Q1 2018 Earnings Call

Company Participants

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

Other Participants

- Leandro Fontanesi, Analyst
- Lucas Barbosa, Analyst
- Michael John Linenberg, Analyst
- Natalia Sorasim, Analyst
- Petr Grishchenko, Analyst
- Savanthi Nipunika Syth, Analyst

Presentation

Operator

Hello, everyone, and welcome to Azul's First Quarter 2018 Results Conference Call. My name is Revee, and I will be your operator for today. This event is being recorded and all participants will be in a listen-only mode, until we conduct a question-and-answer session following the company's presentation. (Operator Instructions)

I would like to turn the presentation over to Andrea Bottcher, Investor Relations Manager. Please proceed.

Andrea Bottcher {BIO 20316630 <GO>}

Thank you, Revee, and welcome everyone to Azul's first quarter and 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 this call, we'll discuss 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>}

Great. Thank you, Andrea. Thank you, everybody, for joining us on the call today, and good afternoon.

First of all, as I always do, I need to thank our crew members for just an outstanding quarter. I mean, obviously, we couldn't do this without them, and not just from the operations side, but just taking such great care of our customers so that they come back and they love us even more than ever. Just recently, TripAdvisor announced that we again were named the number one airline in South America -- Latin America and top 10 in the whole world. So we're very proud of them. And obviously, having a great airline really helps revenue, and our revenue has really never been stronger than it is now. So, thank you again to them.

So obviously, what's in -- on everyone's mind today is the FX rate spike and the fuel prices that we've had and what effect that's having on Azul and kind of as we go forward through the end of the year. So our commercial team, and Abhi is on the phone, he'll talk to the supervisor and John, are working hard to recapture, and then we're working that, and we are now getting a significant amount of recapture. But obviously, with the spike, because it comes up quickly, it's a little harder in the very short term, but we're confident that we'll be able to do a lot of that recapture of revenue as we're given the time. We're also doubling down on cost and making sure that every single bit of cost the company is out. And so John is working really hard with Alex Malfitani to make sure that happens.

I think what's important to know is that this company is 10 -- almost 10 years old. We'll have our 10-year anniversary in this coming December, and we've seen this before. We've got much higher fuel prices. We've got much weaker currency than we're seeing today, and we're never -- we're really -- have never been more prepared for the spike than we are today. Our balance sheet is strong. We have a strong cash position, as you saw on our release. And regardless if this is the new normal, or if it's just a spike and we go back, we are prepared for it. And we're going to continue to look towards the future and drive our plan. What we told you when we run the roadshow over a year ago that we're going to -- this was a margin expansion story.

And so John will talk a little bit about projections for this year, and we're going to keep the margin guidance intact. But the reason that, I'm so bullish on the company and the reason that I'm not -- obviously, we're always concerned when we see a spike. But our plan is -- as you know, we're moving in A320s, and they're doing spectacularly well. We've got 14 flying now. We've got the next 30 airplanes already programmed. And as you know, with that airplane, it's pretty much a very similar trip cost to the airplane we have today, but we're picking up 56 extra seats. So that's really driving our margin expansion story. Those are working very well. Revenues on those airplanes are actually up year-over-year, even though we guided extra capacity, which is really helping to balance our network.

So that's very exciting. And then the second exciting thing is the E2 is starting to run next year. That's the new-generation Embraer airplane. And that airplane has lower fuel cost, which, obviously, if this is a new normal on fuel prices, obviously, it's important as well to neos on the 320. We have lower maintenance cost, and we have lower ownership cost, and we have more seats. So our -- we're very excited about those airplanes. But I've asked the team kind of just -- investors, the company and myself and as a founder said, look, why don't we -- let's pro forma what the airline looks like, if we had all E2s and we have all A320s. And the number is really astonishing. And so obviously, if it's a new normal, then we're prepared for it because we're coming in a fuel-efficient airplanes, lower-cost airplanes and a lower CASM, which is something that I feel very, very good about.

