Conference Call Transcript
AZUL
1Q25 Results

Operator:
Hello everyone and welcome to Azul's first quarter earnings call. My name is Zach and I will be your operator for today.

This event is being recorded and all participants will be in listen only mode until we conduct a Q&A session following the company's presentation. If you have a question, click on the Q&A icon at the bottom of your screen and write your name and company. When your name is announced, please turn your microphone on and proceed. For those who are listening to the conference on the phone, press start *9 to join the queue and start *6 to accept the audio when requested. I would like to turn the presentation over to Thais Haberli, Head of Investor Relations. Please proceed, Thais.

Thais Haberli:
Thank you, Zac, and welcome all to Azul's first quarter earnings call. The results that we announced this morning, the audio of this call and the slides that we'll reference are available on our IR website. Presenting today will be John Rodgerson, CEO. Alex Malfitani, our CFO, and Abhi Shah, Chief Revenue Officer and the President of Azul, are also here for the Q&A session.

Before I turn the call over to John, 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'll turn the call over to John. John?

John Rodgerson:
Thank you Thais. Welcome everyone and thank you for joining us today.
First, let me begin by thanking our incredible crew members for their passion and dedication. The first quarter for Azul brought a return to operational excellence that our customers expect. As we shared many times before, in 2024 we did not run the best operation due to significant OEM issues we experienced. This was tough on our customers, our crew members and had an impact on our results. I'm happy to report now that towards the end of the first quarter our operation is back. I will give you more details later on this call, but for now I just want to thank our crew members for their perseverance and hard work.

Turning to Slide 3, I want to just highlight the sustainable competitive advantages of the Azul business model. The combination of a differentiated network with unique fleet flexibility, our high growth business units, our lowest unit cost in the region, together with passionate crew members and supportive stakeholders is what allowed US to deliver the results we present to you today.

On slide 4, I want to start with our network, one which we are constantly optimizing with a singular focus on profitability and the best use of our assets, our aircraft. This network that is different by design, with no Nonstop competition in 82% of our routes, representing 77% of our revenue, a remarkable competitive advantage. Still, we are constantly making changes to make it even better. This quarter was particularly active. In the month of March we suspended service to 14 cities. This was in response to the high fuel environment combined with the revenue performance in these markets. At the same time, we increased service in many other markets, up gauging to fuel efficient Embraer E2 aircraft, especially at our Bela Horizonte hub. These are just some examples of how we continuously strive to extract the best possible results from our Network.

On slide 5, you can see that we're excited to report another strong first quarter revenue of 5.4 billion Reais with a Rask of 42 cents flat year over year with a 16% increase in capacity. Our EBITDA for the quarter was 1.4 billion Reais with a margin of 26% and EBIT of 571 million Reais in the first quarter. We were impacted significantly higher than expected because the devaluation of local currency and irregular operations which I will address later on this call.

Turning to Slide 6, I want to share the details on our revenue performance. Overall, we maintain unit revenue flat with a 16% growth in capacity, a strong result overall. Even more impressive given the fact that the major part of our year over year increase in capacity was in our international network due to low base from last year. Normally this would have an effect of lowering unit revenues due to longer stage lengths, but thanks to the demand environment and the contribution from our ancillary and business units, we were able to overcome that effect. We are also actively using new technologies in the area of revenue management - tools make recommendations on pricing, yield management and ancillary revenue on a quasi-real time basis, further allowing us to maximize our unit revenue. Turning to our business units, I want to highlight their revenue contribution and impressive performance this quarter. Our business units have done a great job of growing beyond the metal, finding new and unique ways to increase our revenue outside of just ticket revenue.

On slide 7 you can see the contribution of our high margin business units on Rask which grew from 19% in first quarter 24 to a very strong 23% in first quarter 25. All units combined resulted in positive impact of more than 480 million in the quarter accounting for 35% of our total EBITDA. In the quarter.

