

Conference Call
2Q22 Earnings Results
August 11, 2022

Operator

Hello, everyone, and welcome to Azul's Second Quarter 2022 Results Conference Call. My name is Renan 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. (Operator Instructions).

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

Thais Haberli

Thank you, Renan, and welcome all to Azul's Second Quarter Earnings Call. The results that we announced this morning, the audio of this call and the slides that we will reference are available on our IR website. Presenting today will be David Neeleman, Azul's Founder and Chairman; and John Rodgerson, CEO; Alex Malfitani, our CFO; 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 and measures, which are not should be considered in isolation.

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

David Gary Neeleman

Thanks, Thais. Welcome everyone, and thank you for joining us for our second quarter 2022 earnings call. As always, I would like to start by thanking our crewmembers for taking care of each other and our customers are more in a 1,000 daily flights. Abhi tells me that number is going to a 1,000 flights by October, amazing. Thanks to our crewmembers dedication.

We achieved record second quarter results in what is seasonally the weakest quarter of the year. I'd like to remind you that Azul is one of the fastest and most profitable recoveries in the world and is the only airline I know to deliver top line revenue of 50% above pre-pandemic levels.

We continue to strengthen Brazil's largest network. Since 2019, we've added 35 new destinations. We're the only carrier in 80% of the routes we serve and we are the leader in terms of departures in 88% of our markets. Our future growth will continue this laser-focus on our network and what makes us strong. Our service to over 150 destinations contribute significantly to Brazil's development by providing opportunity, employment, trade links and promoting tourism all over the country. Our networks capillarity is unique and supported by a flexible fleet, enabling us to deploy the right aircraft in the right market, at the right time, as you can see on Slide 4.

As you can also see on Slide 4, we ended the quarter with the largest fuel-efficient fleet in the region, representing 70% of our ASKs. This reinforces our environmental commitment and our ability to grow efficiently and profitably. We could not be more enthusiastic about the continued runway ahead in our fleet transformation program. The continued gauging of the next-generation aircraft will drive down cost and resulting in higher margins, more news will be coming next week on the fleet transformation program, new developments.

Before I hand it over to John, I wanted to end on Slide 5, by showing why I'm so proud of this team. We ended the quarter as the most on-time airline in the Americas and the third most on-time in the whole world. Our customer satisfaction scores are industry leading and higher than they've ever been. All of this while generating 19% more ASKs when compared to 2019, serving more than a 150 destinations. And finally, a more efficient airline that is generating 11% more ASK per FTE than before, a truly incredible achievement by the entire team.

I am confident about the future of Brazil's aviation market. Our ability to grow profitably all the while creating the best experience for our crewmembers. We have created an incredible business, that is generating billions and billions of cash flow from operations, and the best is yet to come.

With that, I will turn the word over to John to give you more details on the second quarter results.

John Peter Rodgeron

Thanks, David. I also want to thank our crewmembers. As a result of their incredible work, we're able to share these great results with you today.

As you can see on Slide 6, the second quarter proved once again the strength of our business. Our top line revenue more than doubled compared to the same period last year, reaching BRL 3.9 billion, an all-time record revenue for any quarter in our history. Even more impressive is that revenue was up 50% compared to pre-pandemic levels, in what is seasonally the weakest quarter of the year. This achievement was a direct result of the strong demand environment in our network. PRASK and RASK grew 57% and 44% respectively, even with a 60% growth in our total capacity year-over-year. We were encouraged by the revenue performance in the second quarter and continue to see positive trends in yields and bookings going forward.

As you can see on Slide 7, our EBITDA reached BRL 615 million in the quarter, representing a margin of almost 16%. If we use hedge accounting, our EBITDA would have been BRL 880 million in the quarter, 20% above the same period in 2019. Let me repeat, including our fuel hedging gains, our EBITDA for the quarter was higher than 2019. This is including the 112% increase in jet fuel prices and the 26% devaluation of the local currency. While we're seeing a very positive trend in revenues, we also continue to efficiently manage our costs.

As you can see on Slide 8, productivity measured in ASKs per full-time employee increased 43% compared to the same period last year and 11% versus second quarter 2019. Fuel consumption for ASK dropped 3% versus last year and 10% versus second quarter 2019. Our fleet today is 10% more fuel-efficient than 2019 and we'll continue to get more efficient going forward. Compared to second quarter 2021, CASK ex-fuel decreased 12%, mainly driven by our fleet transformation, cost reduction initiatives, and productivity gains. We made a promise to you that we would emerge as a more efficient airline and that is exactly what we're doing.

On Slide 9, you can see that our immediate liquidity increased by BRL 530 million during the quarter, without a capital raise, driven by our strong operational performance. Our operating cash inflows surpassed our outflows by more than BRL 2 billion. Total liquidity remains strong at BRL 7 billion and we ended the quarter with BRL 4 billion in immediate liquidity, even after paying down BRL 1.7 billion in leases, loans, deferral payments, interest and capital expenses.

