Azul Day

September 5, 2023

Thais Haberli – Head of Investor Relations

Hi everyone. Welcome all to our Azul Day. I'm Thais Haberli, the Head of IR of Azul. It has been more over six years since our IPO, so it's great to be here at the New York Stock Exchange. So, thank you, all.

Today presenting, we have John Rodgerson, our CEO; Abhi Shah, our President; and Alex Malfitani, our CFO. The presentation is available in our IR website and we have the Q&A after the presentation. So, we have plenty of time for the questions.

So, I will turn the presentation over to John. John?

John Peter Rodgerson – Azul's CEO

Thanks, Thais, and welcome, everybody and especially all the people that are online kind of listening today.

Thais highlighted it was just over six years ago that we took the company public, and in many aspects, this is a re-IPO of the company, right? And so, on the backside of COVID and so we're going to walk through everything we've done to build this unbelievably great airline, and how much stronger we are today from that initial public offering that we did in 2017. So, we're going to kind of walk you through kind of all those aspects. We're going to talk a lot about valuation today, obviously kind of the restructuring of the balance sheet that we did, but more importantly, the strength of the core business, and the core business is doing phenomenally well, and so Abhi will walk you through the revenue trends and very different than what you're seeing elsewhere in the world.

But the Azul story really starts with the network that we have, the flexible fleet that we have, as well as our culture and our people and we'll talk a lot about that today. And we are in the part of the world that's growing and growing substantially, and Brazil is still very underpenetrated and we'll walk you through that.

But take a look at this network. When we went public, I think we had just over 90 destinations served and now there's 155 destinations domestically, 7 internationally, about 1,000 flights a day and so this airline is significantly larger today than it was in 2016 and significantly stronger. But I think, the key thing that I want to share with you is that, we're the only carrier in 81% of our routes, and so a lot of people thought that as Azul grew and Azul got larger narrow-body aircraft like the A320s and the A321s, that we would have overlap with our competitors. The exact opposite has happened, and Abhi will kind of walk through our network strategy and how that works.

Today, we're going to have the opportunity to talk about all these different business units that we have. Obviously, the core airline, but we also have a regional operation that provides pilots for us and tax relief inside of the country. We've launched Azul TecOps, our loyalty business, as well as our packaging business, vacations, and our logistics business.

And when we went public, a lot of these other businesses were very small, but now as we're kind of doing the re-IPO of Azul, we want to walk you through in detail everything that we've done and how we've grown these businesses. And so, we're not talking anymore about COVID. We're not talking about anymore about wearing masks. And so, now we can talk about the core business and it all starts with the strong airline and network that we have, but we're going to show you just how strong these businesses are around it.

So, just to kind of walk through the airline's history as a public company, we went public in 2017, as I talked about. We delivered or I should say, we over-delivered on everything we committed to the market, and the market rewarded us for that, and we're going to walk you through that. Then we've been in three years of what I would call COVID hell, but now we're on the backside of COVID hell, and now we have the opportunity to tell a story that's much better than the story we had in 2016 for this re-IPO.

We were joking the other day that our existence -- this airline's about 15 years old, but we've existed in COVID, as a public company more than we've existed outside of COVID. Think about that for a second, right? Since we've gone public, we've lived in this COVID world for a lot longer than we've lived outside of the COVID world.

And so, I want to kind of just remind everybody, we have a lot of the sell-side analysts in the room here and online, but when we went public in 2016, that was the size of the airline in terms of ASKs, that was the size of the revenue of the airline and that was our EBITDA, okay? And what we told the market is that we would grow the business, and we would grow the business in terms of ASKs, in terms of revenue, and in terms of EBITDA. And you can see we did that, right? So, we grew the business in terms of seats in the market by about 56%. Net revenues were up 71%, but take a look at what happened with EBITDA, right? There's not a lot of airline stories out there that have grown their businesses by 50% but they've more than doubled EBITDA. And what that did was, the stock reacted accordingly, right? And so, the stock was up 3x from the day that we went public, and that's as a result of a company that delivered on its promises.

A company that came out and said, we're going to do this, and we actually did it, and we actually did more than what the market was expecting. And so, every time we had an earnings call, we delivered more than what the sell-side was projecting.

So now, we just wanted to kind of share a little bit of where we are today, the size of the airline relative to where it was in 2016. So, now the airline is 2x the size, you can see in terms of ASKs. Our revenue is 3x. This airline is 3x larger than it was in 2016, and our EBITDA is 3x more, right? And so, and Alex likes to kind of say this and, we're going to be on the road for the next month kind of doing this re-IPO of the company. But you could buy the airline today. That's 3x the EBITDA for half the price at what we sold at the IPO, you think about that, right? And so, it's a phenomenal story as to where we are today and what's contributing to this EBITDA, and what's contributing to the revenues to be so strong is a lot of these business units, right? So, TudoAzul today is 6x the size it was in 2016 - 6x the size. Azul Vacations, our packaging business is 12x what it was, and Azul Cargo is also significantly larger at 8x what it was, okay?

And so kind of going back to the story overall. This was our EBITDA trajectory from when we went public and that was our stock price, okay? Where we are today is quite different. Take a look at what's happened as our EBITDA has grown, our stock price hasn't moved yet because everybody's been focused on the balance sheet and what we've done and looking at trends in the United States with the weakening of the revenue environment. And so the airlines have been beat up quite a bit. So we're going to kind of walk you through this story and how much upside really you have in the Azul story going forward.

Another kind of interesting thing that I wanted to highlight at the beginning and you'll have the opportunity to kind of talk through some of this stuff is that, obviously, the stock price has not yet recovered to the levels it was pre-COVID. But take a look at this. That's what the stock had done. That's what the stock is in USD today.

But let's take a look at just trading multiples. And I understand that, obviously, trading multiples have compressed, interest rates are higher, and that's happened across the board. But Azul today is a stock that's trading at a discount to a trading multiple that historically has traded at a premium to other Latin American peers. Doesn't really make sense, right, if you think about it. And so you can see, no one's suggesting that we're going to be back to an eight multiple tomorrow. But that shows you how much runway the opportunity is and really what we're going to talk about today.

But it all starts with Brazil. And I've been in Brazil for 15 years. I think the number one question we got on the roadshow for myself, Abhi, and Alex was, so, when you're leaving in Brazil? When are you leaving Brazil? When are the gringos leaving? When are you leaving Brazil, right? And so, the reality is, every single one of us is still here. The same management team that took the company public in 2016 is still at the company, because the opportunity in Brazil is better than ever, and we're going to kind of walk you through that really quickly.

So, take a look at this chart today. Brazilians travel less than Colombians, less than Chileans, less than Mexicans, and obviously a lot less than the developed world, the United States, and Europe. But 18% of the population is traveling via air and 82% on buses. It's a country folks, that's the size of the Continental United States, that has over 220 million people.

And it's a country where the GDP estimate has tripled from where it was a year ago. The GDP estimate has tripled from where it is a year ago, tremendous opportunity. What does that mean for Azul, right? If we get the country to travel just as much as our Latin American peers, like Mexico or Colombia, look at how many more aircraft we need. We need three more Azul's in the country just to get where it is in Colombia. It's pretty remarkable when you think about the growth potential that Brazil has today, and it's pretty remarkable when you see what our average fares have done in the recent months and see how much opportunity exists.

And so, with that, I'm going to hand it over to our President, Abhi, who's built the best network in Brazil and I would say in the world and have him walk you through the details of what our network looks like.

Abhi Manoj Shah – Azul's President

Thanks, John. Great to see you all today. Abhi over here. Obviously, the network is something that I think is one of our key competitive advantages and it's something that was designed to be different, and we started it to be very, very different 15 years ago, and I think it's only gotten stronger. It's a network that's very diversified, so our competition is very focused in three cities in Brazil.

We are very diversified across all the geographies in the country. We access different demand via our flexible fleet and via our hub and spoke and our network structure. And we also access the parts of Brazil that are growing the fastest. And I'll show you that as well. So it's a network that's designed to be different. And as we have grown, continues to be different and continues to get stronger.

Our route leadership, and this is something that back then when we went public, people thought, well, as you grow, you will have to encroach upon the competition. You will have more competition. And actually, the opposite has happened. If you look at our leadership position in our network, markets that we are alone, routes that we have the most frequency, that percentage has actually increased over time for a couple of reasons. As we have grown, the network has gotten stronger, the connectivity that we offer is stronger. As we've gotten more fuel-efficient aircraft, it's harder and harder for the competition to enter, to attack us in our markets. And so we've actually gotten, our network is more defensive, more robust, more resilient. And again, we want to fly, our aim is to grow the market. Our aim is not to steal from the competition. Our aim is not to attack anybody anywhere else. It's to grow the market. And so it's different, and we continue to grow in that philosophy, and that philosophy will continue for the years to come.

You can see our strength where we fly, we like to fly where we are strong, and we like to be strong where we fly. So the number of destinations that we have in our top 10 airports, our second largest city has more destinations served than the largest international airport in Sao Paulo, for example. And so we use this combination of destinations, of frequencies, of fleet flexibility, of connectivity to really drive that revenue performance. It gives us pricing power. It gives us loyalty among our customers. And this really is a competitive and structural advantage, that's very, very difficult to replicate.

And the longer that we continue, the more that we grow in these markets, the more entrenched we become, the harder it is, the more defensive we are, and the harder it is for anybody to enter these markets, and so it really is a way of creating discipline in the market overall.

This is a great map that shows where we grow, where our exposure is, is all over Brazil. If you look at to the Midwest, that's the agro region of Brazil. The North -- Northeast has infrastructure, has mining, leisure destinations.

And the more traditional parts of Brazil, Sao Paulo, Rio, they always had great access to air service. 15 years ago, nobody said, well, Sao Paulo to Brasilia needs more flights. That wasn't the complaint. But where we fly to Campinas, Belo Horizonte, Recife, I'll show you later on, that's where the market was underserved. And that's what we have grown over the last 15 years.

And if you look on this slide here, you can see how our growth is so distributed. It's not focused in just one geography. And this allows us to connect. This is all part of the connectivity. It's all part of the flexible fleet, and it's all part of the fact that 86% of our routes continue to have no non-stop competition.

And that number has only increased over time. So, it is broad-based growth, broad-based connectivity, using the fleet as the tool to enable that to happen and really create something that's very different and very distinct and still has a lot of growth and a lot of profitable growth ahead of it.

Our primary hub is in Campinas, which is the Newark of Sao Paulo if you will. We have three hubs -- three large hubs. You can compare them to Newark to Houston and San Francisco, kind of east coast, a mid-continent, and sort of a west coast, northeast hub.

And the key here, the key of each one of these is that they access different demand. They're not just replicating one to the other. They have different destinations, they have different equipment types, they have different routes, different demographics, and each one is designed to do something different.

So, our Campinas, our Sao Paulo hub is for the south, southeast of Brazil, it's the majority of our international network is. The south, southeast, southwest and really accessing that corporate demand that exists in the southern part of the country and taking it all over the country, and onto the U.S. and Europe as well. 177 departures, 64 destinations by far the largest single airline hub, domestic hub in South America.

