Q3 2021 Earnings Call

Company Participants

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

Other Participants

- Alejandro Zamacona, Analyst
- Bruno Amorim, Analyst
- Dan McKenzie, Analyst
- Josh Milberg, Analyst
- Mike Linenberg, Analyst
- Rogerio Araujo, Analyst
- Savi Syth, Analyst
- Stephen Trent, Analyst

Presentation

Operator

Hello, everyone, and welcome to Azul's Third Quarter 2021 Results Conference Call. My name is Simone, and I'll be your operator for today. This event is being recorded (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, Simone, and welcome all to Azul's third quarter earnings call. The results that we announced this morning, the audio of this call and the slides that we reference are available on our IR website. Presenting today will be David Neeleman, our Group Founder and Chairman; John Rodgerson, our CEO; and Abhi Shah, our Chief Revenue Officer. Alex Malfitani, our CFO is 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 as projected 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 everyone, thank you for joining us for our third quarter 2021 earnings call. As always, I would like to start by thanking every Azul crew member for their passion and dedication. Thanks for their efforts, we delivered an industry leading quarter with significant growth in our network revenue and earnings.

I'm really proud of our team and Slide 3 shows why. We had positive operating income in the quarter, our EBITDA was the highest since the start of the pandemic and our unit revenue was higher than 2019, I'm just going to say it again, our unit revenue was higher than in 2019. You guys know how hard that is and you know that very few airlines around the world have achieved this. I think it is truly incredible. In addition to all that, we are seeing record bookings at record fares, all the while our network is back to over 800 flights a day to 130 destinations, which is also above pre-pandemic levels.

Speaking of our network, Slide 4 shows how well we are aligned to growing Brazil. 13 years ago when -- we started a different airline with a unique fleet and network that focused on all of Brazil. That's the whole country. This focus enabled our growth pre-crisis, sustained us during the crisis and is the key to our future as we emerge even stronger. Our broad and diverse network serves all of Brazil and we're especially strong with the country is growing the fastest. This is why we present to you today industry-leading across for board.

But we have another competitive advantage. As you can see on Slide 5, our logistics business continued its outstanding performance with another record quarter. We are well on track to exceed our target of a BRL1 billion of revenue this year and the opportunities keep coming. This week, we announced a unique partnership with FedEx. My friend and neighbor Fred Smith have been discussing this for a while and we just announced that Brazil cargo locations now also become FedEx locations, that gives FedEx unmatched distribution in Brazil with our 300 stores that serve 4,200 zip codes across the country. For Azul Cargo, it also gives us access to the FedEx global network. When it comes to logistics we are just getting started.

But wait there's more, on Slide 6, I wanted to talk about a project that is especially close to my heart. As many of you know, I got my start -- started my career selling vacation packages to Hawaii. I've always believed that with Brazil's emerging travel market and amazing natural beauty that Azul could do very well in the vacation business. I have to say that (inaudible) team did not take me very seriously at first, but now I get to tell them, I told you so. But what's important is that our vacations business, in our vacation business that we call, Azul Viagens, which in Portuguese means Azul Vacations is growing like crazy. We are setting records every single month and bringing unique value to our network. For example, during our low demand times and weekends, when most other airlines bring down their schedules, we fly 200 fully dedicated flights to Azul Viagens destinations. This is pure utilization flying.

The map you see on Slide 6 looks a little all over the place because it is. We connect big cities and small cities and others you've never heard of with non-stop flights to the largest leisure destinations all over Brazil. We are flying routes on weekends that we don't even serve during the week. The current rate of growth we expect that Azul Viagens will exceed BRL1 billion in revenue next year and that's with another BRL1 billion business. So this is just another reason why we have industry-leading margins.

Finally, I just wanted to say the team is all in. Before -- with tremendous sacrifice, I should say, during the pandemic. Before, during and now as we emerge from the pandemic, our focus and dedication is driving these results, and I could not be more grateful to the entire Azul family.

And with that, I'll pass the word over to John, who will give you more details on the third quarter. John?

John Peter Rodgerson {BIO 17734009 <GO>}

Thank you, David. I also want to thank our crew members for their hard work during the third quarter. Thanks to them we were able to deliver an industry-leading results. As you can see on Slide 7, Brazil continues to make great progress on vaccinations with more than 90% of the adult population vaccinated with at least one dose. This is higher, let me repeat, higher than the United States or Europe. The progress continues, not only our second dose numbers very strong, but the country has already applied more than 11 million booster shots.

Moving to Slide 8, we are once again reminded that vaccines work and how incredible it was that the world got them so quickly. The average number of COVID-19 cases and deaths in Brazil has drastically declined. Sadly, we had peaked at 4,500 daily deaths in the second quarter, just one quarter ago and we are now down 95%. The State of Sao Paulo recently had days with zero deaths. We talked about this during our second quarter earnings call, how vaccinations would result in an inflection point in demand. We prepared for this and I'm happy to say that I believe we are taking full advantage of the recovery in demand. To give you more details, well, let me turn it over to Abhi for a bit.

Abhi Manoj Shah {BIO 18968426 <GO>}

Thanks John. As you can see on Slide 9, the inflection in booking trends started in late July. Back then, as we noticed booking volume and vaccination rates increasing, we immediately turned our focus on average fares. We prepared for this and wanted to make sure that we capture this demand at the highest quality possible. Today as a result of that focus and work we started back in July, we are seeing record book to revenue that is directly driven by higher fares. On the slide, you also notice an important detail, the recovery in book-to-revenue is ahead of the recovery in capacity. That difference goes directly to RASK, which leads us to the strong flown revenue we saw during the quarter.