On slide 8 you can see the continued high growth from each of our beyond the metal business units. Our loyalty program now boasts 19 million members and a record high monthly active users flown revenue was up 65% year over year and net unit revenue contribution was double compared to first quarter 24. The combination of our domestic and international network, airline, hotel, retail and banking partners has resulted in record engagement and results in our loyalty program. Our vacations business continues to grow with GROSS Billings up 56% year over year. Upcoming network additions such as Porto, Mendoza, Verloche and Madrid will continue propel growth in this leisure focused business for years to come. Finally, Azul Cargo, our logistics business had a very strong quarter. Total revenue up 20% year over year, international revenue up 62% and most importantly, our EBITDA doubled compared to first quarter 2024. During the quarter we entered into service our two A321 freighters and they are becoming a key driver of revenue and margin expansion in the business. As we have always said, our business units are a key part of our strategy and a driver of unit revenue and earnings expansion going forward.

On slide 9 I want to highlight the improvements we have made in our ancillary revenue. Overall, ancillary revenue was up a very strong 22% year over year and ancillary revenue per PACS was up 14%. These increases were driven by the growth in our premium products such as business class and extra legroom seats. Together with the record activity in our loyalty program, we continue to see opportunities improving, merchandising, CRM and pricing. So we expect continued growth in the ancillary revenue per passenger metric.

On slide 10 I want to highlight another key competitive advantage, our cobranded credit card. With iTau, we believe we have the strongest co branded program in the country with the highest percentage of premium card holders. We already had the Visa Infinity card that was incredibly popular with spending of about 1/2 of 1% of Brazil's GDP. And this April we're proud to launch the Mastercard Black Skyline Premium credit card. This product further positions Azul as a premium airline in Brazil and expanding even further our base of high yield demand and revenue.

On slide 11 I want to turn to the cost side of the business. We continue to be the lowest cost provider in Brazil. This includes the effects I mentioned on the cost we're facing from operational impacts and OEM challenges. As I mentioned in the opening and we'll show on the next few slides, we're significantly improving our operation and those inefficiencies are coming out of our business. We also continue to be laser focused on efficiency, whether that is in our aircraft utilization or our headcount productivity round time at airports, we are focused focusing Azul into a lean operating airline. We have made significant progress so far, but there's still more we can do.

Turning to slide 12, you will see two great examples of operational improvements that led to efficiency. Despite all OEM challenges faced in the Latter Part of 2024 and early 2025, we were able to increase our aircraft utilization by almost 5%. This is a result of a combination of factors including our network optimization strategy I mentioned before, more new generation fuel efficient aircraft flying in our network and a significant improvement in our operational reliability. In addition to a higher utilization leading to more efficient ask generation, the airline is also more efficient delivering additional asks with less headcount. Our efforts to optimize processes, develop new automation technologies alongside our passionate crew members resulted in a productivity being up 18.9% year over year.

On slide 13 you will see the impact on ask generation from all of the challenges we faced in 2024. I would like to highlight two major factors. We began the year with the unfortunate floods in Southern Brazil, a devastating natural phenomenon that turned 10% of our network offline overnight and in one of the most profitable bases. Shortly after, the constant OEM challenges we faced throughout the year worsened with several unscheduled engine removals and longer recovery time impacting our asks. For the second half of 2024. These impacts were a loss of close in asks which had a devastating impact to our customers and operation overall. However, since early 2025, working together with the OEMs and our partners, we're seeing improvements in all operational areas. We've been able to close the gap and get back on track to our planned capacity generation.

On slide 14, I would like to highlight two examples of impacts disruptions trigger to our operations and customers that have been significantly that we've been able to significantly improve over the past few months. Our irregular operations as a percentage of departures has decreased by over 65% in the first quarter and continues to to be a downward trend such in directly to another great indicator which is the average nights customers spend in hotels due to the impacts to their booked flights. During the past quarter, we reduced our average customer hotel nights by 75%. Even though we made significant improvements during the first quarter, we were still impacted by the additional cost generated by the irregular operations and the customer litigation caused by it. Looking forward, we See a positive trend and expect these costs to improve during 2025 going forward.

