Q1 2021 Earnings Call

Company Participants

- Abhi Manoj Shah, Chief Revenue Officer
- Alexandre Wagner Malfitani, Chief Financial Officer and Investor Relations Officer
- David Gary Neeleman, Chairman
- John Peter Rodgerson, Chief Executive Officer
- Thais Haberli, Investor Relations Manager

Other Participants

- Daniel J. McKenzie
- Joshua Milberg
- Khalil Lima
- Michael John Linenberg
- Savanthi Nipunika Syth
- Stephen Trent
- Victor Mizusaki

Presentation

Operator

Hello everyone, and welcome to Azul's First Quarter 2020 Results Conference Call. My name is Beatriz, and I'll be your operator for today. (Operator Instructions) I would like to turn the presentation over to Thais Haberli, Investor Relations Manager. Please proceed.

Thais Haberli {BIO 22113735 <GO>}

Thank you, Beatriz, and welcome all to Azul's first quarter earnings call. The results that we announced this morning, the audio of this call and the slides that we'll 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 I turn the call over to David, I'd like to caution you regarding our forward-looking statements. Any matters discussed today that are not historical facts, particularly comments regarding the company's future plans, objectives and expected performance constitute forward-looking statements. These statements are based on a range of assumptions that the company believes are reasonable, but are subject to uncertainties and risks that are discussed in detail in our CVM and SEC filings. Also, during the course of the call, we will discuss non-IFRS performance measures, which should not be considered in isolation.

With that, I will turn the call over to David. David?

David Gary Neeleman {BIO 687871 <GO>}

Thank you, Thais. Hi, everybody. Thank you for joining us for our first quarter 2021 -- hello, can hear me?

John Peter Rodgerson {BIO 17734009 <GO>}

Yes.

David Gary Neeleman {BIO 687871 <GO>}

Hello?

John Peter Rodgerson {BIO 17734009 <GO>}

Yeah, we can hear you, David. Go ahead.

David Gary Neeleman {BIO 687871 <GO>}

Okay. Thanks, Thais. Okay. Hi, everybody. Thank you for joining us for our first quarter 2021 earnings call. As always, I'd like to start by thanking our incredible crew members. I continue to be extremely proud of how they take care of each other and our customers. The sense of family, our culture and our positive energy is strong, and I know this is a key to our success going forward.

Thanks for the team, we have created the best airline in the world. 13 years ago, when I founded Azul, I saw unique opportunity here in Brazil. As you see on Slide 3, I feel like we have taken advantage of that unique opportunity. With the broadest network, a sustainable competitive advantage, unique fleet flexibility, customers who love to fly us, customers who are in the best jobs of their lives, and industry-leading financial performance, we have truly created something special.

What makes me just as proud is our commitment to Brazil and our support of its pandemic response. We have transported millions of vaccines to every part of the country. We have delivered vaccine materials and over 140 tons of medical supplies. Things are getting better, but there is still some way to go. We will continue to do everything we can to support Brazil in this effort.

Environmental, social and governance responsibility is another way we support Brazil. Our sustainability report will come out later this month, in which we will set our bold targets for net-zero carbon emissions. Our social responsibility is providing safe, efficient and cost effective air transportation to the entire the country. This has created thousands of jobs and economic opportunities, which Brazil -- which makes Brazil more equal for everyone.

But above everything for me, it's very simple, Azul will always do what is right for our crew members, our customers, our investors and for Brazil. Since we started Azul, we've always said we wanted to build a different airline.

On Slide 4, you can you can clearly see that we did just that. Azul is the only airline to serve 115 cities in Brazil, we are alone in 80% of the routes we fly. We entered into the pandemic crisis with sustainable advantages. These have served us well in the crisis and now as the industry emerges, our advantages are stronger than ever.

Turning towards a recovery now, as you can see on Slide 5, Azul is one of the fast -- has one of the fastest recoveries in the world. Our disciplined recovery strategy is focused on our strength, which is our main hubs. Thanks to our broad network, our demand base is diversified and less dependent on a single region. As a result, we are able to access and collect demand where others cannot create a unique opportunities for network recovery.

On Slide 6, I want to describe to you one of the key features of our competitive advantage, our fleet flexibility. I knew back in 2011 that bringing the ATRs into our fleet was the right thing to do. I also knew that as the airline grew, we would need larger planes for our network. Today, this combination gives Abhi and his team unbeatable flexibility and how they plan the network.

As the slide shows we optimized the fleet on our routes multiple time all the way up to the day of departure. This gives us the capability to maximize earnings potential for any given flight to a range of demand scenarios.

In the intro, I talked about our focus on ESGs -- on ESG. So first I wanted to introduce our newest board member, Peter Seligmann. Peter is a globally renowned conservationist, just as passionate about Brazil as I am and even more passionate about the environment and sustainability. Peter is the Chairman of the Board and Co-Founder of Conservation International, and his appointment reinforces our commitment to long-term ESG targets.

