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Bloomberg Transcript

Q4 2017 Earnings Call

Company Participants

- Abhi Manoj Shah, Chief Revenue Officer
- Alexandre Wagner Malfitani, Chief Financial Officer, Investor Relations Officer & Executive Vice President
- Andrea Bottcher, Investor Relations Manager
- David Gary Neeleman, Chairman
- John Rodgerson, President & Chief Executive Officer

Other Participants

- Dan J. McKenzie, Analyst
- Lucas Barbosa, Analyst
- Matthew Fallon, Analyst
- Roberto Otero, Analyst
- Savanthi N. Syth, Analyst
- Victor Mizusaki, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Hello, everyone, and welcome to Azul's Fourth Quarter 2017 Results Conference Call. My name is Gabriela, and I'll be your operator for today. This event is being recording and all participants will be in a listen-only mode until we conduct the question-and-answer session following the company's presentation. I would like to turn the presentation over to Andrea Bottcher, Investor Relations Manager. Please proceed.

Andrea Bottcher {BIO 20316630 <GO>}

Thank you, Gabriela, and welcome all to Azul's Fourth 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, including 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 this call, we will discuss certain non-IFRS performance measures, which should not be considered in isolation.

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

David Gary Neeleman {BIO 687871 <GO>}

Thanks, Andrea. Thank you, everybody, for joining us on our fourth quarter earnings call, as hopefully you've all had a chance to read the earnings press release and we're absolutely thrilled with the results. And first, I'd like to thank our crew members who work hard every single day providing our customers with the best travel experience in the industry. Thanks to their dedication, we had an outstanding year. I believe strongly that strong operational performance drives strong financial results and thanks to our people that that really happened in this quarter and will continue happening in the future.

About a year ago, we embarked on our road show for our initial public offering and as we went and probably had 78 meetings during the month of March, we talked about margin expansion. That was really the theme of our road show that our business was set up in such a way that we would continue to increase margins over the next several years. I'm very proud to report that a year later, we're delivering on our promises by reaching an operating margin last year of 11.1%, which was above our guidance and above 5.2% we had last year. So, obviously, it's more than double on the operating side. So, going forward, we expect to continue executing our own margin plan consisting of the three pillars that we talked about on the road show.

Obviously, the main pillar and the most important pillar that we have is introducing a larger, more fuel efficient aircraft. As John will go into more detail, these aircraft that we're flying, the A320neos, now burn about the same amount of fuel that we have and we're gaining out of the extra seats. And so we were in, we ended last year with 12 A320neos. We'll end 2018 with 20. We're actually trying to push that number up a little bit. We always are and in 2018, it will represent almost 30% of our domestic capacity. Now, the second - so that's very important and that will continue and John's going to talk a lot more about that in his remarks.

Now, the second pillar is obviously growing our wholly-owned loyalty program. TudoAzul maintained strong growth pace in 2017, reaching over 9 million members. Now, that's up to 2 million members more than in 2016, which was our fastest growth in our history. So we're very pleased with that. And John, of course, will give you more details on those numbers and how the revenues are growing.

The third pillar is expanding our ancillary revenues, which includes cargo, baggage fees and our travel package division. Now, our 2017 results are just the beginning of our margin expansion. As I told you, we're looking forward and, as you'll see in our presentation, we're going to actually increase our margin guidance for 2018 and expect to do that for the next several years. And so we're on track, we're excited, we're happy to kind of exceed the top end of our margin guidance, and we'll continue to work hard to make sure we do that in the future.

Now, we also – as I mentioned, we have a great operation. And again, I thank our crew members for this. We couldn't do it without them. But we were number one in Brazil in every single on-time category and we're the most on-time low-cost carrier in the Americas. And because of this great service, we were recognized by TripAdvisor, which named Azul the third best airline in the world; and we also won Skytrax's award for the Best Low-Cost Carrier in South America for the seventh year in a row. And then for the second year in a row, we were also voted with the Best Airline Staff in Service. So like I said, great operational performance, obviously, drives great financial and you can't have one without the other.

So, in summary, we're delivering on our promise. We will continue to strive to improve our financial results, operating performance and customer satisfaction beyond 2017. We're not satisfied with where we're at. We want to do better and we're going to remain focused on being the best airline for our crew members, customers and shareholders.

I would also be remiss if I didn't mention the great job that John Rodgerson's doing as he took the position of President of the company, doing a wonderful job. And so with that little bit of thanks to John, I'll turn the time (00:06:35) over to him and he can go over the fourth quarter results in more detail.

