

Conference Call

Azul

2Q19 Earnings Results

August 8, 2019

Operator: Hello everyone and welcome to Azul's 2Q19 results conference call. My name is Paula 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 Paula and welcome all to Azul's 2Q 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 Rodgerson, 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 and are described in detail in our earnings release. With that I will turn the call over to David. David.

Mr. David Neeleman: great thanks Andrea. Welcome everyone and thanks for joining us on our 2Q 19 earnings call. As always I would like to start by thanking our crewmembers for taking care of our customers on almost 900 daily flights. Thanks to the records we have achieved, record 2Q results in what is seasonally the weakest quarter in the year. We continue to strengthen Brazil's largest network

and since 2Q LY we have added 10 new destinations. We see many more opportunities to grow our network and plan to open 6 to 8 new cities every year.

Our focus is to grow in markets where we are strong. We are the only carrier in 72% of the routes we serve and in 2Q we were the leader in terms of departures in astounding 85% of our markets.

We ended the quarter with 29 next-generation aircraft, the largest fleet of fuel-efficient aircraft in South America representing 39% of our ASKs. We are very happy with the performance of the A320 and could not be more excited about the introduction of the E2 starting in October. The E2s are truly a game changer. At the end of the year about 46 next-generation aircraft including 6 E2s will represent 55% of our December ASKs giving us great momentum going into 2020.

We have also demonstrated our ability to grow while maintaining operational excellence and great customer service. In June Skytrack has awarded us for the ninth time in a row the best regional airline in South America, also the best stop in South America, a strong testimony to our great customer service and management team. In fact our NPS score is one of the highest in the world above 60, and this compares with some of the best brands in the world.

As you can see on slide four we have ways to go in our margin expansion story. As I just mentioned we will start replacing E1s with E2s in October and they could not be more excited with impact these planes will have in our profitability. John will talk about this in more detail in his presentation. We have a reasonable growth plan that is centered on the transformation of our fleet. By gauging our fleet we will drive down costs resulting in higher margins. The best news is that we are less than halfway through this process.

TudoAzul and Azul Cargo have grown significantly over the past few years but we are only 50% on the way to our target. The area we are most excited about is the tremendous growth we are seeing in our e-commerce business. We are uniquely positioned to take it vantage of this high-margin business. We fly to 114 cities and through our partnerships we are able to reach more than 3700 municipalities overnight. No other airline or logistics company in Brazil has this type of reach. The growth in e-commerce in this country is just getting started and we are the best positioned company to take advantage of it, very exciting stuff.

In summary we are on track to deliver on our promise to expand margins by 5 margin points between 2017 and 2020, even though we have faced much tougher macro environment.

On slide five we show that our fleet transformation plan is consistent with our network. By the end of the year we will have as I mentioned 46 next-generation aircraft mostly flying throughout where we are either the only carrier or the airports where we have a leadership position. As you can see in the graph our dominant position continues to increase as we add more next-generation aircraft.

We are confident about the future of the Brazilian aviation market and our ability to continue expanding margins trading the best experience for our crewmembers and customers. Azul is not only getting bigger; but we are getting better in every way. Because of all the above I have not sold any of my Azul stock. I believe the best is yet to come and with that I will pass the word over to John to give you more details on 2Q results.

Mr. John Rodgerson: thanks David. I also want to thank our crewmembers for all their hard work during the last quarter. Thanks to them with delivered great results. As you can see on slide six we grew capacity by 16% in 2Q while standing our top line revenue by 31% to 2.6 billion BRL. In addition to the double digits growth and capacity RASK increased 13.6% and adjusting for the increase in stage length RASK was up 15.1% YoY. This is the third year in a row that we increase capacity by double digit while increasing RASK.

Operating income was record 340 million BRL, up 70% YoY. In 2Q we received for new A320s and one A330neo. These aircraft provide significantly lower unit cost through more efficient fuel burn, lower ownership cost and provide more revenue per flight.

In 2Q this allowed us to offset cost pressures from higher fuel prices, the devaluation of the BRL and the end of the payroll tax relief program. We made significant investments in the quarter to be ready for 2H TY, not only by adding new aircraft but also by hiring and training pilots and flight attendants.

Moving on to slide seven as you can see fuel and currency had a negative impact of 133 million BRL on our 2Q operating results or approximately 5 margin points. We also had to margin points of negative impact from the end of the payroll tax relief program. Thanks to our margin expansion strategy our ability to recapture revenue and reduce costs were recovered 160% of this impact reaching an operating margin of 13% and what is seasonally the weakest quarter of the year.

