

Conference Call

Azul

1Q19 Earnings Results

May 9, 2019

Operator: Hello everyone and welcome to Azul's 1Q19 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 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 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 for our 1Q 19 earnings call. As always I would like to start by thanking our crewmembers who work hard every day to provide our customers with the best travel experience in the industry.

Over the past four years we have grown our top line by more than 50%. Typically companies that grow a lot end up losing quality, and this is not the case for Azul. We have demonstrated our ability to grow while maintaining our operational excellence and great customer service.

Of all the awards given in our industry I value the TripAdvisor Awards most, because it comes from the actual travelers and not some judge, some judges some more. Last month once again we were selected by TripAdvisor as one of the top 10 outline in the world and received a record six awards: best airline in Brazil; best airline in Latin America; best low-cost airline in Latin America; best economy class airline in Latin America and best business-class airline in Latin America. It was a clean sweep, we won every single award. This is a true testament to the strong culture of the 12,000 crewmembers that show incredible dedication in taking care of our customers every single day and on every single flight.

In addition to having a strong culture and excellence of customer service we have the strongest network in Brazil and it is getting stronger. Today we fly 113 cities; we are by far the largest airline in Brazil by a number of flights and destinations served. During the quarter we added three new destinations to our network and announced two additional destinations in the State of Sao Paulo. We are the largest airline in the State of Sao Paulo and thanks to Governor Doria's travel incentive program we will now benefit from a reduction of fuel taxes from 25% down to 12% starting on June 1, which is really great news.

The Brazilian market has a lot more room to grow. Over the past decade we have gone through several periods of macro volatility in Brazil in the aviation market has doubled in size. Brazilians will travel significantly, Brazilians still travel significantly less than other Latin American countries, which makes us confident that the market will continue growing over the next decade as we continue to add more convenient and economical travel options for our customers.

This is why I could not be more excited about our fleet transformation plan. As I have been telling John and the team always to accelerate the introduction of the A320neos and the E2s as fast as we can. The weak BRL and higher fuel prices make these planes even more valuable to us. This quarter alone we added 5 neos to our fleet replacing 4 E-Jets and today we have 26 flying in our network. The A320neos representing only 34% of our 1Q capacity, so our fleet transformation plan is just beginning. Just a little over 25%, we have got a lot to go.

Our A320neos are flying more than 14 hours/day with the highest utilization rate in the world. The E2s will start coming around September and we should have 6 of them by the end of the year. I have been in this industry a long time and I am truly

surprised by the impact the A320neos have made in our network. We continue to add capacity, we have not seen a decrease in RASK, which is really truly astonishing and this fact has helped us offset the weaker currency and higher fuel prices. So it is amazing to have that surge in revenue to help us get over these macro bonds.

We added 34% ASK since 2016 and our revenue has increased 50%. That really is truly amazing. Like I said earlier our network is performing better than ever and better than I could ever imagine. In summary Azul is not only getting bigger; but we are getting better every way. I could not be happier with the great job our management team and our crewmembers are doing. I am so proud to be part of this great company and with that I am going to pass the word over to John to give more details on 1Q.

Mr. John Rodgeron: thanks David. I also want to thank our crewmembers for all their hard work during the past quarter. We started the year with the more challenging macro backdrop compared to 2018; nevertheless we delivered net income of 138 million while running a great operation. As you can see on slide for operating revenue increased 16% to 2.5 billion BRL. We added 16% more capacity and so a healthy domestic demand environment.

RASK adjusted for stage length increased 1.8% YoY. As we look at bookings for the next few months we are very optimistic with our revenue outlook. For the last 30 days a lot has changed in the competitive landscape as 85% of Avianca Brasil's capacity has exited the market. As a result we expect to see healthy increase of RASK YoY going forward for the rest of the year.

Our operating result was mostly impacted by the 16% depreciation of the BRL and the end of the payroll tax relief program ended the 8% increase in fuel. CASK adjusted for these items dropped 2.4%. As we continue to add more fuel-efficient aircraft to our fleet, with the addition of more next-generation aircraft to our fleet including the E2s starting 3Q we should continue to see a significant drop in our unit costs.