As you can see on Slide 10, we reduced our leverage in the quarter by 1.5 points to 6.2 points, which puts us in a good position to finish the year starting with the 5. Our leverage is the lowest in the region even when using seven times rent when accounting for operating leases. As a reminder, Azul has the largest fleet of new next-generation aircraft in the region. And since rent and lease liabilities increased as newer aircraft enter your fleet that effect is already reflected in our numbers.

On Slide 11 you could see the strong booking trends continued through the quarter. Our network advantages allowed us to quickly adjust fares to the volatile cost environment. This trend continues and what we're seeing now is bookings and revenues coming in at record high average fares.

On Slide 12, you can see how these positive trends set us up so well for the rest of the year. It's fair to say that demand for Azul's products and services has never been stronger. As I mentioned, we're currently seeing bookings at high average fares, the highest in our history in fact. This combined with the recent favorable movements in currency and fuel, gives you a sense of the operating leverage and margin opportunities for the rest of 2022 and into 2023.

Moving on to Slide 13, our business units, Azul Cargo, TudoAzul and Azul Viagens further extend our competitive advantages, is fast growing, high-margin businesses contribute to expand our industry leading margins by leveraging the strength of our network and the flexibility of our fleet. Our cargo business continues to perform extremely well with revenue, almost tripling compared to 2019. TudoAzul maintained a strong growth pace during the second quarter with gross billings ex-Azul up an impressive 60% year over year.

Finally, Azul Viagens had a remarkable quarter. Revenue increased 70% compared to 2019 benefiting from the expansion of our dedicated flights. For this upcoming summer season, for example, we will operate 2,000 flights exclusively for Azul Viagens. Each of these business units had a record revenue quarter and each one is on pace to generate well over BRL 1 billion in bookings just this year.

Moving to Slide 14, another important development during the quarter was the decision by the regulatory agency ANAC, regarding the slot distribution at the Congonhas Airport. The combination of this new rule along with an increase in capacity ahead of its privatization is very positive and encouraging competition at the airport, directly benefiting Azul customers. We believe that through these initiatives Azul may more than double its daily departures at this airport over the next two years.

To wrap up on Slide 15, I couldn't be prouder of our entire Azul team. We are running an incredible operation as David noted. We're the most on time airlines in the Americas, our customers love to fly us and our crew members love their work. We're executing on our fleet transformation plan and the demand environment has never been stronger. Our business units are all producing record revenues and we are emerging as a more efficient airline. We're truly excited about the opportunities ahead of us.

With that, will turn it over for your questions.

Questions And Answers

Operator

Ladies and gentlemen, thank you. We will now begin the Q&A session. (Operator Instructions) Our first question comes from Savanthi Syth with Raymond James.

Savanthi Syth

Good afternoon everybody, is Abhi around? Just curious if you could share any color on the corporate demand recovery side and just the health of leisure demand. I'm trying to understand how sustainable the fare levels and then maybe the momentum that John talked about here?

Abhi Manoj Shah

Yeah. Hey. Abhi here. Yeah, absolutely. Look, overall we were very happy with the performance in the second quarter, increasing RASK 25.5% on a 19% ASK increase, it's obviously a very strong indication of demand levels. And actually what's even more exciting is what we're seeing right now. So just the last two weeks, for example, as people have come back post July holidays, the average fare as the last two weeks have been the highest in our history, in terms of the bookings, which has been very, very strong. It's been corporate and leisure and so I'll give an example, our vacations business, Azul Viagens actually had higher bookings in July than it did in June, even though July is the month that you actually travel. Which is a really good indication that the leisure market is strong and it's already looking ahead the second half of the year and the summer season. Our corporate as well is coming back strong. We are right now over 100% in corporate revenue between 100 and about 130% in corporate revenue breakdown to about 80% in corporate volume and plus 50% in corporate average fares. So, even with that, great performance there is still more corporate volume recovery, that's going to happen in the second half of the year, which is seasonally the strongest. Lots of events, our Group's revenue is right now at the highest it's ever been, our small and medium business revenue is higher than it's ever been. So lot of great events happening second half of the year and a lot of corporate movement.

And if you look at the ABRACORP data, which is the cooperation of the Association of Corporate Travel Agencies, in June, we had the highest revenue of the three airlines in ABRACORP. And our average fare which already was the highest actually grew the most as well. And so, and even when you include that, we had an 81.8% load factor in July. So we're not seeing any traffic pressures in terms of having to sacrifice fares to get traffic for the foreseeable future. And in fact, I think what we're talking internally with our teams is let's keep testing the market. Let's see how much more there is in terms of demand, how much more there is in terms of average fares because the average fares that we are seeing are very, very strong and demand looks to be very sustainable.