Moving on to slide eight TudoAzul maintained its strong growth phase during 2Q with gross billings up 31% YoY. This is TudoAzul's fourth consecutive year with over 30% growth. On the right side of the slide you can see that our cargo business also perform extremely well. Revenue increased 47% YoY benefiting from the expansion of our network and fleet.

On slide seven you can see the extensive outreach of our cargo network. As Dave mentioned more than 100 airports they handle our cargo and we have 240 stores nationwide serving 3700 municipalities. We offer door-to-door delivery through our franchisee model. This is a business with higher margins than our passenger transportation business that requires very little additional investment.

With a diversified customer base including retailers, manufacturers and online companies in Brazil who value our reliable and far reaching logistics solutions. E-commerce grew 314% YoY, by far the fastest growing segment in our cargo business.

Moving on to slide 10 I am proud to report that we ended the quarter with a very strong liquidity position representing 42% of our LTM revenue - and this is after growing total revenue by 31% YoY. Our balance sheet is further protected against currency fluctuations through assets such as security deposits and maintenance reserves totaling additional 1.5 billion, which are not included in our cash balance.

On the right-hand side of the slide we show an evolution of our leverage which reached 3.1x in June. With the new accounting standard IFRS 16 when a new aircraft arrives we immediately see an increase in debt on the balance sheet reflecting the full term of the lease but we do not yet see the earnings production. Adjusting for these five aircraft that we added during the quarter our leverage would have been below 3. We expect the time effect to level off as these aircraft become fully productive.

On slide seven you can see that in addition to the improvement of our operating results and reduction in leverage our operating cash flow was over 1 billion BRL in the quarter and we generated free cash flow of 387 million.

On slide 12 we present our updated 2019 outlook. We expect to grow our total ASK between 20 and 22% with most of this growth coming in the domestic market; our domestic capacity growth is low risk and focused on strengthening our existing network by replacing smaller aircraft by larger aircraft on the routes we already serve.

As you know we made an attempt to acquire part of Avianca Brasil, which included some slots, aircraft and employees. As you are aware other events happened but we were able to acquire all 12 new A320s and we are currently hiring many of their pilots and flight attendants. This investment has put some short-term pressure on our costs as we prepare to induct all of these aircraft into our fleet.

As you know the Congonhas slot process is not yet complete; however, we already received 40% of the slots; have secured all the next generation neos; hired many

of their pilots and flight attendants; and preserved capital the process. With the addition of these planes we will end the year with approximately 55% of our capacity coming from next-generation aircraft, truly setting us up for a great 2020.

On the cost side we expect CASK to remain flat to slightly up in 2019, mostly due to the investments we are making for our future growth and some macro headwinds we have been facing since we released our original guidance at the beginning of the year. As we enter 2H TY, which is seasonally the strongest, we feel confident about our guidance of 18 to 20%.

Moving on to slide 13 looking ahead we are very excited about the first deliveries of our E2s that we put into operation in October and the margin expansion opportunities they provide. Looking at the chart you will see over 500 out of our 870 daily flights are still flown by E1s. In the future all of them will be flown by E2s resulting in 14% lower trip cost and over 10% more revenue on each flight. We could not be more excited about these planes and the margin costs contribution they will bring. We look forward to the coming years when we could replace all of our E1s for E2s. We are working very hard to accelerate this process.

In summary we feel confident about the opportunities that lie ahead of us. We are executing on our fleet transformation plan; our cargo and loyalty business are performing incredibly well; and we have upside in our investment, an important asset with further upside potential. Everything will have accomplished since our IPO has been done in an environment of a weakening BRL and low economic activity. Imagine what happens when the Brazil engine starts moving again.

Before we open for questions I would like to invite all of you to join us at our university in Campinas on October 14 for our second Azul Day. This is a great opportunity to meet with our management team, tour our facilities and we will have an E2 available so each of you can get to know that unbelievably great product we will be taking on this year. With that David, Alex and I are available to take 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 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. Maybe Abhi you can talk a little bit about the domestic was in domestic in national trends especially international seems to be bottoming and improving and I am curious the international capacity growth is still in the right position or if you are making some adjustments there?

Mr. Abhi Shah: Savi Abhi here. So you are right. We have heard this sentiment from other operators in the region as well talking about improving trends in the Latin. Copa yesterday, United as well. So yes we have seen international revenues into the positives in 2Q. The Brazil - US market has capacity down for the rest of the year in the low-teens negative capacity, which is very promising and so the USD as well it is run recently but it has stabilized and so the international trends have definitely improved, the capacity situation has improved as well and so I think we are definitely seeing positive revenues. We expect to see that for the end of the year as well for international.

