Conference Call
Azul
1Q18 Earnings Results
May 10, 2018

Ravine: Hello everyone, and welcome to Azul's first quarter 2018 results conference call. My name is Ravine and I will be your operator for today. This event is being recorded and all participants will be on listen only mode until we conduct the question and answer session, following the company's presentation. Should any participants need assistance during this call, please press *0 to reach the operator. I would like to turn the presentation over to Andrea Bottcher, Investors Relations manager, please proceed.

Andrea: Thank you, Ravine, and welcome everyone to the first quarter annual earnings call. As we dropped the announcement this morning, the audio of this call and the slide presentation reference will be available on our website. Presenting today will be David Newman, our founder and chairman, John Martinson CEO, Alex Malfitani our CFO and Abhi Shah, our Chief Revenue Officer will talk for the year of 2018 at the Q&A session. Before I turn the call over to David, I would like to caution you regarding forward looking statements, any matters discussed today that are not on physical set, particularly comments regarding the company's future plans, objectives and expected performance and other forward looking statements. These statements are based on a range of assumptions that the company establishes for our purposes and risks that are discussed on the course of the call to discuss performance measures, which will not be considered on isolation, having said that, I turn the call over to David.

David: Great, thank you Andrea, thank you everybody for joining us on the call today, good afternoon. First of all, as I always do, I need to thank our crewmembers for just an outstanding quarter, obviously we could not do this without them and not just from the operations side, they are just taking such great care of our customers so that they come back and they Azul more than ever. Just recently our trip advisor announced that we again won the number one airline in Latin America and top ten in America and top ten in probably the whole world, so I am very proud of them and obviously having a great airline really helps revenue and our revenue has really never been stronger than it is now so thank you again to them.
So obviously what is on everyone's mind today is the FX rates in the fuel prices that we have and what effect are they having on Azul, and as we go forward to the end of the year. So, our commercial team is always on the phone and we can talk about it later, and John and I are working hard to recapture, working mad and we are giving a significant amount of recapture, but obviously with this spike that comes up quickly, it is harder in the very short term but we are confident that we will be able to deal with a lot of recapture revenue as the year moves on. We are also doubling down the cost and making sure that every single bit of cost of the company is out so John is working really hard with Alex Malfitani to make sure that happens.

What is important now is that this company is almost ten years old, we are having our ten years anniversary in this coming December, and we have seen this before. We had much of our fuel prices recur of the currency we are seeing today and we really have never been more prepared for this spike than we are today because we have our balance sheet is strong and have a strong cast position. Regarding this being normal or if it is just the spike that we go back, we are prepared for it and we are going to keep looking towards the future and drive our plan. What we told you on the road show over a year ago that we were going to beat the margin expenses score so John will talk about projections for this year and we are going to keep margin guides intact. But the reason why I am so bold with this company is that I am not, well, we are always obviously concerned when we see a spike, but our plan is as you know we are moving in into A330s and we are doing spectacularly well now. We have 40 flying now, next 30 airplanes already programed, and as you know with that airplane, it is pretty much a similar to cost to the airplane we have today. But we are picking up 56 extra seats so that is really having an effect on margin expenses, those are working very well and our revenues on these airplanes are year over year better, now with that extra capacity, which is helping to balance our network. So, that's very exciting and the second exciting thing is that we are starting next year with another generation of airplanes and that airplane has lower fuel cost, which obviously, with this being normal, the fuel prices are important, we have lower maintenance cost than the 320, and we have lower ownership cost and we have more seats so we are very excited about those airplanes. I bet the team can, as an investor myself and it's not we had all these year A220s and the numbers are really encouraging, with this being normal, we are prepared for it because with the coming of efficient airplanes, lower cost airplanes and that lower casualties, which is something that I feel very good about. So we can see in summary before I turn over to John, we have exclusive market with no competition and 71% of our market, which allows us to do a greater job recapturing, the future is bright, I haven't told because this is great value great investment, so with that I will turn over to John and he will give you more details on the quarter and talk a bit more on how we are doing for the rest of the year, John.

