**Conference Call Transcript**
**Azul**
**2Q24 Results**

**Operator**

Hello, everyone, and welcome all to Azul’s 2Q24 earnings call. My name is Zach, and I will be your operator for today.

This event is being recorded, and all participants will be in listen-only mode until we conduct the Q&A session following the Company's presentation. If you have a question, click on the Q&A icon at the bottom of your screen and write your name and Company. When your name is announced, please turn your microphone on and proceed.

For those who are listening to the conference on the phone, press nine to join the queue and six to accept the audio when requested.

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

**Thais Haberli – Head of Investor Relations**

Thank you, Zach, and welcome all to Azul's 2Q24 earnings call.

The results that we announced this morning, the audio of this call, and the slides that we reference are available on our IR website. Presented today will be John Rodgerson, CEO; David Neeleman, Azul's Founder and Chairman; Abhi Shah, the President of Azul; and Alexandre Malfitani, our CFO.

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

These statements are based on a range of assumptions that the Company believes are reasonable but are subject to uncertainties and risks that are discussed in detail in our CVM and SEC filings. Also, during the course of the call, we will discuss non-IFRS performance measures, which should not be considered in isolation.

With that, I now turn the call over to John.

**John Rogerson – Azul’s CEO**

Thank you, Thais. Welcome, everyone, and thank you for joining us for our 2Q24 earnings call.

First, I would like to express our solidarity with the families, loved ones, and the crew members affected by the aviation tragedy that occurred in Brazil on Friday. Aviation safety is number one in everything that we do, and as an industry, we always come together in times of need. We offer them our condolences and support and our prayers during this very difficult time.

I would also like to thank our crew members for all their hard work during 2Q24. Our strong culture was essential as we successfully navigated a challenging combination of seasonality, fleet, high fuel, and currency devaluation combined with the devastating floods in the south of Brazil, all of which made 2Q24 an especially difficult quarter.

I am incredibly proud of our entire team for how quickly we adapted to the changing conditions, implemented initiatives, and delivered what I think is an industry-leading result.

On slide three, we summarized the results for 2Q24. Our revenue was R$4.2 billion with a RASK of R$38.32 cents. Unit costs reduced 1.8% even with fuel prices up compared to last year and the devaluation of the Brazilian real against the dollar. Most importantly, our EBITDA was R$1.1 billion and our EBIT was R$441 million, representing a margin of 25.2% and 10.6%, respectively.

As I look around the world, even with all the challenges we face, this is a strong result. The key was our ability to adapt, and this is something we will talk a lot more about in this presentation.

Moving to slide four, I wanted to provide an update and context on what happened here in Rio Grande do Sul and how it impacted our results. As we mentioned on our last call, the State of Rio Grande do Sul was impacted in early May by severe flooding. We were deeply saddened by the loss of lives, displacement of people, and widespread destruction in the region. Once again, our crew members and our clients stepped up, contributing over 3,000 tons in donations, which we delivered quickly to those who needed them most.

The main airport in Porto Alegre remains closed. The good news, however, is that it will now partially reopen on October 21st. Last Friday, we opened sales to that airport, and we will be the largest airline again with 60 daily operations, almost 80% of our capacity pre-floods.

For those who do not know, Rio Grande do Sul is the fourth largest state in Brazil in terms of economic activity and represents over 10% of our total capacity. The relevance to us is equivalent to the relevance of Los Angeles for a major US airline.

As a result, we estimate that the reduction in our capacity in that region negatively impacted our 2Q24 results by at least R$200 million and had an even bigger impact on cash when including the impact on ATL and the loss of forward bookings.

On slide five, you can see the rapid devaluation of the Brazilian real in 2024. In 2Q24, the end-of-period exchange rate devalued 12% versus the 1Q24, while, at the same time, fuel prices increased 2.4%.

The combination of these negative effects required us to rapidly adapt during 2Q24. For example, we quickly redeployed the capacity from Porto Alegre to other cities in our network. While we were forced to sell this capacity quickly at a lower quality than we would have liked, we still were able to mitigate part of the EBITDA impact.

Turning to slide six, our business units were very instrumental in our ability to adapt. We are extremely proud of the performance of our business units, which accounted for more than 20% of our RASK and over 30% of our EBITDA.

Azul Fidelidade, our loyalty program, delivered strong results with all-time records in members, gross billings, and active credit card sales, highlighting our customers' preference in Azul.

Azul Viagens, our vacation packaging business, grew 63% in gross bookings in 2Q24 versus 2Q23. Our logistics business grew 12% quarter-over-quarter. In total, Azul's revenue was 60% above 2019 levels on an airline that is roughly 35% larger.

Looking ahead to the rest of the year, we are very encouraged by the normalization of demand and capacity and the favorable seasonality with positive bookings and average fares, plus additional revenue initiatives we are putting in place.

To give you further details, I will now turn it over to Abhi.

**Abhi Shah – Azul's President**

Thank you, John.

Let me start by talking about recent trends in bookings because, as we all know, good bookings will always lead to good flown revenue.

As you can see on slide seven, we are seeing significantly improved average fares since the beginning of 2Q24 and even better since the bottom in mid-May.

The closure of Porto Alegre had three major impacts on our revenue. First, a demand shock where 10% was immediately lost, not just to the routes to and from Porto Alegre but also the network contribution from the largest city in the fourth largest state in Brazil.

We also believe that the damage caused by the flood affected demand throughout the system, further deepening the weak seasonality in 2Q24.

Finally, we had to rapidly reallocate this capacity in the months of May and June to other parts of our network and sell this capacity quickly with little advance notice. As John already mentioned, this resulted in lower-quality revenue but still mitigated a good part of the EBITDA impact.