So we're going to continue with the slide, and just in summary before I turn it over to John. We have exclusive markets with no competition in 71% of our market, which allows us to do a greater -- with greater job of recapturing. Our future is bright. And for that reason, I haven't told this -- you know, stocking, because I haven't because I'm convinced that this is a great value and a great investment for me personally going forward.

So with that, I'll turn the time over to John, and he'll give you more details on the quarter and talk a little bit more how we're doing with the rest of the year. John?

John Peter Rodgerson {BIO 17734009 <GO>}

Great. Thanks, David, and welcome, everyone. I also want to thank our crew members for the solid results we had in the first quarter. We're very excited.

Taking a look at the slide. As you could see on Slide 4, we started the year with a record performance for our first quarter, with a net income of 211 million and an operating profit of 276 million. Even with a 21% increase in WTI during the period, we delivered an operating margin of 12.5% and an EBITDAR margin of 31%, one of the highest in the industry. We grew capacity by 12% in the first quarter, while also expanding our top line by 18% and grew RASK by 5%. Our CASK was naturally affected by the increase in fuel prices and the 3% devaluation of the real. The volatility in fuel and currency has been persistent since the fourth quarter. As you can see from the margins in these last two quarters and from our revenue performance, Abhi and his team had done a great job in recapturing these extra costs and revenue. Our decision to replace older planes with more fuel-efficient aircraft makes even more sense in the current environment. The A320neos represented only 22% of our first quarter capacity and will account for more than 30% by the time we get to the fourth quarter.

Moving onto the revenue performance slide, on Slide 5. Both our domestic and international markets are doing well. PRASK grew 5.1% in the first quarter. This is even more impressive considering that our stage length went up 15% and we grew capacity by over 12%. Adjusting for the longer stage length, our PRASK increased 12.5% year-over-year. Our network advantage allowed us to increase our average sales by 19%, while at the same time, increasing load factor by roughly one percentage point. Once again, we increased capacity, yield and load factor at the same time. This shows the strength of our network.

Moving on to Slide 6. Our loyalty program, TudoAzul, maintained a strong growth pace during the first quarter, reaching more than 9 million members. This represents an addition of 2 million members over the last 12 months. Gross billings, excluding Azul, went up 48% year-over-year, with the majority of this increase coming from sales to our banking partners and from our TudoAzul Club, further increasing our share of the Brazilian loyalty market.

We now have a 17% gross billings share, up from 13% just one year ago, and we still are well below our fair market share for TudoAzul. 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.

On the right-hand side of the slide, you can see that our cargo business is also performing very well. Revenue increased 61% year-over-year, mostly driven by the larger cargo compartment to the A320s and the growth of our international capacity.

Moving on to the balance sheet on Slide 7. I'm proud to report that we ended the quarter with a solid liquidity position of over BRL3.4 billion, representing 42% of last 12 months revenue. We repaid 141 million of debt in the quarter and ended with a leverage ratio of 3.9 compared to 5.1 in first quarter of 2017. We use the industry standard of adjusted net debt to EBITDAR, which capitalizes all of our leases at seven times and includes all of our debt. We also invested 188 million in spare parts in the quarter, which will help us reduce future maintenance expenses.

In addition to having one of the lowest leverage ratios in the region, you can see on Slide 8 that we have much lower exposure to foreign currency. Only 35% of our balance sheet is denominated in US dollars. And virtually, all of our working capital debt is denominated in local currency. As we mentioned during our last call, Alex hedged both the principal and interest of the US$400 million unsecured bond we issued in October. This hedge resulted in an all-in interest rate in local currency below the risk-free rate, which is currently about 6.5%.

Additionally, as you can see on the right side of the slide, we continue to be low on dollar. Our assets denominated in foreign currency in (10:57) cash. Our deposits and maintenance reserves are broad. And our investment in TAP surpassed our dollar-denominated liability. And that's excluding our aircraft, engines and spare parts, which are not restated every quarter, but are also priced in dollars. For this reason, in times of weakening currency, we are not nearly as impacted as our competition. This reaffirms our position as the airline with the strongest balance sheet in Brazil.

