**Conference Call Transcript**
**Azul**
**4Q24 Results**

**Operator:**

Hello, everyone, and welcome all to Azul’s 4Q24 earnings call. My name is Zach, and I will be your operator for today.

This event is being recorded, and all participants will be in listen-only mode until we conduct the Q&A session following the Company's presentation. If you have a question, click on the Q&A icon at the bottom of your screen and write your name and Company. When your name is announced, please turn your microphone on and proceed.

For those who are listening to the conference on the phone, press nine to join the queue and six to accept the audio when requested.

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

**Thais Haberli:**

Thank you, Zach, and welcome all to Azul's 4Q24 earnings call.

The results that we announced this morning, the audio of this call, and the slides that we reference are available on our IR website. Presented today will be: David Neeleman, Azul's Founder and Chairman; John Rodgerson, CEO; and Alexandre Malfitani, our CFO. Abhi Shah, the President of Azul, is also here for the Q&A session.

Before I turn the call over to David, I would like to caution you regarding our forward-looking statements. Any matters discussed today that are not historical facts, particularly comments regarding the Company's future plans, objectives, and expected performance, constitute forward-looking statements.

These statements are based on a range of assumptions that the Company believes are reasonable but are subject to uncertainties and risks that are discussed in detail in our CVM and SEC filings. Also, during the course of the call, we will discuss non-IFRS performance measures, which should not be considered in isolation.

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

**David Neeleman:**

Thank you, Thais. Welcome, everyone, and thank you for joining us today.

First, let me begin by thanking our incredible crew members for their passion and dedication. 2024 was a tough year for Azul. Like many airlines around the world, we were impacted by OEM's supply chain and engine challenges, which created schedule uncertainty and operational disruption. This affected our customers and crew members in addition to a heavy financial impact of over a billion reais.

Also, the Azul family and Brazil at large were severely impacted by a significant devaluation of the local currency and extreme floods in the state of Rio Grande do Sul, which resulted in the closure of the Porto Alegre airport for over six months.

Despite all these significant challenges, our crew members went above and beyond, taking care of each other and our customers on each and every flight. I am proud of them, and I cannot thank them enough.

Turning to slide three, the Azul business model more than ever demonstrated its value thanks to our strategic and competitive advantages. The combination of a differentiated network with unique fleet flexibility, our high-growth business units, the lowest unit costs in the region, together with passionate crew members and supportive stakeholders, is what allowed us to deliver the record results we present to you today.

On slide four, I would like to describe what I think is the strongest of our competitive advantages, our network. From the beginning, Azul was designed to be different. Our focus has always been to grow the market, to access demand that has never been accessed before. While our competitors focus their operations in three cities of Brazil, resulting in high overlap, our unique fleet and network combination allows us to be the only carrier in 82% of our routes connecting over 150 destinations, many of which are located in the fastest growing regions of Brazil.

Slide five is another clear way to see how differentiated our network truly is. In this chart, we show how much of each airline's capacity is in the airports where they have over 60% share. As you can see, Azul leads the global industry with 63% of our capacity deployed at airports where we are the most relevant carrier. This means we choose to fly where we are strong, and we are strong in airports where we choose to fly.

This is in clear contrast to the industry expectations that, as we grew, we would inevitably face more competition. In fact, the opposite has happened. We have grown our markets within our network, increasing our strength and extending our competitive advantage. We truly built a unique business that allows us to succeed even in the most challenging moments. Proof of that is the tremendous support we have received from all of our stakeholders, whom I would also like to thank. We have truly set up Azul to be successful for the long term.

With that, I will turn the time over to John to give you more details on our record results.

**John Rodgerson:**

Thank you, David.

We are very proud of what we have built, and I too would like to thank our outstanding crew members.

On slide six, you can see that. We are excited to report another tremendous quarter with an all-time record revenue, EBITDA, and EBIT. Our revenue was up 10% year-over-year to a record R$5.5 billion with a strong RASK of R$44.98 cents. Our record quarterly EBITDA of R$2 billion with a margin of 35.2% and EBIT of R$1.2 billion reflects the strength of our unique business and competitive advantages, bringing Azul to industry-leading levels of profitability.