John Rodgerson {BIO 17734009 <GO>}

Thanks, David, and welcome, everyone. I also want to start out by congratulating our crew members for their exceptional performance in 2017. Their dedication and commitment is the driving force behind our great fourth quarter results. When I take you to slide 4, you could see the very strong fourth quarter that we had. Even with the 16% increase in jet fuel during the period, we delivered an operating margin of 13.9% and an EBITDA margin of 30.7% or the highest margins in the industry.

We grew capacity by 10% in the fourth quarter, while also expanding our top line revenue by 21% year-over-year. Our full year CASK ex-fuel went down 3.7%. And in 2018, we expect to continue to see a decrease in CASK ex-fuel as we add more efficient aircraft to our fleet. Our fourth quarter CASK ex-fuel went up slightly due to the A320 ramp-up cost and a higher profit sharing provision resulting from better than expected results. Excluding these effects, it would have been down year-over-year. Net interest expense went down 34% year-over-year due to the significant deleveraging that took place during 2017.

Net income came in at a strong BRL 304 million, which includes a gain of BRL 154 million. This gain is related to the expiration of a call option on the TAP bonds we own. As a result, Azul now will be the single beneficiary of this bond, which is convertible into 41.25% of the equity value of TAP. TAP continues to improve its financial and operational performance, and we're excited to be part of that success story.

Moving onto the next slide, Abhi's team has done a fantastic job on the revenue front. Thanks to our network and strong travel demand in Brazil, our RASK grew 9.4% in the fourth quarter. This is even more impressive considering that our stage length went up. Adjusting for this increase, our RASK was up 15% on a stage length adjusted basis. Our average fare continues to be the highest in the country, increasing 17% to BRL 345 and our load factor was 82.7%. You can clearly see our network needed the A320s. They complement our network very well and we've been able to add capacity while increasing RASK and load factor at the same time.

Moving on to slide 6, we're very excited about the next couple of years. As David mentioned earlier, we're going through a significant fleet transformation process, as we replace older generation aircraft with next generation aircraft, namely the A320neos and the Embraer E2s. In addition to being extremely fuel efficient, these aircraft have more seats than the older generation aircraft they will be replacing, contributing to a significant increase in margins going forward.

Our A320s have the lowest CASK in Brazil and are currently flying on average 14 hours a day. The A320neos have a 29% CASK advantage over our current E-jets and are expected to represent 27% of our total ASKs in 2018. And that will go up to 41% in 2020. We also have an order for 33 E2s, which have a 26% lower CASK compared to the current generation E-jets supporting our fleet strategy going forward.

Our wholly-owned loyalty program TudoAzul - I've now moved on to slide 7, folks - maintained a strong growth pace, as David mentioned, reaching more than 9 million members. This represents an addition of 2 million members over the last 12 months. Gross billings ex-Azul went up 34% in 2017, with the majority of this increase coming from sales to banking partners further increasing our share of the Brazilian loyalty market. We now have 16% gross billings share, up from 13%, but the pie in the entire industry is growing and we are still well below our fair market share. So we expect this business to continue to grow and gain share over the next couple of years. And I want to remind everybody that unlike other airlines in Brazil, TudoAzul is 100% owned by the company. This means that we have no tax inefficiency and benefit 100% from the cash flow generated by this high growth, high margin business.

Moving onto the next slide, you can see that our ancillary revenues grew 22% in the fourth quarter representing 14% of total revenue. We're now getting BRL 56 per passenger from other revenues. Our cargo revenue increased an impressive 60% in the fourth quarter, mostly driven by the larger cargo compartments of the A320neos and the growth of our international capacity. As announced in December, Azul and the Correios, the Brazilian postal service, signed an MOU for the creation of a private integrated logistics company. Once approved by Brazilian authorities, this new company will further strengthen our cargo results. Keep in mind that we have not included any upside gain related to this joint venture in our 2018 guidance.

Moving onto the balance sheet, I'm proud to report that we ended the quarter with a solid liquidity position of BRL 3.6 billion at the end of the quarter, representing 46% of last 12 months' revenue. We repaid BRL 2.2 billion of debt during the year, while raising BRL 1.6 billion of lower cost debt with a longer maturity. As a result, we ended the quarter with a debt position of BRL 3.5 billion and adjusted net debt to EBITDAR of 3.9 compared to 5.7 in 2016. This is a standard calculation for leverage, which capitalizes all of our leases at 7x and includes all of our debt.

