Conference Call

1Q23 Earnings Results

May 15, 2023

Operator

Hello everyone, welcome all to Azul's First Quarter Earning Call. My name is Zach and I will be your operator for today. This event is being recorded and all participants will be in a listen-only mode until we conduct the Q&A session, following the Company's presentation. If you have questions, 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 on your microphone on, and then proceed. (Operator Instructions).

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

Thais Haberli - Head of Investor Relations

Thank you, Zach, and welcome all Azul's First Quarter Earnings Call. The results that we announced this morning, the audio of this call and the slides that we reference are available on our IR website.

Presenting today will be David Neeleman, Azul's Founder and Chairman; John Rodgerson, CEO; and Alex Malfitani, our CFO. Abhi Shah, the President of Azul is also here for the Q&A session.

Before I turn the call over to David, I'd 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 will turn the call over to David. David?

David Gary Neeleman – Azul’s Founder and Chairman

Thanks, Thais. Welcome everyone and thanks for joining us for our first quarter 2023 earnings call. First of all, let me thank our crew members as usual for the incredible experiences they deliver every day. In March we were once again the most on-time- airline in the world, following our recognition as the World's Most On-Time Airline in 2022. We are flying more than ever, our NPS scores are high and all of this with an airline that is more productive and more efficient than ever, 15% more than last year, to be exact. It is truly remarkable that our crew members have achieved, and I could not be prouder.

On Slide 4, you'll see that our business model is stronger than ever. We serve 158 destinations; we have a leadership position in 93% of our routes and we have the most fuel-efficient fleet in the region. And we combined all of this into several fast-growing high-margin businesses. One recent milestone has been the start of expanded Congonhas service, where we more than doubled our slots to 98 daily flights. We can now fly from São Paulo's downtown airport to the largest corporate markets in Brazil. In addition, we just launched our non-stop service to Paris.

The only non-stop from South America to convene Orly Airport. And excitingly our data shows them more than 30% of our customers flying us in these new markets, our first time as Azul customers. That means we have an incredible opportunity to bring them to the Azul universe and showcase all that we have to offer.

On Slide 5, you can see how our business units performed this quarter. TudoAzul our Loyalty Program more than doubled its gross billings since 2019 and it's benefiting significantly from our expanded presence in Congonhas. My personal favorite, Azul Viagens continues its remarkable expansion, growing an impressive four times in gross billings versus the pre-pandemic level. Azul Viagens is now firmly the second-largest vacation agency in Brazil and the largest seller of Disney tickets in Latin America. Our logistics business, Azul Cargo, almost tripled since 2019 and continues to be the largest air logistics provider in Brazil, with an impressive 33% market share.

Finally, I'm excited to announce that we just launched our newest business unit, Azul TecOps, with a rich 15-year history supporting Azul's operation and a world-class facility. And we are in the unique position to be able to handle all of the regions heavy maintenance needs. Azul TecOps is now ready to bring this expertise for our customers and we know how challenging the MRO capacity is around the world. So, this is a perfect time to launch this new venture.

Before I turn it over to John, let me share my thoughts on the restructuring process that we have been working on this year. We set out as a goal to protect our shareholders and make our business partners whole. I'm amazed that the progress this team has made and I'm excited about the opportunities that this new optimized Azul creates.

As John and Alex will share in their presentation, the results of this process are transformational to our business. As we said before, these are permanent structural solutions that significantly improve our cash flow, leverage, and capital structure. I want to thank our team for their hard work. I also want to thank our partners who have supported this during this process. This is a unique plan that is strengthening Azul's capital structure and the cash generation matching it to our superior business model and profitability.

With that, I will turn it over to John, to give you more details on the first quarter results. John?

John Peter Rodgerson – Azul's CEO

Thanks, David. I would also like to start-off by thanking our crew members for taking care of each other and our customers every single day. I recently spotted on the World of Statistics Twitter account, a listing of the world's most punctual airlines and Azul was first on the list. That was really cool. We have a lot to show you today, including important updates on our restructuring plan. Before that though, let me describe our first quarter results.

As you can see on Slide 6, we had a strong quarter. Revenue was an all-time record BRL4.5 billion with an EBITDA of more than BRL1 billion, an increase of 74% versus last year, even with a 24% increase in fuel prices. EBITDA margin for the quarter was 23% and the operating result was BRL460 million, with an operating margin of BRL10.3 million.

On Slide 7, you can see the strength of the revenue performance with a record first quarter RASK of BRL41.47. PRASK increased a strong 23% year-over-year, even with a 120% increase in our long-haul widebody capacity. Looking at just the domestic market, PRASK increased 28% year-over-year, highlighting the advantages of our network and our disciplined capacity.

Turning to Slide 8, you can see that we generated more than BRL1 billion of EBITDA, 42% higher than first-quarter 2019. This is even more impressive considering that fuel more than doubled since 2019. This clearly shows that our structural competitive advantages and fleet transformation program allow us to grow and at the same time recapture the effects of higher costs with higher revenues. One incredible example of this is that departures in 2023 versus 2019 will increase only 5%. Departures up 5%, while total ASKs will increase 25%, all on next-gen aircraft. This is truly sustainable profitable growth.

On Slide 9, you can see our EBITDA trajectory and how we consistently grew profitability since we launched. COVID was a temporary setback and now we're firmly back on our margin expansion for 2023 and beyond. With that, we expect a 2023 EBITDA of BRL5.5 billion, by far the highest in our history.

On Slides 10 and 11, we want to show you the combination of the tailwinds that we're seeing this year. First, on Slide 10 you could see the effect of a significant reduction in jet fuel prices. The second half of the year is currently showing 29% lower fuel price in reais per liter versus the first quarter. This is a result of the reduction in global fuel prices as well as the strengthening of the Brazilian real versus the U.S. dollar. Combine this with Slide 11, which shows our expectation for RASK performance this year, we expect similar overall RASK performance oscillating just with seasonality. On the capacity side, we expect to grow 14% overall versus 2022, but only 6% in the domestic market. Once again strongly reaffirming our commitment to capacity discipline. The best part is that 100% of the capacity increase is from up gauging and transforming our fleet into extremely fuel- efficient aircraft. Trip cost actually goes down, while revenue opportunities increase. The natural Brazilian market stronger second-half seasonality combines really well with the expected fuel curve for the remainder of the year.