So I think everything is set up really well and finally, if you compare our average fares for the last week of February, which was the week before the war, heating oil is 15% above, the dollar is 2% down and our fares are 52% above. And that gives you an idea, given the seasonality, given this bookings and fare momentum and the macroeconomic support, how much we can improve kind of going forward.

Savanthi Syth

That's very helpful and encouraging. And if I might, I realize that there was no EBITDA updates in this call. Just curious, I know things have been volatile and that's maybe a moving target given the moving parts. But I am curious if you have any updated thoughts there and any financing thoughts related to that?

John Peter Rodgers

Yes, Savi. We debated it pretty heavily and obviously fuel was up a lot in the second quarter and in this recent fuel price movements there is a lag in when they kind of come off and we see the benefit. But we kind of want to reiterate that amazing revenue performance we're having right now and we feel as strong as ever about this business going forward. And so nothing has fundamentally changed. Is it going to be BRL 4 billion? Is going to be slightly below that? We're not that far away, we still have half the year to go, and we feel very strong about the business

overall. We just don't want to put a number out there, given that we're 45 days away from an election and things like that. But nothing has fundamentally changed in our business, we feel very strong about where we are today and I think that sets us up nicely for 2023 and beyond, and so we feel very good.

I think the cash flow generation that we had in the quarter is a testament to just how strong this business is overall. And I think a lot of people were concerned about that and focus on that. There is a lot of positive things in the seasonally weakest quarter of the year, with fuel prices that have never been seen before in Brazil, right. Remember when fuel is at \$140 a barrel, 14 years ago, the real was at 2 to 1, now the real is at 5 to 1, so we've been able to significantly increase fares.

Alexandre Wagner Malfitani

Yeah, Savi. This is Alex. We see and I think a lot of you agree and we see that in the models, this is essentially a steady state 30% EBITDA business, right. We see it when we talk to you, some of you have us in the high-20s, some of you have us in the low-30s, but obviously not this year, right. And I think that's the challenge. We know that steady state, we are a business that can generate that much EBITDA, that much operational cash. And with our size today that would actually mean about BRL 5 billion of EBITDA in the year, but it is admittedly hard with everything that's going on with fuel, with what we had three years of a pandemic, of kind of nailing down exactly how much of that recovery and how much of our fall kind of your profitability potential, we can generate within a calendar year.

And when things happen, like we had on the day of our last earnings call when we had the Russian invasion, things shift around, right, as you mentioned. So, like John said we discussed a lot, it's really about EBITDA. I mean, everything else in our guidance is very much on track. And probably our full EBITDA generation capability has shifted three or six months to the right. But the business remains very solid and we're proving that we can pass through cost increases to fares. We proved though that we can access cash and I think that's all clear in our Q2 financials.

Savanthi Syth

Appreciate that. Thank you all.

John Peter Rodgerson

Thanks, Savi.

Operator

The next question comes from Josh Milberg with Morgan Stanley.

Josh Milberg

Hi, everyone, and thank you for the call, and also congrats on the results. This will relate a little bit of Savi's question on the funding side. But related to the BRL 1.7 billion you highlighted in payments, leases, deferrals and other items, I just wanted to ask if you could touch on what you're expecting over the remainder of the year and also the potential for new deferrals of payments to lessors and to suppliers? And if you could in a little more detail and I think this question is for Alex, just give an update on the different funding options that you're looking at today. And also touch on the status of the code share with United? If you could address that.

Alexandre Wagner Malfitani

Sure. Yeah, I will talk about United. Josh, I think a lot of this is a bit of a circular reference, right. Because, I think we've demonstrated that will adapt to whatever conditions are thrown at us. If we generate more EBITDA, we can spend all of the CAPEX that we want to spend, that we would like to spend to prepare for the future. And we don't need to access significant cash from banks or suppliers.

If we generate less EBITDA, then we can adjust on the CAPEX side, and we can certainly access cash if we need to do. Obviously, and that's not even including the capital markets, right. The capital markets were available to us, which today we don't think they are, that's sort of the main avenue, the main source of capital. But if we do need cash more than we expect, and if the capital markets are not available to us, which at some time they will be. Then we'll adjust and we demonstrated, I think this quarter that we can access capital from our banks, we can maintain our payables around the 100 days. Which is the guidance that we gave you pretty much in the beginning of the pandemic, right, that payables would go up because we got a lot of support from our partners. But then they would gradually converge down to 100, which is roughly where they're today. They can go up maybe 10 days, go down about 10 days, but we know that a reliable source of working capital.

And then we know that we can count on our suppliers because our suppliers can count on the heavy operational cash flow generation that we have. They make a lot of money by supporting Azul. We can make a lot of money together going forward. And so we know that we can access. So the answer, Josh, I think it's more on in the past than in the future, because we thought all of the forecast wrong. We underestimated how quickly demand could come back. Nobody saw what could happen with oil prices and with the war in Europe. So it's hard for us to predict in the future, what is going to happen and what will need to happen, but I think it's clear from the past and especially from this quarter that whatever happens, we will be able to access whatever cash we need.

