1Q20 Results Conference Call Transcript
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Speakers

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Richard Lark (CFO & DRI)

Presentation

Operator:

Welcome to the GOL Airlines' 1Q20 results conference call.

This call is being recorded and all participants will be in a listen-only mode during the Company's presentation. After GOL's remarks there will be a question and answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

This event is also being broadcast live via webcast and may be accessed through the GOL website at www.voegol.com.br/ir, and the MZiQ platform at www.mziq.com. Those following the presentation via the webcast may post their questions on the platform, and their questions will be either answered by the management during this call or by the GOL Investor Relations Team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of GOL's management and on information currently available to the Company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that events related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

At this time, I will hand you over to Mr. Paulo Kakinoff. Please begin.

Paulo Kakinoff:

Good morning, ladies and gentlemen, and welcome to GOL Airlines Conference Call. I am Paulo Kakinoff, Chief Executive Officer; and I am joined by Richard Lark, our Chief Financial Officer.

Richard Lark:

Good morning. It is my pleasure to be with you today.

Paulo Kakinoff:

Today morning, we released our 1Q figures. Also, we made available on GOL's Investor Relations website three videos with the results presentation, financial review and preliminary Q&A. We hope everyone has watched them, as we will now only make a few brief considerations about the quarter results, and then we will move to your questions, and all comparisons are with the 1Q19.

Despite several operational challenges faced during this quarter, such as the rise of COVID-19 impact on the Company and on the macroeconomic scenario, as well as depreciation of the Real against the U.S. dollar, GOL reached recurring EBITDA of R$1.4 billion and recurring operating income of R$938 million. Our total liquidity remained at R$4.2 billion, of which R$3 billion cash and short-term investments and R$1.2 billion of receivables after amortization of R$1.2 billion of principal interest and lease.

We had R$1.1 billion of operating cash flow generation with a 36% margin, an improvement of 28 p.p. quarter-over-quarter. Net loss after minority interest was R$2.3 billion, primarily due to a R$2.5 billion negative net impact of exchange rate and monetary variations.

Once again, we reported robust operating indicators, responsible and rational capacity management in relation to passenger demand, allied with efficient unit management, allowed the company to achieve the following indicators: average yield per passenger of 29.6 cents of Real, an increase of 3.6%; on-time departures of 92.6%, an increase of 5.5 p.p. according to Infraero and data from major airports; average load factor of 79.8%, a reduction of 1.7 p.p.; and average aircraft utilization of 12.1 hours per day, a decrease of 5.5%.

We had a scenario of impacted revenues. GOL carried 8.3 million customers in the quarter, with 7.8 million in the domestic market, minus 7.1% and 0.5 million in international market, minus 15.8%. Net Revenue per Available Seat Kilometer, RASK, was 25.3 cents, an increase of 2.6%. Net Passenger Revenue per Available Seat Kilometer, PRASK, was 23.6 cents, an increase of 1.4%.

With that, I am going to hand you over to Richard, who is going to take us through some additional highlights.

Richard Lark:

Thanks, Kakinoff. I would like to comment about our controlled cost environment. GOL has the lowest unit costs in Latin America, which enables a better balance of fixed costs during this pandemic period.

The Cost per Available Seat kilometer, CASK, excluding non-recurring expenses, decreased by 13.3% from 20.4 cents of Real in the 1Q19 to 17.7 cents in the 1Q20. This was a consequence of the gain from aircraft sale operations, offset by increases in depreciation costs due to the net addition of nine aircraft in the fleet and by the increase in maintenance and repair and materials expenses due to the exchange rate impacts on important parts and labor.

Our margins remain healthy. Due to the strong cost control and efficient capacity management and yield management, the Company achieved operating profits for the 15th consecutive quarter. The recurring EBIT margin was 30%. Recurring operating income EBIT was R$938 million, which was R$392 million higher than in the 1Q19. Recurring EBITDA margin was 46%. Recurring EBITDA was R$1.4 billion, which was a R$488 million increase quarter-over-quarter.