Recife is our Northeast or West Coast hub, if you will, accessing all of the capitals in the Northeast of the country. Remember, as John said, Brazil is the size of the Continental U.S., and so you have completely different demand, different demographics, and different travel patterns from one hub to the other.

We do have flights to the U.S. as well from Recife, but the job of the Northeast hub is to connect the Northeast region with itself, give access to the rest of the country, but really allow convenient, flexible options in that region.

John Peter Rodgerson – Azul’s CEO

Abhi, talk about the competitive aspect of the hubs as well.

Abhi Manoj Shah – Azul's President

Yes, and you can see on the right in each of these graphs, Belo Horizonte here, Recife and Campinas, how we compare to our competition? And how strong we are? How dominant we are? And again, there's something that was built over time in each of these locations. It's a combination of connectivity, combination of destinations, and fleet flexibility. It's small airplanes connecting to medium-sized airplanes, connecting to large airplanes, and even larger in the case of international. And you can see over time, and I think this is a merit to the discipline that's in the market, right? Each airline is focusing where they are strong. And you can see from these graphs, we're focusing where we are strong and the competition is focusing where they are strong. So, it's a merit to our resiliency and what advantages we have in our network, but also the fact that the industry overall is well disciplined and each airline is focusing on what works for them.

And finally, Belo Horizonte is our mid-continent hub, a lot of mining demand, lot of energy demand here, and really a good gateway to the north of the country, slightly shorter distances and great demand to the U.S. as well, and the northeast of the U.S. as well.

For the first time ever, Belo Horizonte will have over 100 daily departures. And again, 54 non-stop destinations are larger than the largest international airport in Sao Paulo in terms of destination. So, these three hubs really form the backbone of our network in terms of driving connectivity through the network and it's a combination of destinations, frequencies, and a fleet flexibility, which we'll talk about later.

Finally, in Congonhas, this was a big addition to our network this year. We were always in Congonhas, but in somewhat of a timid manner. Thanks to new slot availability this year, we've now more than doubled our presence in the Sao Paulo downtown airport. Local demand, very strong corporate demand, and the key to Congonhas is it allows us to access customers that normally wouldn't fly Azul.

Our presence in downtown Sao Paulo historically has been small. Now with this more than doubling our presence, we're able to access customers who can fly us for the first time, whether it's from Congonhas to the capital Brasilia, or to Rio, or to any of the top corporate destinations that we fly, and the next week they can go to Europe, or they can go to the U.S., or access our loyalty program, our vacations business. And so, I think of it as a way for customers to enter the Azul universe. It's a doorway for customers to try us, enroll in our program, in our vacations business, and really experience all of the products and service that we have to offer. So, we have a great list of non-stop destinations, but also lots of connecting destinations, but really it's a way to access great demographics, and have these customers try us, and enter into our universe.

John talked about the fact that we've been here for the last 15 years, and the E2 is one reason why I'm so excited as we continue to explore and develop this market. We have 17 E2s now, we'll have three more by the end of this year, hopefully, another 15 by the end of next year. And so, this E2 really unlocks the next stage of network development in Brazil. It's going to allow us to fly routes that nobody could ever do before.

And why is that? It's fuel efficiency. Fuel efficiency and size. 136 seats burning 18% less fuel. The fuel, the overall cost per seat is significantly lower, but the overall cost per trip is significantly lower. You're talking about flying a larger airplane, but spending less while you're doing it. And this allows us to access markets, access routes, access utilization of the aircraft that would otherwise not be possible. And so, just right over here, we have 80 examples of routes that are not served by anyone today. And we'll have the opportunity to do so over the next couple of years.

And again, these routes are not in isolation. You cannot just add a route and hope it's going to work. It's part of the network structure. It's part of the multiple hubs and the broad growth and the destinations that we have all over the country. So, it really is unlocking the potential of the network, the next level of the network within this amazing network and infrastructure that we've taken 15 years to create.

The fuel burn of the E2 allows us to do two things, increase utilization and increase stage length. And I know that investors are asking a lot, why is stage length, why is utilization not back to 2019 levels? Why -- when is that going to happen? One thing to remember about utilization is that, utilization happens when you stretch the day out, happens on early mornings, on nights, on weekends.

Monday morning, 8 am, every aircraft is flying, right? That's when you have the best demand. But you need really fuel-efficient aircraft to make economic sense to fly more on weekends, to fly more at night, to fly more early in the day, to fly routes that are longer but thinner.

And so having the E2, which has more seats, 18 more seats than the E1, but significantly, lower cost per trip allows us to do that. So, you will see, over time, the stage length and the utilizations especially increasing as we stretch the legs, and we explore these previously unexplored parts of the country and routes simply because this technology didn't exist. And fitting that in into our existing network is really going to allow us to make that happen.

Our domestic network, we continue to have a vision of 200 cities served. We're 155, 160 right now, so we're well on our way. Significantly higher than anybody else in the market, anybody else in the region. And again, it's different by design. It's designed to be different. And that allows us to continue to extend and build on our competitive advantage on the network.

Internationally, we've also made some significant steps this year. We launched Paris at the end of April. It's doing very, very well. The European summer is very strong. Curacao as well in the Caribbean is doing well in addition to our U.S. and Lisbon flights. But really great progress on the international side. In terms of our international capacity, we will be 25% larger this year internationally than we were in 2019. We're larger domestically, but we're also larger internationally. So, we are more than fully recovered on our domestic and our international network.

We have a great set of partners around the world that feed us and we feed them from United, from JetBlue, from TAP, from Copa, to Turkish, to Air Europa, and we provide connectivity inside Brazil. And our competitive advantage is that we provide connectivity at different points in Brazil. It's not just in Sao Paulo. So, if you have ambitions to fly in any other city other than Sao Paulo, then Azul will have the best connectivity for you.

Our long-haul network to the U.S. is now eight routes. Like I said, it's larger than what we had in 2019. Great connectivity inside the U.S. as well, 38 destinations in the U.S. and the Caribbean, very, very convenient destinations, connection times to the Northeast, to Boston, to New York, to Washington, the Caribbean as well, Cancun, those kinds of places. And the amazing thing about this is zero airport-airport competition.

Again, our international network is just an extension of the advantages that we built domestically. It's designed to be different. And so zero competition, bring a lot of loyal customers to our network, great connectivity with our partners from where we are strong in Brazil to where our partners are strong in the U.S., which is Orlando and Fort Lauderdale, and in Europe, which is Lisbon, and now Paris as well. Great connectivity with TAP, Air Europa, allows us to get all the capitals in Europe via our flights from Sao Paulo. So, the network is designed to be strong, to have competitive advantages. And so that's what we have delivered domestically and internationally.

This is a beautiful photo of the Northeast of Brazil if you haven't been. We have a vacations business; we can hook you up. But lots of great demand in Brazil. And right now, what we are seeing in terms of recent trends are very strong. We expect to do 30 million passengers this year, by far our largest year ever. But really, the strength is in the domestic demand environment. Looking through the U.S. airline 2Q reports and what they're guiding for 3Q, we know that average fares are coming down, right?

In Brazil, the opposite is happening. We actually are pushing as an industry average fares up because the demand is there to sustain it. And so we are seeing now record average fares. And in addition, we're heading into now our best seasonality, which is our spring and summer, which will take us through the end of 1Q, early 2Q next year. So, the industry is set up very well to maintain and to take advantage of this demand environment that we are seeing.

So, record average fares domestically, strong demand, and you can see that on the unit revenue side as well. So, record unit revenues for us across the industry as well. And as we look ahead, we look at the capacity environment, which is very disciplined. We look at the demand environment, which is strong, and the overall pricing discipline. We're very encouraged by the trends that we are seeing.

Ancillaries, there was a lot of noise in the U.S. couple of years ago, but basic economy and all that kind of stuff. In Brazil, the market is completely unbundled. We have unbundled the entire product without much noise. So you pay for seat assignments, you pay for checked baggage, if you want to move up your flight, all those kinds of things. And so that's allowed us in addition to other products like Sky Sofa, which only we have to offer in national flights, to really expand our ancillary revenues per passenger in a very meaningful way.

John Peter Rodgerson – Azul's CEO

Hey, Abhi, just back on ancillary revenues, there's now 13% of our business, but top line is significantly higher than it was as well, right? So you take a look at how much ancillary is contributing, and that's as a percentage, you don't really see the benefit, as it's contributing to the bottom line.

Abhi Manoj Shah – Azul's President

Yes, that's because top line revenue has grown. Our 2Q revenue was over 60% larger than 2Q 2019. Some recent trends, very recent trends. We talked about this on our earnings call. August, our corporate revenue is now 100% recovered what we had in 2019.

I'm pretty sure, we are the first geography in the world where corporate revenue, in terms of volume - remember, revenue was always, not always, but has been above 2019 for the last 18 months because of average fares. But volumes are now recovered to 100%. And so what you're seeing is corporate volume is 100%. We know average fares are 40%, 50% higher. So, corporate revenues are 50% higher than what we had in 2019.

And so now, as Alex likes to say, we have the bingo card of complete recovery on the leisure side, which happened two years -- about 18 months ago, two years ago almost. Again, Brazil was one of the first geographies where leisure travel recovered 100%. And now on the corporate side, we're at 100% as well. Again, we're just getting into our best season. So very favorable recent trends.

And again, I talked about average fares. We've seen a strong movement in average fares, especially as fuel has moved over the last 30 days. The industry has done very well to keep up with those movements in fuel prices. So, strong demand environment, strong fare environment, and good capacity discipline is really setting us up to be -- have a very strong next couple of quarters.

And with that, I'll turn it over to Alex.

Alexandre Wagner Malfitani – Azul's CFO

Thanks, Abhi. So, Abhi showed how we're much better on the revenue side, on the network side. And I also want to talk about how we're better on the fleet side. For those of you that don't know, this is a big part of our competitive advantage. And this is, again, why it's so much better to be looking at Azul today than it was back when we IPO'd. Because a lot of these were questions at the time of the IPO, right? Now these are facts. The questions have been answered.

One of them, is this a model that can be replicated? And if anything, this model has only become more exclusive than it was before. One question at the time was, what if GOL or LATAM start buying aircraft to compete with you? They've actually done the opposite and so -- and we have also continued to strengthen the business model. We didn't have Cessna back then. We hardly had wide bodies back then. So, the strength of the demand, the strength of the network has only allowed us to lean in deeper and make the business model even more resilient, even stronger than it was before.

And we're flying the right aircraft at the right market, right? That's what's unique about us. And that's what's so hard to replicate. Because if you want to compete with our -- with Azul, if you want to try to steal our customers, the only way you can do it is you try to replicate the entire business model. If you try to replicate the entire fleet, you try to replicate the entire network, right? And this is very, very hard to do. And that's why in practice, it's only moved in the opposite direction, where we've all kind of intensified the business models that we have chosen, right?

