

## Conference Call

### Azul

## 3Q19 Earnings Results

November 7, 2019

**Operator:** Hello everyone and welcome to Azul's 3Q19 results conference call. My name is Beatriz 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. Should any participant need assistance during this call, please press \*0 to reach the operator.

I would like to turn the presentation over to Andrea Bottcher, Investor Relations Manager. Please proceed.

**Ms. Andrea Bottcher:** Thank you Beatriz and welcome all to Azul's 3Q earnings call. The results that we announce 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 Rodgeron, CEO; Alex Malfitani, our CFO and Abhi Shah, our Chief Revenue Officer are also here for the Q&A session.

Before turning 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 and 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.

**Mr. David Neeleman:** thanks Andrea. Welcome everyone and thanks for joining us at our 3Q19 earnings call. As always I would like to start by congratulating our crewmembers and thanking them for another great quarter. We certainly could not do it without them. Thanks to their efforts we continue to deliver on our IPO promise of expanding margins. What we did not highlight at the time of the IPO is

that in addition to expanding margins we have also increased revenue by more than 70% since the time of the IPO. This year alone revenue should increase by more than 25% compared to last year. So the combination of expanding margins and growing revenue, a growing revenue base has led to Ebitda that more than doubled since our IPO in 2016. That is incredible. I could say we thought we would expand margins I guess... We would grow, so the bottom line is really growing.

More importantly we are demonstrating our ability to grow while maintaining our operational efforts and great customer service. This quarter for the third year in a row readers of Maiores Destinos, one of Brazil's largest travel sites elected Azul as the best airline in the country and TudoAzul as the best loyalty program, a true testimony to our commitment to customer satisfaction.

We are also proud to be ranked number one in all categories by (incomprehensible 3:12), a customer satisfaction website including best airline, best loyalty program and best travel package program. What I am most excited about this quarter was the delivery of our very first E2s. We have been talking about that for a while and the first one is finally here. We have another 50+ order to be delivered over the next two years.

The E2s as we have been telling you have a lower trip cost that is 14% lower than the E1s, we are actually getting better fuel performance than we had even anticipated and it comes with 18 additional seats. So lower trip cost, 18 additional seats and that is nirvana for the airline business. It also gives us flexibility to connect dots that had never been collected before in Brazil; long routes that I guess have never been plumbed before, just hundreds of possibilities. We can also add additional frequencies in our business markets. Very exciting airplane.

By the end of 2020 we should have 76 next-generation aircraft in our fleet including 320Neos and E2s represented 61% of our ASKs. As we have been telling the market with the addition of the E2s and the 320Neos we will continue to reduce our costs while producing more revenue per aircraft.

As you can see on slide four we still have a long way to go in our margin expansion story. The best news is that we are less than halfway completed. As I just mentioned we are just starting switching E1s for the E2s in October and we have roughly 500 flights/day to replace. We also thrilled with the growth of our business units Azul Cargo, TudoAzul, both of which grew more than 40% in the quarter.

On slide five you will see our network. We now have, we now fly to more than 114 destinations, incredible; and have more than 900 daily flights. Abhi says we are going to hit 1000 flights, he guarantees me... Not in the distant future.

In 3Q we also started flying the air bridge between Saul Paulo and Rio with 14 daily frequencies. This is the fourth largest market in the world and the largest in the Americas in terms of passengers. We are very pleased with the results we are seeing on this route.

In summary we continue to deliver on our promises expanding margins while growing our top line by double digits. Our network is as strong as it has ever been and I am currently more excited about the opportunities that lie ahead of us as we continue to benefit from market transformation. I am certain that it will create greater value for our shareholders, crewmembers and customers. And with that I will turn it to John to give you more details.

**Mr. John Rodgeron:** thanks David. I also want to thank our crewmembers for all the hard work done during the past quarter. Thanks to them we continue to deliver great results. As you can see on slide six we grew our top line revenue by 25%, over 3 billion BRL in the quarter and also expanding Ebit margin to 18.5%.

Ebitda reached record 936 million, up 24% YoY; RASK on a stage length adjusted basis increased 1.7% while CASK decreased 1.5% and excluding the impact of the end of the payroll tax relief program CASK would have fallen 4%; we had net income of 441 million, up 57% YoY if you remove the non-cash impact of currency variation.