Moving on to slide five fuel and currency had a negative impact of 74 million BRL in our 1Q operating results or approximately 3 margin points. We also had 2 margin points 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 we recorded operating margin of 13.2% recovering 3 of the 5 margin points at the end of the quarter.

Moving on to slide six our loyalty program TudoAzul maintained its strong growth the pace during 1Q reaching more than 11 million members. Gross billings ex-Azul were up 31% YoY as we continued to focus on growing this business.

On the right side of the slide you can see that our cargo business continues to perform extremely well. Revenue increased 41% YoY benefiting from the expansion of our network and fleet. Among the passenger airlines in the country we are already the second largest in terms of cargo revenue in our volume share increased from 13% to 19% YoY.

We told you that our margin expansion story is a multi-year story. We wanted to highlight that TudoAzul and cargo revenue have doubled over the last three years showing that our margin expansion strategy is working.

As we look at the balance sheet on slide seven I am proud to report that we ended the quarter with a very strong liquidity position representing 42% of our LTM revenue. Our receivable balance increase shows the strength of our cash position. We could have advanced hundreds of millions of receivables but chose not to give in our cash balance. If we were to advance all of our receivables our leverage would have been below 3.

Our balance sheet is further protected against currency fluctuations through assets such as security deposits, maintenance reserves and our TAP comparable bond, which are priced in stronger currencies.

With the new coming 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. The additional 5 A320neos to our fleet during 1Q contributed to a disproportional amount of debt and leverage without the benefit of the additional earnings. This will be compensated over time as these aircraft will become fully productive in terms of earnings generation.

Moving on to slide eight as you know as we have talked about many times we have a multiyear margin expansion plan based on three pillars: the transformation of our fleet with next-generation aircraft; our loyalty business TudoAzul and the expansion of our cargo and ancillary revenue business. As you can see at the bottom of the slide we are just getting started.

On the fleet transformation only 34% of our ASK were on next-generation aircraft in 1Q; and cargo, our cargo business in our ancillary revenue business is only about 50% the way there; and TudoAzul also continues to perform well.

As we look forward to the remainder of the year we continue to focus on running a great operation executing our margin expansion plan and increasing our efficiency. We are confident about the future of the Brazilian aviation market and our ability to continue expanding margins while creating the best experience for our crewmembers and customers. In summary we are confident with the guidance we

provided earlier this year. Given the situation of Avianca Brasil we may make some adjustments to our capacity and we will update the market once we have more visibility on the outcome of Avianca judicial recovery process.

With that David, Alex, Abhi and myself 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 Josh Milberg, Morgan Stanley.

Mr. Josh Milberg: good morning everyone thank you very much for the call. I wanted to ask you if you could talk a little bit about the big drop off in your maintenance expenses in the period and the change of your accounting treatment there. We saw that on a combined basis your man needs and G&A costs grew by less than revenues this period and therefore without that effect your Ebit margin might have come off a little further, that is my first question.

Mr. Alex Malfitani: hey Josh its Alex here. Yes you got it exactly right. We implemented IFRS 16. We used to expense a lot of maintenance for our leased aircraft and now that maintenance will be capitalized. I will see you remember from the previous quarters that we had started in sourcing some of our maintenance activities, spare parts inventory given the economies of scale that we have today and also our lower cost of capital, so that plays into that as well.

So you got that right. You have got to look from 2019 on maintenance Opex will go down and depreciation will go up, and I think the best way to think about it is that given the current FX levels you can expect depreciation to be around the same levels as 1Q going forward; maintenance maybe was a little bit lower than average, maybe something like 70 million/quarter would be our expectation going forward. So that should help you figure out what it will be.

Mr. Milberg: okay that is great Alex; but that change in accounting treatment was not about IFRS 16 because we saw that you restated your 1Q numbers. Is that correct?

Mr. Malfitani: correct yes. So seat checks were insourcing as well and so there is a lot happening here but not IFRS. IFRS is important because there is a big difference from a sort of the normal number for maintenance and depreciation that everyone has been used to seeing so far.