We are not changing and our friend for international. It is very low risk; it is not that adventurous at all. I have no new destinations planned this year, maybe only spring or summer next year. It is just frequencies potentially collecting one dot with another dot, very, very little in the year; but very, very low risk just being very strong where we are in Brazil with Orlando, Fort Lauderdale and Portugal. Argentina continues to stop a little bit but we have very little exposure there, only two daily flights basically and so it is not really accounts for.

So yes it has gotten better and revenues have turned to the positive, which is very good sign. Capacity discipline continues to be good; but no changes on our side in terms of capacity plan.

Ms. Syth: thanks Abhi and Alex could you provide a bit about pilot training cost and how that is progressing and what that shift will be and when growth might start to show up and you will benefit from the cost side?

Mr. Alex Malfitani: sure. I think we have always talked about the fact that this fleet transformation process does carry some startup costs. Even before we took these Avianca aircraft we have about 1 point of margin when you consider the fact that especially pilots, but also flight attendants they are getting paid their salaries, but they are not producing ASKs closed the result cost involved in the training itself. We do a lot of the training in our own university; but we also have to outsource

some of this, which includes travel and the cost of the flight hours, the simulator hours in other facilities. So that is about the margin point.

But then one of the reasons why we wanted to acquire Avianca Brasil was that we are going to get free trained pilots right? So they would come in and they would continue operating the certificate of the original airlines. Once they move from Avianca to Azul we have the requirement to train them on our operating certificates and so there is an additional maybe 0.5 point of margin this year beyond what we usually have for the fleet transformation. So that is about 1.5 points this year... This quarter of training, travel and unproductive time and costs and lower P&L.

Ms. Syth: and when does that wind down Alex? When do you get enough, the large enough fleet when some of these hard wins start to go away?

Mr. Malfitani: Avianca specific cost only in 4Q goes away. The 1 margin point will wind down. As the company gets bigger it becomes less of an impact but the kind of gradually decreases together with our fleet transformation right? So as we approach 100% of our fleet getting to the next gen you will start to see that cost getting less and less material.

Mr. Neeleman: one thing obviously when you go from the E1 to the E2 you know a two-day difference is training, so it is not the same thing. So as we approach 100% certainly we will still be there but it is going to mean a lot because as we get bigger the training as the transform, take out 63 E1s and put in 63 E2s.

Mr. Malfitani: just the E1 to neo, A320 effect.

Mr. Neeleman: and those are falling down and the E2s are accelerated.

Ms. Syth: that makes sense thank you.

Mr. Rodgerson: thank you Savi.

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

Mr. Mike Linenberg: hey everyone good morning. I guess two questions here. So if we look at the Congonhas situation I think you had 26 slots currently and then you got 15 through this distribution or redistribution and so now you are at 41 total. Is that a sufficient number call it 20, 20.5 roundtrips to participate in the Congonhas – Santos Dumont shuttle? And then can you clarify there was a press report, there was something else saying that maybe you would work with one of the other smaller operators and joined slots, so it is a kind of a two-part question and then I have one more thank you.

Mr. Rodgerson: Mike the process is not over yet and that is why we are not announcing what we are going to do at the additional slots. It is still a very concentrated airport, still roughly 94% of the flights are concentrated with a duopoly. So we are going to continue to push to increase capacity at the airport. The process should be over this week but there are some smaller operators that asked for slots on the main runway, all things indicate that they will have to move to the auxiliary run my because the operations do not allow for them the landing speed that is needed.

So I think you will probably hear from us over the next week or so and determine what we are going to do in the slots that we received and so we are continuing to force the issue with the government. With think that airport should be opened up. We think every airport in Brazil should be opened up.

The airport today is significantly less in capacity than it was 10 years ago and everything indicates that they can take more operations per hour and that would help increase competition. So we look forward to doing that over the next couple of years; but certainly getting some slots there is important. It is a high-profile airport. We do not talk a lot about Congonhas at the airline today because as you indicated 20 flights we fly almost 900 flights/day. So we do not want to overplay what Congonhas means; but any opportunity we can to come and get into the airport we are going to do it.

Mr. Linenberg: just you talked about the auxiliary runway. I know that is part of this redistribution and I do believe there were some new slots created by Anac for one of the carriers to actually do some service on the auxiliary runway. Are you suggesting that maybe some of the other carriers rather than using some of their slots that they could just add more service to the auxiliary runway and maybe freeing up more slots for everybody else? Did I hear you well on that?