On slide 15, you can see the improvements in the macro scenario to support our ebitda generation in 2025 and beyond. The real has appreciated 9.3% in 2025, which reduces our dollar denominated debt and expenses and improves our cash flow generation and reduces the cash outflow to pay down aircraft, lease, capex and interest. We're also seeing improvement in the heating oil curve which is down more than 17% compared to the January peak. Using the current spot price, fuel expenses would have been 200 million lower in the first quarter, showing the potential upside to improve EBITDA and cash flow generation in the coming quarters.

Turning to our final slide, I must highlight how the first quarter really shows how much Azul has overcome a challenging year and and is already generating positive results. Our unique business model has once again proved the value generation this airline has at its core. Our enhanced approach to our network strategy, our beyond the metal business units and improved operation have resulted in improved, more efficient ask generation at the lowest cask in the country while sustaining a strong unit revenue. I'm certain that our competitive advantages will continue to prove how Azul is the strongest airline in the region and and yield positive results on a consistent basis. I can't thank enough our entire crew member base for bringing back to our usual levels of operational excellence. I'm proud of the unique business model we have built together. With that Abhi, Alex and I are available to take your questions.

Operator:
Ladies and gentlemen, thank you. We will now begin our Q&A session. Remembering that if you have a question, click on the Q&A icon at the bottom of the screen and and write your name and company. When your name is announced, please activate your microphone and proceed. For those who are listening to the conference on the phone, press Start *9 to join the queue and start *6 to accept the audio when requested.

We will now go to the first question that will come from Savanthi Syth, Sell side analyst, Raymond James. We're going to open your microphone so you may ask your question. Please proceed.

Savanthi Syth - Raymond James:
Hey, good morning everyone. If I might just. You know, there's a lot improvement that you called out here on the cost side. Just operations FX Fuel. Could you talk about how you're feeling about EBITDA for the year and how it should progress from here? Because it seems like maybe seasonality might be a little bit different this year just given the movements in macro and operations.

Alex Malfitani:
Sure. Hi Savi. Yeah, so Q1, I think we you know, was worse than we expected, but it's early enough. And also we saw significant improvement going forward.

Right. So when you look at the forward curve for oil, when you see where the real is and there has been already some recapture in the first quarter. Right. So namely, you know, fuel alone, the fuel expense line alone, like we said, was over 200 million. Rise of a bad guy. When you add effects, that's another 100 million. And then the irregular operations. But everything is improving. Right. All of those items, fuel effects and irregular operations are also are all improving. And we are still getting benefits on the demand side, we're seeing strong risk even with high capacity growth.

So when you combine all that, we're going to work, and we think we have enough time to still deliver as high an EBITDA generation as we can, even with the impacts in Q1.

Savanthi Syth - Raymond James:
Understood, I appreciate that. And I wonder, maybe a question for Abhi. Could you elaborate a little bit what you're seeing on the on the demand side, just between corporate and leisure?

It doesn't seem like, there's been much of a hit with some of the macro headlines that we've had, but curious what you're seeing.

Abhi Shah:
You know, I mean, nothing compared to what you're anecdotally hearing in the US Right. Ex Brazil point of sale demand has been strong. Even with the noise in the US we didn't see any oscillations in our US business. Our international network is a high end leisure network. I think we are more insulated in that sense on the corporate side. In Brazil it's been very, very steady. We haven't seen, obviously we've grown and the revenue has grown with us and so we are maintaining that pace. You can check the corporate travel agency shares. We had a 34% revenue share the last report. This is public data from corporate travel agencies. So the Brazil sort of local environment has been solid, has been very steady. Brazil point of sale internationally has been good as well. And we're actually seeing a growth year over year in Ex Brazil point of sale, which is revenue that's coming in euros and coming in dollars, both for international network as well as our domestic network. So I think you'll see unit revenues expansion in 2Q, which is good. So I think overall a pretty steady demand environment.

Savanthi Syth - Raymond James:
Very helpful. Thank you.

Abhi Shah:
Thanks, Savi.

Operator:
Thank you. The next question comes from Andrew Ferreira, sell side analyst, Bradesco. Andrew, we will open your audio so that you can ask Your question, please proceed.