A key aspect for us in this journey is our fleet transformation. On Slide 7, you can see the major impact the next generation fleet has in reducing fuel consumption and carbon emissions. Already our CO2 emissions are down 20% compared to 2016 per ASK. As you know, this has a lot to do with the fleet transformation and there's really a lot more to come. I'm excited to get back to our fleet transformation plan, making the airline more efficient, more profitable and more sustainable.

Our first quarter results show that our business is resilient. We are emerging stronger and confident as we have put ourselves in a position to continue growing the best airline in the world. With that, I will now turn the time over to John to give you more details on our results.

John Peter Rodgerson {BIO 17734009 <GO>}

Thank you, David. I would also like to express my gratitude to our crew members for all their dedication and passion for Azul and for Brazil. We are so proud to be supporting the vaccination efforts in Brazil and are ready to fly even higher.

As you can see on Slide 8, in the first quarter, we grew our top-line revenue by 2.4% to BRL1.8 billion. We also generated BRL130 million of positive EBITDA. This was the second consecutive quarter of positive EBITDA. We are one of the only airlines in the world that was able to deliver positive EBITDA in the first quarter.

This is a remarkable accomplishment considering the second wave of COVID peaked in March and impacted demand throughout the quarter. It shows the strength of our business model. As David highlighted, the network strength and our fleet flexibility has served us well during these uncertain times and with superior pre-pandemic as well.

I'm most proud of the progress we've made on the cost side of the business. Compared to first quarter 2020, we flew 23% fewer ASKs. Even with less capacity in the system, our unit cost remained flat. Even more impressive with fuel price increasing 24% year-over-year and the depreciation of the real we faced in the last year. This clearly shows that we are on the right path in making Azul a leaner more efficient organization going forward.

On Slide 9, you can see the improvement in our unit cost quarter-over-quarter and our operational leverage. Compared to 4Q 2020, we increased our ASKs 11% and reduced our CASK 5%. Again, it's by the fuel price increases and the depreciation of the real. Normalizing our CASK for FX and fuel, you can see, the drop in CASK would have been over 10%, which gives you an idea as to our operating leverage post pandemic. We will be able to grow our revenues again with a new and improved cost structure, proving we will exit this crisis a more profitable airline than we entered.

Turning to Slide 10, I want to talk about Azul Cargo, our logistics business. Azul Cargo had another record quarter, increasing revenues 63% year-over-year.

On Slide 11, you can see that 2021 is shaping up to be a very good year for our logistics business. Our working model shows that revenues this year will double compared to 2019, incredible when you consider the reduction in total flights that have taken place over the last year. Just as we did with the passenger market, we're helping to grow the entire logistics market in Brazil. The combination of the largest domestic belly network together with the most flexible fleet means that we're capturing new customers and creating new demand in the area of logistics business.

Moving to Slide 12, while we're happy with our past performance, we've been more excited about the future. Studying the market in Brazil, we believe the total logistics market is well over BRL300 billion per year. While the addressable air cargo market could be as large as BRL45 billion; moving high-value consumer goods from road to air.

That is an incredible 15 times the current market size of BRL3 billion. This gives you an idea of the growth potential of our logistics business. Azul can truly transform logistics in Brazil through an unmatched fast and reliable service.

Moving to the next slide, I want to talk about our cash position. We ended the quarter with BRL3.3 billion in cash and receivables. This is BRL1 billion more in cash than when we started the crisis last year. We have BRL552 million in cash inflows minus current operating expenses. We amortized debt, made rent payments and started paying down our deferrals in the quarter.

We also invested in CapEx of over BRL300 million to prepare Azul for the upcoming market recovery. As we've said all along, we only fly when it makes sense to fly. The flying we are doing generates cash that helps us prepare and lead the industry into the demand recovery.

On Slide 14, our total liquidity remained strong at BRL6.3 billion. We also have access to an additional BRL540 million at any time, including this, the number increases to BRL6.8 billion. It's important to mention that we have no restricted cash and this liquidity does not include our unencumbered assets such as spare parts, hangers, et cetera.

In addition, we own strategic assets, our loyalty program TudoAzul and our cargo business, which were also not included in these numbers. The first quarter of the year historically is the quarter Azul burns cash, and we expect to end the year with cash at the same levels we ended this quarter. We have no significant debt repayments expected for the next 12 months and we expect cash inflows improving quarter-over-quarter as recovery continues to make progress with vaccinations.

Moving to Slide 15, you can see how our bond traded pre-pandemic with a price above 100% and now at 96% of par. We issued an unsecured bond of 6% and it's currently trading at 7.25%. The capital markets are open to Azul and it was prudent to not raise debt before this time. The debt markets recognize all the work we've done over the last year to put Azul in a better position to exit the crisis on solid footing, ready to capture additional demand from the market.

There is significant upside potential in our stock. Azul ADRs are trading 50% below our pre-COVID levels, while our debt is almost at par. Most U.S. carriers are trading at or above pre-COVID levels. With the improvements in our cost structure, we're forecasting 2022 EBITDA of roughly BRL4 billion, higher than our best year in 2019.