Moving on to slide seven our cargo business maintained strong growth with revenue increasing 42% YoY benefiting from the expansion of our network and fleet. In August was signed a commercial agreement with Mercado Livre, Latin America's largest e-commerce player, becoming their exclusive direct provider of their shipments for e-commerce in Brazil. Through this partnership Mercado Livre will have the fastest shipping times of any e-commerce player reaching more than 3700 municipalities nationwide with the support of our extensive network.

E-commerce represented almost 20% of Azul cargo revenue in 3Q 19, up from 9% in the same period of last year.

In addition to the growth in e-commerce we are also growing our corporate customer base reaching a domestic cargo market share of 22%, the second highest in Brazil.

TudoAzul also had a great performance during the quarter with gross billings ex-Azul increasing 40% YoY. This is TudoAzul's fourth consecutive year with over 30% growth, and as David highlighted it was once again elected the best loyalty program in Brazil. Congratulations to the entire TudoAzul team for their great work.

Moving on to slide eight I am proud to report that we ended the quarter with a strong liquidity position representing 41% of LTM revenue and this is while growing revenue by 25% YoY. Our balance sheet is further protected against currency fluctuations through our assets, such as our security deposits and maintenance reserves totaling 1.6 billion. These are not included in our cash balance.

On the right side of the slide we show an evolution of our leverage, which reached 3.3 in July. With the new accounting standard when a new aircraft arrives we immediately see an increase in debt reflecting the full term of the lease without the benefit of the Ebitda the aircraft will produce. Adjusting for these five aircraft that we added during the quarter our leverage would have been 3. We expect this timing effect to level off as these aircraft become fully productive.

On slide nine you can see that in addition to the improvement of our operating results and solid balance sheet our operating cash flow was almost 1 billion BRL and we generated free cash flow of 187 million in the quarter.

Moving on to slide nine I wanted to highlight the significant investments we are making in our future having new aircraft, hiring pilots and flight attendants we added 14 aircraft YTD including five lanes in 3Q. In 4Q we expect to add 12 next generation aircraft. We also elected to convert some of our prior A320 orders to A321 allowing us to further upgauge our fleet in the margin-accretive way. Next week we will receive our first A321Neo and we plan to receive a total of 12 by 2022.

As you know we have been marketing the E1s to accelerate our transition into and all next generation our fleet. We sold one E1 in 3Q and also sold one in 4Q. We are happy to share with you that we have recently signed a MoU with an outline for the sublease of up to 32 E1s over the next few years.

The 195 served their purpose at Azul and the once new technology came out. It is important we transition as quickly as possible. Consistent with our aircraft sales the sublease will most likely result in a non-cash, one-time book loss in 4Q. We will finalize the exact amount in the coming weeks and will update you as soon as the numbers final. Also consistent with the aircraft sales given the great economics of the next-generation aircraft this transaction is cash positive and margin accretive.

We have also invested in the construction of the new hangar, one of the largest and most modern in Latin America. The facility accommodates up to 8 A320Neos or 2 A330s and will help reduce our maintenance cost as we will be in sourcing all of our narrow body seat jets.

We are also excited with our investment at TAP as it continues to make progress on its own fleet transformation plan. The recent consolidation of it in Europe further reinforced the value of our investment given TAP strategic location and leadership positioning in traffic between Brazil and Europe. In addition today we have submitted for shareholders' approval a proposal for a commercial joint venture with TAP, which we believe will be revenue of creative for both carriers in the coming years.

Wrapping up on slide 12 we present our updated 2019 outlook. We expect our capacity to grow approximately 20% in 2019. I remain confident on the expected operating margins for the year of around 18%. In summary we are building the best airline for our crewmembers, customers and shareholders. It is a multiyear margin expansion story. I am excited with what the company will look like one year from now, three years from now, even five years from now as we continue to build and invest in the best airline in the world. Just keep in mind we still have 500 daily flights being flown by E1s.

Finally I would like to thank our shareholders for their continued support. We will work to keep you confident and expect to continue making progress in growing our business profitably. With that David, myself and Abhi and Alex are here to answer any of your questions. I am turning over to the operator.