On slide eight, you can see the tangible positive results from the improving fare and demand environment. Comparing 2Q24 RASK to what we just flew in July, RASK has improved a very strong 15%. On a year-over-year basis, while 2Q24 was down 5% in RASK, July was actually up 5% versus last year. This clearly indicates that the demand environment is improving faster than seasonality and the market is showing signs of strength.

The July trend continues in August and beyond as we see stronger booking curves for the rest of the year. These booking curves are supported by the strong economic indicators here in Brazil.

Contrary to what some are seeing in the US, where there are some signs of reduced consumer demand, Brazil indicators like GDP and unemployment are strong, and this gives us further confidence as we look to demand for the second half of the year.

Moving to slide nine, I want to talk about our international network and the challenges we faced during 2Q24. As we migrated from the exit of the A350s earlier this year, our plan was to add six A330 aircraft as replacements. This transition resulted in a temporary reduction in our 2Q24 network.

Due to the global fleet challenges, aircraft that we had planned to enter into service in 2Q24 were moved to 3Q24. As a result, we had to significantly cancel down almost half, as you can see in our international long-haul flights.

This created a large volume of customers that we had to re-accommodate on our own flights, blocking those seats for sale. This had a big impact on our bookings and our flown unit revenue as we were not able to sell those closer in higher yielding fares.

The very good news is that we are now beyond those effects, and looking ahead, we see a 50% growth in our international long-haul capacity. This will have a very significant positive impact on bookings and fares.

Finally, on slide 10, I wanted to show a longer-term view that demonstrates the resiliency in our business and our ability to recapture cost increases from unfavorable macro drivers. As David will explain later on, this is all because we are true to our model as we have grown over the years.

A good part of our expenses and financing is dollar-denominated, and that creates some uncertainty with the Brazilian real devalues. Given our financial structure, a 5% increase in the dollar requires only a 3% increase in fares to offset the impact on expenses and cash. But looking all the way back to 2018, while the dollar has increased 5% a year, our average fares have increased much more than the required 3%. They grew at a CAGR of 8%. And this has happened even as Azul has doubled in capacity.

The point here is to show that 100% of our revenue can be thought of in dollars because we have the ability to overcome the effects of currency. It does take some time to realize the effects of this revenue recapture, and during that time, you will see some negative impact, but, over the long term, we are able to expand our margins, continue to grow, and offset these effects.

As John mentioned in his opening, the key to 2Q24 and our long-term success has been our ability to adapt. The recent challenges have encouraged us to do so again.

Now, I would like to turn over to David, who can talk about his vision on how Azul continues its growth trajectory.

**David Neeleman – Azul's Founder and Chairman**

Thank you, Abhi.

First, to someone who has been in the industry for 40 years and been part of six airlines, I am deeply saddened by the tragic events of Friday. My heart and prayers go to the families and crew members. And of course, we will do everything we can to provide support during this difficult time.

As we went through 2Q24 and realized the realities of the new exchange rate, it became clear to me that Azul, once again, had to adapt, something we have done incredibly well as we have navigated the last 15 years.

Slide 10 gives you a summary of just how much the environment has changed throughout the years yet how consistent our growth in revenue and earnings have been. We launched Azul 15 years ago with a single fleet type, aiming to serve regional destinations in Brazil. We soon realized that the opportunity was much larger, so we expanded that strategy via fleet diversification, a merger, and our expansion into international travel.

At the same time, we diversified our business with high growth, high yield, and high margin business units like loyalty, vacations, and logistics. Most recently, our response to the pandemic and our capital optimization plan was another clear example of our ability to evolve and adapt.

From a real of R$1.67 to the dollar, to almost R$6 to the dollar, from a fuel price of R$2 per liter to R$5 per liter, we can count at least six major evolutions in our business. And the bottom line is, through it all, we have continued to grow and to be more profitable.

Turning to slide 12, you can see the core elements of our resiliency and growth. Our network is the foundation of our structural and long-term competitive advantages. We continue to be the only carrier in 84% of our routes. This is a direct result of our fleet flexibility, where we put the right aircraft on the right market at the right time.

We have more than doubled in size over the past several years, always staying true to our business model. Our business units, as I mentioned, have played a critical role in empowering our growth, while our team has done an incredible job of maintaining the special culture and passion amongst our more than 15,000 crew members.

Our history shows a clear and continued trend evolution and improvement. Building upon the successful completion of our capital optimization plan last year, the team was able to turn focus 100% back to the business. To maintain this, once we realized the external factors affecting 2Q24, I challenged the team to an annual target of more than $1 billion in incremental value.

As we show on slide 13, the team developed and started implementing a plan, which we named Elevate, with multiple opportunities across revenue, cost, fleet, and financing that, once again, allows Azul to continue to adapt and thrive for many years to come.

With that, I want to turn the call over to Alexandre to give more details on our Elevate plan.

**Alex Malfitani – Azul's CFO**

Thanks, David.

As David said, the Elevate plan we are announcing today is a natural extension of the work we did last year to optimize our capital structure. As we said then, we are now able to focus 100% on our business, and the Elevate plan galvanizes that focus across the entire company. I am really excited about this opportunity and the early results we are seeing.

Slide 14 illustrates some of the multiple opportunities we are already working on the revenue side. A main one, of course, is the codeshare with Gol. We are now jointly selling about 150 origins and destinations that connect the two networks. These connections provide increased options and convenience to all of our customers. We started selling the codeshare in July, so we are only in the beginning, but we are very happy with the early results, and I want to thank our partners at Gol.