As we move onto Slide 9, we believe that Brazil has a lot more room to grow. Over the last decade, we have gone through several periods of macro volatility, and the Brazilian aviation market still doubled in size. Brazilians are traveling significantly less than other Latin American countries, which makes us confident the market will keep growing over the next few years. While everyone is focused on the exchange rate headline, please remember that GDP is expected to grow around 3% in 2018, with one of the lowest levels of interest rate and inflation seen in decade. We believe we are best positioned to continue growing our business over the next two years, while delivering superior operating and financial results.

In summary, as David had mentioned, we are the largest network in the country and are the only carrier in 71% of the routes we serve. We have a multi-year margin expansion plan. In fact, one of which consists of transforming our fleet into next-generation aircraft, A320neos and Embraer E2s. We have a strong balance sheet with high liquidity and the lowest leverage ratio and lowest exposure to FX in the country. We also have strategic assets including TudoAzul, our investment in TAP and 1.3 billion in cash deposits held in dollars for maintenance reserves.

The revenue environment is robust and the strongest we've seen in years, and although, we're facing some macro headwinds, we continue to be very excited about the future. We're taking a careful look at capacity in the context of the macro environment, and we have made and we'll continue to make adjustments as needed. We're also, as David mentioned, aggressively looking at other cost reduction opportunities. And for that reason, we feel confident about our 2018 guidance range presented earlier this year.

With that, we'd like to open it up for Q&A, and I'll turn it back over to Revee.

Questions And Answers

Operator

Thank you very much. Ladies and gentlemen, thank you. We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Savanthi Syth with Raymond James. You may proceed.

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

Hey, good afternoon. First, I wanted to ask on the margin guidance as you look at it and given the current fuel and currency. Clearly, you mentioned it is a question for investors. Outside of looking for an area to improve on the cost side, would you need demand to hold so that you can push through the pay increases, or would you need kind of acceleration and in current demand trends?

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

Yeah. So Savi, we're in the weakest quarter of the year, the second quarter, and we're seeing robust demand. I'll let Abhi kind of talk to that, but we have a plan in place that we believe we're going to deliver the margin guidance that we provided. Obviously, it always gets harder when fuel and currency are up, but I think we've identified a lot of cost-saving opportunities to go after. And when things happen like this, it gives us the opportunity to dig deeper. And Abhi is going after additional revenue opportunities, and I'll have him kind of talk to where he see the demand is going.

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

Yeah. Hey, Savi. So look at the fundamentals of the market right now. You have three really good things happening at the same time. The first is macro demand is strong. It's significantly better than last year. There's no question about that. Closing corporate demand is good. Our closing corporate for the first quarter far outpaced our capacity growth, and that's really helped push the rack-up. So the macro demand environment is strong. We are in second quarter. And typically, this market gets better in the third and fourth quarters, and I do expect that to happen this year again. That's in the seasonality for the last number of years. So I think that we're at a good demand environment now, and I think it's going to get better as we go July and into the second half of the year.

You look at fare discipline. We're seeing really strong discipline across all the players in terms of public fares and private fares. And capacity discipline is very, very strong as well. I think airlines -- as I said many, many times before, our plane were very strong. They're focusing on their market. So I think that the industry overall is set to recapture as much of this cost increase as possible. We're shooting for 100%. And Azul has other advantages like not having overlap so we can react to a lot quicker than our competitors can. There's no need for us to wait for our competitors to match our fares. Ancillary revenue is an opportunity that everyone is pursuing quite strongly in the market in terms of charging for things like anticipate your flight and seat assignment and things like that.

So I think the demand environment is good, and it's going to get better as we get into second half of the year. I think the industry is very well disciplined to recapture this. And I think we have specific advantages like our network and the A320s, which are still very much in the process of ramping up. So that's what kind of gives us the confidence that we can still hit our guidance for the year.

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

That's really helpful. If I may ask this -- at this chart ratio. Brazil demand, on general, may be growing about 10% over the next few years. Is that the rate that we should kind of think Azul capacity to be growing? And then with that 71% mix, does that change over the next few years?