John Peter Rodgerson

Hey, Josh, I just want to reiterate a couple of points. This business is generating billions of operating cash flow. We showed a number today of BRL 4 billion in cash and immediate liquidity, if you include our receivables. More than double what it was in 2019, right. And so we positioned ourselves in a very good position going forward. If I were to tell you, we were going to be up 50% compared to 2019 in the year 2020 or 2021, you would have thought I was smoking something, right. And so we delivered way above the expectations of any analysts in terms of revenue and we feel very strong about our business going forward.

So I think we're very bullish and I think our partners are as bullish as ever on Azul. I think the way we showed cash flow generation in the second quarter, it beat everybody's model as well. And so we feel very strong about our ability to execute. Remember, Josh, we went through a period of eight months with no revenue, right, and we can't through it. We had our crewmembers, everybody kind of rallied around, this is a fantastic business that is delivering great results, delivering unbelievable on-time performance, that's got crew members engaged, so we feel very good about our business on a go forward basis. And so, cash will take care of itself as we continue to run a great operation and continue to raise revenue.

As for United Airlines, United has been a great partner of ours, has been a partner for a long time, we're still talking to them. But there is also other great partners out there that we're talking to. We see what's happening with JetBlue in Fort Lauderdale and Spirit, really important partner of ours, as we add our international flights into Fort Lauderdale. There is a lot of fee that comes in there, that strengthens our long-haul network and so we're going to continue talking to our

partners. But the codeshare with United stays in place, and I think they're happy with what we have good.

Josh Milberg

Okay. Great. Thank you for all that color.

John Peter Rodgerson

Thank you.

Operator

The next question comes from Alejandro Zamacona with Credit Suisse.

Alejandro Zamacona

Thank you. Hi David, John, Abhi, Alex, Thais. Thanks for taking my questions. Regarding pricing and yield environment, I mean, is it fair to expect an even stronger yield for the second half, considering that there is usually a lag to reflect the higher fuel costs and also do you have any expectations beyond what we can see in '22, considering that eventual cost normalization in fuel?

Abhi Manoj Shah

Hi, Alejandro. Regarding the pricing environment, good bookings at high fares will lead to great flow in revenue at high fares. And also we're supported by the seasonality second half of the year. So in terms of flow in revenue, yes, it is very much possible that you will see higher yields and higher average fares in 3Q and 4Q. And that's certainly what we're booking towards and the seasonality of the corporate recovery, the demand environment. All of the economic activity that will happen in Brazil, over the next six months definitely points that. So we are getting into our peak season, our spring and summer, which is historically the best seasons of the year, which is very, very supportive of this current pricing environment and even a further improvement in the pricing environment.

Alexandre Wagner Malfitani

Yeah. And on the cost side, as you all know, there is a lag between what we're seeing on the screen, in terms of oil prices and the currency and the price that we pay for jet fuel. So, July and August, jet fuel prices will probably be our peak from what we can see right now. But then you will see a downward trend in jet fuel prices, assuming everything stays the way it is or even if things improve from where they are. So we could have a very favorable environment in the second half with fares going up due to the strong demand environment and the positive seasonality and fuel prices going down from the improvement that we have already seen taking place.

Alejandro Zamacona

Yeah. Okay. And then my second question if I may, in terms of capacity, do you have any preliminary expectation for 2023?

Abhi Manoj Shah

Yeah. We haven't closed our plan yet, but you can expect something similar to what we're going to do in 2022 versus 2019. We expect to finish this year between 10% and 12% over 2019, so possibly something similar 2023 over 2022.

Alejandro Zamacona

Do you mean something similar in terms of the capacity, in terms of 2019 or in terms of growth?

Abhi Manoj Shah

2023 versus 2022 will be similar growth, 2022 versus 2019.

Alexandre Wagner Malfitani

Yeah. So somewhere in the low teens, I think it would be kind of a working assumption we still need to nail it down and we'll see if we provide some firmer guidance. But I think that with our fleet transformation, if you remember, we're going to be essentially replacing, still a lot of old generation jets with next generation jets. They have more seats, they have lower rent and they burn less fuel than the old generation aircraft. So we can increase capacity by keeping the fleet essentially stable. You will see more seats flying, we can get higher utilization of these assets and we could even stimulate fares with the lower unit cost that those aircraft will provide. So it's something we're very excited about and most of our growth comes from that, from the up-gauging. And most of the growth, it's not all of the growth happens in the markets where we are strong. It's in the Azul network, it's not going to stealing share from other competitors, it's really up-gauging and they're also we already flying.

Alejandro Zamacona

Okay. Thank you.

Operator

The next question comes from Pablo Monsivais with Barclays.