In terms of our foreign currency exposure, 99% of our working capital debt was denominated in local currency at the end of the quarter, which means that we are much less exposed to foreign currency volatility. We recently swapped the $400 million bond we issued in October, resulting in an all-in interest rate in local currency below the risk-free rate. We have the highest cash position in South America and the lowest leverage ratio in the region.

Moving onto our 2018 guidance on slide 10, we expect to grow our total ASKs between 17% and 20% in 2018. Domestic capacity will be growing between 8% and 10%. As we've been telling you, our domestic capacity growth will be low risk, non-predatory, driven by replacing smaller aircraft with larger aircraft on routes we already serve. On the international front, our growth will mostly come from increasing flights frequencies and connecting the dots between destinations.

On the cost side, we expect ex-fuel to go down by 2% to 4% year-over-year. As you know, we have a multiyear margin expansion strategy that David talked about and we expect to grow our EBIT margin by 1 to 2 margin points per year over and we expect to grow our EBIT margin by 1 to 2 margin points per year over the next few years. Consistent with this trend, our EBIT guidance for 2017 was 9% to 11%, and our guidance for 2018 will be 11% to 13%. This estimate is not taking into consideration any impact related to aircraft sales or the joint venture with the Brazilian post office. We're confident about the future of the Brazilian aviation market and we believe that we are best positioned to continue growing our business while delivering superior operating and financial results.

With that, Alex and Abhi are also here with us and so we turn the call over to the operator for questions.

Q&A

Operator

Ladies and gentlemen, thank you. We will now begin the question-and-answer session. Our first question comes from Mrs. Savanthi Syth from Raymond James.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Hey, good morning. I wonder if you could provide a little color about – I know you don't give a lot of detail on the kind of domestic versus international revenue performance but just, generally, color on the trend as you exited the year and what you're seeing on the two segments generally.

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

Yeah. Hey, Savi. This is Abhi. So, yeah, I mean I think for the fourth quarter of the year, domestic was strong. There's no question about it, especially corporate demand closing revenue was better than in 2016. So I would say that was mostly the driver of the improvement. International was still very good in the quarter, but in terms of the changes from what we've seen in the previous quarters, I would say the domestic demand that has picked up pretty nicely in the quarter. And then really October, November, the first two weeks of December especially were very, very strong on the corporate side with very good revenue inside seven days, inside 14 days.

So, international continues to be strong, but it was steady as it was throughout the year. I would say the part that picked up more, if you will, towards the latter half of last year was domestic. And the A320s were just perfectly positioned to take advantage of that. So we had the right aircraft in those big trunk routes between our hubs and our focused cities and we were really able to take advantage of that increased domestic demand with the A320.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Is that what you're seeing so far in the quarter as well, Abhi?

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

Yeah. I mean it's – the first quarter is a little bit more leisure because of January and then Carnival. Carnival was earlier in the year, but it was a good leisure quarter as well. Demand was good. International continues to be good. And as we exited Carnival, it seems like domestic demand is back. It's strong. Closing demand is good.

So, yeah, I mean I think, if you remember back to sort of the middle part of last year, I know I said that the industry overall, the conditions are right to take advantage of a rebound in demand, and I think the industry has done that in the second half of last year, fourth quarter of last year. And I think it continues to do that as we start 2018 as well. So the signs are positive. We're optimistic. And of course, we have the A320s that were just beginning the process.

To give you an idea, the A320s are currently only 32 of our nonstop routes and Azul has almost 250 nonstop routes so still very much a long way to go in putting in the A320s and that's just going to be really exciting as we go forward.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

All right. Great. And just talking about the fleet and my last question is, is there any kind of concern about timing of the deliveries and just is there a little bit more that you still want to do with the E-jets or is kind of the plan that you outlined in the releases, is that pretty solid here?

A - John Rodgerson {BIO 17734009 <GO>}

Savi, I think everybody's struggling with the engine manufacturers, both Pratt and GE. We're actually blessed that we've got GE and the engines are performing quite nicely. But

Airbus has had some delays and so David pushes me on a daily basis to get aircraft quicker and faster and to kind of exit older aircraft, but we're pretty confident with what we've put in our plan for this year, and we're working on a daily basis with Airbus to ensure that deliveries come in time for our peak in July. So we're fairly confident that we'll be able to mitigate any of the delivery delays.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

All right. Thank you.