Andre Ferreira - BRADESCO:
Hi, good morning. Thank you for the space here. So, two questions from my side. First, if you could comment on your thinking regarding, regarding the $200 million equity raise in terms of time, whether there are talks, foreign anchor investors.

And my second question is, Alex, you mentioned that fuel was 200 million. Has detractor affects another 200. And from the other cost line which had the 330 million highs higher costs year over year. In the release you mentioned that it's mainly from the performance issues. How much of the 330 was, you know, the performance issues alone and is there a chance that Azul will be compensated for it by the OEMs? That's it. Thank you.

Alex Malfitani:
Yeah, thanks. So, on the equity raise, I think just to remind everyone of the timeline, right. We've reached an agreement with our bondholders, Le Sours OEMs and part of that agreement called for an equitization of debt to happen in April. Right. We actually had three equity offers over the last few months. One to equitize the lessors, one for the controlling shareholders to bring in new money into the company, and more recently the equitization of 35% of our 29 and 30 notes. So, we've been implementing the plan as agreed and that's why we had an equity offer in April.

Now, the markets didn't favor the timing. We didn't get incremental equity raise, but we were successful in equitizing a significant amount of debt and reducing our leverage. We obviously would, it would make sense for us to bring in additional equity capital, but we'll find the right time to do that. Right. I think there's a lot of noise in the market, both in macro terms and on understanding our overall restructuring. And so I think things will calm down over time and we'll continue to evaluate that opportunity.

On the cost side, fuel about $208 about 100 other was impacted, like we said about, you know, irregular operations. And just think about what that entails, right. When you're unable to fly and when you have close in impacts from OEMs like we did, that creates a lot of disruption in terms of us having to reaccommodate our customers, in terms of meals, hotels, transportation, sometimes, you know, transportation on other airlines that close in fares. But so that was a big part of the increase in the other line.

Also the other line that has a lot of components that are dollar denominated and the average dollar between Q1 of 24 and Q1 of 25 was almost 20% up. Right. Now, obviously, as we have demonstrated, the operations have improved significantly. So, we should see a reduction in customer reaccommodations and legal contingencies going forward. But that absolute number is not that far from what's consistent with our guidance as well. Right. So even though there was a big increase year over year, the improvement that we see in irregular operations would be enough for us to continue on the path that we had outlined.

John Rodgerson:
Yeah. And as for the OEM claims, we are in constant discussions with them. I mean, we had eight widebody engine removals in the span of six weeks in the fourth quarter. And you know, that had a significant impact to our customers. AVI was unable to sell close in revenue because we were just reaccommodating customers. And when you cancel people's flights on international, you're putting up in hotels and moving people around. So, yeah, there is claims out there to the OEMs for sure. And we're seeking compensation similar to what you've seen with other airlines around the world. And we'll continue to. And we'll continue to do that. But we wanted to show, as Alex mentioned and the chart shows, there's been significant improvement in that, you know, just in the last 60 days alone. We have more spare aircraft available to us, more spare engines, and more engines leaving the shop. And we expect a significant improvement going forward in this line item.

Andre Ferreira - BRADESCO:
Very clear. Thank you.

Operator:
Thank you. The next question now will come from Shannon Doherty, Sell side of the Deutsche Bank. Shannon, we will open your audio so you may ask your question. Please proceed.

Shannon Doherty - Deutsche Bank:
Hi, this is Shannon Doherty. Thank you for taking my questions. You know, maybe for the first one, just to follow up on Savi's question, are you officially reiterating the 7.4 billion Riyadh in EBITDA this year? I understand that's going to be back half loaded, but just want to know if you're like, walking away from the guidance.

John Rodgerson:
Yeah, we're not changing guidance at this time.

Shannon Doherty - Deutsche Bank:
Okay, understood. And for the second one, you know, just, we know, going forward, what is the share count that we should be using for the next quarter, assuming a net profit? I know in your footnotes in the release it says that the share count doesn't include dilution, and you did get a bunch of transactions done post quarter end, so just an update on share count would be helpful.