### **Q&A Session**

**Operator:** ladies and gentlemen thank you. We will now begin the question-and-answer session. If you have a question please press the star key followed by the one key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue press star two. For those following the call via webcast you may post your questions on the platform and they will be either answered during this call or by the Azul investor relations team after the conference is finished.

Our first question comes from Savi Syth, Raymond James.

**Ms. Savi Syth:** good afternoon everyone. The capacity of 2019 is coming towards the lower end I was kind of curious as it is a function of aircraft timing or if you are just reacting to the environment and it seems to imply maybe the different moderation in 4Q should 4Q RASM be at a similar level to what you have seen in 3Q? Thanks.

**Mr. Rodgeron:** Savi I will answer the first part then pass on to Abhi. Airbus as well as Embraer is experiencing some delivery delays caused from what they originally gave to us and so that is primarily the difference in capacity as we look into 4Q. Airbus is not yet caught up and even Embraer has been delayed a bit on some deliveries. That is really what the difference is from what we had previously forecasted.

**Mr. Abhi Shah:** hey Savi, Abhi here. Yes we had the deliveries that John talked about. We also have a couple of Embraer's time to exit the fleet for the exit process and that is happening in 4Q. So it is mostly fleet related, some exits, two aircraft exiting the fleet to begin the exit process and the newer planes coming in with the dates fighting around.

There also is a minor impact for the timing of the November holiday. So holiday is on Wednesday and so we made adjustments around that; but it is mostly fleet stuff in terms of the why the ASK guidance has come down to the lower-end.

In terms of unit revenues for 4Q yes, I expect them to be close to zero again. Keep in mind we have two very, very strong effects when it comes to YoY RASK: the first one is your very high base for last year. Last year every month, August, September, October, November were all record months for Azul in terms of our RASK and so it is a very high base that we are trying to get even higher this year.

And we have the impact of the aircraft mix that we talked about at the Azul Day. Just the fact that our A320s now represent so much more of our network than they did last year, this gives up about 100% incapacity YoY. There obviously the flight doubles that stage length and they are 50% bigger and this effect is not really included in the stage length adjustment. So the fact that they are flying much longer and they are much bigger on absolute terms they have lower RASK and the effect, the mathematical effect of the aircraft mix is 7 to 8 points system wide RASK impact. So I think in 4Q there will be again RASKs very close to zero as well; but in actuality we are actually up 7 to 8 points because we are making up for the effect of the aircraft mix. So I hope I answered the question.

**Ms. Syth:** that makes sense, very helpful. So just given the new E2 you want to announce any color on how we should think about growth next year that is still pretty consistent or should we think about slower or faster growth next year?

**Mr. Shah:** I think you can expect growth for next year very consistent to what we have this year. It is in a bias more to the E2s obviously, this year it was more towards E1s and because the E1s are primarily in our network, in our hubs, in our corporate markets, the swapping out of the E1s into E2s is going to be focused on our network, in our largest corporate markets where we have 9, 10, 11 flights/day

out of Campinas, out of Belo Horizonte, out of Recife. So the focus next year is going to be E2s, the ASK numbers will be similar to what we have this year and it is going to be just focused on swapping E1s for E2s.

**Ms. Syth:** all right thank you.

**Operator:** our next question comes from Mike Linenberg, Deutsche Bank.

**Mr. Mike Linenberg:** hey, just a few housekeeping questions and then the bigger picture question. The 321Neos how many seats are they going to have?

**Mr. Shah:** Mike, Abhi here, the 321s have 214, 214.

**Mr. Linenberg:** ok, 214, okay great and that is also going to include your sort of extra room upfront product that you have?

**Mr. Shah:** yes.

**Mr. Linenberg:** okay great.

**Mr. Shah:** it is the domestic A321 with extra room upfront.

**Mr. Linenberg:** okay great and then just a quick second here. I saw that you were reporting earnings per ADR and I know in the past I think it was per ADS. Was there, did you have any sort of legal change of the share structure? I realize this is kind of minor.

