, the foreign airlines flying to Brazil, it's very important for them. And when we fly long-haul, those partnerships are important for us. Alex on the fleet.

Alexandre Wagner Malfitani - CFO

Now we're back. Thanks, Abhi. I'm really proud of the fleet. Right. Because I'm, I'm very proud of the network and you can't have our network if you don't have our fleet. Right. The fleet is complex, of course, right. But it is a requirement for us to be able to fly all over Brazil the way that we fly, right. Like Abhi said, a lot of our destinations do not have demand to sustain themselves even with one flight a day, unless you have connectivity and you cannot have connectivity unless you fly several different types of aircraft.

And the beauty of this is obviously you all know that the bigger the aircraft, the smaller the cost per seat, right. You get economies of scale you have essentially two pilots on every flight but if you can dilute the cost of those pilots or if you can dilute the cost of the maintenance. Normally the bigger the aircraft, the more the economies of scale and the lower the cost per seat. But, also the higher the trip cost. If you have a very big aircraft, it has a very big cost every time it takes off, and if you cannot fill that aircraft, you're going to lose money. It doesn't matter that the cost per seat is low if you're wasting all of those seats by flying them empty, right. So, the beauty is flying the right aircraft in the right market.

And there are markets in Brazil that can sustain an A320 or even an A321, if you have the connectivity that we have, but there are markets that can only sustain a Cessna, right, with nine seats. So the key to fly a diversified network the way we have is having the right aircraft for the right fleet. If we, if we restricted ourselves to only one single fleet type, it would lead us to do what our competitors do, which is to fly to the Rio-São Paulo-Brasilia triangle. There's nothing, there's no mistake there, there's nothing wrong with what they're doing it is just that, that is the other side of that coin.

You want to have a single fleet, you're going to be restricted to flying the markets that can sustain that single fleet type that can fill that single fleet type, which essentially are just the high-density routes in Brazil, which touch Sao Paulo, Rio, and Brasilia.

But one thing that a lot of people don't realize, you may look at our financials, look at our CASK and say Azul has a high CASK, right. And the problem is you're looking at a blended CASK, and we don't compete with the other airlines with a blended CASK. We don't compete a lot with the other carriers, but when we do, we compete with the A320neo and the A321neo. And I know what my CASK on the A320 and A321 is they don't know, right. But they are significantly lower than our blended CASK. And more importantly, they are significantly lower than our competitors CASK.

That means where we do compete, we are the low-cost operator, right. We are not facing any competitive disadvantage in the markets that we fly. Actually we have lower cost per seat, right. But again, this is just for you to have an idea of when you're comparing our Cask, which is a blended one, to a carrier that has a single fleet type, you really kind of comparing apples to oranges.

And the beauty is that the cost is going to keep going lower, right. Because we still have a lot of flights where we're operating with the E1. And the E1 has a very high CASK. But we're going to be swapping all of those E1s for E2s for A320s and for A321s.

And then you see the dramatic reduction in unit costs when you go from one aircraft to the other, right. When we go from E1 to the E2, we get 136 extra seats, and we actually spend less every time we fly, right. It's a cheaper aircraft. We pay less in rent. We pay less in fuel. It burns a lot less fuel than an E1, but it gives us 18 extra seats. So those seats essentially come at a negative cost, right. The difference in trip cost divided by the number of extra seats I get is actually a negative number, which is going to be great for us to stimulate demand right. We can as know we segment fares right. And so the incremental seats that we're offering as we up-gauge those seats can come in at a lower average fair and that can be used to stimulate traffic.

But when we go through the Neo to the A320neo applying the 29% reduction in, in the seat cost. And then, the A321 it's actually 34% reduction in seat costs, rising cost per seat. So a dramatic reduction which is going to allow us to be even more competitive going forward. And most of the benefit, not all of it but most of the benefit is here, right. Look at these numbers, we're getting an extra 15% seats and we're burning less fuel every time we fly. With the 320 we're essentially burning the same fuel. So you take off from here from Campinas you land in Recife, with an a320neo and you burned almost exactly the same amount of fuel as an E1. But you took 47% more seats for that fuel, right. And that's why you see these dramatic reductions in cost per seat.

John Peter Rodgers - CEO

And Alex, just kind of highlight, you know our competition will go from ceos to neos and GEs to Max's. But where we really are getting the advantage is the E1 and the up-gauging that's taking place.

Alexandre Wagner Malfitani - CFO

Yeah, because a two things, right. First, you're going to look at our numbers and the cost of the E1 is much higher. So our reduction as we go from old generation, to new generation is going to be bigger than the reduction that our competitors are going to go through. Like John said, everybody's going to go to next gen, right. The difference is where you starting off from. And we're starting off from a very much higher cost than our competitors. And how quickly can you do it, right. And we're years ahead of the competition in terms of when we're going to get to 100% next-gen, which you're going to see next, right.

And, and even if you compare apples to apples, right. Well, we're going to show some of the progress that we've done on productivity. We have fewer employees per aircraft than our competitors. We pay less per liter of fuel than our competitor. So even when you compare next-gen, the next-gen, our competitive advantage, our lower cost is going to continue. So this is the fuel consumption. We already reduced fuel by almost 20%, since we started the fleet transformation and obviously we're going to continue, we still have a lot of flights being flown on the E1. And as we continue replacing those E1s with next-gen aircraft, we're going to reduce the fuel consumption per ASK.

And we still have a more than a third of our flights are flown on the E1. By so there's still a lot of capacity to be replaced by NextGen aircraft. And here you can see your kind of where your modeling purpose, just to kind of give you an idea of how many NextGen aircraft we plan to take over the next couple of years.

What you also see here, here you can see how many E1s are going to be replaced. It's about 15 that we plan to replace in '22 and '23, but there's upside here, right. One thing that you'll notice is that the number of aircraft is going down here. It doesn't mean that we think demand is going down. This is purely our contractual obligation, right.

And so we have the option of accelerating of advancing E2 and A320neo deliveries in to '23. Because most likely, we will require more capacity here than we have in '21, right. But that's an optionality. We can do that and we can negotiate, good, good commercial terms for us to do that advance, because maybe I advance neos, maybe I advance E2s, maybe I do, I do a little bit of both. So we have the option to advance those aircraft, and we're back already to more than 100% capacity, but our suppliers are not that back to 100% capacity, right. The OEMs are not putting out as many aircraft as they were before, obviously, because a lot of people have a lot of aircraft and so that gives us a little bit of a of an advantage to negotiate this, right.

So this shows that we have the option that hey, if we only need 140 aircraft, that's great. But if we need more, they will be next-gen aircraft and they will help us reduce our unit cost even

further. And so, we plan to be flying a 100% of our capacity with next-gen by 2026. There's, there's some, this is our projection, right. This is not the commercial commitment that we have. But we believe that with the options that we have of moving aircraft to other airlines or converting E1s to freighters that by 2026, a 100% of our capacity will be coming from NextGen aircraft.

Which essentially is a 2.5 years later then over what we originally forecasted. This is a real live operation here obviously, that so apologize for the background noise. All right, so back to Abhi.

Abhi Shah - CRO

Thanks, Alex. I'm definitely happy to see the hangar is working and get these airplanes out of here. I don't know who approved this airplane parked here. It wasn't me. This airplane needs to be flying. Thanks, Alex. I want to spend some time talking about our business units. David talked about this in our last earnings call, which is Azul Viagens, but definitely, it's important to talk about Azul Cargo. One of our E1s is parked outside. Here we went to visit it. I'm very excited about this airplane. I'll tell you more about it.

Obviously our vacations business Azul Viagens and our loyalty business is just going from strength to strength. So again, we think these are three unique assets that is just one more reasons why we're growing faster and we think that we're also delivering better results. So, starting with Azul Cargo right, it is the one that probably has had the most visibility over the last couple of years. And again, we are very, very excited about this for many reasons. The first one is this map here, we now serve around 4,500 cities communities around Brazil. 1,000 of them we can serve within 48 hours and we're always expanding our logistics capabilities, whether it's through our fleet, our belly space or even just building out our network of last mile, first mile capabilities all over the country.

So again, 80%, 85% of this is happening in the bellies, which is very, very efficient. We fly to all these cities already the airplane is going there anyway, so the extra marginal cost of carrying an extra logistics package, whether it's e-commerce, whatever it is, it's very, very low. So very, very high contribution margin from this kind of service and really it has the ability and it is having the ability to change logistics all over the country.

The business is growing. I think we told you that we would be over BRL1 billion, this year we're going to be over a BRL1 billion this year. So, it is doubling from 2019 to 2021 and we're seeing further growth as well from 2021 to 2022. And we've talked about this before it's where is the growth coming from? That really is the most important part and it's coming from new customers. And so when you look at our market share, you might be tempted to think, well you're just stealing from your competitors but that's not true, we're growing faster yes, that is true. But we are taking customers who previously use ground as their primary mode of logistics, and now they're shifting to air and that's where the growth is coming from.

And it's a much, much more sustainable way to grow. If you look at our internally if we look at our income our incremental revenue from 2019 to 2021, and we break it up into three buckets, new customers, organic customers or stealing from the competition, right. 40% is coming from new customers. These are customers that previously use ground as the primary way to do logistics. 40% is coming from our organic customers, customers that we've had for a long time. And what happens with logistics as we are learning, as I'm learning, is that nobody will give you their entire business on the first day.

It's the supply chain. So, it takes time. Over time you gain more and more or different parts of their business. And so, once you sign up a new customer, they start to grow with you over the years. And then 20%, we can think of customers that used to use a different provider in Brazil, and is now using Azul Cargo. It's easy for them to steal them back. Right, that happens all the time. But the new customers and the organic growth that's what's driving this growth in revenue and in volumes over the next couple of years.