Turning to Slide 16, I would like to focus on the most important topic at the moment, vaccines. The good news is that Brazil has made significant progress. We have 50 million doses applied and we're averaging 1 million doses per day with the capacity to do over 2.4 million doses a day. Brazilians are eager to get vaccinated, and we see a steady pipeline of vaccine availability in the coming months.

We also know that Brazilians want to travel. We are seeing the result of the pent-up demand in the United States. Slide 17 shows the U.S. domestic demand hitting an inflection point in the month of March. This coincides with the total number of doses applied proportional to 20% to 35% of the population. In Brazil, we're currently at 25%. So, looking ahead there's strong reason to believe the domestic market will experience a similar inflection point within the next two to four weeks. We have already seen significant increase in bookings over the last 10 days as the economy reopens.

Finally, turning to Slide 19, I want to remind you of our competitive advantages. Our strong liquidity position, our improved cost structure, network advantages along with opportunities in Azul Cargo and fleet transformation, we are ready for the recovery. I have been accused of being optimistic, but with vaccinations accelerating, an improved cost structure and the greatest team in the world, how can I not be optimistic. The future is bright and the world is coming back to life very quickly.

With that, David, Alex and I will take your questions.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions)Our first question comes from Savi Syth, Raymond James.

Q - Savanthi Nipunika Syth {BIO 17476219 <GO>}

Hey, good morning, everybody. I was just wondering -- and maybe Abhi, if you could talk a little bit about what you saw on the kind of domestic demand standpoint and where it stands today and how you're thinking about it as the vaccinations come in?

A - Abhi Manoj Shah {BIO 18968426 <GO>}

Hey, Savi, thanks for the question. Yeah. So, I think the good message is that we clearly are in a recovery trend here. This second wave, in terms of bookings, we hit a bottom around the weeks of March 22nd and April 5th, in those three weeks. We have since seen continuous improvement over the last four weeks, accelerating in the last two.

Looking at the 27 states and capitals, all 27 have had a reduction in restrictions. So, they've started to open up their cities. All 27, for example, have shopping malls open, restaurants -- different hours, but they're all open, and a vast majority of them have schools as well. So, especially with Sao Paulo accelerating its reopening in the last couple of weeks, we've seen a market -- a positive increase in bookings over 40%. So, we definitely are in that positive trend.

The first part of the recovery -- recent recovery, I would say, was driven by volume. But in the last two weeks, we've seen positive fare momentum as well, which is a very good sign. So, Azul alone, we've led the industry in six fare increases over the last two weeks. They've been small, but they've been small by design, because to give the industry confidence that we could accept this fare increases, and they've all been broadly supported. And that work is going to continue.

So, in addition to that we're seeing, for example, no-show rates are down more than half from what they were last week of March. So, very, very close to normal no-show rates. Reservations canceled as well are down by a factor of four compared to what they were when the second wave first peaked. So, certainly very positive signs on the demand side.

And we're sort of keeping pace with what -- we did this before, right? The industry did this before last year, September, October, November timeframe. This time, I think it's vaccine-driven, the reopening of the cities, the economy based on the vaccine number. I think there's a very good inflection point coming -- we think about 0.5 percentage point of vaccines applied per day. So, another 10 percentage points is 20 days. So I think that's going to accelerate even further. So, positive signs in terms of demand.

Corporate demand is also recovering. We actually had made really good progress in terms of corporate pre-second wave in the month of February. It went down, and now we're back up to pretty much where we were at the end of last year, between 35% and 40% corporate recovery. So, definitely positive signs in terms of the recent -- and these are very recent demand trends certainly following what's happening in terms of vaccines and the reopening.

Q - Savanthi Nipunika Syth {BIO 17476219 <GO>}

That's really encouraging. Thank you. And if I might, this cargo stats that you shared today, John, were really interesting. And is it fair to say that the cargo strength that you're seeing today is not really kind of a supply issue as it is for most carriers around the world? And is it really been driven by demand? And just what would it take to kind of grow that addressable market?

A - Abhi Manoj Shah {BIO 18968426 <GO>}

Yeah. Hey, Savi, so what we are seeing, we went backwards and we looked at the incremental revenue we generated in the fourth quarter and the first quarter. The vast majority of that incremental revenue was domestic customers moving their supply chains from ground to air. And electronics is a big part of it, shoes, clothing. So what we are able to tell these customers is that this is going to make your business just move more goods quicker, and they're realizing that.

And so, the vast -- and so, our market share is increasing, but it's increasing because mathematically it has to sum to 100. But really what's happening is that the air logistics market itself is growing. And so it's a shift in thinking. It is a shift in how our e-commerce customers, our industrial customers, our pharma customers are thinking about their logistic solutions, and basically they're moving from ground to air, which is making -- which is speeding up their business, which is great for them. And so we think there just a lot of opportunity ahead.

Now, lately, I would say, in the last two to three weeks, we've seen an increase in international. We're flying 16 round trips to Brussels, for example, because of reduced capacity on the international network. But the vast majority of our cargo growth is coming domestically from a shift in thinking of customers in Brazil.

