

Conference Call Transcript
Azul
3Q23 Results**Operator**

Hello, everyone. Welcome all to the preliminary 3Q23 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 "9" to join the queue and "6" to accept the order when requested.

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

Thais Haberli – Head of Investor Relations

Thank you Zach. Welcome all to Azul's preliminary 3Q23 earnings call. The preliminary results that we announced this morning, the audio of this call and the slides that we reference are available on our IR website.

Presenting today will be David Neeleman, Azul's founder and chairman, and John Rogerson, CEO.

a Malfitani, our CFO, and Abhi Shah, the president of Azul are also here for the Q&A session.

Also, it is important to mention that Azul has not yet published its interim financial statements for the three and nine months, ended in September 30th, due to the considerable volume and complexity of tasks to ensure that all effects of its capital optimization plan are correctly reflected in the financial statements. And we keep the market updated on these efforts.

Before I turn a 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 CFM and SCC files.

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 – Azul’s Founder and Chairman

Thank you, Thais. I welcome everyone and thank you for joining us for our 3Q23 earnings call.

As you can see on slide three, we continue to strengthen Brazil's largest network by adding more than 40 new destinations since 2019. We are the only carrier in almost 80% of our routes and the leader in departures in 90% of our markets. A profitable strategy we will maintain as we grow.

In fact, if you look at our ASK growth since 2019, 80% has been in five cities. Four of them are hubs and the one exception being Congonhas.

More importantly, we have demonstrated we can grow in a way that maintains our customer service excellence. We continue to run the most on time airline in the region with the highest net promoter scores.

John is going to give you more details on the quarter but let me still extend for a second by summarizing on slide four.

What this incredible team has achieved is a total revenue of R\$4.9 billion in the quarter, an all-time record. 12% above last year and 62% above 2019. Fares and unit revenues are all up versus last year. In stark contrast to many other airlines around the world, where airlines have fallen, especially in the United States in a year over year comparison.

Finally, an EBITDA of R\$1.6 billion and EBIT of R\$1 billion, both records and, most importantly, both in EBITDA margin and operating margin above 2019 levels. These numbers are a clear demonstration of what the real Azul looks like and is capable of delivering.

This amazing team also implemented, in record time, a comprehensive capital optimization plan that we have already described to most of you.

Upon the conclusion of this plan, Azul will have no significant maturities until the end of 2028. And we can now rely on a strong balance sheet, leading liquidity position and lower cost of capital to continue leveraging our superior network product offering and cost structure, all of which creates a strong cash flow from operations.

And the best is yet to come. For example, you all know about the E2 opportunity. This aircraft has lower fuel burn, lower maintenance costs, lower ownership costs, lower trip cost while generating more revenue with 18 additional seats than the old E1s.

We only have 17 of them operating now, but, by the end of 2024, next year, we will have 33. This is just one reason why we are so excited, what we can achieve going forward.

We are executing on our fleet transformation plan. Demand environment is strong. Our business units are all producing record revenues and we are emerging as a more efficient airline.

All I can say is: thank you to each and every crew member. What they continue to deliver is absolutely incredible and we are truly excited about the opportunities ahead of us.

With that, let me turn the floor over to John, to give you more details about the third quarter results.

John Rogerson – Azul's CEO

Thank you, David. I also want to start by thanking our entire Azul team for their passion and dedication.

Just last week, we were voted the best airline in Brazil by "*Melhores Destinos*", the largest travel site in Brazil.

Our internal crew member satisfaction scores this year were another all-time record, with 82% participation among our people and 87% favorability score.

Our team excels in delivering the Azul experience, our culture is stronger than ever and our customers recognize the difference each and every time they fly Azul.

Thanks to their dedication we delivered another record result in the third quarter.

On slide five, we summarize the cumulative effects of the strong demand environment, along with the high growth in our business units.

Our all-time record revenue of R\$4.9 billion in 3Q23 represents a 62% increase over 3Q19. This is a result of overall capacity of 19% and unit revenues up 36%. As you know, ASK growth often leads to a reduction in unit revenue. But demand for Azul flights was so high that we were able to simultaneously increase both capacity and fares.

RASK in the quarter was 42.59%. Was a record for a third quarter and actually just missed the all-time RASK record for Azul by 0.3%. So overall, truly outstanding numbers across the board.