We use our entire fleet to make this happen. We use our Caravans in the most remote parts of Brazil, we use our ATRs, we actually have some a dedicated ATRs as well some quick change aircraft. Obviously the E1s, we have one parked outside here. We have more details on that. A320s, we use the belly space and we have a lot of A320s coming and the E2s will show you how the belly space is going to increase in capacity and that's going to drive growth and we use our wide-body aircraft. The international market is very strong right now.

The global logistics system is gridlocked right now, so international is strong. We have charters to Fort Lauderdale, we're flying to Brussels twice, twice a week right now for auto parts, for example, and we fly some 330s here domestically as well to Manaus and to Recife, because of palletized cargo. So we really use our entire fleet to help the cargo business. But the primary method of transport is the belly. And we have a lot of belly space available. Apart from the bags are cargo holds are about 33% full right now. So we can double or even triple our cargo volumes and not run out of space.

And the reason is e-commerce packages are in the South of Brazil places like Rio, places like Curitiba, they're mostly going by road. It's the North of Brazil. The further away destinations that they're using air. So we have a lot of space, a lot of opportunity yet to use our bellies to grow our business. And as Alex said, there's a potential to anticipate more airplanes, if we want.

So this is an airplane that I'm very, very excited about which is that we are reformulating our E1s. And I think we have an opportunity to do what we did with passenger, 13 years ago. We can now do this with logistics with this aircraft. With the same aircraft, actually the E1, but in a new way. What we are doing is removing all the seats and we're putting these bags, these fire bags, containers on the aircraft that more than double the payload, you don't need flight attendants anymore, because they have a fire protection system. And you use the E1 trip cost. Azul was built on E1 Trip cost 13 years ago, that's how we grew Campinas, that's how we grew Confins. That's how we grew Recife. And now using E1 Trip cost we can now fly to secondary cities like Palmas, like Navegantes, like Goiania and provide dedicated e-commerce delivery services, using the economics of the E1 and having space for each.

So e-commerce packages the problem is never weight, the problem is volume, right. So you don't need a freighter for e-commerce. You need a freighter for auto parts and industrial stuff but you don't need it for e-commerce because the problem is always volume. With this aircraft where we are it's a much cheaper adaptation of the E1, we can really open up logistics to the lots of new markets, I'm very excited about this and we're going to start with four aircraft in January, and I hope that we can grow this fleet, get E2s into our passenger business and move the E1s into our logistics business. And of course, we have the fleet's the belly from the from the fleet growth as well. So we have both dedicated from E1s. And we have the belly capacity of our scheduled network.

And again, we talk a lot about where the growth is coming from. It's coming from the road. It's coming from road logistics. The road the addressable market that we think we can have access to is 15 times larger than Azul's Cargo the industry revenue today.

The industry revenue is about 3 billion, Azul Cargo is about a third of that. That's our market share. So it kind of makes sense. But the addressable road logistics market is BRL45 billion. So we just have to fish a little bit in that market every year and that's going to drive a lot of growth going forward.

We have and we have all of the tools to do so. And so we look at Azul Cargo you took it the doubling of revenue from 2019 to 2021 and the future growth. It's going to come from the fleet, right. Next-generation, larger bellies, it's going to come from our network. It's going to come from building out our logistics primarily in last mile and first mile. We've already partnered with different companies so we can have flexible capacity in the high seasons we can flex up. In the

low seasons we can flex down, and in fact, in two of our cities, and we're going to expand this, even further.

Our own crew members can sign-up to deliver packages as well on their time off. So we're using all of the assets that we have to expand our last mile capabilities and we think the overall market is going to grow. The air logistics market is going to grow as it migrates from road to air. TudoAzul our loyalty program, also is really growing, and in fact, we've been surprised by the engagement of customers through the pandemic and even this year.

Even without really having an international network, we just started Orlando five days ago, right. Orlando was one of the cities where our loyalty customers redeemed the most points for. We've actually been very happy with the growth of the program, how customers are accruing the points with our other products, whether it's our club, whether it's our credit card, which is doing really, really well. We're very happy with the credit card, or with just the banks.

And so, the customers have been very, very engaged. And now, as the network is coming back, we're back in the in the U.S., we're back in Europe, we're back in Montevideo as well. And of course, the growing domestic network, this is really going from strength to strength. And TudoAzul is really diversifying away from the banks. Obviously, you have the banks, which is B2B, right. And that it continues to be an important source of revenue. But B2C, which is our club, which is other different products, like retail is growing in relevance. And our credit is really the one that we are the most proud of.

And you can ask Itau, how important that credit card is to them. We think that it is sort of non-retail one of the most important credit cards in their portfolio. It set records now in Black Friday, in terms of how much people have spent on it. And it really is becoming the card of choice for customers to use this card in everything. Not just when they fly Azul, but also at the grocery store, also at the mall or whatever it is. And so, this really, B2B is a form of loyalty, but customers have choice. But we talked about credit card and then the type of loyalty that drives that really is true loyalty. Once you have customers in that universe, they will not leave. And so we're very, very happy with how that's doing.

And we're expanding our portfolio, right. It whether it's retail, whether it's other airline partnerships. We in we're now finally starting to have a robust offering of other airlines. Frankly we were weak in that other programs in Brazil have done a much better job. We are now finally catching up with United, with TAP, with other airline partners with Copa.

Our retail, we have a very strong partnership with Apple. For example, one of our highest redeemed products is AirPods in Brazil. We did some really strong promotions with Pontofrio as well this Black Friday. Accor hotels, our shopping one of the highest redeemed is a Accor hotels gift cards. And so, we are really rounding out the product portfolio. Of course, air is always going to be more important. It's always going to be more relevant. But if you can redeem your points for a hotel gift card, Azul Viagens, our vacations business, or Apple AirPods, that really makes the program a lot more relevant.

Finally, Azul Viagens, our vacations business is also growing. It's also doubled in revenue. And this is something that Azul has or we've always struggled with the leisure customer. We never had the fleet to do it, before the A320s. We never had the network. It was never a focus for us. We were very, very corporate focused.

Now with Azul Viagens and our fleet, we are able to capture this segment of the market, right. It's opaque pricing when we use our size we negotiate directly with hotels and we package it all together. And so this business is growing, doubling in fact from where we were in 2019. And so we're very, very excited. And the best part of that is you can use airplanes on weekends, right. These customers want to fly on Saturdays, they want to fly on Sundays where we don't have corporate demand like we do on a Monday or a Thursday. And so, we fly from all sorts of different parts in the interior of Brazil to places like Porto Seguro, to Maceio, to Natal, to Recife and that

drives up our aircraft utilization, and it contributes to incremental revenue and incremental earnings for us.

So, it really is an important way for us to capture this market that we have not been so good in over the years. And now with this product offering we're really able to access this market and it's growing significantly. And so, I don't know, it's Alex or John next. Thanks guys.

John Peter Rodgers - CEO

Thanks, Abhi. You know, I think I was at a company orientation today and when somebody new enters the company, they're met by myself by Alex, by Abhi by our entire senior management team and we meet with them, we spend a couple hours with them in the morning. And so, that's where I was early this morning. We're not an airline. We're a company that's led by founders, it's a people company. It's a service oriented culture. And so we continually win service awards, you can see these most recent ones that we won this month. So we're very proud of that.

And so, we don't compete just with aircraft city to city. We compete on service. People that fly Azul know that flying Azul is a different experience. And the culture of the company is really important. Those of you that have flown on our aircraft with the Wi-Fi, it's some of the fastest Wi-Fi in the world. My kids complain that our Wi-Fi at home is much worse than the Wi-Fi in an Azul aircraft and it's free. It's free of charge.

And so all of our customers get to enjoy that experience. In addition to the great Wi-Fi that we have, you can see the 95 megs. I guarantee you that's better than the Wi-Fi that we have here at the hangar today and many of you have at home. We also let me just go back quickly. You're allowed to use Wi-Fi on board the aircraft free of charge and watch television with over 100 channels, okay and have free snacks on board the aircraft.

It's an unbelievably great experience. Unfortunately at this time, we can't give away snacks onboard the aircraft. And so, we have a little bit of cost savings because of that, but it's an unbelievably great experience. And so a lot of people say you can fly on another airline, but flying on Azul is an experience. So we want it to be an experience. Abhi charges higher fares because of the way that we serve our customers, right. We people choose. If you're staying today in Rio and want to go to Brazil, you can get on a brand-new E2 that has Wi-Fi and television, you'll pay more to do that, you'll pay more for that experience. And that's what we offer, especially in the country, which is so focused on corporate travel.

Our crew members are the most important asset that we have inside the company. And I think we've proven that through the years. Those of you that have traveled on Azul know our people stop in the airport, ask them about what it's like to work for Azul and I think you were very impressed with some of the responses that you get. We measure crew member satisfaction every single year. Our compensation is linked to crew member satisfaction because we believe if you treat your people, right. Your people will treat your customers, right. And I think that that's really important, and we focus in an enormous amount of time. And why is that important? It's important because we just went through a worldwide pandemic when we shut the airline down. And we had 11,716 of our crew members that voluntarily raised their hand and said, I will take an unpaid leave of absence to help this Company. That's a strong culture.

In contrast, there's another airline in this same reason that tried unsuccessfully five times to get a temporary and a long-term deal done with their pilots, and their flight attendants and failed five times in a row. Strong culture matters, and strong culture leads companies to be stronger over the medium and the long-term. So we're very happy that, even during the most difficult times when you're facing unprecedented inflation in Brazil, our crew member satisfaction has gone up. We spent a lot of time focusing on this. This was just last month at the end of October.

I bet you can imagine who Hulk is here. That's Alex. Abhi is Spider-Man. I was Captain America and Flavio. So our entire leadership team, we spend time with our people when we fly on board the aircraft. It's a requirement for our senior officers to speak to every customer on board the aircraft and then spend time in the cockpit. I know this may seem a little strange at an Investor Day to talk about how Halloween, but culture matters, culture matters.