Ancillary revenues are another area of growth and focus. For the month of July, we hit a record in ancillary revenues with a 17% increase in revenue per passenger versus July 2023. I especially want to thank our airport crew members who are selling double what they sold a year ago. Our business units continue to be a key driver of revenue expansion.

On the loyalty side, direct point sales to our customers enabled by our credit card, our club, and our buy-points product are now our largest source of revenue, providing dependable recurring cash flows.

On the vacation side, we are creatively using idle capacity available off-peak not only on weekends but also on weekdays to provide expanded customer choice and flexibility. This was one of the reasons that our vacation business grew more than 60% in 2Q24.

Finally, as Abhi mentioned, the recovery and growth in our international network is a key driver of earnings and cash generation going forward.

On slide 15, turning to the cost side, we see some really exciting opportunities in fleet, utilization, efficiency, productivity, and purchasing. These will all allow us to reduce costs, utilize our resources more effectively, and generate more cash. Let me share some examples in the next slides.

On slide 16, I want to highlight one of the key initiatives to further expand margins this year: our aircraft utilization. We were already increasing utilization across the operation, but, in late June, we decided to make a structural change by implementing a reduction in ground times across our network. Such a reduction of between 5 minutes and 15 minutes for every aircraft turn allows aircraft to be in the air longer, generating more capacity and therefore improving earnings.

The team immediately jumped to the task and developed a series of operational process changes that allowed us to safely implement this ground time reduction and, most importantly, maintain the quality of our operation. This new network is already operating, and I want to really thank the entire Azul team for their incredible work. So far this month, we have a 99.2% completion factor with an on-time performance of 87.2%, which is the best in Brazil.

On slide 17, you can see another great example of opportunities on the fleet side, which is our move from E1s into E2s. We ended 2Q24 with approximately 83% of our capacity coming from next-generation aircraft, considerably higher than any competitor in the region. This is extremely beneficial, as E2 is a much more profitable aircraft that flies more hours per day with much lower seat costs.

In July, for example, our E2s flew an average of almost 12 hours per day. Plus, the E2 has 18 more seats and delivers 18% lower fuel burn in total than the E1, leading to a 26% reduction in cost per seat. As we expect to receive another 15 E2s over the next 18 months, this difference in utilization and seat costs will significantly drive earnings growth.

However, we want to further expense this advantage, and we have made the decision to reduce utilization of the E1s and increase utilization of the E2s by prioritizing the E2 as the scheduled aircraft type and using the E1s as a spare, leveraging the commonalities across the two models but increasing profitability and also reducing CAPEX, significantly improving cash.

I also want to show how our focus on efficiency and productivity has yielded significant results already. On Slide 18, you can see that just within a period of four months, we are 17% more efficient at airports, and the Company overall is generating 16% more ASKs per FTE. These levels of productivity will improve further as we continue our growth into the seasonally stronger 3Q24 and 4Q24.

Summarizing these actions on slide 19, compared to 2Q23, CASK ex-fuel reduced almost 3%, mainly driven by our cost reduction initiatives and productivity gains. We made a promise to you that we would emerge from the pandemic as a more efficient airline, and that is exactly what we are doing. These are just some examples. As part of our Elevate plan, we have a list of over 40 initiatives spread across the entire airline, and this plan will be our number one priority for the entire Company as we move forward.

Putting all of this together, on slide 20, you can see how our EBITDA trajectory has exhibited strong and consistent growth throughout the years, obviously, excluding the pandemic. For 2024, we expect an EBITDA of over R$6 billion, a 17% increase from 2023, and once again an all-time record for the airline.

To wrap up, on slide 21, I could not be prouder of being part of Azul. We are running an incredible operation. Our customers love to fly us, and our crew members love to work for us. As David noted, we have adapted and evolved many times over the years but have remained true to our essence.

Everything we do is in order to build a stronger Azul and to expand our competitive advantages, benefiting all of our multiple stakeholders. Our Elevate plan is another step in this direction. We are truly excited by the opportunities ahead of us.

With that, we are all available to answer your questions. I will now turn the call over to the operator for the Q&A session.

**Questions and Answers**

**Operator**

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

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

**Fernanda Recchia – BTG Pactual**

Good morning, everyone. Thank you for taking my questions. There are two from our side. First, I would like to get an update on the debt conversion terms. If I am not mistaken, the lockup period for the debt conversion expires now in 3Q24. So maybe if you could comment a little on how you are thinking to tackle the 3 million shares that are expected to be vested by the lessors, it would be great.

We know that there is a difference between the strike price and the current price that the stock is, so maybe you could comment on what are the alternatives that you are thinking of, or if you are thinking of using cash to close this gap. This is my first one.

And the second, regarding the supply chain issues that led for the guidance downward revision in terms of ASM. Could you update us on the latest fleet plan that you have for this year and the next? If I am not mistaken, you were expecting to receive around 12 E2s and around two Airbus A320s. What is the latest? And if you could comment on next year, how are you thinking on the aircraft deliveries?

That is, it from my side. Thank you.

**Alex Malfitani – Azul's CFO**

Thank you, Fernanda.

I will talk about what we call the lessor equity structure. Just to remind everyone first on the call what that is, this is essentially COVID deferrals that our lessors agreed to transform into essentially what is interest-free debt, where Azul has the option of paying in cash or equity, and then, if there are shifting conditions that it may not be a good idea to pay in cash or equity, we always have the ability to talk to our lessors and negotiate new terms.

And that is essentially what we are doing. We are in bilateral conversations with our lessors, and we always like to remind everyone of the relationship that we have with our lessors.

