

06 MAY 2025

Fitch Downgrades Azul's Ratings to 'CCC-'

Fitch Ratings - Rio de Janeiro - 06 May 2025: Fitch Ratings has downgraded Azul S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'CCC-' from 'CCC', and its National Scale Rating to 'CCC-(bra)' from 'CCC(bra)'. Fitch has also downgraded Azul Secured Finance LLP's senior secured notes to 'CCC-' with a Recovery Rating of 'RR4' from 'CCC'/RR4' and Azul Investments LLP's unsecured notes to 'C'/RR6' from 'CC'/RR6'.

The downgrades reflect Azul's limited financial flexibility to access liquidity outside its ongoing debt renegotiations with existing bondholders and inability to effectively improve liquidity. The overall credit risk aversion scenario presents additional challenges for Azul in completing its debt restructuring and enhancing liquidity as planned. Despite operational improvements, Azul has faced difficulties finalizing the equity portion of its debt restructuring and securing new sources of liquidity at more reasonable terms, which were essential to funding its negative free cash flow in the first half of 2025.

Key Rating Drivers

Inability to Effectively Improve Liquidity: Azul's rating has been downgraded to 'CCC-' due to its inability to secure the necessary financing to enhance liquidity and support negative free cash flow during the first half of 2025. The company aimed to raise USD200 million through a follow-on equity issuance, as part of a debt restructuring plan, which included a final conversion of 12.5% of its debt. In addition, Azul had intended but has been unable thus far to access relevant credit lines, including those from ABGF (Agencia Brasileira Gestora de Fundos Garantidores e Garantias), to improve its overall liquidity.

Ongoing Discussion with Bondholders: Azul has announced a deal to secure short-term financing of approximately BRL600 million from existing bondholders to help address the expected cash burn during this first half of 2025. The proposed notes have a six-month maturity and are prepayable if Azul receives any public-backed financing. They are secured by certain credit and debit card receivables generated by its passenger airline business, and issuance did not require any amendment or waiver.

This new issuance follows the final part of the company's broader restructuring plan, which was unveiled in later in 2024. As part of this plan, 35% of the notes due in 2029 and 2030 were converted into preferred shares, while the additional 12.5% equitization, subject to a USD200 million follow-on, is still pending.

Cash Flow Burn: Despite expected improvements in operating cash flow, Azul's high interest and rental expenses burden remains a threat to its free cash flow generation in the immediate term. In its base case, Fitch had Azul's EBITDA at around BRL7.2 billion during 2025 and lease rental, interest, and capex projected to total BRL8 billion in 2025. Given the business' seasonality, the first half of the year

would be responsible for a great part of this negative free cash flow generation. The recent decline in fuel prices will most likely have a positive impact on results for the second half of the year as well.

Peer Analysis

Azul has a weaker position relative to global peers given its limited geographic diversification, higher operating leverage and weaker financial flexibility. In terms of regional peers, it has a weaker position than LATAM Airlines Group S.A. (BB/Positive) and Avianca Group International Limited (B/Stable) in business diversification, liquidity and financial flexibility. In contrast to LATAM and Avianca, Azul has not completed a debt haircut as part of its post-pandemic restructuring.

Azul's strong position in the Brazilian regional market and high operating margins have been a key factor in the analysis. Foreign exchange risk is a negative credit factor, considering its limited geographic diversification. Fitch expects LATAM and Avianca to maintain gross leverage of about 2.5x and 3.5x, respectively, in the next two years, while Azul's credit metrics should be around 5.0x in 2025. Azul's leasing and interest burden and capex program significantly increase the risks associated with funding its sizable negative FCF.

Key Assumptions

--Fitch's base case during 2025 and 2026 includes an increase in ASK by 6% and 11%, respectively, and an increase in RPK by 6% and 10%, respectively;

--Load factors around 80%-81% during 2025 and 2026;

--Adjusted EBITDAR margins of around 30%-32% in 2025 and 2026;

--Capex of BRL1.4 billion in 2025 and BRL2.0 billion in 2026.