Turning to Slide 10, if you also remember during our second quarter call, I said that the improvement in bookings will lead to better flown RASKs in the quarters ahead. It takes a little time to boost those booking curves. Initially I had thought that we would get to 2019 RASK towards the end of the fourth quarter, but I'm really happy to report that we have accomplished that more than a quarter ahead of schedule.

Strong close in bookings, together with improvement in corporate revenue helped to achieve this. On the slide, you can see the sequential and consistent improvement in unit revenue with 3Q above 2019 levels. The exit rate for 3Q was even higher than the average of 1%, which feeds nicely into further improvement for the fourth quarter of this year.

Moving to Slide 11, as David said, it isn't that common that an airline right now has recovered its pre-crisis RASK, especially ones with 90% or more capacity recovered. So I'm really proud that we are one of the few around the world to have achieved this. Revenue can be created or destroyed in the details and the team has worked really hard to capture as much as possible. As a result, we are optimistic of the trends we are seeing.

With that, I'll turn it back over to John. John?

John Peter Rodgerson {BIO 17734009 <GO>}

Thanks Abhi. As you can see on Slide 12, we grew our top line by 60% in the quarter to over BRL2.7 billion, while operating expenses increased only 23%. This shows the operating leverage available to us post pandemic and our commitment to emerging from this crisis a more efficient airline.

Moving onto Slide 13. For the first time since the onset of the pandemic, we generated positive operating income, reaching a BRL136 million in the quarter, which represents a margin of 5%. EBITDA in the quarter was also a record since the onset of the pandemic at BRL486 million, representing a margin of 18%. Again from what we can see, we're one of the few airlines around the world that not only have positive EBITDA but also positive EBIT.

During these times of higher fuel prices, there are very few things more important than fuel efficient aircraft. As you know, fleet transformation is a key part of our strategy and we have already made good progress. As you can see on Slide 14 compared to 2016 our fuel consumption per ASK is down 20%. Correspondingly our CO_2 emissions per ASK are also down significantly over the same period. This progress is important as we reaffirm our commitment to sustainable growth. We already have the largest fleet of next-generation aircraft in the region and there is more to come.

As you can see on Slide 15, our operations generated BRL1.1 billion in cash flow, which we used to deleverage the airline in the form of rent payments and also had money to invest in CapEx for our future. I'm happy to report that we ended the quarter with a strong immediate liquidity of BRL5.3 billion together with the total liquidity of BRL8.3 billion. As a reminder, we entered the crisis in the first quarter 2020 with only BRL2 billion ending with -- ending this quarter with BRL5.3 billion is truly remarkable.

On Slide 16, you can see that Azul has no significant debt repayments over the next few years. This comfortable liquidity position ensures that we can focus on the many opportunities ahead of us, that we see in this market.

On Slide 17, it's important that we show the world all the good we are doing. For example, in the quarter, our passionate crew members supported and participated in more than 100 voluntary actions helping thousands of people all over the country. We distributed more than 7,000 donated pieces of clothing and over 520 organs were transported on our aircraft helping save lives. We also delivered more than 43 million vaccines to some of the most remote parts of Brazil as part of our commitment to use our scheduled network and carry vaccines free of charge.

Looking forward, while currency and fuel are a challenge we are really excited about our business. We have unique competitive advantages and leverage for earnings growth as you can see on Slide 18. It begins with our fleet and network advantages complemented by our businesses such as Azul Cargo, Azul Viagens and TudoAzul, our loyalty business. In addition, vaccinations continue to increase, Brazilian cities are now open, companies are back to in-person work and international border restrictions have been lifted. As a result of these developments along with current demand trends, we are full of confidence as we head into 2022. We plan to be one of the few airlines in the world to produce more EBITDA in 2022 than in 2019.

With that, David, Alex, Abhi and I are here to answer your questions.

Questions And Answers

Operator

(Operator instructions). 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's Investors Relations team after the conference is finished. The first question comes from Josh Milberg with Morgan Stanley.

Q - Josh Milberg {BIO 19336060 <GO>}

Hey, everyone, and thanks for the call and congrats on the results. My first question is if you could revisit the guidance for 2022 given these results and also just given the shift in fuel and FX? And then as a part of that question it would be just great to get your updated thoughts on capacity growth next year and what the breakdown of this growth could be. I think before you were contemplating a major expansion of routes as part of the plan on the domestic side and a rebound to 2019 levels on the international side?

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

Thanks Josh and thanks for congratulating us. We're very happy with our revenue performance for sure in the quarter. And as we look forward, Abhi is ahead of where he thought he'd be. And I think as we look into 2022 when we did our forecast, I think previously we said we'd be BRL4 billion plus, obviously exchange rate and fuel prices impact that, we feel very good about the revenue performance that we've been able to do. So what we said is, look, we're going to be above 2019 and so we haven't given up on the BRL4 billion, but it's in that range, you tell me where fuel is going to be and where currency is going to be, but I think the revenue performance is the most important thing you need to take away from this call as we are seeing very strong revenue performance.

