Conference Call
1Q22 Earnings Results
May 9, 2022

Operator

Hello, everyone. And welcome to Azul's First Quarter 2022 Results Conference Call. My name is Rennan, and I will be your operator for today. This event is being recorded and all participants will be in a listen-only mode until we conduct a question-and-answer session following the company's presentation.

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

Thais Haberli

Thank you, Rennan. And welcome all to Azul's fourth quarter earnings call. The results that we announced this morning, the audio of this call and slides that we'll reference are available on our IR website. Presenting today will be David Neeleman, Azul Founder and Chairman; and John Rodgerson, CEO; Alex Malfitani, our CFO; and Abhi Shah, our Chief Revenue Officer are also here for the Q&A session.

Before I turn the call over to David, I'd like to caution you regarding our forward-looking statements. Any matters discussed today that are not historical facts, particularly comments regarding the company's future plans, objectives and expected performance constitute forward-looking statements. These statements are based on a range of assumptions that the company believes are reasonable, but are subjected to uncertainties and risks that are discussed in detail in our CVM and SEC filings. Also during the course of the call, we will discuss non-IFRS performance measures, which should not be considered in isolation.

With that, I will turn the call over to David. David?

David Gary Neeleman

Thanks guys. Welcome everyone and thanks for joining us for our first quarter 2022 earnings call. As always, I would like to start by expressing my gratitude and to recognize our passionate crew members who continue to take care of each other and to provide our customers with the best travel experience in the industry. For example, we were once again elected the best airline in Brazil according to ANAC's customer satisfaction rankings. In addition, Cirium reported Azul as the most on-time mainline carrier in the world. I've spent the last week in Brazil flying Azul and we have a fantastic operation. We are currently seeing the highest customer satisfaction scores in the past two years. As you can see on Slide 3, we continue to serve and connect Brazil like never before through our unique network and diversified fleet, reaching 151 destinations, an impressive addition of more than 35 destinations compared to 2019. In 1990, there was commercial service to 218 cities in Brazil, so as you can see, we sell a lot more to add in the future. Over time, these and other new destinations will add considerable demand to our network further supporting our growth trajectory. One of the competitive advantages of Azul is its breadth of network. While we may have lost some time during the pandemic, our belief has never been stronger that Brazil is and continues to be a growth market, and Azul brings unique ingredients to enable that growth. I know a lot of you are concerned about the sustainability of the revenue environment. Let me remind you that Brazil is an enormous commodity economy, and many of these commodities have record prices. Brazil is the bread basket for the world and a big producer of iron ore and oil and many other things. Azul has a significant presence in all these commodity areas of Brazil, where producers are expanding rapidly to meet world demand and record high prices. Serving 151 destinations is not only key to our future, but it is also critical to the economic and social development of the regions we serve. We are especially proud of the social contributions of our business to Brazil, whether it is by our network, where we deliver lifesaving medicine, organs, vaccines connecting Brazil like no other airlines or in fact or the fact that we have almost 3,000 Azul crewmembers registered as volunteers doing good all around the country. I want to personally thank each one of them for representing the best of Azul. As I've said previously, our competitive advantages are not limited to our fleet or network. Our business units; Azul Cargo, TudoAzul and Azul Viagens are key contributors as well, leveraging our network and operation to further expand our margins. As you can see on Slide 4, our logistics business continued its outstanding performance. Cargo revenue tripled compared to the first quarter of 2019 with revenues reaching almost BRL 300 million in the quarter. Our mission to transform logistics in Brazil remains our focus, which with these rising commodity prices even gives us more advantages in this business. As we utilize our scheduled network together with our fleet of dedicated aircraft, we want to be the logistics platforms of every business in Brazil and we believe we have the end-to-end logistics capabilities, we can do that, so very exciting part of our business. On Slide 5, once again, talking again about one of my favorite projects, our vacations business, Azul Viagens. Azul Viagens continues to do very well with strong leisure demand combined with all the amazing natural beauty of Brazil has to offer. We are seeing record domestic sales, operating margins within this business, with bookings increasing more than 70% compared to 2019. To give you an idea of how this business is growing in July, just in July, we will have over 900 dedicated flights for Azul Viagens, more than double compared to 2019. Abhi and his team are now taking me more seriously, when I say over and over again, I told you, so. With that, I'll pass the word over to John to give you more details on our record first quarter results.

