

Conference Call

Azul

1Q20 Earnings Results

May 14, 2020

Operator: Hello everyone and welcome to Azul's 1Q20 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 1Q 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: Thank you Andrea, hello everybody and thanks for joining us for our 1Q20 earnings call. As always I want to start by thanking our crewmembers for making great sacrifices to take care of our customers, each other and the company. Amazingly almost 80% of our crewmembers have elected to take unpaid leaves to help us all during this unprecedented time. This is an incredible number

and I am very grateful for their support. It really speaks volumes about the amazing culture we have here at Azul. Thanks to the team we are currently one of the best airlines in the world. We started this year as the largest airline in Brazil by number of destinations. We are the number one airline with 83% of our markets... We are number one with 83% of the markets we fly, one of the most profitable airlines in the world and one of the carriers with the best customer service.

It is certainly better to start a crisis from a position of strength than weakness. The timing team at Azul has been with the company since the beginning. I have a CFO that I made the president and that is very rare; having two CFOs at the company in times like this is very important.

I would also like to take this opportunity to reaffirm the management team's and my full commitment to Azul long-term. There is nothing more important to me than Azul, such a great company. What gives Azul the greatest strength is the flexibility of its fleet, which as you can see on slide four. We have anywhere from 90 air caravans all the way up to 214-seater 321s in our domestic fleet, which gives us an enormous amount of flexibility as we go forward.

During times of uncertain demand the best thing to do is to bring the demand in at the lowest possible trip cost. This is exactly what we are doing as we rebuild the network step-by-step. As demand recovers we have more options to re-create our network than other airlines will have with larger single type aircraft. Abhi is building the schedules on a weekly basis, which allows him to constantly test demand, swap out aircraft at different times. So we can only fill an ATR with demand? We fly an ATR; if it feels that you can fill and Embraer we will fly an Embraer; if you can fly with a 320 or a 321 we can fly that. This is why we have been able to grow our central network since April and continue to look for opportunities to keep it going.

We are currently serving 38 destinations with 115 daily flights and the revenue we are generating is enough to cover all of our variable costs. Azul is fortunate to count on the support of many stakeholders including crewmembers, aircraft manufacturers and lessors, banks, suppliers and the Brazilian government. We have developed a recovery plan that includes the contribution from all of our stakeholders and I am confident that we will come out of this crisis stronger. With that I will pass the word to John, who will give you more details about 1Q results and our response to the crisis.

Mr. John Rodgeron: thanks David. I would also like to thank all of our crewmembers, our customers, partners and suppliers and everyone who is contributing to protect Azul's long-term success. I will give you a brief overview of our 1Q results and then we will focus on the initiatives taken in response to the crisis.

Our revenues in 1Q grew 10% YoY driven by strong passenger demand in January and February and a 12% growth in capacity. Azul came into this crisis strong with a stage-length adjusted unit revenue expansion in 1Q even with a significant increase of capacity. In addition, our cargo business delivered another strong quarter of results with revenues up 41% YoY. Cargo continues to be a strategic business unit for Azul and we see a lot of potential for cargo in Brazil, especially in e-commerce. We recently adapted several passenger aircraft into cargo planes to be used during the crisis.

As you know, with the implementation of travel restrictions and social distancing measures starting the second half of March the Brazilian economy came to a standstill leading to a sharp drop in passenger demand. Our results were further impacted by the 18% depreciation of the BRL. As a result we recorded an Ebit of 170 million BRL representing a margin of 6.2%. Normalizing for currency and COVID-19 our Ebit margin would have been 14.9%.

As you can see on slide six we ended the quarter with significant sources of liquidity in non-encumbered assets totaling over 6.7 billion with a strong balance sheet with no restricted cash. We also have our loyalty program TudoAzul, which can sell points in advance and is wholly owned and unencumbered.

The value of our investment in TAP decreased to 937 million due to COVID-19. This amount includes the face value and accrued interest of the bond of approximately 700 million. The bond is guaranteed by TAP, who is expected to receive support from the Portuguese government. It is also secured by TAP's loyalty program. We will have the ability to convert this into cash.

Moving on to slide eight we moved quickly and aggressively to reduce our costs and improve our liquidity while taking care of our customers and crewmembers. Since the onset of the pandemic we reacted quickly to make short-term adjustments to our network by cutting capacity by 50% in the second half of March. On March 26 Azul was the first airline in Brazil to implement an essential air network reducing its 950 daily departures to only 70. Since then we have been carefully monitoring the demand recovery to gradually increase our network and schedule. It is important to highlight that we will only operate flights that generate enough revenue to cover variable costs. This is why having a flexible fleet with the aircraft that have lower trip cost is key in the current environment.