Slide 12 illustrates the combination of lower fuel with stable RASK in our expected EBITDA per quarter for the year. You can see how the fuel price reductions by themselves contribute to BRL1.1 billion of EBITDA over what we generated in the first quarter alone. Therefore, the first quarter result, annualized together with lower fuel and seasonality, it gives us a high level of confidence to deliver on the guidance of BRL5.5 billion EBITDA for the full year.

To summarize, we had strong first-quarter results, revenue performance is robust. Fuel prices are coming down and the best seasonality is still ahead of us. Transitioning now from earnings to our restructuring plan, we're really excited to give you new details on the progress we have made. If you remember on our last call, we described a comprehensive and permanent plan to address our capital structure and significantly improved our cash flow and financial leverage. This plan has been implemented amicably, ensuring a fair treatment and full recovery to all of our partners. Today, we're excited to share with you, new and important details about these commercial agreements and how they will positively impact our capital structure and cash flow going forward.

Let me turn it over to Alex, so he can give you the details of this plan.

Alex Malfitani – Azul's CFO

Thanks, John. Yes, today we're proud to provide you additional details about the commercial agreements we announced during our last call in March. First, let me remind everyone of the general terms of that plan. Our agreements with lessors and OEMs contemplate the elimination of lease payments that were deferred during the pandemic. They also provide a permanent reduction in our lease payments going forward from the original contractual lease rates to agree upon current market rates.

We have also agreed to defer certain additional lease and OEM payments in 2023, as well as improve the end-of-lease compensation and aircraft return conditions, the elimination of future maintenance reserve payments and the negotiated early termination of certain aircraft leases.

In exchange, lessors and OEMs have generally agreed to receive an unsecured tradable note maturity in 2030, with a coupon of 7.5% per year and an equity instrument convertible into preferred shares, valued at BRL36 per share.

On Slide 13, we show you exactly how these agreements reduce our lease payments each year. As you can see, we're reducing our annual payments in the neighborhood of BRL1 billion and even more in '23 and '24. As you recall, almost 80% of our nominal debt comes from operating leases. So, this significantly reduces our debt burden and improves our cash flow. We now expect to be cash flow breakeven in 2023 and generate positive free cash flow in 2024. And more importantly, is that Azul has more than 70% of our ASKs, so already coming from next-generation fuel-efficient aircraft. So, we now have the most efficient fleet with also the most competitive lease rates. This is a permanent solution, that enables us to convert our strong operational profitability to positive free cash flow.

On Slide 14, you can see the aggregated results of these lease reductions. Our nominal lease payments are dropping by BRL5.4 billion in total, a 21% reduction. On a present value basis, assuming constant discount rates, this is a reduction of over BRL4.1 billion in our balance sheet debt and even bigger reduction for those who use seven times rent to capitalize our leases. In the first quarter, leverage organically decreased 0.5 times to 5.2 times, as we paid down debt and increased our last 12-month EBITDA. With a reduction in lease liabilities from our agreements, our deleveraging process is accelerating.

On Slide 15, you can see that our 1Q'23 leverage would reduce another 0.6 times to 4.6 times. This already includes the 2030 notes that lessors and OEMs received in exchange for their contribution to the plan. And then if you recall, we originally expected to end leverage in 2023, starting with a four times, with these agreements we now expect to end 2023 with leverage of 3.5 times and 2024 around 3 times in line with our pre- pandemic levels.

I'd just like to remind everyone that we're returning our leverage three times, in 2024 without any government support, without using bankruptcy or other judicial restructuring process, and without imposing a haircut on our creditors, as other airlines around the world did.

On Slide 16 we'll give you the details on the equity portion of our commercial agreements. You all saw the material fact we released this morning, but just to provide you with a little bit more detail. Lessors and OEMs are also receiving an equity instrument in exchange for their contribution to the plan. This instrument converts part of their contributions into preferred shares valued at BRL36 per share. The equity instrument is limited in its upside and downside aiming to minimize dilution to our shareholders, and at the same time to provide full recovery for our partners.

The instrument has the lockup provision until the second half of 2024, after that it vests over 14 quarterly installments, taking it all the way to the second half of 2027. The amount that we'll vest per quarter ranges from 3.2 million to 7.5 million shares. Just to give you a reference point, our preferred shares in ADRs traded almost 28 million shares per day, so vesting profile of the equity instrument should not create any noticeable selling pressure.

With the conversion price of BRL36 per share, we estimate the dilution from the equity instrument at 17.5%. Throughout the vesting period between the second half of '24 and the second half of '27. If at the time of measurement Azul’s market price is higher than certain thresholds, the number of shares issuable via the equity instrument will be reduced and dilution will therefore be lower.

If the market price is lower than BRL36, we will compensate our partners and we may do so with additional shares or with cash or with the issuance of new debt instruments acceptable to our partners.

Our comprehensive solution and its corresponding reduction of our net debt combined with our EBITDA growth, give us strong confidence that we're creating all of the necessary elements, for Azul's equity value to reflect our strong fundamentals as John will explain on Slide 17.

John Peter Rodgerson – Azul's CEO

Thanks, Alex. I'm extremely proud to see the evolution of our comprehensive plan and everything that you and your amazing team are doing for Azul. Since Azul's IPO, we've historically traded at about eight times EBITDA and we're currently trading at four times. We know the cost of capital around the world has increased since COVID, but our comprehensive plan was designed to optimize our capital structure and increase our cash generation going forward. The reason why we estimate a significant upside in our stock price even at a reduced multiple.

Considering our net debt estimated after reflecting the new capital structure and the equity investment in new shares fee issued, as well as a multiple of 6.5 times, lower than our historical average, our stock should be trading almost three times the current market price. This is the reason we're so excited about this plan and all the upside to come.

As you can see on Slide 18, our fundamentals are strong, our business model is unique, and I'm very excited to see all the great things Azul will deliver in the coming years. And I also want to thank all of our incredible and passionate crew members. And I'm confident that Azul will deliver better-than-expected results as we move forward.

With that David, Alex, Abhi, and I, will answer your questions, as I turn the call over to the operator for Q&A.

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 to the first question from Gabriel Rezende, sell- side analyst, Itaú BBA. We're going to open your microphone so that you can ask your question. Please proceed.