John: Great, thanks, David, and welcome everyone. I also want to thank our crewmembers for the solid results we had in the first quarter we are very excited. Looking at the slides, as we can see on slide 4, we started the year with a record performance for a first quarter, with a net income of 211 million and operating profit of 276 million. Even with a 21% increase in WTI during the period, we delivered an operating margin of 12.5% and an EBITDA margin of 31%, one of the highest in the industry. We grew capacity by 12% in the first quarter, while also expending our top line by 18% and grew raft by 5%. Our cast was naturally affected by the increase in fuel prices and a 3% devaluation of the Real. The volatility in fuel and in currency have been persisting since the fourth quarter, as you can see from the margins in these last two quarters and from our revenue performance Abhi and his team have been doing a great job recapturing these extra costs and revenue. Our decision to replace older planes with more fuel-efficient aircrafts makes even more sense in the current environment, yield represented 22% of our first quarter capacity and we will count for more than 30% when we get to the fourth quarter. Moving on to the revenue performance slide, on slide 5, both our domestic and international markets are doing well, PRASK grew 5.1% in the first quarter this is even more impressive considering that our stakes went up 15% and we grew capacity by over 12%. Adjusting for the longer stage length our PRASK increased 12.5 YOY. Our network advantage allowed us to increase our average shares by 19% while at the same time increasing low factor by roughly 1 percentage point. Once again, we increased capacity, yield and low factor at the same time; this shows the strength of our network, Moving on to slide 6, our loyalty program Tudo Azul maintained a strong growth phase during the first quarter reaching more than 9 million members. This represents an addition of 2 million members over the last 12 months, growth building excluding Azul 48% year over year. With the majority of this increase coming sales of banking partners and from our Tudo Azul club, Further increase in our share with Brazilian team market we now have a 17% growth and share up from 13% just one year ago, and we are still are well below our market share for Tudo Azul. Unlike other airlines in Brazil, Tudo Azul is 100% owned by the company, this means that we have no tax and efficiency and benefit 100% from the cash flow generated by this high growth high margin business. On the right side of the slide, you can see that the cargo business is also performing very well; revenue increased 61% YOY, mostly driven by the larger cargo compartments and the growth of our international capacity. Moving on to slide 7 I am proud to report that we ended the quarter with a solid equity position of over 3.4 billion reais, representing 42% of last twelve months revenue. We repaid 141 million of debt in the quarter and ended with a leverage ratio of 3.9 compared to 5.1 in the first quarter of 2017. We adjusted net debt EBITDA, which capitalizes over 7 times and includes all of our debts we also invested 188 million in spare parts in the quarter, which will help us reduce future maintenance expenses. In addition to having one of the lowest leverage ratios in the region, you can see on slide 8 that we have much lower exposure to foreign currency, only 35% of our balance sheet is denominated in US dollars and virtually all of our working capital debt is denominated in local currency. As we mentioned during our last call, our hedge was the principal and interest of the 400 million US dollars on secure bonds we issued on October. The hedge resulted in all local currency below the risk rate, which is currently about 6.5%. Additionally as you can see on the right side of the slide, we continue to be on dollar, on our assets denominated on foreign currency mainly are cash are deposited reserves abroad in our investment has surpassed our dollar denominated liabilities. And that is excluding our aircraft and engine spare parts, which are now reinstated every quarter also priced in dollars. For this reason in currency, we are not nearly as impacted as our competition. This reaffirms our position as the airline with the strongest balance sheet in Brazil. As we move on to slide 9, we believe that Brazil has a lot more room to grow. Over the last decade, we have gone through several periods of massive volatility and the Brazilian aviation market still doubled in size. Brazilians are travelling significantly less than other Latin American countries, which makes us confident that the market will keep growing over the next few years. While everyone is focused on the exchange rate headlines, please remember that GDP is expected to grow around 3% in 2018, with one of the lowest levels of interest rates and inflation seen in decades. We believe we are at the best position for continuing growing our business over the next few years while delivering superior operating and financial results. In summary, as David has mentioned we have the largest network in the country and are the only carrier in 71% of the rouse we have a multi-year margin expansion plan which consist on transforming our fleet into next generation aircraft A320 and EMBRAERs E2. We have strong balance sheet with high liquidity and the lowest leverage ratio and lowest exposure to the FX in the country. We also strategic assets including Tudo Azul investment and 1.3 billion in cash deposit held in dollars for maintenance reserves. The revenue environment is a real buzz, and the strongest we have seen in years, although having some micro errands. We continue to be very excited about the future, we are taking a careful look at capacity in the context of environment and we will make adjustments as needed, as David mentioned, aggressively looking at other cost reduction opportunities and for that reason we feel confident about our 2018 guidance range presented earlier this year, with that, we would like to open it up for Q&A and I will turn it back over to Ravine.