Moving to slide six, you can see how the strength of our business model led us to 5% higher fares in the third quarter versus last year, even with fuel price dropping 33%.

Remember, though, that fuel prices are still higher than 2019 and fuel prices in Brazil are the highest in the world. But as David said, this contrast with what other regions around the world are experiencing and this demand is consistent with what we have been seeing for almost three years now.

Brazil had one of the fastest demand recoveries in the world and the Azul had the fastest demand recovery in Brazil.

I do not know many airlines around the world whose revenues are 62% higher than 2019.

Our business units continue to outperform further adding to our arsenal of competitive advantages, as we show on slide seven.

Our loyalty program is now approaching 17 million members with high customer engagement. Our co-granted credit card is doing incredibly well, with a significant portion of the membership base coming from the "platinum" and "infinity" categories, premium segments with high levels of personal spending.

In fact, our projection for total card member spend in 2024 is equivalent to 0.5% of the entire GDP of Brazil, being spent on our credit card.

Our vacations business continues to break records every month. It is now three times larger than 2019.

This growth is extremely well aligned with our business model as it takes advantage of our low aircraft utilization on nights and weekends.

Finally, our logistics business, AzulCargo, continues its growth trajectory and maintains its position as Brazil's largest domestic provider.

We know that the global cargo market is in a tough spot right now, with many airlines reporting revenue decreases of around 30%. AzulCargo, on the other hand, is performing significantly better and continues to show revenue growth, especially in the domestic market.

We continue to win over new clients and to increase our partnership with existing ones. You may have seen the news that Amazon, at a recent global event in Seattle, announced Azul as their partner for Air Logistics all throughout Brazil.

On slide eight, we turn to the cost side of the business. We told you we would emerge a more efficient airline and that is exactly what we have done. Controlling for headcount at our hangar, which did not exist in 2019, Azul, today, generates 40% more revenue per full time employee than we did in 2019.

This result is remarkable. We now have the lowest CASK in the region. Not just when comparing aircraft within the same category, the A 320 neo compared to our competitors with a 737, we already had the lowest cost there, but now we have the lowest task overall, even with a smaller aircraft in our fleet. And as someone once said, low cost always wins.

We have the most efficient cost structure in the region, and we will improve it further with our fleet transformation. This really gets us excited about the future.

As you can see on slide nine, we significantly increased the rate of E2 deliveries, doubling the size of that fleet in the last 12 months. The E2 delivers 18% lower fuel burn compared to the E1, with 18 more seats, leading to a 26% lower cost per seat.

In 2023 we still had twice as many departures on our E1's than our E2's. As this ratio switches in favor of E2s, this will drive significant margin expansion going forward.

This fleet transformation, which is unparalleled in region, in addition to making financial sense, is also clearly a more sustainable way to grow.

Our fuel consumption per ASK and carbon emissions per ASK are down an incredible 24% compared to 2016.

Turning to slide 10 you can see the result of all these remarkable attributes. An all time record EBITDA of R\$1.6 billion and a 31.6% EBITDA margin.

We have surpassed pre-pandemic EBITDA, even with fuel 60% higher and an exchange rate 23% weaker to the dollar.

Frankly, these numbers speak for themselves. This demonstrates the strength of our business and our structural competitive advantage.

Turning to slide seven, you can see the significant increase in liquidity obtained through our capital optimization plan we concluded in September.

As you recall, this plan yielded new agreements with practically all of our lessors and OEM's, with a reduction in lease liabilities and improvement in cash flow.

Given the scope and complexity of this plan we have not yet published our internal financial statements and we will keep the market updated on these efforts.

Also, thanks to this plan, and all the support of our crew members, partners and stakeholders we have no significant debt maturities until 2028, as you can see on slide 12.

Now we can turn our attention to focus on our business and growing it. On slide 13, we show further evidence that demand in Brazil remains strong by comparing our expectation for 4Q23 RASK versus Bloomberg consensus for other airlines.

In addition to the domestic market, our international network, which is now more than 100% recovered compared to 2019, is performing extremely well. With our complete network to the US and growth in Europe with our new Paris service.

Pricing and capacity discipline in the Brazilian market continue to be solid. This together with our unique network advantages and flexible fleet deployment should result in unit revenue growth in 4Q23, leading again to an all-time record.

As you can see on slide 14, Azul is the leading operator in next generation aircraft in the region, with 79% of ASKs flown by next generation aircraft.