On slide seven, we break down the capacity and unit revenue metrics for 4Q24. Even with capacity growth of 11% year-over-year and at the same time that fuel prices dropped 17% year-over-year, we sustained a historically strong RASK of R$45 cents. This is a clear demonstration of how we can generate high-quality revenue in any macroeconomic environment.

In addition to year-over-year trends, we also generated strong quarter-over-quarter improvements, even with Porto Alegre only partially reopening in October and not getting to full capacity until December of last year. As a result, we will see further revenue improvements as we head into 1Q25 and beyond. Overall, we see a disciplined industry environment with encouraging revenue trends and more unit revenue gains expected in the quarters ahead.

Turning to slide eight, we highlight another one of our structural competitive advantages: the diversification of our revenue base. Our business units have done a great job of what we call “growing beyond the metal,” finding new and unique ways to increase our revenue outside of just ticket revenue.

Our high-margin business units’ contribution to RASK grew from 15% in 4Q23 to a very strong 23% in 4Q24. All units combined resulted in a positive impact of more than R$450 million in 4Q24 and R$1.5 billion in 2024, accounting for 24% of our 2024 EBITDA.

The investments we are making in people, technology, and products into these businesses is a key element of creating and extending our competitive advantages, allowing us to continue our profitable growth trajectory for years to come.

On slide nine, I would like to further highlight some key results from each of our business units. Our loyalty program, which continues to do well, now has more than 18 million members and increased 27% in gross billings ex-airline year-over-year.

Our co-branded credit card, ranked best in the country, has total spending that represents 0.5% of Brazil's GDP. Let me say that again. 0.5% of the value of Brazil's GDP is spent on the Azul credit card.

Our vacation business continues to expand its network of agencies and stores throughout the country, resulting in an incredible 63% growth in gross bills in 2024.

Our logistics business has returned to revenue growth as well, powered by a 9% increase in international revenue for the full year and a very impressive 54% growth in international revenue quarter-over-quarter.

In summary, the “growth beyond the metal” is strategic and is a key part of the Azul story and a fundamental element of our competitive advantages.

On slide 10, we focus on what is becoming yet another competitive advantage. Our CASK is the lowest amongst our peers. Overall CASK was down 6.5% year-over-year. Even more impressive is that, despite an 18% devaluation of the local currency in 4Q24 and almost 5% inflation in 2024, CASK ex-fuel remained flat. This was driven by our laser focus on efficiency and productivity, two examples of which I will show on the next slide.

As you recall from our past two earnings calls, our Elevate Plan became a new way of managing our business. In fact, Elevate was so important to us in 2024 that it has been incorporated into our yearly strategic planning moving forward.

Slide 11 shows two very beneficial initiatives of our Elevate Plan: increased aircraft utilization and productivity, which has been key in driving down our unit cost. On the left, you can see how aircraft utilization has increased year-over-year. Among other reasons, this was accomplished by reducing aircraft ground time and optimizing our handling, catering, and airport processes, leading to an increase in utilization of almost 13%.

On the right, you could see that the airline today is 10% more productive in terms of ASKs per FTE compared to last year or at any time in our history. Therefore, it is fair to say that Azul has never been more productive, and further gains are on the way.

Summing it all up on slide 12, you can see that the combination of our structural competitive advantages, growing business units, and lowest unit costs have put us all back on the path of consistent profitable expansion.

Despite its challenges, 2024 was the best year in our history in terms of EBITDA generation. 2025, in turn, is expected to be even brighter, with significant revenue growth. With that, we are in a position to reaffirm our outlook for 2025 with a projected record EBITDA of R$7.4 billion. This superior operational performance is now paired with an optimized capital structure, thanks to the comprehensive restructuring we have negotiated with our bondholders, OEMs, and lessors.

I will now turn it over to Alexandre, who will provide more details about the capital restructuring.

**Alexandre Malfitani:**

Thank you, John.