Ravine: Thank you very much. Ladies and gentleman, thank you. We will now begin the question and answer session. If you have a question please press the * key followed by the 1 key attached to the phone now. If at any time you would like to remove yourself from the Q&A press *2. Those following the call via webcast, you may put your question on webcast platform and they will be addressed during this call or by the Azul investor relations team after the conference is finished.
Our first question comes from Savanthi Syth with Raymond James, you may proceed.

Savanthi: On the Margin guide and giving the current fuel and currency, my question for investors, outside looking for areas to improve on the cost side, will you need demand to hold so you can push forward or would you need exploration and current demand plan.

John: We are in the weakest quarter of the year, the second quarter and we are seeing robust demand but we have a plan in place we believe the margin guide we provided it, obviously gets harder when fuel and currency are up but I think we have identified a lot of cost opportunities to go after and when things happen like this opportunity we look for another revenue opportunities and talk about where the demand occurs.

Abhi: Looking at the fundamentals of the markets right now we have three really good things; first is that macro demand is strong, significantly better than last year. There is no question about that, cost and corporate demand is good. Our closing corporate for the first quarter, our capacity growth really helps push the rack up so the macro environment is strong. We are in the second quarter and typically, this market gets better in the third and fourth quarters, and I do expect that to happen this year again that is the season alibi for the last number of years. I feel that we are in a good demand environment and it will get better as we get to July and the second half of the year. You look at fare discipline and there is really strong discipline across all the players in terms of public fares and private fares and capacity discipline is very strong as well, I think airlines, as I said many times before, our plane is strong focusing on their market. So I think that the industry overall is set to recapture as much of this cost increase as possible you know we are shooting for 100%. And Azul has other advantages as not having overlap so we can react quicker than our competitors can, there is no need for us to wait for competitors to match our fares, as revenues is an opportunity, everyone is pushing quite strongly in the market in terms of charging for things like meals on flight and see things like that. The demand environment is good and it is going to get better as we get to the second half of the year. The industry is very well discipline to recapture this and I think we have specific advantages like our network and the A320s, which are very much in the process of wrapping up, so that is what I can give confidence that we can still hit our guidance for the year.

Savanthi: That's very helpful, if I can just ask about the chart you show on Brazil demand, on general may be growing about 10% within the next few years. Is that the rate that we can think Azul's capacity should be growing? And the 71% mix, does that change over the next few years?

Abhi: Yes, so I think our domestic capacity it is going to be in the 8 to 10% range over the next couple of years I think last year it was probably lower than that I think this year will be 8-10 that is the right range to think in terms of domestic capacity. In terms of the 71% overlap, I do not really see things changing that much to be honest, as we said many times before our A320s, in our market in our network. We really see the benefit in increasing connectivity between our hubs and focus cities, and just having the 56 extra seats as David said for trip cost. I do not really expect these 71 to change and I think that is going to give us the next couple of years, yes

Savanthi: All right, thank you

Ravine: Our next question comes from Michael Lindenberg from Deutsch Bank, please proceed

Michael: Hey, good afternoon everybody, John I would like to go back to just in the press release you have talked about your ability to recapture most if not all the fluctuation fuel and FX, I know you were talking about historically recapture, maybe the last quarter, David talked about recapture going forward changes, may be more difficult to capture. Can you give us a sense on how you are measuring it how you were able to recapture 100% or maybe more than 100% last quarter, and as we look in to June quarter, it is understandable that is seasonally a low point of the year and the fact there is a lag in revenue catching up to cost. How should we think about recapture in the June quarter maybe as we move to 2018.
I realize that there is probably a philosophical element. What do you think about it? And how quickly can you change revenues to offset that? Maybe Abhi has some views on that as well.