Lessors are partners who have a very long-term relationship with the airline. They look at a very long-term horizon, and for them to maximize their economic value, obviously, what they need is a thriving business. So, we always are able to kind of come up with a construct that works for us but also works for them.

Obviously, they also have their own constraints, but we were able to count on their support last year, and we know that we can count on their support going forward as well. So, we are in these bilateral conversations with our lessors, and as we reach new terms with them, we will update you all. But as you have seen, we have not issued shares, and so we are having these conversations, and we will update you over time.

**John Rogerson – Azul's CEO**

And again, as Alex said, they are partners in this business, and they have seen what has happened. I do not think anybody expected the exchange rate to devalue 12% inside of a quarter. I have been here for 15 years, and we have never seen that. Therefore, as all partners do, you sit down at the table, and we work through it and figure out what is the best path forward.

As for the fleet projections and the OEM delays, I will pass it over to Abhi.

**Abhi Shah – Azul's President**

Thank you, John. Hello, Fernanda.

I will start with the A320s. We have already received the A320s we were going to for the year, so Airbus has already delivered for this year. On the widebodies, as we said, our plan was six A330s. Two are already in the fleet. We expect two more in September, and then we expect the final two between December and January in that timeframe.

As you said, the focus is on the E2s for this year and, for the next couple of years actually, we are working very closely with Embraer. The number is moving around a little bit. For example, in September, we have two deliveries, and then down the road every month, in August and beyond.

So, I would say we are working with them. It is moving around a little bit to the right as well. This is one of the impacts for this year. You will see some deliveries in December, for example, which will help us next year. Therefore, overall, I would say around 15 to 18 between now and the end of next year.

**John Rogerson – Azul's CEO**

I think it is also important. A lot of the OEM deliveries are back-end loaded, so that actually impacts leverage at the end of the year as well as kind of what is happening with the exchange rate. But, on average, they have been shifting 30 to 45 days to the right.

**Fernanda Recchia – BTG Pactual**

Perfect. Thank you very much for your answers.

**Savanthi Syth – Raymond James**

Thank you. Good morning, everyone.

I was curious from my first question on the flooding and the R$200 million impact in 2Q24. Was that net of redirecting capacity? What I am trying to do is I am trying to understand what kind of drag we should be modeling here until it kind of opens back up in 4Q24.

**Abhi Shah – Azul's President**

Yes, Savi, that was net, and also it does not really include the fact that we had to sell the other capacities so quickly, which contributed to the reduction in year-over-year RASK as well.

So, certainly, as we move forward, now that we have a little bit more time, you can already see how much July has improved. August, September, and October, when the capacity comes back, we certainly expect to be back to normalized RASK, and actually, I expect a positive year-over-year RASK in 3Q24 as well.

In short, we are certainly getting back to normal, but it was just something we had to sell very quickly so we were able to use our assets, so the back half of May in the month of June.

**John Rogerson – Azul's CEO**

We actually believe operating at Porto Alegre and being the largest airline will be a benefit to us going forward, as there is an enormous amount of economic activity projected in the city to rebuild it. Right now, there are about seven flights a day into a military base in Porto Alegre, whereas, previously, there were 120 flights a day at the airport. So, there are not just people traveling in that region right now.

**Savanthi Syth – Raymond James**

That is super helpful.

And if I might just follow up on the previous kind of fleet question, is there no kind of A320 deliveries next year? Just along the lines of fleet, I think that there was kind of an agreement with BNDES on financing. I was curious how that financing looks, and I am guessing that is for the E2s.

**Abhi Shah – Azul's President**

Yes. We are not planning A320 deliveries next year. They have been pushed off for 2026 and beyond. And actually, now it is mostly A321s, to be honest, and we are very excited about that aircraft. Not the LR XLR, just the domestic ones, which are doing very well. But the next two years, really, the focus is going to be on the E2s, in other words, at the back half of this year and the next 18 months, the focus is going to be on the E2s.

**Alex Malfitani – Azul's CFO**

The BNDES financing is a kind of standard ECA financing that is available to Embraer customers. The terms are set by the aircraft sector understanding, so they are pretty standard. We have approval for up to 10 aircraft, and we have decided to take two for now. The majority of the E2s that we expect to take delivery off should be operating leases and will not provide additional cash outflows.

And these two also, the reason why we took them is because we were able to structure in a way that also did not provide cash outflows, even though there are financial leases as opposed to operating leases. But, regarding all of these deliveries between now and the end of 2025, you do not have to expect any cash outflows for the deliveries.

**Savanthi Syth – Raymond James**

That is helpful. Thank you.

**Alberto Valerio – UBS**

Hello, Alexandre and John. Thank you for taking my questions. I am interested to know about the five deliveries that you had in 2Q24. Do you have an intention to make sales leaseback on this aircraft? I think it was two A320s, two A330s, and one Embraer.

And also, about the announcement of the government last week that would provide financing from BNDES to the airlines. I think they made a condition to own Embraers, and I know you guys already own it. My only question is if you have to order furthermore E2s from Embraer and when this finance would arrive to you. Thank you.

**Alex Malfitani – Azul's CFO**

Regarding the deliveries, they are operating leases, so no sale-leasebacks would apply here. And in terms of the BNDES financing, like I said, it is kind of a financing for the order that we already have.

**John Rogerson – Azul's CEO**

What you are referencing is the FNAC financing that was already approved by the Senate. The expectation is that it gets approved by the House, and Mercadante, who is the President of the BNDES, has referenced that. This is something that we expect to be approved in 3Q24 and probably dispersed in the 4Q24.