Obviously, we have a lot more to do, and David highlighted a lot of the things that differentiate Azul, Azul Cargo, right. I mean just the fact that it's going to do BRL1.1 billion this year, next year is going to be a lot bigger than that. The packaging business that Abhi has developed over the last couple of years and Alex is going after cost. And so we feel confident about 2022. We're not saying it's going to be above BRL4 billion at this point just because of currency and fuel, but we haven't given up on the BRL4 billion, Josh, we feel very good about where we are, we feel very good about how the team is working and the capacity that we've deployed and the revenue that Abhi has been able to bring in.

But to talk specifically about capacity for next year, I'll turn it over to Abhi.

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

Hey, Josh. Yeah, so I'll divide it up into two, obviously domestic and international. So happily, we are now going back into Orlando on December 1st. And so December onwards, we will have a daily flight to Lisbon, daily flight to Fort Lauderdale and daily flight to Orlando. I don't expect much change to that at least in the short- to medium-term, at least through the first six months or so of July. The revenue is good, but I want to make sure that the flights do well and we keep the fares healthy.

So internationally, I would say that we will only be close to 2019 levels by 3Q, 4Q of next year. For the first six months, probably 50% and the next six months 75% and getting to 100% by the end of next year. So that's on the international side. So as a total, we will probably be just a little bit below 2019 for international.

For domestic, we are going to be larger than 2019. And the best estimate you can do for that is take what we have published right now, you can take an average of January, February, March and then take that times 12 basically. Our fleet is relatively stable through most of the year at least until 3Q. So we're flying the fleet that we have and we're happy to do so, we haven't done so in 18 months. And it's very much going to be focused in our market, in our routes, in our network. We are still 80% plus alone in our network. We are larger than before in our hubs, like Campinas, like Recife, like Belo Horizonte and that's where our focus is. And a lot of the capacity is coming from up gauging. We have taken since 2019 A320, A321s and E2s and that's where the capacity is coming from. So we're actually going to be lower in departures but we are going to be above in seats and stage length, which is actually really, really efficient growth given that it's all in our network.

So domestic will be bigger, well within our network, basically with what we have today. International, I expect the three non-stop flights that we have now at least for the short, medium-term. Hope that helps.

Q - Josh Milberg {BIO 19336060 <GO>}

That does help and thanks for all that color. And then my second question is, if you could give -- and I think this one is for John, your latest thoughts on the M&A possibility with LATAM and just wanted to hear if anything have changed in your perspective with the macro situation, LATAM's latest results or anything going on behind the scenes. And I ask that in part just because I know John hasn't been timid about discussing that in the past, but would fully understand if you can't say much?

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

I've been timid, Josh. No, I think the macro situation promotes consolidation. I mean, that's the biggest story of all. I think as the buy side and sell side look at the markets, wow, even more opportunity for consolidation in the space. And so, obviously LATAM has a process that we need to respect but we haven't given up on it. We think it's in the best interest of creditors and best interest of our shareholders.

Alex and I talk often, we have a fiduciary responsibility to pursue consolidation, right, that we have to do that. And if everyone's working for the best interest of their shareholders and stakeholders and creditors, they should be pursuing that. And I'm very confident that our plan has a better recovery overall. And so we are very engaged in the process and more news to come obviously I want to focus on this earnings report, which I think is very good. And not only are you looking at it Josh, but I think creditors are looking at it, I think people are looking at, wow, look at how these, how they managed their business in Brazil and what could that mean to a larger business. So I think a lot of people are paying attention to it, and so we're kind of excited to talk about our results today. But we certainly haven't given up on it because we think there's more to come as the exclusivity period expires in the next couple of weeks, and so you'll hear more from us at that time.

Q - Josh Milberg {BIO 19336060 <GO>}

(Technical Difficulty). Thank you guys so much.

Operator

The next question comes from Savi Syth with Raymond James.

Q - Savi Syth {BIO 17476219 <GO>}

Hey. Good morning, everyone. And maybe for Abhi, could you provide a little bit more granularity on what you're seeing in the domestic market in terms of leisure, I think it was already around 100% like where are you seeing that. And then just in terms of business travel recovery, what you're seeing and what you kind of expect heading into 2022?

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

Yeah, hey, Savi. Thanks. Yeah, so as I mentioned in the opening remarks, we are very bullish on the trends we are seeing. Let me just step back a little bit because I think it's important to kind of highlight the transition that happened sort of July onwards. As we -- July everybody flew on a high load factors and we noticed the volumes were coming, but the fares were low, and that's when we decided that we're going to pivot to higher fares.

And we did this in a couple of ways, and one is really, really small fare increases but a lot of them. And I think that was a departure from how the industry usually does it. And it worked really well for us because it allowed us to keep testing demand every time we took small increases and allows the market to remain stable in terms of somebody worried about not being competitive.

Many of those fare increases, the industry followed us, some they did not. But because we were 80% plus alone, we have the flexibility to push the envelope, so that was really well for us. And then we also took a hard look at the level of discounts that we have in the corporate market and travel agency market and we were actually surprised that how much revenue came out of that. And it's something that's relatively underappreciated, but I think that that was something that we learned in this process as well and keeping that discipline, how much revenue you can generate. So both of those things have worked really well. We are at some of the highest fares -- the highest fares we've actually ever been in terms of new bookings as well as book to revenue.

Direct channels, which we would call leisure are ahead more than 100%. I mean, overall, we are about 115%, 120% of where we were. So leisure is above that even. The corporate market is recovering, I would say that we're currently at 70 corporate recovery. And as you know, our corporate presence is much more fragmented than just Sao Paulo, a lot of it is agro business, a lot of it is services, energy, oil and gas, infrastructure. And so we're at 70% and improving, Sao Paulo is going to host a Formula One Race this weekend.