Mr. Rodgerson: Anac and the locals basically said that the ATR operators need to be able to land at 120 kn and ATR does not allow it to land at 120 kn and so I think that it is still TBD and so a lot of work being done with the agency and we are kind of standing by to see what happens; but certainly there is a possibility that those ATR operators moved to the auxiliary runway, which is very beneficial overall to the consumer because it actually allows for more distribution on the main runway, it allows for more carriers to be at the airport.

We are not against Mapi and Passadero get into the airport, I think it is great overall; but I think we want to use the most efficient use asset possible, which is using the main runway to fly larger aircraft.

Mr. Linenberg: that would be; certainly win for consumers. So hope the government goes the way. Just one for you John it is great that now you are up on the board with the public rating BB-; is there any sort of aspiration to get to an investment grading? I mean you are only a few notches away, there is probably only half a dozen airlines in the world that are at that level; but those who are at that level there are lots of interesting things they can do. So you are off to a good start. I know you probably do not think that that is absolutely essential; but is there maybe internally a drive to get to an investment grade rating? That would be pretty impressive for a carrier-based down in South America to have that, thank you.

Mr. Rodgeron: you know Mike I will let Alex answer the question; but we are extremely competitive people and any time with think... But I will let Alex.

Mr. Malfitani: it is a bit when we started talking about expanding margins by 5 margin points. Once people started seeing that we were on track to deliver they started asking okay, so what is next? Obviously we are not going to just retire; we are going to continue pushing for higher margins to get the company bigger, more valuable and the same thing applies to leverage, the same thing applies to our rating.

We have brought the leverage to a low-3, I think if you do the math correctly we are in the high-2s and our margin expansion plan rollout was to continue reducing this to mid-2s, low-2s and then we will see once we get there what we do; but I think we will not rest and whenever we get to the target we will just see if that is just a stepping stone for the next target that we are going to try to achieve - and we believe very strongly that the best of Azul is yet to come, both on the margin basis, leverage, ratings. So we are just going to continue working in that direction.

Mr. Linenberg: okay great, thanks Alex.

Mr. Malfitani: thanks Mike.

Operator: the next question comes from Rogerio Araujo, UBS.

Mr. Rogerio Araujo: hi guys good afternoon, thanks for the opportunity. I have a couple of questions, so first what is the oil price considered in the new guidance? Is there any upside from this recent drop in the past days? That is the first question thank you.

Mr. Malfitani: sure. Rogerio our philosophy was guided we update our forecast at least once a month, not more often than that as required. When we do that we look at the forward curve for heating oil and we look at the Focus Survey for the USD/BRL exchange rate and we did that a while ago when we closed the books on 2Q. Since then the BRL has moved down, but oil has also moved down; as long as

our expected midpoint of our guidance is within the range that we put out we do not change the guidance. So it is fair to say that since we did the math and we close the books on 2Q the dollar went up and oil went down. I think it is roughly awash since then, so there is some bad guy from FX and the good guy from oil; but in the end I do not think it is much different from what we originally set out, which was a few weeks ago looking at the forward curve and Focus Survey - and Focus Survey actually put in a little bit of conservatism, because I think there is a lot of optimism in FX rate from the Focus Survey, so we were a little bit more conservative on that.

We do not exactly give out that number, but that is roughly a sort of the philosophy what we do with guidance. With think the current prices reflect roughly what we had when we closed the books and saw that we were going to reaffirm our Ebit margin guidance for the year.

Mr. Araujo: thanks Alex very clear. Second question is on the capacity expansion implied in the seat plan. So there is almost 20% seat capacity expansion in 2H TY. So I would like to know if you could provide a little bit more color on the market this capacity should be deployed, or even in the airports, if Guarulhos that Azul has been increasing capacity is one of the targets and what to expect in terms of any change in the focus for routes that are more regional or if it is going to be the same focus. So little bit more color on that would be great thank you.

Mr. Shah: hey Rogerio yes sure, I can actually give you more color on that. So I will give you some examples here, I will give you an idea on how we are focusing on capacity. First of all as David and John both said we expect to end the year with 70% to 71% of our routes alone, and that is the number we started the year with. So when all things consider at the end of the day that dominant position we have will not change and that is an indication of where our focus is on the network side.

But I will give you some examples here. We currently fly 226 nonstop routes roughly. 24 of them are new; we have done this year we did not have them last year. Of these only five of the 24 are former Avianca markets; only three of the 24 are in Guarulhos. So that gives you an example of all of the places we have added new routes and we have not had to - we have not wanted to even - add them in Guarulhos for example. So only three of the 24 new routes we have added YoY are in GRU.