Moving on to slide nine our quick reaction to reduce capacity contributed to a significant reduction in variable costs, which represents approximately 60% of our operating expenses. In addition we implemented several initiatives to reduce fixed costs, including an over 50% reduction in payroll in 2Q; deferral of all aircraft lease

payments; suspension of new aircraft deliveries, PDP payments and Capex investments. Through the implementation of these initiatives we significantly reduced our cash outflows.

Moving on to slide 10 our immediate response has mainly been focused on preserving our financial liquidity to work through the crisis. We ended March with a cash position of 2.2 billion. In April our cash actually went up and we expect to end 2Q with approximately 2 billion in cash. We expect to have a net cash burn of only 3 to 4 million BRL/day in May and June. In addition we have no PDP payments or aircraft Capex commitments due in 2020 with no significant debt repayment during this year.

Moving on to slide 12 we have addressed the immediate cash needs and now have developed a recovery plan to continue to engage all stakeholders including crewmembers, lessors, aircraft manufacturers, suppliers and government authorities to maintain the liquidity required to confront this crisis and optimize the airline for the future. This plan is based on conservative assumptions. We used to have the capacity to fly 1000 flights/day in December but we are planning for only 400 to be conservative in December.

As you can see on slide 13 our plan is focused on several additional measures. We are looking at all payroll initiatives to adjust our fixed costs to the new demand environment; we are holding comprehensive renegotiations with the lessors to allow us to pay up as we increase our flight schedule; we are also seeking support from aircraft manufacturers and all OEMs.

Yesterday we announced the deferral of 59 E2 deliveries to 2024 and beyond. We have a great relationship with Embraer and are very excited about the E2. Unfortunately we had to push back our plans to take on more of these planes until the economy recovers. It is important to highlight that we also have 51 aircraft naturally exiting our fleet before these E2s will arrive. This is excluding any potential subleases to LOT and Breeze, which still have signed contracts. To the extent of the market size changes post-COVID we want to be prepared.

As mentioned before we are no strangers to short-term challenges and remain confident in our long term targets. We entered this crisis as one of the strongest airlines in the world. Our fast response allowed us to build cash reserves for over one year. We are also taking a conservative approach to demand recovery and have developed a plan to ensure a positive cash position in the long-term. And finally our flexible fleet gives us a trip cost advantage that no other airline in the region has. With that David, Alex and I will take any of your questions.

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 one on your touchtone phone now and 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 answered during this call or by the investor relations team after the conference is finished.

Our first question comes from Savi Syth, Raymond James.

Ms. Savi Syth: hey good afternoon. If I can ask just a little bit more clarity on fleet plans. I think you are expecting about maybe 68 E2s by the end of 2023 and does this mean kind of you will only have kind of 4 more coming or...? Just a little clarity on that and then just to clarify was the 51 aircraft, that lease over the next few years, is that ex-E1s?

Mr. Rodgerson: Savi just quickly we have, there is 4 built Embraer aircraft that we are working through, they are going to a lessor and we are working through that with them. First of all what we found out is the greatest asset that anybody can have in this crisis is an airline that can actually pay their bills right? So the asset values do not exist anymore; not for a 737, A320, E1 or anything. What everybody wants is for airlines to be healthy that can continue to pay.

So what we have decided to do is stop the incoming flow of aircraft and that was the big, important step that we took. So all aircraft that have not been built yet will not come in and then allow us to take down the fleet as we go forward over the next couple of years. The 51 aircraft that we mentioned is the natural redeliveries that we have; not, that gets accelerated with LOT and Breeze; but a lot of people's questions is is LOT and Breeze still on? And they still have commitments with us, they will still take it; but every airline in the world is currently suffering, so I wanted to give a conservative assumption on that.

So the 51 aircraft that are leaving are several different aircraft actually: we have seos leaving, we have A320seos leaving; we have E1s leaving; we have ATRs leaving; we have 737 cargo planes leaving in that same period. So what we have done is no new aircraft coming in from now until 2024 to give us the headroom in case the market is smaller in a post-COVID world.

Ms. Syth: and if things recover sooner I am guessing then are you able to kind of rework that or...?

Mr. Rodgerson: absolutely. I think the aircraft manufacturers would certainly like to deliver aircraft sooner and we will work in through plans with them. You know Savi, one of the things that is really important: a lot of the E2s that we were taking, the initial E2s were coming through lessors and so the lessors were actually very happy because it reduces their capex in the short term and their financing risk associated with financing aircraft as well. So we are looking for support in a step up plan for our leases that having the lessors taking a little bit of that burden off of them is great.

And the other great thing is that we did this with no penalties. So Embraer, it is in Embraer's best interest to have a healthy Azul that will be able to take our full order in the future. So we help the lessors, we helped ourselves significantly in that process and having that lessors healthier it actually helps us as we look for their support as we move forward.

Ms. Syth: makes sense and just on that same topic the last question is just how are you thinking about Capex? I know you gave some color on 2020; what would that look like in 2021?