And looking ahead, we're seeing positive comments from our commercial folks about events, about training events, about group bookings are very strong as well, not just this year but into next year as well. So I think the trends are positive. I think that the team has done an amazing job of putting us in a position where we can take advantage. And yeah, I think the trends are very good going forward.

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

I think one thing I just want to add Abhi is that high end leisure demand is in Brazil right now. There's always been the high end leisure, Brazilians would go to Paris, they go to London, they go to New York, they are actually spending money in Brazil. In the South of Brazil last week at a city Gramado, you walk into the city, you feel like you're in Europe. And so Brazilians through the crisis have fallen in love with Brazil, I think that's fantastic. The devaluation of the currency, it's having people to choose more flight inside of Brazil for leisure destinations.

Keep in mind, we have 850 flights a day, 10 of those are outside of Brazil, the remaining are inside of Brazil. And so having Brazilians kind of fall back in love with their country has been fantastic for us and is really squaring demand all throughout the country, which is really good beneficial for Abhi's RASK.

Q - Savi Syth {BIO 17476219 <GO>}

That's helpful. And if I might clarify and I might be reading into this too much, if I could take a rule there or something it looks like 4Q RASK is around 7% 7.5%, is that fair?

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

She did the ruling.

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

What I can say is that we exited 3Q at a rate higher than the quarter. So I'm fully expecting further improvement in 4Q, yes.

Q - Savi Syth {BIO 17476219 <GO>}

Okay. And if I might just on the logistics side, could you give an update on where you are in end-to-end logistics solution and where this kind of FedEx partnership falls within that. Was that part of the kind of plan all along or is that something kind of new that drives a higher view?

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

Yeah. So we actually took a lesson from Fred Smith himself. Myself, John, our Director of Logistics, maybe six months to a year ago. And he has sort of gave us a lesson for a couple of hours on diversifying, on bringing on new customers. And we've been talking to the FedEx team ever since. And so this has been in the plan, yes. And it gives us access to their global network, which of course is amazing. And for them, we serve 4,200 zip codes in Brazil and 1,000 of them we deliver within 48 hours. So it really is a win-win for both sides.

And for us, the logistics growth and which is what he told us is, it's really sustainable. So 50% of the incremental revenue we have year-over-year is not coming from our competition, it's coming from companies and customers that are switching their businesses from ground logistics to air logistics and that we think is a much more sustainable way to grow because the ground logistics market is like 15 times larger than the air logistics market. And their businesses are getting stronger, they are delivering to their customers faster and so they are seeing the benefits as well. And of course, we have the belly network, which can deliver these delivery times very, very efficient at marginal cost. And so that's really where the growth is coming from.

International has been strong as well and we expect that to continue through next year also. So it's a combination of a couple of things, but we are excited about logistics and I think we are going to have another good year of growth going forward.

Q - Savi Syth {BIO 17476219 <GO>}

Appreciate it. Thank you.

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

It's Abhi now, he has cargo. So he's got his 330s flying domestically. And so we're saying Abhi put another Orlando on it, he's like I'm not going to sacrifice my cargo domestically because he is doing so well. And so it's an interesting dynamic that we have here at the company.

Operator

Your next question comes from Mike Linenberg with Deutsche Bank.

Q - Mike Linenberg {BIO 1504009 <GO>}

Hey, good morning, everyone. And yeah, I want to echo Josh's comment of congrats on fantastic quarter. I just -- I want to go back to that same RASK chart that Savi just referenced to see the 120% in 4Q. And if you think about sort of where your costs are right now and so I guess this is actually to probably John and Alex, if we think about costs and where RASK could be or where it's heading and yet we are dealing with the higher fuel, even incorporating that, it does feel like that it is possible that we could see margins that approach double digits in the fourth quarter. Is that -- am I being too aggressive there and I realize fuel, we're still -- we got another whatever six weeks to go with respect to fuel prices and currency, but it does feel like that the math could move toward that bogey. What do you think?

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

Yeah. No, I think you have the dynamics right, Mike. RASK, as Abhi indicated, will expand from Q3. CASK is probably going to be up but not as much and a lot of it is because of dollar and fuel. But remember that there is a lag on fuel of about 35 days, right, in terms of the way that oil prices behave and how long it takes for that to impact jet fuel prices. And Abhi is always attempting to maximize revenue and when the whole industry is facing cost pressures from fuel and FX, those attempts get to be a lot more effective, right. And so, yes, we will expand margins into Q4.

I'm not going to comment on the double-digits, but we should see a continuing improvement in profitability and into 2022 and into 2023, right. The dynamics that Abhi explained are going to continue. We're going to grow capacity, but we're not going to grow a ton of departures. We're going to grow very healthily on top of our network not going after the competition. So that is also very disciplined and very sustainable, but we're very confident about, like John said, having higher EBITDA in '22 than we've ever had any time of our lives, the BRL4 billion is challenged by fuel and FX, but we are going to fight and we believe that splits, the reals has never prevented us from being profitable expanding margins and deliver on our promises, right.

We started the company, we've said this multiple times with a BRL1.58 to BRL1, and we have always been able to deliver on our promises even with the reals devaluing almost every year over the last 13 years, right. So we know how to deal with FX pressures and most of that comes from the strength of the network, the diversity of the fleet and the strength of the business model that we've built over these years.