Oil hedging was an exceptional item. Due to the reduction in our capacity, GOL expects to consume a lower volume of fuel liters than expected over the next two quarters. Thus, goal recorded the expected ineffectiveness of its fuel price hedging for the 2Q20 and the third quarter of 2020 as an exceptional item of R$292 million in its financial result for the 1Q20.

Lastly, we would like to share the continued success of our liquidity strengthening. GOL reported operating cash flow generation of approximately R$1.1 billion in the quarter. Total liquidity was R$4.2 billion, maintaining the same level registered on December 31, 2019, due to prudent cash flow management and rapid cost containment from the decrease in sales in the second half of March.

Also in March, the Company concluded sale and leaseback operations for 11 737 NG aircraft, reducing its net debt by R$619 million as a result of a R$149 million decrease in debt and a R$449 million increase in cash liquidity. Part of the proceeds was used to fund the early redemption of the senior notes due in 2022 in the amount of R$427 million at nominal rates of approximately 9%, maintaining our responsible discipline of deleveraging our balance sheet and our commitment to long-term creditors.

In the 1Q20, the Company paid R$1.2 billion in principal debt and leasing payments. Net debt, excluding perpetual bonds and the convertible to LTM EBITDA was 2.4x as of March 31, 2020.

Now I would like to return to Kakinoff.

Paulo Kakinoff:

Thanks, Rich. We are effectively managing our business through the crisis. While the current financial situation is sound as the scale of its challenge became clear in early March, we initiated a rigorous review of our budget to preserve working capital.

We aimed at cost containment across the Company through the elimination of nonessential items. GOL estimates around R$2.4 billion in cost reductions, CAPEX eliminations and payments postponed for 2020 and those are values in Reais.

In an environment of economic uncertainty and lower demand, GOL's single fleet and flexible capacity management reduces its exposure and makes it more adaptable to face this crisis than other aligned business models. We see this as a competitive advantage under normal operating circumstances and even more so at a time when the industry is facing strong external pressures. We are focused on caring for our customers and employees, preserving the financial liquidity of the company and building a plan not only to rescale the business over the recovery period, but also to accelerate the progress of our long-term strategy.

Once we are through this crisis, I have no doubt that we will have learned important lessons in how, as a Company, we can work more effectively together.

Although the immediate future is uncertain, we are equipped to adapt to sudden corporate changes. It is important to remember that, like oil crisis, this one will also pass. And at the end of this hard process, we are confident that GOL will be even stronger.

Now I would like to initiate the Q&A session.

Q&A

Mike Linenberg, Deutsche Bank:

I have a few questions here. Good morning, everybody. Rich you mentioned that in the March quarter that GOL paid R$1.2 billion of both rental payments and also principal on debt. How does that change as we get into the 2Q and 3Q? I believe in the release, it indicated that you were getting lease deferrals up from upwards of three to six months. So how should we think about what that number looks like in at least the June and September quarter?

Richard Lark:

Mike, two levels. One, at the lease level, it would depend on what the size of the fleet is going to be in the 2H, if we adjust, they are not on that.

Can you hear me?

Mike Linenberg:

Yes. I can.

Richard Lark:

Okay, because we are doing our social distancing here in the room, and we are all spread out here. So I just want to make sure.

Mike Linenberg:

I can hear you well.

Richard Lark:

Okay. For example, if we were to reduce the size of our fleet to match a lower demand, on the order of 20% or so, and let the contracts take course, meaning just what we have automatically in terms of the rollover, in terms of the expiration of aircraft on short-term leases, and those aircraft go out, that would be a reduction of about R$3 billion of debt in the 2H.

And so the total debt would go down. Just on the aircraft debt basis, it would go down from the roughly R$17 billion that we have right now to about to R$14 billion. But we do not have any specific amortizations, say, at the lease level.

What we have is more at the capital structure level and we have a term loan that matures in term loan beta matures in August and then of R$300 million, and then we had a R$150 million semiannual amortization in September on a Brazilian Real denominated debenture. That is kind of one way to answer your question.