Mr. Alex Malfitani: I think it will very much dependent on the recovery. If we have excess aircraft we can stagger them and we can manage so that we do not have to incur any heavy maintenance checks and we can fly the aircraft that have available time without kind of tripping up any big maintenance milestones and then therefore flying all of the aircraft that is a good problem to have right? And then we will have the ability to perform those maintenance checks and we will have the Capex for it. But assuming the conservative scenario of demand recovery that we have assumed you can assume no Capex for the foreseeable future.

Ms. Syth: that is helpful thank you.

Mr. XXX: thanks Savi.

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

Mr. Josh Milberg: hey everyone thank you for the call and the questions. I wanted to first ask about your cash flow. When we had spoken to Alex around mid-April I think you were indicating a monthly cash burn of 150 to 200; but the new guidance in flights and numbers is considerably below that. I know that there are a lot of moving parts; but I just wanted to better understand the specific variables behind the improvement - if I got the numbers right.

Mr. Malfitani: hey Josh I think you do; but we have seen an improvement from what we originally assumed and there are a lot of moving parts like you said. And one thing that is encouraging is that when we say that we were flying flights that covered their marginal cost we are actually seeing that it covers... It is not break even; there

is a good cushion there between the variable cost of the flight and the revenue that we are getting and that is why you are also seeing a significant increase from the number of flights that we flew in April to the number of flights that we are flying in May. Obviously there is still a long way to go until we get back to the almost 1000 flights/day that we used to fly - but that is part of it.

And we also finding a lot of cash sources that we are working through and some of these are under negotiations, some of these we conservatively assumed that we would not be able to get; but we were able to execute on them, so for example replacing cash collateral for insurance. Some of these initiatives, which are outside of our control, originally we did not assume that we were able, we were going to be able to tap them to be conservative; but we have been able to execute upon them.

And also like John said it is in our suppliers' and lessors' best interest to support Azul in this period because the way for them to maximize their payout is for us to get to the other side and have a healthy cash generating airline after this crisis. That is the best way, that is the way that they will be doing the best favor for themselves and that is what we have been seeing: that over time we have been able to get these stakeholders to support us in a stronger way than we originally expected.

Mr. Milberg: okay and a part of that and talking about your stakeholders it sounded like from your comments that you are a little further along in your agreements with lessors than you were a month ago. I think you mentioned that your payments would move in tandem with your putting back the capacity; but can you talk a little bit more about that?

Mr. Malfitani: yes. That is the constrict. The conversations with the lessors are being very positive, again very collaborative because it is the intersection of what is best for Azul and best for the lessors. It is not a sort of a zero-sum game here; if everybody helps Azul get to a cash generating position everybody will benefit. So that is the constrict. You know we do not want to commit to something that we cannot deliver and also the lessors know that it is not constructive for us to just promise them to pay them something that we are not able to play.

The best way for us to pay the lessors is to pay them as we start generating cash by operating. So that is the natural profile of what the payment should look like because anything that deviates from that is just not realistic. So we are still talking to most of our lessors, we have agreements with some of them as well; but we believe that with the tone of the conversations that we are having, with the sharing of our plan, the conservatism of our cash recovery, of our demand recovery plan, this is all kind of coalescing around the management recovery plan that we mentioned, which kind of aligns all stakeholders interest and gets contributions from all of our stakeholders.

What every stakeholders want to do, first is make sure that this plan is equitable. The worst thing for a lessor is for them to pay more of the tap than the other lessor; but if you are treating all lessors fairly they understand. It is really the best way for themselves to get the maximum payout possible - and same thing among banks, same thing among suppliers, same thing among all our stakeholders: it is treating kind of each category equitably and making sure that we get to the other side of this crisis.

Mr. Rodgerson: hey Josh. I want just to add a couple of things. 60 days ago a lessor would come and say: I want to get paid, I want to get paid, I want to get paid and now they come and say: how are we going to help? They changed the tone. I think the world has grounded the airlines and so everybody they are taking 10, 12-year risk on Azul right? And I think that that is something that they need us to be healthy because their asset does not have value right now. Their asset is the airline customers that can pay them and so I think had to cut deals 60 days ago we would have done suboptimal deals.

So what we wanted to do is we want to take care of the immediate cash needs. We have done that and now we are going to roll on a comprehensive plan with all our stakeholders and kind of hey, we are going to build that up. As Abhi builds the schedules back up you get paid accordingly and we are all in this together. We all want Azul to be successful and so we are going to do that. We are going to work very close with them and they are our partners.

Mr. Milberg: okay that is very helpful color John and Alex and talking about the interest of keeping you guys healthy, the government probably has that interest too and so I was just wondering if you could also touch on the status of the BNDES funding. Obviously there has been a lot of different reports out there; but one thing that seems to be the case is that BNDES may be contemplating a lower amount of funding that it had previously and that they are in fact insisting on a private market participation.