Operator

Our next question comes from Mr. Lucas Barbosa from UBS.

Q - Lucas Barbosa {BIO 20412168 <GO>}

Hey, good morning, everyone. Thanks for taking my question and congratulations for new results. So I have a question on (00:19:12) actually a little bit of a follow-up on the first question. So, first, did Azul already fully pass through the oil price increase or should we expect a further ticket price increase in the first quarter 2018? And in addition, how are you seeing (00:19:28) in international routes? I know that you don't have much competition, but players are starting to increase capacity in international routes in Brazil. Do you think that may affect Azul? That's all. Thank you very much.

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

Yeah. Hi, Lucas. This is Abhi. I'll take it. So in terms of oil prices and increasing fares, one thing that I always say is we don't need a reason to increase fares. If demand is good, we will increase fares. And I also believe that if demand is good, the industry will increase fares. And so I would say that given the demand environment, given the disciplined capacity environment and given the disciplined fare environment, I think the industry overall has been able to pass through the increase in oil prices certainly in the fourth quarter compared to the third quarter we did, and as I look into first quarter as well, I'm seeing that also.

Azul has specific advantages given our route network. So I think we're able to do that better and we want to do it faster, compared to our competitors but we don't need a reason to do that. That's our job every day, and we're always looking to raise fares or maximize revenue really given the demand environment. But overall, the demand environment is healthy, and the market conditions are healthy for the industry and for us, especially given our network strength to pass through this increase in fuel.

A - John Rodgerson {BIO 17734009 <GO>}

But I think I would add that fuel was up quarter-to-quarter over 20%. And so when we entered the fourth quarter, we thought we would be flattish to what we did in the third quarter because fuel was up so big. And so, I think the ability of Abhi and his team to be able to capture that and to kind of extract as much revenue as possible really shows the strength of the team and the network that we've built.

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

And Lucas, in terms of the international yields, I have read some of the commentary from some of the other carriers. But I think our international model is different. We don't operate out of highly competitive in routes. We're pretty much alone in all of the routes that we serve other than competition once a week, maybe from some players. We have unparalleled connectivity both in Brazil and beyond.

Something that we've always said about our international network is we're going to fly from where we are strong to where our partners are strong. For example, we just announced this morning that we're going to have a second daily VCP/Lisbon starting the northern summer of Europe and, again, it just makes complete sense given how strong we are in Campinas and how strong TAP is in Lisbon.

So we're, obviously, we're watching it very closely. The first quarter still looks good. We're seeing, even with the high ASK increase we have, we have new markets in Belém/Fort Lauderdale, Belo Horizonte/ Orlando. We're seeing positive yield and positive unit revenues. So, obviously, I'm watching it closely, but I think in terms of the market differentiation and our strategic advantages we have, I think we're seeing a little bit different than what those other airlines are seeing.

Q - Lucas Barbosa {BIO 20412168 <GO>}

Okay. That's very helpful. Thanks very much.

Operator

Our next question comes from Mr. Michael Linenberg from Deutsche Bank.

Q - Matthew Fallon {BIO 16763664 <GO>}

Hi, guys. It's actually Matt on for Mike. So what are the next steps in regards to the U.S.-Brazil Open Skies agreement that the Brazilian Senate approved last night?

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

Yeah. Hey, Matt. Yeah, so as you know, the Senate has approved it. So the next step for us is it's kind of the logical, which is to get together with our partners United and start talking JV. We have had some initial discussions, and so now we need to accelerate that and put together a commercial deal that we can submit to the DOT for joint venture.

Looking at U.S.-Brazil, Azul is to the point where we are about four to five daily wide-bodies to the U.S. United is also about five wide-bodies U.S.-Brazil and the great thing about this partnership and the great thing overall about our partnership with United is we have no overlap. So it's a lot of synergies, lots of ways that we can work together. The networks are very, very complementary. So to answer your question very specifically, to get together with our partners and start talking about JV terms, start talking about the JV contract and get with the DOT and start the approval process.

Q - Matthew Fallon {BIO 16763664 <GO>}

Great. And this is a follow-up. You guys obviously have a very strong cash position. I'm just wondering what are you planning to do with the cash that you're currently sitting?