So, this is exciting. This should be less expensive debt that the government is providing. There will be some things that we need to do. We need to add growth. Obviously, they are very anxious for Embraer, but we already have enough Embraer aircraft in our backlog to kind of make up for those conditions. But I think you are going to hear a lot more about the FNAC financing in the next couple of weeks, which is a very positive thing for the sector overall.

**Alberto Valerio – UBS**

Perfect. Thank you very much, Alexandre and John.

**Gabriel Rezende – Itaú BBA**

Good morning, David, John, Alexandre, Abhi, and Thais.

Two questions on our side as well. Just to confirm the chart you showed on slide seven, on the tariffs increasing week-by-week, can you confirm that the increase we have seen so far that you just showed us is enough to deliver your current guidance? Are you considering that you need to make additional increases, obviously, considering the seasonality that we have seen in the fourth quarter? Should this trend continue in order for you to deliver the guidance, or could it be stable again just by the seasonality for you to be able to deliver? That is the first question.

Regarding the second question, we saw a much lower maintenance expense booked in 2Q24. You mentioned some insourcing and some cost-cutting initiatives, and we did see a higher personal expense in 2Q24, but I would just like to understand what is the additional upside that we could have on this maintenance line looking forward to putting into our model.

Thank you.

**Abhi Shah – Azul's President**

Hello, Gabriel.

On the demand and fare side, we are pretty happy with the trends that we are seeing right now. The key is to maintain that as we go through 3Q24 and the second half of the year.

Seasonality is going to help. It is a period of better corporate demand. It is a period of better close-in demand. So, the situation is pretty good in terms of the level of the fares. What is key now is that you have to maintain this level so that you can continue to build the booking curves every single month as we go forward.

What was difficult in 2Q24, especially after Porto Alegre, and the chart shows that, is the dip that happened in May, and then we had to take time to recover from that dip. There should be no reason for that to happen now in the second half of the year given strong seasonality and the strong economic indicators.

Therefore, the fare levels where they are good. The key is for the industry overall to maintain those levels as we go through the second half of the year. If we are able to do that, then I do believe we can produce very good unit revenues overall.

**John Rogerson – Azul's CEO**

I just want to add that codeshare exists in 3Q24 and it did not exist in 2Q24. The ancillary revenue that Alexandre was talking about being up 17% year-over-year exists in 3Q24 but was not there in 2Q24.

And the story around Elevate, as a Company is, is really a cost story. As Alexandre kind of walked through, increased utilization, being more efficient as an airline, kind of going through all of the initiatives that we have, so I think one thing that is being lost in 2Q24 is that it was a great cost quarter.

As we focused ourselves on the business, negotiating with the OEMs, negotiating with our suppliers across the board, and really driving better cost results, Abhi needs to do his job, and Alex needs to continue to take costs out of the business on a go-forward basis.

**Alex Malfitani – Azul's CFO**

On the maintenance side, also to remind everyone, we have a maintenance line as part of operating expenses. That is mainly line maintenance, so some of that, obviously, is driven by our own internal work where the initiatives that John mentioned can really provide a positive impact, and some of it is driven by capacity. Therefore, because this is mainly line maintenance, there is a correlation between this line and capacity.

On the CAPEX side, I think that is where you can see really big numbers because then we are talking about numbers that are in R$1 billion plus a year in terms of maintenance CAPEX, and where a lot of our initiatives that we mentioned in terms of utilizing aircraft more efficiently or using the next generation aircraft more than the ones, that is where you can see a lot of the benefit coming from the Elevate plan.

**Gabriel Rezende – Itaú BBA**

That is very clear. Thank you.

**Guilherme Mendes – JP Morgan**

Good morning, everyone, John, David, Abhi, Alex, and Thais. Thank you for taking my question.

I have first a follow-up on the fare's discussion. It is pretty impressive how the industry has been able to increase fares, and Abhi mentioned expecting to maintain such levels. Back to the exercise of a 5% depreciation leading to a 3% price increase, how do you guys see elasticity going forward? In other words, how much more do you think you can increase prices without necessarily impacting demand?

My second question is a follow-up on the Elevate plan. Could you help us quantify the potential benefits of it into 2024 or 2025? In other words, is something included on the R$6 billion guidance for this year?

Thank you.

**Abhi Shah – Azul's President**

Thank you for the question.

Like I said, we saw July year-over-year RASK already positive year-over-year, and that was really just the first month of getting back to normal booking levels post-Porto Alegre. Our job is to continue to test the market. We think that, with the fares that the industry has now, we probably would not have anticipated this sort of pre-pandemic, but as we showed on the slide, in dollar terms, our fares have actually gone up about 8% every single year.

Therefore, it is a matter of testing the market. I feel pretty good about overall industry discipline. I am seeing the industry disciplined in terms of actions and network actions, so I do not see any reason why there is a limitation. We are going to keep testing it, and I think the strong economic activity in Brazil and the second half seasonality are going to be very supportive of us maintaining these fair levels.

**John Rogerson – Azul's CEO**

As for the Elevate plan, I just want to remind you that we had a 12% devaluation of our currency and 10% of our network knocked off line, so we have fewer ASKs in the plan, but yet we are still going to deliver above R$6 billion of EBITDA.

Elevate helps us get there, but, as you go forward into 2025, that is when you should get an incremental $1 billion of EBITDA. That is making the assumption that the exchange rate remains devalued, but these structural changes we are making to the business will be permanent. The things like we are doing on the revenue side, such as the ancillary and the codeshare, will be permanent changes.

On the cost side, there will be permanent changes as well. Therefore, we are shifting and adapting, but the R$6 billion is part of the Elevate, but there is a lot more as we roll forward into 2025.