And as the saying goes, culture eats strategy for lunch, right. And so, if you have a strong culture you'll get through the toughest of times. And so we're flying today, 900 flights. Our competition is roughly 500 and 480. How do we do that, we have great fantastic people inside of our organization. And I encourage you that invest in Azul sell-side analysts talk to our people when you travel grab an airport agent and say what it's like working for Azul, have you ever met Abhi? Have you ever met Alex? Have you ever met John? What are they like to work with.

Because that really, really matters as you're building a company and that's why every Monday morning with new people entering the company we take time and spend that with them. Alex, Abhi, myself, Jason we spend an enormous amount of time with our pilots and tell them exactly what's happening. Have that open dialogue with your people. So that when we went through the tough pandemic, and we had to park our aircraft, they understood and there's truthful. When I said, look we need your help. They stood up and helped. And I think that really, really matters in our business. As we look at, we were very proud to be rated the best airline in the world by our customers. The really comes forth from our people, as I just talked about. But in today's day and age it is not just, you can't just have a great company, you have to have a great company that that's great for the world as well. And so we want to be the best company in the world in the best company for the world. And so we're doing an enormous amount of things all throughout Brazil, serving all of Brazil helping and we walk you through some of that stuff that we've done.

We transport organs every day on board our aircraft. And so when our flights take off, we save lives. We signed up and said we will transport vaccines for free. We went to the federal government shortly thereafter GOL followed, LATAM followed, that's what we do. We have an obligation to help Brazil. We hire people all throughout Brazil not just inside the triangle. I think that's really important to understand who we are?

This is a bit of what we're doing on CO2 consumption. I'm going to let Alex talk about this because he's been very passionate about this and what he's been able to do on the fleet side.

Alexandre Wagner Malfitani - CFO

Many of you in the investor community, you know the topic right of aviation and how much carbon emissions come from the industry. So obviously we want to be a sustainable industry. We have a target to be carbon neutral by 2045. The industry has set a target for 2050. And one of the way we're going to do this is through our fleet transformation. And the E2 and the A320neo and then the all the other next-generation aircraft are very important for this. Because they can fly sustainably, right. And that's really important. We cannot have an industry that's going to be flying in 2050 and beyond. If you have other modes of transportation that are more environmentally friendly, so it's important to make the comparison of an aircraft to other ways that people can move around, right. And sometimes you may think that, for example, we compare very well on next-generation aircraft with small vehicles, especially small individual vehicles. This was not the case for old generation aircraft, right.

So, if we put the curve here, for an E1, then E1 would be higher for example, than a motorcycle. Right. But how we, compare to trains and buses, trains and buses are more environmentally friendly. But they have other disadvantages, right. They have cost disadvantages. They have safety disadvantages. They have even availability disadvantages. In Brazil, you do not have a railroad network that can get you for one side of the continent to the other, or the country to the other, right. You do have it in Europe or even in Europe, it's hard for you. It takes you a very long time.

So there will be naturally areas where each mode of transportation is going to prevail. But to cover a country like Brazil, with the speed, with the availability, with the connectivity and the affordability that we have, nothing beats a next-generation aircraft, right. You will not be able to serve the country the way we can serve with buses, and it's impossible for you to do it with railway I mean, nobody is going to make the investment and you're still going to have, long distances that can never be covered efficiently with rail.

Yeah, and the same thing we showed you on the fuel burn per ASK applies to emissions, right. Obviously as we burn less fuel, we generate fewer emissions. And so we have already dramatically reduced the amount of emissions without fleet transformation. And we're going to continue reducing that further as we get closer and closer to 100% capacity coming from next-gen. But that's not enough, right. Even if we transform our whole fleet into next-gen, we're still going to be a carbon emitter. So how do we get to carbon neutral. You're going to have to do a lot of different things, right. Certainly the free transformation is a big one, is the one that we're probably most advanced.

But we also need to fly better. So if you go for example, on, on flight radar you will see that we do not fly as the crow flies, right. We do not take the shortest distance between two points. Obviously, if we can do it, if it's up to us, we will. But there are other issues in terms of air traffic control in terms of traffic itself in terms of restricted areas in terms of highways in the sky, that you do not take the shortest distance that there you could.

There's a lot of technology that's being developed for you to only start through for you to kind of wait in line for example at the gate instead of waiting in line to depart on the runway. Because once you, you start your engines and you depart from the gate. And you go to the runway you're burning fuel and you're issuing carbon, right. So if you can have sort of a virtual line for takeoff, that's a lot more efficient. A lot of countries in the world are moving towards that, right. And so we will Brazil. We need sustainable aviation fuel. That's not something viable today. It is certainly viable from a technological standpoint, but it's not viable financially. There's no supply. There's no capacity that can serve all of the industry right now. All right. We need to often carbon offsets. You saw our deal with Liliium they were very excited about.

So some of our capacity will be flown by zero emission aircraft. And even when you do all of this when, you get a long way, you get most of the way towards carbon neutrality by 2045, but not all the way there. So the whole industry is going to have to come together and is already coming together to develop other ways for us to get to carbon neutral. And so we know that over the next 25, 30 years that we have ahead of us to get to that target, there will be other initiatives that will help us get there.

John Peter Rodgers - CEO

Just to turn the time over to Abhi, there's a lot of great things happening inside of Azul today. We have, almost 3,000 volunteers inside the company volunteering all throughout Brazil. This coming Friday, we're going to have our first graduation for scholarship individuals at Azul, where all the money is donated by existing crew members to pay for flight school for pilots and flight attendants. So, we're taking somebody that's comes from a more humble back ground, and all of our crew members come together donate with payroll deduction on a monthly basis to pay for flight hours. And so, we have new pilots entering into the into line flying that were previously inside of the company today. So we're very, very proud of these things that we do and so Azul everyday is innovating and finding ways to help Brazil. And so we're you'll continue to see us do that. You'll probably see us hit up you as investors, to donate to associate, sounds to our to contribute to our volunteer efforts that we have at Azul.

Abhi Shah - CRO

Thanks John. Now, talk a little bit more about what's happening right now, right. Probably the part, how is demand right now. How's the recovery right now? And what are we seeing going forward? So first, of course vaccinations, especially as we think about Omicron and that kind of stuff, Brazil continues to do well on, vaccinations. Third booster, the booster shots, the third shot has already started. So in fact, there's an article that Alex sent around that Brazil is the leader in vaccination right now, which is true. We are doing better than U.S. and better than Europe. So this is obviously, absolutely critical, it has to keep going to make sure that our progress doesn't stop. Right. So important to remember, that Brazil is doing well in terms of vaccinations.

We've already started the third shot, the booster shots have already begun, and that's obviously, very, very important.

John Peter Rodgers - CEO

I think you can criticize Brazil for a lot of things. But we are a people that is vaccinated, Right. There's not an anti-vac sentiment in Brazil. There are several days, Rio de Janeiro and São Paulo, no deaths, pretty remarkable, pretty remarkable a country of this size. And I think that the international community and those investors that are watching today, are unaware of how much progress has been made in Brazil in the last six months.

Abhi Shah - CRO

In terms of our capacity. This is domestic capacity recovery. We are now going to be November, December over a 100%, right. We were closed in 3Q. We're going to be over a 100% now and then going more into January as well. So in terms of overall capacity we'll be at 98% because of international, is not yet fully recovered. But domestic is about 110% 115% of 2019 levels. So we're just about now getting close to full capacity recovery as an airline overall. And of course, this is the slide that I was most proud of on the 3Q earnings call and what we are seeing right now on our most recent trends, right.

So obviously in third quarter, our unit revenue, our RASK was above 2019 3Q and just to remind you guys second half of 2019 was a very strong period for the entire industry mostly because Avianca Brasil stopped flying April, May June. And so Azul, GOL, LATAM everybody benefited from actually a very high base in 2019.

So the fact that we're already above it in 3Q was obviously something that we were very happy about, and as I mentioned on the call, we exited 3Q at a much higher rate than the average for the quarter. So, we had a very good October in terms of unit revenue, we had a very good November in terms of unit revenue and December is also shaping up to be strong as well in terms of unit revenue.

Alexandre Wagner Malfitani - CFO

Some people use the ruler, during the call to measure the 4Q, you can still use a ruler and you'll notice that the size of the bar went up, right. So, from our third quarter call to today, the outlook has actually improved, right? So, we are feeling good about where things are and things have improved since we last spoke to you.

Abhi Shah - CRO

Yeah. And so this one here is flown unit revenue, right. This is the one that you see on the earnings calls, on the earnings report. Obviously, this is, by far our most important metric in terms of results. And then this graph shows you bookings, right. So this is going to translate into flown revenue at some point in the future, couple of months down the line, or quarter or two down the line. And so, those numbers are above 2019 as well. And so that difference between

revenue and capacity, gives you your improved unit revenue that you fly. Average fares most importantly are higher than 2019.

Especially when you look at fuel, dollar all those kinds of things. And one thing to remember is Brazil, we always had high load factors. Even in the pandemic, we always flew 75% load factors. The U.S. went down to like 35%, 40% but in Brazil we were 70%, 75% sometimes even 80%. So load factor is not our problem never was our problem and it's actually very, very easy to fly high load factors. It kind of it doesn't mean anything actually. But it's average fares that's really driving the recovery. And Azul, definitely is booking higher average fares than 2019, I don't know what GOL and LATAMs numbers are. But I would suspect that they are as well, I hope they are. Because that's what the industry needs to move forward and to continue this recovery. So our focus is absolutely on maintaining these higher average fares. I think the, I think the industry overall is as well, I don't think anybody has any choice really.