**Mr. Alex Malfitani:** we use those interchangeably, ADR and ADS. There is no difference.

**Mr. Linenberg:** okay great and then Alex actually a quick question from the accounting. The difference between your reported loss and then you had kind of net income adjusted, you added that the foreign currency exchange hit; are there any tax implications as a result of adding that back? Is that just a straight add back or should we assume, apply some sort of tax rate to getting a true after-tax number? Maybe it is not even applicable; you will not even apply taxes for that.

**Mr. Malfitani:** it is a pretty straight add back for the impact of FX to our dollar-denominated debt, which is not real debt as you know that these base markets mainly be capitalized leases. So unfortunately with IFRS 16 the volatility to earnings with FX are going to increase because all of those lease cash flows gets capitalized on the balance sheet and they get translated to BRL every quarter on the end FX. So but they do not, when you calculate taxable income that FX volatility does not apply right? So protectable income driving your service already

disregards the FX volatility and so you do not need to worry about tax impact when you add it back to the net income.

**Mr. Linenberg:** okay great that is helpful. And then just lastly - maybe this is more of a question to David - you referenced the recent consolidation in Europe and we now have another market out there for a carrier which in this case is a carrier that would have a decent presence between Latin America and the Europe, and yet when I look at the numbers I believe TAP is actually a larger carrier, maybe 1 point or 2 of share larger than Air Europa. Just thoughts about that transaction and how do you think about it vis-à-vis TAP?

**Mr. Neeleman:** absolutely. I think Air Europa is maybe a little bit stronger than the rest of Latin America and TAP is really strong in Brazil. I think what we have scheduled for next year between the JV, between TAP and Azul is like 100 weekly departures going to Europe from Brazil, which is far away the largest carrier. We have about 30% of all the passengers that fly between Brazil and Europe, which is quite amazing. Nobody even comes close to that including Air Europa, even IAG.

So I think it is great. I think Air Europa has sales of 2.1 billion – that is what I read - and I think TAP the share is going to be close to 3.5 billion. So we are significantly... The price that was paid. It is not equivalent to maybe the debt... something; but it is certainly... It was encouraging for us to be part of that great transaction and it is interesting, the antitrust implications of that with both carriers being in Madrid; but obviously we feel confident that it is going to be approved. So certainly opens up, makes our investment more valuable, no doubt about it. We are pretty excited about it.

**Mr. Linenberg:** absolutely, it is great to see another marker in the marketplace. Anyway good quarter everyone, thank you.

**Mr. Neeleman:** thanks Mike. Just to remind everybody that if you would take the shares that Azul holds through the convertible... It is about 48% of TAP, so it is a significant amount. We are by far away the largest shareholder. So in numbers we can take about half and that is what Azul is valued in TAP shares.

**Operator:** our next question comes from Dan Mackenzie, Buckingham Research.

**Mr. Dan McKenzie:** thanks, a few questions here. Abhi, I wonder if you could talk about the loss see demand that we have seen over the past couple of months. What I am getting there is we have had some pretty big developments in Brazil including the passing to pension reform and it seems the privatization of state owned companies has picked up here and I am just wondering what is that all

mean for Azul? Are you seeing a more confident consumer or a less confident consumer? I am just wondering how that filters down to Azul.

**Mr. Shah:** hey Dan. We felt pretty good about demand. Obviously we reported our October traffic yesterday; it was very strong, strong internationally and very, very strong domestically. I think the industry is feeling pretty good about it overall, combining that with good capacity discipline... Discipline as well not seeing too many strange things or aggressive things on the corporate discounts and private fares and all those kinds of games.

So I think that the corporate demand has been good 2H TY. We are expecting now to have... October was very good. October last year had elections, so we actually had a good comp as well for October. In November we have a very difficult comp, but November has started up well also. So certainly I think on the domestic front we are seeing strong numbers and I think the numbers you will see from our friends in the domestic market are going to be good as well. So certainly reasons to be optimistic here on the domestic side.

**Mr. XXX:** Dan just to highlight this pension reform is a big deal for Brazil and the States will be included soon and one thing that we saw is Brazilians going to the street asking for pension reform. That is unheard of in Latin America people pushing for it. I think it is a newfound optimism in the country, I think the economic team and administrators that are in place right now are doing all the right things for Brazil and Brazil had a very much in the right direction.