John: Let me start on by saying that I want to remind everybody that Azul is more profitable today with the exchange rate at 3.40 or 3.53, 3.60, than when it was 2 to 1. So, what makes up for the exchange rate is differential, is a good demand environment. Now as you mentioned it moves quickly, we understand it moves quickly in the second quarter. We already have some revenues on the books, so Abhi took some revenue earlier, when the exchange rate was a little bit lower than what it is today and that is natural. We want everybody focused on we are going to deliver full year results, that is what we are committed to, this is a multi-year margin expansion story so it is not linear, there is going to be times when we don't get all of it back inside of the same quarter, but if you take a 12/24 months look at Azul we are executing on our plan. This is the fifth quarter we had closed with solid revenue and hope that we are building credibility slowly over time, but this is an airline that we are thinking of 2019/2020 as David mentioned, cycling through this whole aircraft and this fuel efficient aircraft and our competitive position only gets better as we move forward. If not, only 71% advantage that we have on our round, but also the fact that we are going to have the next generation fleet way ahead of anybody else. And that is a significant advantage in this environment, and believe it or not, demand is good, I will let Abhi to talk about specifics of the revenue recapture, but of course there is timing differences but we are very focused on continuing to execute on our plan.

Abhi: Hey Michael, in the shorter term the actions that we take our set of things that give immediate impact, so things like ancillaries, like fast impact almost gratification that is something that we are pushing aggressively right now to make a gain for the short term impact. Of course, we are looking at fares, because we are alone in many markets but the fare increases much faster than our competition and we are absolutely doing that. Things like fuel, some charges as well, to have some gratification; we are doing everything we can to maybe gain in the immediate term. If you will just focus on the year, I think the last two quarters we have recaptured 100% or even more, and that is absolutely our target for this year and for 2019, and beyond. And of course a key part of this, other than fares ancillaries fuel charges and thing like that is capacity, right? We are taking a hard look at capacity. Nothing is off the table, our capacity guidance for the year is 17 to 20, were previously we would have started to have been in the high end of that range, but now looking at this macro situation we are going be at the low end of that range with those changes coming in the next 2/3/4/5 second half of the year. I will look at capacity very aggressively. I think we will end the year at the low end of our capacity range and that is going to help our second half of the year and beyond. I think there are things that we can do to have some instant results to help in the short term, but I think in the longer term capacity is going to come down a little bit if it keeps wrapping up, it is going to be critical for us and more important than anything is a good revenue environment with really good industry discipline and these are good fundamentals to have.

John: I think clearly the recapture is a big part of how we are planning the stakes, this volatility affects the fuel, but cost is a big part as well, not just cost from reducing cost from implementing the next generation aircrafts but there are opportunities that are available to us now that weren't available in the past. We have to grant a lot of stuff and we have to pay for a lot of stuff that today we can buy with the lower cost of capital, with the deleveraging. We have the ability to invest in spare parts, which is something that we did in this quarter, and we are going to look at every opportunity that we have to take advantage of this low cost of capital to reduce operating expenses by insourcing some activities or by investing in ground equipment and things like that. So like Abhi said, nothing is off the table on capacity and nothing is off the table on cost either. We are being very disciplined and very diligent about seeing every opportunity that we can so both revenue and cost, get to our guidance for the year.

Michael: Thank you, switching gears and moving to the cargo side in the opportunity there, I noticed that you highlighted the number of stores. So presumably, you have those store funds on the country. So how should we think about the growth of those store funds, at what end can you just update us on your conversations with the JV, with the postal service and also anything you can share with us. Some of the reports show that you of may be Amazons' distribution partner in Brazil. When I saw that and the fact that you fly to cities where nobody else goes to, you've said that 70% of your network has no competition, it seems very natural for someone like Amazon wanting to footprint better penetration in parts of the country that are difficult to get to. So that makes sense to me, anything you can report, however you can answer that will be great. Thank you