So I do expect the industry to continue to be disciplined on capacity and on fare side, because that is the only way that we're going to be able to recover and get back to our profitability. Corporate revenue, the slide on the right is a little bit cryptic, I will explain it. But on the left, we are seeing our corporate revenue recover. I would say we're about 70%-75% recovered in corporate revenue, which is good certainly better than the U.S. And because our corporate revenue is so diverse, right. It's not just São Paulo, is not just Rio, it's not just Brasilia, we are able to recover that. Thanks to our network and thanks to our fleet. So places like the agro business, even in the north of Brazil and just too many, many, many small cities that we fly to bit by bit little by little. They all help to recover our corporate revenue. The Slide on the right is it's not marked with numbers for a reason because it is very, very strategic information. But what this Slide should this line shows you, is our average corporate discount. Okay.

Our average corporate discount and I talked about this a little bit on the earnings call, is we have worked very hard since July to reduce our corporate discount. So many of you here who fly from Congonhas or others or work for big companies or big banks, you are used to having big corporate discounts. Those are going away, right, kind of sucks for you. It's great for me. But it's good.

There's a lot of revenue here. There's a lot of revenue here. And so our average corporate discounts today are half of what they were pre-pandemic. And that is, in some ways more go down. But corporate discounts are very powerful in terms of recovering average fares. So this is just one more tool that we have deployed. And we have taken some risk in this.

We are being uncompetitive with the industry. We're saying it's okay. We're going to reduce the corporate discount. We're going to see what happens and the market has responded, which is very, very good. So, again a very, very powerful tool to improve revenue and it's worked for us. Non-ticket revenue is also growing mostly because of cargo, right. And also because of volumes are coming back in the network. So things like change in canceled fees are also coming back also because of the pandemic, help that we got, in terms of refunds. There was some fees that we were not allowed to charge this year. Those rules go away.

So, starting in January, we can go back to our full complement of change in canceled fees as well. And so that's going to help drive up. Further non-ticket revenue. This is mostly driven by Cargo, Charters Azul Viagens but a lot of this has baggage, change, cancel. And as those customers come back in volumes, you're going to see absolute growth as well. So, and turn over to Alex to talk about cost structure.

Alexandre Wagner Malfitani - CFO

Thanks, Abhi. So yeah, we talked a lot about this and we're proud to kind of show you the results already, we had a second opportunity to set up our cost structure, right. As we were rebuilding the company, with the network, we could focus on rebuilding it with higher productivity, right.

And so you can see here, we talked a little bit about this, but just to give you one example. All right. Passengers for airport. We used to serve about 700 passengers for each airport employee pre-pandemic. We're almost at 900 today and we're going to deliver 1,000 next year, right. And I obviously cherry-pick because airports is a good number to talk about, but this is happening all over the organization, right.

So on average you are also going to see that we had about 93 employees per aircraft pre-pandemic and we're going to level off at about high 70s, right. So we're going to go up a little bit from where we are today because we already have the aircraft but we don't have the full capacity. So as we bring the capacity, we're obviously going to need more employees, but we will be after all is said and done at a much lower level than we were pre-pandemic.

And remember, at a much lower level than our competitors are right. That's one of the reasons that even with NextGen aircraft. We will whenever we're all at 100% capacity coming from NextGen. We will have lower costs than our competitors because your labor is our second highest cost. And if you can be more productive in labor, that makes a big difference. And you're also going to see an improvement again, because we already have the aircraft but, even obviously this year we're not fully utilizing them. But when we're back to full utilization of our aircraft, we will be flying there more hours per day than we were pre-pandemic, right. Obviously, more than what we are today. But also more than we were, pre-pandemic, a lot of this is the fleet transformation.

So an added benefit of the fleet transformation Abhi mentioned, we didn't have the aircraft to fly leisure. And normally leisure is a longer route. By flying longer routes, you get more productivity, more utilization, if you're only flying 45-minute flights, you're going to have low utilization. It's impossible to get to 14 hours of utilization a day. If you're always flying 45 minutes flights. But if you all a lot of your flights are three hours, four hours, you can get a lot more productivity and lot more efficiency. And that's what's happening with the next-gen. Plus all of the processes, right. And then we'll probably hear at our hangar for those of you that are that couldn't be here, this is an impressive operation, right. And the what I'm most proud of we're in-sourcing a lot of checks. And what does that mean?

First, we pay for our labor now in reais, we used to pay for that labor in dollars, right. We also used to fly these aircraft to Mexico to the U.S. sometimes to Europe, right. And even today with the capable of with a capacity of maintenance operators all over the world being full, right, everybody is putting aircraft back to fly.

So everybody's running out of capacity. We have our own dedicated capacity and we can make sure that we will have the outcomes available that our airlines out there that will have capacity constraints because there will not get maintenance lots to get their airports to get their aircraft up and running again, and we have this. But this is the beauty the last line here. So because of the dollar where it is between 2021 and 2022, we're going to save about BRL200 million by operating at this hangar, and the total cost of building and equipping the hangar of setting everything up that you see here was about BRL180 million, right. So the payback is a lot shorter and a lot of it is because of the dollar.

And we talked about fleet transformation, right. So you're going to see further reduction in unit cost as we replace all of these E1s over the next two, three years. And that means that where we have a good outlook for cash, right. Obviously the pandemic took a big hit on our cash, on our debt, we could rely on our partners for a lot of support, a lot of working capital support for us to get through the pandemic. And we committed, right. Because we didn't file for Chapter 11 like many other airlines in the region did, we committed to paying everybody back, but that means that we have better credit today, right. We preserved our equity and we're going to have a lot of time to pay everybody back right. We renegotiated and we negotiated a very long time to pay for those deferrals.

And so, strong generation of cash from operations will allow us overtime to pay everybody back. So we guided, a few quarters ago, we guided to about BRL3 billion of liquidity by the end of the year, right. A lot of that money is going again to pay for rent, to pay for deferrals, to pay for the loans, and the deferrals that we got during the pandemic, but we will end the year with more cash than we originally expected, right. Which is going to be great for our cash position next year, it is also great for our deleveraging.

Obviously, when we went through the pandemic our EBITDA went to almost nothing, right. So when you divide anything by a number close to zero, the leverage goes up dramatically, but we are confident that we can end next year with a leverage that starts with a 5. And then the year after that, a leverage just starts with a four. And then the year after that a leveraged that starts with the three, that's all organically. That's just, with the cash flow generation that we have from our own operation rolling over some of our data, but that's mainly bilateral debt, right rolling over bank debt, rolling over some of the supplier deferrals that we got.

And then if we have the option, if the market is there, obviously we'll look at our cost of capital in the capital markets to see if we can accelerate this, or if we can, for example, prepay some of our debt that matures in 2024. We have one bond maturing in '24, another bond, maturing in '26. But the beauty and the comfort is that we don't have to do it, right. There's no pressure for us to do it the way we restructure our agreements and the strong cash flow generation that we have from operations allows us to take our time and to be opportunistic about when we will access the capital markets and then on top of that we have a lot of assets right. That we can use to as collateral but our loyalty program. This is important to let everybody know is our loyalty program to cash flow of a loyalty program, is fully unburdened. We can use that full collateral for new deals.

Some of you may think that TudoAzul has been pledged as part of us convertible debt, what was pledged is a non operating subsidiary just unfortunately as called TudoAzul, but it's not the program, right. The cash flows of the program full flow through the airline and those cash flows are unrestricted.

We also have Azul Cargo that as Abhi showed it, is more than a billion reais in revenue. And we also have the TAP bond, right. Which is an asset that's fairly unique to us. And we would also would certainly be able or be willing to part at the right price.

John Peter Rodgerson - CEO

Hey, Alex just quickly on this and also you've seen GOL went out and did a spare parts deal. We have our spare parts still available to us, there are several assets, you're sitting in a hangar here today that has several assets around it. And so there's not a need to, but we have access to other, other things. And when you look at that ending the year three and a half, that does not include deposits maintenance reserves in these other strategic assets that we have.

Alexandre Wagner Malfitani - CFO

Yeah. It's purely what we call immediately liquidity, which is cash plus receivables and back to you.

Abhi Shah - CRO

Thanks. Yeah, so I think, just to finish up a little bit here. We think the market is going to keep growing right. And people ask all the time is corporate going to be back to 100%, when is it going to be back to 100%. The answer is going to be over a 100%, right. The market doubled from 2008 to 2021. There's no reason that it is going to stop growing. And so, when you look at this

cart, this is just Azul's passenger numbers. You can clearly see we lost time. We lost about two years of growth. But there's nothing that we are seeing that tells us the market has done growing.

So the answer is corporate is going to be more than 100%. It's going to be two years later more than 100%. And the recovery tells us that we're already seeing that. And so, we truly believe that this is a still, a growth opportunity in terms of how few people, Brazilians, how little Brazilians travel and in terms of the opportunities they have. So our growth is going to continue to be very disciplined. It's going to be in our markets because our network, our connectivity still has a lot of growth in it. So, Azul is going to grow next year and the markets is going to grow actually next year. So my estimate if, 2019 was about 95 million passengers domestically, my estimate for 2022 is like 105. I think it's going to be bigger, maybe 110 we'll see. But I don't, I don't have any reason to believe that 2019, the market was done growing and we're done. That doesn't make any sense to me.

John Peter Rodgerson - CEO

This is a chart we often show and I've been very passionate about that this and you've heard me in news media, it's embarrassing how little Brazilians travel. It will be, as it's embarrassing, how many Brazilians make their money, in Brazil, and spend it abroad. And so, just getting to where Mexico is, to where Colombia is, getting Brazil to where Colombia is, we need three more Azuls inside of Brazil.

It's pretty remarkable you have to get to where Chile is, you need seven more Azuls. Azul has more than 150 aircrafts flying all throughout this country. And so there's enormous opportunity. The growth has not stopped. And there you will see us continue to grow, we shouldn't be ashamed of our growth, we stayed true to our business model, flying 80% of routes we fly we are the only carrier in that. And so you go you are going to see the market continue to grow. We're already above 2019 levels in terms of total revenue, total packs and so now we need to get back to those levels.