John Peter Rodgerson

Thanks David, and we really appreciate your humility. I also want to thank our crew members for all their hard work during the past quarter. We started the year with the short-term operational challenges from Omicron, which during its peak result in almost one-third of our crewmembers unavailable to fly for a period of time. As a result, we had to sharply adjust our operation in January and February to recover. As of March, the wave was clearly behind us. As you can see on Slide 6, even with these exceptional challenges, we reported an all time first quarter record revenue of BRL 3.2 billion, an increase of 75% compared to first quarter 2021 and almost 26% up compared to the same period in 2019. This was the second consecutive quarter with net revenues above pre-pandemic levels. The results were driven by the strong domestic demand environment in Azul's markets, which allowed us to raise fares to offset the rising fuel prices. Thanks to our margin expansion strategy, our ability to recapture revenue and reduce cost, our EBITDA reached BRL 593 million, representing a margin of 18.6% in the quarter. If we exclude the impact of Omicron, as I described, we estimate that EBITDA would have been BRL 900 million in the quarter. This gives you a clear indication as to the earning strength of our airline and why we are so confident moving forward. David already mentioned to you about our leisure demand, and I want to show you more on Slide 7, we ended March with nine consecutive months of leisure demand above 2019 levels, and it continues to improve. This clearly shows that this was not just pent-up demand. This is the Brazilian market's ability to grow. This is more customers finding new and convenient schedules, connections in more destinations within Azul's network, all of which giving them more reasons to travel. Whether it's pure leisure or work from anywhere, we're seeing a new and greater sustained pattern of demand and certainly bringing in 35 new cities help sustain this growth.

In Brazil, we always said that the country only begins to work after carnival. This year, it turned out to really be true. Slide 8 shows you how corporate demand really improved in March and beyond compared to 2019. Corporate revenue recovered to more than 120% of 2019 levels, while corporate volumes are still 29% below pre-pandemic levels. So that means there is still more corporate revenue recovery to come and it will come at 76% higher fares than 2019, let me repeat that 76% higher fares than 2019 in the corporate segment. Strong bookings leads to strong flown in revenue, we saw this clearly late last year, and with the trends I described to you now, the same will happen this year. We can already see hockey stick type flown RASK just between the months. On Slide 9, you can see how the strong booking trends result in a massive unit revenue improvement from February to April. Since the start of the war in Ukraine, Azul and the industry reacted quickly to adjust fares and capacity for the new reality, the proof is clearly seen on Slide 9. While David talked about cargo and vacations, I want to show you how loyalty is doing because we believe it will be an important driver and sustaining the strong demand environment. On Slide 10, you could see that TudoAzul maintained its strong growth pace and reached 14 million members at the end of this quarter, as more and more customers experience the value of our broad network. Mostly though we have been positively surprised by the customer engagement, they are more active than ever. In the quarter, active customers doubled compared to 2019. This engagement combined with the ability for customers to use points or a combination of points plus money, our additional tools and channels via which demand can continue to be strong. Great bookings leads to great flown revenue and that is exactly what we are seeing going forward. To give you more details on what that means for the second quarter, let me turn the time over to Abhi.

Abhi Manoj Shah

Thanks John. The record booked revenue at record average fares we are seeing means continued RASK expansion compared to 2019, while the average 1Q RASK expansion was 15%, our exit rate in March was much higher. As you can see on Slide 11, the second quarter consolidate that trend with significantly higher RASK compared to 2019. In fact, what is amazing is that even in what is usually the weakest quarter seasonally, we are expecting an all-time record unit revenue and all-time record flown revenue. This is a direct result of the competitive advantages of our business as well as the overall industry discipline in the market today. We also want to show you on Slide 12 how we stack up against some global benchmarks. Our capacity recovery is healthy and our unit revenue recovery is industry leading. In the end, that really is our main focus, we know that with the macro challenges such as fuel, currency and inflation, we need to be laser focused on what is important. Metrics such as market share or load factor are less important. Our objective is to deploy our capacity in a disciplined manner that supports and extends our competitive advantages directly resulting in high quality revenue.