Alex Malfitani:
Yeah, the current number of shares outstanding after the equitizations that we have done is 980 million preferred equivalent shares.

Shannon Doherty - Deutsche Bank:
Thank you.

Operator:
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. For those who are calling from the from your cell phone, press star *9 to join the queue and star *6 to accept the audio when requested.

The next question now will come from Rogério Araujo, Sell side Analyst, Bank of America. Rogério, we're going to open your audio so that you may ask your question. Please proceed.

Rogério Araujo - Bank of America:
Hey John, Alex, Abhi, thanks a lot for the opportunity. I have a couple here.
The first 1 on liquidity, second key is usually at the third quarter in terms of seasonality and cash flow. So, if you could update us on any potential credit line from the government that has been spoken in the past if there is an update there. Also we saw the TAPS bond going to actually short term asset in the balance sheet. It expires in March 26th if I'm not mistaken. What to expect with the TAPS bond? Will it become a cash position, same amount as in the balance sheet in March? Is there any way that it could be repurchased by TAP before that? Would that require a haircut? So how can we think about that line?

And my second question actually it's follow up from the equity offering. I understand there is an anti dilution clause for creditors that are converting that into equity and at this price an offer could trigger further dilution to investors. So how can we think about this potential equity offering in terms of this clause? What to expect? Could that be revised? Is there other alternative? Because I understand that this has to be concluded for the third phase and the restructuring to be concluded as well. Thank you so much.

John Rodgerson:
All right, Rogerio, we're going to take it in pieces first of all, second quarter as we build up the summer and sell the summer peak, usually there's improvement in cash flow in the second quarter compared to the first quarter. But your question about the government line, I think we've seen movement for sure. They passed through initial approvals for the FGE line which could be a couple hundred million dollars worth of liquidity to each airline. And so we're very positive on that. We've been in constant conversations with the government around that line. So, all things indicate that that'll get approved fully in the next week or two, which that's exciting.

As for the equity offering, I'll let Alex kind of give more color but obviously that anti Dilutive clause was not helpful. And as we went through the process, we needed to equitize the debt that they have. And what I would say, Rogerio, is we're in constant conversations with the bondholders and so they asked for something initially that was to protect them and it actually didn't protect them. It didn't protect and sustain the stock. And so, yeah, we're in constant conversations with them on a better approach because we do need to delever the business even further. And that clause is not helpful, for sure.

Alex Malfitani:
Yeah, that's right. On the liquidity, sometimes I think people mix up, the strength of the quarter in terms of revenue versus the strength in terms of cash. Right. Q1 is a very good quarter in terms of demand and revenue, but it's flown revenue. But most of that flown revenue was booked in previous quarters. So in terms of cash, Q1 is actually probably our worst quarter, seasonally speaking, Q2 is our worst quarter in terms of demand, traffic, usually risk, but it is a good quarter in terms of cash because you're starting to build booked revenue into the July season and the second half of the year, which is obviously the stronger in terms of demand. It's not exactly like that. But usually the strongest quarters in terms of revenue are the weakest quarters in terms of cash flow and vice versa. Right. The weakest quarter in terms of revenue is the strongest quarter in terms of cash. It's not exactly like that. But Q2 is not a bad quarter in terms of cash generation. In terms of the debt bonds, I mean, they are within a year from maturity. So that's why they are in short term and we expect to be paid. That's debt that has never been in question. There are discussions obviously on the collateral and interest calculation, but you know, no discussion on the existence of the debt.

So we'll be discussing with TAP and the Portuguese government, obviously, directly with them. And any news we will share with the market as soon as possible.

Rogério Araujo - Bank of America:
Fair enough. That's very helpful. Thank you.

John Rodgerson:
Thanks, Rogerio.

Operator:
Thank you. The next question will now come from Guilherme Mendes from JP Morgan. We will open your audio so you may ask your question. Go ahead.