As we have been communicating consistently, our comprehensive restructuring focused on improving liquidity and cash generation, resulting in reduced debt and leverage. Over the next slides, we will present in detail the robust capital structure that resulted from this plan.

On slide 13, you can see the different liability components we have eliminated from our balance sheet, resulting in almost R$8.5 billion in debt being extinguished and an additional US$500 million of new capital coming into the Company.

The first step of the plan was the elimination of equity obligations, owed to lessors, and OEMs, totaling approximately R$3.1 billion in exchange for R$96 million in new AZUL4 preferred shares, which are being issued right now in the 1Q25. The R$2.7 billion you see on this slide represents the present value of these obligations.

The agreements also extinguished a significant part of the 2030 notes held by lessors and OEMs, with the remaining notes being exchanged for new unsecured notes due two years later, in 2032, with an option for Azul to pay interest in kind. That is additional to the cash flow improvements of over US$300 million across 2025, 2026, and 2027, also negotiated with our commercial partners.

Given the successful agreements with lessors and OEMs, we then moved on to negotiating with our bondholders. We managed to reach an agreement to equitize into preferred shares US$785 million of the 2029 and 2030 notes.

By April 30, 35% of the notes' value will be converted into preferred shares, and 52.5% will be converted into new exchangeable notes, also with a pay and kind interest option. The remaining

12% shall be converted upon completion of an equity offering, raising at least US$200 million. By reaching these agreements, we were able to access the full gross proceeds of the super priority notes of US$500 million.

These transactions significantly improved Azul's capital structure and operational cash generation by eliminating not only the lessor and OEM equity issuance obligations, but also most of the 2030 lessor and OEM notes, as well as the 2029 and 2030 bondholder notes.

None of this would have been possible without the support of our partners and investors, to whom I am very thankful. Their support demonstrates how the aviation community and financial markets believe in their business model.

Slide 14 shows the resulting share count of all of these agreements. On a fully diluted basis, once all convertible instruments are exchanged into shares, our total share count on the equivalent preferred basis will be 2.3 billion shares. The shares issued to lessors and bondholders represent 85% of that base, compared to 30% before we started the restructuring.

As you all know, before this restructuring, we had two equity instruments: the convertible debenture issued in 2020 and the lessor and OEM equity instrument, which, together, would already represent a 30% dilution to our shareholder base. Since the dilution of these instruments is already included in the 85%, the incremental dilution from the new agreement is 55%. This means that we exchanged 55% of the Company for a total debt reduction of over R$6.3 billion.

You can see that illustrated on slide 15. As we saw before, we reduced our debt by over R$6.3 billion, including the new superpriority notes we issued in January. If you do this simple math, this represents an implied valuation of over US$2 billion.

We have strengthened our balance sheet and can now turn our attention to expanding our margins and generating positive free cash flow. This has been the focus of a strategic planning effort we have just concluded and which John will now discuss.

**John Rodgerson:**

Thank you, Alexandre.

With the successful conclusion, we are now even more excited about our future. As I mentioned before, we have incorporated Elevate into our long-term strategic plan, as you can see on slide 16.

Under a permanent safety mindset, we will focus on four major pillars to fly Azul into even brighter skies: cash generation and profitability, operational integrity, crew member engagement, and customer experience, underpinned by a new framework of governance. Azul is already one of the most profitable airlines in the world, and now with our financial restructuring completed, the best is ahead of us.

Finally, on slide 17, you can see how we will continue to expand profitability into 2025 and beyond. We still have significant fleet transformation upside to come, with more next-generation aircraft being delivered.

Our business units continue to grow beyond our metal, delivering high margins in unit revenue expansion. Our new business management strategy will produce even lower unit costs and secure every additional revenue opportunity ahead of us. With our exclusive network, platform, and unique fleet flexibility and the lowest cost in the region, we are very optimistic about the future.

With that, David, Alexandre, Abhi, and I are available to answer your questions, as I turn the call over to the operator.

**Savanthi Syth, Raymond James**:

Thank you. Good morning, and congratulations to the team on completing the current phase of your capital restructuring.

Maybe, Alex: Could you provide an update on the major cash flow components for 2025 and 2026 after what has been completed?