And going to the next Slide just to kind of finish with, before we open it up for questions. We're targeting 4 billion plus EBITDA next year. And so as we've seen the revenue come in, this is another slight change from our earnings call where we said, we would be above 2019. And now we're kind of back at around that BRL4 billion because that's where current forecast is.

We just finish the budget of the airline. And so yeah, there are some bad guys, FX and oil are bad guys, you cannot deny that at all. And it's about BRL3 billion of a bad guy that's coming from FX and oil. However, the capacity expansion that we're doing with the NextGen aircraft that Abhi and Alex talked about, the productivity gains, when you're 39% more efficient at an airport, and now as every aircraft takes off and it's got more seats more gauge, it produces more revenue, you get productivity gains.

Azul cargo, right. We're targeting between 14 and 15 of Azul Cargo in 2022. That's BRL1 billion more than 2019, BRL1 billion more. And so the growth does not stop and certainly doesn't stop in our in other business units. And so, as you get into 2022 we're talking about BRL4 billion will be one of the few airlines in the entire world that's projecting higher EBITDA in 2022 than they had in 2019. I think you can count on one hand or maybe in three fingers airlines that are projecting they have higher EBITDA.

And then as you move forward, and Alex talked about look at what that fleet the contractual fleet looks like, right. Look at the opportunity we have to advance aircraft forward in different the opportunity we have to continually invest in our cargo business and other businesses. And as you look into 2023, 2024, 2025 and beyond we're very bullish, we're very, very, very bullish. That one chart that shows that a third of our flights today are still on E1s, just to be brutally honest, that's why we're all still here. Because we look at what does the P&L look like in 2023, 2024, when we retire all of our first gen aircraft and go to all next-gen aircraft. This becomes a

very, very profitable enterprise. And so with that, I will open it up to your questions. Those of you that are in the room here and those of you that are online could put them to Thais.

Questions And Answers

Bruno Amorim – Goldman Sachs

Thank you, John. So Bruno from Goldman Sachs. So I have two questions. The first one for Abhi. Can you please let us know how does it work, what the process to develop the new destinations in the new routes, in some cases maybe people, they don't even know that they have the option to fly, right. Instead of taking the buses or simply not fly, so how does it work and usually, how long does it take to ramp up on your destination?

And the second question for maybe for John, you have mentioned the growth opportunities. But as a matter of fact, just the currency depreciation makes all else equal the aircraft 40% more expensive now than before, which implies that under the rational environment, which will hopefully be the case. Everybody has to generate more EBITDA per aircraft, which leads to the need to raise prices. So how to balance the need to recover profitability with the growth outlook that you have presented?

Abhi Shah - CRO

Thanks. So the process for new routes, new destinations is very much based on local knowledge, right. We have a team that knows where the local connections between cities, right. Why would somebody from Curitiba want to go to Campo Grande or why would somebody from Recife, if you want to go to Mossoro or stuff like that. And so use, obviously our own data. We know how customers are traveling within our network. If you already serve the destination.

And we are connect for example, we started Porto Alegre to Recife, we had the only non-stop. We still have the only non-stop, one flight a day, because we saw that a lot of customers were connecting on our own services. And that went from one a day, two a day, now, it's 3 times per day, right. Similar thing with Santos to move to Recife or whether you talk about the South of Brazil Curitiba, to Cuiaba and stuff like that. So a lot of it is our data that we have how customers are traveling. A lot of it is local knowledge demographics, what's the community of interest between two different cities? And why would somebody want to go. These days routes and cities ramp up very quickly. I remember when I was at back at JetBlue, we used to say, oh, it takes like 12, 18 months for a new route, this is much faster. Very quickly if it's going to work or it's not going to work, right.

Thanks to modern marketing, social media, online marketing, digital marketing. It's very, very quick. Now, in smaller cities, maybe in a local presence, and we use our own people to do that. But, pretty quickly, if it's going to work or not within six months. And then you can decide whether you want to make a change or not. And, our idea, of course, is we have a route P&L. We always have a route on top. We always have a route at the bottom, right. There's a route P&L, you always have a best, you always have a worst and always making those adjustments, it never stops. But routes they ramp up very, very quickly these days.

John Peter Rodgers - CEO

Bruno, I'm going to answer your question in a couple of different ways. Abhi hate when I talk about specific cities, because he thinks our competitors are going to look at it. But Rio Verde a city of 300,000 people is very profitable out. There's two golf courses in the city of 300,000 people, right. And so there's a massive Brazil, and a lot of people kind of say, well, how many Brazilians are truly flying today? Hey, Abhi is talking about a 100 million employments, but

usually people go up and back, okay, so that already cuts it in half to BRL50 million employments.

And when you say, how many times you going out travel last year, maybe is five, six. There's probably only 10 million to 12 million CPS or say security numbers that are actually flying in Brazil today. It's that's how I obvious been able to get the fair up out of 200 million people in the country, but then there's back to yes, costs are higher, but we need to get efficiency across the entire airline, okay. So I got a BRL1 billion more in revenue from cargo that I didn't have previously. I always walked you through how our seat cost is going down with the E2s to 320neos in the 321s, right. You're talking about a seat cost reduction of 30%, right. So that makes up for a lot of that increased cost that you have.

And then you need to be more efficient than your competitors, right. And so what we've seen is, we've seen the actual some of the new entrants in the market but they're struggling, right. They're struggling to make payroll, they're struggling. So, it's survival of the fittest in the market, right. And so, as the market gets more challenging, the stronger balance sheets, the best business models, the strongest cultures will prevail. And I think that it's a combination of all those things. This is much bigger than you give a credit for, right. And I'm not pointing you specifically, Bruno, that all throughout this country and so why is Abhi serving more cities today than he was serving pre-pandemic? Because he's finding pockets of demand all throughout the country. You're seeing lot of Brazilians rediscovered Brazil. And so who would have thought with more leisure traffic you have higher average fares, right. It's because that 12 million people that are traveling today have the capacity to pay more.

Alexandre Wagner Malfitani - CFO

Yes. And just to add, yes, you mentioned the cost that I think John touched upon this. Take out BRL4 billion of EBITDA next year, right. And I talked to many of you, some of you have something less than BRL4 million, some of you have had actually something higher than BRL4 million, right. But let's just use BRL4 million. If I just go on my model, and I put in the 2019 fuel price and the 2019 currency, the EBITDA goes to BRL7 billion, right.

Obviously, it wouldn't be BRL7 billion probably, we wouldn't have the fares that we have today, if we didn't have the reais. But that is a way for you to see that, if we hadn't done anything, our BRL3.6 billion EBITDA of 2019 would be BRL0.5 billion. How we're much higher, we're much higher than BRL0.5 billion even today. So we can see that it is a productive airline, fares did go up and is the flip side, why is it only BRL15 million or BRL10 million or BRL12 million CPS? Because, it's such Brazil is an expensive place to operate, right. So fares are higher for Brazilian purchase power, but it's the same, it's two sides of the same coin, right.

The fact that Brazilians fly little means that the people that fly in Brazil can afford to fly when fuels is expensive, right. So the demand is there. And they can't afford to buy a new car. When you look at the price of a new car, compared to P-19 pre-pandemic levels, it looks crazy. But cars are getting sold, iPhones are BRL15,000, but they're getting sold, because we're catering to a portion of Brazil that can afford to fly, wants to fly. And obviously, if the cars weren't that high here, if the real wasn't at BRL560, if you weren't where it is. Fears would be lower and a lot more people would be flying for sure.

Victor Mizusaki - Bradesco

Victor from Bradesco BBI. I have two questions here. The first one, next year we like to have the auction for Santos Dumont and Congonhas airport and probably will talk about capacity expansion. So my first question is, how these, let's say, a special capacity in these airports can affect your network? And the second question, if you can comment about I mean the potential takeover for Latam?

John Peter Rodgerson - CEO

First of all, it's pretty exciting. I mean, look at the enormous effort we made to try to buy Avianca to get a small amount of slots. And what Minister trustees, he was doing is, is he's creating a third more at that airport. And I'll let Abhi kind of talk what he'll do with the network, but it's very exciting. I think Brazilian should be very happy. Because the value of that asset goes up significantly as you increase the capacity of that airport that airport capacity is lower than it was in 2008, when Azul started flying. So we're very excited about that. Obviously, we won't get we'll get some, we won't get all but we're very excited about it, right. I mean that's been an airport that we've been trying to get in and get more access to, because there are high fares in that airport. And so it's obviously not one of our hubs, but we're very excited about what the Minister is doing there.

Abhi Shah - CRO

Yes. I mean we have a small presence in Congonhas, 21 departures a day, right. Which is very, very, very small compared to golden TAM of a 130. So yes, I mean we're going to make the argument that the airport is very concentrated and that the airport should have more competition. And one thing that we would like to avoid and we made the same argument, when Avianca Brazil slots came up is, don't fragment the competition, right. You give four slots to somebody, four to somebody else, and you end up with a bunch of fragmented competition. That doesn't really create competition. So, our argument is going to be, you need to sort of have some real competition to provide to benefit the consumer.

It doesn't affect us that much, because our presence in São Paulo is small. And it's a long-term asset because, Congonhas is going to be and continue and it will be in the future of valuable space to have takeoffs and landings, right. So, it's a longer-term play of course. It doesn't affect us that much in the short-term, because our presence is small. But again, the argument that we're going to make is the airport is concentrated. And it's concentrated and closed, right. I mean people will say, well Campinas is concentrated. Yes, but it's open, right. Anybody can enter right now. And, even Santos Dumont, even Guarulhos is actually open. I can add a flight, if I want, I just choose not to, because I want to be disciplined and I want to get the best results. And so if the only airport in Brazil that is full and closed, right. Every single other airport in Brazil has space that anybody can enter. So we're going to argue for more competition. We'll see what happens.