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

Yeah, Savi. So I think that our domestic capacity, yeah, I think it's going to be in the 8% to 10% range over the next couple of years. I think last year was probably a little bit lower than that. I think this year will be 8% to 10%. Next year will be 10%. So yes, I think that is the right range to think about in terms of domestic capacity. In terms of the 71% overlap, I don't really see it changing that much, to be honest. Again, as we said many times before, we're focusing our A320neos in our market, in our network because we're really seeing the benefit of increased connectivity between our hubs and focus cities and just having the 56 extra seats, as David said, for basically the same trip cost. So, I don't really expect that 71% to change materially, and I think that's going to continue for the next couple of years, yes.

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

Great. Thank you.

Operator

Our next question comes from Michael Linenberg with Deutsche Bank. You may proceed.

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

Oh, hey -- hey, good afternoon everybody. John, I want to go back to just in the press release. You talked about your ability to recapture most, if not all the fluctuations, obviously, fuel and FX. And I know you were talking about historically, maybe the last quarter or two. And then I think David talked about recapture going forward, and I guess just given the rapidity in some of those input changes of late that maybe it's more difficult to capture all. Can you give us a sense like how you're either measuring it, or have you been able to recapture, call it, 100%, or maybe more than 100% the last quarter or two? And as we look into the June quarter, understandably, that is seasonally a low point for the year, and the fact that there is a lag in revenue catching up to cost. How should we think about the recapture in the June quarter and maybe as we move through 2018? And I realize there is probably a philosophical element and how you think about it, and how quickly you can change revenues to offset that. Maybe Abhi has some views on that as well.

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

Yeah, Mike. Let me start, and I want to remind everybody that Azul is more profitable today with the exchange rate at 3.40, 3.50, 3.60, than we were when it was at 2 to 1, okay? So what makes up for the exchange rate differential is a good demand environment.

Now as you mentioned, it moves quickly. We understand it moved quickly in the second quarter, and we already had some revenue on the books. And so maybe Abhi took some revenue early on when the exchange rate was a little bit lower than it is today, and that's natural. But we want everybody focused on -- we're going to deliver full year results, that's what we have committed to. This is a multiyear margin expansion story, and so it's not linear. There's going to be times when we don't get all of it back inside of the same quarter.

But if you're thinking a 12 months to 24 months look at Azul, we're executing on our plan. This is the fifth quarter that we've had calls with all of you, and I hope that we're building credibility slowly over time. But this is an airline that we're thinking of 2019, 2020, as David mentioned, cycling through all of these old aircraft, bringing all these fuel-efficient aircraft. And our competitive position might only get better as we move forward, right? It's not only just the 71% advantage that we have on our routes, but it's also the fact that we are going to have the fastest next-generation fleet way ahead of anybody else, and that's the significant advantage in these environments. And believe it or not, demand is good. I'll let Abhi kind of talk to specifics of the revenue recapture. But of course, there's timing differences. But we're very, very focused on continuing to execute on our plan.

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

Yeah. Hey, Mike. So yeah, I mean, the -- in the shorter term, the actions that we take are sort of things that give immediate impact. So things like ancillary has very, very fast impact, if you will, almost instant gratification. So that's a button that we're pushing aggressively right now to mitigate some of the short-term impacts. Of course, we're looking at fares. Because we're alone in many markets, we're able to take fare increases much faster than our competition, and we're absolutely doing that. Things like fuel surcharges as well also have an instant gratification.

So we're doing everything we can to mitigate in the -- in sort of the immediate term, if you will. But we're just focused on the year. I think the last two quarters, we have recaptured 100% or even more, and that's absolutely our target. It's absolutely our target for this year and for 2019 and beyond. And of course, a key part of this, other than fares, ancillary, surcharges and things like that is capacity, right? I mean, we're taking a hard look at capacity. Nothing is off the table. And our capacity guidance for the year is 17% to 20%. Previously, we would have thought it would have been in the high end of that range. But now looking at this macro situation, we're going to be at the low end of that range with those changes coming in, in the next two, three, four, five and the second half of the year.

So we're looking at capacity very aggressively. I think we'll end the year at the low end of our capacity range, and that's going to help us second half of the year and kind of beyond. So I think there are things that we can do to get to deliver some instant results to help in the short-term, but I think the longer-term capacity is going to come down a little bit. The A320s keep ramping up. It's going to be critical for us. And more important than anything, it's a good revenue environment with a really good industry discipline, and that's just really good fundamentals to have.