And you can see here just the types of cities that we can serve. And a lot of these cities are the cities that we serve alone and that we see a lot of growth, I think in that slide that Abhi showed with all the blue regions. Average GDP growth for Brazil is expected to be about around 3% this year, which is great. It started at around 1% at the beginning of the year and now everybody's kind of updating their forecast to 3%. But if you do a weighted average of the regions that we serve, you're probably talking about 5%, 6%, 8%, 10%, because these regions have very small bases and they grow very rapidly.

Another exciting thing is just the huge headstart that we have on flying fuel-efficient aircraft. We will be done with our fleet transformation by 2027. We're essentially 80% there today. And the competition will be maybe 10 years behind at best, if not more. For them to have 100% next-gen fleet, it'll take at least an incremental 10 years to us. That means, we'll have 10 years, where we're going to have a fuel burn advantage, 10 years where we're going to have a unit cost advantage to them. You just cannot snap your fingers and just get rid of all your old generation aircraft and replace it with next-gen, especially in the environment we have today.

Those of you that follow the OEMs know that if you go Airbus and you ask for an A320neo, after they stop laughing, they'll say, yes, I'll see you in 2029 or something, right? So, it's going to be very hard for anybody to try to even come close to the headstart that we have on them.

And the E2, Abhi talked about this, but it bodes repeating, right? This is really remarkable. Well, when we say that you're going to have fly more seats for less cost, I think a lot of you just think sure, less cost per seat. That makes sense. You're up gauging, right? You're getting into economies of scale. No, we're talking about absolute terms. We're talking about getting 18 extra seats for a negative cost, right? Those 18 incremental seats that we get on the A3 -- on the E2 come in at a negative cost per seat. I can sell those seats for zero and it's still better to fly an E2 than to fly an E1. But obviously, Abhi doesn't sell those seats for zero. He flies it for the opposite zero, which is a very, very high fare. That means it's all gravy, right? It's all money that's coming in and strengthening the bottom line, because the 18% fuel burn advantage is not on a per seat basis. It's actually you fly from point A to point B with a bigger aircraft and you get to your destination having burned 80% fewer gallons of jet fuel than if you had flown an E1, which is really remarkable.

Every airline in the world is going to go through fleet transformation, but the change of going from an E1 to an E2 is a transformation that no other airline that we know of is going to go through, right? And it's already happening because when you look at what we've done, is went public. That's another thing that is much better for you to invest in Azul today than when we IPO'd, because we're already burning 24% fewer gallons per ASK than we were burning before, 24% fewer emissions. So, this is, again, back in 2016, this was a promise.

John Peter Rodgerson – Azul's CEO

ESG.

Alexandre Wagner Malfitani – Azul's CFO

Yes, this is ESG for now. This is true, right? Kind of proven, tested ESG. When we went public, this was a promise. We were just starting on our fleet transformation. We had just started taking delivery of A320neos. Now this is proven. This is working. And there's more upside. We didn't have a hangar when we went public, right?

We have the biggest hangar in Latin America, which is allowing us to create a new business unit. Not only we were able to in source a lot of the work that we did, we used to pay in USD for all of the work that we did in maintenance, now we're paying in Reais. We used to have to fly aircraft out of Brazil, now that we can do it in our hub, they just taxi from one end of the runway to the other, and then they can start getting overhauled. So the amount of savings that we got on this already paid for the hangar and then some, right? The hangar costs under BRL200 million to build, and we already saved BRL360 million since we started operating this hangar, right? Again, an asset that didn't exist when we went public in 2016.

Look at the productivity. Each call center agent at Azul is twice as productive today than they were in 2016. Twice. We're serving 104% more ASKs per call center agent than we were. And it's the same story with airports and even across the board, even in overhead, right? We're 40% more efficient today than we were in 2016. And there's more upside, right? Because you can say, okay, all this data, all these figures are already in your 2Q numbers. They are, but there's a ton more upside coming.

Because, for example, like Abhi said, on average, we're still going to fly the fleet about 9.4 hours this year. And we were flying at 11, 11.5 hours before COVID, and we believe we can get to 11.5 next year. How? We're going to fly more nights and weekends, essentially, right? Because the fleet transformation, the reduction in fuel prices, the strengthening of the Brazilian Reals, the gains in productivity that we're getting, they start a lot of the flying that didn't make sense before to start making sense now. So we can make money in nights and weekends, and we can get incremental utilization from these aircrafts and bring the fleet back to what it was pre-COVID.

And this is pretty remarkable. I mean, those of you that follow us since 2016, you kind of understood that our unit cost was higher than the competition, right? Why was that? Because you were looking at a blended unit cost, where you have A320neos, we have low unit costs, which have low unit costs, with ATRs, which have high unit costs. So, when you look at Azul's chasm, you're looking at a blend of high chasm aircraft and low chasm aircraft. It's a mix, we don't break it up. When you look at GOL's chasm, when you look at LATAM's chasm, it's purely low chasm aircraft. They only have one fleet type. But now, in spite of the fact that we have a blended chasm, in spite of the fact that we have a lower average aircraft size, our chasm is lower than the competition.

So, if we don't open up the chasm of our A320neos. But if our average blended chasm is lower than the chasm of a Boeing 737 at GOL, or an A320neo at LATAM, that means that our A320neo chasm, which does compete with GOL and LATAM, is much, much lower. It's a huge source of competitive advantage that not everybody is aware of.

John Peter Rodgerson – Azul's CEO

And the highest NPS.

Alexandre Wagner Malfitani – Azul's CFO

Yes, we do, so John's going to talk about the operation here, but, I think one thing that we don't get a lot of credit for is that we have this huge complexity and we do it still with the higher on-time performance and NPS than anybody else.

John Peter Rodgerson – Azul's CEO

Hello. Yes, I just want to go back to this. This is pretty remarkable, what has happened since 2016. We now have the lowest CASK in the region and the highest NPS. That's pretty remarkable, right? Nobody else in the world can say that. No other airline in the world can say that they have the lowest CASK and the highest NPS, and that's what we have today.

And it's a testament to running a great operation, having great people, and so many of you are aware that we're the most on-time airline in the world in 2022. That's because we have great people. And so, when you go back, I just, when you talk about being an on-time airline, that's being 40% more efficient than we were in 2016, and we're still delivering the most on-time airline in the world, okay? Compare that to the U.S. carriers. Compare that to the European carriers, right? Are they significantly more efficient than they were in 2016 and running a great on-time airline? You can see where we are this year.

Year to date, we're number two in the world behind Copa Airlines, and you can see that we have significantly more flights per day than they do, but we're very proud of the business that we run. The strong culture at Azul delivers these great results. You don't drive an on-time performance like we have flying ATRs, E-Jets, E2s, 320s, 330s, without having the best people in the world.

And then when you have a great operation, this is just some of the competition metrics that we have relative to our competition. So take a look at our complaints per 100,000 passengers compared to our competitors, take a look at our customer satisfaction compared to our competitors. So we significantly outpace our competition. That's what kind of leads to the highest NPS. And it's really done by our most important asset, which is our people.

And we kind of had this thing between us up here today that we were not going to talk a lot about COVID, right? We were not going to talk about the dark days. But I want to remind everybody that there's 11,716 people, many of them that are on this page here, took an unpaid leave of absence to save the airline, to protect the equity, to protect our debt holders. And so those same people are the ones that are delivering today. And, just a few of the great stories, these are our pilots visiting a cancer center, right?

Our pilots are actively contributing in the community. This is one of our flight attendants kind of having a crying baby, rocking to sleep onboard the aircraft. We have fantastic people.

We have a running event on Saturday. I'm trying to get Alex to go with us, but -- so here's the running event and all of our crew members come and we participate and we get to hang out together. This management team that you see this picture here of Alex and Jason, we're together often because we like what we do. We've built an unbelievably great culture. And I know, Alex says, the financial people don't give a shit about culture. It matters. Trust me, it matters. That's what drives the on-time performance. That's what drives our low chasm or low CASK inside the airline. It's having an unbelievable great culture with an unbelievably great NPS.

And when you have great people that you're proud of, great brands want to partner with you, right? And so, this is Walt Disney World, look at all the aircraft that we have together with Walt Disney World. We're the largest seller of Walt Disney in all of South America. And so, they've partnered with us and we started with one aircraft and now we're up to four and we're going to get the Goofy aircraft hopefully soon. And so, unbelievably great brand. So, the Walt Disney World Corporation puts their brand on Azul's aircraft, right? And so, it's that high quality that we deliver that brings great partners.

Another great partner of ours, Amazon, right? Amazon, that many of you know, we are the only airline in Brazil that flies for Amazon today and we deliver thousands of packages a day for Amazon inside of Brazil today and so we're proud. And these brands say, hey, I want to associate my name with Azul and that's a pretty cool thing that we see and that drives, that was Walt Disney World, Amazon, they made those decisions in the middle of the pandemic. Think about that. They said, hey, we believe in Azul. We believe you guys are going to get through it and we want to be associated with you.

Before I pass it over to Abhi to go through the business units, I went here with my family, this is northeast of Brazil. We have direct flights to Florida, so those of you like Dan McKenzie, who live in Florida, you can fly directly to Porto de Galinhas, and so, so many amazing opportunities to visit Brazil, so many leisure destinations that Americans need to see. And we're not going to talk a lot about ESG today, but I do want to say, we have direct flights into the middle of the Amazon today as well from Florida. And so, I think the world is looking to save the Amazon, but I think the best thing we could do to save the Amazon is visit the Amazon. And so, those direct flights in there, get to see it, take your children, take your parents, go fishing in the Amazon, get to visit all the beauty that Brazil has. Abhi?

Abhi Manoj Shah – Azul's President

Thanks, John. Yes, I love that Disney and the Amazon airplane as well. Talking about our business units, TudoAzul is our loyalty program, our loyalty business, which really is having an outstanding year, this year, in terms of growth, in terms of attractiveness, in terms of relevance. Remember, loyalty programs are all about the customer. The customer chooses which loyalty program they want to interact with, where they want to send their points, which credit card they want to sign up for. And the more relevant you are, the better you are, the more you're going to grow.

And for us, two big events that happen in terms of our relevance. First was Congonhas, and the fact that we're now in the downtown Sao Paulo, we serve all the large corporate markets, as I said, has really allowed customers to try us and enter into our program.

And the second was internationally, having a destination like Paris in the Caribbean, like Curacao, has given loyalty customers great options to redeem their points or to earn their points. And what we see, which is quite incredible, is that, domestically, we have customers flying us from Congonhas and then we see them in business class going to Lisbon or going to Orlando for their holidays. And so that crossover is really powerful. And the loyalty program is the tool, it's the vehicle that allows that to happen.

So we just crossed 16 million members and we should get to 17 million by the end of this year or so, great growth in terms of members, in terms of gross billings and redemptions. Congonhas had a huge effect in terms of sign-ups, an 80% increase in terms of sign-ups.

