

Research Update:

# Azul S.A. Upgraded To 'B-' From 'D' Following Emergence From Chapter 11; Outlook Stable

February 25, 2026

## Rating Action Overview

- Brazil-based airline Azul S.A. recently concluded its financial restructuring process under Chapter 11 of the U.S. Bankruptcy Code.
- The company reduced financial debt by about \$1.1 billion and lease obligations by about \$1 billion, representing about a 40% reduction in adjusted gross debt. This significantly reduces leverage: We expect debt to EBITDA of 3.0x-3.5x in 2026 compared with over 6.0x in 2024 and 2025.
- We expect the company's optimized fleet and improved capital structure to allow for gradual margin improvements and stronger cash generation in the coming years.
- On Feb. 25, 2026, S&P Global Ratings raised its global scale issuer credit rating on Azul to 'B-' from 'D'.
- The stable outlook reflects our expectation of continued sound operating performance and a leaner capital structure, with controlled leverage.

## Rating Action Rationale

**The upgrade reflects Azul's successful emergence from Chapter 11, with a significantly leaner capital structure.** On Feb. 20, 2026, Azul completed its financial restructuring process, emerging from Chapter 11 following the full repayment of its debtor-in-possession (DIP) financing, the issuance of US\$1.375 billion in new exit notes, and a US\$950 million equity injection (including US\$200 million from strategic investors--US\$100 million from United Airlines and a US\$100 million commitment from American Airlines--still subject to the approval of CADE, the Brazilian antitrust authority).

The Chapter 11 process resulted in a financial debt haircut of approximately US\$1.1 billion. The company also renegotiated several aircraft lease agreements, resulting in a reduction of approximately 40% in lease liabilities, with lease debt of R\$13.5 billion in 2026, from over R\$21 billion in 2024. After this process, Azul has a much lighter capital structure, with an extended debt maturity profile and better liquidity position. We forecast S&P Global Ratings-adjusted gross

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debt of approximately Brazilian real (R\$) 23.5 billion in 2026, leading to debt to EBITDA of 3.0x-3.5x and funds from operations (FFO) to debt of 15%-20% over the next two years.

**We expect Azul's cash flow to increase from stronger margins and lower interest payments, but free operating cash flow will remain negative after lease payments.** Our base-case scenario projects S&P Global Ratings-adjusted EBITDA margin gradually improving to 31.5% in 2026 and 32.5% in 2027, from around 30.5% in 2024-2025 due to the company's optimized cost structure and operating leverage. Increased EBITDA, coupled with lower interest payments, should improve cash flow. Still, our forecast of higher capital expenditures (capex) and maintenance reserves of R\$2.2 billion this year still indicates negative free operating cash flow (FOCF) after lease payments. If the company maintains a trajectory of increasing EBITDA and has no substantial capex increase, it could post positive FOCF after lease payments in 2027.

**Despite the successful restructuring, Azul's capital structure and operations remain exposed to currency and fuel price volatility.** The company is highly sensitive to external shocks, particularly fluctuations in fuel prices and exchange rates. Competitive pressures from carriers such as LATAM Airlines and Gol Linhas Aereas Inteligentes may lead to more aggressive pricing strategies to defend market share, potentially compressing margins.

Azul has demonstrated strategic improvements in cost management, and we anticipate a leaner cost structure and fleet profile following the restructuring--supported by a young and fuel-efficient fleet. However, limited access to fuel hedging in the current financial restructuring environment could offset these efficiency gains. Furthermore, Azul's post-restructuring capital structure is highly dollarized, while most of its revenue is in Brazilian reais, which amplifies the risks associated with currency fluctuations.

**Azul has carved out a differentiated competitive position but faces ongoing market challenges.** Azul has an important competitive advantage by focusing on underserved regional markets and avoiding direct competition in primary hubs. However, its market share remains closely aligned with Gol, and it lags behind LATAM in overall scale-- LATAM has an expansive network and larger scale within the region. Azul's limited geographic diversification, with approximately 80% of revenue derived from domestic Brazilian operations, exposes the airline to concentrated economic and regulatory risks within a single market.