Gabriel Rezende – Itaú BBA

Hi David, John and Alex, good morning and thanks for providing the valuable details on the restructuring. Actually, my first question is on that thing. Would just like to confirm with you guys the understanding that we had on the details you shared. So, you mentioned in the material fact that what happens in case Azul shares did not reach BRL36 between second half '24 and second half '27. And it seems that, like you have three options here to issue additional shares, issue a new note or pay it in cash. I would just like to understand who can decide on this, whether it is Azul, the lessors or you expect some kind of negotiations in that scenario?

And the second point here on a different subject, you've just released your guidance for 2023 mentioning that 14% increase in ASKs for this year and also saying that, international traffic should grow above that. So, can you explore that a little bit more, I mean, will this expansion on international traffic be sustained, by Azul increasing, on the same routes you operate right now or maybe creating new routes, such as the one you just announced connecting São Paulo and Paris? That's it. Thanks.

Alex Malfitani – Azul's CFO

Thanks, Gabriel. So, we have the option to do it in shares, obviously Lessors, if we choose to do it in cash, they also accept that. And we also have the option to do it in debt but debt - the terms of that debt would be negotiated and agreed by the lessors, right? So, in a way the option is ours, but the terms of the debt need to be agreed by the lessors.

John Peter Rodgerson – Azul's CEO

But I think it's really important to reinforce, how much cash savings come as a result of this deal. When you're talking about not getting to BRL36, it would be an enormous disappointment. We need to continue trading at four times this year, I think three times next year to not move the stock from where it is today. And there is a significant improvement in our cash flow generation because of this deal. And with that, I will pass over to Abhi to talk about the ASK growth.

Abhi Shah – Azul's President

Hi, Gabriel. So overall, we're looking at 14% ASK growth that's total. In the domestic market, as John mentioned in his remarks, we're growing only about 6%, so very disciplined overall and especially disciplined in the domestic market. Internationally, it's basically, the network that we have right now. I do not see any major new market or destinations for the remainder of the year. We are selling the capacity we are selling the network that leaded to that numbers. So, nothing new. We do have some new stuff to fly which is Recife to the U.S. as whereas Confins to the U.S., but everything is already selling 14% overall, and 6% domestic.

Gabriel Rezende – Itaú BBA

Okay. Thank you, guys. That's very clear.

John Peter Rodgerson – Azul's CEO

I just want to highlight one other thing too is that, as we go through between now and 2027, as the stock rises there could actually be less shares issued as well, right? I think you're looking at the downside scenario, but there is actually an upside scenario to it as well. And I want to remind everybody that we were trading in these ranges, two years, three years ago, and now we're at EBITDA numbers that this business has never seen, cash flow generation that this business has never seen and an improved capital structure as our leverage is down to three times in 2024.

Gabriel Rezende – Itaú BBA

Thanks, John.

Operator

The next question comes from Josh Milberg, sell-side analyst, Morgan Stanley. We will open your audio so that you can ask your question. Josh, please proceed.

Josh Milberg – Morgan Stanley

Hey, everyone, can you guys hear me?

Alex Malfitani – Azul's CFO

Yes. Hey, Josh.

Josh Milberg – Morgan Stanley

Great. Good morning and good to connect with you guys. Thank you for the call. My first question was, if you could give some additional detail around the near BRL300 million of non-recurring items that you recognized in the period? I think the biggest piece of that were fleet adjustments related to your restructuring, but you also had advisor fees and a one-time adjustment that you mentioned could reverse. So, if you could just give some more color around that? It would be great.

Alex Malfitani – Azul's CFO

Sure. Yeah, the biggest part of the BRL300 million more than half of it is the adjustments on the engine power by the hour agreement. Right now, the agreement is being renegotiated, the agreement doesn't really exist, but we're confident that we're going to have another agreement in place before the end of the year, right? And those amounts that have been deposited towards future engine maintenance, within the sort of a first life of the agreement, should be restored, once we have another agreement. And that, so we expect that amount, which represents more than half of the non-recurring adjustment for this quarter to be reversed.

The next biggest item, our advisory fees and legal fees related to all of the negotiations that we're doing with the multiple stakeholders, right? Lessors, OEMs, bondholders. We're going to raise additional capital as well. So, all of those fees related to restructuring then would be sort of the next biggest item there. And then you have some just adjustments, as part of that restructuring as well. As we mentioned some of the, we had some lease terminations as part of our agreements, some restructurings in the fleet and that is sort of the third largest item in the non-recurring adjustment that we mentioned.

John Rodgerson – Azul's CEO

I think Josh, what's really important is, majority of that will be reverted back and we'll call it out as one-time when it comes back in as well.

Josh Milberg – Morgan Stanley

Perfect. Thanks for that, John and Alex. My second question is just on the perspective lessors' agreement. From our understanding, both the note component and equity instrument components are -- that you are now contemplating are somewhat lower than what you had anticipated earlier in the year. But I think that the rent payment reductions are fairly in line, so I was just hoping you could reconcile those two items?

And I also wanted to hear a little bit more about what hurdles remain to close a definitive agreement and to what extent a definitive agreement is linked to an agreement with your bondholders?

Alex Malfitani – Azul's CFO

Sure. So, we didn't provide -- we're early now kind of close to the formalization of all of these agreements, will only now we're providing the details. I think last earnings call we provided some general views, but not the full amount. So, I think the reconciliation is essentially the fine-tuning of the agreements, as we continue to transform sort of high-level term sheets that we had negotiated to a final document with all the details that go into a new kind of leasing agreement, until the end of the leasing term, right? And all the details that goes along with that. And in the meantime, you also saw the real is strengthening throughout these last few weeks, so maybe there's a little bit of that as part of the reconciliation.

John Rodgerson – Azul's CEO

Hey, Josh. We're a little conservative initially as well and I think that was part of our plan. And as we talked about the next step, which is the bondholders we are in active discussions with the bondholders. And the bondholders have organized around the '24 and '26s, they have about 75% or in one unit and those conversations are ongoing. I think you're going to see something over the next couple of weeks with those bondholders. So, we're excited that, we're sequencing the plan exactly the way we said we would. And I think getting this information out to you was really important today, and I think the bondholders are excited about all the work we've done as well. And so, there is discussions with the bondholders around. Hey, how far out are we going to roll? What interest is it going to be? Can they provide new money capital? So, there is robust discussions with the '24s and the '26s and is part of our plan. And as we told you earlier, we hope to have all this wrapped up prior to the start of the third quarter.