A - John Peter Rodgerson {BIO 17734009 <GO>}

It's an arms race, Savi, with these e-commerce players. And so in the market caps of these companies are approaching BRL100 billion in Brazil, and it's pretty remarkable. In order to justify that they need to deliver and they need to grow top-line revenue. And the best way to do that is reducing the time to delivery, and that's what Azul's network provides all throughout Brazil. Not just in the triangle in the southeast of Brazil.

A - Abhi Manoj Shah {BIO 18968426 <GO>}

Yeah. So I'll add one data point. We have access to around 4,000 cities and communities, 900 of them, we already serve, with deliveries in two days or less, right. So -- and there is a lot of improvement there to go. So, we get to a large part of the population already under two days.

Q - Savanthi Nipunika Syth {BIO 17476219 <GO>}

Interesting. All right. Thank you.

Operator

Our next question comes from Josh Milberg, Morgan Stanley.

Q - Joshua Milberg

Sorry about that. Hey, everyone. Sorry about that. Congrats on the results, and also on your big strides on streamlining the business. Guys, just wanted to touch base on the issue of deferrals. I think you've made reference to paying some of those past deferrals down in the period. And I just wanted to ask if you could elaborate on that? And also discuss your schedule of leased aircraft lease amortization? We saw that the total nominal long-term amortization that you reported came up by more than BRL2 billion as of the end of the first quarter versus what you had reported at year end 2020. Just wanted to understand what went on there.

A - Alexandre Wagner Malfitani {BIO 2519089 <GO>}

Yes, sure. Hey, Josh. So, if you recall, our management plan, right, we went to all of our stakeholders, lessor, suppliers, banks and asked for deferrals. And then the repayment plan was essentially to start paying back suppliers in 2021, banks starting in 2022, and lessors in 2023. So, that essentially stays in place.

With the second wave, if you recall the Azul Day slide that we talked about, we're going to have cash flow operations that's going to be positive. And then that money is going to go toward paying down deferrals, paying down principal and investing in the future to get the fleet back ready for the recovery, right, mainly CapEx, right. That also stays in place.

It's just that the cash flow generation from operations that we had budgeted, because of the second wave is going to be smaller, right.

So, we essentially took that shortfall and we went back to our lessors and back to our suppliers and we asked for additional deferral. So, if you look at our schedule in our financial statements, you have the annual expected lease payments there. We're probably going to shift a few hundred million reais out of 2020 into 2021 on top of what you see there, right.

And essentially, that's going to take us to the liquidity position that John mentioned. We're going to end the year with essentially the cash position that we ended this quarter, right, BRL3 billion plus, because the shortfall in cash flow generation from operations, we're going to negotiate additional deferrals from suppliers and from other source, right.

A - John Peter Rodgerson {BIO 17734009 <GO>}

And, Josh, it also wasn't prudent given the 10% move in exchange rate quarter-over-quarter to make a significant amount of U.S. dollar payments, right. And so that's another thing that impacted that balance. But you're seeing that the exchange rate has already moved 10% back since the end of the first quarter from where we are today. So, you'll see that kind of total debt balance will be reduced just naturally, because of the exchange rate move.

A - Alexandre Wagner Malfitani {BIO 2519089 <GO>}

Yeah. And the gross debt balance, it varies by a couple of drivers, right. Essentially, FX, which was the big driver here. If you look at the end of period exchange rate, that's a big driver. That's always going to affect the operational lease liability. That gets adjusted every quarter by FX. So, dollar goes up, that goes up. And as John mentioned, dollars going down, hopefully that's going to go down in Q2.

And then if we have additional aircraft deliveries, which we didn't have, right. We have a couple of spare engines and that affected the balance as well. But that number should stay -- obviously, as we de-lever, that number is going to go down, right.

And it's also important to note that we have a young fleet, right. And for those of you that haven't adjusted to IFRS 16 yet, a young fleet normally means a higher capitalized lease liability, an old fleet means a lower capitalized lease liability, right. So you can't look at the lease liability of an airline with a young fleet and airline with an old fleet and compare them, because those numbers are not apples-to-apples. I know you know that, Josh, but just for other people on the line I think it's good pointing that out.

Q - Joshua Milberg

Okay. Thank you very much for that explanation.

Operator

Our next question comes from Stephen Trent, Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Hey, good morning, everybody, and thanks for taking my question. I was definitely very intrigued by your mention of the business travel bounce that you've seen sequentially. Just kind of two kind of very quick questions around that. First, when we think about your domestic booking curve, kind of any sort of high level color what it looks like close in? And then two, I'm wondering on the international side, what kind of price point you're seeing? So, the U.S. transatlantic, we're seeing low volumes, but price point going in the right direction, just would love to get your thoughts on that?

A - Abhi Manoj Shah {BIO 18968426 <GO>}

Hey, Stephen, Abhi, here. So, the best news I saw in the last months was when Jamie Dimon told the world he was canceling all his Zoom calls. And in addition, he said that he was telling his clients that if they lose business, it's because somebody else visited them and because JP Morgan did not. And that's great. I mean, we want people to travel. So, I think that's perhaps going to start to set the tone here for corporate travel recovery.