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

Hey, Matt. It's Alex here. So part of it is by our (00:24:26) strategy of being the airline with the highest liquidity, the lowest exposure to foreign exchange and the highest margin. We're very confident with Brazil. It looks like macroeconomic figures are coming in stronger. Brazil is starting to recover. But you always need to be prepared for a downturn, and I think that having a higher cash position than the competition is part of the strategy.

Now, with the IPO and the bond that we issued last year, our cost of capital has gone down significantly. So now we have the option to start potentially using that capital to reduce our operating expense, right. So, we will be looking at investing more on spare parts ourselves and in the future when we have our own aircraft deliveries, we will also increase the number of owned aircraft compared to today. So that's the plan overall.

Q - Matthew Fallon {BIO 16763664 <GO>}

Great. Thanks and one more. Are you guys make (00:25:30) kind of irrational actors in the market? Any deeply discounted fares or excessive capacity additions or do things look pretty solid for the most part?

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

Yeah, I think overall airlines are playing where they're strong. And I think this is something important for the industry overall, and I think we've learned over the last 18 months is that airlines are really focusing on where they are strong and that's made the airline stronger. So, overall, I'm not seeing anything indisciplined in terms of capacity or fares. I think airlines are really focusing where they're strong and what works for them. And I think that's driving really good results for the industry overall.

Q - Matthew Fallon {BIO 16763664 <GO>}

Right. Thanks for taking my question, guys.

A - John Rodgerson {BIO 17734009 <GO>}

Thank you.

Operator

Our next question comes from Mr. Roberto Otero for Bank of America.

Q - Roberto Otero {BIO 16689399 <GO>}

Hi. Good morning, everyone. Thanks for taking my question. My question is regarding the MOU with the Brazilian postal office, so if you could share with us the next steps and eventually any sense or expectation on how profitable and sizable this could be once it enters into operation? That's pretty much it. Thank you, guys.

A - John Rodgerson {BIO 17734009 <GO>}

Yes. So we're going through the CADE process in Brazil, which is the antitrust process. We're actually working through all the government approvals as well. We think this is a very exciting solution for Brazil overall. We can deliver significant savings to the Brazilian post office by carrying the belly of our aircraft and the excess capacity that we have. We think of this business very much like TudoAzul, where Azul will still operate the aircraft but use the excess capacity that we have.

And so I think this is something that we'll be able to provide more details with over the next quarter, but so far, so good. And I think this is good for Brazil, it's good for Azul, it's good for the Correios. And e-commerce is big all around the world and it needs to get a lot bigger in Brazil and I think we're ripe to kind of set up a great logistics solution for Brazil, so we're very excited about it.

Operator

Our next question comes from Mr. Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi, thank you. I have two questions here. The first one, why don't we take a look on your guidance for international capacity? We can say a very high growth of 55% to 60%. And I don't know if you can give any detail about I mean what is related to new destinations and I mean additional frequency. And I mean just a follow-up on the Open Skies if – I mean, as you said, I mean this potential JV with United Airlines, how this can affect your guidance for this year.

And the second question with regards to the convertible bonds, if I'm not wrong, HNA could exercise the option to acquire one-third of these convertibles by the end of last year, but apparently did not exercise so I don't know if you can comment about this.

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

Yeah. Hi, Victor. I'll cover the first two topics. So international capacity continues to be a small base, so that's why the percentage growth numbers are high. In terms of the routes, I can tell you exactly what it is. It's all things that we started end of last year and some announcements that we've already made.

And all of them are between our hubs and where our partners are strong so, for example, we started Belém/Fort Lauderdale in December of last year. So that comes full circle this year. We started Belo Horizonte/Orlando in December of last year. We've also up-gauged our Belo Horizonte/ Buenos Aires service from Embraers to A320s. That also happened in December. So it's coming full circle. We're going to start Recife/Fort Lauderdale in May and we just announced the second Lisbon now starting in June.

So it's those kinds of markets and the effect really is that a lot of the adds happened very, very late last year and some of them are happening early this year, and that's driving the big increase in the percentage terms on a small base. So I continue to think that it's low risk and it's all routes that we're very, very strong in in Brazil and we're connecting to our strong partners in the U.S. or Europe.

In terms of Open Skies and JV, it takes time honestly to get these things negotiated, and it takes even longer to get them approved by the DOT. So I'm not expecting any impact in 2018 regarding any potential JVs. We'll have to see how the process goes. But typically, these things take at least a year to get approved. So it's going to be a while before they have a meaningful impact to our business.