Mr. Milberg: okay that is great and then just one on the topic of maintenance expenses. You guys mentioned that the reduction of the four E-Jets in your operating fleet this period and I just wanted to ask if you could talk a little bit about your policy for provisioning for maintenance related to the retired aircraft. Is that something you have done, did in the last quarter or something you will need to do in the coming quarters?

Mr. Malfitani: no. This quarter we did exit 4 aircraft from the fleet; but the maintenance is just an ongoing thing that is going to be happening, so nothing to highlight. If we highlight as we had done in the past, remember at some points when we had a big number that really was nonrecurring, that was extraordinary then we will highlight it.

We will be replacing the E1s in our fleet, some of that depends on market conditions in where we can find homes for these aircraft and we will highlight that for you. But we do provision that along with the lease.

Mr. Milberg: okay but just sort of confirming: no big, extraordinary values expected in the coming quarters related to those retirements?

Mr. Malfitani: correct.

Mr. Milberg: okay that is great thank you very much.

Mr. Malfitani: thank you.

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

Ms. Savi Syth: good morning everyone thanks, good afternoon. Just on the domestic front I was wondering if you can expand on what you are seeing on the pricing side, given that fuel and FX are kind of going against you; but then also maybe capacity getting rationalized. Can you give us a little bit of color on what you saw on 1Q and what you are seen so far in 2Q?

Mr. Abhi Shah: Savi it is Abhi here. Yes so 1Q we actually had a very good January and February. Carnival was later this year, we always prefer carnival earlier, it gets

the country started, so that affected us a little bit; and probably the back half of March was maybe a little bit slower than we thought but we have been also in a very strong start of 2Q, bookings in April have been very good, bookings in May so far very high volumes, sort of a good balance between volume and fare, so the industry is pricing very rationally. The industry is taking advantage of the situation, is behaving rational. I am not seeing any negative influences.

So strong, strong revenues from volumes. Probably the YoY increases in revenue maybe half of it is volume and half of it is average fare. I am also seeing a very good balance between the revenue coming from travel agencies and the revenue coming direct to our channels. So that is performing well also. So I am actually very happy with the domestic industry, very optimistic actually, that has been our focus, you could see from the April traffic results how well our April traffic did, it was strong in a 22% RPK growth, on domestic ASK 17, so we are happy with that.

You guys know we are not low-fare, we do not have the lowest fares, so the revenue is coming in good as well. In summary strong April, strong May; we have seen good revenue trends, strong revenue trends equally balance between fare and volumes and equally balance between corporate and on the direct channel side.

Ms. Syth: that is helpful thanks Abhi and then if I might just on the international side what is happening there, especially with Argentina and the uncertainty, how much of it... as you grow more domestic as the year goes by can I expect international to have a lower contribution?

Mr. Shah: for Argentina we have a very low exposure to Argentina, only two non-stop flights a day, so it is a very, very small part of our business. International actually was a positive surprise in 1Q. If you remember I said that I thought it would only become RASM positive like in half of the year. It actually is going to start to become RASM positive 2Q and onwards.

So it has actually been better than I expected, a good discipline again on the capacity side, US – Brazil specific capacity is going to be down mid-teens May onwards and that is going to be positive for everybody. I am not expecting anything different from us on the international, very disciplined, no major network changes. We just have Porto starting in June but other than that no new destinations, just managing some frequencies here and there.

But you see very, very disciplined on the international side and yes, as we grow domestic it is going to become a small part of our overall business, which honestly given the current USD scenario and the fuel scenario as I said before I think the opportunity for us with our fleet is on the domestic side.

Ms. Syth: very helpful thank you.

Operator: our next question comes from Michael Remberg, Deutsche Bank.

Mr. Michael Linenberg: hey good morning everyone, couple of questions here and I realized the Avianca Brasil situation is somewhat fluid; but suppose there is no auction. How does it play out with respect to the assets? I am just curious of your thoughts and by the way who is funding the company right now? Because it seems like they have probably burnt throughout the cash that was going to be offered up by the two participants approved for this reorganization plan. Where is that cash coming from? Just any thoughts on those topics would be great.