Pablo Monsivais

Hi guys. Thanks for taking my question. I have a quick question on the lease payables. I see the number that you provided in your financial statements. But for modeling purposes and cash flow purposes I wanted to see if that's the right number, we should think about or I remember that were some deferred payments that we have to take into consideration. And you have already talked about some negotiation with the lessors. Can you just shed some light on in terms of lease payments for next year? Thank you.

Alexandre Wagner Malfitani

Sure. I think the way, I think these just way to think about, Pablo, is our steady state rent under current size and current foreign exchange, it's roughly kind of BRL 3.2 billion. You will see that this year, we're actually going to be more than that, because we had the second wave of negotiation with lessors, where the first time when we negotiated with lessors, we negotiated a big number with a big extension because obviously there was a big impact from the pandemic from COVID-19. But we didn't assume a second wave, right. When the second wave happened, we negotiated a shorter deferral for a shorter period of time, which was essentially shifting some rents from 2021 into 2022. So in 2022 we are already paying more than that BRL 3.2 billion and we're paying roughly what we're going to pay in 2023, Because in 2023 we start paying the first deferral of leases, which will increase our steady state leases by about BRL 500 million to BRL 600 million, right. So essentially we're paying about BRL 3.8 billion this year and we should be paying around BRL 3.8 billion next year as well. That's roughly, I think a good way to model the annual ramping.

Pablo Monsivais

Perfect. And I have another question if I may. I mean, the question is, we have asked a lot about the sustainability of your deals and they have been actually very impressive. How are you seeing the competitive environment? I mean, the other guy is actually following you, are you seeing like a rational behavior? Or do you think that some of your competitors may take advantage of just charging low fares to be more competitive and fill some market share? Thank you.

Abhi Manoj Shah

Yeah. Hi, Pablo. I think the industry overall is pretty competitive. I think that all of the competitors, all of the airlines are trying to do what's right. I think mostly within their own networks and within their strengths. And I think that what the industry has achieved in terms of fares since the start end of February, has been great and remarkable actually. We have the benefit that we are alone in so much of our network, so we can always do it ourselves if we need to and we do those changes all the time. So we are less dependent on them, in controlling our own destiny. But I would say, that overall, the industry has been pretty disciplined. And I think we'll continue to be so, I think we're all looking for good results here.

John Peter Rodgerson

And Pablo, I just want to add. We're in a hostile fuel environment, and the guy that has the most next generation aircraft, is in a privileged position, right? And so if you say 70% of our ASKs are coming from NEOs and E2s and our competitors are significantly less than that, significantly less than that. They need higher fares, right? And so I think that we don't see anybody doing crazy things going after market share, because it's not in their best interest to do it, because they would bleed significantly because they don't have the right aircraft type, kind of given the hostile fuel environment where we are today.

Pablo Monsivais

Super clear. Thank you very much guys.

Operator

Thank you. Our next question comes from Dan McKenzie, Seaport Global.

Daniel McKenzie

Hey, thanks guys. Congrats on the quarter here. So to put a finer point on the pricing, fuel sequentially stronger yields in the back half of the year, that you've kind of been referencing the prior questions. Can you get the profitability in the fourth quarter? And then just to put a finer point on cash, excluding accounts receivable. So cash in the checking account, so to speak, short-term investments, where do you expect to end the year?

Alexandre Wagner Malfitani

Let me start with the cash, and thanks for the congratulations. We really model our cash by looking at cash plus receivables because I can transform my receivables into cash. I would just waste money doing that by paying interest expenses that I don't need. But like we've said, I think those of you that are familiar with the way we sell tickets in Brazil, a lot of the tickets are sold in installments, in credit cards. That credit card once we flew that ticket and we fly that ticket fairly quickly because Brazilians buy very close in, so the majority of our credit card receivables we've already flown that revenue. And so I can call the bank in the morning and by lunchtime, the money will be in my account. But I'm going to pay a risk-free rate was 1 or 2 percentage points,

which if I don't need to do that, I won't do that.

So what we're and I think we mentioned that in the previous calls, a lot of the cash position at the end of the year will depend on EBITDA, will depend on oil prices. We feel comfortable that we will have a cash position that is roughly where we ended 2019, if not above, right. We've been actually carrying more cash than we had pre-pandemic. If we have as much cash as we had pre-pandemic, I mean, if some of you may remember that, when we were before the pandemic we were getting some suggestions from Investors to actually start paying dividends and returning cash to shareholders. So the cash position that we had pre-pandemic was a very. So if we can end any quarter after the pandemic, with as much cash as we have then, it is a very healthy cash position.

John Peter Rodgeron

And then just going to highlight, we were 1.5 turns down in leverage Q1 into Q2. We're going to be down again as we go into 3Q and into 4Q. And so the use of the cash is to deleverage, right. And so the operation as I stated earlier, is generating an enormous amount of cash. So any cash uses above and beyond that is to deleverage the business, which is a good use of cash.