**Alex Malfitani – Azul's CFO**

And think about the ramp-up. Some of these initiatives were things that we were talking about and looking at, but we decided to accelerate. Some of them are brand new. However, overall, all of the initiatives are going to have much less than a full year's worth of contribution to 2024, but then they should have a full year's worth of contribution for 2025.

The R$6 billion kind of includes the ramp-up that we are going to do this year. We have not provided guidance on 2025 yet, but in terms of what the initiatives should contribute, you should have a full R$1 billion of contribution from the initiatives being available to us for a full year.

**Guilherme Mendes – JP Morgan**

Super clear. Thank you all.

**Victor Mizusaki – Bradesco BBI**

Hello.

Two questions here. Regarding the first one, if you look at slide 9, you basically showed a kind of guidance for international traffic growth in the second half. So, my question here is, could you comment on how this international traffic will impact the demand for domestic travel?

And the second one, could you give any updates on the negotiations with Abra?

Thank you.

**Abhi Shah – Azul's President**

Hello, Victor. On the international, the truth is that it actually helps our domestic because it allows us to sell seats that we did not have. So, in 2Q24, if somebody wanted to go from Curitiba to Fort Lauderdale, chances are they would not find a seat on Azul. And now we are starting to see that availability come up.

Recife and Belo Horizonte, we actually went to zero flights to the US for about a six-week period, and that affects the demand domestically in those regions in the Northeast and the Belo Horizonte regions. And having Porto Alegre back in October is a big driver of international demand as well.

Actually, international was blocking demand on the domestic side as well. So having those seats available, given the strength of our network, is going to help international, and it also helps domestic.

**John Rogerson – Azul's CEO**

As we have stated, as Abra, we are in active discussions. I think you will get news about that in the not-too-distant future. We have to respect the process that Gol has today in their bankruptcy, but we will update the market at the appropriate time.

**Victor Mizusaki – Bradesco BBI**

Thank you for that.

**João Frizo – Goldman Sachs**

Good morning, everyone. Thank you for taking my question. I have two quick ones. The first one is on CAPEX. You mentioned that you expect over R$1 billion in CAPEX on maintenance only, so I just wanted to get a sense of the CAPEX. On the back end of this year, should we expect the same run rates as we saw in the first half? And for 2025, how should we think about it?

And then, following on cash generation, we also think about this in the second half of the year, right? It is a seasonally stronger semester, so I just wanted to get your view on this as well.

Thank you very much.

**Alex Malfitani – Azul's CFO**

Thank you, João.

Now, just to clarify, what I mean is, within CAPEX, you are talking about orders of magnitude of billions of reais on spend per year. We did not provide guidance on what the maintenance CAPEX is going to be or what the impact of Elevate on maintenance CAPEX is going to be, but that is where the opportunity is. There is some maintenance that flows through the operating expense, but as you see, it was kind of less than R$200 million in 2Q24.

When you are talking about maintenance CAPEX, then you are talking about a bigger number, and that is, I think, where we think Elevate can really provide help because our line maintenance is not going to reduce dramatically. We could always be more productive, more efficient, and work more intelligently, but when you decide to fly E2s more often, which are newer aircraft, and you decide to reduce the utilization on E1s, that is primarily going to help maintenance CAPEX as opposed to maintenance OPEX.

On the maintenance CAPEX or CAPEX as a whole, if you remember, we also had announced a while ago that we now have access to a maintenance CAPEX line from a kind of guarantee by sovereign risk. We have not drawn upon that facility yet. That is about US$200 million of capital that is available to us. So, this year, when you look at the CAPEX that happened in the beginning of the year, there was no benefit from this line yet, but that benefit should be available to us going forward.

**John Rogerson – Azul's CEO**

So, it will reduce the cash CAPEX in 3Q24 and 4Q24.

**Alex Malfitani – Azul's CFO**

Exactly. When you think about and take a look at Bloomberg consensus, that breaks it down quarterly on what the market expects us to generate in the first half and what the market expects us to generate in the second half. There is a big difference. And so that translates to better cash performance also accordingly because a lot of the cash generation comes from the EBITDA production.

**João Frizo – Goldman Sachs**

Thank you very much. Super clear.

**Michael Lindenberg – Deutsche Bank**

Good morning, guys.

Just a question here on your immediate liquidity of R$2.5 billion. First, does that include that guaranteed maintenance CAPEX line? And as we think through the year, what is the target liquidity level for you as we go into 2025?

As I think about Elevate, how is that going to contribute on the EBITDA side? Is that $1 billion of EBITDA? I know that is a P&L impact, but should we think of that as also a cash impact as well? Is it one-to-one, or are there other elements of that? And then I have a follow-up.

**Alex Malfitani – Azul's CFO**

The immediate liquidity does not include a deadline. That is just essentially cash plus receivables, as we normally provide. The main part of that is that the majority of the receivables are credit card receivables, which have no cardholder risk and are very easy to advance and transform into cash. So, it does not include that guaranteed maintenance line that is available to us.

In terms of target liquidity, as we grow, we expect to want to increase our liquidity. We like to have something between 10% and 20% of the last 12 months revenues in cash. Where are we going to end between that 10% and 20%? Some of it depends on seasonality, some of it depends on the cost of capital, but we can comfortably operate within those ranges.

In terms of Elevate and the $1 billion, there are a lot of initiatives in Elevate that provide a benefit beyond the P&L. They are not included in the $1 billion. The $1 billion, I think, is more on a recurrent basis. What you can expect once these initiatives are all ramped up is that they incrementally contribute to what Azul's steady state would be. But some of the initiatives in Elevate also include some cash benefits, especially in 2024.