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

And Mike we're a scrappy team. I mean, you could see it in our results, Abhi increased revenues 60% quarter-over-quarter, yet our FTEs were up 1%. And so it shows the leverage on the business, how we're really -- how we're managing. We are scrappy looking at what Abhi has done together with David on the weekends with Azul Viagens, putting in all of those flights, finding pockets of demand that no one else thought possible. Now that's done because of our diversified fleet, you can't fly a 737 or A320 from (inaudible) to Porto Seguro, but you can certainly do that within Egypt, right, and that's what we have. And that those are the competitive advantage that we have.

When you take a look at the cargo network, and why FedEx wants to partner with Azul is because we fly to so many different destinations, right. Anybody can fly to the triangle or anybody can fly to the large Northeast destinations, but what we do is we extract value throughout the entire network and the network is really where it all starts.

Q - Mike Linenberg {BIO 1504009 <GO>}

Yeah and those are great responses, guys. Just one last one, if I can just squeeze it in. Can you just give us an update on the government and how they are, I know that they have put out, I guess I don't know if that's an RFP or on slots at Congonhas and back in the day when I first started covering this sector, we used to see over, I think it was like 42 or 44 operations per hour, and it looks like we're going to go back up to that. And so thoughts on timing and is there an opportunity for you guys to get share at one of the most lucrative airports, not just in Brazil, but probably in the Western hemisphere. Thoughts on that? Thanks.

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

Yeah, Abhi will remind you, Campinas is the most lucrative, Mike. But now, we're actually -- we're very excited about Congonhas. So just for everybody's benefit that may not be watching it very closely, the Congonhas airport's up for sale. And before selling the airport, the Brazilian government is doing what's best for the Brazilian people, which is expanding operations going back to those levels that you talked about. So the Congonhas airport will be approximately a third bigger, which opens up opportunities for Azul, it opens up opportunities for other airlines in that very profitable downtown airport.

And I'll let Abhi kind of talk to specifically about it, but yeah we're very excited, it's already in a consultation period in the market. And so having more flights at that airport is very important. We just recently launched Congonhas to Fernando De Noronha. I mean, the things that we can do is absolutely phenomenal at that airport. And when you talk about 2022 EBITDA, it's not even in our forecast, right. I mean anything that we get in Congonhas and additional slots, I think you saw the fight that we had with our other airlines in the region over, look, what happened when Avianca went away, this is equivalent to I think four Aviancas is what's increased this. So it's a significant increase at that airport and so we're pretty set. That doesn't mean it all goes through Azul, I think it's going to get -- go to a lot of different airlines, but I think that's good and it's good for Brazil. I think it's good for them to raise money selling that asset, and I think that the more the Brazilian government sells assets, the more people will have confidence in Brazil overall, so there's a lot of positives to it.

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

Yeah, Mike, I think that our argument of course is going to be about 200 incremental slots will become available. So, call it, 100 daily departures. And our argument is going to be very similar to 2019, which is we think that the airport is concentrated and closed, right. Concentrated and open is okay because you can enter in that flight, but it's closed, which is unusual. And so we think there should be more competition and we're going to make our case, of course. And as with other players and other airlines and we think ANAC is going to listen. And we think ANAC, the regulator is in the mood to increase competition at Congonhas, because the airport is closed today. And so that's going to be our case, we will see how it goes. But yes, it's an opportunity and mostly it's great for the public, you're going to have more offers.

Q - Mike Linenberg {BIO 1504009 <GO>}

Abhi to-date what are you up to, are you like 20 -- like two dozen departures a day at Congonhas, I know you're relatively smaller to the air bridge and maybe a few others, what is that -- just to put some context around the 100 that are going to be added?

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

We are at 20, 21 departures a day.

Q - Mike Linenberg {BIO 1504009 <GO>}

Okay. Well, okay. Thanks a lot. Okay. That's super helpful. Thanks guys.

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

Thanks Mike.

Operator

The next question comes from Alejandro Zamacona with Credit Suisse.

Q - Alejandro Zamacona {BIO 20103878 <GO>}

Yeah. Hi, everyone. Thank you for the call. Thank you for taking my question. Most of our questions have been answered, but I just have one question on the fuel efficiency. I think it's pretty amazing what you have delivered so far, but we are curious on to what extent you believe you can continue to lower the fuel burn in this case? Thank you, guys.

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

Yeah, Alejandro sure. Yeah, we have dozens of E1s still in the fleet that need to go away. And the E2, I mean, it's amazing just how well it's performing. I don't want to make

Embraer too cocky but it's over delivering on the fuel burn reduction that they promised to us. So we can't wait to resume our fleet transformation and replace every single one of our E1s with E2s and A320neos and that will continue the fuel burn reduction, it will continue the reduction in carbon emissions, it will reduce our cash dramatically by double digits, it will allow us to stimulate demand with those extra seats because actually when you go from an E1 to an E2, for those of you that remember the economics of the fuel -- the fleet transformation that we mentioned a few years ago, these marginal seat, these extra seats, come in at a negative cost. We are going to spend less money to fly on E2 and to lease an E2 than we do on an E1 and we get extra seats for it, right. So they come in at a negative costs and we're able to stimulate demand and reduce cash all at the same time. So we're very excited about that.