We know in Brazil, especially our base of corporate demand, which is much more fragmented, much less dependent on a single region like Sao Paulo. We actually lead the market, the region in terms of corporate travel recovery. So, we actually saw that happening prior to the second wave. It obviously took a bit of a pause, but now it's coming back again. But I think that, that sentiment that Jamie Dimon shared is probably shared with a lot of businesses. And I think I mentioned this last time, even within our sectors, we're seeing, for example, on the finance side, one customer flying a lot more than the others, like double. And we know that the other -- their competitors are going to try and catch up.

So I think Brazil is actually going to lead in terms of corporate recovery. And I think Azul is going to lead in that context because of our network is positioned.

In terms of the booking curve, it's actually -- it's two things have happened. As the stairs have come up, you actually end up with better revenue close in, because close in revenue is a lot more dependent on average fares than it is in terms of volume. So we're seeing better revenues close in, which is helping unit RASMs because of average fares improving.

And as we're seeing people get vaccinated and confidence in the reopening, we're seeing more interest, for example, in June and July as well, which is our winter break here. So better closer in revenues from average fare and more confidence driving volume further out.

In terms of international, we're happy that we're back in Lisbon. The Portuguese government opened up flights to and from Brazil. So we're back with three times a week, increasing to five times or six times in the summer. Fort Lauderdale, we're flying three times to four times a week plus some cargo. The fares are -- I wouldn't say they're high, but I think they're Okay, given the demand scenario. We're seeing some improvement, but restrictions still remain, especially for Brazilians to enter both the U.S. and the EU.

So the key gating factor is going to be that, the opening of the borders. And Orlando is our next milestone, which we're still waiting for. So our international rollout is going to be disciplined. It's going to be careful. And it's going to be based on what the market wants and needs. So we'll take that as it comes.

Q - Stephen Trent {BIO 5581382 <GO>}

Very helpful, Abhi. Appreciate that.

Operator

Our next question comes from Mike Linenberg, Deutsche Bank.

Q - Michael John Linenberg {BIO 1504009 <GO>}

Hey. Good morning, everyone. Hey, Abhi, some really great information on bookings and pricing and near term, et cetera. I was particularly interested in the chart that you had where you showed regional differences in capacity comparing Recife with Campinas and Sao Paulo. And I'm curious, when I look at that chart, is it that people flying in and out of Recife are just far more risk seeking than those out of Sao Paulo? Or are you just adding back more capacity maybe because there's an opportunity to take share? Like what's driving that? Why is Recife bouncing back so much faster than, say, Sao Paulo?

A - Abhi Manoj Shah {BIO 18968426 <GO>}

Yes. Well, let's just reframe the term risk seeking a little bit, please. I would say looking for opportunity. Our safety protocols and cleanliness are great. No. But I think this speaks to the strength of our network. It speaks to 115 destinations. It speaks to the fact that we have Caravans, ATRs, Embraers, A320s, A321, A330s flying out of Recife. All of them connecting to regional, local and national destinations. It's our focus on the hubs, and I'll give you some numbers here.

Sao Paulo, Campinas, we are 116% recovered compared to pre-crisis. Recife, 119%. But Guarulhos, 42%, right? Because we're disciplined in how we're recovering. We're recovering where we are strong. We're having connectivity, very strong connectivity in our network. And that's giving us access to demand that nobody else has.

So, I think it's just a little bit is the nature of the demand. The demand is more connecting. The demand is further out from these places like Sao Paulo. Recife, the Midwest of Brazil, the north of Brazil, they don't have the same luxuries. They have to get out. They got to do business. They got to talk to their customers, whether it's engineering, whether it's consultants, whether it's agro business, whether it's infrastructure. We are just simply much more exposed to that kind of demand.

And so we are flying where the demand is. We're flying where we are strong. And so I think it's a combination of our network. It's a combination of connectivity, all the different destinations that we have and where the demand is right now.

A - David Gary Neeleman {BIO 687871 <GO>}

So I also think it's important, Mike, just to highlight the strength of the network matters. We've been telling you that over a 10-year period. We had more revenue and less cost than any of our competitors. It's pretty remarkable for an airline that was previously in the third position, if you will. It means that we're managing the revenue environment very closely. We've taken care of the cost environment as well. And it's the opportunity that we have, and thus, we're one of the only airlines in the world, they have positive EBITDA. And certainly the only one in Latin America to do that in South America. And so it's the strength of the network that matters, and that we'll be able to build upon that as the recovery moves forward.

A - Abhi Manoj Shah {BIO 18968426 <GO>}

Yes. And just one more data point, Mike. Right now we're around 115 destinations. Our plan calls for us to be 135 within the next six months. So we're going to keep the network connected. And our hubs like Campinas, which is over 100%; Recife, 120%; Belo Horizonte almost 100%. They're going to just keep getting stronger.