**John Rogerson – Azul's CEO**

I just want to highlight one other thing too before you go on to your next question. Obviously, when 10% of the network is offline, it impacts ATL. When international is offline, it impacts ATL as well. Those are two things that will come back to us in 3Q24 and into 4Q24, where we will have those sales going forward from both those two major events. I mean, it is not often that an airline is impacted so severely by those two big impacts.

**Michael Lindenberg – Deutsche Bank**

Good point. Thank you, John.

Can you just sort of remind us about what sort of stake, if any, in TAP? I am only bringing it up because it now seems like there is going to be something that happens there, maybe sooner rather than later, and I know there was some restructuring around that, but, as I recall, I still thought you had some claim there or some value there. Can you just remind us of what you have left with respect to TAP Air Portugal?

**John Rogerson – Azul's CEO**

Thank you, Michael.

They owe us, I think, around €150 million to €165 million. Regarding where they are today, it is widely reported that they are in a privatization process, and our expectation is that the privatization process cannot really go forward until we settle this issue. There are discussions happening as we speak, and our expectation is that that could be a source of liquidity for us this year.

**Michael Lindenberg – Deutsche Bank**

Great. That is good to hear.

John, can I squeeze in just one more as it relates to the codeshare? The fact that a few weeks back, maybe it was three or four weeks ago, we did get the headline from the regulators and the competition authorities that they were going to examine or look into. Is that just a formality, right? Is that a perfunctory process that they have to do, and we should not read into that? Or whatever you can say to that process would be great.

Thank you for taking my questions.

**Abhi Shah – Azul's President**

Yes, Michael.

We are in constant communication with the regulator about the codeshare. We are talking to them about how we are phasing in the markets. Given the scale of the codeshare, it is absolutely expected and not a surprise that they will ask some questions and do some analysis, and we are constantly in communication with them. No restrictions. We are selling it, and we continue to be in our plans. Therefore, yes, it is part of their analysis, but it is just part of the process, if you will.

**John Rogerson – Azul's CEO**

Hello, Michael.

What they are specifically looking at is: Should there have been a pre-notification to the antitrust authorities before the codeshare went into place? Out of respect, we went there jointly and told them, but we did not do an exact filing, nor did we do that when we were with LATAM in a similar codeshare. In short, this is part of the process. We respect their process. We responded to it, I believe, roughly 10 days ago, so we hope to get a resolution on that in the next couple of days.

**Michael Lindenberg – Deutsche Bank**

Great. Thank you, everyone.

**Ian Snyder – JP Morgan**

Thank you for taking my question.

In our perspective, I think maintaining good liquidity is very important to Azul given the cash needs in the next two years and the environment that we are in.

Can you help us better understand the main drivers of the working capital build we saw in 2Q24? What were you able to accomplish in 2Q24 regarding working capital that helped with the build and offset any sort of impact that would have resulted in a cash burn? And then what can we expect for the second half of this year, including any progress on working capital initiatives you are working on?

**Alex Malfitani – Azul's CFO**

We agree that liquidity is very important, but as we have demonstrated, we will always have the necessary liquidity because it is essentially a good business. When you made reference to the build for 2Q24, a lot of that is seasonality. We started selling the higher capacity and higher demand in the second half of the year, but that mainly happened in July.

As we demonstrated in the past, the operation generates a lot of cash. It is a good business, and it only becomes stronger and stronger. The question is: Where does that cash go? And that cash goes essentially to our partners. It goes to lessors, it goes to suppliers, and it goes mainly to interest on our debt, as we do not have any relevant debt amortizations over the next few years.

The question of how to manage liquidity goes back to what we talked about the partnership. Since all of that cash that we are generating goes to our partners, some of the liquidity management that we did last year, for example, was with the support and with bilateral amicable conversations with our partners.

That is always going to be some back and forth and some ebb and flow in those numbers, but the important part is that, going forward, in terms of seasonality, the majority of that help, which, again, goes to the split between the EBITDA generation in the first half versus the EBITDA generation in the second half.

You see a lot of positive trends from seasonality, from higher capacity, from new aircraft coming in, and then the elimination of all those headwinds that we saw, especially in 2Q24, like the lack of ability to sell Porto Alegre and the lower capacity in international. I think that the major shift that you can see in liquidity and working capital will come from there.

**John Rogerson – Azul's CEO**

I just want to highlight a couple of other things. Michael Linenberg mentioned the TAP Bond on source of liquidity. I mentioned FNAC has already passed the Senate and should pass the House this week. That is anywhere from US$200 million to US$300 million of incremental liquidity that can come into the business. We mentioned the GE line that we have not tapped into yet, and we have an unencumbered cargo business.

So, these are access to capital, but, again, as Alexandre said, the core business needs to continue to operate well, and I think you can see that, even in the extremely challenging 2Q24 that we just got through, we had pretty good numbers overall. When 10% of your network is knocked offline, you are not selling international in a 12% devaluation of the currency.

Therefore, the core business of Azul is strong, and even with that, we still have access to other sources of capital.

**Ian Snyder – JP Morgan**

Great. Thank you.

And if I could ask one more follow-up, and I do tend to agree on liquidity being better than expected given the unforeseen circumstances of 2Q24 as well as the seasonality, but we already touched on the National Aviation Fund as well as the lessor equity instrument, what you are trying to do with bilateral negotiations.

Can you touch a little bit about the cargo business? What do you think you could do there? Where would you potentially look to raise financing? And where that could be pledged if you ultimately look to go that route?