Mr. John Rodgeron: Mike it is a sad situation unfortunately. It is hard to go to the crewmembers of Avianca Brasil, there is 5000 people that work at that company and they had great customer service, they have been great competitors over the last few years. Unfortunately the money has run out and as you said it is a very fluid situation. From our read payroll has not been paid yet this month and they are about five days late.

So the airline is significantly smaller than it was and there has been an injunction to stop the auction process because a lot of people questioned the way it was done and so I think overall it is a sad situation; but it is positive for the industry overall. Abhi was kind of talking about what is happening with the revenue trends and we should benefit getting some slots in almost any scenario that we look at. And so we are watching it very closely, the outcome is very uncertain at this point in time.

But what kind of a highlight is we have an operation that runs 800 flights/day and we are going to continue growing over the next few years and this is really a Congonhas play and Congonhas would have been an incredible cherry on top of the cake for us to show our product in the market, it is an important market in Latin America; but we do not want to overstate that our business model never depended on that airport and so if we have a chance to get some additional flights in there we are going to go for it and we are going to show what a great customer service we have similar to what we have done elsewhere. But we are going to continue to watch, continue to look at it and we are hiring Avianca people every day because there is a lot of great people coming from the airline into the Azul the family.

Mr. Linenberg: great and then John can you update us on the fleet plan? Because can you tell us what that fleet plan was on the last call, since subsequent to that you have picked up some additional airplanes and I think you have sort of earmarked some of the assets from Avianca Brasil. Like where was the fleet going to end where is it going to now just based on maybe pending transactions or transactions that have been completed? Because you did mention that your capacity forecast was a

little bit up in the air and we all understand there is a lot of moving parts here; but if we can get a sense of maybe what the incremental fleet in other size will be we can do that capacity calculation on our own. That would be great thank you.

Mr. Rodgerson: Mike that is a fluid situation as well. I think you saw our capacity growth. Obviously we are watching very closely what happens with Avianca. You know we are interested in some of their assets as you know in the we are interested in the next-gen assets that they have, the neos, and so you will see if we add a few of those but the timing is uncertain as to when they exit and they are ready to going to come back in.

So I think you will see an update from us in the next 30 to 60 days and where our new capacity plan will be based on what happened with the auction process and what happens if something different happens. Sorry to kind of avoid the answer Mike, but it is pretty fluid because we are working through that with each resort right now and we do not want to lose leverage with some of these negotiations as we move forward.

Mr. Linenberg: that is fair and if I squeeze in one last one this is probably more Abhi or maybe John. When we look at your forward schedule over the next four, five months it does look like that some of your frequency between the US and Brazil are getting cut, they seem to be, it looks like they are being scaled back. Is that a demand issue or is that a delivery delay with the A330 900 neos and you are not getting them fast enough and you have to go back and cut the schedule a little bit? Demand or... Issues?

Mr. Shah: Mike the A330neos have seen delays. We are probably going to be pushing out the second airplane towards, late 2H, so that has affected some frequencies as well and again, I want to make sure we are disciplined, so for example some days of week we do not need the second daytime Fort Lauderdale and we will not fly a second daytime Fort Lauderdale. But we have had the A330neo delayed, the second one that was supposed to be June, July timeframe is probably late 2H TY now.

Mr. Linenberg: okay that is great thank you.

Mr. Shah: that is right.

Operator: the next question comes from Bruno Amorim, Goldman Sachs.

Mr. Bruno Amorim: hi good afternoon. So I have a question on the guidance for the full year. You have delivered an Ebit margin of 13% now in 1Q versus the guidance of 18 to 20% for the full year. So what should drive much higher margins in the

upcoming quarters in your view? Is it the Avianca Brasil situation, is it something else? Any color in that sense would be helpful thank you.