With that, I turn it back over to John to talk further about our results.

John Peter Rodgerson

Thanks Abhi, and yes, fuel remains challenging. Within the past two years, we have focused on our long-term cost structure, rebuilding Azul into an even more efficient airline. On the cost side, as you can see on Slide 13, CASK in the quarter was BRL 0.34, up 30% compared to first quarter 2019, mainly due to a 75% increase in fuel prices and a 39% depreciation of the real against the dollar, and three years of inflation on real denominated costs. If we adjust our CASK for fuel FX and cargo, which by their nature, do not generate ASK, our cash compared to 2019 was essentially flat, an impressive achievement given the more than 20% accumulated inflation over that same time period. We are truly emerging as a more efficient airline. As you can see on Slide 14, our operation generated BRL 500 million in cash flow during the quarter. During the quarter, we also continue paying our leases, debt, deferrals and CapEx, it's important to highlight that we ended the quarter with immediate liquidity of BRL 3.3 billion, well above first quarter 2019. We also raised BRL 200 million, reinforcing our ability to access credit lines as needed. As a reminder, we have no significant debt repayments over the next two years and no restricted cash. Moving onto Slide 15, gross debt decreased 13% or almost BRL 3 billion compared to December 31st, mainly due to a 15% appreciation of the real which reduced our gross debt by BRL 3.2 billion. In the quarter, we paid down BRL 1.1 billion in debt and leases. Looking to the future, we are so excited about the potential of our business. Slide 16 shows how we expect to grow our earnings this year and next. I'm proud to say that even with all the challenges, we expect to generate BRL 4 billion of EBITDA this year and BRL 5.5 billion in 2023. When we went public back in 2017, we told the market, we would grow and grow profitably. With this 2023 forecast, we'll actually triple our EBITDA compared to our pre-IPO levels. On Slide 17, you can see how our leverage is improving as our earnings grow. Our forecast now shows consistent and significant reduction of leverage this year, 2023 and beyond, all powered by strong and growing earnings generation. To wrap up on Slide 18, I couldn't be prouder of the entire Azul team. During the pandemic, we focused on our liquidity and on our cost reduction. Now with our unique competitive advantages, we turn our attention to earnings. We remain confident about the future of the Brazilian aviation market and our ability to continue to grow this business profitably, all while creating the best experience for our crew members and our customers. With that David, Alex, Abhi and I will answer your questions, and I'll turn the call over to the operator.

Questions And Answers

Operator

Our first question comes from Savi Syth with Raymond James. Please go ahead.

Savanthi Syth

Hey, good morning or good afternoon. Can I ask on the corporate demand recovery, what components have not yet recovered and what's the latest trend there as you really look forward here and when could we see some of the other components recovering?

Abhi Manoj Shah

Yeah Savi, Abhi here. Yeah, so we have really positive components such as oil and gas has recovered very well. Services, obviously Agro that David talked about has recovered well over the average. What hasn't recovered fully yet is finance, not to 100% compared 2019, but accelerating. If I compare finance to 2021, it's doing better than the average versus 2019 is worse than the average, which means that it had a later start and now it's catching up. Our government, actually the federal government is not flying as much as it used to, and it's actually a large provider of travel demand to all Brazilian airlines, and I think that's going to change this year, especially with the elections and all of the activity around that. So I would say finance and government are the two sectors that are still recovering, but they are accelerating because compared to 2021 they are above average.

Savanthi Syth

That's helpful. Thank you. And if I might, on the projections provided for 2022 and 2023, just curious what from a depreciation fuel price FX standpoint you're assuming there or any other important considerations that you baked into the 2022 and 2023 outlook?

John Peter Rodgerson

Yeah, so Savi, we basically have the forward curve both for fuel and FX. And so which is roughly the real slightly above 5 in that range and fuel coming down slightly as you get into 2023, but still above historical levels.