## Outlook

The stable outlook reflects our expectations that the company will continue reporting sound operating performance after emerging from the restructuring process with an optimized fleet and much lower leverage. We expect Azul to post debt to EBITDA of 3.0x-3.5x and FFO to debt of 15%-20% in 2026 and 2027.

### Downside scenario

A negative rating action over the next 12 months could occur if Azul's operating performance weakens, resulting in much weaker EBITDA and cash flow. This scenario could materialize if:

- Volatility in Brazil's macroeconomic environment impairs passenger demand, leading to declines in revenue passenger kilometers and yields,
- Fuel prices remain persistently higher than our current base-case assumptions, and/or
- The company adopts a more aggressive capex plan.

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Such a combination would pressure Azul's margins and liquidity, leading to an unsustainable capital structure.

### Upside scenario

A positive rating action over the next 12 months could occur if Azul demonstrates consistent sound revenue growth and maintains healthy operating performance. This would entail stronger EBITDA and cash flow and increasing liquidity cushion. In this scenario, we would expect positive FOCF after lease payments and FFO to debt comfortably at around 15%-20%.

## Company Description

Azul is a Brazilian airline founded in 2008 with a total fleet of 185 operating aircraft as of September 2025. The company is the country's largest airline in terms of domestic departures and cities it serves, with more than 1,000 daily flights reaching over 150 cities. In addition, the company wholly owns its loyalty program, AzulFidelidade, which had over 20 million members as of September 2025. In the rolling 12 months as of September 2025, Azul generated revenue of about R\$21.6 billion and EBITDA of R\$6.4 billion.

## Our Base-Case Scenario

### Assumptions

- GDP growth in Brazil of 1.7% in 2026 and 2.1% in 2027
- Average exchange rates of R\$5.5-R\$5.6 per \$1 over the next two years, which affects fuel prices, maintenance costs, leasing payments, and the debt burden
- Inflation in Brazil of 4.4% in 2026 and 3.7% in 2027, affecting Azul's local costs, including selling, general, and administrative costs and some costs of goods sold (for instance, salaries)
- West Texas Intermediate crude oil prices of about \$55 in 2026 and \$60 in 2027
- Available seat kilometers generally stable in 2026 with expected reduction in fleet, and resuming growth at around 3.4% in 2027, boosted by domestic business
- Average yield growing around 2%-3% in 2026-2027
- New capital structure consists of new exit notes of US\$1.375 billion, with proceeds used mainly to refinance the existing US\$1.6 billion DIP; equity contributions totaling US\$950 million, including US\$200 million from strategic investors (United Airlines and American Airlines); conversion of existing 1L and 2L notes and debentures into equity; and lease renegotiations leading to a reduction of approximately US\$1.0 billion in lease liabilities
- Annual lease payments of approximately R\$3 billion
- Capex and maintenance reserves of around R\$2.2 billion in 2026 and R\$2.7 billion in 2027
- No dividends in the next two years

### Key metrics

#### Azul S.A.--Forecast summary

Period ending	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
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### Azul S.A.--Forecast summary

(Mil. BRL)	2023a	2024a	2025e	2026f	2027f
Revenue	18,554	19,526	21,620	22,574	23,726
EBITDA (reported)	4,065	5,811	6,391	7,096	7,677
Plus/(less): Other	616	161	263	43	43
EBITDA	4,681	5,971	6,654	7,140	7,720
Less: Cash interest paid	(1,725)	(2,073)	(3,766)	(3,384)	(3,155)
Funds from operations (FFO)	2,956	3,898	2,888	3,756	4,565
Cash flow from operations (CFO)	3,440	2,787	555	2,165	4,478
Capital expenditure (capex)	972	1,494	1,800	2,215	2,668
Free operating cash flow (FOCF)	2,467	1,293	(1,245)	(50)	1,810
Debt (reported)	10,901	16,164	24,605	11,216	10,270
Plus: Lease liabilities debt	15,146	21,379	18,003	13,571	13,610
Plus/(less): Other	(128)	(688)	(1,227)	(1,227)	(727)
Debt	25,919	36,855	41,381	23,560	23,153
Cash and short-term investments (reported)	1,897	1,282	1,014	1,259	1,161
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	5.5	6.2	6.2	3.3	3.0
FFO/debt (%)	11.4	10.6	7.0	15.9	19.7
EBITDA interest coverage (x)	0.9	1.1	0.8	1.9	2.4
FOCF/debt (%)	9.5	3.5	(3.0)	(0.2)	7.8
Annual revenue growth (%)	16.3	5.2	10.7	4.4	5.1
EBITDA margin (%)	25.2	30.6	30.8	31.6	32.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R\$--Brazilian real.