Also the pandemic obviously delayed our fleet transformation plan by a couple of years like it delayed the whole world on pretty much everything by a couple of years, but we are going to resume it and we're going to end the transformation and we're going to be 100% airline with capacity coming from next-generation jets for somewhere between six and nine years ahead of the competition, that's how quickly and how many years of competitive advantage we are going to have ahead of the competition on flying fuel-efficient next-generation jets.

And sometimes for those of you who maybe that just look at the CASK number, you may think that our CASK is higher than the competition, but that's because you're comparing a CASK for a single 737 to the CASK of a blended fleet, which has low CASK aircraft like our A320neo, middle CASK aircraft like the Embraer and high CASK aircraft like the ATRs. But you have to remember that from a trip perspective, it's the other way around. The ATR has the lowest trip cost in the industry and then the Embraer has much lower trip cost than the Boeings or the Airbus' and our A320neo CASK is significantly lower than our competitor "low cost 737 CASK", right. And our A320neo is what we put to compete with a 737. We don't compete much with them, but when we compete with them, we compete with an A320neo that has lower unit cost than the 737, even than the 737 MAX, right. So that's important to remember.

Q - Alejandro Zamacona {BIO 20103878 <GO>}

Pretty useful. So when you think about the fuel leaders in this case, do you believe low 20s is a fair level to reach, high 20s, what's -- any thoughts on that?

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

No we don't have a guidance number out there, but you can kind of project the reduction from the pace of replacement that we've had, right. Essentially by that you can figure out every incremental E2, how much has that reduced the fuel burn and then you can kind of estimate. We're going to try -- as soon as we have a little bit more visibility, we are going to provide more of a firmer projection on how quickly we can resume our fleet transformation and conclude it. But depending on your assumption of how quickly we do that, you can figure out what the incremental fuel burn reduction is for every aircraft that is replaced. And then you can figure out where we're going to get in terms of fuel burn reduction and carbon emissions.

Q - Alejandro Zamacona {BIO 20103878 <GO>}

Okay. Thank you.

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

Thank you.

Operator

The next question comes from Bruno Amorim with Goldman Sachs.

Q - Bruno Amorim {BIO 17243832 <GO>}

Hi, everybody. I have two questions please. So the first one on costs, the CASK is 17% above 2019 levels in 3Q, while your fleet size grew by 20% roughly and total ASKs fell by 10% in the same period, which suggests room for significant fixed cost dilution and CASK reduction as ASKs pickup. So when do you expect to reach ideal levels of utilization of the fleet considering the deliveries of aircraft and also the ramp up in ASKs? And the second question, domestic ASK is now above 2019 levels, international well below. So to what extent does it distort the RASK comparison versus 2019, or in other words, was international RASK in 2019 significantly different from the domestic RASK? Thank you very much.

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

Yeah, hi. Thanks for the question. So regarding fleet utilization, we are getting close, but starting January onwards. So first quarter is when we're going to have our normal levels of fleet utilization. So as I said, we are flying the fleet that we already have, we're flying it more and more every single month. And January onwards -- first quarter onwards, is when we're going to have normalized levels of fleet utilization.

Regarding the impact of stage length on RASK, it's important to remember that our overall stage length is only 5 kilometers different. So they are actually -- at the system wide level, there is no impact. And the reason is, you're right, we have a lot less international but our domestic stage length is significantly above our 2019 domestic stage length because we are flying more leisure because we're flying more A320s, A321s and we're flying more E2s, which fly longer and fly high utilization. So overall, the impact is a wash as our overall stage length is only 5 kilometers different. So the RASK that you are seeing really is the RASK that's generated by the demand.

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

But you're absolutely right, Bruno, there's a lot of operating leverage going forward. Abhi is talking about the ASKs he's going to put it in the first quarter, but as you go throughout 2022 and he puts more international ASKs, you dilute the unit cost across all of those ASKs as well. And so -- and you can see how we did it, I already referenced it, but increase significantly ASKs quarter-over-quarter, but you saw what happened to our unit cost as a result. And if you normalize for fuel and FX, we're even better.

Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you very much.

Operator

The next question comes from Rogerio Araujo with UBS BB.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Yeah. Hi, guys. Thank you for the opportunity and congrats on the results. A couple here. One if Abhi could provide us more color on his view of the sustainability of the fourth Q RASK. So any color could be helpful in terms of maybe the offensive demand that we have now for the leisure segment and then there is going to be a recovery of the corporate segment. So how does he think about the sustainability of this kind of RASK level for 2022 quarters? And also on the RASK, on the CASK ex-fuel, for upcoming quarters, what to expect similar levels than third Q. I think there is a carryover of a higher maybe some higher prices on the BRL, but what to expect in terms of CASK ex-fuel levels in fourth Q and first Q, 2022 and so on? Thank you so much.

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

Hi Rogerio. I'll start and then pass it over to Alex. What we can see in the booking curves for December, January, February, March lead us to believe that these trends will continue. I was actually talking to my team this morning to push the fares even higher actually, and they were kind of pushing back at me. But the commercial guys feel good about what they're hearing in the market in terms of events, in terms of group bookings, in terms of training seminars that companies are doing -- the rhythm of coming back to in-person, I mentioned Formula One is happening this weekend.

So, honestly from what I can see right now, the trends continue. We have no reason to believe based on the booking curves that we have that at least from the bookings that we have that is going to change. So for us it's, yeah, full steam ahead and we think that we maintain this level of average fare. And I think overall, I hope our colleagues as well are seeing somethings and we can be disciplined overall, so.