John Peter Rodgerson – Azul's CEO

Go back, Abhi. You didn't say it. It's 6x larger than it was in 2016, 6x larger.

Abhi Manoj Shah – Azul's President

It's 6x larger. Congonhas has had a huge impact on our sign-ups. Again, it's all about relevance. Remember, the customer chooses. The customer chooses where they want to send their points. As the more relevant you are, the more options you give them. So, Congonhas has been a huge impact. And again, bringing customers into our universe and loyalty is the way to make that happen.

A credit card really has had an exceptional couple of years, actually. We believe it's the largest airline co-branded card in the country. And some amazing statistics, 70% of all new credit card signups are in the top two levels, which are Infinity or Platinum, high yield customers. On an accumulated basis, 55% of our credit card base is now Infinity or Platinum status.

And these are the customers that spend more, much more resilient in terms of macroeconomic scenario. You can see that average monthly spend for our credit card base, not on Azul, but in their daily lives is up 80% year-over-year. And it's this high yield demographics that's now part of our universe with the credit card that I think is another competitive advantage. It's a level of resiliency, robustness that we have.

And interesting stat, if you look at our credit card spend, it's equivalent to 0.5% the GDP of Brazil. So, our credit card customers on a yearly basis spend 0.5% of the GDP of Brazil. So, a very relevant and a very powerful and influential customer base, and the credit card is really bringing them into our universe.

Our loyalty program has a great set of partners, financial partners, retail partners, airline partners as well, and we've diversified the options for our account members. So normally, 95% of redemptions are on the airline. We have diversified that, and now we're down to about 80% of redemptions are on the airline. Other redemptions are for retail, whether it's Apple AirPods or gift cards or our travel partners.

And so we have a very unique offering when it comes to using points on other airline partners. Most loyalty companies have agreements, bilateral one by one. We do as well, United, Copa, TAP. But we also have an additional layer of availability where we actually will go out into the market, and with our corporate discounts and with our specially negotiated fares, we'll buy fares and convert them into points behind the scenes.

And that allows our customers to fly intra Europe, Asia-Pacific, Middle East with airlines that not necessarily are yet our frequent flyer partners. And so, we give really our customers the best of both worlds and a huge range of opportunities.

As we look ahead, obviously, our fuel-efficient fleet is going to be a big driver of loyalty growth. Strategic partners, whether it's other airlines, other banks, other retail partners, more relevance, our international growth, our domestic growth, and so we're very, very happy with the progress the loyalty program has made and huge opportunity ahead of us.

Azul Viagens is our vacations business, which is having an outstanding year, and this is something that, honestly, Azul struggled with for the first several years of our life. We were not very good at accessing leisure demand. We had Embraer E1s. We were great in the corporate market. We always overachieved in the corporate market, but because we didn't have A320neos, we didn't have the E2s, we didn't really have a network or the destinations that allowed us to access leisure demand.

Now, thanks to the fleet, the 50 Airbuses -- the 55 Airbuses that we have, and the E2s that are coming, we're now able to enter and access the leisure market. And as you can see here, this business is 12x larger. It was much smaller then, now really relevant this year. And again, it's because of our ability to access the leisure market with the fuel-efficient aircraft that we have.

We have a network of stores around the country that we will double this year to over 100 stores, stores that are dedicated Azul along with a network of travel agencies. But our secret sauce when it comes to our vacations business is the network that we provide. Again, similar to what I said about the Azul network, it's designed to be different, and this is no different. So we have routes, we have markets that only Azul flies, only Azul ever flew, that takes leisure customers to popular leisure, to beach destinations, to mountain destinations, from origins and cities that never before had any service.

In fact, this morning, my planning team told me that for the next summer season, our vacations business is responsible for 6% of the entire Azul network. And so, it's really growing the physical presence of the stores, the online presence, the connection with the loyalty program. And mostly the fuel efficient fleet allows us to have a route network, a dedicated network that increases utilization on weekends and allows us to offer a product that nobody offers.

So looking ahead, we see E2s, as I said, we have more than 80 potential new markets, many of them leisure that allow us to continue to access and grow this market. New products and services like the luxury segment, the eco-tourism segment, these are all segments that are still not explored that we're going to get into and further grow on the international side. So, huge opportunity on the vacation side.

And finally, our logistics business, Azul Cargo, had a great run, significantly higher than 2016, 8x obviously a huge run in the pandemic. Growth has leveled off, compared to last year's, mostly on the international side. You're seeing this in FedEx, on UPS, Amazon as well. But we are still the largest domestic air logistics provider in Brazil.

As John said, we're Amazon's only air logistics provider in Brazil. We have a network of 300 franchises of stores around the country, that allow us to access 5,000 zip codes, many of them within 48 hours. Our average shipping time is 2.4 days. That's anywhere in Brazil to anywhere in Brazil, from any remote origin to any remote destination. And so, we continue to see huge opportunity on the e-commerce side and other segments as well.

The flexible fleet is a huge part of this. 80% of what we carry in logistics is in the belly of the aircraft. That's where the margins are significantly higher, variable costs, variable margins. The aircraft is going anyway. But we also have a fleet of dedicated aircraft, 737s, E1s and the Cessna Caravans that allow us to extend our reach.

And finally, logistics in Brazil is e-commerce is still, it has low penetration in the market. You still have long delivery times. That's not in Sao Paulo, that's not in Rio, so we see huge growth ahead, great opportunity and we see growth sort of rebounding towards the end of this year and next year.

Our sub-regional, our baby airline, Azul Conecta, our Caravan operation, very efficient in terms of low cost, very, very low trip cost, allows us to access 79 destinations. None of them had air service and none of them without us would have air service. So, we're bringing new customers into our network, new demand, unexplored demand and we're doing it in a way that's very efficient on a trip cost basis, and as John said, lots of benefits in terms of fuel pricing, fuel tax initiatives. It really is a win-win. We grow service to the country, and we have some fuel incentives as well. So, we're very excited about how this is going, 27 Caravans and really exploring Brazil overall.

And finally, our TecOps, our MRO operation, we launched it this year. As you know, over the world, very limited MRO capability. Our people have done an amazing job supporting us over the last 15 years, being the most on-time airline, complex fleet, a different fleet. So, we have a huge range of expertise of technical abilities that we're excited to share with the outside world. So, we see this as a huge opportunity going forward. Alex?

Alexandre Wagner Malfitani – Azul's CFO

Thanks. So, hopefully, it's clear, that this is a much better business than it's ever been. But let's talk about some numbers. We're still one of the most profitable airlines in the Americas, right? So, all of that boils down to very high profitability, as it should, right? If we have this network exclusivity, if demand is this strong, if we're that efficient, if our chasm is going down, right, it should translate into higher profitability, and it absolutely does. And this is consistent.

If you go back to, all the way to the IPO, right, we've had EBITDA margins in the high 20s, low 30s, and always among the best in the Americas. Obviously, a big dip here in the pandemic. But look at what happened to EBITDA, since we created the airline, right? It's been a very consistent EBITDA expansion story. And we're kind of snapping back to the original story, right?

If you kind of extrapolate from where we were in 2019 and when we are today, we're kind of back on track, which is very exciting, right? That means the business is solid and, back in 2016, a lot of these were questions. Again, these are now facts, right? The questions have been answered. And another question I think that has been answered is the resilience of the business and the company and the management team, right? We've always said that, look, if there's a crisis, Azul's going to do better than our competitors. Now we have empirical evidence, right? In 2016, '17, '18, '19, these were theories. Now, these are facts. How did we handle this? Well, we've been through the biggest test that I think any airline could have been.

With essentially two years of revenue going away, right, the total impact of the pandemic was about BRL20 billion, and our annual revenue in 2019 was BRL11 billion. So this is almost, it's a year and a 2.5 years without revenue, no government funding compared to the U.S. or Europe. If we had gotten the financial aid that the U.S. carriers got, this would be equivalent to about $2 billion, right, BRL10 billion. Imagine if Azul had BRL10 billion more cash than what it has today, right? That's the equivalent support pro-rata that the U.S. carriers got, and we didn't get anything. But how did we deal with it, right?

Again, this is a question that has been answered. How is this management team going to act on behalf of the stakeholders in case of a crisis? And I think we've demonstrated that. We went through hell and high water to protect the equity. We did everything we could, and we were, if we were successful in protecting the debt.The Chapter 11 would have wiped out the equity.This is the path that other airlines that did not get government support chose to follow, and we did. Other airlines that didn't have government support and didn't file for Chapter 11 applied a haircut to their bondholders. We honored all of our debt and we're paying back a hundred cents on the dollar. We were very proud and we were very honored to get the support from our stakeholders throughout this process.

But I think, again, if you're talking about ESG, if you're talking about governance, this is a true business case, a true real world story of how this management team dealt with the biggest crisis that we could have gone. And we're very happy with where we are, right? And we've been through a tough six months where the market was nervous. They didn't know. They weren't sure if we were going to get the support from our stakeholders. But the outcome is a huge reduction in lease liability, right? We're very, very excited about this. A huge reduction in annual lease payments. Our annual lease payment now starts with a two. We're very excited about this, because what this means the way we did it was, again, honoring 100% of our commitments, and in a way that not only protected the equity, but completely eliminated any stock overhang that you could be worried about. Think about these numbers.

At the worst point, first, we're going to distribute, those of you that know, we swapped a lot of our pandemic debt, and also reduced our lease payments in exchange for a 2030 unsecured note and an equity instrument. This equity instrument is going to trickle in over 14 quarters from a year from now, it's going to start a year from now, and it's going to end at the end of 2027.

And at the worst point in time, it's going to be 6 million preferred shares for a stock -- 6 million preferred shares in a quarter, that are going to be given to lessors for a stock that trades 23 million shares a day. 6 million quarter shares a quarter for something that trades 23 million shares a day. It's nothing. It's a drop in the bucket. It's spread over 14 quarters stakeholder friendly, exactly to minimize dilution and eliminate the overhang.

And no debt repayments until the end of 2028. We don't have to worry about that. We are, obviously, the cost of capital is high, so, there is a high coupon payment, but we have a lot of options to pay, to buy back this debt. Essentially, every year in '26, '27, '28, we have a par call on one of our debt. So, we'll be able as interest rates come down, as the cost of capital comes down, we will be able to refinance sooner than these maturities. But until the end of 2028, we have no maturities to worry about. So, we've completely de-risked the debt profile of the company.

And what that does is, the market was worried about the gray bars here. Azul's going to have a BRL3 billion cash burn in 2023. We transformed that into break-even. And next year, which was going to be break-even, we're actually going to generate cash. So, this is something we're very excited about. And we're de-leveraging. Not only we're protecting the cash balance, but in the process, we are paying down debt.

And so we will have -- when we went public, again, in 2016, our leverage was 5.7x. And nobody worried about that. Everybody was excited. They knew we we're a growing airline. And it was natural to have high leverage, and that leverage would come down. It did come down. We brought it down to 3.3x by the end of 2019. Obviously, with the pandemic, it went back up. But by the end of this year, we'll be essentially at the same leverage as we were in 2019, and by the end of next year, we will be below that.So, there's not an issue with leverage either.