John: I appreciate the question. I have lived in Brazil now for 10 years and Brazil is not the place where you just pick a package on your doorstep like the United States. So the 200 stores around the country is getting close to our customer, so what we do is deliver packages to the stores and we get close to the customer so when you think about the Amazon type model, having point contact our customers all throughout the country it is very important. And there are points of sale for us, you know people want to send packages and receive, a little bit of a different model. We are very excited about the joint venture with the Brazilian post office still needs to be approved with regulatory. Here in Brazil with antitrust we should be with the authorities this week. So we need to let them go through that process. As for the news report that came out, obviously we cannot comment that. But what I can say is that we have the best logistics solution in the country by far. We are serving over 100 different cities in Brazil, we serve them with small aircrafts like our ATRS and medium size aircrafts with our E jets, and we serve them with our A320s. And we just got 737s to serve on our trunk round. As you look at many of our potential customers in the country we have logistics solution for all of them and the world is changing we are pretty excited to be able to take advantage of these opportunities

Michael: John, just a follow up on the 737, I know that it doesn't show up on your fleet information so How is that going to show up in the subsequent quarters?

John: It hasn't arrived yet, Michael, so we should get more in June, so flying in the July time frame so just to remind everybody these are is roughly 100 grands a month, leases for five years it frees up our A330s flying domestically for cargo and provides us with a lot more flexibility it the second quarter. We are starting our second flight to Lisbon at the end of June. And the only way we were able to do that is that we have achieved some of the cargo aircraft in Recife for our bigger cargo contracts. We will start to layer those into our fleet plan as we move forward, but we want to make sure that we have the ability to talk to the market appropriately and make everybody aware of what we are doing. But there are two aircrafts that we should have in the fleet by the end of the third quarter.

Michael: Great, thanks everyone

Ravine: our next question comes from Peter Farries, with Barclays. You may proceed

Peter: Good morning. Thanks for taking my question. First, can you please qualify on slide 8 what you talked about your currency exposure I am just wondering this non-aircraft debt mostly 100% in BRL what was that is that operating leases or something else?

John: On slide 8, this is total debt and non-aircraft debt does not include leases, but practically the only dollar denominated debt that we have on our balance sheet is aircraft debt. So there is a small 1% debt that is the only single source is about 5 million of dollars in debt that we have to dollar denominated. Everything else is either real denominated or hedge into reais. So the only debt that is dollar denominated on practical term is aircraft, which is an asset that is priced in dollars. So that is how I know by far we have the best balance sheet in terms of FX exposure, we borrow all of our working capital needs in reais. Does that makes sense?

Peter: OK yes. What I am trying to get to perspective 70% of your debt of balance sheet operating leases. That is all denominated in USD, is that right?

John: Correct

Peter: Okay

John: That is already in leverage calculation that we provided. So when we give you the adjusted net debt EBITDA at 3.9 capitalizes all those leases. All we are trying to highlight on this slide 8, a lot people forget that we have prepaid for maintenance and on our balance sheet today, it is 1.3 billion reais, so USD denominated asset that is ours. We do not get the cash, but it is essentially cash flow, which will not go out of the company going forward. So you take our 3.4 billion you can add another 1.3 billion for maintenance reserves in deposit that we have on the balance sheet we are not considering as part of our liquidity profile today

Peter: Got it, and another question on your fuel exposure, can you share how much of the fuel consumption this year hedge. That would be helpful.

John: Sure, so far this year our policy is to hedge up 30% of the year roughly. It is a little bit front loaded on the near quarter from the fourth quarter, and we are at about 1/3 of that maximum today, and about 10% for the year is what we hedge. There are 3 lines of defense we consider when we talk about both fuel and FX. First is the correlation between fuel and FX, which over the medium to long run is very strong and negative. Obviously, it is probably what is happening right now, it is certainly, what has happened over the majority of the last 10 or 15 years. The second line is our hedging policy as we talk about and that is what we have implemented. But then the third is really our network as we mentioned we are 71% of louses, allows us to attempt to recapture faster a lot more equally with a lot less cost and a lot less risk than the competition and in the long run, fuel effects have a big move and they stay there and hedge is only going to buy your time, hedge is only a short term solution, in the long run you need to have a business model that allows your network to start operating under this new cost reality

Peter: Got it, another question I want to understand better the working capital swings this quarter seems much higher than the same quarter of last year I was wondering if there is any more color on what you expected maybe get back from that cash spent on working capital.