Mr. Rodgerson: hey Josh I think the country is in a tough spot right now and so I think that maybe what was previously announced and what they were able to do is going to be different; but I will tell you that one of our largest stakeholders is the Brazilian government. We paid 2.5 billion BRL last year in taxes and so a healthy Azul is very important for Brazil. When you talk about how many cities we serve, our importance to Embraer, our importance across the board and the reality is they do not have as much money as they previously thought and I think they would love to help funding industries like you are seeing elsewhere in the world, in the US and in Europe and other places - but I do not know if they have that. I think it is disappointing

that the USD amount is lower. But I think it brings a lot of clarity to us as to what we need to do.

So I think it is going to make the conversations with all our stakeholders a lot easier. Hey, we are going to get this back, we had one of the best airlines in the world. We are going to be back there, everybody is going to get paid in full, let us just move forward. I think the good thing about the BNDES deal it is equal and so what I get is what Gol gets, is what Latam gets and so there is nobody getting a preferential treatment one way or the other, nobody is negotiating a better deal or a worse deal.

So look, any money is *bem vindo*, any money is welcome right now. Obviously because it helps us across the board; but again, I think we were disappointed that it is not bigger. I think, but we will do what we need to do to have a strong airline over the next 18 months and certainly we will do everything we need to do to have a strong airline 10, 20 years from now.

Mr. Milberg: okay much appreciated.

Operator: our next question comes from Matthew Wisniewski, Barclays. Matthew your eyes open. Matthew your line is open you may proceed.

Mr. Matthew Wisniewski: hi sorry about that thanks for taking my question (inaudible 24:40).

Mr. Malfitani: sorry Matt we cannot hear you at all. Sorry Matt you are breaking up. Maybe we will go to the next question and we will come back to you Matt if we can fix your line.

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

Mr. Mike Linenberg: hey good morning everybody, a couple here. So you have been able to work at the deal with Embraer and to push those airplanes back a few years. Where are you with respect to Airbus? I know you mentioned that you were in talks with them, as well as the engine manufacturers on the airplane. How many neos were you expected to take maybe this year or next year and what is the right number or does it seem like no airplanes for the next few years is the right number?

Mr. Rodgerson: Mike, as you know airlines for the next years is the right number. I think getting Embraer done and being Brazil's largest domestic carrier in terms of destinations and being, how important we are to Embraer is a clear signal that we want to send to Airbus. It is a negotiation, so we have to negotiate. I think all OEMs want to deliver aircraft and no airline in the world wants aircraft. So it is an active negotiation; but what we wanted was to set the example with Embraer and use that in our discussions. We are talking about deferrals, we are not talking about

cancellations and I think depending on how the conversation goes it could get to cancellations - and I think it is in Airbus' best interest to try to keep the portfolio alive and make sure that Azul helps this and so we will be able to take the full complement of their aircraft over time.

Mr. Malfitani: and the big aircraft number that was coming, Mike, were Embraers. If you remember we were kind of halfway done with our fleet transformation and we already have over 40 neos. So in the next couple of years we are going to be primarily replacing E1s with E2s and so on the Airbus side we are talking about low single-digit; it is nothing as relevant as what we had on the Embraer side - but we also believe, and we are pretty close to, an agreement with Airbus as well. So you can essentially consider that we will not take aircraft that we do not need.

Mr. Linenberg: okay that is helpful and then maybe just a question to Abhi: it was interesting to see that you are ramping up a little bit May versus April, in the US it seems that the low point was mid-April. Our sense was that Latin America was maybe a month, maybe six weeks behind the US and so maybe it is a two-part question: one have you seen the bottom or did you, as you cut and Latam cut and Gol cut, did you realize that opportunistically and because of your fleet and the fact that like you mentioned you fly all the way down to I guess ATR and caravans now with the two-flex acquisition, where there markets there that you realized you could serve and like you said that they would cover the variable costs, that it made sense and the additional service is less a function of demand improving and just you being more opportunistic? I am just really curious about the ramp back up and I realize it is modest but it is noticeable.

Mr. Abhi Shah: hey Mike thanks. In terms of the bottom I think we are well off the bottom, which is good news. I would say the bottom in terms of demand was in the second week of April, second and third week of April and we have seen a bounce back from that, which is very good. The size of the bounce is a sort of commensurate with how we have been ramping up the demand, the network. So we are kind of going pace to pace with what we are seeing in terms of demand and so that is good news.

In terms of how we are deploying the fleet, as David said it is expectabilities. So we are flying today caravans in markets we used to fly with ATRs before; we have ATRs flying in the North, for example in cities like Belem which we supply Embraers; and we have Embraers flying A320 routes for example. So we definitely are using, I would say two really, really powerful tools to bring back the network and the first is flexibility, smaller aircraft fit bigger aircraft; we are using our multiple hub structure, obviously Campinas, Belo Horizonte and Recife and we are re-creating the hub structure that

we had and we are driving a lot of connectivity. If you remember Azul was always a very connective airline and now that is even more important.