Given that fuel prices in Brazil are about a dollar per gallon higher than the United States, flying a young fuel efficient fleet is crucial.

The fact that our fleet transformation is far ahead of our peers is a clear structural advantage that will remain for years to come.

We also continue to outpace our competitors and next generation deliveries, especially given the fact that Embraer, one of our main partners, is experiencing fewer delivery delays than its competitors. We have roughly one Embraer E2 entering the fleet every month of 2024.

Remember, we fly the most fuel efficient aircraft over the shortest stage length, with the lowest unit cost, and charging the highest average fares. That is pretty hard to beat.

Finally, on slide 16, we estimate 2023 EBITDA to be around R\$5.2 billion, slightly lower than the previous projection, as a result of the recent volatility in fuel prices and our adjusted capacity growth, together with international cargo volumes being down.

However, with strong demand, we are seeing, together with all of our margin expansion initiatives, including the E2, we already mentioned here, we increased our 2024 EBITDA expectation to R\$6.3 billion.

I truly believe the best is yet to come. In the last three years We have focused on getting through the pandemic and then optimizing our capital structure.

Now that this chapter has been completed, we can really focus on the future. That means accelerating our fleet transformation, unlocking value in our loyalty program by pricing our points for profit maximization, investing heavily in our co-branded card, attacking structural costs in Brazil, like the high-level litigation in the country.

These results we showed today are just the start. That is why we are so excited for 2024 and beyond.

With that, David, Alex, Abhi and I are here to answer your questions.

Questions and Answers

Operator

Ladies and gentlemen, thank you. We will now begin the Q&A session. Remembering that if you have a question, click on the Q&A icon at the bottom of your screen and write your name and company. When your name is announced, please activate your microphone and proceed. (Operator Instructions).

Let's move on now to the first question. It will come from Gabriel Resende, sell-side analyst from Itaú BBA. Gabriel, we will open your microphone so that you may proceed.

Gabriel Resende – Itaú BBA

Thank you and good morning.

I will start with a follow up on John's last comment regarding the guidance for 2024.

It would be nice if you guys could provide us some color on higher seeing the pass through on for bookings. I am just trying to understand the assumptions for the higher fuel costs being passed through into the tariffs that you are selling right now for 2024.

And I have a second point: if you could comment also on the OEM's supply chain issues, whether you are seeing some deterioration on improvement looking forward or whether we could see some more delays in terms of aircraft being delivered to you guys.

Abhi Shah – Azul's President

Thank you for the question, Gabriel.

You know, we feel pretty good about the revenue environment. We have seen very good discipline on the capacity side as well. In fact, if you look at capacity in the domestic market compared to 2019, 4Q this year is actually flat, even slightly negative, to what we had four years ago.

Roughly 28 billion to 30 billion ASKs. So, I think that that capacity discipline is going to continue for next year and beyond.

Everybody is facing the same issues, with fuel going up and down, interest rates.

I really think the industry overall is very much interested in maximizing results and focusing on where they are strong. As David said in the opening, we have increased capacity, but 80% of it has been in five cities, all, except for Congonhas, is our hub.

Our assumption for unit revenues for next year is basically what we are seeing at the back half of this year. And then you take that forward, all through next year.

So just run rate performance, with the growth in our business units, which is a little bit of recovery in AzulCargo, continued growth in our vacations business, AzulViagens, and our loyalty business.

So we are not expecting something very different than what we are seeing already this year. Overall, market discipline and growth in our business units.

John Rogerson – Azul's CEO

I just want to talk quickly about the OEM delays. Airbus, Boeing, Embraer, Rolls Royce, everybody has their challenges and we received a delayed notification for aircraft we were supposed to receive in 2026.

So I do not think this is a problem that gets resolved in the short term. I think the new technology that these engines are burning significantly less fuel, they just do not stay on the wing as long. Engines that were supposed to stay on wing for 20,000 hours coming off at 5000 hours.

And I think there is a fight in the market for spares versus production aircraft.

So, I think what we are seeing today, in terms of capacity around the world, capacity will be constrained for the foreseeable future until the OEMs fix that.

I think that is a good thing as we look forward into 2024 and beyond. We are really excited that we worked through our delivery schedule in Embraer next year.

We are getting 13 new shells from them next year. Not all on time. Some of those were supposed to be delivered earlier, but we do have a horizon as to when they are being delivered.

