

## **Brazilian airlines merge to tap boom**

*Joe Leahy*

Azul, Brazil's third-biggest airline by market share, is to merge with regional operator Trip to tap a boom in travel among the country's rising middle classes.

The new airline, Azul Trip, will have a 15 per cent combined share of Brazil's domestic air travel market, which is among the world's fastest growing. No figure was disclosed for the value of the deal.

"If approved, this association will give muscle to the ambition to Brazil's third-largest aviation company to consolidate the market," the new partners said in a statement.

The deal comes as Brazil's biggest carriers, Tam and Gol, are engaged in a tough battle for market share while smaller carriers gradually chip away at their dominance.

The fierce competition has led to a growing number of mergers and acquisitions in the market, with Tam joining Chile's Lan and Gol acquiring Brazilian domestic operator Webjet.

Started in late 2008 by Brazilian born, JetBlue founder David Neeleman to try to lure budget travellers from Brazil's buses into the air, Azul Linhas Aéreas Brasileiras has since garnered 10 per cent of the market.

The combination with Trip will result in an airline with a 112 aircraft, a number that is expected to increase to 120 by the end of the year, and 8,700 employees.

Azul Trip will conduct 837 daily flights connecting 96 cities and is expected to report revenue of at least R\$4bn in 2012 up from pro forma revenue of R\$2.7bn a year earlier.

The deal will not prevent Mr Neeleman and his co-investors in Azul from eventually taking the airline public, people familiar with the matter said.

But Mr Neeleman and his investors, which include Gávea Investimentos, the Rio de Janeiro investment house controlled by JPMorgan Chase, and US private equity group TPG, will first want to consolidate Trip.

Mr Neeleman and his investor group will control an initial 73 per cent of the combined company, later falling to 67 per cent.

The two airlines grew a combined 50 per cent in 2011. In April this year, the growth of smaller airlines, including Colombia-based Avianca, helped erode the joint market leadership of Gol and Tam to 74.7 per cent from 81 per cent a year earlier.

"While Tam and Gol maintained their leading position by market share, it is clear that smaller airlines, such as Azul and Avianca, have been growing faster over the past year, which is reflected in their market share gains," said Credit Suisse in a recent report.

Azul and Trip compete in largely different markets from the major airlines, however.

Mr Neeleman's business model is to target smaller cities that previously did not have connections by using smaller regional jets and turboprops.

Itaú BBA advised Azul on the transaction.

**Fonte: Financial Times, London, 29 May 2012, International.**