## Liquidity

Even though we expect sources of liquidity to cover uses by about 1.4x in the next 12 months, we view Azul's liquidity as less than adequate. Following the optimization of its capital structure, the company has demonstrated an improving operational performance and a more favorable amortization profile. However, given the recent restructuring process, we would need to see a longer track record of access to credit and capital markets before considering a more favorable assessment.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> <li>• Accessible cash position of around R\$800 million as of Sept. 30, 2025</li> <li>• Cash FFO of about R\$1.5 billion in the next 12 months</li> <li>• Equity contributions of US\$950 million, from part of its current creditors (US\$750 million) and from strategic investors (American Airlines and United Airlines--US\$200 million)</li> </ul>	<ul style="list-style-type: none"> <li>• Debt to be paid in the next 12 months after September 2025 totaling around R\$8.7 billion (DIP, short-term part of aircraft engine debt and debentures)</li> <li>• Working capital outflows of around R\$500 million in the next 12 months</li> <li>• Capex of about R\$2.0 billion over the next 12 months</li> </ul>

- Proceeds from secured exit notes of US\$1.375 billion (about R\$7.6 billion) and US\$221 million (about R\$1.2 billion) from the DIP (received in fourth-quarter 2025)

## Covenants

Under the exit notes, Azul must comply with several covenants, including restrictions on incurring additional debt, paying dividends, or transferring collateral, as well as maintenance of the pledged assets (brand/IP, receivables, and certain subsidiaries) as security.

## Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Azul. All airlines face long-term risk from tighter greenhouse gas emissions regulation. Azul's fleet has an average age of around eight years, which is lower than the global average. Through fleet transformation, it has reduced fuel consumption per available seat kilometer and currently operates over 80% of its seats with low-carbon aircraft. However, this might not be enough to offset long-term risks.

Social factors are a negative consideration because of the COVID-19 pandemic-related financial hit to the industry. Azul's EBITDA and cash flow deteriorated significantly, leading to three debt restructurings in the past three years.

Governance factors are a moderately negative consideration in our view, as the company's risk management framework didn't mitigate escalating financial risks in the recent past, with prolonged liquidity and leverage deterioration ultimately leading to Chapter 11.

## Rating Component Scores

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### Rating Component Scores

Component	
Foreign currency issuer credit rating	B-/Stable/--
Local currency issuer credit rating	B-/Stable/--
Business risk	Weak
Country risk	Moderately high risk
Industry risk	High risk
Competitive position	Weak
Financial risk	Highly leveraged
Cash flow/leverage	Highly leveraged
Anchor	b-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Negative
Financial policy	Neutral
Liquidity	Less than adequate
Management and governance	Moderately negative
Comparable rating analysis	Neutral
Stand-alone credit profile	b-

## Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

## Related Research

- [Azul S.A. Downgraded To 'D' From 'CCC-' On Chapter 11 Bankruptcy Filing](#), May 28, 2025

## Ratings List

## Azul S.A. Upgraded To 'B-' From 'D' Following Emergence From Chapter 11; Outlook Stable

### Ratings List

#### Upgraded; Outlook Action

	To	From
<b><u>Azul S.A.</u></b>		
Issuer Credit Rating	B-/Stable/--	D/--/--

#### Ratings Withdrawn

	To	From
<b><u>Azul Investments LLP</u></b>		
Senior Unsecured	NR	D

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