In addition we added capacity mostly by up gauging on another 77 routes; of those only 11 are former Avianca routes. So again the vast, vast majority of our growth has been in the Azul network. If you consider all the capacity addition we have done over the last one year it is over 100 routes that have been impacted and only 9 of them – only 9 of the 100 - were not routes that have competition that was not

former Avianca. So as John said we are picking a short term opportunity here in terms of some of the Avianca demand; but it is still a very, very small percentage of our focus. Avianca flew 59 routes, we are only in 20 of them and out of the 226 routes that we have today only 43 of them have any direct competition.

So we are well over 70% of our routes that we are alone. That trend is going to continue in these examples show that we have plenty of capacity growth, network growth opportunities in our own network given our hubs, our focus. We have made an amazing network platform over the last 10 years and so the vast majority of our growth has been in our own network. And last data from here the A320s are flying today in 42 nonstop routes; only 3 of them are new and in Guarulhos.

That is it; all the others we flew those routes before and that is very consistent with our gauging strategy. So our story has not changed, our strategy has not changed. We continue to have this focus strengthening our network. As we said many times before every time we add a larger aircraft in our own network our network becomes even stronger, even more defensible, a lot more connecting traffic goes through it and obviously much more efficiency. So that is going to continue, has been our focus and will continue to be our focus.

Mr. Rodgeron: I think, Rogerio, it is important to note that we have put some A320s in the Guarulhos airport because we have the most fuel-efficient aircraft in Latin America today and with the lowest unit cost and lowest trip cost and its range. So obviously in a more competitive market you are going to put your best-performing asset. So what we look forward to is we could put all those 320s in the Campinas, in Recife, in Confins, in Cuiaba, a lot more places to deploy those assets.

Mr. Araujo: thanks for the incredibly detailed answer Abhi. It was very useful.

Mr. Malfitani: he prepared.

Operator: the next question comes from Lucas Barbosa, Morgan Stanley.

Mr. Lucas Barbosa: good morning everyone thanks for taking my question. I have two questions, the first one is a follow-up to the first question, to the question Rogerio adjusted and it is regarding Azul strategy in Guarulhos. If you could give us some color on how many slots Avianca Brasil used to have in that airport and how much of them you were able to get.

In addition if you could just clarify these three routes in Guarulhos. Are the ones you already added or if this includes that you are still trying to launch in 2H? That is my first question, thanks.

Mr. Rodgeron: I thought Abhi was so detailed we would not have a follow-up on Guarulhos question.

Mr. Shah: I have more details. In terms of slots Guarulhos is obviously not as... It is constrained; but it is not as constrained as Congonhas of course. So slots were available. Guarulhos is a Anac slot-controlled airport, so you can go and ask for slots and everybody has done that, not just us. If you look at the public data we have added, Gol has added and Latam has added as well, and in many instances they have added more than we have in Guarulhos. So that is something to watch out for.

But in the new markets we have added out of Guarulhos: Fortaleza, Juazeiro and Salvador those are the only three new markets we have added that were former Avianca markets and I think that Guarulhos is still our fourth largest base in terms of departures and again, our focus is our network. One advantage we have is when we add some capacity in Guarulhos is we become a much more relevant and strong partner for our interline and co-shared partners: so United, TAP, Copa we all have co-shares with; Ethiopian, Turkish. So they are all enjoying great capacity thanks to us right now in and it is a very good incremental revenue for us.

So again it is our fourth largest base in terms of departures. We continue to focus in our network itself. We did take some opportunities as I explained; but it has been a small percentage of our YoY growth and I am not expecting that trend to change - and one final anecdote: if you look at the capacity data you see how focus our capacity has been in our own network. Look in Brasilia for example. We hardly have any growth in Brasilia; look in Rio for example, we hardly have any growth there; look in other cities in the Northeast. We are really focusing where we are strong and where we see the opportunities. So I think we are being very disciplined and very true to our strategy.

Mr. Barbosa: perfect thanks for the additional details Abhi. My second question is regarding the share of your network with no competition, so it is actually a follow-up from slide five on your presentation. You have an estimate of how much of your routes and percentage of ASKs will have no competition in 2020?

Mr. Shah: in 2020 we expected the trends to be very similar to what we have today. As we are adding A320s on our own network actually the percentage of revenue is growing in our own network with the up gauging of these aircraft in our own network along with the ASKs. So I am not expecting significant changes in these percentages or these graphs on what we have today.

Mr. Barbosa: perfect tanks very much for the color Abhi.

Operator: our next question comes from Daniel McKenzie, Buckingham Research.