But I think it is across the board and I think all the OEMs are impacted by it, and it is a challenge that the industry has overall.

So, it is not necessarily specific to any manufacturer specific to Azul. It is just an across-the-board problem that the OEMs are having.

Operator

Thank you. Let's move on to the next question. It will come from João Frizzo, sell-side analyst from Goldman Sachs. We will open your audio so that you can ask your question. Please, proceed.

João Frizzo – Goldman Sachs

Thank you very much. Good morning. Thank you for taking my questions. I have two from our side.

The first one relates to the liquidity you posted. So I would just like to get your help to reconcile your immediate liquidity change, quarter over quarter, given the recent bond emission and the commitments you guys had in 3Q.

So we saw immediate liquidity rise by R\$1.5 billion in 3Q while you guys have raised roughly R\$4 billion in the third quarter. I would just like to get a sense from you of what were the key uses for the cash you raise.

And then a second question that relates to the other operating expenses. This quarter was significantly higher than the previous ones. So I just wanted to understand if this is the new level we should expect going forward or if we should see a normalization back to last quarter's average. Thank you very much.

Alex Malfitani – Azul's CFO

Yes. The R\$4 billion number roughly that you mentioned, that is the gross capital raise that we had.

We are going to provide a lot more detail once we have our intern financials with the others review. But just to give you a preview, some of this went to paying down debt and, we already provided some of this information on the exchange offer, because we paid down some of the bonds that were exchanged from 2024 into 2029.

We already paid down. So that is future debt payments that we have already made right now. We also paid down some of our convertible debenture, which is also the principle that has been paid down now versus in the future.

Obviously, when you do a capital raise like this, we actually had four big transactions. When you think about it, we had a big capital raise of \$800 million. We also had two exchange offers that together got to almost a US\$1 billion, plus the exchange of the convertible note.

All of that, unfortunately, requires lawyers, fees, emoluments, and advisors, which also took some of that money.

But having said that, as we have told you already before, this was a much more cost-efficient way to restructure our balance sheet. We estimate that we paid, maybe, 20 to 30% of what a court process would have cost us, and what some of our competitors went through.

So there is a big number of fees there. And then there are some adjustments on payments to lessors that we had not paid. We had gotten some bridge financing from lessors, which were paid some of it when the capital raise happened.

And then we had gotten some deferrals from our fuel suppliers mainly, that we also paid down when we did the capital raise.

So, the important concept to everybody to keep in mind here is that the cash increase obviously was not as high as US\$4 billion or R\$4 billion for all the reasons that I mentioned. But the cash generation is as strong as ever.

So, the restructuring that we did and primarily the reduction in lease payments that we were able to negotiate, and also in the CAPEX deferral repayments that we had originally contracted that has significantly decreased. And it should allow us to deliver on the cash flow generation that we indicated when we talked about the capital optimization plan.

John Rogerson – Azul's CEO

And we cleaned up the payables, right? As Alex said, there were some fuel notes that we got some deferrals on, we have no debt maturities coming in the next five years. So, there was a lot of cleaning up that happened.

We feel very good about the cash balance where we are at today, especially with where we are at. We invested some CAPEX in the quarter as well.

That was a significant thing because the airline is getting back to growth. And I think that was an important use of the proceeds as well. Now that we fix the balance sheet, we can focus the airline back on growth again.

Alex Malfitani – Azul's CFO

Exactly. And then on other expenses, this is sort of a catch all.

So there are many things within this line, none of them are sort of big enough yet for us to break them out. But we discuss that often here.

Some of these expenses are driven, for example, by revenues. For example, GDS fees, as our reservations increase. Sometimes, when we start flying internationally, we start using more GDS and then you see an increase in those fees by even more than our ASK growth.

Some of these numbers are driven by the exchange rate. Some of these are driven by passenger counts.

But this is where we also recognize the cost of litigation. That is a number that we have been talking about, about the fact that this is increasing.

The cost of litigation is not a smooth number every quarter. I think this one was a particularly high quarter compared to historical levels, and particularly compared to the same quarter last year.

But this is something that the industry is very focused on. It is a cost that all passengers in Brazil have to bear. In spite of the fact that the customer experience in Brazil is one of the best in the world. We are the most on-time airline in the world. We have one of the highest NPS scores in the world and there are other Brazilian airlines in these on-time rankings as well.