Alex Malfitani – Azul's CFO

Yeah. And we get the question a lot on whether the lessor agreements are conditional on the bondholder agreements, and that's up really how we think about this and how we structure this. The plan as we said in the beginning, encompasses all stakeholders and benefits all stakeholders. And so, I think we were able to come up with something fairly unique. They haven't really seen on any other airline restructurings. And it's also fairly unique in terms of other deals that you see in other industries, where the agreement of one group of stakeholders actually benefits the other. So, it's very synergistic, it's something that by resolving the issue with our lessors, which are 80% of our nominal debt, that's buying us the confidence on reaching an agreement with the bondholders. And the bondholders love what we saw with the lessors, because really what they want is recovery. And every other airline out there they didn't get government help, applied a haircut to bondholders, either through Chapter 11 or through an exchange offer.

And so, it's not that we think we need the bondholders to solidify the lessors. It's really the support that we got from the lessors, that's giving us this tailwind to be able to reach an agreement with the bondholders as well.

John Rodgerson – Azul's CEO

And it all starts, Josh, with a company that's going to produce over $1 billion of EBITDA this year. A company now that previously all of our EBITDA was eaten up by aircraft rent payments. But as you can see as you move forward into 2024-2025 and beyond, our aircraft rent is significantly lower and that's where the cash generation is going forward. That's great for our lessors, for the long-term viability of our company, it's great for our bondholders, it's great for our shareholders as well.

Josh Milberg – Morgan Stanley

That was super clear. Thank you guys for all the color. Have a great day.

John Rodgerson – Azul's CEO

Thanks, Josh.

Operator

The next question comes from Lucas Barbosa, sell-side analyst from Santander. We will open your audio so that you can ask your question. Lucas, please proceed.

John Rodgerson – Azul's CEO

We're not hearing you Lucas. Lucas?

Operator

Lucas' question is, good morning, and thank you for taking my question. I have two questions. Can you provide me more details on how the conditions on the convertible debt, you should to lessor is vary, according to Azul's stock price.

Second question, with the development on the agreement with lessors, how does Azul's fleet commitment plan look like for the next several years?

John Rodgerson – Azul's CEO

Let me answer the second part and then Alex answer the first part. I think what's really important about this is, this doesn't change Azul's growth. The lessors believe in Azul, that's why they did this plan, that's why we did it amicably, so the number of aircraft we were expecting to take previously is the same number of aircraft we will continue to take over the next few years. There are some delivery delays because of the OEMs, but our fleet plan does not change. And as Alex highlighted, we are well ahead of all Latin American peers, in terms of having next-generation aircraft in our fleet. And so, you take a look at how many A320neos we have, how many A321neos we have, how many E2s we have. And so, over the next couple of years, we'll continue to finalize that fleet transformation to have an all next-gen fleet. And that's already reflected in our forecast and it's already reflected in our leverage assumptions as well. So, when Alex talks about getting leverage down to 3.5 times this year, 3.1 times into 2024, that is the reflection of additional fleets coming in over the next couple of years.

Alex Malfitani – Azul's CFO

Yeah. Just continuing on the fleet. I think we've indicated to you sort of the way we think about managing the fleet growth going forward. And I think we've created a lot of optionality throughout the pandemic, because right now, what we're thinking is, if the markets don't grow significantly, if Brazil grows only 1% of year GDP or less. We're going to keep our fleet fairly stable with the -- just a low single-digit fleet growth in terms of aircraft count. We're going to grow our capacity significantly because as we move into next-generation aircraft, we get a lot of incremental seats at a negative cost, right? And so, we can stimulate the demand on Azul markets. We don't need to steal customers from other airlines, we can essentially just stimulate demand within our own markets with these costs, with the seats that are coming in at a negative cost.

Now, if Brazil grows more than we expect, more than our conservative assumption, we have the ability of accelerating for our aircraft deliveries, especially from Embraer, provided that these short-term supply chain issues are resolved, which we know they will. So that gives us the optionality to grow safely, right, at low risk with the fleet transformation, but also be able to grow on an absolute basis, if the demand is there, maintaining capacity discipline that we've demonstrated throughout all these years.

And then on the detail of the equity instrument, right, it's not a convertible debt. It is equity that we're going to issue to the lessors, but which will have an adjustment on the number of shares that are issued, in case the other shares trade better than we expect or worse than we expect.

Now, obviously the price per share should be an output of everyone's model and not an input. And so that, when we do our valuation like we had on the slide on our presentation, when you look at the EBITDA guidance that we provided the new level of debt that we have achieved with the negotiation, with our lessors and OEMs. If you use the historical multiple of eight, we would be way beyond the BRL36. And potentially we might be talking about why we settled on BRL36, when the fundamental value of the shares of Azul are much higher than that. But assuming a conservative multiple even at 6.5, we'll you get to BRL36 with 2023 EBITDA, not even 2024.

And as we indicated, we need the shares to sort of be around that 36 level between the end of '24 and the end of '27. So, at the end of '27, you're going to be looking at 2028 EBITDA. And I don't know what your EBITDA for 2028 for Azul's, but it's significantly higher than 5.5, the share price is significantly higher than BRL36. So, as you calculate the fundamental value of Azul's shares if we get to more than BRL36, you don't have to worry about incremental dilution, the dilution will be the 90 million shares that we indicated. If you start getting to something higher than BRL36, then potentially that dilution could be even lower.

Operator

Okay. So, the next question will come from Alberto Valerio, sell-side analyst from UBS. We will open your audio, so that you can ask your question. Alberto, Please proceed.

Alberto Valerio - UBS

Hi, John, Alex, Abhi, thank you for taking my question. The first one I would like to know if there is a percentage of lessors that already agreed with these new conditions and how much would be that? The second one, on the same subject it's about the leasing payments that look more expensive for next year and then decrease. Why we have this dynamic for the future leases? And change to subject on the guidance, going a little bit over the follow-up on Josh question, you mentioned that the maintenance cancellation fees that you're paying this quarter, might be reverse when you make a new agreement for the maintenance, how it works? And how much on your EBITDA guidance you have on non-recurring items? That's my questions. Thank you very much.

John Rodgerson – Azul's CEO

Yeah, let me just address that. So, it's not, there wasn't a cancellation fee, it was just -- we've already paid money into the Trent 7000, a Total Care Agreement with Rolls Royce. And the contract is temporarily suspended as we negotiate a new contract, but the money has already been deposited there and we're negotiating with them. So, we wanted to do from a guidance perspective is neutralize that. So, it'll be a one-time bad guy in the first quarter, most likely a good guy in the second or third quarter. So that has nothing to do with the BRL5.5 billion that we have in there. It's neutral to that overall.