Mr. Daniel McKenzie: good afternoon guys congratulations on the results here. A couple of questions: Abhi, one of your competitors has chosen to go down the path of no hub in the Northeast of Brazil. So going back to one of your earlier comments in the previous question can you talk about to what extent Azul's increased relevance in the Northeast thus contributing the system RASM and is a potentially expense of those with less network relevance in the Northeast?

Mr. Shah: thanks Dan. You know we are obviously very happy with our Recife hub and we are really happy that we were able to invest in this hub much before everybody else even thought about a Northeast hub. We actually launched this hub in 2016. It has grown, Recife today's approaching what Belo Horizonte was maybe a year or two ago and Belo Horizonte is approaching what Campinas was a couple of years ago.

We have almost 70 departures or 70 departures in Recife, we connect all of the Northeast capitals. Of course Reform Act Orlando and Fort Lauderdale as well and I do think we have a disproportion share of the demand because as David likes to say if you provide convenient service they will find more, and one real example of this is a city called Mossoro that we started last year, there is a great university there and are students are traveling more than average and it is a route that is doing really, really well.

So I do not know, I do not have numbers, I do not know how much we are hurting them; but what I can tell you is that that is a hub that is doing very well for us. We are adding capacity this year and it continues to perform very well on a unit revenue basis. It is a focus for us, there is a lot of A320s flying there because of the distance, it is a perfect south-to-north A320 market, it makes is very efficient and it makes it really hard for anybody to gain a foothold. So it is doing very well and we will continue to invest in it and probably we have a disproportioned share of Northeast demand because of the strength of our Recife hub, that is probably true.

Mr. Rodgerson: and Dan this is the first time in the history of Brazil that the Northeast has ever really been connected. It is connected regionally, it is connected to other capitals. In the past if you were in another Northeast destination and wanted to go to another capital in the Northeast you would have to go down to Sao Paulo or Brasilia. So we believe people travel up more because of that. So Brazil is much more connected today because of what we provided in the Northeast. It even allowed us to strengthen the flights of Tap for instance to Recife we actually have flights to Fort Lauderdale. It is a really, really strong hub.

Mr. McKenzie: understood thanks for that. Another question just given the volatility and the macro backdrop the economic outlook in Brazil has gotten quite a bit worse from where we were at the beginning of the year. I was just wondering if you could address the potential for a long period growth in 2020. I know John you talked about wanting to accelerate the E2s here and go ahead, reorientate my thought process here; but rightly or wrongly US investors are just conditioned to believe that lumpy growth is bad just because of the stress it can put on the operation.

Obviously with Avianca Brasil there has been some really unique opportunities this year that are pretty easy to digest. Just looking ahead to 2020 fleet growth does flow to 6% and I am just wondering how squishy is that 6%? Is it likely to be fleet growth close to 10% or 15% if you can get the E2s and the E1? I am just wondering if you could just help us think about the kind of lumpiness around the growth rate we might see next year.

Mr. Rodgeron: first of all on the macro we have gone through a five-year tough period in Brazil where GDP has been flat and negative almost every year over the last five years and look at the results we have been able to provide. I am very optimistic with the new government. I am very optimistic about the reforms. Just last night the lower house finally approved the retirement reform and that is big news for Brazil. That is going to be a game changer. So I am optimistic that 2020 is going to have some real GDP growth here in Brazil.

One thing that we think about and we want to show that on the slide in the presentation is the E1 to E2 that shift happened in a depression. We needed to do that. The faster we can flip the fleet the better and so the challenge we have had is not finding enough homes for E1s; but we want those E2s as quickly as possible. David highlighted two days of training for pilots, so it is plug-and-play. Those aircraft arrived from Sao Jose dos Campos, arrive at our headquarters and we are flying them right away, the pilots are ready to go and they can fly the E2 and the E1 on the same day.

As you look at it you said that and you are absolutely correct; 6% increase in the fleet but each one of these aircraft had 18 to 30 incremental seats. So Abhi is going to deliver over 10% more revenue on every single flight, lower ownership costs, lower fuel burn. So you earn the right to grow when you are expending margins and that is what we are doing. If you are not expending margins, you are not doing this better in your business then you should not be growing.

But what we are doing is this network and this fleet gets stronger every single day. So as you look forward close your eyes and wake up in 2021, 2022 we are

certainly playing the long game. We are extremely excited about 2020 because our exit rate is 55% of our ASKs our next-generation aircraft and every month that just gets stronger and we want to show you that 500 daily flights are happening on E1s. Those are not very economical aircraft, so as you move on to what that looks like when you have the E2s it is pretty remarkable but this airline can look like in a couple of years.