So, this is something that I think we are all collectively interested in, not just the airlines, not just the industry, but I think even the regulator and the government are interested in fighting.

John Rogerson – Azul’s CEO

I have said often that we are now back to focusing on running the business. So, to answer your question: is this the new norm? It better not be. We are going to drive the cost of this airline to be even more efficient going forward.

We have a task force to go after a lot of these initiatives on a go forward basis. And so, nobody is happy with where that line is and you will see improvement going forward.

There are several things we are working with the government, as Alex said on the litigation side. But there are other things that we are doing.

Now, we are focusing on the running of the business. We are focusing on driving our unit costs even lower.

Operator

Thank you. We will now move on to the next question. It will come from Gabriel Raposo, sell side analyst from Bradesco. We are going to open your microphone so that you can ask your question, You may proceed.

Gabriel Raposo – Bradesco

Good Morning. I have two questions from our side here.

The first one, we saw that Azul and peers are in talks with the government over air airfare prices. So, could you give us some color about this discussion? And if there is any kind of discussion also regarding the fuel prices?

And the second one is related to the “Voa Brazil” program. The Ministry of Ports and Airports should submit by November 15th the official proposal for the program. So, could you guys update us about this program and how should we expect Azul benefiting from this looking ahead?

Thank you.

John Rogerson – Azul’s CEO

Thank you for the question. I have a pretty active agenda in Brasilia and am working closely with this new government on opportunities for Brazil.

I think, what is an opportunity for Brazil? Brazil still has the highest fuel cost in the world. Brazil still has the highest civil claims in the world for aviation. We are 3% of the world's flights, we are 92% of the world's civil lawsuits and we run the most on-time airline in Brazil.

Those are huge opportunities for this industry. They are huge opportunities to invite more people to fly. I do not think the government is happy with where fares are in the country today, but fares need to be at these levels, given the cost of capital interest rates and the highest fuel cost in Brazil.

So, the agenda in Brasilia is to look at fuel prices, look at the cost of capital, look at these lawsuits and how can we invite more people to fly?

Which kind of leads to your second question, which is "Voa Brasil". And that is getting the class C of Brazil to fly.

And I think our biggest desire is to have more people entering aviation and flying more with us. We want to grow this airline; we think there is tremendous opportunity.

We are currently in 160 cities in Brazil and Abhi has a forecast to be in 200 cities in Brazil. And we need to do that by attacking the structural cost disadvantages that Brazil has, which creates an opportunity to create more jobs in Brazil, create more opportunity.

Anytime you hire a pilot, a maintenance technician, it is one of the best jobs you can get in Brazil. So "Voa Brasil" is a great program overall.

We have been working very closely with the two ministers. One Minister, Marcio França, that started the program, and then now Minister Silvio, who is kind of taking it on. But there was a change, and that is one of the reasons why it has not gotten off the ground yet. But we are fully supportive of it. And I think there are a lot of opportunities in Brazil.

Look at what Azul has been able to do with the highest fuel cost in the world. Look at what Azul has been able to do with the highest civil claims in the world.

Imagine how many more Brazilians could be traveling by airplane if we attack some of these structural things. That is why I think there is a great opportunity in Brazil today.

Fuel prices today are still 60% higher than they were in 2019. That is one of the reasons why fares are up. We are grateful that fares are up because we need to run a profitable business. It is good for our people. It is good for investors. It is good for our growth going forward. I think the agenda in Brasilia is very positive.

Operator

Thank you. Moving on to the next question. It will come from Michael Lindberg, sell side analyst from Deutsche Bank. We are going to open your microphone so that you can ask your question, you may proceed.

Michael Lindberg – Deutsche Bank

I have a couple of questions here.

John and Abhi, you talk about how strong the demand environment is in Brazil and yet when you look at the overall GDP estimates, and where we are right now in Brazil, and over the next quarter or two, it does look like we may be going through a bit of a soft patch.

Are you seeing anything, with respect to corporate, or even discretionary travel that would reinforce the fact that Brazil may be going through a bit of a downturn? And not just Brazil, but the Southern Cone. Are you defying sort of the macro backdrop?

Abhi Shah – Azul’s President

Hello, Michael. So, 3Q flow revenue was pretty good. We missed the all-time record just by 0.3%. But bookings actually, in the quarter, were even better. They accelerated late in the quarter, september/october time frame.