**Alex Malfitani – Azul's CFO**

That was part of our capital optimization plan. You always need to demonstrate. I think that gives a lot of comfort to all of our stakeholders that we have the ability to access capital if we need to because, obviously, when we did the capital optimization plan last year, we could not go to our lessors and our suppliers and say, "Hey, give me enough working capital and deferrals so I can face a 10% knockout of my capacity." That would never fly with them.

So, they provided the support that we all combined and jointly expected was needed and sufficient at that time. However, obviously, we are working with an exchange rate of R$5.60 per dollar. We were not working with some of these kinds of events that occurred.

Therefore, we wanted to have a rainy-day fund, and so we were deliberate in creating that rainy day fund by kind of preparing the structure to potentially use our Azul cargo business as collateral, the same way that we used essentially our loyalty and vacation business.

So, it is a very similar structure that we already set up. That collateral is available. We have used it for kind of short-term things, very small things that, in an eventual capital raise, would go away. However, at the time, I think we talked about a debt capacity in the hundreds of millions of dollars that were available to us. Now, that is not what we would need to raise, but that is what would be available to us.

I think when you look at the documentation of that facility, it allows us to raise a first debt capacity of US$800 million. So, obviously, we would not need anywhere near that amount, but it is always good to have that capacity out there because it provides comfort to everybody that is providing credit to us all.

And then, on top of that, as you mentioned, there are these other potential sources of liquidity that we all talked about already.

**Ian Snyder – JP Morgan**

Great. I think that is it for me. I appreciate the answers.

**Gabriel Frazão – Bank of America**

Good morning, gentlemen. Thank you for the opportunity.

I have a question on the equity instrument to lessors. Apart from the FX translation, we noted a $287 million increase in these accounts in a line that you call "transfers". Could you kindly give us some idea on what this increase was related to?

**Alex Malfitani – Azul's CFO**

It should be FX, basically. There is no interest accrual on the facility, and it is essentially a debt. In terms of accounting, it is recognized as debt, so it should be FX. If you are not kind of able to reconcile it, we can take this question offline.

**Gabriel Frazão – Bank of America**

Ok. Thank you, Alexandre.

**Daniel McKenzie – Seaport Global**

Just a couple of questions here. Thank you for the time.

Given the change in the macro, how is that impacting your outlook for 2025 growth at this point, and potentially also its composition? And I guess I hear you on improved utilization. I am just trying to reconcile longer-term growth with macro instability and, of course, Elevate, the self-help initiatives that you guys are implementing.

**Abhi Shah – Azul's President**

Hello, Daniel.

On a percentage basis, the number moves around because this year we are flying less than what we actually would have liked to, so, in some sense, which pushes up the percentage for next year. However, obviously, what is important is kind of the absolute level of flying that we want. We still want the E2s.

As Alexandre said, they really work very well for us given the fuel burn economics, given the fact that we are able to fly much higher utilizations on the E2s and we are going to be reducing utilization on the E1s. Therefore, we will have to really sit down with Embraer and see what is possible for next year.

The international is just coming full circle of what we are going to finish this year. Two additional widebodies will have an impact next year, so you can kind of model that as well. On a percentage basis, a lot of it is going to be influenced by the impacts from Porto Alegre of this year and from the international reduction of this year.

But our focus is on the E2s for next year, reducing E1 utilization, increasing E2s, and, again, 84% of our routes have no nonstop competition, and that is as we have grown over the years. David mentioned this. Therefore, we continue to be very true to our network. Even as we grow, that is not going to change, and we focus on where we are strong.

**John Rogerson – Azul's CEO**

I think everybody is focused on the exchange rate, but if you look at the other macro indicators in Brazil, unemployment is going down and GDP is going up. And I think what is a testament to that is that Abhi was able to have increased RASK in July year-over-year 5% with Porto Alegre still offline, so that is a big indicator that the Brazilian economy is actually in a different direction than what you are seeing in the US right now.

**Daniel McKenzie – Seaport Global**

Given that economic growth, can you elaborate a little bit on how that is rippling through to the corporate side of the story, just in terms of either accounts or share of the wallet that you are getting domestically?

**Abhi Shah – Azul's President**

We feel pretty good about the corporate market. If you look at the latest results from Abracorp., which is the association of Brazilian corporate travel agencies, we have about a 33% revenue market share from corporate overall, which is much higher than our fair market share if you look at our capacity in the domestic market. So, we are overachieving in the corporate market.

One reason is our expanded presence in Congonhas since last year, where we doubled our network, and another reason is where we are strong in the Midwest and the agromarket of Brazil, which is doing very well right now given exports and things like that.

You can go online and check out the Abracorp information. It's public. We have about a 33% revenue share, which is well above our fair share in the market.

**Daniel McKenzie – Seaport Global**

Great.

If I could squeeze one last one in here. Just given the conversations with Abra, I am wondering if you could just help us understand the flexibility with United and that international codeshare, if things potentially move around here, or the potential to add a stronger US partner at some point.

**John Rogerson – Azul's CEO**

We think United is a great and strong US partner, but what you are talking about is something much bigger. I think the US carriers pale in comparison to what combining two Brazilian networks and the strength of that could do, so I think that that is phase two and not phase one in the discussions.

**Alex Malfitani – Azul's CFO**

However, technically speaking, there is no exclusivity in place anymore.

**Daniel McKenzie – Seaport Global**

Understood. Thank you for the time.

**Operator**

This now closes the Q&A session for today. I would like to turn the floor to John for his final considerations.

**John Rogerson – Azul's CEO**

Thank you, everybody. We will be available to talk to you on an individual basis over the coming days. We appreciate your support, and we look forward to talking to you.

**Operator**

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