Corporate demand is not back yet, especially big corporate demand which tends to be more local and so it is really connecting demand that is driving the bulk of the revenue right now and 90 of our 100 daily flights on average are in Campinas, Confins, Belo Horizonte or Recife. Of the 59 routes that we are flying only 4 of them have airport-to-airport competition and not even on a daily basis. So it is very much the Azul network flying very much within our hub structure where we are strong and that is allowing us to ramp up, because we have the aircraft that we can use to access demand and we see how it goes. We actually had one route, believe it or not, that we started with caravans, went to ATRs and now are flying A321 but in the North actually.

And what we have been able to do is, thanks our crewmembers, our pilots and flight attendants, we have the ability to run a schedule on a weekly basis - including crew schedules. So we are planning revenues, system operations and crew scheduling; upgrading and downgrading aircraft by week; launching a new crew schedule every single week and that allows us to take opportunities in the network. So we are launching new routes actually by week to see what works, we are removing some stuff that does not work.

So that is sort of how we are thinking about it. Obviously unit revenue is important. We have to be able to generate variable cash, that is really important and we have to be able to contribute to the network which we already have. The flexibility together with the connectivity is really important and that allowed us to bring back the network and we will keep doing this. We are discussing this week and early next week we will start rolling out the early part of June.

One thing that is really helping also - it is helping and makes things a little bit more difficult - is demand is actually very close in. There are not a lot of Brazilians right now that are looking for the second half of the year and so even if you have a flight, a new route or a new flight out to sale out 2 to 3 weeks that is more than enough time right now. So that is sort of giving us opportunities to put flights pretty close in to see what works. So it is a kind of all this combination that allowed us to bring back to about 118 flights/day on peak days where we are now and we are currently in the process of reevaluating the early part of June.

Mr. Rodgeron: Mike we have also done a lot of charter flights to repatriate Brazilians so we actually had our 330 was in Rome yesterday picking up Brazilians. We flew to Lima and we have a flight to go to China to pick up medical equipment. So we are trying to utilize our fleet as much as we can in that way as well.

Mr. Shah: and also just to add we dedicated two A320 aircraft, we have adapted two A320 aircraft for all cargo operations with boxes on the seats. Of course we have ATR quick change, we have our two freighters. So we have almost 9 aircraft dedicated to the cargo team and they are making hay while the sun shines, which is also good.

Mr. Linenberg: thanks that was a fantastic answer and I do not think there is any airline in the world that probably has the ability to do crew bids on a weekly basis, so that speaks to flexibility. Just one quick last one and this is probably to John and Alex. You know the burnout is 3 to 4 million/day and I think at the end of the day whether we get to 4Q and revenue is down 80% or down 30% - obviously we are hoping for the latter - the fact is I am sure you have to get to break even no matter what the backdrop is; and my sense is that it is a come hell or high water situation for you.

At what point, can you just walk us through the trajectory of the 3 to 4 now and where do you think you are 3Q, 4Q, maybe early 21 do we get to that cash breakeven? Is it a fixed-cost basis type to the fleet and the fact that you do have a sizable number of aircraft leased does that make it more difficult to get to that breakeven? How are you thinking about the trajectory or at least the pace to the trajectory? Thanks for my questions.

Mr. Rodgerson: Mike I will start and then I will pass through to Alex. We will do whatever it takes okay? It is that simple. We will do whatever it takes. We are owners of this company, we built it from scratch. We will do whatever it takes to get to Azul to the other side of this. We have several stakeholders that will do whatever it takes as well because they are long-term partners of Azul okay? They have been extremely flexible on payment terms as of right now and we need to get back to a more healthy economy where we will fly the majority of our fleet - but we will do whatever it takes.

So our chairman is one of the most optimistic guys I know but we are having an earnings call telling you we are planning for 40% flight schedule in December ok? And so that means that pushing out all these E2s it shows a conservative approach by management. It is not appropriate to be taking new metal when we are asking for our current partners to step up and help us. That was a big signal as well to our current partners. It is like look, we are not going to bring new metal in unless you are getting paid 100% on the USD right? So that is one of the big signals that we wanted to bring to all of our partners. I will let Alex talk through the specifics on the cash burn.

Mr. Malfitani: Mike you are right. It is going to be easier for us to get to breakeven as the demand comes back; but it is also a question of the variables that we are working with. So depending on demand but also depending on our cash position; depending on cash sources right? How is the negotiation with the BNDES evolving, with other sources. You know, the world is not going to be unfinanceable forever; there is going to be a point - even now you are seeing some airlines tapping the capital markets - and there will be a point where we will be able to tap the capital market, where we will be interested in accepting the terms the market is looking for.

So all of those external variables are going to determine what we are going to do - and as John put it we are going to do whatever it takes. So what we are doing here is we are preparing all these different scenarios - obviously kind of preparing for the worse - and preparing for the worse means that even if demand does not come back, the cash outflow is going to reduce as required and we will make sure that the franchise is alive and well for when the recovery starts.