Alex Malfitani – Azul's CFO

Right. And then on the percentage of -- so these are new agreements. These are essentially -- we're just detailing the agreements that we announced back in early March. So, the agreements are exactly the same. We're just refining them. We've been refining the language in the documentation that we're signing, and we're now providing to you the details on those agreements. The table that we provided with the lease payments is essentially aimed at updating you for note 19.1 of our financial statements.

When you look at our financial statements, note 19.1 shows all of the lease payments that we are contractually obligated to make throughout the following years. And that is what gets calculated on a present value basis to get to the value of our lease liability on our balance sheet. So now we're providing you with that updated 19.1 note, on a pro forma basis, based on the agreements that we are finalizing. We had more than 90% of lessors in March when we announced these agreements originally. Now we're closer to 95% and we're talking again to every lessor that hasn't committed to be a commercial agreement yet. So, we still believe that it is possible for us to reach 100%.

Now for your cash flow estimates, in terms of rent payments going forward, obviously, we're going to get more aircraft as we go forward. And so, the rent payment, will not be as low as what is indicated on note 19.1, but it won't grow up, it won't grow significantly. I think you can take 2024 as a starting point and then like I said, the fleet is not going to grow significantly unless there is significant demand in the Brazilian market. But so, with that kind of low single-digit growth in aircraft count, you can calculate how the lease payments would go forward from 2024 and beyond.

John Rodgerson – Azul's CEO

Yeah, just to kind of highlight your question, why is it a larger reduction in '23 versus '24? It's just a negotiation with the lessors. And so that is, we know that we're going to have more cash generation going into '24 and still we asked for more relief upfront, and so just a small timing issue there.

Alex Malfitani – Azul's CFO

Yeah. In terms of sort of annualized rent payment, I think you could look at 2024 as a representative year and move forward from them.

Alberto Valerio – UBS

Make total sense. Thank you, John and Alex. Just a follow-up, so taking this new numbers in consideration, we might find a cash gap, now we had positive cash for the year close to BRL300 million to BRL400 million. Is that correct?

Alex Malfitani – Azul's CFO

This year? This year we're expecting breakeven for 2023.

Alberto Valerio - UBS

Okay. Thank you very much.

Alex Malfitani – Azul's CFO

And then positive '24 and beyond.

Alberto Valerio - UBS

Makes sense. Thank you very much.

Operator

The next question comes from Bruno Amorim sell-side analyst from Goldman Sachs. Bruno, we're going to open your audio, so that you can ask your question. Please proceed.

Bruno Amorim – Goldman Sachs

Yes. Thank you. Good morning, everybody. So, the first question is on the transaction with the lessors and suppliers. You mentioned the transaction as it is reduces the debt of the company by BRL1.8 billion, excluding the equity instruments. Can you just give us an idea of what would be the additional liability if eventually the equity instrument is not actually converted into shares?

The second question is on the fleet plan you have commented to some extent on it. Just wanted to understand what's the level of flexibility that you have around the base case and also what's the implied ASK growth in the base case for the next couple of years?

And finally, one last question if you deliver only BRL5.5 billion EBITDA, as you show that you seem to be on track. This would mean, going back to margins similar to 30% roughly, which is similar to pre-pandemic levels. So, is it fair to say that from 2024 onwards EBITDA should be primarily driven by revenue growth as a positive margin expansion, or do you see it otherwise? Thank you very much.

Alex Malfitani – Azul's CFO

So, I'll take the first and the third and I'll let Abhi talk about the ASKs. So again, the shares will be issued, right? And we believe that the market will trade based on our fundamentals. And if you calculate the value of Azul shares as the market has always calculated using the EBITDA, which we will deliver, and using a more conservative multiple than we've always had. The shares will be converted, and no additional shares need to be issued, right? So, there is a chance that this becomes shares and additional debt, right? We are essentially committing to making our lessors hold. So, one way or another through debt, through a combination of debt plus cash, through the combination of equity plus cash plus debt, they're going to get $0.100 on the dollar, roughly. So, if you assume that they don't get the equity, they're going to get debt or cash, but then you don't get the dilution.

So, when you're calculating your share price, you can include the debt as it was originally whatever the lessors gave up, they're going to be made whole. But then the number of share count that we're using, which is north of 500 million in our kind of pro forma calculation would be a lot lower than that. And you're going to get -- so it's kind of a circular reference. If you do it either way using it as fully as debt or using it fully as equity, you're going to get to your share price over BRL30, one way or another. As long as you don't double-count, which I know you're not going to, but just to kind of highlight that if you don't consider this equity and you consider as debt, you're going to have a reduced equity value for Azul. We're also going to have a lower number of outstanding shares and you're essentially going to get to the same number of shares, which is why we're confident that this goes back to BRL36 per share, and we pay our lessors in full using the shares.

John Rodgerson – Azul's CEO

Bruno, remember this is through 2027, a few million shares per quarter and to the extent that the stock doesn't hit that. Let's say it comes up all the stock is BRL30 as opposed to BRL36, big disappointment, obviously, for our equity holders. You're talking about a very minimal adjustment overall.

Alex Malfitani – Azul's CFO

As we show you, the first kind of vesting period is about 3 million shares, if we're short by BRL6 we're talking about BRL18 million. Out of a company that point is going to be north of BRL20 billion in revenue. So probably not a material number. The fact that this has been distributed over 14 quarterly instalments gives us lot of confidence. And by the time we get to 2027, right, you're probably having the opposite problem where with the EBITDA, that we're going to generate in those years, we will see a share price much higher than BRL36 and then you're going to compensate for whatever shortfall you have in the beginning, if you have any shortfall. But the assumption that we wouldn't be -- that we would pay more than what we always -- if the shares never trade based on fundamentals for the next 4.5 years, which is very unlikely, right, if not impossible.

On the -- let me talk about on the margin and then turn it over to Abhi. Yeah, you're right, we're going to be in kind of high-20s in terms of EBITDA margin. Our best year was 2019 with 31.6% EBITDA margin. We believe that we will get back to those margin levels. Though we believe that we should do better and the whole industry should do better, because when you talk about cash flow generation. When you calculate the amount of cash that we generated in 2019, and just remind everyone, we were free cash flow positive in 2019, to generate the same amount of cash with the BRL390, which was where it was in 2019. You need higher margins to generate the same amount of cash with the real at BRL490, where it is today.