Alexandre Wagner Malfitani

Yeah. And the 4Q profitability goes to the EBITDA question, right. I mean, if we delivered on BRL 4 billion EBITDA that will tell you, kind of what the 4Q profitability will be. I think our difficulty again with nailing down the short-term profitability kind of leads to difficulty in saying is exactly how much. But 4Q is normally our best quarter in the year, everything that we see points that 4Q 2022 should be the best quarter in the year in terms of profitability. Fares are going to be up because of seasonality and because of the strong demand environment. Assuming oil and FX stay where they are, fuel prices that we will be paying in the fourth quarter will be down from what we paid in Q2 and Q3. So that should point to a very profitable Q4, which should give us very great momentum into 2023 as well. So we're very excited about that.

John Peter Rodgeron

And Brazil is expected to win the World Cup in the fourth quarter as well there. So we're celebrating after that happen, so we're pretty excited about that.

Daniel McKenzie

A lot to drive profitability there, right. Well, thanks for that. I appreciate it. In the script, you mentioned the fleet transformation announcement coming next week. So I'm not sure if the numbers are correct in the financial statements this morning. But as best I can tell, it looks like there is about 133 aircraft on firm order. And I guess my next question is, how many are coming in 2023? How many in 2024? And how many do you plan to retire and what does that imply for '23 growth and CAPEX? From the financial statements, it looks like CAPEX should be flat next year but I'm not quite sure how to triangulate that with the script this morning.

John Peter Rodgeron

You know, Dan, it's in our best interest to accelerate fleet transformation and that's what we're going to be looking at. So there's opportunities in the market. You know, we have a lot of aircraft that are going to do lease returns over the next 36 months. And so we're looking at ways to potentially accelerate that. And that's what David was referencing and David gets it head himself and kind of pushes us there. And so, but there is a lot of good news on that front. So as we look to get into 2023, I think you're going to see us flying more next-generation aircraft. And so, as Alex said, maybe net-net, we're about the same or up a couple of shelves. But with a lot more next generation, ASK is in there, which again further pushes our competitive advantage in the

market.

Alexandre Wagner Malfitani

Yeah. And I think that's another source of flexibility that we negotiated during the pandemic. I think we're comfortable keeping the fleet constant. I think because we have the ability to accelerate deliveries, right. There is certainly enough demand for us to keep the fleet constant. And then we don't need to overcommit to capacity. And as we see demand firming up and with that, we know that we can count with demand for a long period of time, then we can accelerate additional aircraft from our order book. So I think that's a very rational way to manage the possible volatility that we can see in demand in Brazil, right, be essentially short ASKs, but have the ability to increase ASKs easily once demand trends out.

Daniel McKenzie

Understood. And then how do we think about CAPEX next year?

Alexandre Wagner Malfitani

Yeah. I think if you assume something flat to this year I think most of you know, our CAPEX essentially maintenance CAPEX, the delivery of aircraft in 2022 and 2023 will all be operating leases, so there is no cash outflow regarding those deliveries. And so it's really engine maintenance that we're talking about when we're talking about CAPEX. So you can assume something flat this year.

John Peter Rodgerson

A portion of that it will be financed as well. I think that's something that you need to keep in your model as well.

Daniel McKenzie

Yup. Understood. Thanks for the time guys. Great job.

John Peter Rodgerson

Thanks.

Operator

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

Shannon Doherty

Hi. Yes, this is actually Shannon Doherty on for Mike. Thanks for taking my questions and great job this quarter. Alex, maybe one for you, I think you know around this time last year you were expecting your unit cost excluding fuel to be below 2019 levels for the full year. Obviously a lot has happened since then on the macro side. And as mentioned before, but with the progress that Azul has made on productivity gains and the cost savings thus far combined with the 10% to 12% growth rate that you kind of outlays for '23, would you say that this target is achievable by next year?

Alexandre Wagner Malfitani

Yeah. So I think there is certainly further improvement on our unit costs, that we can get just by the fleet transformation. Like I said, we're going to pay less rent on each E2 that comes in, than

we pay on each E1 that leaves, they will generate more ASKs, they have more seats and they burn less fuel, and they're more productive as well. So we can get more productive at airports, we can get more productive with pilots and flight attendants, right. And then we're going to continue pursuing opportunities like we did over the last couple of years. I think we are encouraged by the fact that even though we consider ourselves an efficient airline, wherever you look, there is opportunity, you can manage processes better, you can invest in technology, there is just a lot of stuff that we're going to continue pursuing essentially forever, right, to keep our cost as low as possible, because that is necessary for us to continue expanding margins. So you can count on the unit cost reduction from fleet transformation and you can count on us continue to pursue other efficiency opportunities around the organization.