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

And Mike, this is Alex here, if I can just butt in. I think, clearly, the recapture is a big part of how we are planning to face this volatility in FX and fuel. But cost is a big part as well, right, not just cost from reducing CASK from implementing the next-generation aircraft, but there are opportunities that are available to us now that weren't available in the past, right? We had to rent a lot of stuff, and we had to pay for a lot of stuff. But today, we can buy. With the lower cost of capital, with the deleveraging, we have the ability to invest in spare parts, which is something that we did in this quarter. And we're going to look at every opportunity that we have to take advantage of this low cost of capital to reduce operating expenses by in-sourcing some activities or by investing in round equipment and things like that.

So like Abhi said, nothing is on the -- off the table in capacity. Nothing is off the table on cost either. We're being very disciplined and very diligent about looking at every opportunity that we can to both on revenue and costs to get to our guidance for the year.

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

Thanks for that. Guys, and just switching gears, moving over to -- on the cargo side and the opportunity there. I just -- I noticed you highlighted the number of stores. Presumably, I guess, those are storefronts that you have throughout the country. What is -- how should we think about the growth of those storefronts, on one hand? And can you just update us on your conversations with the JV, with the coastal service? And then also anything that you can share with some of the, I guess, reports that we saw that you may be being Amazon's distribution partner in Brazil? Which when I saw that, the fact that you fly to all these cities that nobody else goes to, like you said, 71% of your network has no competition, would seem very natural for somebody like Amazon wanting to piggyback off of your footprint to -- seeing better penetration into parts of the country that are difficult to get to. So that made sense to me. Anything -- I lost -- maybe there's -- it's sort of a two- or three-part question. However you can answer that would be great. Thank you.

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

Yeah. Mike, I appreciate the question. Just I've lived in Brazil now for 10 years, and Brazil is not the place that you stick a package on your doorstep like in the United States. And so the point of having 200 stores around the country is getting close to our customers, right? And so we do deliver packages to those stores, and we are getting closer to the customers. So as you think of on Amazon-type model, having points of delivery and points of contact for our customers all throughout the country is very, very important. And there are points of sale for us, right. People that want to send packages, receive packages, there's a little bit of a different model. We're very excited about the joint venture with the Brazilian Post Office. It still needs to get it approved through regulatory here in Brazil with antitrust. We should be filing with the authorities this week, and so we need to let them go through that process.

As for the news report that came out, obviously, we can't comment on any of that. But what I will tell you is we have the best logistics solution in the country by far, okay? We are serving more than 100 different cities in Brazil. We serve them with small aircraft like our ATRs. We serve them with medium-sized aircraft with our E-Jets, and we serve them with our A320s, and we just got 737s to serve on our trunk routes, right? And so as you look at many of our potential customers in the country, we have a logistics solution for all of them, and the world is changing. So we're pretty excited to be able to take advantage of those opportunities.

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

Hey, John, just one follow-on. The 737s, I know that doesn't show up on your fleet information. At least, I don't think it does. I know there are leases. What -- how is that going to show up, or is it in the subsequent quarters?

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

Yeah. So it hasn't arrived yet, Michael. We should get one in June. So we're flying it in the July time frame. And so -- and just to remind everybody, these are roughly 100,000 a month leases for five years, and it frees up our A330s that we're flying domestically for cargo, and it provides us with a lot more flexibility. And so Abhi is starting a second flight to Lisbon at the end of June, and one of the ways that he was able to do that is that we have a cheap cargo aircraft that's flying from (inaudible) and SCC for our bigger cargo contracts. And so we'll start to layer those in into our fleet plan as we move forward, but we want to make sure that we have the ability to kind of talk to the market appropriately and make everybody aware as to what we're doing. But there's two aircraft that we should have in the fleet by the end of the third quarter.

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

Great. Thank you. Thanks everyone.