Sure, so John mentioned the big drivers here were paid 100 million that we invested, and 188 million in spare parts so those are two big numbers that today you need to consider. Our receivable balance we have plenty of cash in the past we used to advance receivables it is very easy to advance receivables in Brazil but it will cost you some money, it is not terribly expensive but it does cost something and so we have advanced fewer receivables this year, this quarter so there is about 250 million reais of essentially an increase in receivable balance, which we could have advanced if we had maintained the same policy as in the past, but we chose not to because we didn't need the cash and so we didn't have to spend that interest. Seasonally, this is a quarter where revenue goes up there is about another 8 million reais of revenue because of the seasonality over time, kind of offsets itself but in Q1 it is take away cash, so those are the four main numbers to think about.

Peter: Great thanks a lot

Ravine: Our next question comes from Leandro Fontanelli, from Bradesco BBI, you may proceed

Leandro: Hi good afternoon, thank you for the call. You commented above, about the domestic market. I would appreciate if you could include comments on the international market so if you could comment on how is the profitability of the flights that you are launching also how do you see the competitive scenario and giving some airlines headed back capacity and finally you gave us a little bit of a view on how domestic capacity growth for the following years if you could give us the same kind of figure for international. Thank you.

Abhi: Hi, Leandro, so, overall, international did well in the quarter we obviously had a big capacity increase we also had a very healthy raft increase as well it was a nice increase in unit revenue even with large increase in capacity. So we are quite happy with international performance, we launched a couple of new flights in December we launched Belo Horizonte-Orlando and we launched Fort Lauderdale both of which are doing well, exactly within our network plans for international, which is to fly from where we are strong in Brazil, where we have great local strength, where we are dominant in our hubs and we have good connectivity and also good connectivity with our partners in Fort Lauderdale. So I am very happy with the results for international in the first quarter, our revenue improvement in the high team even with a large capacity increase we are quite happy with that. Going forward, clearly the FX is going to have an impact, so far looking we have been stable and I am not concerned with international performance in the short term but it is something that we need to manage going forward and I think all of the players in the market have to manage that. Clearly, there is a relation between currency and Brazilian point of sale, but there are ways to manage that and mitigate those effects, for example, we are working very aggressively in the US point of sale. Our US flights for example, we are now seeing point of sales from the US, where customers buy in US dollars, up at a 25-30%, so that is one strategy that we implemented as a result of the currency increase is to shift more bookings over to the US. Our European network, which is two daily Lisbon flights is 50-50 between the Brazilian point of sale and the European point of sale, so that is something that certainly can help mitigate the impact of the higher currency. And of course we will look at capacity across our entire network and we will make adjustments to look at that. But performance for the first quarter was strong for international and bookings have been stable but obviously, we are managing defects as we are with any other route in our network.

John: It is a great time to come to Brazil You can fly one of the best airlines in the world, top ten in the world, best business class in Latin America, so all of you in the call that haven't visited us yet, we love to have you. It is an exciting time to be down here.

Abhi: The last part of your question about international capacity growth, our national capacity growth in terms of percentage will be higher than domestic only because of our much smaller base but in terms of what we are doing in terms of market is quite conservative. As John mentioned, we are adding our second Lisbon daily flight starting in June. We are starting, today, in fact, FDC-Fort Lauderdale and so our international expansion is going to be connecting dots it is going to be increasing some frequencies we have no new international cities planned for this year, and so it is going to be very conservative, it is going to be based on where we are strong in Brazil with great connectivity to where our partners are strong, in the US or in Europe.

John: Also lots of people thought we would be flying to New York by now we are flying from where we are strong to where our partners are strong so we are taking a cautious approach we going to do make money and so we expect a flight New York in this environment it is better to focus our flights in Campinas, Confins and Recife.