The fact we are seeing this demand on our flights being for and being able to have this capacity before Brazil takes off, we believe that Brazil will start to grow again over the next couple of years and we will really take advantage on that road.

**Mr. Shah:** and just to reiterate, Dan, this was our second best ever 3Q RASK in the history of Azul and we just missed it by 0.5%. So by far our largest ever ASKs and so that gives an idea. The demand is there for this capacity.

**Mr. McKenzie:** yes and just to follow up here on the cost side. Alex I was wondering if you can just clarify the FX pressure that that puts on CASK ex-fuel. So if we could just look at cost or CASK excluding fuel on an FX neutral basis what would that have looked like in 3Q?

**Mr. Malfitani:** it was a unique quarter in which the average FX rate was fairly flat YoY; but the final FX rate, the end of the quarter FX rate, was pretty big YoY and also QoQ. For operating expenses the average FX rate is more of a good indicator as to how our expenses are affected by FX and so YoY I do not think FX is as big of either a headwind or of tailwind for operating expenses.

There was some help from oil prices, so fuel prices in dollars were down and that helped; but even if you adjust for FX, which did not have a lot of effect, fuel and of the payroll tax we did see a decrease in CASK, so what we call normalized CASK, normalized for this kind of out of control, out of our control factors, our CASK would have gone down by about 1.5 p.p. right? Which is just the natural result that you would expect from our upgauging right? The fact that we are bringing in aircraft that have essentially the same trip cost or lower trip cost; but a lot more seats, which naturally reduces CASK.

So in this quarter we are going to talk too much about the normalized CASK because the normalized CASK, which we always point to try to control for all these macro factors, was pretty similar to the accounting CASK. So 1, 1.5% reduction I think that tells the story of what is happening with our operating expenses.

**Mr. McKenzie:** that is right and effect could just squeeze in one last one here. The 500 departures with the E1s it will be helpful to know what percent of the revenue of the flying that is because the way to think about that obviously is you have got a chunk of revenue, I do not know if that is now 20%, 10% or 30%, where you are going to see margins improved; but I think if you can help size the part of that margin improvement story that would be helpful. Anything you can share there.

**Mr. Shah:** Dan I will get to you on the exact number; but these departures are in our hubs, so in Viracopos for example we fly 11x/day to Curitiba or 10x to Porto Alegre and things like that, in Belo Horizonte, in Recife, in Cuiaba and so a lot of big corporate markets that have higher than average yield, higher than average RASK and so it could be a higher than average for sure revenue representation than just what the ASK are. So these are our highest yielding corporate markets with the higher frequencies. I will get you the exact number but it will be higher representation in terms of revenue than it is in terms of our ASKs and so it is going to be very significant when it comes down to our bottom line.

**Mr. XXX:** it is not just the revenue side. Abhi has talked about revenue and it is the cost side. So if you take 500 flights and to take 15% or so off of that cost almost 500 flights that is really significant and the revenue on top of that you can see more seats. We have got numbers internally that are pretty... Obviously most of the... will quite significantly our margins so that is why we are expediting the E1s as quickly as possible and taking the E2s as quick as possible as we have been talking about for a few quarters now - but now we are actually doing it.

**Mr. McKenzie:** understood. Thanks for the time.

**Operator:** our next question comes from Andressa Varotto, UBS.

**Ms. Andressa Varotto:** hi thank you very much for taking my question. I would like to understand better the depreciation decrease QoQ. We saw that appreciation decreased at around 5% QoQ; but at the same time we have seen increases in PP&E and rent payments. So if you could provide some color on that it would be very helpful.

And I just have one second question regarding the competition outlook on the regional routes, especially after the start of operations of Passaredo and MAP. That is it thank you.

**Mr. Malfitani:** I will start with the depreciation and Abhi will take the regional routes. Depreciation you can see obviously went up YoY, some of it from fleet transformation but more of it from maintenance. The truth is it takes a while for new aircraft to really start impacting depreciation significantly. The way IFRS 16 works you are taking the present value of all the payments that you are going to have over the course of 12 years or 144 months, you are populating the present value using our discount rate, which is fairly higher than the history rate.