Mr. John Rodgerson: Bruno there is a lot of factors. I think how we performed in 1Q is exactly how we thought we would perform in 1Q; so we were always stronger in 3Q and 4Q, we are positively surprised with the performance we are seeing in 2Q. We have got a lot more aircraft coming in that are the A320neos and you have seen the growth in our ancillary business with cargo and TudoAzul and the revenue trends are coming. We also have the E2s that are coming on in 3Q in 4Q, which add additional capacity with lower fuel cost.

So there is a lot of factors and as we look at our margin expansion that we showed you, 1Q is the toughest quarter for the YoY. In the last 1Q I think the exchange rate was 3.15 in this year it was around 3.90 and so you do not have that tough comp in 2Q, 3Q and in 4Q. So Abhi is performing extremely well on the revenue trends and we are growing the business and executing exactly how we thought.

You know obviously currency and fuel prices are a little bit of headwinds; but I think when a competitor takes 85% of their capacity of the market it makes up for a lot. So I think there is a lot of factors that go into it. We are very early in the year and I am feeling very good about our ability to execute and to continue delivering.

Mr. Shah: Bruno it is Abhi here and just to add to that our YoY RASK in 1Q was flat and we are expecting something like high single-digit YoY in 2Q. So that is going to be a nice boost on the revenues side coupled with the capacity increase that is going to help the unit cost. So that is ready what is going to help also going forward.

Mr. Amorim: okay very clear thank you and could you just confirm if you are RASK was also positively impacted by the end of the payroll tax benefit? I understand you had to pay a tax from revenues. Has it impacted the net RASK as well or not?

Mr. John Rodgerson: yes you could see that in our waterfall. We highlighted that the exact amount that we benefited in the waterfall.

Mr. Amorim: okay perfect thank you.

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

Mr. Rogerio Araujo: hi good afternoon, thanks very much for the opportunity. My first question is a follow-up on Bruno Amorim's question on guidance. Actually when you do an adjustment for maintenance expenses your maintenance expense has been boosting margins by 3 p.p., this was 1Q; if you look at last quarter it was almost 5 p.p. and a historical level as well.

So when we are just the guidance for this capitalization of maintenance expenses actually the top range of the guidance, which is at 20 p.p. Ebit margin it becomes something between 15 and 17. So I am talking about ex-maintenance expenses capitalization. In old accounting I would say something between 9 and 11%. So my question is the guidance conservative especially considering the fleet up gauging that is accelerating and also the surprise on yields as of 2Q? So that is my first question thank you.

Mr. Alex Malfitani: hey Rogerio. Let me tell you a little bit how we treat guidance and how we think about when we provide it. Usually when we give guidance we know obviously there are some implied assumptions together with the guidance right? On demand levels, economic activity, fuel, FX, things like that and that is why we have a range for a reasonable change in these assumptions you can see us getting closer to the bottom end of the range, or the higher-end of the range. Usually when we publish guidance we are shooting for something in the middle of the range.

If things change and we are still landing within the guidance we maintain the guidance. As John mentioned we have had headwinds on fuel and FX, certainly they have moved against us since we published the guidance and so that would push us more towards the low end of the guidance; but there is the upside from the revenue environment that has been much better than we expected right? So that is going to push it towards the other end. So that is kind how we feel about it. So we feel that our total Ebit margin for the year is still moving; our expected value for the margin still lands within the range that we provided.

Mr. Araujo: okay thanks so much and my second question is also a follow-up on Avianca Brasil situation. So there are these local news stating that the auction may not occur as it was planned in the debt holder in the last meetings, so my question is any possibility that Azul comes back with an agreement similar to that you published or Azul completely discards now any kind of offer for the purchase of the assets of Avianca Brasil? Thank you.

Mr. John Rodgerson: it is Brasil and everything is on the table. We are just watching the situation close and it has actually been pretty entertaining to see the ups and downs and so... I think what we had stated was the way that the company was divided before we did not have much interest in it, because if we went for Avianca Brasil we needed the schedule that allowed us to compete in the air bridge Rio – Sao Paulo and I think we stand behind that, I think that is the best outcome for the country and for us; but again we have got no comment on where we are at right now - but we will watch it closely and we will look for opportunities as they present themselves.