John Peter Rodgerson

I just want to highlight, we've got very engaged crewmembers. Engaged crewmembers are helping us deliver a fantastic experience. You see the problems of the U.S. carriers are having, the European carriers are having right now, and look at what a great operation we're running for more than 150 cities in Brazil with the diversified fleet type. And so a couple of things, we're building new hangar in Confins. And so we saw all of the benefit that our hangar provided for us in Campinas, we're going to do that again, because we have more work to be done, there is more things that we can bring in-house at a much cheaper cost. And so I just think having great people that are very engaged and working with us, it provides for additional opportunities to make this airline a much more efficient airline going forward.

Shannon Doherty

Got it. Thanks. That's helpful. And maybe to Abhi or John, you will comment on how you plan to use the additional Congonhas slots that you expect to get over the coming years or quarters? And I understand is a busy airport in downtown São Paulo, but it also has a strong corporate foothold. So, any color that you can add, would be helpful.

Abhi Manoj Shah

Yeah. Hey, Shannon. We haven't obviously finalized our network, but you can expect the large business markets now we don't currently fly to. And also flying to our hubs, we'd like to connect downtown São Paulo to our hubs, because that provides connectivity and access to destinations that today those customers don't have. And so it will be a combination of the two. Some in the large business markets, but also some very much flying to our hubs that further strengthens our network.

John Peter Rodgerson

Hey, Shannon, if I could just add, we've got several customers that experience Azul for the first time, when we went into Congonhas. Now they fly to Lisbon, they fly to Fort Lauderdale, they experience the great product onboard the aircraft, the free WiFi, the snacks, the TV. And they said, wow, I'm willing to go out to Viracopos, I'm willing to go other destinations, they get into your loyalty program, they get your credit card. And so as you expand the Congonhas Airport, this is more and more people that Azul becomes their number one airline. And I think that's fantastic for us going forward.

Shannon Doherty

Great. Thanks guys.

Operator

Our next question comes from Felipe Newson, Citi.

Felipe Newson

Hey guys. Good morning, or afternoon, and again thanks for taking the question. So I have two questions on my side. One is regarding a non-ticket revenue, could you share some your expectations on medium to long-term possibility of revenue generation and revenue growth in terms of those opportunities like Cargo, TudoAzul, etc? And the second question is regarding expectations on more M&A in South American markets? Thanks.

Abhi Manoj Shah

Yeah, I can start with the first part. Thanks for the question. Yeah, our business units are growing faster than the airline overall. And so they will continue to contribute in a more meaningful way as we go forward. Cargo, for example, almost tripled in revenue from 2Q'19 to 2Q'22. And we've just actually started to put our E1s, our dedicated Embraer aircraft into service. We have five of them flying right now. And hopefully, we'll have more pretty soon. So we're excited about those opportunities, and as we've said before, there is a large road market. There are a lot of those goods could be converted to air, for example, we just started with Shopee for example. And we're starting to onboard other large customers as well.

So we're excited about Cargo and we think that, that growth is going to continue to be above average for the next few years. Our loyalty program had a record in July in terms of monthly active users, lot of engagement, our billings ex-Azul are up 60%, 70%. And so we're seeing a lot of engagement and as we bring back the network, as we bring back our international network, those customers want to redeem those points. We saw in the pandemic they were redeeming for coffee machines in airports, and now they're redeeming for travel, and that trend is going to continue. And I think probably the highlights so far this year has been our vacations business. We'll have 2,000 flights dedicated this summer season, it's almost going to be doubling this year versus 2019. And just a lot of new city pairs, a lot of new network opportunities. And as we've said before, this allows us to fly the aircraft on the weekends, that other times that we don't have those opportunities. So it's very accretive in other ways as well. Yeah, so I think those businesses are going to grow at a faster rate than the airline overall and keep contributing.

John Peter Rodgerson

Yeah. As for the M&A, we've never felt better about our standalone plan, keep in mind this airline is 50% larger in terms of revenue than it was in 2019. We've got this new generation fleet coming on. We now have access to the Congonhas airport. So we feel very good about where we are. Obviously, we will always look at opportunities, right, that exists in the market, as we see things, some of the moves that we've seen in Latin America, are very healthy. We think all airlines in Latin America need to focus on profitability and that's a good thing going forward. And so really no news and we're focusing on our standalone business at this time.

Felipe Newson

Great. Many thanks for the answer.

Operator

Thank you. Our next question comes from Lucas Barbosa, Santander.

Lucas Barbosa

Good afternoon, everyone. Congratulations for the results. John, I hope you're right about Brazil winning the World Cup. So I have a question on balance sheet, maybe for Alex. Is the ATL line expansion just a reflection of the normal business seasonality and future price expansion? Or

was there any campaign that accelerated forward bookings? Maybe another way to ask is, do you think you can maintain the BRL 4 billion of ATL by year-end, given the increase in ticket prices and higher capacity going forward? And I'll do my second question later. Thank you very much.