Alexandre Wagner Malfitani

Yeah, and Savi, just to add, obviously I think that's an important assumption right now, fuel and FX. But it's important to note that they are both very correlated and also correlated with fares, right. I think we demonstrated, we had this exhibit we showed it on Azul Day, we have it on our institutional deck. If you take our 2019 EBITDA and you just adjusted it for current fuel and FX, our BRL 3.6 billion EBITDA would go down to zero, right, and we are very confident in a BRL 4 billion EBITDA this year. That shows that some of it is on the cost side, but the majority of it is on the fare side, right, it's the ability of this business to operate under any conditions for fuel and FX. So you may have a different assumption for fuel and FX, we run sensitivities here all the time because obviously those variables are very volatile. But it's important to also have an assumption for fare levels and they are very highly correlated. Abhi obviously does a tremendous job, but we don't know, we can't necessarily affirm that fares would be at this level if the real wasn't at BRL 5 and oil wasn't at USD 100 a barrel.

Savanthi Syth

Good point. And just on that Alex, so could you remind us again what like the depreciation should be doing in 2022 and 2023?

Alexandre Wagner Malfitani

The depreciation of aircraft?

Savanthi Syth

Yeah, just what's depreciation given the fundamental.

Alexandre Wagner Malfitani

I think you one is probably more in line with what you're going to see for the rest of the year. So full year, so this is, I think you can consider Q1 is sort of a regular quarter in terms of depreciation both because of the increase in the fleet and also because of the new accounting policy for engine redeliver.

Savanthi Syth

Perfect. Thank you.

Operator

Thank you. Our next question comes from Michael Linenberg with Deutsche Bank.

Shannon Doretti

Hey, it's actually Shannon Doretti on for Mike. Thank you for taking my questions. Maybe Alex this one's for you, can you provide us with more detail on your deleveraging strategy. I know you stated that you will begin to pay down some portion of deferred rents next year, is that still the plan and if you could just give us an update on the numbers, that would be great as well? Thanks.

Alexandre Wagner Malfitani

Sure. It's important to talk about what is our debt, right, the vast majority of our debt is capitalized leases because of IFRS 16. We don't have a lot of bank debt or capital markets debt, after operating leases, our biggest debt are our two bonds that we issued, the first one matures in October of 2024, the second one in June of 2026. So they are ways away in terms of maturing and we've been able to access the capital markets under much more difficult situations than we currently have. So we're confident that we can continue accessing those sources of capital. So the majority of the deleveraging will come from us getting back to our natural trend of EBITDA. If you look at that slide where we have our 2018-2019 EBITDA, then you have the two years for the pandemic and then you have our expectations for '23 and '24, you can see that we're essentially just getting back on track with what we promised in our IPO. And as we get back to that performance, which is our natural delivery, we'll be able to deliver on those leverage ratios that we provided to you.

John Peter Rodgerson

I just want to highlight a couple of things. If you take a BRL 4 billion of EBITDA versus our current debt, that's a four right in terms of leverage. And we clearly feel confident even in the macro scenario to reaffirm the BRL 4 billion and talk about BRL 5.5 billion next year. And as you talk about repayment of past lease debt, we're constantly negotiating with our partners, right, that's just part of doing business. And so we constantly negotiate with the operating lessors, some of them have some trouble with aircraft that were supposed to go to Russia, so we're constantly looking at opportunities. And so we stand by our commitments, but it's just normal course of doing business, but the deleveraging comes as the profitability comes back to the airline as we do BRL 4 billion this year and BRL 5.5 billion next year.

Shannon Doretti

Well, that's great. Thank you. I know you mentioned that majority of this EBITDA, the BRL 4 million, will come from the leverage with higher fares and increased revenue, but given your updated full year capacity outlook where the total ASK is up 10% versus '19. How should we be thinking about the efficiency and thinking about CASK ex-fuel for the rest of this year and possibly next? Thanks again for my questions.