So that gets you a smaller number and then divide that by 144. You can do the math and you will see that each aircraft that is added it does not really impact depreciation all that much; it impacts that more significantly because the debt takes the full brant of the present value and also it affects leverage as we always talk about because you get the leverage, you get the debt impact on the leverage with you do not get the Ebitda generation yet. That will come over time.

So you should not expect huge growth QoQ, certainly not as we are seeing in the growth of ASKs for example because like I said it takes a while for these aircraft to start impacting depreciation. Also this year what we did is because we had the change in IFRS and had all these new aircraft coming in, we made a small change to the timing of when we recognize, when we start recognizing the depreciation of a new aircraft. That change was all within the year of 2019 and so that is why you are seeing 2Q higher than 3Q because we changed that policy in 3Q. So what it really means is 1Q was a little bit higher than with this new policy, 2Q a little bit higher than with this new policy and then we reverse that in 3Q and that is why you see the reduction in 3Q versus 2Q. But it is all... We look at the full year number and it is all consistent.

**Mr. Shah:** and regarding the question about the regional routes Passaredo is just starting some regional routes out of Congonhas. So in terms of the direct overlap with them we still have very, very little direct overlap with them, I believe baby one or two routes total. We are seeing any impact from their flights in our numbers. It represents a very small percentage of our network and so it is not something that is

a big impact we are seeing, not something we are noticing on a day-to-day basis. We are watching it but in terms of the impact we are not seeing anything significant to report or to notice.

**Mr. XXX:** I just want to put in perspective. I think Passaredo had 5 to 6 ATRs and MAP had 2 to 4 ATRs. So you are talking about a total 7 to 9 ATRs and a lot of them dedicated to the Congonhas airport to fly the new schedule, exit a lot of routes that MAP was flying in Amazonas and when you fly in Congonhas is important for you to keep the schedule there, and all of the markets that they fly our local markets that we do not compete with them on, like for example Congonhas to Ribeirao Preto where I think they have direct competition from TAM on that route - but we do not fly it.

So very, very small airline overall and even after combining the two airlines it is very small. So it is pretty insignificant in the big scheme of things and I think keep in mind we are taking 12 aircraft in 4Q that are 3x the size of their largest aircraft. So it is pretty small relative to the business that we have.

**Ms. Varotto:** that is very helpful thank you very much.

**Operator:** our next question comes from Stephen Trent, Citi.

**Mr. Brian Roberts:** hi, Brian Roberts for Steve Trent thank you for taking the question. If we could go back to your stake at TAP through the converts is it fair to say that Azul could monetize this holding if approach price strategic suiter or TAP will decide the IPO?

**Mr. XXX:** of course, that's what we know. I mean we are going to invest and we think and certainly it is continuing to increase in value. As we mentioned, as John mentioned in his script Tap is undergoing the same kind of fleet transformation that we are doing here. They are replacing their 320-200 for 330Neos. They have 15 and they will exit the year like 75% of their new generation airplanes on the... fleet and then they are starting the narrow body. They start to fly the 320 MLR, which is, used to be called the long... 321 steeper long-range but we changed it to... range because it works best (incomprehensible 34:30) XLR comes along.

So we started flying that to Belem, and started flying it to Washington after the Aut season. We are seeing... Margins with those airplanes. So things are looking great at TAP and so we were attracted by the investment there and it offsets the strategic value of having this joint venture that we announced and was approved by the board yesterday. So there is going to be huge synergies between both with us being able to correlate schedules and coordinate fares and do all things. But

also it is an investment and if somebody invests in there or purchases there is going to be upside for all that because of our stake.

**Mr. Rodgerson:** it is important that having the commercial agreement and the joint venture in place means that we can monetize the asset and still have all the strategic value associated with it. So that is why the sequencing is happening. So it is very important for us to get the commercial joint venture in place before we talk about the alternatives to liquidity that you addressed.

**Mr. Roberts:** great thank you and if we could just switch gears on given your partnership with Nelly is it possible that we might see other partnerships with other e-commerce companies like Amazon, etc.? Thank you.