Leandro: Great call, thank you

Ravine: Ladies and gentlemen as a reminder if you would like to pose a question, please press the * key, followed by the 1 key on your touch phone now.
Our next question comes from Natalia Serafim from City Bank, you may proceed

Natalia: Hi, thanks for taking my question, I just have one quick question actually, do you have an estimate regarding how much tax you can avoid as a result to continue to win 100% of your loyalty program?

John: Yes we do, we know this number very well we don't provide a lot of information in terms of individual Tudo Azul margin because obviously Tudo Azul is not a separate company, we manage Tudo Azul as a separate company, for Azul shareholders the numbers that matter in terms of Tudo Azul is our growth billing, and we are growing 30-40% YOY and this is a high margin business obviously, we can get to a bold part figure just looking at the gross billing, which is 700 million Reais. You can kind of extrapolate from the information that we give on of growth billing and share, and if you assume you can set the margin of the program where you want it to be, based on price. Assume an average margin and what 34% actually would be on that, we are talking about 10 million of reais per year, taxes that we do not save by keeping all in-house. We are still growing and getting to a fair share by managing as a separate company. We have autonomy where it is required in terms of IP in terms of sales force and in terms of pricing. We are all working here on behalf of Azul shareholders, we work to maximize loyalty program and certainly keeping it in-house allows us to save a lot and especially as long as we have it all well, one day in the future we may take another look in this decision but for now the right decision for our shareholders is to keep it in-house.

Natalia: Thanks for taking my question

Ravine: Our next question comes from Lucas Barbosa from UBS you may proceed

Lucas: Good afternoon, Congratulations for the results. Just a follow up on the international routes discussion, are we getting weaker on international routes capacity additions have you been seeing these effects, have you left for the competition international routes you haven't been seeing that for the second quarter in bookings. Thank you

Abhi: Thanks Lucas for the question. Our international network is definitely more isolated than our competitors are. In terms of head-to-head competition, we have very little to almost none in terms of international routes, and that is something that obviously it is working for us and allows us to maintain yield and maintain the volume when you have local currency weakening. And we also have great connectivity because we have 55 destinations in VCP; we have 40 destinations in Confins and 30 in Recife. We are able to use these connections to maintain the volume and the yield if we see the local market getting weaker. And also VCP local market. For example COPA has a great connecting complex in Panama, which we have the same in VCP, we have great local demand in VCP more than 6 million 40 miles 70km that is something comes towards our advantages routes so clearly it would not be fair for me to say there is no impact clearly as the real weaken, there will be long-term impact on Brazil point of sale. We have the tools to manage it in terms of network in terms of our connections, in terms of shifting point of sale from Brazil to US or to Europe, we are also working on capacity and making adjustments as needed for me I am very confident with the way it is, I feel good about the booking and revenues and we have the tools to manage the macro situation as needed.

Lucas: Ok, thank you very much, have a good day

Ravine: Ladies and gentlemen this concludes today's QA session, I would like to invite David to proceed with his closing statements, please go ahead Sir.

David: Great, thank you for joining us on the call. I just want to congratulate our management team as well for doing what they are doing, Abhi, John and Alex and everyone else, for reacting, and as I said earlier, we have seen this before; we are not new to this. This is what we have been doing for ten years. We have seen higher currency and we have seen higher fuel, and one of the things that I just want to highlight is the GDP drop in Brazil, obviously has a lot to do with the growing market in Brazil. As well regardless what the currency is, Brazil GDP does better when fuel prices are higher, so that is another hedge we have. So we are moving forward and looking into the future. And I am going to keep having the team expedite the switch to new generation airplanes, because as I mentioned in my opening comments, it really makes a huge different for us as we move again. So we will talk to you next quarter.

John: Just remind everybody, we will be in New York next week for Azul day; we have a conference next week so we are looking forward to seeing a lot of you, and we will see and talk in more detail about the future. See you in New York next week.

David: Great, we look forward to that. We can answer more of your questions and share with you our plans going forward. Looking forward to seeing you in New York. Thank you see you next quarter.

Ravine: Ladies and Gentlemen that concludes Azul audio conference for today, thank you very much for your participation, and have a good day.

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