Operator

Our next question comes from Petr Grishchenko with Barclays. You may proceed.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Good morning, and thanks for taking my question. First, can you please clarify -- on Slide 8, you were talking about your currency exposure. I'm just wondering, this non-aircraft debt that's mostly 99% in the BRL. What was that? Is that operating leases or something else?

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

No. So on Slide 8, this is a total debt and non-aircraft debt, it doesn't include leases. But practically, the only dollar-denominated debt that we have on our balance sheet is aircraft debt, right? So there is a small sliver here of 1% debt. That -- the only single source is about $5 million in debt that we have. That's dollar-denominated. Everything else, it would be the real-denominated or hedged into reais, right? So the only debt that we have that's dollar-denominated on any practical term is aircraft debt, which has an aircraft against it, which is an asset that is right in dollars, right? So that's why we believe that we have the, by far, the best balance sheet in terms of FX exposure because we borrow all of our working capital needs in reais. Does that make sense?

Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay. I guess, what I'm trying to get through from leverage perspective, over 70% of your debt is on the balance sheet, and that's operating leases and that's all denominated in USD, is that right?

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

Correct.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay.

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

That's already in our leverage calculation that we provided. So when we give you the adjusted net debt to EBITDAR, the 3.9 capitalized all those leases at seven times. What we were trying to highlight here on this slide, Slide 8. I mean, a lot of people forget that we prepaid for maintenance. And on the balance sheet today, it's BRL1.3 billion, right? It's a US dollar-denominated asset that's ours. We do not get to count that against cash, but it's essentially cash flow that will knock you out of the company going forward. So, if you take our 3.4 billion, you can add another 1.3 billion for maintenance reserves and deposits that we have on the balance sheet, but we're not considering as part of our liquidity profile today.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Got it. And another question on your fuel exposure, can you share how much of this fuel consumption this year is hedged? And that would be helpful.

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

Sure. Yeah. So for the remainder of the year, we have about -- our policy is to hedge up to 30% of the year roughly. It's a little bit more front-loaded in the near quarters and a little bit lower on the far quarters. And out of this -- we're at about one-third of that maximum today. So, about 10% for the year is what we've hedged. But there are three lines of defense that we consider when we talk about both fuel and FX. But first line of defense is just a correlation between fuel and FX, which, over the medium to long run, is very strong, right? Obviously it's not what's happening right now, but it is certainly what has happened over the majority of the last 10 or 15 years.

The second one of defense is our hedging policy as we talked about and that we have implemented. But then the third is really our network, right? And as Abhi mentioned, the fact that we're alone at 71% of our routes allows us to attempt -- recapture investors a lot more easily with a lot less cost and a lot less risk than the competition. And in the long run, if fuel or FX have a long move, a big move and they stay there, your hedge is only going to buy you time, right? The hedge is only a short-term solution. In the long run, you need to have a robust business model and a robust network that allows you to start operating under this new cost reality.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Got it. And another question I want to understand a little better, the working capital swing this quarter. It seems much higher than the last quarter from the last year. So I'm just wondering if is there any more color that you expect to maybe get back some of that cash to spend in the working capital?

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

Sure. Yeah. So John mentioned, I think, a couple of the big drivers here. We paid down 141 million debt, and we invested 188 million in spare parts. So those are two big numbers that you need to consider. Our receivable balance, we have plenty of cash. And in the past, we used to advance receivables. It's very easy to advance receivables in Brazil, but it costs you some money. It's not terribly expensive, but it does cost something. And so we have advanced fewer receivables this year -- this quarter. So there's about BRL250 million of essentially an increase in receivable balance, which we could have advanced if we had maintained the same policies in the past, but which we chose not to because we didn't need the cash, and so we didn't have to spend that interest. And then seasonally, this is the quarter where deferred revenue goes up. So there's about another BRL80 million of deferred revenue because of the seasonality, which, over time, kind of offsets itself. But in Q1, that's takeaway cash. So those are kind of the four main numbers I need to think about.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Great. Thanks a lot and that's very helpful guys.

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

Thank you.