So the development or the evolution of this cash flow will very much depend on what the outside variables will look like - and we have a strategy for each one of these scenarios that we are looking at. Some of these are like you said easier to execute and more friendly and we are looking forward to those scenarios and hoping we are going down those roads; but if we are going down the roads of are more delayed recovery we will adjust accordingly.

Mr. Rodgerson: and Mike just back to what I was saying earlier lessors, banks, crewmembers, everybody depends on Azul. Airports right? Brazilian government and so all these people are going to say hey, let us get through this. This is not, this was not a mismanagement of a business that lead us to where we are today; this is something completely out of our control, it is out of Brazil's control and so we are going to have to get through it. So it makes the decisions a lot easier and a lot clearer when you take a conservative approach and say hey, this is what we are going to do.

We are all united. This management team has been together for 12 years right? So we know each other, we know what we are capable of and it is we are back to old Azul right? It is a small airline again and we are going to build it right back up. So we are excited to build it back up. We thought hey, when we put these flights back on and we are going to do it differently this way; we are going to be more efficiently this time; we are going to make sure we do things better and so we are going to build this back up. What Alex is continuing to say is we have an unbelievably great franchise. Nobody flies to where we fly to; nobody has the product that we have; nobody has the crewmembers we have; nobody has the partners we have.

That is the greatest asset of all: we have the best business in the world and we are going to come back from this. It sucks right now, it sucks for all of us right now; it sucks for every single person on this call right now - but we are going to come back right? We are going to come back as we are going to do everything we have to come back and so this is an unbelievable great franchise that was built and we are proud of it and we are going to see through.

Mr. Linenberg: very good, thanks for taking the time, I appreciated everyone.

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

Mr. Malfitani: I think we are having some kind of trouble with Barclays' line here.

Operator: your line is open.

Mr. Malfitani: for Matthew and Pablo maybe we will call later. Are you there?

Mr. Monsivais: can you hear me?

Mr. Malfitani: go ahead Pablo.

Mr. Monsivais: okay perfect. One question I have is if you guys can help me to reconcile your amortization schedule. I think short-term debt for 4 billion BRL; however when I see your amortization table for the next three quarters it is six million BRL. So it is correct to think that you have like 3.5 amortization obligation in 1Q 21?

Mr. Malfitani: that is an easy one Pablo. As of March 31 we have a facility with OPIC on engine maintenance financing that as of March 31. It is the only covenant that we have that is measured on a quarterly basis. So as of March 31 we have bridged the covenant but we have received a waiver already. So for balance sheet purposes we have to put it in short term; but for practical purposes because we already have the waiver - and we have the waiver actually until the end of the year in advance already - it is not really short-term debt anymore.

Mr. Monsivais: okay that is great and regarding leveraging your receivables I remember that the conversations we have had you already have 1 billion of that in; I am not sure if that 1 billion is already in 1Q numbers? Do you have any info on that?

Mr. Malfitani: no. The ability to leverage receivables is something that is related to the credit market right? It is something we believe we will be able to tap into overtime; but it is not something that we are looking at right now. What we are doing is advancing receivables. That is still ongoing, it is still functioning. So again for those on the line that maybe are not familiar with the Brazilian market, all the business here in Brazil sell a lot in installments, in credit card installments and you can either

pull those installments forward and get cash today, which is what we are doing; or you can let that balance be used as a partial collateral for debt right? We have done that in the past, we will be able to do that in the future; but right now we are just advancing the receivables.

Mr. Monsivais: okay great and one last question if I may: on your cash burn ratio what is the estimate of lease payments right now?

Mr. Malfitani: as of right now today it is zero; but as we go forward it will ramp up according to the demand environment and our operation.

Mr. Rodgeron: flight schedule. As the flight schedule steps up its steps up.

Mr. Monsivais: okay great makes sense, thank you very much.

Mr. Rodgeron: thank you.

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

Mr. Stephen Trent: hi good morning everybody and thanks very much for taking my questions, just a few quick ones for me. One I saw you guys provided some very helpful detail on the hedge position going to get you very nice kind of... fuel hedge for this year. Could you tell me more or less a sort of net-on-net what percentage you now have covered for this year? Just in case I misread it thank you.

Mr. Malfitani: based on the conservative schedule that we assume we are roughly, a little below 50% hedged for this demand. If the demand kind of changes that number changes; but what is important, Steve, is that we should not expect any big cash outflows from these hedges right? We have been negotiating with our banks and we have made some payments in March, especially in March; but overtime whatever payments we need to make will not impact our short-term cash position. We will be either rolling those contracts forward or we will be rolling over the payment, the settlement of these hedges.