And hopefully, the whole industry is thinking that way, that it's not enough to just go back to the pre-COVID margins because the real is weaker, we also need higher margins. When we do our five-year kind of plan and our valuation based on discounted cash flow, yes, we get back to that margin and we get above that margin. I'm not going to say we're going to get to a 40% margin, but once we get there, obviously we're not going to kind of rest on our laurels and give up. But the first order of business is to get back to that pre-COVID margin and then to continue expanding beyond that.

John Rodgerson – Azul's CEO

And Bruno just to remind you the entire Azul business is 76% larger than it was in 2019. But TudoAzul is two times as big, our packaging business four times as big, our cargo business 2.5 times as big. We also have Congonhas that we didn't have previously. We will also have more next-gen aircraft in our fleet as we move forward over the next couple of years as well. And so, margin expansion should come through those highly profitable business units adding our new Azul TecOps business unit, as well as the next-gen aircraft kind of taking place. We still fly 50 E1s in our fleet today. So, think about what that looks like when those 50 E1s come out and are replaced with 50 E2s in the coming years.

Abhi Shah – Azul's President

Yeah. And Bruno just a final point, in terms of 2024 capacity and beyond, you can consider something around high single digits in our 8% to 10% capacity growth kind of our 2024 and beyond. And the philosophy on unit revenue is similar to what we have right now which is stable, steady unit revenues. You know the industry overall is that a new level compared to pre-pandemic, 35% plus, it's maintained very steady the last four quarters. I expect that to continue this year, apart from seasonality. And so, as an industry, we're not giving that back, we should not be giving that back. Our philosophy certainly is not to give that back and use the efficiencies that John mentioned to increase earnings and increase margins.

Alex Malfitani – Azul's CFO

And the capacity growth that Abhi mentioned is consistent with what I mentioned in terms of the fleet growth. That the fleet is almost not growing at all, maybe a couple of aircraft here and there per year. But because we are shedding smaller aircraft and bringing in next-gen aircraft with higher seat count, which is what we call the up gauging, that's where the ASK growth comes from. So, it's very low-risk growth because these seats are coming in at a negative cost and we are deploying those seats in Azul markets, right, not using that to steal share from other competitors.

Now if we grow more than the other competitors, obviously, our market share will grow, but that's just a mathematical concept. You need to distribute 100% of market share across all players. If we grow more than the other guys that we will increase market share, but we -- the plan here is to grow in Azul markets, stimulate Azul markets using our fleet transformation.

Bruno Amorim – Goldman Sachs

Thank you. Can you just clarify, Abhi, please the 8% to 10%, especially in '24, is it evenly split between domestic and international or is international still growing more kind of recovering from the pandemic issue?

Abhi Shah – Azul's President

Yeah. Starting in '24 international will be more stable. The reason it's growing so much more now in '23 is because we are recovering our international network, we actually be larger by the end of this year. So, you have a little bit of full-year effect in '24 and then from that point onwards, it will be more stable.

Bruno Amorim – Goldman Sachs

Thank you very much. And just one final follow-up, sorry for so many questions. Alex, on your initial remarks, you commented on several scenarios. But is it possible to let us now roughly what would be the amount of debt or cash needed to settle the liability, if shares are not issued just for reference? And I agree, this is maybe too pessimistic scenario, but just how we have the scenarios in mind?

Alex Malfitani – Azul's CFO

You have the vesting the number of shares that vest every quarter and that's the calculation, right, the number of shares, times the surplus or the deficit against BRL36.

Bruno Amorim – Goldman Sachs

Okay, thank you.

Operator

The next question comes from Michael Linenberg, sell-side analyst from Deutsche Bank. We will open your audio, so that you can ask question. Michael, Please proceed.

Michael Linenberg – Deutsche Bank

Hey. Can you guys hear me?

Abhi Shah – Azul's President

Yeah.

Alex Malfitani – Azul's CFO

Hey, Mike.

Michael Linenberg – Deutsche Bank

Okay. Hello guys. Just a couple here. Just by the way congrats on getting through this process here, just in the release that you put up a separate lease that has the notes on BRL2.3 billion. Is that I know it was a 40-60 split and maybe it's a rounding error. But it looks like that it may be is more like 43-57, just based on that number there, but that could be rounding. It looks like it's a little bit more debt than what we thought, a little bit less equity which is fine.

Alex Malfitani – Azul's CFO

Yeah, I think the way it -- some of this depends on kind of how you were calculating the present value of the lease payments. Because essentially we're taking -- the lessors weren't going to get all of the BRL5 billion plus today. They would get that across up to 12 years. So, what they are giving up, what they're contributing to the plan has been calculated back using a PV and then that has been given back to them on a note and equity. The equity has a floor and a cap, so that kind of all plays into it. So, we did calculate using 40-60, but when you calculate the way you do it, Mike, it may end up slightly different just because of the present value calculation.

Michael Linenberg – Deutsche Bank

Yeah, it's small. And then as we think about the next phase, I think, Alex and John, you both sort of said you we get the sense that the next few weeks and so maybe by mid- June we're actually done. What from an equity holder perspective, should we anticipate additional dilution, or I know you've talked about some of the -- some of your assets and your collateral and maybe that's the equity component that ties to this next round of negotiations?

John Rodgerson – Azul's CEO

Yeah, Mike, I think it's really important, the dilution has happened via the lessor deal, right, and that's the way that our shareholders have contributed here just to remind you, you have TudoAzul, we have an Azul Viagens our packaging business, we have our cargo business. Those are all kind of unencumbered assets and so the idea is once complete, we will raise some new debt using TudoAzul. And that new debt and it's important to sequence it, right? And so, get the lessors done, get the bondholders done and then kind of raised the new capital to strengthen the balance sheet even further. But there is no -- especially given these equity prices, Mike, there is no intent to issue Equity at these levels, because we think we're a third of where we should be trading at a 6.5 multiple.