John Peter Rodgerson

Yeah, I want to start and then I'll pass it over to Alex, but we took aircraft through the pandemic right. And so the ability for us, we're looking at the numbers, we utilized our aircraft only eight hours a day in the first quarter. And so the operating leverage that we get by pushing the utilization back up to nine, 10 hours a day is significant as we move forward. And so this airline has the ability to produce much more ASKs than we're currently producing, and that's where it's coming from.

Alexandre Wagner Malfitani

Yeah. And for you to forecast what CASK is going to do the rest of the year and next year, it's important to note that there is a lot going on in CASK right. So on one hand, there is a lot of cost reductions that we have implemented over the last three years, we were able to get to a lot higher productivity than we had in 2019 by up-gauging, by using more automation and technology. The fuel burn is coming down significantly as we transform our fleet right. That's why we don't like to talk about CASK ex-fuel because the fuel burn reduction is a significant driver of CASK reduction. But at the same time, there's a lot of noise too, right, you have the real devaluation since 2019, fuel prices in dollars are up 75% and also you have when we compare to 2019 you're talking about three years of inflation plus our cargo business which has grown a lot obviously generates a lot of cash contribution, it's much more profitable than the group, the average margin for the group. But it does help RASK and hurt CASK, right. So, we provided you with some visibility now as to how much in.

Operator

Ladies and gentlemen, please hold.

Alexandre Wagner Malfitani

Hey, guys. It's Alex again. Sorry about that. So I don't know when you lost me, but one thing that's also worth noting on the CASK modeling, as we increase ASKs, you will see our operational leverage kicking in and our CASK continuing to drop, all else equal, but so controlling for fuel FX inflation and cargo. But it's worth noting that the growth in ASKs for this year is much higher in the first half than in the second half.

Operator

Thank you. Our next question comes from Alejandro Zamacona with Credit Suisse.

Alejandro Zamacona

Hi. Thank you for taking my question. So the second quarter, you're expecting all-time high on revenue and RASK. So I'm just wondering what's behind, what's the driver for this guidance and what can we expect for profitability for the second quarter?

Abhi Manoj Shah

Hey, Alejandro on the RASK side, it is the discipline capacity environment and the discipline fare environment, just for example, our fares from February to April alone are up over 40%. So we are seeing very, very strong bookings right now that is going to lead to a very strong flown revenue in second quarter, we had record booking days, all-time record booking day in March another all-time record booking day in April. Last week was a record booking week. And so the combination of very strong bookings with very high average fares, the highest for us in our history and I'm sure the industry as well combined with the capacity discipline. So our capacity from March to June is flat, it's going to be flat again from July to October. So I think the industry has done a very good job, as John said, in responding to the war, the fuel crisis and things like that and we are taking advantage of strong leasing environment and a rapidly accelerating corporate recovery. And so the record bookings that we are seeing will result in record unit RASK, unit revenue, in second quarter.

Alexandre Wagner Malfitani

And in terms of profitability, normally you have seasonality that drives profitability down from Q1 into Q2, but this Q2, we have a couple of very good sources of tailwinds for us. So one is, as Abhi said the RASK, right, that having record RASK, historical record RASK, he's not talking about record RASK for the second quarter, it's historical record RASK for any quarter in Azul's history, which should help us to have a more profitable Q2 than normal. And then also, we're not going to have the Omicron impact, right, that as we said Omicron we estimate was about BRL300 million of bad guy in terms of EBITDA for us in the first quarter, right. So you can expect may be something higher than Q1, but most of our profitability for seasonal reasons is in the second half of the year particularly in the fourth quarter, right, on a normal year, our best quarter is the fourth quarter.

Alejandro Zamacona

Okay. Thank you, John. Thank you, Abhi. My second question, if I may. Do you have any update on the potential deal with Latam?

John Peter Rodgerson

Alejandro, we're not really talking about Latam. I think that that's something that's not on our radar right now. I think they're going through their process and we're very confident in the standalone Azul business as you could see from what Abhi has been able to do on the revenue side, and so we'll respect their process. I think they have to deal with the creditors and get out, but we're very confident with what we're doing here in Brazil and focusing on our core business.