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

Rogerio, Abhi also mentioned corporate revenue is only at 70% of what it was. So the fact that he's got above 2019 RASK levels in the third quarter is showing you, Savi played the ruler game, what he's looking at in the fourth quarter, but that's not with full corporate demand back yet. And so that's going to be the next push to get this back to the levels that we or above levels where we need (Technical Difficulty).

Operator

One moment please. Please, you may proceed, sir.

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

Sorry, we're back. Can you hear us?

Q - Rogerio Araujo {BIO 17308156 <GO>}

Yeah, we can hear you. Thank you. I think you stop it on when you are saying that corporate segment should be the next push for you?

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

Yeah and that's interesting Rogerio, because corporate revenue flies more local, it fly more non-stop, and they tend to buy closer in. So it also has the impact of pushing up average fares as that continues to recover. So definitely there are some positive catalysts yet to come.

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

Yeah. And on the CASK side, Bruno, Rogerio, sorry. We lost the visibility, you're going to have to do some math. But we've done a lot of progress on rebuilding Azul as a more efficient airline as we committed, right. So when you look at 2022 CASK what's embedded in our expectation for EBITDA and when we build the model bottom up, controlling for fuel and FX, we would be almost 10% lower on unit cost versus 2019, right, and that value is still all there. The problem is you're going to have to kind of dig through the change in fuel and FX to get to the number. You will also need to layer on your expectation for fuel and FX. And that number is all over the place, there are people that think that 550 is a 4, there are people that think, well, the fundamentals of the currently should actually have it closer to 450 or 475. So you have to embed your numbers.

What we usually use is the focus survey as well as the Bloomberg forward curve for oil, right, and focus survey for FX, and that's what's embedded in our estimate for EBITDA. And once you layer those expectations in, that almost 10% CASK reduction actually turns positive, right. So you actually see a CASK increase 2022 into 2019. But like I said, that's consistent with EBITDA above the 2019 levels, given what we're seeing on the demand side.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Very clear. Thanks you, guys.

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

Thank you.

Operator

The next question comes from Stephen Trent with Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning, everybody, and thanks very much for taking my question. And forgive me, it's now afternoon for you guys. But just one or two from me. So first off, one of your competitors was kind of making a bit of noise about a backlog of Brazilians waiting to get U.S. visas as we see quarantine-free travel for vaccinated foreigners here. Are you seeing kind of any signs of that? And that's my first question. Thanks.

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

Hey, Steve, it's absolutely true. I think what competitors said is true, but I think that's awesome for Azul, right. So I often say you can't be in (inaudible) and New York at the same time. And so I think that's why Abhi is not taking the full schedule back into the first quarter because the demand that people think on international is not really there, but that's actually much better for Brazil overall. I think it's great for (inaudible), I think it's great for Azul, I think it's good overall. And that's why we've dedicated our network during the high season to fly locally.

Q - Stephen Trent {BIO 5581382 <GO>}

No, that's super, John. Really appreciate that. And just one more really quick one from me, having a chat with a guy on the buy side who is much smarter than me and we were talking about the domestic market in Brazil and kind of the antitrust overlay. And when I think back to 2019, it looked like the antitrust authorities had over ruled ANAC on those Congonhas airport slots. Then when we think about what's happened since that time, there didn't seem to be any fuss about Azul and LATAM Airlines, Brazil having kind of that joint agreement and until a few months ago. Do you think that kind of sends a signal from the antitrust authorities that there is at least some modest room for more consolidation?

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

Absolutely, Stephen. I mean, we wouldn't be pursuing if we didn't believe it was possible. But let's just back up for a second, all U.S. carriers are subsidized by the U.S. government right now, are they not? They got subsidized money in the U.S. Brazilian airlines got no money from their government. That's a huge contrast. And at the same time, the Brazilian market is 100% open. So a subsidized U.S. carrier can start an airline in Brazil. A European subsidized carrier can start an airline in Brazil. The overlap that we have with our competition is very limited. Every airport that Azul flies in today is open and can have additional capacity in that airport.

And so, look, I mean I think there is going to be noise from certain people around this, but I think it's in the best interest of Brazil, I think it's in the best interest of our consumers and it's in the best interest of all of our stakeholders, and so it's not a real concern. And then the one concentrated airport in Brazil, as Mike Linenberg noted is, opening up even further, so there'll be more competition. So I think it's -- you have to put things in context, if you go back three, four years ago, the Brazilian market was closed, foreign carriers could not operate inside of Brazil, that is no longer the case.

And when you think about the support that all other countries gave to their airlines versus the financial support that Brazilian airlines simply didn't receive, you can see the case why antitrust should be very favorable to consolidation in Brazil and in the rest of Latin America.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. That's super helpful. Really appreciate that, John. I'll let someone else ask a question.

Operator

The next question comes from Dan McKenzie with Seaport Global.

Q - Dan McKenzie {BIO 6789743 <GO>}

Hey, thanks guys. Congrats on the quarter. What I find interesting with revenue being 90% recovered versus 2019 is that you're really missing your highest margin revenue. So I guess my first question is, how much corporate revenue was missing exactly. I'm pretty sure it was higher than the remaining 10% of 2019? And then related to that what percent of the corporate clients are back in the office and what is the timeframe for getting back to 100% recovery in corporate revenue, is it really -- is it the first quarter or is it or do we need a full recovery in international in the back half of 2022 before you really get there?