And all of you that learned or that looked at the equity instrument, right, that we're converting our leases into, it converts at BRL36 a share. The shares are trading below BRL15 a share, right? How did we get the lessors to agree to a BRL36 share price?

First, there's a floor and a cap, right, that we've talked about. But essentially, we're trying to make them whole, but trying to protect the dilution. So, if the stock appreciates beyond these numbers, there won't be any additional dilution, in fact, the dilution is going to come down. But that's what we need. Do the math of the restructured balance sheet. You get to BRL36, not with an 8x multiple, which is what we've had every year since before the pandemic, but just with essentially a 6x to 6.5x multiple, depending if you treat the convertible instrument as equity or you treat the convertible instrument as debt.

And this is something that I think is worth kind of checking the numbers on a little bit, because a little bit through our fault, right? When you look at our balance sheet, on our total debt, you will see the convertible instruments there. We have a convertible debenture that shows up as debt on our balance sheet. But when you look at our fully diluted share count, the number of shares is also there. So, if you just purely just take the debt number from our balance sheet and the fully diluted shares from our earnings release, you will double count, right?

So, we wanted to kind of give you these numbers, so that you can check your math to make sure, look, you can discuss on whether you should treat the convertible instruments as debt, or you should treat the convertible instruments as equity. But you have to pick. You can’t treat them as both. They will be one or the other. And so, if you want to treat it as equity, is the calculation on the left, our net debt at the end of Q2, which is roughly what the net debt is going to be at the end of this year, is about BRL17.7 billion.

And with the expected EBITDA that we guided to of BRL5.5 billion, you should use 495 million shares, which is the high number of shares, this is the number of shares after the convertible instruments have been issued, and you get to a price of BRL36 a share with a multiple of about

6.5x.

John Peter Rodgerson – Azul's CEO

Hey, Alex. If I could just highlight, that's based on 2023 EBITDA, right? And Alex walked through the vesting schedule and when it actually vests, why don't you go back to that, Alex? I think that's kind of important –

Alexandre Wagner Malfitani – Azul's CFO

Yes, look at the average life of that conversion. It's essentially second quarter of '26. That's the valuation moment in time that you're looking at, for the conversion of the equity instrument. It's second quarter of 2026.

So, arguably at the time you're going to be looking at 2026 EBITDA. We're doing this math with 2023 EBITDA. So, just look at how much sort of wiggle room we have here. Chances are in 2027, you're going to be saying we did a bad deal that BRL36 was too lower share price. That's probably what's going to happen.

But I think, this is kind of a good way to kind of check the math and make sure that we're all kind of talking the same thing and we're not accidentally misleading you by having you double count the convertibles.

So just to recall, there's going to be two convertible instruments, right? There's a convertible debenture that shows up on our balance sheet. That's something we issued in 2020. It's still there. The lessor equity structure, accounting requires us to treat it as that until it gets converted. So, it's going to show up as debt, right? You can treat it as debt, you can treat it as equity, but you can't treat it as both.

John Peter Rodgerson – Azul's CEO

And I would just encourage everybody. I'm going to say this at the end to update your model, sit down with us, talk to our IR team and kind of walk through these numbers. Make sure you have them because, 9x out of 10x, we've found double counting. When I don't want to point out which sell-side analysts did it right and which did it wrong, but 9x out –

Alexandre Wagner Malfitani – Azul's CFO

Obviously, everybody in this room did it right, right? We know that. And look, our multiple hovers between kind of high 7s, low 9s since we went public, right? Now we're at mid-4s. At some point, we're not going to, like John said, we're not going to snap back to eight right away, right? Cost of capital is up, risk aversion is up, our debt structure is different from what it was. That's all fine, but we're not going to stay at 4.5x. And so gradually, even with the margin expansion, naturally, we're very confident that we're going to get to something north of 4.5x. It doesn't make sense. And then at some point, we're going to get to 6x and 8x. That's the long-term upside. Look, we love long-term investors. We know this is a volatile industry. We're an airline in Brazil, right? We're every day, almost, we're either the stock that appreciated the most on the Bovespa or the least. So, it's volatile. So, you have to be a long-term investor.

But for those of you that are long-term investors, the upside here is just huge, and that what we're excited about, because there's the margin expansion and there is the multiple expansion. There are kind of two drivers of valuation. And look, we used to be BRL3.6 billion in EBITDA in 2019. In 2016, we BRL1.6 billion in EBITDA. We're BRL5.5 billion in EBITDA now, a much more valuable company.

And we're not even back to our pre-COVID enterprise value. Forget about the debt, we're not even back to our enterprise value. And why John showed you this, but I think it's worth highlighting. We've always traded at a premium to the industry, right? And this also eliminates the multiple argument.

Again, cost of capital went up, so multiples went down, fine. Why are we trading at a discount to the industry when the business is so much stronger than it has ever been? If the business was coming out of the pandemic with a problem, with haul, with some kind of legacy issue. Maybe we got smaller, maybe we have some huge legacy costs, maybe we have a new investor, right? No, there's none of that.

The business in every dimension is better than it used to be and we're now trading at a discount to the industry when we used to trade at a premium, right? So, this is just an invitation for you to take a look and update your models, talk to us, get updated, get up to speed again on Azul, because we think it's obviously a great opportunity.

And again, with a lot of the investment thesis in 2016 were thesis at the time, right, were beliefs at the time. Now they are facts. The thesis that LATAM and GOL are not going to encroach on our territory, that was a thesis, that was a belief in 2016. Now it's a fact. The idea that we could do a 6x on TudoAzul, the idea that we could do a 12x on vacations, that was not even a thesis at the time, right? And now it's a fact. The fleet transformation, all of these are assets that when you buy Azul now, you get, and you didn't get it in 2016 when you bought it before. And in 2016, we IPO'd at BRL21, or $20. And now we're trading at $9 a share, right? That's why we said it's 3x the EBITDA for half the price.

John Peter Rodgerson – Azul's CEO

Thanks, Alex. And just before we open it up to Q&A, obviously very thankful for the team and everything that they've done to pull this all together. But think about this for a second. The last three years, our efforts were saving the airline for our stakeholders. For our debt holders, our equity holders, for our crew members. That's where we were focused. And so, especially Alex and myself, the last six months, this was 24x7 to do.

Now we get to go run this great business. Now we go get to, it's a lot of people saying, well, you're at 5,5 today. What's it going to be next year? It's going to grow. It's obviously going to grow. Why wouldn't it grow? Now that we have our CFO, who used to run TudoAzul dedicated back to the business day to day, he's no longer focused on day to day cash management, renegotiating with lessors --

Alexandre Wagner Malfitani – Azul's CFO

In a month. For the next month, then you'll be on the road. But after that…

John Peter Rodgerson – Azul's CEO

And quite honestly, we have not been in front of our equity investors as much as we should be, right? Because we hadn't finished fixing the balance sheet. And now that that's done, we'll have the opportunity to be on the road a lot more often. We'll be in front of investors. And that's why I said, dust your model off. Many of you that bought the company back in 2016 or 2017 made a lot of money on the IPO. The unbelievable difference today than we had when we went public is the volume on the stock is significantly higher than it was in 2017. I would argue it's 10x higher. And so, no, this is not a re-IPO that we're doing a primary or a secondary offering, right? So you're going to have to buy the stock in the market. But the volume on the stock today is 10x what it was back in 2017, 2018, 2019. So you can accumulate a position relatively quickly because we trade so much on a daily basis.

But with that, we want to turn it over to questions. Thais will also be getting inbound questions from those of you that are online. And so, we're here at your disposal for any questions that you may have.

Questions And Answers

Pablo Monsivais – Barclays

Perfect. Thank you very much. This is Pablo Monsivais from Barclays. I have two quick questions. The first one is, considering the increase in jet fuel that we have seen over the last few days, how confident are you in your ability to translate this into higher fares, thinking that we're already in a very high level, and how do you think also the competition will behave? That's the first one.

And the second one is more structural, and I was wondering why do you think that such under penetration in trips per capita in Brazil still exists, since you have been offering new services into these remote places? Is there any structural reason why Brazilians are traveling less, or perhaps it will never be as comparable as Colombia, or as Mexico, or as Chile? Why do you think there's like these burdens to see a higher penetration? Thank you.

Abhi Manoj Shah – Azul's President

Yes, so I think the industry is going to do everything it can, and I think this graph already shows that it is. If you look at capacity in the market, the capacity is coming out. Overall, the market's going to grow 5% versus 2019, which is very small, over four years. The industry is taking fares. Demand, of course, is supporting that. So I think the industry is very disciplined.

Now, it takes time, right, because you have a booking curve and great bookings will lead to great flown revenue, but you have a booking curve and you have to work through the booking curve. So you do have the effect of time. But I'm very confident the industry, you know, industry we're all facing the same challenges, right? Whether it's fuel, interest rates, and I think everybody is very results-oriented. If you look at LATAM post-restructuring, the investors that came in and what they're after is results, right?

When you look at gold now with Abra, us, we've always been rational. So I think the industry is very disciplined. And the fares that we are today, I didn't think we'd be there six months ago.

John Peter Rodgerson – Azul's CEO

Or did any sell-side analyst to be clear.

Abhi Manoj Shah – Azul's President

And so, we are there now and the market is absorbing and the market is taking it. So, there is no artificial limit I think the industry is going to do what it takes and it takes a little bit of time. And in terms of penetration, I think it was just a matter of not having service. Like I said, Sao Paulo to Rio, never needed more service.

Alexandre Wagner Malfitani – Azul's CFO

Yes, it's 0.5% today. But when we started a zoo, it was 0.3%. So we did transform it from 0.3% to 0.5%. So, it is possible to take it to 0.8%. I'd love to take it to 2.6%, which is the U.S., but probably not in our lifetime. But just going from 0.3% from 0.5% to 0.8%, you're going to need three Azul's, instead of the one we have today.

John Peter Rodgerson – Azul's CEO

Yes, I mean if I can just kind of highlight something, jet fuel in Brazil, is the most expensive in the world. And that's, it's significantly more expensive than it is in Colombia and Mexico. And that's something the Government's looking at, right? And so, it's not in our forecast, but it's something that the Government is certainly looking at. But if you go back and look at, what Azul has done and the network that Abhi built, he's connected a hundred cities in Brazil, that have never been connected before, 100 cities. So, that's what took it from 0.3% to 0.5%.

Abhi is not known for having low fares, okay? So, we grew the Brazilian, market through connectivity and not through fares, okay? That's a big distinction. But as you go forward and you look at the E2s, coming into the network, they have a 26% lower seat cost. So, we actually have the ability to grow the market over the next five years with lower seat cost aircraft. So, he could technically lower the fare, and bring more travelers into the pool.

So, again, we connected Brazil, and grew the market, but you also could stimulate it if the Government goes after fuel prices in Brazil, and you have a lower seat cost aircraft that we have coming on very strong over the next couple of years.

