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# Brazilian Airline Azul S.A. Downgraded To 'SD' Following Distressed Debt Exchange

- Azul S.A. completed the settlement of the announced debt exchange of its 2028, 2029, 2030, and convertible notes.
- We view the transaction as distressed and tantamount to default because creditors will receive less than originally promised.
- Azul also completed the issuance of its \$500 million super priority notes due 2030.
- On Jan. 29, 2025, S&P Global Ratings lowered its global and national scale issuer credit ratings on Azul to 'SD' (selective default) from 'CC' and 'brCC', respectively. We also affirmed our issue rating on the 2026 senior unsecured notes at 'CCC-' because these aren't part of the exchange.
- We will evaluate the company's new capital structure and will likely raise the ratings in the next couple of days.

SAO PAULO (S&P Global Ratings) Jan. 29, 2025—S&P Global Ratings took the ratings actions described above. On Jan. 28, 2025, the company announced the settlement of the exchange of 99.7% of its 2028 first priority senior secured notes, 98.02% of its 2029 senior secured notes, and 94.4% of its 2030 senior secured notes. The notes are being

exchanged for new first-lien senior secured 11.9% notes due 2028, new second-lien 11.5% notes due 2029, and 10.875% notes due 2030, respectively, which include indenture amendments.

We view these transactions as distressed rather than opportunistic since--absent the exchanges--a conventional default or bankruptcy filing would have been a possibility due to the company's tight liquidity before the restructuring and challenging financial market conditions.

The new super priority funding will be ahead of the existing 2028, 2029, and 2030 notes in priority of payment from the shared collateral. Additionally, holders that did not participate in the exchange offers and consent solicitations would remain with existing 2028, 2029, and 2030 notes, but these will become unsecured. Finally, the new 2029 and 2030 notes also contemplate a conversion into equity in stages and dependent on specific milestones.

We believe the company improved its liquidity position and reduced short-term refinancing risks through the issuance of the new superiority notes. These notes will immediately provide an additional \$350 million (on top of the \$150 million already received in 2024 through bridge notes).

Additionally, the exchanges provide for conversion into equity of a portion of the new 2029 and 2030 notes in the short term, which adds to the conversion of about Brazilian real (R\$) 3.4 billion of leases. At the same time, Azul has negotiated with lessors and original equipment manufacturers to bring additional savings and improve cash flows.

However, we expect leverage to remain high and free operating cash flow after lease payments to remain tight in a scenario of a more depreciated Brazilian real, which could add volatility to results.

## Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers](#), Dec. 7, 2016
- [Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments](#), Jan. 20, 2016
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at

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