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

Yeah, hey, Dan. Thanks for the question. So yes, as I mentioned, bookings in October, new bookings, we saw about a 70% recovery in corporate revenue. So flown for the third quarter was less than that. My guess is around 60%. So there is at least 40% of that high value revenue that was missing in terms of flown revenue in 3Q, which you're right is going to start to fly over the next couple of quarters.

It's hard to say what is the timeline for 100%. We are seeing differences in sectors. I'll give an example, the financial sector, they booked about 45% of 2019 revenue in October, which is still low, but it's up from 25% in July, right. So they are recovering nicely. And so I think the November is going to be better than the 70% and then we get into the holiday season. So I think it's going to continue over the next couple of months, and our baseline that Alex has modeled for 2022 EBITDA doesn't assume a 100%, just for us to be a little bit conservative, and to the extent that it does come back, there is actually some upside to that as well.

So the fact that we are already at 70%, I think is a really, really good sign. And the fact that sectors are improving so quickly month-to-month, I think November is going to be another nice increase and then it will continue from there. So in terms of in-person work, we are seeing different trends from different companies. But yes, I mean I think that that momentum is growing. I think when you have companies organizing training seminars, U.S. companies organizing group events, conferences, I think that's a really, really good precursor to bring their employees back in the office. So I would say the difference are positive. We are at 70% now and improving month-to-month.

Q - Dan McKenzie {BIO 6789743 <GO>}

Yeah. And I guess where I'm going with this is, the trend seem pretty positive. I'm just -- if you look at the trends today, how is that informing what you're thinking about normalized pre-tax margins in this next cycle and what's the timeframe for getting there. So as you just kind of think about what you want your targets to be how you're managing the business?

And then just going back to Slide 4 as part of this question, it's pretty interesting how you're tying good chunk of your growth to parts of Brazil that seem to be above GDP. And so I'm just wondering what percent of overall flying or revenue does this flying include or what percent of the revenue you are flying is to these areas that seem to be doing a little bit better versus the rest of the country?

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

Yeah, I can start with that. And I also want to add regarding the coming back to work. Kids are back in school, right, which is a huge relief to all our spouses here for sure. So that's obviously going to drive a lot of...

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

(Multiple Speakers) countries in the world.

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

Yeah, and that's going to drive a lot of back to work. So in terms of our diversification, we are -- about 37% of our capacity is in the triangle, as we call it, which is Sao Paulo, Rio and Brazilia. So we are 60% diversified, which is how we like it. And that's the part of our business that's exposed to the faster growing, which is agro, which is infrastructure, which is oil and gas, which is energy, those kinds of things. And I'll let Alex, talk about the margins.

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

Hey, Dan. It's tough to kind of talk about normalized margins because our margins in 2022 in terms of percent margin versus 2019 are actually going to be lower, but they are going to be higher in '23. And then when you layer on the fleet transformation, the continued growth that we're seeing in cargo, we are starting to see a potential in the vacation travel business that we never saw before. I mean, there is a lot of upside. So I think there is -- we're confident actually there is going to be margin expansion from '22 into '23, from '23 into '24 and '25.

There's going to be bumps along the road because Brazil throws you some curveballs along the way with currency. Normally, you would be seeing a negative correlation between oil and FX, right, that's what happens 90% of the time unless you have some market -- some Brazil specific issues increasing volatility of the reals, which is what's happening right now. But usually with oil prices where they are and iron ore and soy and every commodity out there, you would see a much stronger reals. That's why the economists are not necessarily banks or traders, but economists say look the reals should be really at 475 or even lower. So we are confident that we're going to continue expanding margins. And it doesn't -- and I'm going to say, it doesn't matter what the reals is because obviously there is a little bit of a delay for Abhi to recapture cost increases to fares. And we know that the Brazilian market would be a lot bigger if the reals was at 475 because we would be able to offer lower fares and stimulate demand.

But the reals being where it is or even weaker does not prevent us from delivering on our promises. But it does inform and it does influence what margins we can generate. So there is a little bit of a circular reference here, and John kind of alluded to it, right. If you tell me what the reals is and what oil is, I can tell you with a lot more confidence what the margin is going to be because there is that pass through from costs to fares that Abhi has always been able to implement. But you need to kind of determine those estimates before you figure out what our revenue level is going to be, what our capacity is going to be and what our margins are going to be.

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

Hey, Dan. I just want to highlight yeah, we're going into an election year and there's been a lot of noise on Brazil outside of Brazil, we had a Board meeting this week, and one of our Board members came down and he was telling to his friends, I'm going to Brazil and they're like, are you nuts, oh my gosh, it's falling apart. Actually COVID is a lot better in Sao Paulo than it is in any major city in the United States right now, it's more vaccinated people in Brazil. I think there's a lot of noise, but we -- our boots are on the ground in Brazil, and we are seeing economic activity, we are seeing things happen throughout Brazil. And so I think eventually U.S. investors will start to look again towards Brazil and the opportunities that exist because there's a lot of great things happening.

Q - Dan McKenzie {BIO 6789743 <GO>}

Yep. Hey, thanks for the comprehensive answers. That was great. Thanks.

Operator

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

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

I just want to thank everybody and we're very happy with what we did in the quarter. We look forward to talking to many of you over the next few days and over the coming months. So thank you and feel free to reach out at any time.

Operator

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