Pablo Monsivais – Barclays

Do you think that would be the second part, getting to the 0.8 to lower fares?

John Peter Rodgerson – Azul's CEO

It's going to be one of the drivers, right? So, I think that -- so the question is, is that what's going to take it, right? It's a lot. We're working at every possible driver, right? We're very aligned in trying to stimulate more demand. But it's a combination of lower costs, for sure, a lower tax base, which the Government has already showed that they are aligned, because they eliminated the revenue tax in the aviation industry until the end of 2026.

So, I think there's interest from the Government, there's interest from us, I think there's economics that are going to help, there are the 200 cities, we're at 160 today, we're going to go to 200, those incremental 40 are also going to help. So everything's going to help. And we're only talking about 2023 EBITDA, none of that is in the 2023 EBITDA.

Stephen Trent – Citi

Good afternoon, everybody, and thanks for the time. It's Steve Trent from Citi. One or two for me. First, I was curious if you could maybe highlight if there have been some structural adjustments in demand in Brazil, since the occurrence of the pandemic, whether that's a little less corporate and local shuttle and how many of you adopted to that? And the second, if you could sort of, on a high level, address your pipeline for pilots and mechanics. Thank you.

Abhi Manoj Shah – Azul's President

Thanks, Steve. In terms of demand, like I said, corporate volumes have come back to 100%. This is the first month that it happened. We are seeing a little bit of a change. Now, Brazil was one of the first to come back to the office. It is more of a presential market and culturally in the way we do business, the geography as well. And so we're seeing a little bit, for example, where the party size per trip has increased a little bit. So, more people are going on the trip together.

We're seeing a little bit of an increase in the length of stay. So, people are staying an extra day, especially over weekends if they take somebody. But, Fridays continues to be the strongest day. Monday continues to be the second strongest day. Sunday is the third strongest day. So, the day of week patterns are pretty intact.

What's really been amazing is how quickly leisure came back and we thought -- everybody thought it was pent up demand, but it wasn't. It came back and it stayed, right? And now corporate has just come back to a 100% volumes and we expect it to stay as well. So some structural changes, but overall Brazil has benefited from geography, and sort of the culture in the market of coming back in person much quicker than anywhere else.

John Peter Rodgerson – Azul's CEO

Steve, Brazil's got its own problems and pilot pipeline is not one of them. So that's a problem for the subsidized U.S. carriers that got bailed out by the government, okay. So we have Azul Conecta, which is our subsidy that's growing pilots for us. We have a huge pipeline in the country and pilots want to work for an airline that's growing, and this year we're going to promote over a 100 of our pilots to be captains and with the lowest upgrade time in Brazil.

And so I think we continue to grow, and that's just not one of our concerns. Mechanics is a little bit more of a concern in Brazil, right? And so we've partnered with several schools to produce more mechanics. Believe it or not, you could produce a pilot a lot faster in Brazil than you could produce a mechanic. And so that is a bit of an issue, but we've partnered with several schools in Campinas and Minas Gerais, and so I think we have a pretty good pipeline and our HR team is working very closely with them.

Stephen Trent – Citi

Thank you.

Daniel McKenzie – Seaport Global

Hey, good afternoon, thanks guys. Dan McKenzie from Seaport Global. A question on the balance sheet. I think you guys hit the nail on the head with respect to the concern about the valuation multiple. So for those investors that want to take a two to three year investment horizon, want to look at that, they have to square the corners on that balance sheet.

So I'm wondering if you could just kind of help us lay out the road -- the balance sheet roadmap for the next say three years from now. What does the business look like? What does the gross debt look like? What does leverage look like? It looks like you've got a path to 3x. If you convert that debt, you get down to 2% what does interest expense look like? If you can just kind of help us understand what that picture looks like three years from now.

Alexandre Wagner Malfitani – Azul's CFO

Yes, the balance sheet is not that complicated. Most of our debt is aircraft leases, right? And I think that's where most of the work should be. Obviously, whichever methodology you use to account for operational leases, we're a much better airline today than we were during COVID. Because we've had a huge reduction in the lease payments, which became other items on the balance sheet, which are easier for you to look at, especially the 2030 note.

But one question is, what is the lease liability? You'll see what the numbers are, and go to that spreadsheet, John, with 17.7 billion. So we're already kind of telling you what the pro forma number for the debt in Q2 was, and it's very similar to what it will be at the end of Q4. And that takes care of the operating leases, takes care of the capital markets debt that we've issued, it takes care of the 2030 note, everything's in there, we can kind of tell you, kind of, help you kind of see the components of that if you're not getting to the 17.7 billion.

But the materials that we've provided on a pro forma basis since we've finalized and throughout the whole negotiation with lessors should help you get there. So that's it. The balance sheet is operating leases. It's the 2028 note that we just issued, the '29 and '30 notes that are the exchange notes, right, they were '24s and '26s, became '29s and '30s, and then the 2030 lessor note, which is an unsecured 7.5% coupon note. That's essentially all of our debt.

The capital markets debt, the 2030 lessor note, those are all kind of very easy to calculate, it's essentially the principle. Those numbers are all out there.

And then on the lease liability, it's really the question. So talking about the lease liability, our balance sheet follows IFRS 16. I don't know if there are any IFRS 16 fans here. I'm certainly not one of them. I think it was a problem that didn't exist, and they created a solution that ended up creating 18 other problems, right? But 7x, is wrong. And we can go into why 7x, is wrong, but, it's very clear that 7x is wrong.

One of the reasons why taking our rent and multiplying by 7 is wrong is most of the criticism that we get on IFRS 16, is that our discount rate is too high. IFRS 16, requires us to use the incremental cost of borrow at the time that you're calculating the present value of the lease liabilities. So, we had no choice then to use essentially 20%, which is what we're using. But if you use something like 10%, which I don't think anybody would say is an excessively high discount rate, right, because our secured debt is trading around 12%. But if you discounted our lease liabilities using a 10% discount rate, you get to a 5x on rent.

So, if you take our annual rent and you multiply it by 5, that's equivalent to calculating the present value of our lease liabilities with a 10% discount rate. So, probably the right multiplier for Azul, is something like 4.5%, right? Why isn't it 7x, if it's 7x for the northern hemisphere carriers. Because if I borrow, if I do a capital lease on an aircraft and AAA airline does the same thing, we're going to have the same debt, right? Let's say we both do a finance lease on an A320neo, and it's, I don't know, $50 million.

We're both going to have a principal of $50 million, Azul, and the AAA airline are both going to have $50 million on their balance sheet. But my rent is higher than the AAA airline, right? I'm not going to pay the same rent as the AAA airline. So, you can't apply the same multiple to my rent to get to the same number, right? So, there are many reasons why 7x, is the wrong number to use for Azul. We have the balance sheet, you can use 5x, and that's one of the conversations that we want to have over the next month. And that's why we ask you to kind of update your model, call us, let's discuss it and figure it out. But certainly, 7x is not the right number, but everything else I think is pretty straightforward.

Daniel McKenzie – Seaport Global

And if I may just ask a second question, one more. Abhi, on the 80 new routes, what kind of growth -- if you can just help us understand how you're thinking about growth over the next three years? What's a sustainable growth rate? How long would it take you to get to these 80 markets?

Abhi Manoj Shah – Azul's President

Yes, Dan, I mean, I think domestically around 8% to 10%. There's a lot of slop in that number because of deliveries, right? So, we have 17 E2s now, we should be at 20 by the end of the year. By the end of next year, it could be 28 or 34. We don't know, dnd so that kind of makes it a little bit difficult. But I would say that something somewhere around 8% to 10% domestically is kind of what we're looking at.

John Peter Rodgerson – Azul's CEO

Mainly coming from the upguaging, right. I mean, because every E2 has 18 more seats and will fly a higher utilization per day than the E1s, right. And so, it's the right thing to do. And that's a big driver for margin expansion into '24 into '25 into '26. Because that's what the E2s is the next phase of margin expansion going forward.

Daniel McKenzie – Seaport Global

Okay. Thanks.

Michael Linenberg – Deutsche Bank

Hey, good afternoon. Mike Linenberg, Deutsche Bank. Great to see you guys. Congrats on the restructuring. Just a couple questions here. I want to go to your utilization. I think it was on one of the charts 9.4 hours this year, and I think the goal is what 11.4. Is that next year? And so the question is, that's a pretty sizable jump. I'd like to know, what are sort of the key gating issues? It seems like pilots are not an issue, John. You mentioned mechanics.

But, again, that's pretty sizable, and again that's sort of within the context of maintaining a balance on your revenue performance, right? You push too much into the system. You undermine your ability to generate high-quality revenue. So, can you talk about the puts and takes? Because that's a big number, and it seemed like that type of utilization improvement would be what you would see over maybe a three, four, five year period. Why one year?

Abhi Manoj Shah – Azul's President

Yes. A couple of things also. The base this year is also deflated, right? One of the reasons was, as we were coming off the huge run in fuel end of last year, early this year, we had to artificially bring down utilization. And so one thing is as, I can't say fuel is low because it's not, but it's lower than what we had around this time of last year. And so that allows us to have a little bit more opportunity. So, one was this year is artificially deflated. We had to bring it down because of the way fuel was behaving.

E2s, for sure, right, so one gating issue absolutely is the delivery of the E2s, and how quickly we can get them and how Embraer is able to produce them. Obviously, we're working very closely with them. So we'll see how that goes. There'll be some slop in that number, but having the E2s earlier, more of them is going to allow us to bring that up. Third, a little bit, Mike, is philosophy of the network. So, I'll give you an example. At our main hub in Campinas, we have about four big banks, connecting banks.

Starting in November now, we're going to de-peak our hub in Campinas, and spread it out throughout the day. So, that allows us to do a lot more back and forths. Right now, the aircraft waits for other aircraft and that increases ground times. And so we had something like 35%, 40% of our aircraft had ground times larger than the operationally minimum connect ground time. Not because they were just doing nothing, but they were waiting for other aircraft to arrive in the bank. And because the bank was so big, you have to wait longer. And so the first aircraft that arrives is waiting more time.

So, we've de-peaked a lot of our Campinas hub. We've brought all the ground times much closer to the minimum ground time. And so that allows us to do a lot more back and forths. The aircraft is on the ground time less. So, a different philosophy a little bit on the network side as well to kind of enable the higher utilization. We're confident that that's going to produce good revenue as well.

So, I would say this year is artificially low. E2 is next year. And we are taking a little bit of a different philosophy in kind of network structure, especially in our big banks, de-peaking them a little bit, having more back and forths, aircraft weights on the ground less that allows us to be in the air more. So, that's kind of three things to help us get there.

John Peter Rodgerson – Azul's CEO

Hey, Abhi, if I could just add two things to it. There's a constant tension between Abhi and Alex, and do we need to be the most on-time airline in the world, right? I think, it's a good thing that most of my crew members only speak Portuguese, because as we kind of push the operation a little bit, maybe we sacrifice a little bit of on-time, but we get the utilization up.