Q - Michael John Linenberg {BIO 1504009 <GO>}

Yes. I have another question, but I want to add on to John about the network. You are the only airline in Brazil that does have the diversified fleet. And as much as I know, complexity adds cost, when I see how markets are spooling back up, the one size fits all approach isn't going to work. And so whether you have a caravan with whatever, I don't know, nine seats all the way up to an A330 with more than 300, I just -- you're the only one who can actually take advantage of that. So I mean, I thought it was great that you did have that one slide in there, and maybe that's something that you want to reinforce. I have another question. I don't know if you want to comment on that.

A - John Peter Rodgerson {BIO 17734009 <GO>}

Mike, I do want to comment on that. Anyone can operate a single-fleet type. It's pretty easy in the world. A lot of ULCCs do it, but to kind of have a complex fleet like we do flying everywhere from caravans all the way to wide-bodies, it makes a difference. And that's why we're able to access demand. Keep in mind, there are more than 5,000 flight changes. Think about that.

Just year-to-date, where Abhi put a flight out there, tries to sell it, he can sell it as an E-Jet. He can sell it as a A320. He can sell it as an ATR. He can sell it as a Caravan. And that fleet flexibility matters. And that's why we're able to fly more than our competition, and that's why we're more profitable than our competition because we don't need to keep a flight in a market when we could just downgauge it or upgauge it and have the right metal in there.

And it makes all the difference in the world when you bring on E2s, more 320 Neos and you bring in the most fuel-efficient aircraft in the world. And that's a competitive advantage that we have. We've invested in that over the course of 10 years. And you know what? It's complexity, but it's crucial at this stage of the game.

Q - Michael John Linenberg {BIO 1504009 <GO>}

Okay. Great. And then just my second is just -- and I don't think this was intentional or anything, but there was really -- I don't think I saw anything in the release as it related to your JV with LATAM. I mean, it seems like there's bigger fish to fry and other things to focus on. And you wanted to get that out on this call. But the fact is the structure of it, it's now been up and running for some time. Any sort of nuggets that you can give us about how that is -- how you're benefiting from that? And is that what -- I see it constantly referred to as a joint venture, but are you really sharing revenue? Or is it more of a marketing agreement with codeshare and maybe, I don't know, frequent flyer reciprocity, the underlying mechanics would be interesting to know. Thank you.

A - Abhi Manoj Shah {BIO 18968426 <GO>}

Hey, Mike. So actually, just to be clear, it's not a joint venture, right? It's a codeshare. It's a free-flowing code share. And we've actually expanded it with LATAM. And we're happy with the results, and I would say, we're happy and they're happy. The balance between each airline selling the other is actually almost very close to 50-50, which is very good. We're selling a nice piece of local demand, but also a very big chunk of connecting demand. We are not sharing revenues, just what you fly, basically, and there's no joint planning or pricing, anything we had.

So it's just -- it's a free flowing code share. And I think it's allowing each other to have access to a network that they probably wouldn't have otherwise, whether it's Azul, out of Brazilian or LATAM out of Recife, right? And that's allowing each of us to do what we do best and focus where we are strong and use the partner where we're not, basically. So I actually think it's a win-win. I think it's a very good model around the world as well.

The -- in terms of the size, it is -- order factors above all of the other coach shares we have combined, right, which are international to domestic. Because it's a domestic, domestic codeshare, the volumes are much bigger. So yes, it's -- I think we're happy. I think they're happy with it. And our intent is to keep growing it as the airlines grow and recover the networks.

Q - Michael John Linenberg {BIO 1504009 <GO>}

Very good. Thanks, everyone.

A - John Peter Rodgerson {BIO 17734009 <GO>}

Thanks, Mike.

Operator

Our next question comes from Dan McKenzie, Seaport Global.

Q - Daniel J. McKenzie {BIO 15071178 <GO>}

Hey. Good morning. Thanks, guys. A couple of housecleaning questions here, I guess, just clarification questions. The logistics market in Brazil at BRL300 billion, is that today or is that some point in the future? And then as you kind of look at the $45 billion addressable market from road to air, what percentage or share are you targeting with that, say, in two to three years?

A - Abhi Manoj Shah {BIO 18968426 <GO>}

Yes. Dan, so yes, it's BRL300 billion. No, BRL300 billion to -- BRL300 billion total today. But this includes everything, right? So Agro, construction material, all that kind of stuff. Yes. When we look at addressable, so electronics clothing, that kind of stuff, it comes down to BRL45 billion per year today, right? And that's the market that we're going to fish in.

I think our market share, which is about 33% to 35% today is going to be a consequence of how much we can help grow the air logistics market. We've shown that we've grown faster than the competition, but because we've been able to grow the market and able to create new opportunities. For example, our logistics business fly to destination Hero Bronco. We don't even fly up on the passenger side, and we do it with the Embraer. That's been adapted from passenger to our cargo ops because it's the perfect low trip cost airplane to access new markets. That's exactly what we did on the passenger side 12 years ago, and that's what we're going to do and we are doing on the logistics side.