Mr. Neeleman: the E1 to E2 thing the economics are so astoundingly different between those two airplanes. There is even an incentive for us to take some impairment and take those planes out quicker and the payback is really quick. It is amazingly quick. So those are numbers we are running but we have... We cannot even accelerate it and the profitability is completely different and as John said that times really got tough; we should get rid of the E1s and get the E2s on immediately because that really is a different airplane.

Mr. McKenzie: ok I appreciate the comprehensive answer guys thanks so much.

Mr. Neeleman: thanks Dan.

Operator: the next question comes from Marcos Barreto, Citi.

Mr. Marcos Barreto: hi everyone thank you for taking my question, Marcos from... Just a couple of questions from my side the first what is your ticket behind the... Are the domestic routes... Have become... Or now require more service? And the my second question is when we think about the Congonhas slots is it too late to think that Mapi and Passadero airplanes could satisfy minimum approach velocity requirements with lower loads?

Mr. Shah: Marcos I will talk in the E2s and then I will let John answer the Congonhas ATR question. So regarding the E2s our strategy is very simple: it is replacing the E1s. So as John and David said we have over 500 daily departures today that we want to replace. We will start in our hubs, so we have many, many corporate routes flying out of Campinas. We fly to Brasilia six times a day; we fly to Porto Alegre nine times a day; we fly to Curitiba 11 times a day and all of those will get replaced with E2s. Each one of those will have 14% less cost per flight and will have 18 to 30 more seats to sell.

So our focus is going to be replacing E1 routes. It is going to be a great airplane for the corporate customer, very efficient for us and we just have so many of those high-frequency corporate markets in Campinas, in Confins, in Recife, in Curitiba, in Porto Alegre, Goiania, Cuiaba, all those kinds of places and that is going to be our focus ready for the first couple of years to just replace all those.

Mr. Rodgeron: on the ATRs we are the world's largest operator of ATRs so as I as I am meet our safety team and even our operations team the aircraft should not be landing at that speed, so it is factual, maybe it is factual and so what I find a bit disappointing is you have a highly congested airport that has restrains on it and you should not be using the main runway to fly with ATR aircraft. There is an auxiliary runway that is provided for that. The best foot to get fares down in Sao Paulo is to have more operations on the main runway.

So we are optimistic. This has been a long battle and as I said before playing the long game we believe the right thing will be done and the more operations we can get at the airport on the main runway is the best thing for Brazil, it is the best thing for the consumer. And we stand behind that; having the main runway operations from small operators only increases Gol's and TAM's presence in the airport and that is not good for anybody.

Mr. Barreto: okay thank you that is great color. Just one quick last question: are you aware of any foreign interest in domestic slots?

Mr. Shah: no. We are not aware and we have not heard anything no.

Mr. Barreto: okay thank you very much.

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

Mr. Mike Linenberg: just a quick follow-up and Abhi I think you answered my question and that really had to do with the economics of the E2 versus the E1. There is a 14% lower trip cost, 10% more revenue; I just was trying to get a sense of this seating configuration and how much of that should be different now. Abhi you said 8 to 30 differential and I know you have multiple seating configurations on your E1s; but the difference 8 to 30 seems like a pretty wide range; do you have one airplane...

Mr. Shah: Mike our E2s will have 136 seats. We have... Today with 106 and we have 195 with 118. So it is 18 to 30 seats.

Mr. Linenberg: that is perfect thanks for that, thanks for clarifying, take care.

Mr. Shah: David is yelling at me because he wanted 138; but that would mean the equipment would be in the overhead and that the customers would hate it. So it is 136.

Mr. Neeleman: (incomprehensible 46:02) enormous. You can fit bags on it, whatever. What is important the E2 as we do all the numbers it looks like the same seat mile cost as our 320s. So you can imagine a plane with the seat mile cost as

the A320... 36 seats. It is a trip cost that is going to be much better in the 320. So there will be some routes, as Abhi mentioned, really high-density business, we can put on extra frequency... because we have a lower trip cost even with the A320s.

Mr. Rodgerson: one thing is important is the ownership cost on our E2s is less than our E1s, significantly less.

Mr. Linenberg: thanks for that, thanks everyone.

Mr. Rodgerson: thanks Mike.

Operator: the next question comes from Matthew Wisniewski, Barclays.

Mr. Matthew Wisniewski: hi thanks everyone for having me. Just a quick question for me. As you have been focused on the domestic network and the expansion there has it made you kind of revisit some of the importance some of your international relationships to maybe feel that the fee through the domestic network, whether expansion of current relationships or even the potential of an alliance? How important is that going to be in the strategy to really maintain and continue to build the domestic network?