Operator

Our next question comes from Leandro Fontanesi with Bradesco BBI. You may proceed.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Hi, good afternoon. Thank you for the call. You commented about the domestic markets. I would appreciate if you could comment a little bit on international markets, so if you could comment how the profitability of the flights you're launching. Also, how you see the competitive scenario, given that some airlines have added back capacity. And finally, you gave us a little bit of a view of what could be the domestic capacity growth for the following years, if you could give us the same set of figure for international? Thank you.

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

Yeah. Hi, Leandro. So overall, international did well in the quarter. We saw, obviously, a big capacity increase, but we also had a very healthy RASK increase as well. It was in the teens, the RASK increase. So it was a nice increase in unit revenues even with a large increase in capacity. So we were quite happy with the international performance. As you mentioned, we launched a couple of new routes in December. We launched Belo Horizonte-Orlando, and we launched Belem-Fort Lauderdale with the A320. Both of which are doing well, both of which are exactly within our network brands for international, which is to fly from where we are strong in Brazil, where we have great local strength, where we're dominant in our hubs and we have good connectivity. And we also have good connectivity with our partners in Fort Lauderdale. So very happy with the results for international in the first quarter. Revenue improvement in the high teens even with a large capacity increase. So we were quite happy with that.

Going forward, clearly, the FX is going to have an impact. So far, bookings have been stable. I'm not concerned with the international performance in the short term, but it is something that we need to manage going forward. And I think it's all of the players in the market have to manage that. Clearly, there is a relationship between currency and Brazil point-of-sale. But then our way is to manage that and mitigate those effects. For example, we're working very aggressively in the US point-of-sale. Our US flights, for example, we're now seeing a point-of-sale from the US, where customers buy in US dollars upwards of 25% to 30%, right? So that's one strategy that was implemented as a result of this -- the currency increase is to shift more and more bookings over to the US.

Our European network, which is two daily Lisbon flights, is 50-50 between Brazil point-of-sale and European point-of-sale. So that's something that certainly can help mitigate the impact of the higher currency. And of course, we really look at capacity. And as we're looking at capacity across our entire network, and we'll make adjustments. We've already made some adjustments, but we're going to look at that. But performance in the first quarter was strong for international, and our bookings have been stable. But obviously, we're managing the effects as we are with any other route in our network.

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

It's a great time to come to Brazil. You can fly one of the best airlines in the world, top 10 of the world, best business class in Latin America. So all of you on the call that haven't visited us yet, we'd love to have you. And it's an exciting time to be down here.

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

Yeah. And the last part of your question was about international capacity growth. So our international capacity growth, in terms of percentages, will be higher than domestic only because of a much smaller base. But in terms of what we're doing in terms of market, it's quite conservative. As John mentioned, we're adding a second Lisbon daily flight starting in June. We were starting today, in fact, Recife to Fort Lauderdale. And so our international expansion is going to be connecting dots. It's going to be increasing some frequencies. We have no new international cities planned for this year. And so it's going to be very conservative, and it's going to be based on where we're strong in Brazil with great connectivity to where our partners are strong in the US or in Europe.

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

I also think -- a lot of people thought we'd be flying to New York by now, but we're flying from where we're strong to where our partners are strong. And so we're taking a cautious approach to it, and we're going to do what makes money. And so it's sexy to fly to New York, but in this environment, it's better that we strengthen our hubs at Campinas, Confins and Recife.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Perfect. Great color. Thank you.

Operator

(Operator Instructions) Our next question comes from Natalia Sorasim [ph] with Citibank. You may proceed.

Q - Natalia Sorasim

Hi. Thanks for taking my question. I just have one quick question, actually. Do you have an estimate regarding how much tax you can avoid as I resume [ph] to continue to 100% of your loyalty program?

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

Yes. I mean, we do. We know this number very well. We don't provide a lot of information in terms of individual TudoAzul margin because, obviously, TudoAzul is not a spun-off company. We manage the spun-off company. But for Azul shareholders, the numbers that matter in terms of TudoAzul is our gross billings, right, and the fact that our gross billings are growing 30% to 40% year-over-year, and this is a high-margin business, obviously. And -- but you can sort of get to a ballpark figure by just looking at the gross billings number, right, which is BRL700 million to BRL800 million, you can kind of extrapolate that from the information that we give on gross billings share.