But the other thing that Abhi kind of highlighted is the packaging business, the vacations business, is really that off-peak utilization flying that we really need to do. And a lot of those cities don't make sense with E1s, but do make sense with E2s, right? And so that's a big difference. And so, flying the E2, on Saturdays and Sundays, and there are longer stage length routes to the northeast of Brazil, I think that also takes it. So, it's kind of, let's push the operation now to see what we're capable of doing, kind of reducing our ground time a bit, and then let's make sure that we ramp up utilization on the weekends with our vacations business.

Michael Linenberg – Deutsche Bank

Okay, great. And then just the second question, sort of competitive questions. Can you just remind us with Congonhas, is there not another phase where there's maybe additional slots? And then just touch on the competition, because if we go back to 2019, 2020, even in the midst of COVID, JetSMART was going to take over the world. I think they were seeking a local license to operate domestically within Brazil. We had the Viva Group expanding. I mean, there were a lot of low fare carriers. They were going to eat your lunch. What's happened? Maybe they couldn't keep up with inflation. Just run us through the competitive dynamic.

Abhi Manoj Shah – Azul's President

So, Congonhas, I would say the vast majority of the slots have been distributed. There could be another couple of rounds, but it's going to be very minimal in terms of the actual slot expansion. The big jump in airport operations has pretty much happened. So -- and that together with the ex-Avianca Brasil slots, that was the big bulk of slots that got redistributed. So, next two seasons, we could have a little bit of slot, but it's going to be a couple operations an hour at most.

In terms of competition, I can start, John, can add. But we haven't seen in Brazil any movement, of course. You do have low-cost guys, JetSMART, flying to Chile, flying to Argentina, Flybondi as well, but I personally don't see anything domestically changing in the short to medium term.

John Peter Rodgerson – Azul's CEO

It's interesting. I remember talking to the guy from the region and he said, I will never fly to Brazil ever again. It's -- Brazil's a tough place to do business. We've highlighted on several occasions, we have 3% of the world's flights, 90% of the world's lawsuits, right.

And so, you take an airline that's this ultra low cost carrier says that they're going to come into Brazil and they're going to get sued, right? And the litigious nature of Brazil today without a cap on customer lawsuits and so a lot of we run the best airline in the world, fewest complaints and we still get sued, significantly in Brazil.

And so that's a barrier to entry today, Mike. And so I think if they opened up Brazil back in 2018 for foreign ownership and no one has come, but I think what's important to us, we have to have the lowest chasm in the country, right? And we do today, we have to have the most fuel efficient fleet in the country which we do today, and we have to have the most defensible network, right? And so that's kind of how we do it. To sit here and say they're never going to come, I think that'd be a foolish statement to make.

But there are significant barriers to entry as to why they're not in Brazil today, right? And I think you have -- you talk about competition; everybody wants to talk about the ULCCs. I think you have a really good dynamic between GOL, Azul, and LATAM today. All three airlines want to make money. All three airlines have a higher cost of capital today. Two of the three airlines are trying to go public in the next 12 months if you think about that. And I'm doing my re-IPO today, okay? So, everybody wants to focus on making money.

And I think you're seeing that in terms of how we've gotten fares up to where they need to be given the new fuel prices. And so, I think everybody kind of needs to get back to margin expansion and multiple expansion. And so, I think the ULCCs for now, I think, are just a sideshow.

Alexandre Wagner Malfitani – Azul's CFO

Yes, I remember we were driving in from Connecticut to New York in 2008 for our first Board meeting, when we were new, we didn't even have a name or an aircraft and Branson said he was starting an airline in Brazil, a domestic airline. This is 2008, right, it's 2023. Obviously, that never happened. I joke because why didn't it happen? I think it's because their financial planning and analysis team actually kind of scrubbed their financial model and said, what is really the competitive advantage that a ULCC can bring to the country.

As I think Abhi said, we've already unbundled in Brazil, right? The ULCCs kind of had a freeway, to kind of grow in other markets because they had legacy carriers that didn't want to unbundle. And you could say, look, I'm going to offer you a very low fare that doesn't have bags, doesn't have seat assignment, doesn't have mileage, whatever, while the legacy carriers didn't want to unbundle. So there was a possibility that that somebody was selling a full fare for $300 and somebody else was offering something for $49. That doesn't exist in Brazil because the unbundling has already happened.

And when you go line item by line item, right, our biggest cost is fuel. A ULCC would pay more per liter, per gallon of jet fuel than we pay, because we have special regimes because we fly to 200 destinations. We pay less fuel tax than somebody that just wants to fly a high-density A320neo from Sao Paulo to Brasilia. They would pay full tax on fuel and we don't. That's fuel.
Labor, everybody's going to have the same. You have to hire in Brazil. You're going to have limitations on productivity. An American pilot can fly, I think, 1,000 hours a year. A Brazilian can only fly 850 hours. That's for us, that's for JetSMART, that's for whoever comes in, right. And you go down every other line item.

Are they going to spend less on maintenance? No, because most of their maintenance is probably going to be done outside of Brazil. Are they going to pay less on ground handling? No, because it's a volume game. And you have to hire locally. Are they going to pay less on airport fees? No, you don't have the dynamic in Brazil of a remote airport having lower cost to operate than the downtown airport. That doesn't exist in Brazil.

I think the only thing they could do is densify their aircraft. I think we all one way or another have some kind of economy premium type of products in our fleet. But we do it because it makes money. The real estate that we give up is more than offset by the incremental revenue that we make. So we don't see, obviously, we're not saying that we ignore the risk, right. We're paranoid about it. But we don't see where the competitive advantage of ULCC would happen in Brazil, specifically because of all of these reasons.

Michael Linenberg – Deutsche Bank

Hi, can you talk about your decision of buy versus lease aircraft going forward?

John Peter Rodgerson – Azul's CEO

Sure. So, we started the airline essentially leasing. Because when the big advantage of an operating lease versus a finance lease is you get to finance 100% of the aircraft purchase price. So, it's essentially, like when you're buying a house where normally the big sort of barrier for you to buy a house is the equity down payment, right? So, when you start off as a young airline, you normally favor operating leases. And as you mature and you start generating cash, you move the needle a little bit more towards the finance lease.

Pre-COVID, we were about one-third finance leases and two-thirds operating leases, because we were already generating cash. So, we were trying to kind of hit that sweet spot, that mix of finance leases versus operating leases. That provides a lot of operational flexibility, because if you have to reduce capacity, having a portion of your fleet that is under finance leases is something that's very helpful, it's something that's very valuable because it's very easy for you to sell an aircraft, pay down the debt and get rid of the capacity. It's very hard for you to get rid of an operating lease.

So, having a mix of operating leases and finance leases gives you some of that flexibility. During the 2015 recession in Brazil and then during COVID, we sold a lot of our finance leased aircraft. And so today we're at maybe 85% operating lease and 15% finance lease.

And one of the things that we want to do as we start generating cash again, as the cost of capital comes down is to favor a little bit more of finance leases, but that's a decision we can make on almost delivery by delivery basis, right?

We can see an aircraft that's coming and then we can decide, okay, what's the best source of financing? We can look at the cost of capital of the operating lease. We can look at the cost of capital of the finance lease, see the difference and see if the optionality is worth it. Over time, I think we'll gradually grow that mix back to two-thirds, one-third, but that's going to take a few years to get there.

Gabriel Rezende – Itaú

Looking in the long term, what do you think about the structure of things that could happen in favor of the airline sector in Brazil? For example, higher exposure to foreign customers that are less sensitive to FX rates or more BRL funding at fair costs coming from local institutions.

John Peter Rodgerson – Azul's CEO

Yes, I'll take that. I think many of you may have seen the press about there's this program in Brazil to kind of make -- popularize flying. I don't know if that's a word in English, but -- and we've opened up communication with the Brazilian Government, and we've opened up communication on jet fuel prices, on litigation expenses in Brazil, and the cost of capital, right? And so if you think about it, BNDES, which is a Development Bank for Brazil today is financing engines for Southwest Airlines, Alaska Airlines. It seems crazy, but had not provided capital to the Brazilian carriers in the last five years. Doesn't make sense, right?

And so the Government regime change I think has been very positive, because today in Brazil, for example, it's import price parity. So, what Petrobras does is says, what's your next best option, John? You have to go to the U.S. Gulf Coast, drag the fuel all the way down to Brazil, import will go -- ends up being 30% more expensive. But the new Government is talking about, what about export price parity? What if Brazil and Petrobras sold to Colombia, Chile, Mexico, and others? They certainly couldn't sell it for 30% more expensive than what they have today, right? They'd have to get it down to be what the pricing is.

So I think there's some structural changes in Brazil, that are on the horizon. And I think President Lula, he thinks and rightfully so, during his first mandate, a lot more people started traveling. That was the beginning of Azul, when it was 0.3% and we took it to 0.5%. And he wants to see more people traveling, and he wants to see more unique travelers in Brazil. And so he's asked the question, and he's been very vocal about it. He's sent tweets about it. He wants more people traveling in the country. And so as airlines, we're going through what are those structural changes that need to happen? Number one is fuel price in Brazil. Number two is litigation in Brazil. Number three is cost of capital in Brazil today.

The U.S. carriers today get capital in the U.S. market. The Brazilian banks do not lend to Brazilian airlines today. They don't do it, nor does the Brazilian Development Bank. But I think driving incentives so that happens, we do so much good for the country. And so you can't not help the airlines during COVID, and then also be disadvantaged on the backside of it. And I think, as Alex said, we got a fuel tax reduction or a revenue reduction on PIS/. But I think there's a lot more work to be done to make the market a lot more competitive overall, and it starts with fuel prices.

Victor Mizusaki – Bradesco

I have some questions as well. So the first one is how do you see the airline consolidation trend in Latin America? Do you want to answer this one and then I go to the next one?

John Peter Rodgerson – Azul's CEO

We tried. No, but I think pure consolidation, full M&A, I think is probably off the table. But like I would not discredit cooperation, agreements, co-chairs, joint ventures. I think, again, if you have an airline industry that's focused on making money and reducing cost to the consumer, I think there's always opportunity in that front. But in terms of full M&A, I don't see anything on the horizon. I don't know, Abhi, Alex, what your thoughts are.

Victor Mizusaki – Bradesco

And do you think that makes sense to spin off or IPO the subsidiaries?

John Peter Rodgerson – Azul's CEO

No, I think it used to be fashionable. And now the pendulum has swung the other way. We always wanted to have the optionality, but we always knew it was an expensive source of capital. Because in Brazil, when you spin off a subsidiary, if you have NOLs on the original company and you don't have NOLs on the new company, you don't get to consolidate, right. So normally what happens is if you keep the subsidiary in-house and you have NOLs, you're going to pay anywhere between 24% corporate tax, all the way down to 0% corporate tax.