**Alexandre Malfitani:**

I think it is still consistent with what we provided at Azul Day. If you look at the guidance for free cash flow that we showed, you can see the R$7.4 billion EBITDA that we reaffirmed, and then you see the additional components of working capital, rent, CapEx, and interest.

Obviously, those numbers were provided when the real was a little bit stronger than what it is today. I think, around the budget time, we were at about R$5.50; then the real soared up to R$6.20; and now we are at about R$5.70. So obviously there is a little bit of headwind here.

However, just to remind everyone, I think we have given these numbers in the past, but, basically, when you see a 10% devaluation in the currency, to get back to break even on a free cash flow basis, we only need about a 6.5% increase to fares, and obviously from R$5.50 to R$5.70, we are only talking about a 3% devaluation of the real, so the fair increase we would need to come back to that free cash flow guidance would be only about 2%, which is very much feasible, especially given the demand environment that we are seeing today.

So we have reaffirmed the R$7.4 billion EBITDA, and I think the free cash flow is something that we are also still continuing to pursue for this year. I think that is what we all collectively are looking for. Clearly, we have a very sound strategy. Our EBITDA generation is best in class, but we all want to convert as much of that EBITDA generation into free cash flow going forward.

**John Rodgerson:**

It is a strategic pillar that the whole Company is focused on. So every crew member at Azul is aware of it, our metrics are driven by it and our bonuses are linked to cash flow generation now.

**Alexandre Malfitani:**

Yes, and that interest number that we talked about already reflects all of the components of this equitization: the debt reduction, the pick option, etc. So that is all consistent with everything that we have already announced so far.

**Savanthi Syth:**

That is helpful. Thank you.

And then maybe a question on capacity, Abhi: What are you expecting in terms of the fleet deliveries this year and retirements, and how should we think about domestic versus international growth as you progress through the quarters?

**Abhi Shah:**

Hello, Savanthi.

You will see a higher growth in the first six months of the year, mostly because of Porto Alegre. So you will see a kind of a peak in 2Q25, and then it will come down in 3Q25 and 4Q25.

In terms of deliveries this year, really, it is only the E2. We have no Airbus deliveries this year, so our focus is going to be on the E2. Obviously, we are pushing Embraer and every OEM in the world that has its challenges. It is a constant monitoring and a constant engagement with them.

In terms of retirements, we do have E1 retirements this year. We are selling some aircrafts, and we have some ATR retirements as well. So, we are managing that.

In terms of the overall capacity, I think we are going to be somewhere in the 10% to 12% range, mostly driven by international. Domestic, I would say, is going to be in the high single digits, like in the 8% range; and the international is going to be high.

The reason international is much higher is because one of the largest OEM impacts we had last year was on the wide bodies. We had delays early in the year with aircraft that we were expecting that we did not get, and then we had an impact late in the year with Rolls-Royce engines severely impacting our wide-body fleet. So, I would say that domestics will be in high single digits, around 8%, and overall capacity growth will be about 10% to 12%.

**Savanthi Syth:**

Very helpful. Thank you.

**Victor Mizusaki, Bradesco BBI:**

Hello.

I have two questions here. The first one, with regards to the financial restructuring, if I am not mistaken, there is a plan to raise R$200 million of equity, so my first question is: Can you comment about the status of this process?

And the second one is about Azul’s shareholders' meeting to approve the issuance of any shares as part of the restriction plan. Can you assume that controlling shareholders will subscribe to this deal?

**John Rodgerson:**

I will take the second question, and then I will give the first one to Alexandre.

Yes, I think we are excited. David is on the call and he is putting in money into the Company right now. I think that is a bullish sign for the Company overall. We are also in the process of going to a single share class. So that is something that, as part of this restructuring process, will happen in about a year's time.

Therefore, seeing the controlling shareholders put new capital in, doing that at a slight premium to where the stock is today, I think that is also kind of a bullish sign that they believe in the Company and are planning to be around. So I think that is a good thing.

I will let Alexandre now talk about the final steps of the restructuring.