Alexandre Wagner Malfitani

Great. Thanks, Lucas. Yeah, I think if you look at the ATL in terms of days of sales, you're going to see that since fourth quarter it's essentially flat, right. It may go up a little bit, down a little bit, but it's going to be hovering around the same number. So most of the increase in ATL is the increase in sales really. And there is some seasonality, right, for example, normally in Q1 we don't sell a lot, but we fly a lot. And normally in Q2, we sell a lot but don't fly a lot. So it's normal also for you to see an increase in ATL in the quarters where sales are strong, but we don't fly as much. So yeah, we believe that if you look at the ATL in terms of days of sales, you can expect something pretty constant and something that means that the balance in ATL should actually grow, as we continue growing our revenues.

John Peter Rodgerson

Yeah. I just want to highlight another thing, and Abhi will give the exact numbers, but what percentage of our international network was being sold in first quarter and second quarter versus third quarter and fourth quarter, right. And so as the restrictions to fly internationally have dropped in Europe and United States, we've seen an uptick. And as you go into the third and fourth quarter, international revenues come on very strong. We haven't talked about that. That's obviously very positive for ATL because those bookings are a lot farther out.

Abhi Manoj Shah

Yeah. Overall, we're going to be finishing the first half of the year we were probably already at 40% to 50%. International recovery, we will finish the year closer to 80% to 90% international recovery, and getting to 100% by first quarter of 2023. So, that's going to be very helpful in driving those forward bookings as well.

Lucas Barbosa

Super clear. Thanks for the answer. And since I raise the point on forward bookings on the first question, can you give us some color on how you're seeing the pricing on forward bookings in the second quarter the PRASK was 20% higher than 2Q 2019. From what you're seeing on bookings so far, can we see a comparison to pre-COVID RASK becoming even high in the next quarters?

Abhi Manoj Shah

Yes. Our expectation is that 3Q will be even higher than the number that the 25% in 2Q.

Lucas Barbosa

Super clear. Thanks very much. And John, I hope you're right about it, the World Cup. Thank you.

Operator

Our next question comes from Pablo Monsivais, Barclays.

Pablo Monsivais

Hi guys. I apologize for asking one more question. But I was taking a look at your balance sheet, and you are putting something called debtor risk for BRL 660 million. I just want to have more color on what is exactly this is that you are putting? Thank you.

Alexandre Wagner Malfitani

Hey, Pablo. Yeah, it's what we mentioned few calls ago a few answers ago, we can get support from our suppliers, for example, to get better terms. But sometimes there is a win-win that can happen for both of us and the suppliers, because we have, we essentially pay a lower interest than our suppliers. And sometimes suppliers have a much harder access to capital than we do. So this essentially supplier financing where sometimes I can negotiate an extension with the supplier from 30 days to maybe as long as 120 days, but then that supplier can go on finance themselves with the bank. We're essentially using bank risk, so that also shows our access to credit directly with the banks. So it's essentially another source of capital, another source of cash that we can access if we need to.

Pablo Monsivais

Okay. Thank you.

Operator

Our next question comes from Guilherme Mendes, J.P. Morgan.

Guilherme Mendes

Hey guys, good afternoon. A quick one here, just in terms of fuel hedging, if you could comment on your fuel hedging strategy going forward, that would be great. Thank you.

Alexandre Wagner Malfitani

Hey, Guilherme. We have a policy that we can hedge up to 40% of our next 12 months exposure. Right now at about high-teens, 15% or a bit over 15%. We've been using forward contracts up to this point and that's the reason why you're seeing the big positive results that we had. And this is actual cash that we can access if we need to. We can we look a lot of what the industry is doing, right. We're not trying to convince you that we're going to guess better than the market whether oil prices are going to go up or down.

We essentially want to protect the tickets that we have already sold which have obviously, their fares are already locked and '20 volatility in fuel prices that we may have between selling the ticket and flying that ticket. But we also look a lot at what the industry is doing. And the industry is fairly underhedged right now. I think overall, we look at hedging as insurance. We expect to lose money in insurance, we expect to lose money in hedging, not a lot on either one, but it's not a profit line for any airline. If you can't make money guessing whether fuel prices are going to go up or down, you shouldn't be running an airline. So I think you can expect a similar approach to fuel hedges, but we'll also be monitoring what the industry is doing overall.

John Peter Rodgeron

We're just frustrated, we didn't have hedge accounting in the quarter, to be honest with you.

Guilherme Mendes

Yes. Super clear. Thanks guys.

John Peter Rodgerson

Thank you.

Operator

Ladies and gentlemen, this concludes today's question-answer session. I would like to invite Mr. John to proceed with his closing statements. Please go ahead, sir.

John Peter Rodgerson

Thank you for joining us today. If you have any follow-up questions, obviously our IR team and Alex, Abhi and myself will be available and we appreciate your time today and look forward to meeting you at the conferences. Take care.

Operator

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