Mr. David Neeleman: I think that was... most tragic for the people who work there. The way the plane came down and the two people that... were basically the ones that have 95% of the airport today. So it is our belief and really even Cade stated that plan never had the chance of being approved anyway. So it almost... it was a kind of a shutdown plan to us. It was just the way for them to shut down the company so that they would get their parada number of slots, which was really a kind of sad to the people that are now even working without salaries today. So sometimes things work out the way they should have worked out. So we will see how it goes.

Mr. Araujo: thanks very much.

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

Mr. Dan McKenzie: hey thanks guys. My question was actually on Avianca as well. I believe there was a suggestion by the regulatory authorities that it was potentially in illegal auction, and I am just curious it is unclear if the auction goes forward; but if it did is there... what the assets that the airlines bid on could they be at risk of being taken away by Anac or Cade if it is illegal? I am just wondering if you just could help us understand probably a kind of a timeline or how things would work. I do not know if there is a decision that would be expected on that or if there is one. I am just trying to understand whether how this might move forward or not.

Mr. Rodgerson: I think anything is possible. As David highlighted we believe that our competitors had a shutdown plan and I think that is where things are playing now. I think that people are seeing through that now. It took a little bit of time to see through that but we will see. I think other creditors realized: wait a second, this is not what we had originally thought and so... We will just have to let things play out. I think the authorities are looking at this very closely because when you have 5000 people without salaries, a situation that is very complicated... We will let the judges and lawyers, etc. work through that stuff - but we will continue running Azul, continue growing our business and we will look for opportunities to expand in that airport as they present themselves.

Mr. McKenzie: understood. And then just following up on an earlier question just regarding the aircraft delivery side. I believe you guys got 10 aircraft deliveries coming from Avianca right now. Can you talk about the flexibility to early retire more E1s without penalty? How many more and is that something you would even want to do? I am just trying to figure this helps kind of flush out the fleet plan a little bit further, and how we might deploy the planes.

Mr. John Rodgerson: Daniel those aircraft are yet here, here or not yet closed. So we are working through that. As I said we want the next generation aircraft that Avianca Brasil had. You need to be able to group them, so we are working through

that currently as part of our growth plan. We really have the ability to retire the E-Jets early and anytime we do that margin expansion comes even quicker and so we will continue to do that, 85% of the capacity of Avianca Brasil came out.

They had about 13 to 15% of the total market share in Brazil, so there is a little bit of a vacuum that exists and we believe that in all scenarios only about half that capacity will ever be put back into the market, which I think is very healthy overall for Brazil and it will be done with much more rational pricing. As you take a look at where our competitors are pricing, where we price it is much more rational capacity. So it is overall very positive and we will be opportunistic as we move forward; but we need the aircraft to be delivered to us in our spec in order for us to take advantage of the opportunities that exist.

Mr. Shah: in terms of how we are going to use these airplanes it is actually how we are going to use any airplane right? I mean just giving an idea our A320s today we have 26 of them but they are only flying daily or more in 21 markets, and we have 169 jet markets and so it is a long way to go. If I look at all my hub to hub or hub to focus city routes 40% of those flights are still being flown by Embraer's. So we have a long way to go just in our own network in terms of up gauging.

So in terms of how would we use A320s it is on our own network to make our network even stronger. As David said every airplane is... driving more traffic. So that has been our focus all along. Of all the A320 markets we added there is only one new market and that is the Campinas market. So our network is really broad, it is a huge platform of growth and that is where we are going to be focused on for a while.

Mr. McKenzie: that is perfect thanks Abhi. I am wondering if I could squeeze one last one in here. If we could just assume you guys get some slots from Avianca growth is going to go up. I am just wondering if you can help us connect the dots on increased cost versus the ability to effectively market the new service at the starting blocks. Is this potential incremental growth likely margin diluted at first? So a near-term negative before becoming added to longer term or is this a growth how do you think you can hit the ground running on?