Guilherme Mendes - JP Morgan:
Hey, John, Alex, Abhi, thanks for taking the time. First one, it's on the M&A. The potential M&A with go. The company now is expected to activate chapter 11 probably in June. And you are evolving your own liability management. So if there's anything that you can share on the exchange ratio or at least timing for it to be announced.

And the second one, just a follow up on the guidance. Are you guys firmly withdrawing the guidance or just not updating it? Thank you.

Abhi Shah:
Yeah, hi. On the M&A, you know, we, as we have said before, we can we continue to be in conversations with Abra. They always made it clear that gold was going to exit first. So that was always, always part of the plan. But the discussions continue and they continue on many parallel fronts, including valuation, including antitrust, documentation, all those kinds of things. So the discussions continue and as regards, there's no change.

Guilherme Mendes - JP Morgan:
So perfect. Thank you.

Abhi Shah:
Okay, thank you.

Operator:
And the next question comes from Savanthi Syth, sell side analyst from Raymond James. Savi, will you open your audio? So you may proceed.

Savanthi Syth - Raymond James:
Hey, thanks for the follow up. Just given the kind of outlook hasn't changed, I'm guessing your views on capacity haven't changed much. But could you talk a little bit again about how you're thinking about that for the rest of the year and between domestic and international? Thanks.

Abhi Shah:
Hey, Savi. Yeah, it hasn't changed a lot. As John said, we are making changes to the network. But over all I see about in the domestic industry, I see about 8% growth on a year over year basis. It will peak in the second quarter. So you will see higher growth from everybody in the second quarter and then you will see lower year over year growth from everybody in the back half of the year, sort of. Gol, Latam are kind of all following that same trend. And for us, yeah, we're on plan. I would say domestic around 8%. International is going to be higher only because some of the OEM issues that we faced last year led us to have an artificially low base. So you will see high international now in 2Q and then you will see higher international again in 4Q because of the OEM. But I would say Azul overall, you know, around 10%. Domestic will be around 8%.

Savanthi Syth - Raymond James:
That's helpful. Thank you.

Operator:
Okay, thanks. The next question comes from Daniel McKenzie, Seaport. Daniel, we will open your audio, so please proceed with your question.

Daniel McKenzie - Seaport:
Oh, hey, thanks. Good morning guys. Really the questions that I have really are around hardening the business model to handle the macro swings that can cause revenue to move pretty hard FX and fuel. And so I'm just curious in the context of hardening the business model going forward, you guys have done a lot to build a really impressive airline, but the traditional way has been to slow capacity, cut capacity. And I'm just curious, how you're Prioritizing the levers, looking ahead. And then just related to that, what leverage metrics are you targeting end of this year and end of next and, what's the pathway to the optimal balance sheet that you'd like to see?

Alex Malfitani:
Hey, Dan. Yeah, I mean, as an airline in Brazil, we always say that we are an imported service in a way, right. And so we are exposed to the cost of importing the inputs that allow us to produce a seat in Brazil, right. We have aircraft that are denominated in dollars. The financing for the aircraft is mainly in dollars. Even the working capital, for an airline, as a capital intensive business, usually for you to be able to borrow the significant amounts of capital that the business requires for a longer term, that capital is usually provided by U.S. or foreign investors that want a return in dollars. Feel in Brazil unfortunately is dollar denominated. We don't think it should, but it is. And then a lot of other items like gds, fees and IT and spare parts and maintenance and insurance. And so yes, that exposure is intrinsic to the, to the business. I think the lever we pull, I wouldn't say as much capacity, but I think the main one is fares. We see that