So I don't have a target for market share. I think it will be a result of our work. But our goal, our target is to fish in that BRL45 billion ocean. And if we're BRL1 billion today, and we have BRL45 billion worth that we can capture, gives you an idea of how much we can grow.

Q - Daniel J. McKenzie {BIO 15071178 <GO>}

Understood. Okay. Yes. Very interesting. The $4 billion goal that you laid out for 2022, did I hear that was an EBITDA goal? I guess that was another clarification question for me. And then if we just set macro factors aside, what does the path back to net profitability look like? And what kind of growth or not gets you there potentially later this year or next year?

A - John Peter Rodgerson {BIO 17734009 <GO>}

Dan, I'll let Alex kind of walk through the details of how we get there. But keep in mind, we've reset our cost structure. We're a much leaner organization going forward. We show the operating leverage we have on the cost side, and we will grow this business back to where it was pre-COVID and beyond.

I mean we -- if you take a look at these numbers in the EBITDA that we produced in the first quarter, we had -- I think we had a negative 11% EBIT margin, clearly way ahead of any of our peers in the region. But as -- but we have the capacity to fly 40% more ASKs with that. Think about that for a second, right? And then as you layer on fleet transformation going forward, that's where you can see the leverage and the path back to profitability. And again, you're taking a look at the first quarter was a challenging quarter for us from a fuel perspective, from a currency perspective.

The currency one month ago was BRL5.74, it's BRL5.28 right now. I mean just to give you an idea of the move that we've seen just in the last 30 days and why we're optimistic. The first quarter, we had very few people vaccinated throughout the entire country. By the end of the second quarter, you can have almost the entire priority group in Brazil vaccinated.

And you're seeing the demand recovery in the United States, and that was in a developed market. Brazil is a developing market that still has not reached its full potential. But I'll let Alex kind of walk you through step-by-step to get to the BRL4 billion of EBITDA.

A - Alexandre Wagner Malfitani {BIO 2519089 <GO>}

Yes. I think the key here is operational leverage, right? I -- we showed you what we did in Q1. Obviously, the dollar and what's happening with fuel prices. Cloud, I think just how remarkable the operational leverage is. That's why we wanted to show you what the normalized CASK would be, right? As you know, we don't like CASK tax fuel because reducing fuel burn and reducing carbon emissions is a big part of our plan, right? We're going to continue our fleet transformation as soon as we can, and that's going to reduce fuel burn. So we much rather look at what we call normalized CASK keeping fuel and FX constant. And our CASK would have gone down 10% this quarter if fuel and FX had stayed flat, right? And we're still flying the airplane about seven hours a day in Q2 right now. We've flown them 12 hours a day at peak period in the past.

So the overhead that we have is paying for those 12 hours a day. But we're only getting seven hours a day right now. So as we expand demand, we're obviously only flying the demand that exists today. But obviously, demand is going to improve, and we're going to be able to go from seven hours to 12 hours a day and reduce CASK significantly. On top of that, we have the higher efficiency, right? We always said that we were not going to rebuild the airline with the same cost structure as before.

So we're certainly going to be more efficient on the overhead side. We're going to be more efficient on the airport side, more efficient at the call center, more efficient in terms of maintenance, where we have more people but we're in-sourcing maintenance and paying a lot less to have our maintenance events than before, right? But if you want to put it from 2019, I think it's essentially the same story as we had at Azul Day, right?

We are assuming that corporate is probably going to be a bad guy. We -- as Abhi said, there are positive sums from corporate, but we like to be conservative. So even if you assume that corporate will not come back when we're back to 100% operation, you have a partial offset from leisure, which is certainly stronger than it was before, especially domestic leisure. You have a more rational competitive environment, and that includes the LATAM code share that's certainly beneficial to us and is adding additional revenue that we didn't have before. And we have a more efficient airline than what we had in 2019.

So those are kind of the building blocks that allow us to get to a higher EBITDA than before. Now it could also mean we have higher revenues in 2019 because when we get to full operation, I think there's a lot of capacity that we can extract from the current fleet that we are already paying for.

Q - Daniel J. McKenzie {BIO 15071178 <GO>}

Yes. Very good. If I can just squeeze one last one in here. The -- this idea of a travel passport that IATA is working on. What is the view here at the government level? Is it a potential solution to open up some of these international markets if you have a vaccine on your travel passport? I guess what can you share about -- is the Brazilian government or travel Minister doing anything here to help open that up? Or what's the path back to opening up some of these international markets?

A - John Peter Rodgerson {BIO 17734009 <GO>}

So the Minister of Tourism here has announced that Brazil is supported. I mean this is something we're used to, right? There's yellow fever shots in order to travel in Brazil and the rest of Latin America. We don't see it as a problem. And we know that all Brazilians want to be vaccinated. I shouldn't say all, but most Brazilian want to be vaccinated. They're very eager to do so. So we do not see that as a problem. And we -- hopefully, that can open up orders sooner rather than later.

Q - Daniel J. McKenzie {BIO 15071178 <GO>}

I see. Okay. Thanks for the time, guys.