A - John Rodgerson {BIO 17734009 <GO>}

Hey, Victor. As per our ownership in TAP, as I stated, we now own 41.25%. So HNA did have an option to buy that. It wasn't a priority for them to exercise their call option at the end of last year and we're benefiting from that. And as we look at our ownership in TAP completely un-levered, 100% ownership in TudoAzul, completely un-levered, all cash flows are coming to us. And I'll remind everybody we also have BRL 1.2 billion on the balance sheet of deposits and maintenance reserves. So you kind of take these three huge assets that are very, very beneficial to us on a going-forward basis and so we're pretty excited, but specifically, TAP is going really well right now.

And so, the leadership at TAP today is former Azul crew members. We're all great friends. And so to see those guys succeed over there and that we get to write part (00:31:18) of that benefit is just a great thing for Azul and all the Azul shareholders.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

Operator

Our next question comes from Mr. Daniel McKenzie from Buckingham Research.

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

Hey, good morning. Thanks, guys. You know, John I guess or Abhi, versus the IPO a year ago, it seems there has been some incremental growth that was added. And with respect to Azul's march towards the 15% operating margin, has the timing for achieving that been moved back and just kind of as you sit here today, what are the bigger impediments for achieving that goal?

A - John Rodgerson {BIO 17734009 <GO>}

Absolutely not, Dan. If anything, we're ahead of schedule. We guided to a 9% to 11%, delivered 11.1% and we're guiding to 11% to 13% and we told you we would – looking to increase beyond that. I think are we growing a little bit faster than we did at the IPO? A bit because David is all over me to get A320s because they're working so well. I mean when you look, Dan, at what Abhi was able to deliver in revenue performance in the fourth quarter while adding capacity, it's a no-brainer. We should continue to add the A320s into the network.

And so, if anything, we're ahead of schedule, where we want to be. Fuels up from when we went public, but we've been able to pass through all of that in fare. And I think you're seeing a very positive macro environment in Brazil. I think all of the competitors are behaving themselves and everybody is in it to make money. And so we're actually - we're as bullish as we've ever been, Dan.

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

Very good. And the bigger impediments, John, from where you sit today, and then I guess just related to that, just given the growth, what is the appetite to potentially accelerate growth even further from where we sit today?

A - John Rodgerson {BIO 17734009 <GO>}

Again, we're in an election year in Brazil, so we need to recognize that. Alex mentioned our very high cash position that we have, and so if things get a little dicey because we're in an election year and there's currency fluctuations, we feel very comfortable with the cash cushion that we have. And so that's one of the things that could be an impediment.

But as we talk about growth and furthering the growth, as you take a look at suite (00:33:43) schedule, Dan, it's one aircraft out, one aircraft in and so it's very low-risk growth and so as quickly as we can do that but it's a strength of the organization. There's no doubt about it. When we're cycling people from the E-Jet into the A320s or into the A330s, there's a lot of training. Again, we have mentioned on the last call that 50% of our pilots are going through a major training event over a two-year period. But that cost and that burden is already in our numbers and is already expected, and so we will do it as quickly as we possibly can to get next generation aircraft into the fleet and that's what we're continuing to do.

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

Yeah. If I could squeeze one last one in and just going back to the JV with the logistics company and the Brazilian government here, the implication in the opening remarks, John, seems to be that there could be some upside from it in 2018 and I appreciate it's small, but the fact that you're mentioning suggested maybe could be material. I just wonder if you could help us size it and, if all goes well, what could it mean to the year?

A - John Rodgerson {BIO 17734009 <GO>}

Dan, we're not really given numbers on it yet. And so we're not going to count our chickens before they hatch. And so I think you are seeing a more conservative management team when it comes to communicating to the market and so we want to over-deliver. And so for that reason, we're kind of holding back on what that could potentially mean. Let's make sure that it's approved and ready to go before we start to communicate with you. But, Dan, you'll be my first call, I promise.

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

Well, anyways, thanks for the time, you guys. You have a – appreciate the good job.

Operator

A - John Rodgerson {BIO 17734009 <GO>}

We did such a great job of explaining everything, there's no more questions. So I think with that, we look forward to seeing you at conferences and we've built a great business, and we're going to continue to deliver for our shareholders. And so, if there's any follow-up questions, we look forward to speaking with you and, again, we really appreciate your support and you'll never find a management team that's more dedicated and passionate about what they're building. So thanks, everybody.

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.