**Alexandre Malfitani:**

Thank you, Victor.

As we described, there are, essentially, three capital raises happening as all part of the restructuring that we have already announced:

The first one, which is happening right now, is the equitization of the lessor and OEM obligations, which are going to generate about R$96 million preferred shares at a price of R$32 and some change.

Then, as also part of this restructuring, as John mentioned, the controlling shareholders are putting in more money into the Company. That is also a capital increase that we have already announced, which will be made into OEMs at the equivalent price of R$4.50 per preferred share, which is about R$0.60 per ordinary share.

And then there will be the equitization of the 2029 and 2030 notes. And then, consistent with our bylaws and with Brazilian law, all of these capital raises allow for shareholders to participate. So shareholders can buy together with the lessors at R$32. They can buy together with the voting shareholders at R$4.50 per preferred share, and then they will be able to equitize under the same conditions as the bondholders.

We have to do that until April 30th, as you have seen on our documentation. All of this is public information that we have already announced.

So we have to see how much interest there will be from the market on all these capital increases, and then, as you have also seen from all of our announcements, there is a remaining 12.5% equitization of the 2029 and 2030 notes that do depend on a capital raise of US$200 million.

Therefore, we will see the results. We are focused on implementing all of these capital increases, and then we will see where we are with regard to the remaining requirement.

**Victor Mizusaki:**

Thank you.

**Rogério Araújo, Bank of America:**

Hello. Good afternoon. Thank you a lot for the time and also the question.

I have a couple, actually. One is regarding the number of shares that you just disclosed at R$2.3 billion. Does it include the US$200 million follow on offer?

Also, in this restructuring, there is a clause saying that the controlling shareholders, actually, there is a clause saying that the management team and more members may have an 11% share in the future, post-dilution. Can you disclose a little bit of the terms of those 11% shares and if this is somehow included in this calculation? That is the first one.

Thank you.

**John Rodgerson:**

About the first question, it is not included. We did not include the US$200 million capital raise because that can happen at any time in the future, so we are given the outstanding shares as of now.

And yes, you are correct. There is a management incentive plan for the management team. It is performance-based and time-based from a retention standpoint, so it can result in up to 10-11% dilution as you suggested.

However, there are certain criteria to getting there, and the compensation committee at Azul is defining what those terms are. That is our new long-term incentive plan that will be available for the Company for the years to come. So it extinguishes all old equity plans that we had, and this is the new equity incentive plan to the management team.

**Rogério Araújo:**

OK. It sounds great. Thank you. It is very clear.

The second one is regarding a haircut that was made in the 2030 notes. If I am not mistaken, about US$244 million. You say in the release that this was done in exchange for other commercial agreements. Could you please clarify what commercial agreements it includes?

**Alexandre Malfitani:**

There was a cash component that was paid with a significant discount to face value on those notes, and then there were other, let us say, commercial items in dispute. For example, maintenance reserve reimbursements or aircraft deliveries.

It is, in general, selecting lessors and continuing with our commercial relationship with lessors under market conditions. We have a lot of growth into our future. Some of the concessions or some of the commercial agreements that we have negotiated essentially locks in some future demand that Azul has for future accurate deliveries with specific lessors or it settles some disputes that we had in the past, but everything is done.

As you probably know, we had FDI inside the Company here checking all of the agreements that we have negotiated, validating it to make sure that they qualify towards the US$100 million annual cash flow improvement that we had as a mission right from our bondholders to be able to access the full US$500 million and the equitization. All of that has been certified and checked.

**Rogério Araújo:**

Thank you very much, Alexandre. Have a great one.

**Alexandre Malfitani:**

Thank you.

**Savanthi Syth, Raymond James**:

Thank you for the follow-up.

I was wondering if you could provide a little bit more color on the current demand environment. I know there is a lot of noise. I think the Carnival timing is not great for 1Q25, but you do also have easy comps coming up. I am just curious what you are seeing both on the leisure side and the business demand side here.

**Abhi Shah:**

Hello, Savanthi.