Alexandre Wagner Malfitani

Yeah, and it's a good reminder Alejandro that all of the numbers that we provided, the BRL 4 billion in '22 and BRL 5.5 billion in '23, those are for Azul standalone with no upside from any code share joint venture or any consolidation. If any of that happens, there will be upside to our forecast.

Alejandro Zamacona

Okay. Thank you very much.

John Peter Rodgerson

Thank you.

Operator

Thank you. Our next question comes from Pablo Monsivais with Barclays.

Pablo Monsivais

Hi, good morning and thanks for taking my question. I am very curious to pick your brain on what have changed structurally in the Brazilian market in terms of the demand going into leisure markets going forward. What do you think it has changed on the clients, why they are either taking more vacations, working from anywhere and especially if you're seeing that, I don't know, in one year or two years from now that leisure demand will be reduced? That will be my first question. And my second question will be on the price sensitivity, you have done an excellent job on increasing fares, but is there still more upside? I don't know thinking on a 12-month basis or do you think that the consumer is reaching to a certain peak? Thank you.

Abhi Manoj Shah

Hi hey, Pablo, Abhi here. So one thing that's really changed and it's very interesting is seasonality. And let me give you an example, one way to measure the level of leisure demand, if you look at the bookings on weekends, right, because bookings, you don't have travel agencies, you don't have corporate guys booking on weekends. And when we first got to 100% leisure recovery last year, and we said, what it's coming back very, very strong, is it pent-up demand, is it not pent-up demand, is it just booking for the summer peak? So if I compare our weekend bookings, bookings on Saturday's and Sunday's versus what we had last year in September, October, November, the revenue we are seeing this last weekend for example is the same and there is no peak summer ahead of us, there is no potential pent-up demand, right, it is a new level of sustained demand. So one thing that has changed is actually seasonality, it's gotten more flat, which for someone like us is actually pretty good because we tend to be less seasonal because of the nature of our network and the fact that we have so many destinations, which tend to be more corporate, and so seasonality has changed and it's almost like in the U.S. if you tell an airline your bookings in September will be the same as your bookings in May, right. They've never experienced that, and so I think seasonality is something that has changed and the leisure demand, work from anywhere demand is now flatter than it used to be at a higher level. And so that's very, very encouraging for us to see. And on the pricing side, we continue to see strength going forward, we look at our booking curves out to June, July even August, and frankly, we are seeing more opportunities to increase prices than we are seeing for the need to have volume in our booking curve. And so we are not seeing any resistance at this point from the customer, the overall industry is disciplined, as I said, our capacity is going to be disciplined as well. July through the end of the year, ahead of the peak summer season, and so you're not going to have any short-term, medium-term shocks in terms of capacity, it's pretty visible to all of the players involved and from what we can see in the booking curve, it looks pretty solid as far as we can see.

John Peter Rodgerson

Just to add, we also went broader, there's 35 new cities, there's 35 new cities with pockets of demand that are coming in, and David mentioned the Agro business in Brazil, the bread basket of the world is Brazil, with the commodity prices where they are today, there's a lot more people that are traveling all around Brazil because they're making more money than they've ever made before. And so I think that's really important to understand Azul's network is very broad, we fly all throughout Brazil, the Midwest of Brazil is Azul's country, right, and that is where we do really, really well, that's where we've dedicated our assets and I've talked a lot about being out of the triangle Rio, Sao Paulo, Brazilia and that's really what we've done and what we've built our network over the last decade.

Pablo Monsivais

Fantastic. Thank you very much.

Operator

Thank you. Our next question comes from Bruno Amorim with Goldman Sachs.

Bruno Amorim

Hello, everybody. Thank you for taking my question. I have two actually, the first one just wanted to validate my interpretation of your guidance, so you're saying ASKs will be 10% above 2019 this year. In the first quarter, you were close to that 9% or so, meaning, throughout the year, you should be 10% above the respective quarter in 2019, meaning, in the fourth quarter, you should deliver ASK 15% to 20% above the first quarter, so just wanted to validate this rational? And the second question is around your fleet size or flexibility, so how should we think about it, how much flexibility do you have and how do you think about ASK growth vis-a-vis where jet fuel prices are, I guess that the higher jet fuel prices, the lower the propensity to grow in the short-term, even though of course long-term all the cost pressures tend to be passed on to fares. Just wanted to understand how do you think about and manage capacity vis-a-vis the evolution of jet fuel cost? Thank you very much.