fares are essentially pegged to the dollar with a bit of a lag. They're not indexed to $. But we've demonstrated that over time, even though the real has significantly devalued since we started Azul, the real was at 160 to 1 when we started Azul. And I don't think anybody had in their forecast that it would reach 6, 30 to 1. But over time we have been able to more than offset that currency devaluation with fares. Through the strength of our network and our fleet and the customer experience that we deliver, we've also made the company a lot more efficient. And we're going to do that regardless of the dollar, will be constantly pursuing more efficiency, more productivity, higher aircraft utilization. You just need to be constantly looking for opportunities to reduce costs. And even though we've made a lot of progress, if you look at everything that's under our control, which is employee productivity, aircraft utilization, ancillary revenues, the revenue that come from our business units, everything that's in our control is doing really well. But unfortunately, the things that are outside of our control, such as fuel and effects, were big headwinds in Q1. But the positive news is that they should be much better for the remainder of the year. But also one thing that we had in the past, Dan, you may Remember we kind of had to use it up during the Brazilian recession in 16 and then through the pandemic is that we are able to finance our fleet in reais. We are the only operators of Embraer's in Brazil and in the past we had about a third of our fleet that was debt financed and a lot of those aircraft were financed in reais.

That is a great hedge. Unfortunately, it's not one hedge that we can just reset and rebuild overnight, but we will absolutely do that going forward. The beauty of that is that the aircraft, when it's financed and realized it continues to be valued in dollars. And if you need to reduce capacity, you can sell that asset, pay down the debt and the debt will be constant, will not have increased because of the devaluation, while the value of your asset will. We had that cushion that we built over time. We had to use it up over a couple of crises that we faced and we're going to rebuild it going forward and that will be another competitive advantage that Azul has which no other competitor can match.

John Rodgerson:
Yeah, Dan, a couple of things: just the FX alone is going to improve and leverage. But a couple of things that Alex said. I just want to reiterate, we're down year over year in headcount. Absolute FTEs were down, yet we're up 15% in ASKs. So, we are building a more efficient airline. Real denominated debt. We have the ability to finance our E2. The government line is also something we need to have less US dollar denominated debt on our balance sheet. We need to delever and that's why we're talking to our partners about doing.

Daniel McKenzie - Seaport:
Yeah, thanks for that comprehensive answer. A follow up to that is Alex, can you speak to Capex this year and next? Just big round numbers, how should we think about that? And then given everything that you just shared, how can we tie that? You know, what kind of leverage metrics should we think about for Azul as we look ahead one to three years?

Alex Malfitani:
CAPEX, I think you remember back in, I think November, we put out a walk through of our free cash flow to firm. You know that number is dollar denominated. The dollar has fluctuated somewhat. So depending on what your dollar assumption is for the year, you need to adjust that capex number going forward. Also, the OEM issues that we had may require a little bit more engines to be sent to, to overhauls. But we don't have guidance on CAPEX and we don't have guidance on leverage either. But you can use kind of those old numbers as a guideline, for you to come up with your estimates. Now, we want to reduce leverage. I think that is something that all stakeholders of Azul would like to see. We've done a lot of progress on reducing that leverage and unfortunately, some of that leverage came back through the devaluation, but it's

coming back. Right. We will continue working on everything that's within our powers to generate more cash, pay down debt. And that's also something that is always permeating our conversations with all of our stakeholders.

John Rodgerson:
Hey, Dan, I just want to reiterate one other thing which is a, which is a competitive advantage that Azul has is that all of our next generation aircraft are under PBH contracts and engine agreements overall. So while CAPEX will be up in the short term because of the reliability of the new engines, you're going to get that back over time. It's just a pull forward, if you will, because all of our engines are under a power by the hour contract. And that, that's a competitive advantage that we have that Quite frankly, the OEMs aren't offering anymore. Right. And so as we look forward, you know, we have that advantage going into the next few years.

Alex Malfitani:
Yeah. And it is an asset that Azul owns. Right. Because as John said, that that contract is not being offered anymore and it is providing significant protection because the cost of engine overhauls with all these supply chain issues and OEL and MRO capacity issues is obviously going up significantly.

Daniel McKenzie - Seaport:
Yeah. Thanks for the time, you guys.

John Rodgerson:
Thanks, Dan.

Operator:
Thank you. I will now turn it over to John for closing remarks.

John Rodgerson:
I'd just like to thank everybody for your time today and thank our crew members for all their work in the quarter. And we look forward to talking to you. Feel free to reach out to our team if you have any additional questions. Thanks, everybody.

Operator:
Thank you. This concludes the Azul’s audio conference call for today. Thank you very much for your participation and have a great day!