Booking revenue has been up 30% since June, for example, on the back of volume and fares. Some of this is helped by seasonality. Late 3Q and 4Q are very strong seasonally. And then our summer peak in January.

But, some examples. Groups revenue is three times higher than 2019. We are just seeing a huge increase in conventions, in corporate events, in training. That is something that, from what we hear from our corporate customer, is going to continue.

Corporate volumes are 100% in terms of volume. Much higher in terms of revenue. But we had weeks with 100% corporate volume recovery, and we set five corporate all-time record fairs. Records in September and October. Just a ton of events happening around the country.

We had Formula-One last week. I am a “swiftly”, so Taylor Swift is here next week, and you know what she can do to the economy.

Michael Lindberg – Deutsche Bank

How did you get tickets?

Abhi Shah – Azul’s President

No tickets. They are too hard to get, too difficult.

But overall, internationals are doing very well, especially Europe. And one international metric that is really interesting is that international unit revenue growth, which is up like 60% above 2019 business class, is up 20 cents versus economy is up only 10 cents. So we are seeing some pretty good premium traffic as well.

And combining this with capacity discipline... And our network is different. Our network is more exposed to the Brazil that grows, to the Brazil that still has a lot of growth ahead of it. Whether it is agro, whether it's infrastructure, our network is significantly more exposed to the part of Brazil that is not just Sao Paulo, Rio or Brasilia.

So, the trends have been accelerating through 2Q and into 3Q.

It feels pretty good from what we can see. December is ahead of last year. January is ahead of last year as well.

Michael Lindberg – Deutsche Bank

Thank you Abhi. That is super helpful. And then just my second question.

You fly the Airbus A-320s, the Neos. I believe you use the leap engine, so you do not have to deal with the GTF.

Although John, you did mention that it seems like power plants are coming off wings sooner, no matter what the engine is.

What about just on your E2s? We know that the GTF is potentially an issue with E2s and A220s. A couple carriers are saying they are waiting to hear from Pratt. What has the manufacturer said to you about the E2s? Do you have any grounds right now, for example? Anything on the engines, etc?

John Rogerson – Azul's CEO

Good news, Michael, is that we have got no aircraft grounded on the E2 right now.

I had a call with the President of Pratt over the weekend and we are monitoring it very closely. Good news is that there are not as many E2 customers in the world. And so I think we just need to get in front of it. You need to make sure you have the proper spare ratio.

We are a very important customer to Embraer and Pratt & Whitney and our business model is based on the E2. I think that that is kind of crucial and there is a constant dialogue to make sure that the spares are there, the deliveries are coming.

It is not perfect. We understand that nobody wants to be where we are today. But I think we have a good relationship, and we are working very closely with Pratt and Embraer to ensure that we keep that fleet flying.

We are doubling that fleet in the next 12 months. So that is kind of a key driver for us.

Operator

Thank you. The next question will come from Savi Syth Lindberg, sell side analyst from Raymond James. Savi, we are going to open your audio so that you can ask your question, you may proceed.

Savi Syth – Raymond James

Hello, good morning. This is Zara, on behalf of Savi.

Our first question today is: I know you provided early thoughts on 2024 capacity. How do you see that split between domestic and international?

Abhi Shah – Azul's President

Yes, Zara. The international network is going to be...you can take what we flew in the last quarter, which is public. Our public capacity data. And it is just going to be year-round. So, there will be some growth but it is basically the network we are flying today, year-round.

And the domestic network is going to be just the deliveries of the E2s up gauging from what we have today. So overall capacity growth is around 10-11%.

International is going to be kind of mid-single digits if you will just come around and the rest of it is domestic.

Savi Syth – Raymond James

Ok, super helpful. Thank you. And how is demand evolving in the Brazil-US and Brazil-Europe markets?

Abhi Shah – Azul's President

Europe has been strong for everybody. You heard that from the guys in the US as well. It has been a very strong European summer.

We fly to the two largest European markets, Portugal and Paris, so it is a pretty resilient demand even through the unseasonal winter.

The US is a little bit more up and down, but it is looking very good right now for December, January. If you look at US-Brazil capacity, it is still only 85% of what it was in 2019. So, you still have capacity shortages in US-Brazil.

Brazil-Europe is around 95% recovered, a good demand. But overall, we are very happy with international and how it is performing.