**Mr. Rodgerson:** we are not naming Amazon or any of the other players right now; but we are significantly investing in our logistics network in Brazil right? So we will continue to invest a lot of our management time focused on it and I think you will hear a lot about this over the coming years. So we are very excited. It is a new phase in Brazil and the fact that we can deliver packages in 3700 municipalities in the country is very powerful. Our network is our greatest strength and we are going to leverage that as much as we can in e-commerce.

**Mr. Roberts:** thank you.

**Operator:** our next question comes from Josh Milberg, Morgan Stanley.

**Mr. Josh Milberg:** good afternoon everyone and thanks for the call. You guys have already covered a lot of ground today but I wanted to ask about the issue of hidden assets that Alex has touched on at your investor day and just to potential for prepaid maintenance expenses to go down in the longer term. I think it is maybe not too surprising to see that that line in your balance sheet was up this quarter; but I was just hoping you could give a little more perspective on how it could evolve in the next few years or how we might project that upside, thanks.

**Mr. Malfitani:** I think the way to project it, Josh, I think our fleet plan is probably a good proxy because the payment of maintenance reserves is by large a phenomenon from our old E1 leases and that is why we are confident that they will go down over time because as the E1s leave - and they will leave, it is just a matter of time - we will see that line going down. Now the reason why it may go up or down until then is more of a question of the maintenance events that the E1s will go through or not right? In some quarters where we have a lot of maintenance we made deepen into that balance to pay for the maintenance events and then if there is a quarter with moderate E1 events we may have the payments. For the

maintenance reserves they go together with the lease payments, but not the dropdown.

So we have not had a lot of E1s leaving; but we are very excited about the recent progress that we have made with the E1s because we sold one in 3Q, we sold one in 4Q. We have the MoU to start accelerating their exit and that is when you are going to see that balance start to come down.

The other thing that drives that balance is FX. Not only to here... in terms of prepaid cash that has already left the company; but that balance is all in USD and so as the currency fluctuates you will see that balance going up and down as well.

**Mr. XXX:** one of the benefits we had with the... Of the 32 E1s is that the delivery conditions now transferred to the new leasee right? So that is one of the benefits that you have today to use the aircraft for the remaining term of the lease. They are responsible for their portion of the return commissions.

**Mr. Milberg:** okay very clear response thank you very much.

**Operator:** our next question comes from Pablo Monsivais, Barclays.

**Mr. Pablo Monsivais:** hello, hi guys, congrats on the results. I have one follow-up question. Can you please share with us what is putting some pressure on unit revenues in 3Q and probably in 4Q of 2019 that is causing our lower margin guidance despite better unit cost performance? Is there anything from mental here that we should be aware of? Thanks.

**Mr. Shah:** Pablo, Abhi here. As I commented earlier in the call there are two effects that are putting pressure on RASK on a YoY basis. One is the higher base from last year. We had record months almost every month of last year's 2H including September, October, November; but the biggest effect that we are having is the effect of the aircraft mix. The A320s are flying double the average stage length and they are 50% bigger.

So on an absolute basis that aircraft has a lower absolute RASK than the other aircraft. If you look at our RASK for each and every equipment type they all actually went up YoY. Our A320s went up in capacity 100% and our RASK was up more than 5% on the A320s; but however they have a lower absolute number as they become a larger and larger percentage in terms of ASK rating in the network that brings down the overall RASK all the airline and that is why we are looking at 3Q and 4Q RASK of close to zero. Close to zero actually means that we are recovering 7 to 8 points of RASK and that is a headwind due to the aircraft mix.

So I should think revenues are doing very well. We were able to implement the capacity and the demand there. As I said this is our second best ever 3Q in the history of Azul with by far the most RASKs in the history of Azul. So the revenue environment the strong. We are just having the effects in terms of YoY RASK due to the strong base last year and the effect of the aircraft mix.

**Mr. XXX:** I also think we never promised to forever increase RASK. In fact these new generation aircraft can allow us to reduce RASK over the coming years and expand margins. That is the whole key of bring in an aircraft that has unit costs that are 25 and 29% lower than our actual aircraft. It is really gone strengthen our network as we move forward. So the fact that the market was able to accept all the capacity that we put into it and to have RASK up 1.7% on the stage length adjusted basis I think is a strength to the network that we have.