Mr. Shah: I think we can hit the ground running. Our network and of the traffic it generates there is a lot of sales and marketing for us. It does a lot of distribution for us and so you should not expect any bumping marketing costs or distribution costs special just to sell it. I am very confident that given the broad base of demand that we already have in our reaching the domestic market this will be log&play and I actually expected to be very efficient capacity in terms of overhead and things we already have. So it should come in very, very efficiently.

Mr. John Rodgerson: Dan on TripAdvisor words our customers out there are screaming for us to enter more markets, they do a great workable marketing for us.

Mr. McKenzie: understood thanks so much for the time guys.

Mr. John Rodgerson: thank you.

Operator: the next question is from Renata Faber, Itau BBA.

Ms. Renata Faber: hi thank you operator and congratulations on the results. Could you just talk a little bit about the cargo segment? Revenues increased substantially in 1Q and I also understand that you started flying the dedicated cargo aircraft in 4Q LY. So can you talk a little bit about growth perspectives in this segment and also the profitability now that you are flying the dedicated aircraft?

Mr. John Rodgerson: thanks Renata. Actually cargo is really, really well and thing that we were doing we were flying our 320s domestically just for some of our cargo contracts. So what we decided to do is with those new cargo aircraft we can actually deploy our 320s in the appropriate routes and so what we have seen is a significant increase in our e-commerce business.

And we have talked a lot about the Correios joint venture; but when we set out to negotiate with the Correios we thought we were going to grow the business about 20 to 25%/year and now we are growing 50% plus last year, 41% this year and that is one of the reasons why we stepped away from it because we know that going it alone we can do much better. So this is a very important part of our business.

We should continue to dedicate resources to it. Our cargo team wants additional aircraft because they have demand. The problem is it is very difficult for us to crew it because we are growing the overall business substantially. But when we think about the logistics problem that exists in Brazil today and the fact that we are in 106 cities, we have over 240 stores; if you live in Sao Paulo or in the South East of Brazil logistics is not a problem for you. You can buy stuff on Mercado Livre and it gets delivered to your house; but if you live anywhere else in Brazil I think that we are the only airline that truly covers all of Brazil and our cargo network really is desirable to all e-commerce players. So we will continue to build that over the coming years. So we do not see this slide down; it is going to slow down on a percentage basis just because the base keeps getting bigger but we do not see our cargo business slowing down at all.

Mr. David Neeleman: we serve 106 cities but we have 3200 municipalities. It is a much bigger number.

Ms. Faber: okay thank you.

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

Ms. Savi Syth: I just had a follow-up question on the cost side. You said 1Q came in as expected; could you give us understanding of what the base is for the kind of guidance here for what is for 2019 and just how much of that is... and maybe, I am guessing maybe you are thinking kind of a weaker end of that given how FX has moved? Just any color on the kind of a guidance on how we should think about it, quarterly basis.

Mr. Malfitani: Savi in terms of those assumptions that we use normally for fuel we use the forward curve and for FX we use the Focus Survey. Now the Focus Survey seems to be a little optimistic these days. I think it is at 3.75 and hopefully they are right; but we decided to be a little bit conservative and so fuel and FX are kind of hovering around where they are today and so that is how we forecast.

But as a mentioned I think the big changes that you will see towards the end of the year as we go from this point on until the end of 2019 there is a lot of capacity that is coming in from next-gen aircraft, with the new demand environment that we are seeing and it is just a natural seasonality that we have. 2H is always much stronger than 1H for us. So I think going back to what Bruno asked prior, obviously the impliedly Ebit margin that we have to meet guidance is higher than we delivered in 1Q; but that is always be expected. When we published the guidance we saw that as well and so we are just moving along with some tailwinds and some headwinds - but still moving towards delivering the guidance.

Ms. Syth: thanks Alex.

Operator: as a reminder if you want to pose a question please dial star one.

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

Mr. John Rodgerson: I would like to thank everybody for joining us today. We are very excited about the future and we look forward to talking to you individually or at conferences. So feel free to reach out Andrea or the team if you have any further questions. We have a lot of work to do and we are going to continue delivering, thanks.

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