John Rogerson – Azul's CEO

If I could just add, the interesting thing about our network is that we fly to the US from Manaus, Belém, Confins, Recife and Campinas and many of those routes are relatively new and developing. And that kind of shows the strength of our network in the north of Brazil, in the northeast of Brazil, at our second main hub in Minas Gerais.

We have five different points of entry from Brazil into the United States.

Operator

Thank you. Moving on to the next question. It will come from Daniel Mackenzie, sell side analyst from Seaport Global. We are going to open your audio so that you can ask your question, you may proceed.

Daniel Mackenzie – Seaport Global

Good Morning. Just a couple of questions here.

Going back to the \$6.3 billion in EBITDA for 2024, that outlook.

First of all, just some expectations around that. First, are there any unusual working capital considerations for next year that we should be aware of or will that? EBITDA translates fairly accurately to cash from operations, and then just related to that, if you could help us unpack 2024 CAPEX on a gross net cash basis.

And then I am just tying back to this idea of slower economic growth.

What rate of slower economic growth might worry you with respect to the outlook that we see today?

John Rogerson – Azul's CEO

I am going to start and then Alex will give you the details. But I think what I want to highlight is this third quarter shows what Azul is capable of. Record revenue, record EBITDA, margins above 2019.

We did \$1.6 billion of EBITDA in the third quarter. Next year, we will have roughly 15 more E2s in the fleet because we are getting some at the end of this year.

That gives you an idea of what this airline is capable of producing, in terms of EBITDA on a go forward basis.

This year we did not have the full effect of Congonhas, we did not have a full effect of the E2s. We did not have the full effect of leveraging our loyalty program because of the crisis we were in.

And so, again, take a look at this third quarter and start to look at "wow, what is Azul capable of" as you roll this forward into 2024 with all the other good things that we are working on.

As I have said several times, this management team is now focused on running the business.

This third quarter we showed once again, two quarters in a row, we have the lowest cask in the country. That is with flying ATRs, E-Jets and A-320s.

This company is capable of much more. Look at where we are at today. I will let Alex walk through the details on the cash for next year.

Alex Malfitani – Azul's CFO

Thank you, John.

There is a little bit of working capital help, yes. Because, as we grow, we will be selling an airline that is bigger than the airline that we are flying. So throughout these years where we are having the rate of growth that we are guiding to, you can expect that the cash inflow from operations should be a little bit higher than the EBITDA, whatever the EBITDA number is. And we updated our EBITDA guidance for 204 as you saw.

In terms of CAPEX, we have not given guidance on CAPEX, so I can not give you a number.

Conceptually speaking, you can see, you can revert back to all of the concepts of the capital plan that we put out.

What was the objective of that? The CAPEX and the leases were primarily the target of us trying to reduce it out and exchange it for a 2030 bullet note and an equity structure.

So, you will see the effects in CAPEX from that restructuring plan.

But we are in the middle of our budget right now. Normally we do not put out 2024 guidance until we finalize the budget.

We are very excited about what we are seeing here on the demand side. So, we went ahead, and put out 2024 guidance. We may provide additional details as we finalize our 2024 plan.

Daniel Mackenzie – Seaport Global

Final question here. I guess my last question.

I am wondering, you just expand a little bit on the cargo operation. To what extent is it profitable? Either more or less profitable relative to the core airline?

Abhi Shah – Azul's President

We like to have a balance of about 80% cargo in the belly, 20% cargo on the dedicated aircraft. As you can imagine, belly cargo is extremely profitable because you are piggybacking on the airline itself, crew cost, fuel, navigation, all that kind of stuff.

The dedicated margins are not as profitable as the belly, but they are important to complement your product offering, heavy palletized cargo, industrial customers, even manufacturing customers.

We like to have that 80-20 mix. We think it is good risk management overall and kind of yield good margins overall. But the belly part is definitely extremely profitable, given the fact that you are piggybacking on our 900 flights a day.

Operator

We will now close the Q&A session and we will give the floor to John to make the final remarks.

John Rogerson – Azul's CEO

I want to thank everybody and we will be communicating to the market shortly, once we have our audit financials out there.

I want to thank everybody for all the hard work. Look forward to seeing everybody at conferences. Feel free to reach out to any of our management team and thank you for all your support.

Operator

Thank you. This concludes the Azul conference call for today. Thank you very much for your participation and have a good day.