Actually, we have been positively surprised with what we have seen in January and especially February. You are right. Normally, Carnival is in the first week of March. You would expect a lame duck February, if you will, and then corporate demand coming back right after Carnival. But we have actually been reasonably and positively surprised in February with the close-in revenue bills. They have actually been better than last year, which is a good sign.

We see a disciplined overall discount environment as well. So, looking at corporate discounts and looking at travel agency discounts, we see that it is pretty disciplined, which is a very good sign. Talking to our corporate customers, we see no signs of corporate demand slowdown or anyone trying to pull back. We see a lot of group demand and we see a lot of demand for in-person training and conventions, which has been quite good as well.

Therefore, for us, honestly, our operation has been much more stable than it was at the end of last year, especially on the international side. So, for us, just having fewer disruptions and less volatility has been a really good positive sign as well.

Overall, I think I have been positively surprised with what I have seen so far in January and February. Next week is Carnival, so it is going to be dead. However, we do expect a strong corporate rebound on March 10th and onwards. So, I would say that the overall discipline environment and overall corporate discounts are disciplined as well, and our operation has been stable, which has been a very good sign also.

**Savanthi Syth:**

That is helpful. Thank you.

If I might, are you seeing any differences between domestic versus international?

**Abhi Shah:**

International continues to be good. It was interesting because, even when the currency went to R$6.30, we did not really see a slowdown in international either. And now it is at R$5.70, and it looks good. We have actually had to increase a little bit of capacity for the Carnival timeframe because we were a little bit too booked, actually.

So, it looks stable to me. The normal seasonality, the springtime frame, is very strong in the US. In Europe, it is a little bit weaker, but as we look ahead to the northern summer, we see Europe coming back strong and the US holding its own.

We announced a Recife to Porto. That is already selling, and we will have a couple more announcements coming down the pike in the next couple of weeks as well. We also announced a comeback to Argentina for the peak winter season here. We are excited about Mendoza and Bariloche.

So, overall, a pretty stable and strong international is the kind of commentary that I am hearing all around.

**Savanthi Syth:**

Thank you.

**Guilherme Mendes, JP Morgan:**

Hello, John, Alexandre, Abhi. Thank you for taking my question.

Regarding the proposal of the M&A with Gol, can you share some expectations regarding the analysis for the proposed M&A in terms of timing and potential remedies?

And the second one, on the synergies, what is the timing for your expectation to capture synergies in terms of revenues and costs?

Thank you again.

**Abhi Shah:**

Hello, Guillerme.

Obviously, we cannot comment too much publicly here, but what I will tell you is that we are really confident in the technical analysis and what we propose. Let me just give you the quick highlights of what we see as the main benefits to the consumer and to Brazil:

First, we have very low overlap between Azul's network and Gol's network, and we think that the low overlap is a key driver to future growth. We look at the Brazilian market and, overall, it has not grown significantly for the last several years.

We want to get to 200 cities served in Brazil, and we think we can do that when we have these networks that are not overlapping, that are very complementary to connect together. So we really believe that, in the technical case here, there is a case of growth of adding service. We believe that many more cities in Brazil, for example, should and will have service to international destinations. So we think that that is a key element of growth as well.

Also, we think that we can build an airline that is going to be able to compete globally when it comes to fleet, when it comes to engines, when it comes to OEMs, when it comes to access to capital, and those are going to be really critical to keep this market growing.

Therefore, all of this, we think, is our technical case. We see significant consumer benefit coming from this, and that is the case that we are putting forward.

**Guilherme Mendes:**

Thank you, Abhi.

**Operator:**

This closes our Q&A session for today. I will turn it over now to John for his closing remarks.

**John Rodgerson:**

I would like to thank everybody.

Obviously, it is a lot of information. Our IR team, Alex, Abhi, and myself, will be available to talk to you about Azul going forward. A lot of great things are happening, the lowest cost, the highest EBITDA margins, I think, close to the world right now.

So we are very excited about the future. We fixed the balance sheet now. Now we are off to the races, and we appreciate the support of all of our stakeholders, and we are going to continue to grow a very profitable business.

Thank you, everybody.

**Operator:**

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