Alexandre Wagner Malfitani - CFO

And you see that it's not here, right. It's not something we're counting on. It's not in the BRL4 billion, it's not on that big bar that you have for 2025, it's a pure upside. So whatever happens, it will benefit Azul beyond what we have in our business plan.

John Peter Rodgerson - CEO

And to address with the process with Latam, we need to respect the core process. I'm very confident that our plan is substantially better than what they have today. And anybody that has a brain can do math and we'll be of those look at it. And I think as you work and do more research and more detailed look at it, you'll find out how much money actually is going into the company and then going right out the back door, to kind of pay, the money that's coming in whether that be from the existing shareholders. And so, I think you hear quite a bit of noise over the next couple of months, but we need to kind of we will step back, we're very confident on our own plan, and who let it come to us at this point, right. I think the creditors need to say, a holy shit, what happened, right. Like we could have had this recovery and we're going with this.

And I think that, there's also several forms in several ways to get there. And I think as more people see the way we manage our business. And I think it's really important to see how we

manage our business in the third quarter, compared to how they're managing their business. And I think over time this comes back to us, but we're not going to sit there continue to pound the table, spend money, because I think that's the creditors job and not Azul's job.

Alexandre Wagner Malfitani - CFO

And I think it's more likely that something happens than not, but even if it doesn't happen, it doesn't mean it doesn't happen now, right. But I think the value, there's anything that you can take away from this presentation is that we have a very different business from Latam or GOL, but they're very complementary, right. So at some point, some day in the future economics is going to prevail, right. This there's value that can be generated by us consolidating, by the industry consolidating. That cannot be generated anywhere any other way, right. And that is somehow the market and the animal spirits are going to figure out a way to materialize this value. Because the only way that it can materialize is by putting together the very complimentary networks that we have and the other guys have.

Gabriel Rezende - Itaú

Thank you. It's Gabriel Rezende from Itaú BBA. So, just two quick questions here. I guess the trend for capacity and demand is quite clear for the fourth quarter this year. I just wonder, if you guys could share with us how is for bookings for the first quarter next year, and how that might have changed in the past few weeks since considering Omicron latest news anything like that? And also a second questions, regarding your convertible debentures, just if you guys could share with us, remind us how can we expect the mechanism of this conversion to work? And when could we expect that to happen which I think just thinking about the dilution for shareholders?

Abhi Shah - CRO

Yes. So the reason the trends going forward, we haven't noticed anything different. January conditions are good. February, you have Carnival, there's always some noise, we'll have to see. But last week was the week after Black Friday. Black Friday was I think it was it was okay, overall. I think the week overall was actually much better than 2019. Actually, I think less customers waited less this year for Black Friday. It was a much more diluted Black Friday, which I always like, I like a much higher level of constant demand than having big peaks and valleys and that's exactly what we saw. We saw the Monday to Thursday of Black Friday was much better than 2019 and then the event itself was kind of equal basically, which I like. I don't like customers waiting or pulling demand forward.

So, we're now into December, I think we have two good booking weeks left this year, before people start to go on holiday and then picks up again in January. But nothing we've seen so far about Omicron or anything like that, very much well within what we would expect in terms of January-February carnival stuff like that. So nothing that I can really point to substantially on anything different.

John Peter Rodgers - CEO

Yes. But just quickly on kind of Black Friday and I think the industry was very disciplined. The cheaper fares were kind of March and beyond. And I think as an industry as a whole, yes, I think Abhi had 10%, 15% discounts and they're kind of depending on where you were. But Omicron, I find it fascinating, the stock trade off 20% on the new variant, fuel came down and our bookings were better than ever. So I'm sitting there thinking, I was telling Abhi and I was like hey, maybe it's not a bad thing, right. I mean no one's dying from Omicron, right. And we have the most vaccinated population in the world and we have everybody getting boosters in the fourth quarter of this year.

And so I think, a lot of noise, obviously, we always need to be kind of worried about the health crisis in the world, but the solution is vaccines, and there's not a better country in the world than Brazil in terms of vaccinations. And I think that, our responsibility, as leaders in this industry is to continue telling everybody, the truth about what's actually happening on the ground in Brazil, as opposed to kind of what the global markets think is happening on the ground in Brazil.

Yes. And then on the convertible debenture the way we do it, the way we look at it, the strike price of that is BRL32, BRL26 per preferred, right. Most likely you will get converted in 2023, October of '23, which is when we have the ability to call that again, and buy it at par. And assuming that we that the convertible debenture is in the money as it was a week after we issued the convertible debenture. We issued the convertible debenture, and we gotten the money within a week, right. It's not there right now, but it got in the money within a week. We fully expect that it will be converted in October of '23. But, you can do the way we do it, where we take out the debt, and when we calculate the share price, we increase the number of shares, right, for the conversion. And we calculate what we think the stock is worth by doing a discounted cash flow, eliminating the data and then dividing it by the increased number of shares.

If you use our debt, the way it is today, then you already accounting for the debt, right. The debt on the balance sheet includes almost BRL2.5 billion for the convertible debenture. We take that out, but we increase the number of shares. If you don't take it out, then you don't need to increase the number of shares. But I think most likely in October of '23, that debenture gets converted into equity.

John Peter Rodgers - CEO

The convertibles in the money, one year ago today, right. Shortly after it was done. And just to remind everybody one year ago today, there wasn't a single vaccinated person in the world. Right now, we have the entire country vaccinated. One year ago today Abhi's unit revenues probably 20% below what it was in 2019. And so now we have an entire population vaccinated, unit revenue substantially about what it was in 2019 and some of our highest volumes ever in our other business units.

Gabriel Rezende - Itaú

Thanks.

Khalil Lima - Reach Capital

Hi guys. Khalil from Reach Capital. I just have two quick questions on unit revenues. I saw that it is recovering well, but I'm just wondering when we are going to see on the P&L, because I believe we still are seeing a lot of bad yields that are coming from air fares that were bought during the pandemic and are still being redeemed right now. So how much is that? How much that is to clean out that? And when we talk about cargo, what you guys are seeing for the e-commerce dilemma is more volume or is units revenue increasing as well on your projections?

Abhi Shah - CRO

Yes. Thanks. Well, in terms of unit revenue, we already saw in the third quarter, right. We were up 1% And so you are seeing that flown revenue coming. There is some history to be cleaned up, but I think by the fourth quarter, certainly first quarter onwards, it's on new bookings. So you will see more improvement in 4Q and then beyond. So there's some history, but not that much anymore. So, we definitely are seeing in the flown revenue, the effect of the higher fares.

And in terms of cargo, I think it's the years have actually held up pretty well. We also thought that in 2020, it was artificial spike in the use because of capacity all that kind of stuff. But they

have not really come down that much which is good. And that's because what's happening is that more of our customers are shifting to premium products, right. So we used to sell much more of volume that was seven day delivery. Now, we sell a lot more, that's one or two or three day delivery. And so that's helping maintain the use as well. So on our dedicated services, we have not seen the use come down and our belly services, we're actually seeing more customers migrate to the left because they want to deliver faster, right. And so we are selling the mix is much more towards the premium products.

Alexandre Wagner Malfitani - CFO

What's interesting in terms of profitability when you think about Azul Cargo, the way it's been growing since we kind of started really focusing on it. It grows by increasing volume in the belly of the aircraft, which has normally low-ish yield with very, very low marginal cost, right. But so all that money that comes in is almost all pure contribution. During the pandemic, it changed a little bit, because we dramatically reduced the capacity of the passenger operation. But demand for cargo and especially e-commerce skyrocketed. And we started using the aircraft on a more dedicated way, which has much higher yield, but also has much higher cost per ton, right.

Because then you're not getting a free ride on the belly of a passenger aircraft. You're flying in a A330 to Bruxelles, to Brussels purely for cargo. And you allocate that cost across the payload. It's higher than it is in terms of marginal cost for the belly of a passenger aircraft. So it increase the yield, but also increase costs and maintain margin fairly the same way that it did before. But a lot of the growth that happened in 2020, 2021 was from yield and not volume, right. And the yield went up, unit cost went up, margin stayed roughly the same, but revenue went up a lot.

Now, we're going to get back to sort of the pre-COVID growth. A lot of the growth for next year comes more from volume, because we're increasing capacity where recovering the capacity on the passenger side. But what's interesting is that we assume that yield would come down. And as Abhi said, we're not seeing that big of a reduction in yields in spite of the fact that we're adding all this capacity from belly cargo back into the operation.

Lucas Marquiori - BTG Pactual

Hey guys, thanks for the event and the receptions. Lucas from BTG Pactual here. Two topics, I would like to hear you. Number one, the negotiation with files, we saw some rumors about strikes. I think starting last week, so if you guys could comment on that? And secondly, still on the cargo business question. Can you guys comment a little bit on the change or at least the differences between the FedEx contract and the Meli you guys and I know there are some information guys cannot share but at least I mean in the learning curve, you guys had in the meanwhile, it would be interesting to hear?

John Peter Rodgerson - CEO

Yes. So obviously, the strike was supposed to be last week. It didn't happen, we got to a conclusion with the pilots and the flight attendants, where we agreed to 75% of inflation and they were looking to go back two-years and we actually the 75% of the last 12 months. And so the Minister kind of intervened and we came to a negotiation and so it's done, right. And so there's no issue there. I think we're closing with along the same lines with all of our other work groups, right. So the airport agents, maintenance technicians, there's it's a normal course of business that happens every year.

And so obviously, there's a little bit more noise around it this year because inflation was higher. But and just to remind everybody, that's standard for all airlines, right. And so if all airlines are paying 75% of inflation, right. So airlines have had higher base salaries go up by more than

airlines that don't. And so, it's behind us. We're looking forward and so we're excited to kind of enter into 2022, kind of with our crew members on our side to start flying and producing more.