Mr. Trent: okay very helpful Alex and just another quick one, I think this might be for Abhi. Abhi, very helpful detail in terms of the connected traffic driven the bounce, not corporate demand but noncorporate demand. When you guys think about the cadence of the potential recovery is it fair to say that some corporate demand has to return before Azul might start to think about testing higher fares?

Mr. Shah: Stephen yes. I mean look, absolutely. Corporate demand is a big part of all demand in Brazil, especially the big companies like VALE, Petrobras, the banks. They are some of the biggest consumers of air travel in Brazil. So one thing that has held corporate travel back is Sao Paulo is still under quarantine right? Which has

been extended until May 31 and we will have to see how the numbers are and what kind of recovery it looks like. Sao Paulo is obviously the biggest consumer of air travel in Brazil and so that drives a lot of demand across the entire domestic network in Brazil.

So yes, corporate is going to be very, very important and is something that we will be watching very carefully to measure how we bring back the network. Our commercial teams are continuously talking to our corporate customers, travel agency partners and we are seeing some signs like Fiat for example is bringing back about 30% of their production and things like that. But we have not really seen any big signs yet from the banks for example that they are bringing back corporate travel in a big way. The banks are a big sign, VALE and things like that.

So I think we have to wait for a little bit of Sao Paulo demand coming back, the Sao Paulo State, the interior of Campinas region before we make broader steps in terms of the network. But obviously we are evaluating everything with them, we are going to find pockets of demand. I would say right now the oil and gas sector is probably overachieving in terms of who is flying and the financial sector is probably underachieving in terms of what is flying and that is we will watch for over the next couple of weeks.

Mr. Trent: okay that is really helpful. I will leave it there, thanks Abhi and I hope all you guys are good and healthy, take care.

Mr. Shah: thank you.

Operator: our next question comes from Florencia Mayorzi, Metlife.

Ms. Florencia Mayorzi: hi thanks for taking my question, thanks for your time. Just a couple of questions, the first one regarding the financial covenants. I saw in the financial statement of 2019 that you have two covenants, one is regarding to the local debentures, another one regarding to aircraft financing; the second one is measured quarterly I would like to check if you are already asking some waiver because the leverage already dropped to 5x, the covenant is at 5.5, this is the first one. And the second one is regarding to the cash burn, if it includes the principal payments thank you.

Mr. Malfitani: yes. On the covenant slide the one that is measured quarterly as you mentioned, is the one that we mentioned to Pablo that we already received a waiver not only for 1Q but also for 2Q, 3Q and 4Q. For the other one it is the same counterpart that has both the debenture and the aircraft financing. So it is really just one discussion, it is a kind of two facilities but one discussion with one counterpart. It is measured annually, we are already in discussions and we have full confidence

that we will be able to get a waiver. We have gotten a waiver from this counterpart in the past back in the Brazilian recession in 2015 and 16, they are great partners of ours and so we are very confident that we will get a waiver on that - but it is only measured at the end of the year.

On the cash burn like we mentioned there are no significant debt repayments this year. The main one that we have not rolled over yet is also the debenture that expires only in December. So the cash burn includes interest; it does not include principal but we do not expect there will be a cash outflow related to that principal; and in 2Q, which is the 3 to 4 billion cash burn that we mentioned, there is no principal payment.

Ms. Mayorzi: thank you very clear, very helpful.

Operator: our next question comes from Victor Mizusaki, Bradesco BBI.

Mr. Victor Mizusaki: hi. I have two questions, the first one we have seen a lot of discussions about the seat configuration given COVID-19. So I would like to know if you already had any kind of discussion with the Brazilian government in order to mitigate this kind of risk. And the second question when we take a look on your numbers we can see sublease receivables going up in 4Q. So just to double check if this is related just to FX or for example TAP is not paying?

Mr. Shah: Victor Abhi here. I will take the first one regarding seat configuration. One thing I think the industry is doing very well is communicating a lot with the customer on safety onboard regarding cleanliness, masks, all those kinds of things. There has been no discussion and there has been no request for discussion regarding seat configuration. We do not believe it is on the agenda for the Brazilian industry, nobody has raised it, nobody has asked about it and I think the industry by itself is doing a very good job communicating that it is safe on board in terms of air quality, in terms of cleanliness, using masks, all those kinds of things. Pretty much all the airlines are doing similar things and I think we need to continue this so that we all make the customer feel confident when they fly. I think it is in everybody's best interest to do so.

We are not planning any changes in seat configurations. We do not have any limitations on seat configurations right now. We are flying 118 flights today with customers on board and all this time I do not have any reports of customers wanting to get off the plane because they do not want to sit where they are, of customers not being confident or customers not comfortable regarding the flying experience. So I think the airlines are doing a good job of communicating. I think we have got to keep doing this but we have no plans or are in no discussions about changing anything in regards to seat configuration.