**Mr. Monsivais:** of course perfect, thank you very much.

**Operator:** ladies and gentlemen as a reminder if you would like to pose a question please press the star key followed by one.

Our next question comes from Lucas Barbosa, Morgan Stanley.

**Mr. Lucas Barbosa:** good afternoon everyone thanks for taking my question. My question is on the A321Neos. Can you walk us through the strategy for these aircraft? I can imagine they will be allocated in the highest-density routes in the domestic market; but any color you can give from where they will be allocated will help a lot. Also if you could give any color on how their unit cost compares to the A320Neos that would be great, thanks very much.

**Mr. Shah:** hey Lucas. In terms of where to put these aircraft I am obviously very excited to have this airplane into our network. One of the unique benefits that we have in our network is we have a hub in Sao Paulo, in Campinas, we have a hub in Belo Horizonte, we have a hub in Recife, all of which are very meaningfully sized hubs, Recife approaching 80 departures/day, Belo Horizonte approaching 100 departures/day to 45 destinations and of course Campinas with 150 departures/day.

So just connecting the hubs to each other is going to be the first mission of the A321 and this not only helps the economics of those routes but it helps the economics of all the other routes that connect. So we will be able to drive a lot more connectivity with each and one of those flights than we were before. Similar to what we did with the E1s to the 320s we can now do with the 320 to the A321. So the first job is just to connect the hubs to each other and then of course we have our focus at Cuiaba, Belem, like Curitiba, like Porto Alegre that they

themselves have connectivity within them. So there is a lot of opportunity as well. So given how broad our network is and how broad the platform is through all the different country... Throughout the country there is a lot of opportunity for us with the A321.

In terms of the cost economics we are very excited. With think that the trip cost of the A321 is just going to be slightly higher than that of the A320 and that with 40 additional seats. So you are going to see additional unit costs leverage for us as we use this aircraft. It could help us lower our unit cost further and given the strength of the network and how broad the network is I am very confident that we can protect the revenue and actually improve revenue across the network with this airplane.

**Mr. Barbosa:** okay thanks very much it makes a lot of sense.

**Operator:** our next question comes from Savi Syth, Raymond James. Excuse me Savi your line is open.

**Ms. Savi Syth:** sorry about that... the E1 how quickly do you envision those aircraft leaving the fleet versus your prior expectation now that you have this?

**Mr. XXX:** Savi there is as many of 10 next year alone in 2020 and then we have our natural lease returns as well and as Alex said we also sold one in 4Q TY. So it is going to be a significant transition out of the E1s. So if you look at 2021 to 2022 I think you are going to see almost all of our E1s leaving our fleet in that period of time.

**Mr. Malfitani:** Savi one thing that I think is good to clarify - thanks for the question - is the fleet plan that we have on our institutional back that our expected delivery time. That is not the contractual time and so the success that we have had it may accelerate one year; but a lot of it is already incorporated. So like John said there is such a big accident 2020 that maybe we are going to beat the fleet plan in 2020; but that is already an objective of ours right?

That is not the contractual delivery schedule. It is actually what we believe we can accomplish with all the marketing effort that we are doing in order to sell our own E1s and the sublease the least E1s.

**Mr. XXX:** and Embraer has the ability to pull forward our deliveries for the E2s.

**Ms. Syth:** and with Airbus do you expect some catch up next year or do you expect some of the delay kind of continuing through the following years?

**Mr. XXX:** is has got to be better right? We did not hear that for a while but we expect them to get back. I think the A321s have been a lot more delayed than the A320Neos; but hopefully we are down to a two, three-month delay as opposed to six months we have seen.

**Mr. XXX:** Embraer is pretty flexible and if we are able to get rid of the E1s quicker even in 2021 they can give us more E2 deliveries to speed up. So we are working really hard... As well.

**Ms. Syth:** all very helpful thank you.

**Operator:** ladies and gentlemen as a reminder if you would like to pose a question please press star one.

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

**Mr. Rodgerson:** Thanks for joining us today. We appreciate your support and I look forward to talking to you over the next couple of days if you have further questions about our results. Thanks everybody.

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

---