Abhi Shah - CRO

Yes. In terms of FedEx and Meli, so our deal with FedEx is right now about adding distribution points for FedEx and for us increasing our relevance with our customers. So the idea is that the Azul stores become FedEx pick up and drop off points for international courier service, right. So for FedEx, it gives them access to 4,500 ZIP codes in Brazil. And all our representatives gain relevance, Azul cargo gains relevance, because now we can use FedEx as a global network, and we can now ship courier obviously everywhere that FedEx flies, which is amazing. So, that's the fare. And we hope it's the first step in hopefully an evolving partnership between us and FedEx. And so we're actually very, very happy to be working with them.

The Meli deal is so far in, obviously, Meli is one of our largest customers. We have two different pieces of business with them. One is door-to-door deliveries. The other one is we called line haul, but the warehouse-to-warehouse, or airport-to-airport, and then they handle the first mile or the last mile. And based on their ambitions with their own logistics program, and those numbers mix around. So for Meli, we are a logistics provider, for FedEx, it's much more pickup, drop-off and really increasing the relevance of Azul Cargo over. All so, two different partnerships, but both of them important for us and for our partners, just making Azul Cargo more relevant.

John Peter Rodgerson - CEO

And maybe just one thing I think I've mentioned before, Abhi, Alex and I have had the opportunity to spend an hour spend an hour-and-a-half with Fred Smith, the Founder of FedEx. And he kind of taught us a lesson. So don't put all your eggs in one basket, right. Be it and Meli, Megalu, Amazon and we learned that we are were kind of so focused on that and he said your logistics will be for that company and not for the market. And so, we don't have a customer today, that's over 10% of our total revenue, right. And so, yes, Mercado Libre is very strong. Yes, they're growing a lot, but they don't make up more than 10% of our total revenue, right. And so, Fiat, Samsung, Dannon Yogurt, Natura, these are all fantastic customers of ours. And so yes, I think the FedEx partnership is more strategic long-term as opposed to kind of more immediate.

Alexandre Wagner Malfitani - CFO

And what's fun to look is for each of these customers like John said, the first one is close to 10%, second one drops, like 3%, and then you have a really long tail of customers. And then when we look at what we represent of their spend in logistics, it's a very, very small fraction, right. So, if we can increase our share of wallet, it's the BRL45 billion that Abhi talked about, right. The BRL45 billion, when we look at all of our customers is and when we add up everything that they spend on logistics is the BRL45 billion, right. But when we look at what we represent it's one forty fifth of that amount.

John Peter Rodgerson - CEO

We have one more in here, and then we'll go to some online and then come back.

Guilherme Mendes – J.P. Morgan

Okay. Thanks. Guilherme Mendes with JPMorgan. Two questions, the first one to Abhi. It's a follow-up on yields. So if you can comment, how can we think in terms of yield increase excluding fuel and FX? Because naturally part of the increasing yield should related to pricing through higher fuel costs and FX as well? And the second one in terms of few hedging strategy, how should we think about it for next year? Thanks.

Abhi Shah - CRO

Yes. I mean our my goals from a revenue perspective for next year is keep the use that we have right now, right. And if we can keep the use that we have that we're going to finish fourth quarter with which are actually quite strong. If we can keep those for next year and grow the airline and get all of that margin benefit from unit cost, right in terms of the scale, in terms of the dilution of the cost per ASK. I think that that gets us to our number.

So, as Alex talked about the ruler, we are going to have a 4Q with higher year-over-year RASK, year of a two-year RASK improvement than 2019 and my goal is to keep that going forward. So obviously there's some fuel in there, there's some currency, the market is reacting to the higher cost in terms of average fares, but, that's okay, the customer is paying it, there is demand for that. And everything that we are seeing in terms of groups' activity, in terms of conferences for next year, a lot of groups' activities activity is returning. Obviously is our Formula 1, a couple of weeks ago in São Paulo.

John Peter Rodgerson - CEO

But Abhi, I think it's important to highlight, São Paulo didn't open till the 1st of November, you weren't asked to go back to the bank until 1st of November, right. And so, it's pretty remarkable that Abhi is showing that RASK improvement where he is today, and now the corporate needs to help kind of push it or maintain where it is today, and that's what we're seeing.

Alexandre Wagner Malfitani - CFO

And if there's a hedging policy for oil, our policies that we can hedge up to 40% of our next 12 months consumption, if fuel is below a certain threshold and above a certain threshold. If it goes below like \$40 a barrel, we can go above 40%. But, so it would be above 40% is sort of our maximum hedging position, but, we also take a look at what the industry is doing.

And the industry since the since the pandemic has become very light on oil hedges, right. I mean the oil industry kind of suffered with it because, normally you'd say, hey, I can hedge a lot. Because, if I lose them to hedge, that means I'm winning on the operation and vice versa. But then you saw a combination where you were losing on the hedge and you weren't winning on the operation, because there was an operation, right. And then you do a point that has a bigger impact on our cash, then the actual revenue impact, right.

So yes, I have to be careful on how much we have. So we fully expect to lose money hedging, right. I'm not going to say they're part of our competitive advantages to guess whether all is going to go up or down. So, we tend to look a lot at what the industry is doing. And right now, we're at about 10% to 15% of our next 12 months consumption hedge, which is higher than the industry. The industry is close to zero right now, is right. So we don't expect to increase if anything, will probably let, the numbers go down a little bit more. Because what you don't want to be is to be an in an uncompetitive situation, right. Let's say I hedge a 100% of my oil conception at \$80 a barrel and the industry is at zero.

And then all of a sudden oil drops to \$40 a barrel, right, which is not impossible. And then I'm hedge at \$80, the whole industry is unhedged. The whole industry can reduce fares and I cannot, right. So you have to kind of keep an eye on the competition to decide what you're going to do in terms of implementing your hedging policy. So we expect to be sort of where we are to lower than that.

John Peter Rodgerson - CEO

Thais, online.

Thais Haberli - Investor Relations Manager

Mike Linenberg from Deutsche Bank has two questions regarding our corporate demand. The first one is, what gives the confidence that we can maintain or grow our corporate revenue share while cutting our corporate discount? And the second one is with the Omicron, Google announced that they are delaying their return to office. So, do you think other companies will also delay their return to office and in turn affect corporate travel?

John Peter Rodgerson - CEO

It's a good thing, we don't go to San Francisco, right.

Alexandre Wagner Malfitani - CFO

And we need to ask you all to think about in this as investors and not as corporate travelers here right for the answer.

Abhi Shah - CRO

Well, San Francisco has been impacted. But look, obviously the second part of the answer is what John talked about, which is vaccinations right, vaccinations, boosters, third shots, all those kinds of things. How, well, Brazil has done and how well São Paulo has done and the country has done in terms of vaccinations? So, I think in terms of the vaccination rates that we have so far, I have not heard of any delays in reopening, I have not heard about any customers now, wanting to go back to the office. So, nothing has changed.

And in terms of the corporate revenue, I think it's the signs that we are seeing in the market. We are seeing really strong groups activity, we are seeing really strong conferences, training events, and its from talking to our customers and seeing what they're experiencing. So, there's nothing again that gives us an indication. And November was better than October, December has started better than November. So the progress has continued. We'll take a pause now because of summer break and probably come back, in terms of corporate activity towards the end of January, because of summer vacations now. But, it's progressed very nicely throughout the year, especially since July. Exactly timed with the second dose, and we're going to have the third dose, and the booster shots as well. So, nothing indicates that that's going to change. And again, it's all linked to vaccinations and the progress that we're making in vaccinations.

John Peter Rodgerson - CEO

I may just add for Mike's benefit. We're on the ground here and I ended the year is always a rush. But there's an enormous amount of events. I have dinners unless every night between now and the end of the year, it took me an hour-and-a-half to go to the other side of São Paulo. I was talking to Victor, on Tuesday, Wednesday and Thursday, for the Lima is like completely gridlocked. Mondays and Fridays it's not, right. So the bankers are kind of getting a little bit of it. It's funny how that works. It's funny how there's no COVID on Mondays and Fridays. But there's no Tuesday to Thursdays. And so I think being on the ground in Brazil and seeing restaurants for seeing economic activity, seeing airplanes for it's very much a different vibe that we're seeing. And we're seeing this kind of rush to finish 2021 on a very positive note kind of across many sectors.

Thais Haberli - Investor Relations Manager

Great. Alejandro Zamacona from Credit Suisse, has three questions actually. Should the problem of reorganization of Latam is approved as presented? Do you expect a higher competitive environment and how could it affect you and capacity plan for Azul? Then I will tell the other question.

John Peter Rodgerson - CEO

You know, what I've seen so far is, they're exiting chapter 11 and assuming their plan gets approved probably more levered than when they entered, right. And so yes, they have some advantage on the food side, but they didn't get a later bill done. They have 75% of their ASKs are international. And so yes, I think the market needs to make money and I think the new shareholders of Latam will be focused on that as well. The shareholders of goal, as we open the shareholders of Azul anything, anybody wants to make money. And so you're having a new competitor come out of chapter 11 thinking that they're going to destroy the market. I just don't think that that's very problem.

Yes. The other thing too is as we show 80% of our network does not have overlap, right. And so we're alone in many of our markets. And so, I think everybody wants to kind of play to make money. And I think that that will be the focus if there's new creditors coming into TAM, Latam and putting BRL5 billion, BRL6 billion, whatever the amount of money as they need to get a return on that capital, right. And there's no way to get a return on that capital between if you're destroying the market.

And so, I'm very confident that the market will be healthy over the next couple of years. And historically, the best time to invest in an airline is in the back side of the crisis, because everybody kind of comes to the brink, everybody gets religion and everybody kind of prices for profitability and it would obvious indicating here if he's done with corporate discounts, I think is important, it's important signal for the market overall. The stairs need to be going in the right direction.

Thais Haberli - Investor Relations Manager

Thanks, John. The next question is for Alex. What would be the more stable long-term operating margin considering all these efficiencies that multiple sources of margin expansion?