And if you assume -- you can essentially set the margin of your loyalty program where you want it to be based on a transfer price. But if you assume an average margin and then you assume what your 34% tax rate would be on that, you're talking about tens of millions of reais a year of taxes that we don't save by keeping all of this in-house. Now, we're still growing and getting to our fair share. By managing it as a separate company, we have autonomy where it's required in terms of IP, in terms of sales force, in terms of pricing. But as we're all working here on behalf of the Azul shareholder, right, we work to maximize the profitability of both the airline and the loyalty program for the Azul shareholder and certainly keeping it in-house allows us to save a lot. And in fact -- especially as long as we have NOLs in there. One day in the future, we may run out of NOLs, and then we may take another look at this decision. But the -- for now, the right decision for these shareholders is to keep this in-house.

Q - Natalia Sorasim

Okay. That's it. Thanks for taking my questions.

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

Okay. Thank you.

Operator

Our next question comes from Lucas Barbosa with UBS. You may proceed.

Q - Lucas Barbosa {BIO 20412168 <GO>}

Hey, good afternoon. Congratulations on the results. And just a follow-up on the international routes discussion. The corporate mentioned in that you [ph] are getting weaker in Brazil international routes due to capacity addition. Have you been seeing this effect, or given that you have less competition in international routes, you haven't been seeing that going the second quarter and looking forward? Thank you very much.

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

Yeah. Thanks, Lucas, for the question. Yeah. So our international network is definitely more isolated than our competitors. In terms of head-to-head competition, we have very little to almost none in terms of these international routes. And so that's something that obviously we're -- is working for us, and it allows us to maintain the yields and maintain the volumes when you have local currency weakening. We also have great connectivity, right? So because we have 55 destinations in VCP, we have about 40 destinations in Confins, and 30 in Recife, we're able to use those connections to maintain the volumes and the yield if we're seeing the local market kind of getting weaker.

And also VCP local market. Copa, for example, has a great, great connecting complex in Panama that we have the same in VCP, but we have great local demand in VCP. The catchment area is more than 6 million within 40 miles. That's 70 kilometers. So that's something that it comes to our advantage. We're alone in those routes. So as I said, clearly, it would not be fair for me to say there's no impact. Clearly as the reais weakens, there will be a longer-term impact on Brazil point-of-sale. We have the tools to manage it in terms of our network, in terms of our connections, in terms of shifting point-of-sale from Brazil to the US or to Europe. And we're also looking at capacity and making those adjustments as needed. So for me, I'm very comfortable the way it is. I feel good about the bookings and the revenue, and we have the tools to manage this macro situation as needed.

Q - Lucas Barbosa {BIO 20412168 <GO>}

Okay. Thank you very much. Have a good day.

Operator

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

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

Great. Well, thank you all for joining us on the call. I just want to congratulate our management team as well for, really, the work they're doing, Abhi, John and Alex and everyone else for reacting. And then as I said earlier, we've seen this before. We're not new to this. We've been doing this for 10 years. We've seen higher currency. We've seen higher fuel. And one of the things that I just want to highlight is obviously GDP growth in Brazil has a lot to do with the growing markets in Brazil as well regardless of what currency is. And Brazil GDP does better when fuel prices are higher, so that is another hedge that we have.

So we're moving forward. We're excited for the future, and I'm going to see this on the team to see if we can expedite some of the switch for the new generation airplanes because, as I mentioned in my opening comments, it really is -- it brings a huge difference for us. And kind of as we move this, hopefully, we have this news again. So, we'll talk to you next quarter, and we'll keep our head down, and have a good day.

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

Hey, David, just to remind everybody, we're going to New York next week in -- at our Azul Day, and we're hitting up the conference details of the conference next week, so we look forward to seeing a lot of you that are going through with further detail and talk about our futures. So hope to see many of you in New York next week.

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

Great. Yeah. We look forward to and we can answer more detail questions and just want to share with you kind of all of our plans going forward. So looking forward to see in New York. Thank you everybody. See you next quarter.

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

Take care.

Operator

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