And I think as we migrate up, as you go into 2024 and beyond, the stock should be significantly better than where it is today. And so, I think we did this the right way, we got through the pandemic with those assets at our disposal to be able to use to raise debt at the right price levels. And so obviously getting the lessors was very important, kind of rolling the '24s and '26s is the next step that we'll be doing than bringing in the new cash. And then we're off to the races. And I think that where we're feeling very good about where we are today and about the progress, because it's been a good healthy process that's been amicable across the Board. And so, all lessors working with us. Bondholders giving us their feedback and what they think is appropriate. And then also kind of looking at these great assets that we have still at our disposal to use the raise cash.

Michael Linenberg – Deutsche Bank

Okay, good. Very good. And then just two non-restructuring questions. Did I see that you guys renewed your deal with United? Maybe I didn't see that. And what were the changes if any in the term of the deal, et cetera?

Abhi Shah – Azul's President

Yeah. Hey Mike, I know we just put out a note saying, we expanded the codeshare. So, it's -- our commercial agreements continue with United, and so we expanded the codeshare to include more cities that they fly from Orlando and from Fort Lauderdale. That was the note.

Michael Linenberg – Deutsche Bank

Okay. Okay, that's great. And then just Abhi, since I have you -- just one other. The new Congonhas service, the ramp-up presumably it's RASK accretive, how was it on a margin basis? Is it margin accretive? I know you're ramping up; you added a bunch of new service.

But historically those tend to be some of the higher yield markets out there. Any color that you can give on that? Thanks for taking my questions.

Abhi Shah – Azul's President

Yeah. Mike, we expect them to be margin accretive once ramped up. And especially once when we get to second-half seasonality, we're still in Second Quarter, April with Easter had a bunch of holidays. But, yeah, our expectation and from what we know of the other markets we fly in Congonhas. And Congonhas demographics in general, is that this is definitely margin accretive, and we expect that to happen through the year. Again, just having so many new people fly the services is great, because they're signing up for the credit card, our loyalty program and flying internationally with us as well. So, but just by itself, yes, margin accretive.

Michael Linenberg – Deutsche Bank

Very good. Thanks, everyone.

John Rodgerson – Azul's CEO

Thanks, Mike.

Operator

Moving on to the next question will come from Victor Mizusaki from Bradesco BBI. We will open your audio, so that you can ask your question. Victor, can you please proceed?

Victor Mizusaki – Bradesco BBI

Hi, congrats on the restructuring. I have two questions here. The first one John, you just mentioned to mean, about the bonds. And in this case, you can see -- we can see that, you closed the deal with the lessors, and this new bond you pay 7.5% per year. So, is there any kind of collateral that you need to grant to these lessors, and can we say that, basically you're anchoring the negotiations with the bondholders for the 2024 and 2026?

And my second question, think about the guidance for this year. What you're assuming for the PIS/COFINS, do you assume that these tax benefit will be approved – pass in the Congress or basically you do terminate in May? Thank you.

John Rodgerson – Azul's CEO

So, Victor, just quickly, the 7.5% is unsecured to the lessors. So, we still have that collateral out there. The '24 and '26 is -- there is some security we're in discussions with them on. And so, I think that that's a positive thing to help get the rate down overall. As far as the 2023 guidance of BRL5.5 billion we're very confident that the PIS, COFINS tax will pass, but it's not in our current guidance. It was only for the first five months of this year. However, we may have positive news in that regard in the next 10 days, which could be very beneficial as well.

Victor Mizusaki – Bradesco BBI

Okay. Thank you.

Operator

Moving onto the next question, it will come from Daniel McKenzie, sell-side analyst from Seaport Global. We will open your audio, so that you can ask your question, Daniel. Please proceed.

John Rodgerson – Azul's CEO

We can't hear you, Dan.

Operator

Okay. So, let's move on to the next question. The next question will come from Jay Sigh, sell-side analyst from Citi. Jay, we're going to ask your question. We're going to open your audio so that you can ask a question. Can you please proceed.

Jay Sigh – Citi

Sounds good. Yeah. So, my first question is regarding the most recent upgrade of your agreement with United. Do you see any possibility to adjust these agreements further with others, such as JetBlue? And as a follow-up, can you tell us a little bit more about how your demand patterns compared with 2019 if they're different and how you view these adjustments as temporary or structural? Thanks again.

Abhi Shah– Azul's President

Yeah. Hi. Thanks so much for the question, Jay. So currently together with United and JetBlue, we've been slowly expanding our network into the United States. And actually, we have a really broad network with these two partners. So, in total via our gateways in Orlando and Fort Lauderdale, we now can connect to 27 destinations in the U.S., and additional eight in the Caribbean. And so that obviously with all the major cities U.S. domestic with a mix of JetBlue and United, via Orlando and Fort Lauderdale. And we serve those cities in multiple origins here in Brazil. Our hub in Sao Paulo, Recife, Belo Horizonte, Manaus and Belém as well. So, a really broad network into the U.S. and then 35 destinations with our partners in the U.S. In addition, we also connected 24 European cities via our partnership with TAP in Lisbon. So, we're really able to provide great connectivity with our partners.

In terms of demand patterns, overall average fares are higher as we've seen in the unit revenue performance, this is not just a pent-up demand, as was initially thought in the initial pandemic or even the post-Omicron recovery. The last four quarters we've seen RASK is basically between BRL0.41 and BRL0.42. And so that shows very, very consistent unit revenue performance.

Corporate revenue is above 2019 levels between 30% and 35% above. Large corporates a little bit below, but one demand pattern that's changed, it's very interesting is group's revenue. Group's meetings conventions revenue is more than double, what we've seen before. Our small and medium businesses are up very strong as well. From a customer behavior, we are seeing average, let's say purchase size increasing, so people are taking one extra person with them on their trips, sort of a little bit of a mix of business and leisure, personnel. And so -- but in general we are 76% larger in terms of revenue right now than we were in the first quarter of 2019. And I looked across many airlines across the world and I couldn't find anybody else that was 76% larger. So, this is really robust, sustained revenue performance.

Jay Sigh – Citi

Thanks so much.

Operator

May we open your audio, so that Daniel McKenzie, sell-side analyst from Seaport Global, can asks his question. Please Daniel, proceed.

Daniel McKenzie – Seaport Global

Yeah. Hey, can you guys hear me this time?

Alex Malfitani – Azul's CFO

Yes. We do.

Daniel McKenzie – Seaport Global

Yeah. Okay. Great. Sorry about that. So, my question was, you didn't talk about unsecured assets, that was my initial question. But big picture what's the collective value of those unsecured assets? And then just on TudoAzul, what percent of EBITDA was TudoAzul in 2022 and how much capital would you like to raise ultimately here?