Alexandre Wagner Malfitani - CFO

Yes. So the BRL4 billion in EBITDA that we're talking about is in the mid-20s in terms of EBITDA margin, which is still leaves a lot of upside for us to get back to our pre-COVID margin, which was 31.7%, right. So, we believe that we will get to the low 30s in EBITDA probably not even in '23, most likely in '24. But again, in terms of EBITDA generation, '23 is going to be a lot higher than '24, and then and '24 is '23 is going to be a lot higher than '22, even though, we still won't be at the low 30s in terms of EBITDA margin.

There was all this productivity gain. Can we aspire for 40% EBITDA margins? I don't have that in my model, right. I kind of level off my EBITDA margin at sort of historical highs. I don't put it at 40%. But are we going to just throw in the towel when we get back to 32%? Of course, not, right. It's just so in terms of profitability, in terms of modeling. We kind of count on a little bit of a reversion to the mean, reversion to historical trends. But yes, when you do the bottom up calculation, when you look at that chart, we had with the growth in 2022 EBITDA, the 2025 EBITDA, there is a lot of value here, right. That could get us to record levels EBITDA margins, much higher than what we had before. And there's a lot of goodness, a lot of drivers that certainly can lead you to push for that.

Thais Haberli - Investor Relations Manager

Thanks, Alex. And do you for fleet justification opportunities in any aircraft type?

Abhi Shah - CRO

Fleet simplification?

Thais Haberli - Investor Relations Manager

Justification.

Abhi Shah - CRO

Our aircraft are pretty dense as it is 214 seats on a 321, 174 on a 320. I think we like our product where it is, where we're going to gain efficiencies is on the mix, we have more larger aircraft coming in. So our seats per departure is going to increase. So as an airline overall, we are definitely densifying and we are upgauging. So the airline is densifying, I think each aircraft by itself is probably pretty okay right now. But overall we are densifying as an airline.

Alexandre Wagner Malfitani - CFO

And as Abhi showed, the revenue that we get, the extra revenue we get per packs, part of it is the extra leg room, so that brought it certainly pays for the real estate that it consumes, right. So we believe that it's a better revenue mix for us to have a small portion of the cabin with more legroom and charge more for that. And have a denser portion of the cabin for lower fares. As you guys all know, there's no first class cabin in domestic aircraft in Brazil, right. So it's like Abhi said, it's already pretty high density.

Thais Haberli - Investor Relations Manager

And talking about fleet. Josh Milberg from Morgan Stanley is asking, as when we will likely receive the 50 E2s aircraft that last year were deferred until after 2023?

John Peter Rodgerson - CEO

I just got to ask Josh, as he's working on his Embraer model is we're going to resume model. No, I mean it's a negotiation, right. And I think we want to show today was what we're contractually obligated to take. We've advanced E2s into 2022. I think in total there's eight, six of which we have in the schedule and another two is slipping the 2023. But we're negotiating, we're negotiating with Embraer. And we couldn't be happier with that aircraft, right. It's a fantastic aircraft. This fuel burn is much better than they told us it would be. And I've never seen that with an OEM. And so we're very happy with that aircraft, the passengers love the aircraft. And so, yes, I think it's highly probable, there's something in 2023, but that's a negotiation that's ongoing. And so that's why today we wouldn't want to comment on that, but I think for your remodeling purposes, you can assume we take some aircraft in 2023 remember.

Thais Haberli - Investor Relations Manager

Thanks, John. Dan McKenzie from Seaport is mentioning that our recovery look strong, but there are some economists are calling for a resection in 2022. What's embedded in our outlook? From where we sit right now, what does the stress test to look like and what the definition flexibility if things get worse?

Alexandre Wagner Malfitani - CFO

Yes. We model demand much more based on what we're seeing of our demand, right, as opposed to sort of GDP. GDP I think is good for, maybe if you're trying to look sort of at a 10-year trend or a multi-year trend, but on a year-by-year basis, there's really no correlation we see between GDP and demand growth. If you look at that chart that Abhi showed with the growth, since we started Azul, average GDP over the 10-year period, prior to the pandemic was less than 1.5%, right. So pretty depressing GDP for an emerging market. That's why we call it another lost decade and all that.

But the average growth for the aviation market, not for Azul, for the aviation market as a whole with 7.5%, right. So you would be looking at a 5x of GDP multiplier. If you try to look at GDP, but the truth is that on a year-by-year basis, that correlation is not that strong. It's really about the demand that Abhi is seeing, the demand that we're seeing in the markets that we fly, the bottom up calculation of the markets that we're going to start flying and that gives us a lot more confidence on what our demand is going to be, then the GDP projections. And again think about not the impact of GDP or recession for Brazil, think about what's happening to the traveling public to the BRL15 million CPS or social securities that we cater to, what's happening to them. Are they seeing a recession, but from the number of icons that I see, on the São Paulo roads every day doesn't feel like it.

John Peter Rodgers - CEO

Yes. And I also think too Dan, taking the consideration, what's happening in the Midwest of Brazil, what's happening in the north of Brazil. What Abhi did in Recife is pretty incredible, with 42 non-stop destinations to Recife today and so it's where the economic activity is happening. And so there's the agro-business in Brazil with the dollar at \$560, \$570 they're making more money than they've ever seen in their lives, right. And so, that's where the network is concentrated. And so, there's many different Brazils, and I think that needs to be put in perspective. And so, I think there's opportunities, these are buying opportunities for people as they kind of look at projections that come out. But we're way more bullish because we're on the ground seeing what's actually happening.

Jorge Gabriel Lourenção - Morgan Stanley

Hey everyone. Thanks for taking my questions Jorge Gabriel Lourenção from Morgan Stanley. Thanks for the presentation as well. I think this one is for Alex. Alex you mentioned, that you expect to repay all of your rent and supplier commitments, or almost all of that with operating core operating cash flow generation. Just wanted to understand how much of that is already reflected, when we look at your schedule of amortization of financial liabilities. And how much of that could come as eventually as an upside or an incremental benefits to those numbers the way that they look right now?

Alexandre Wagner Malfitani - CFO

It's a little bit of a circular reference, right. Because here's what's going to happen, and here's how we manage the pandemic, which I think, gave us a lot of credibility of how we're managing, since the pandemic started, right. In the end, this is all about reputation and credit. We told our suppliers and we told our lessors, and we told by banks, look, we can't pay you, because if we pay you, we're going to have to file for Chapter 11 or the company's not going to exist and that's a bad for everyone, right. And then, we restructured all of our payments and then we started honoring them. And then we started getting feedback from our suppliers and our lessors of how happy they were with the fact that we were honoring our payments, which is not the case throughout the industry, right. And again, we honored and we promise to pay them a 100%.

But then we said, when we first negotiate at the first way, we said look, we believe there's going to be a gradual recovery and that's what we're modeling and that's what our payment capability

is. But if there is a second wave, we're going to have to come back to the table and get additional deferrals. The second wave came, we went back to the table and it was a much easier conversation. First, because the ASK was much smaller and then because we had already kind of, it was consistent with the whole negotiation approach that we have had. And we continue to honor those payments, right. When I look at the sort of the next three years as I get down from the double-digit leverage back down to something that starts with a three. I can pay for about half of everything that expires with my own cash. And I'm going to need to roll over about half. But does that mean, I need to have a roll over half of everything, no, right. Because if I roll over 100% of my bank debt, which I'm if I'm generating BRL4.4 billion of EBITDA, the banks are going to be very keen on rolling over that bank debt. That won't be a problem and then I don't have to maybe roll over the 2024 bond, right. I can be opportunistic.

What we're going to do is, we're going to look at the cost of the capital of each option. I'm going to need to raise some capital but it doesn't necessarily mean that it's going to be debt, right. Doesn't mean it's going to be equity, maybe its bilateral, maybe it's with our suppliers, maybe it's certainly lowering our cash balance, because prior to pandemic, we had less than BRL2 billion of cash. Does that mean do I need BRL3.5 billion of cash, which is what I'm going to end the year with? No, right. I can let that cash grow back to something more similar to the pre-pandemic levels, right. And that can be used to pay for those suppliers.

So the sort of the summary is that we have options, right. And it's very good to have options, because then you can play one against each other. You can kind of choose when you're going to roll over your debt which that you're going to roll over and which condition and that's where we like to be.

John Peter Rodgerson - CEO

I just would like to add, we're always negotiating, right. That's kind of part of the game I was joking with Josh's question on Embraer, every operating lessor, it's always a negotiation. What are their needs? What are our needs? And how do we meet each other's needs, right. And so you're bringing aircraft forward, who finances those aircraft. And do I get more time on a deferral if I take more aircraft earlier, or later. Those are all things, we extend loses. And so you're constantly negotiating.

The most important thing you need to do is have a business that makes money, right. It did with, that's what we're focused on and producing the BRL4 billion. I think our results in the third quarter, compared our industry kind of in the U.S. and in Latin America, I think shows the great business model that we had. And financing is secondary, Because first we make money.

Alexandre Wagner Malfitani - CFO

Any other questions here? Anything else online?

Thais Haberli - Investor Relations Manager

No. You already answered all the questions we have here online.

Alexandre Wagner Malfitani - CFO

Right.

John Peter Rodgerson - CEO

Thanks, everybody. We apologize for the slight delay. As Thais said at the beginning, that's just reinforces that people need to get back together, forget this online nonsense.

Abhi Shah - CRO

Actually the truth is, we uploaded a virus on Microsoft Teams. Hope it never comes back.

John Peter Rodgerson - CEO

So, thanks everybody, we got some food here, and have the opportunity to talk to you all individually. And those of you online, thanks for your time and your patience and feel free to reach out to Thais, Alex, Abhi and myself, if you have any further questions. Thank you.

Alexandre Wagner Malfitani - CFO

Thanks everyone.