Recovery Analysis

The recovery analysis assumes that Azul would be considered a going concern in bankruptcy and that the company would be reorganized rather than liquidated. Fitch has assumed a 10% administrative claim.

Going Concern Approach

Azul's going concern EBITDA is BRL2.5 billion, which incorporates the low-end expectations of Azul's EBITDA post-pandemic, adjusted by lease expenses, and a discount of 20%. The going concern EBITDA estimate reflects Fitch's view of a sustainable, post-reorganization EBITDA level on which we base the valuation of the company. The enterprise value (EV)/EBITDA multiple applied is 5.5x, reflecting Azul's strong market position in Brazil.

Fitch applies a waterfall analysis to the post-default EV, based on the relative claims of the debt in the capital structure. The debt waterfall assumptions consider the company's total debt as of Dec. 31, 2024. These assumptions result in a recovery rate for the first-lien and superpriority secured bonds

within the 'RR1' range and second-lien secured notes within the 'RR2' range. However, due to the soft cap of Brazil at 'RR4', Azul's senior secured notes are rated at 'CCC-'/RR4'. For the unsecured notes, the recovery is in the 'RR6' range, resulting in a rating of 'C'/RR6'.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A downgrade could occur if Fitch believes that a default or default-like process appears probable or has begun, with an announcement of debt restructuring or refinancing with weaker terms to creditors.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--An upgrade of Azul's ratings is unlikely until the company addresses its short-term refinancing needs and liquidity concerns.

Liquidity and Debt Structure

Azul's short-term maturities totaled BRL8.5 billion (BRL2.2 billion of financial debt and BRL6.3 billion of leasing obligations) as of Dec. 31, 2024. Azul's readily available cash, per Fitch's criteria, declined to BRL1.3 billion from BRL1.9 billion at the end of December 2023. According to Fitch's estimates, Azul would not be able to generate enough cash flow and lacks sufficient liquidity to fulfill those obligations without new money.

Total debt was BRL31.2 billion, and primarily consists of BRL17.3 billion of leasing obligations, BRL977 million of the bridge notes due 2025, BRL196 million of cross-border senior unsecured notes due 2026, and BRL11.4 billion of secured issuances due 2028, 2029 and 2030.

Issuer Profile

Azul is one of Brazil's largest airlines, dominating the regional market and serving as the sole carrier on 82% of its routes. In 2024, 93% of its revenues came from passengers, while 7% came from cargo and other sources.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
AZUL Investments LLP				
• senior unsecured ^{LT}	C	Downgrade	RR6	CC

ENTITY/DEBT	RATING		RECOVERY	PRIOR	
Azul S.A.	LT IDR	CCC-	Downgrade	CCC ⊕	
	LC LT IDR	CCC-	Downgrade	CCC ⊕	
	Natl LT	CCC-(bra)	Downgrade	CCC(bra) ⊕	
Azul Secured Finance LLP					
• senior secured	LT	CCC-	Downgrade	RR4	CCC
• Senior Secured 2nd Lien	LT	CCC-	Downgrade	RR4	CCC
• super senior	LT	CCC-	Downgrade	RR4	CCC

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◇
NEGATIVE	⊖	◇
EVOLVING	◊	◆
STABLE	⊙	

Applicable Criteria

[Corporate Rating Criteria \(pub.06 Dec 2024\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.02 Aug 2024\) \(including rating assumption sensitivity\)](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub.03 Mar 2023\)](#)

National Scale Rating Criteria (pub.22 Dec 2020)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.06 Dec 2024)

Additional Disclosures

Solicitation Status

Endorsement Status

AZUL Investments LLP EU Endorsed, UK Endorsed

Azul S.A. EU Endorsed, UK Endorsed

Azul Secured Finance LLP EU Endorsed, UK Endorsed

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