Mr. Shah: hey Matthew. It is really important you are right and frankly it was not something we had a lot of focus on the first five, six years of Azul and now we do, which is great. So we recently announced an interline with Avianca. We have code-shares with United, with TAP, with Ethiopian, with Turkish, with Copa and we certainly have a great pipeline of new partners.

And you know, really what international partners want is network and frankly that is why some of our competitors have better partnerships than we do. We did not have the network and now we do and that is really attracting partnerships to Azul. So we have a pipeline that is very strong that we will be announcing on periodically, frequently in fact.

And what is important and additional as you move up the scale is joint ventures. We have talked a lot about a joint venture with TAP. We are working very aggressively to make that happen, we will announce something very soon on that. We have talked in the past about the joint venture with United and our partners in northern South America and that is something that is still very much in discussion and we are engaging on that as well.

So I think as we grow out this network with these efficient aircraft we will be more attractive to inbound partners and that is certainly something that we want to use to our benefit, and we want to be a great partner to them as well and as we had frequencies, add routes to these... In these airports you will certainly see that

share for us growing. We have focused on that before; but now we have the network, we have the airplane to do it. So interlines, code-shared are going to be very important and joint ventures is the next that after that.

In terms of alliances it is not a priority for us right now. I think we have some great partnerships already, especially United and TAP and we are very happy with them. So we will not really focus on alliances right now; but definitely Interline, code-shared and joint ventures.

Mr. Wisniewski: great that is all for me thank you.

Mr. Malfitani: thanks Matthew.

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

Ms. Savi Syth: I am curious on the fleet side what you your appetite is for the A321neo, the LR, the XLR?

Mr. Shah: on the A321 Savi we are definitely interested right now at least in the domestic version. We have some... to arrive. There are some delays on the A321 specifically so we will see how it goes; but we have a couple... to arrive next year and we are very interested in the aircraft for our domestic route network.

The LRs and the XLRs we have looked that. The performance out of Brazil is not yet where we want it to be; but it certainly is a potential for us down the road; but right now what I can say is the 321 domestic this certainly is something we are very interested in, yes.

Mr. Neeleman: on the 321 LR Savi came in kind of disappointing with the shorter range than Airbus had projected and much kind of the European top carriers used the LR to fly to the United States. TAP is different... The investment TAP, because they can fly the LR and hit the Northeast of Brazil, the Northeast of the United States. So similarly some of the most important routes we have with the LR is just beyond reach of what the LR can do.

So the XLR really means more to us and so that seems like coming to 20, 23. So we are doing some work on the XLR and we would expect that to work for us much better than the LR would. So that is like I said still a few years away, I do not understand how it takes some years to change the fuel tank, whatever; but the LR does not make as much sense, XLR makes more sense just like it does for the United States.

Mr. Rodgerson: if I can just give a quick update, David mentioned TAP; but the 321 LR is a real game changer for them. They are flying it to Boston today, they

are flying it to New York and a lot of what you are seeing in fleet transformation and Azul is doing, TAP is doing as well. They had the oldest fleet in Europe and now the youngest fleet in Europe. So very exciting things that are happening at TAP.

Mr. Neeleman: the margin at the same rate.

Ms. Syth: thanks and actually that is right in and I think you answered my follow-up question on this, you know what you are objective with the TAP investment is and how that is going.

Mr. Neeleman: the thing at TAP we imagine things there, but... The CEO... Who you know is the CFO and they are going by the same game plan and I think they are just making it better and we see projections going up out through 20 and 21 and 22 with same kind of margin expansion. That is accountable closed airport and it is very self-controlled, it is like Congonhas. Right there... It cannot grow. So up gauging, bringing in new airplanes. So we are all excited about but now we have got some options going forward, certainly have an IPO option, strategic partnership potential yet, all kinds of things. So the best you can do is to build a great company and then we have even more options than that one.

Mr. Rodgeron: and I think we would not have increased our participation last quarter had we not believed in all the upside that exists there. So we believe strongly in what is happening.

Ms. Syth: thank you.

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

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. Rodgeron: I would like to thank everybody for your support and we are working very hard to continue to deliver great results and as we said we are playing the long game here. As we look at the bounce of the share 2020, 2021 we are very, very excited and we look forward to hosting all of you in Brazil at our facilities. You will get to see the gratitude, meet all of our great crewmembers at Azul, get to meet our university and the management team. Thank you all for your support and as always we are available for questions if any of you want to do an individual calls with the management team. Thank you.

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