But if you spin it off and you have no NOLs in the new co, you're going to pay 34% corporate tax. No questions asked. So normally, there's a huge -- plus you have the synergies. You have misalignment of incentives. You have noise. And so when we thought of -- when it was fashionable to spin off loyalty programs, we looked at it. We did the math on the cost of capital. We saw that we have cheaper capital elsewhere. So we never did it. And then the other guys saw the same thing and unwound the spinoffs that they had done. I mean, never say never. So we always have to do the math. If for some reason it does make sense, we'll look at it. But today, I think when you look at the economics, there's no reason to do it.

Victor Mizusaki – Bradesco

123 Miles filed for Chapter 11. Do you see any change in airlines and tourism environment because of that?

Abhi Manoj Shah – Azul's President

Yeah. So just for those who don't know, there was a travel agency in Brazil called 123 Miles that filed for Chapter 11. They never bought directly from any of the airlines, so there's no exposure to the airlines. They bought via travel agencies. So there is some exposure there.

They got into trouble because they were selling tickets that didn't exist. I know it sounds a little bit crazy, but they would basically sell a ticket to Dubai in 2025 for price x, and then they would hope that until then, they'd be able to buy that ticket cheaper than what they sold it for. So it didn't happen. Air prices have gone up, and so that started the downward spiral to their bankruptcy. But overall, I generally see a more healthier industry.

Victor Mizusaki – Bradesco

Thanks, Abhi. The next one is, do you think that Galeao Airport can become a relevant hub like Viracopos, Guarulhos, or Confins?

Abhi Manoj Shah – Azul's President

Yes, another interesting discussion regarding Rio. You know I think that the challenge in Rio has never been sort of connectivity. It's demand, right. Rio is a beautiful city. It's a little bit like it inbound a lot of demand but doesn't generate a lot of traffic. So its geographical location also doesn't make it that suited for a hub. So, I think it's going to be an important market, a relevant market, but I don't see it taking the scale of some of the other hubs.

Alberto Valério – UBS

How long do you think will last this competition dynamics? It has been tough in the past, but at the moment looks very healthy.

John Peter Rodgerson – Azul's CEO

I think as we talk about competition dynamics, what messes up competition, right? Somebody going after market share, growing too quickly, or somebody trying to kill somebody else, right? And so, first of all, the OEMs, if I said I want 20 aircraft in the next two years, they don't exist. Alex kind of stated that. Not even the leasing companies have aircraft to bring to the market.

So I think it's going to keep discipline in terms of capacity for the next couple of years. And Abhi kind of highlighted where we're flying our hubs, where our competitors are in those same hubs. And likewise, too, right? Like for example, Guarulhos today, Abhi is half of what he was in 2019, because Abhi is focusing on where we're strong and they're focusing on where they're strong. So, I think there's really good dynamics in the market.

And again, I want to highlight, GOL is not going anywhere, LATAM is not going anywhere, Azul is not going anywhere. And every single airline has a higher cost of capital, they've levered themselves up with more expensive debt, and there's IPOs on the horizon. So I think if you take a look at the shareholding structure of the Abra Group, the shareholding structure with Sixth Street and SVP inside of LATAM, they're capitalists, they need to make money and that's what they're focused on.

So I think the competitive dynamics in Brazil have never been better. And I think the facts are in the results that you're seeing, right? And I think that that's something that not a single person, not even us here on stage, thought that we'd have fares where they are today in Brazil. Nobody thought they would, but that's where we're at today. And I think that it's a much healthier environment, and I think everybody's comfortable with where we are today. And again, fuel prices go up, fuel prices go down, and fuel prices went up, and Abhi showed you what happened to fares when fuel prices went up. And that's what should happen.

Guilherme Mendes – JP Morgan

How should we think about non-PAX business in 2 or 3 years in terms of revenues contribution TudoAzul, Azul Viagens, credit card and others?

Abhi Manoj Shah – Azul's President

Yes, definitely going to grow faster than the airline itself, so the percentage is going to increase. I'm very optimistic about the loyalty program and the credit card especially, and the quality of customers and account holders that we're bringing in. Cargo's had a tough year, admittedly, worldwide it's been worldwide, it's been a tough year. We are growing in Brazil about 8% to 10%, but internationally it's been tough. That's going to rebound next year. And vacations has a lot of room forward. So, it's going to grow double the rate of what Azul is going to grow.

Guilherme Mendes – JP Morgan

Thank you, Abhi. And how has been the ability to pass through prices following the recent oil spike? Do you sense that competitors had a similar approach? And how should we think about the hedging strategy going forward?

Abhi Manoj Shah – Azul's President

Yes, talk about competitors and fares. I think everybody has a very similar approach. And again, we are entering the best season in Brazil. It's spring, summer. So, we have good seasonality and good demand behind us right now.

John Peter Rodgerson – Azul's CEO

And I think there's a clear contrast to what you're seeing in the United States, right? And so you're seeing softness in the United States, but you're seeing strength in Brazil. Abhi showed that we have record average fares, and our best bookings ever were the last couple of weeks, going into the strongest part of the year.

Alexandre Wagner Malfitani – Azul's CFO

Hedging is insurance. So, we expect to lose money on insurance. We expect a little bit. You lose that premium, to get that protection, and we expect to lose a little bit of money over time on hedges, right? I don't think anybody buys Azul, because you think that the three of us know, what the direction of energy prices in the world is going to be better than the overall market, right?

So it should be insurance, and as insurance, you should try to price it competitively. And if it's cheap, you should buy more of it. If it's expensive, you should buy less of it. I think today when you look at the industry overall, everybody is essentially under hedged, compared to historical levels. That's certainly the case in Brazil, we're all kind of in the maybe the teens.

And I think that's what makes sense given the cost of capital, the cost of credit limits, and really, I think the best hedge that we have is the fact that we're price makers on 81% of our routes, or maybe 91% of our routes, right? We determine the fares on those markets and they need to be profitable. And if fuel prices are high, we're going to set fares at a level where we can make money. And if fuel prices are low, maybe we can fly a little bit more and set prices according. So, I think a robust network where you have the ability to price optimally is the best hedge that you can have.

Lucas Marquiori – BTG

I want to understand more about our international strategy, especially regarding overlap with LATAM.

Abhi Manoj Shah – Azul's President

Yes, again, like I said, we actually have no airport to airport competition. Obviously, they fly to as well Paris as well and Lisbon, but from a different airport to a different airport in terms of Paris and Miami, as well. So, different partners, different types of service options. But again, for us, it's where we are strong to where our partners are strong. No airport to airport competition. So, I think you'll just see more of 'the same. And continuing the philosophy we have domestically, internationally.

John Peter Rodgerson – Azul's CEO

And keep in mind, there's 100 cities that Abhi connects internationally that are not served by any other airline in Brazil, right? And so if you're in one of those 100 cities and you want to go to Paris, or you want to go to Fort Lauderdale, or you want to go to Chicago, or anywhere, the only way to get there is via Azul.

Lucas Marquiori – BTG

Thank you, guys. Any additional comments regarding the tax reform and the Brazilian economy going forward?

John Peter Rodgerson – Azul's CEO

Yes, so I think many of you locally may have seen, but there's a new tax reform going on in Brazil. We were pretty excited because regional aviation was included in that. That was something that we worked really hard on. I think we've partnered now with the other airlines to get general, all aviation included.

And I think the importance of the industry. So, we're very optimistic as an industry that all aviation will be included. And maybe there'll be some special benefits to regional aviation. But I think we feel very good about where we're at.

Again, I said at the beginning, but GDP has been revised up to be 3x, what they thought it was going to be at the beginning of this year. So, demand is strong in Brazil today. The economy is moving. And so, I think we're pretty optimistic as to where the Brazilian market is relative to where we thought it was going to be, right? And, so I still think it's growing a lot slower than most people would like it to grow. But relative to where it was supposed to grow this year, it's significantly better.

Rogerio Araujo – Bank of America

Could you provide a best guess for 2024, EBITDA range? How much capacity growth versus 2023 assuming fleet upgauging and higher aircraft utilization? And what about yield variation?

John Peter Rodgerson – Azul's CEO

Why don't you take that, Abhi, to start, and then I'll let Alex.

Abhi Manoj Shah – Azul's President

Yes. Capacity growth is going to be about 8% to 10% yields, I expect it to be pretty similar to what we're seeing this year. Remember, our capacity growth is upgauging. It's in our markets. It's not in competitive markets. And so I think what we've been seeing all along, the unit revenues we are seeing now are pretty constant since Q3 of last year, and I think they'll be pretty steady through next year as well.

Alexandre Wagner Malfitani – Azul's CFO

Yes. On EBITDA we don't have formal guidance on 2024, yet but I think -- we know what consensus is, we think consensus, right. We think consensus as it's natural, it's a little bit more conservative than what we think is achievable. But I think everybody knows the direction. And that's why we're excited about the valuation and equity instruments that there is a significant CAGR on EBITDA, going forward.

We had significant CAGR on EBITDA when we went public, that's why normally you see a higher multiple in Latin American carriers and we still have a significant CAGR of one EBITDA, so '24 EBITDA will certainly be higher than '23 EBITDA and '25 EBITDA will be higher than '24. And I think that's what we see in all of your models as well because of all of the upside.

So think about why is '24 EBITDA going to be higher than '23? We don't even have a full year of Congonhas in 2023. We started Congonhas at the end of March. There is some ramp up, there is some advertising, some awareness generation that needs to happen. So we're going to have a full year of Congonhas in '24.

Fuel prices for '24 will be lower throughout the whole year versus the average of '23. That's another source of value. Like Abhi said, the business units all grow more than the airline, and the airline is also going to grow next year. That gives the economies a scale, that gives you margin expansion. So there are a lot of drivers for why you can believe on a continuously growing EBITDA beyond 2023.

John Peter Rodgerson – Azul's CEO

Alex has been in queue, because he was notified by the CBM, because of comments he made to the press. But take our exit rate. Take what we're going to do in the third quarter. Take what we're going to do in the fourth quarter. Look at the margin expansion drivers. And Alex kind of highlighted each of them. But those E2s coming on are really important to us. Once again, the fact that our entire senior management team is now focused on running the business, taking that utilization up. So, I think it's pretty easy to see how we grow EBITDA from 2023 into '24, '25, and '26.

Thais Haberli – Head of Investor Relations

Thank you, guys. That's it.

John Peter Rodgerson – Azul's CEO

Anybody else here? No? Great. Thanks, everybody. We do appreciate your time today. We've got some food and beverages here. And we'll be around to take any of your questions. Just for everybody that's listening, Alex and Thais, and myself, we're going to be on the road for the next three weeks, and so meeting at many of the conferences. But feel free to reach out to our team. You can have Abhi at any time you want to talk fares and network expansion, so we're really excited about the business.

This is truly a re-IPO of the business, a much stronger, a much better business. Again, our EBITDA is 3x what it was, compared to when we went public. We're 40% more efficient as an airline. We now have the lowest chasm in the country by far. We have the highest margins and so we're very excited and we're not going anywhere. We're going to continue to grow this business, and we thank you for your support.