Alex Malfitani – Azul's CFO

Hey, Dan. So, the -- we mentioned at our last call, we had our unencumbered assets appraise to Azul, as with Viagens, Azul Cargo and our brand. And collectively they were valued at about BRL25 billion rise a little over $5 billion. And we're working with advisors to try to structure this. We want to use some of those unencumbered assets to renegotiate our convertible debenture and to raise new money, and also to get some additional time on the 2024 and 2026 Senior Notes, trying to essentially extending them.

And also keep some of our assets unencumbered too for a rainy day. We don't want to encumber everything. I think the main objective here is just to de-risk the company. As we've been mentioning on this call, the business is doing great, right? And we are focused on generating cash going forward and de-risking. So, the idea is to not encumber everything. So, we'll provide that detail over time as we get there, but the idea is to not unencumber everything and we want to use the assets that we do encumber, to cover all of what I mentioned. The new capital that we want to raise with a secured note no equity, renegotiate our convertible debentures and extend our '24 and '26 bonds.

Daniel McKenzie – Seaport Global

Okay, that's terrific. Abhi, you talked about the current revenue environment, pricing today is pretty strong and for those of us that track pricing if foreign exchange continues, Brazilian real continues to strengthen, should we expect payers to fall somewhat? Usually there has been or at least historically, there has been a link between the Brazilian real and pricing.

Abhi Manoj Shah – Azul's President

Yeah. Hey, Dan. I think that link is more a second-order effect. I don't see in the industry doing it just because -- I think that it's more linked to capacity. And if I look at capacity in the system for the Brazilian industry today, it's pretty well-disciplined. And I don't see a lot of new capacity coming in. We've given our number today around 6% domestic growth, Gol, LATAM have their guidance out as well. And you can do the math and the industry overall domestically is growing about 4% to 5% versus 2019. We're talking four years ago. And so, the capacities' environment I think is actually very constructive for the industry to maintain these unit revenues. And so, I think that as currency strengthens our fuel continues to come down, as long as the capacity situation remains disciplined, which from what I can see today will continue to be disciplined, that should not affect unit revenue.

John Rodgerson – Azul's CEO

Dan, one other thing too is, if you take a look at the industry in Brazil, and our competitors, everybody's cost of capital is significantly higher today than it was in 2019. So, everybody needs high fares. We have two of our closest competitors that need to get listed in New York over the next coming years. And I think it's going to be important for them to show positive results. And I think that's good overall for industry discipline across the Board.

Daniel McKenzie – Seaport Global

Yeah. That's great. Thanks so much, you guys.

John Rodgerson – Azul's CEO

Thanks, Dan.
Operator

The next question comes from Chris Reddy, sell-side analyst, TD Cowen. We will open your audio, so that you can ask your question. Chris, please proceed.

Chris Reddy – TD Cowen

Yeah, good morning guys. Thanks. So just wondering if you could give me a little bit of insight into the forward-looking competition in capacity on the various routes to serve. And the rest of my questions have been answered. Thank you very much.

Abhi Shah – Azul's President

Yeah. Hi, Chris. We continue to be, to have a very different network, we haven't seen significant changes in market overlap over time. In fact, they've actually reduced, which I think is a sign of a healthy industry dynamic overall. I think airlines are focusing where they are strong and what makes them strong. Our network by nature is different. We are alone in 80% RASK that we serve a leadership position in over 90% of routes that we serve. And again, I think that the industry is -- that discipline is good overall, and the industry realizes that. So, I don't envision, I don't see, I haven't seen frankly any major changes to them -- to the market overlap or to the industry dynamic from a capacity. I don't see anybody trying to attack somebody else or enter into a hub or anything like that. I think airlines are focusing where they are strong.

Chris Reddy – TD Cowen

Great. Thank you very much. Appreciate it.

Operator

The next question comes from Rogerio Araujo, sell-side analyst, Bank of America. We will open your audio, so that you can ask your question, Rogerio. Please proceed.

Rogerio Araujo – Bank of America

Yeah. Hi, gentlemen. Thanks a lot for the opportunity. I have a few follow-ups on the restructuring. One is, you talked about liability, that is going to be recognized. I think this is linked to the equity instrument. My question is, how is this going to be calculated? Is there going to be a market-to-market effect on that every quarter? And is there a starting point of how much would this, is going to be recognized in the next quarter or so when the deal is concluded? And then another one on the BRL36 per share conversion price, is there any adjustment rate to it in 2027 or this is a fixed BRL36 per share?

Lastly, only a confirmation, you're talking about several conditions on this restructuring, one of them is new capital raise, this can be debt, correct? I think you're talking about TudoAzul as the collateral on raising new debt. This is our new debt, already fulfills this new capital raise condition? Thank you very much.

Alex Malfitani – Azul's CFO

Yeah. So Rogerio, under IFRS -- unless the amount of shares is completely fixed and predetermined you need to recognize the whole structure as a liability. So, it will be easy for you to look at the amount. It will be essentially what the lessors have given up on the equity side, so essentially the 60%. But if you include that as a debt, again you don't include the 90 million shares that are going to be issued. But the way we see it is, if you do the calculation, not including that debt and including the 90 million shares in your total shares outstanding, you're going to get something higher than BRL36.

Therefore, there is no adjustment, and the equity instrument will be equity as designed. But it will be either equity or debt, and in the balance sheet until that amount is determined it will show up as one specific line on the balance sheet. Kind of similar to the convertible debenture that we have maturing in '25. If you include that as debt, then you don't include it in the number of outstanding shares. If you do include in the number of outstanding shares, then you disregard the debt component on the balance sheet. The BRL36 on the floor, there is no adjustment going forward. And then you're right on the new money as we mentioned, it will be a secured note essentially based on TudoAzul as collateral with no equity component.

Rogerio Araujo – Bank of America

Very clear, Alex. Thanks very much. Have a great one.

Alex Malfitani – Azul’s CFO

Thanks.

Operator

This ends our Q&A session. We will now have our final remarks.

John Rodgerson – Azul’s CEO

Thank you for joining us today. Obviously, a lot to digest, a lot of information and so we'll be available to take any of your questions offline. We're excited about what we have, this significantly improves our cash flow over the coming years and Azul is back to the races. Thanks, everybody.

Operator

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