A - John Peter Rodgerson {BIO 17734009 <GO>}

Thanks, Dan.

Operator

Our next question comes from Khalil Lima, Reach Capital.

Q - Khalil Lima

Hey, guys. Good morning. Thanks for taking my question. Just a follow-up on the previous question. Can you guys clarify a little bit more on the breakdown on the profit pathway? I'm just trying to understand how you guys are seeing yield recover and how that is in the picture for 2022. And also just trying to understand if it changes a little bit from international side on that or not from the previous presentation in 4Q '20, please?

A - Abhi Manoj Shah {BIO 18968426 <GO>}

Yes, hi, Khalil. So yields have improved, especially over the last couple of weeks as the reopenings have accelerated in Sao Paulo mostly and in other parts of the country. But the process is going to be consistent, right? There's still more work to be done. I think we need another probably 15%, 20% in terms of average fare. And I think the industry wants to get there, right? In fact, the industry needs to get there. And that will happen as the vaccines keep taking progress and the economy keeps opening up.

So when you will see that in the flown data will take some time. So it's now going to be -- 2Q is too soon. You'll see a little bit in 3Q, and you'll see most of it in the fourth quarter. But our plan we're working on is to exit the fourth quarter with those yields in place so that we can have a 2022. That's mostly a standard 2022 with the precrisis yields based on all of the progress that we make this year. And I think the industry overall needs to do that. I think it will.

I think as the demand starts to come back and the confidence increases for everybody, that is the only path forward for everyone just to get back to their earnings potential. So we've seen good progress recently. And I expected that progress to continue. And you will start to see that in the flown data in 3Q than 1. Very similar to what happened last year.

We had very good yield expansion from July, August, September, October, and then you saw that in 4Q. And then very similar is going to happen this year as well. International side, again, a lot of it is going to depend on the borders. I think vaccine Passport is going to help or having approved vaccine that people can show to enter the countries is going to help. I think places like Florida, places like Portugal, they need and want tourism. We're already seeing that with Americans, right? You're seeing places like Greece, places like Iceland, even France, talking about opening up the borders for Americans who have been vaccinated. And I think places like Portugal and Florida, they need Brazilians for their local economies that have been impacted so strongly.

So I think that's going to be a very strong motivation for those kinds of economies to open up the Brazilians based on some sort of vaccination or negative test or some combination over the next couple of months. So the international market will depend mostly on that. But I see steady progress happening in the domestic market. And you will see that flown data come in 3Q onwards.

Q - Khalil Lima

All right. Thank you.

Operator

Our next question comes from Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. Good morning. I have two questions here. The first one, when we take a look at cargo, we continue to see this, let's say, very strong revenue growth. And as you mentioned during the call, I mean there is a very attractive addressable market. So my first question is, is there any plan to maybe IPO or maybe try to monetize part of this business in order to reduce leverage? And the second question in the audit financial statements, there's a comment about aircraft of lease receivables, which basically says that as of March, the amount of BRL72 million was past due, but no provision was made.

So I'd like to confirm if this is going to start and if you do have any plans to maybe execute the security deposits? Thank you. Yes. We'll look at all options. I mean we are very bullish on our cargo business. And I think that we've been approached by several partners. We'll continue to look at this business going forward. It is certainly the story of Azul over the next couple of years. I mean, you could see what FedEx, UPS and others have done.

So we're actively looking at it. We've talked to bankers. Are we announcing an IPO of our cargo business at this time? No, but we're going to continue to separate the P&L, show results so people really see the value that our cargo team is driving, but we're certainly not looking at selling it at this time. It's something that's very strategic to us. And we know there's an enormous amount of growth. When you look at that addressable market of BRL45 billion, we'd be foolish to sell it at this time, right? We're just going to let our team go after it and try to give as much of that BRL45 billion as they can.

A - David Gary Neeleman {BIO 687871 <GO>}

Yes. And on the subleases, every airline in the world, I think, is going through negotiations with their lessors. And in this situation, where a lessor, not a lessee. And so the same type of deferral concession that we obtained from our lessors, our sub-lessees have also asked for. But it's actually a shorter deferral than what we got from our lessors. We're still kind of dotting the eyes and crossing the teeth. We talked about the secured deposits, just so everybody can be comfortable, that we have collateral to get those receivables. But obviously, the best way for us to maximize the revenue of that asset is to continue with the operating lease in place. And the same way that we needed a deferral from our lessors, and we were able to obtain it from them. We're also able, and it's understandable for us to also negotiate a new agreement with our sublessees. But it's more accounting than anything else. We're confident that we're going to get to an agreement, and we'll get those payments. And if we don't, there is security for it.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Ladies and gentlemen, with no further questions, this concludes today's question-and-answer session. I would like to invite John to proceed with his closing statements. Please go ahead, sir.

A - John Peter Rodgerson {BIO 17734009 <GO>}

Thank you for joining us today. If you have any follow-up questions, our team will be available, and we appreciate your support and look forward to speaking with you in person over the coming months. Thanks, everybody.

Operator

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