Mr. Rodgerson: I will just add to that as well we have got over 13,700 crewmembers and today we have 25 cases of COVID in our entire company and only one of them was hospitalized. So we have a very young population, very healthy population that travels and so we are taking great care, we are measuring the temperature, everybody is wearing masks. So I think we are really looking very close to ensure that our crewmembers and our customers are safe when they travel.

Your question in reference to TAP it is a standstill for everybody with respect to lessors right? So we are not paying lessors in 2Q and so there is no reason for TAP to pay as well right? We are kind of uniting that to our partner. They have halted flying for the time being to preserve cash and so it is simply that and so their obligations remain the same; but we have kind of across-the-board have done a standstill so that is all that you are seeing there.

Mr. Mizusaki: okay thank you.

Operator: our next question comes from Zina Mytilinaiou, William Blair.

Ms. Zina Mytilinaiou: thanks for taking my question, just a confirmation on the amount of the BNDES deal. So the recent headlines talk about 4 billion BRL. This amount refers to all three companies or only to you and Gol? And do you have a very specific deadline to go for it or there is flexibility on that? Thank you.

Mr. Rodgerson: we have not decided yet on. We have a call today with them to understand better the structure, what it means. They set aside 4 billion, they said it is for one to three carriers and so I think that that is the total amount. It is divided by three, obviously it is less; if two airlines take it is more and so... But we are working through that. We need to understand it. It is kind of a different structure than what we are used to but we have several questions with them and we need to make sure that if we were to potentially take that - we have not decided yet - whether it gives us the flexibility we need to rebuild the airline the way we believe it should be rebuilt.

So we are working through that and I think what we will most likely happen is most airlines will get to the next step with them and this is still something that we are quite about 45 days away from any funding and so getting to the next stage is probably important; but that is the only thing we have to say about it right now. We will give you further clarity as we move forward.

Ms. Mytilinaiou: clear.

Operator: our next question comes from Savi Syth, Raymond James.

Ms. Savi Syth: hey thanks for the follow-up. Just a clarification on the cash burn and just generally on revenue. I am just saying the commentary previously was very

helpful. I am just wondering if as you are kind of selling these flights what level of revenue you are seeing and if that is mostly kind of people using their vouchers or you are actually getting kind of cash in and you know what level is assumed in that kind of cash burn figure?

Mr. Shah: hey Savi. Actually it is cash in. The vast, vast majority is cash in. We do obviously have travel credits out there; but I would say that customers really have not really decided yet when and how to use those travel credits. So we are tracking this every day and the vast, vast majority of the money coming in is new cash in.

And one thing I am looking at with regards to these flights is not just the revenue on the flight; does that cover the variable cost? But more importantly does the new cash in cover the cash going out in terms of the operation of these flights? And that even is really more important right now to make sure that the new real cash coming in whether it is credit, whether it is debit, whether it is cash net of vouchers, net of travel credits, is able to cover the variable cost and even with netting out those forms of payment. The new cash in coming in itself is able to cover the variable cost of these operations and that is our goal going forward to maintain it that way.

Ms. Syth: that makes a lot of sense thank you.

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

Mr. Mike Linenberg: hey thanks, just a quick follow-up here. I know just early in the call John mentioned that TudoAzul as a potential source of liquidity. I know you have kept it in the past for sort of the advance mileage sale; what would be, what do you think is the potential capacity there and maybe even a sense of timing, is that a 2020 type event? Any color on that would be great thanks.

Mr. Malfitani: sure Mike. So TudoAzul brings in on average about 1 billion BRL/year from outside the Azul system right? So not including the points sold to the airline. So real cash brought in from banks and from retailers and from customers themselves. That is a big part of TudoAzul's business. We have the club, which is a monthly subscription plan which is actually very resilient; in the situation we still have a lot of members paying monthly their dues in TudoAzul club and that is great cash coming in the door. So that is up to 1 billion. If we could structure it like let us say in a very friendly environment, I think you could have as much as 2 billion BRL to bulk forward from two years right? I think partners would be comfortable with that and there are ways to kind of structure.

Obviously in this environment we are not talking about anything in this magnitude. I think today we are in current negotiations to actually bring in as much as 200 million, those are kind of term sheets that are being exchanged right now; but as the situation

improves that is what people are willing to advance given the situation that we are today, how much we are flying and also on their side how much their customers are using their credit cards. That affects sort of the demand for points; but as we recover everything benefits, everything improves because people will use their credit card more, they will get more points, they will also get more comfortable on their own economic situation and also we will have more flights to offer to them, which also helps. So I think we are sort of in the bottom. I think that today we could get at least a couple of hundred million. I think this could increase as the situation improves.

Mr. Linenberg: very helpful thanks Alex.

Operator: 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: I would like to thank all of you for joining us today. We are working hard, we are going to get through this especially with our great crewmembers on our side. They are great partners and so if you have any individual questions feel free to follow-up with Andrea or Alex, myself or Abhi. I appreciate everybody taking the time, stay safe.

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.