Abhi Manoj Shah

Hey, Bruno. So regarding the quarter-by-quarter evolution, remember in 2019, we had Avianca Brazil, which stopped flying April, May, June. And so we picked up some of their aircraft towards the end of 2019, we also had some of the first E2 deliveries. So regards to the average, 2Q will be above average, and then 3Q and 4Q and 4Q will come down much closer to the average only because the comparison of 2019, we had a lot more growth towards the end of that year because of aircraft deliveries, A320s and the E2s as well. So our absolute capacity from July to the end of the year will be actually pretty steady, but it is the comparison of 2019 that would took an average for 2Q and then much closer to average in 3Q and 4Q. In regards to capacity, like I said, we're taking it very slow. And so I'll give an example, internationally, for example, we are not even flying daily to the U.S. right now and many of our competitors are, will only be daily just in July for example. And even domestically, March to June, we were very steady in our capacity in July through end of the year as well. So obviously, it depends on demand, demand continues to be strong, but it's important to make sure that we keep it that way and we keep the rationalized discipline in the market. So we have no major changes until the end of the year in terms of deliveries or anything like that. And so it's going to be a slow disciplined rollout very much tied to revenue performance and overall discipline in the market.

John Peter Rodgerson

Hey, Bruno just to respond on the flexibility that the fleet has, we converted six E1s into cargo aircraft, right, and it shows you the flexibility that we have and working with our partners with the leasing community and the OEMs, and so I think the fact that we can deploy ATRs E-Jets, 320s, 321s, put our A330s flying domestically or flying internationally just with cargo. We have tools in our tool kit that others don't have, and I think that our fleet has been our greatest strength over the last two years to bring things back online. We have your 900 flights a day and our next closest competitor's about 550 flights a day because we can do things that they can't, and I think that's a huge strategic advantage for us.

Operator

Thank you. Our next question comes from Stephen Trent with Citi.

Stephen Trent

Hey, good afternoon, everybody, and thanks very much for taking my questions. Just one or two from me. I was wondering if you could give us a little color what are your thoughts with your agreement with United Airlines, I believe it's expiring next month. And could you remind me as well and apology if I missed it, how much fuel you're actually heading for the second quarter itself? Thank you.

John Peter Rodgerson

Yeah, so our agreement with United expires June 26th. They've been a great partner of ours and we're talking to them about the potential for an extension and keeping it open, right, as one would in this market. And so we really don't have any details to share further to that Steve.

Alexandre Wagner Malfitani

Yeah, and Steve, on the hedging, like we said, we have about 17% for the next 12 months. It is front-loaded because we try to tie the hedging to the percentage of seats that I have actually been sold drive and Brazilians tend to book fairly close in. So what we talked about in terms of the ability to pass through cost increases to fares, normally Brazilian Airlines have lower need to hedge oil exposure because the booking curve is so much shorter, right. And so if I had sold 100% of my inventory for the next year then I probably would need to hedge 100% of my oil exposure for the next year, but because the booking curve is fairly short in Brazil, we don't have to hedge a lot. But in general, you can assume that the second quarter hedge is a little bit higher than the '17 and that trails off as we get farther into the 12 months.

Stephen Trent

Okay. Super helpful. Thanks, John, Alex and regards to everybody.

John Peter Rodgerson

If there's no further questions, we like to thank everybody for participating in the call. Apologize for the telephone issues, we'll get that fixed next time. We appreciate your time. Feel free to reach out to Thais, Alex, Abhi, myself. We look forward to seeing you at conferences, and we look forward to delivering further results. Thank you.

Operator

Ladies and gentlemen that does conclude the Azul's audio conference for today. Thank you very much for your participation, and have a good day.