Mike Linenberg:

So that is the debt piece. But your lease piece should come down. Presumably, you were able to defer 90% of your leases in the 2Q, then that number is going to come down a lot, right?

Richard Lark:

That number would be about R$50 million to R$60 million, from a cash flow perspective. From a P&L perspective, that would be equal in the accounting. It would not show up there because you are accounting for all these leases under IFRS 16. But from a cash flow perspective, that will be a reduction of around 70% versus what the run rate was, and that would be a savings of around R$50 million to R$60 million.

Mike Linenberg:

Okay. That is helpful. Another question, you called out R$1.5 billion of unencumbered assets. Where are those now? Are those mostly spare parts, rotables, inventory? Are there any engines in there? And presumably, you are probably not including your slots, or even your Smiles stake. I am just curious.

Richard Lark:

That is correct. Those are a combination of spare parts, rotables, and there are some small amounts of non-credit card receivables like cargo and travel agency. That amount does not include spare engines. Also in Brazil, we do not own slots, we have the right to operate them. And yes, that does not include the Smiles stake.

The large chunk of that is airports and rotables, which has a market value in excess of US$325 million. And then there is a small amount of receivables, which are non-credit card, which are cargo and travel agents.

In addition to that, it is important to mention, we have around R$1.7 billion of deposits for aircraft leases, maintenance reserve and legal proceedings, which if we needed to, it is not in the brand, so we could use those to generate liquidity by exchanging them for letters of credit. In our case, they are actual cash deposits, and those are assets that are in our balance sheet that if we wanted to, we could pay to exchange those for letters of credits or insurance policy, and that could probably generate upwards of R$1.5 billion at a maximum.

That is not in the plan right now, but that is over the R$7 billion number that we are giving you includes what is executable on top of our liquid assets, which includes what we can do with unencumbered assets, the financeable portion of those, as well as transforming cash deposits into actual cash through the letter of credit and through insurance mechanisms. The sum of those is what is inside that over R$7 billion number.

Mike Linenberg:

Okay. Great. And then just my last one, the guide to a 6% EBITDA margin in the June, I think you are probably going to be one of the few airlines in the world that is actually going to have positive

EBITDA, but you are talking about a 50% expense decline versus a 70% revenue decline, so the math is the math.

But I sort of zoom in on the 80% load factor and I realize you are not operating a lot, so it is probably easy to fill up the airplanes than maybe what it was two months ago when you had a lot more flights. That said, how does that 80% square with some of the social distancing mandates that people are talking about? And maybe it does not matter for you, because you are flying from between São Paulo and capitals, and you are carrying a lot of muscle travel and a lot of its government officials, and they have to fly. It is the only way to get there.

Richard Lark:

That is a great question. Thank you for asking, because I am going to break that into two pieces. One is what we are doing on the customer side and the safety side, I am going to let Kakinoff answer that. And then I am going to walk you through a little bit on what we are seeing in the super short-term, because obviously, we do have a visibility to May, not much more than that. But I am going to hand over to Kakinoff to kind of go through what we are doing in that category in terms of keeping our employees and our customers safe.

Paulo Kakinoff:

Good morning, Mike. Your question gives that us the chance to share our actions and thoughts on the safety and security measures. We have announced yesterday evening that 100% of our customers are now demanded to wear masks, the same applied to our own staff in every single sense. And we have enhanced it so dramatically, the sanitary conditions of our airplanes, in order to make the following demand and that is the only one we have so far, the people who really need to fly, finding the airplane, 100% sanitize it and safety for their travel.

So we have basically absorbed every single available initiative to make it happen. And it is not only appliable to the aircraft itself, but also at the airport. We have redesigned completely the process.

So the two variables here are: we need to support those people in need for the travel service. We are talking about the public agents, doctors, everybody who really needs to fly at the moment; and offer them the safest possible experience.

So I believe that we are doing so considering that we have been demanded. The load factors are pretty high, 80%. And we have also monitored, based on our own crew, the possibility of having an increase in the contaminations curve, which is not happening so far.

So at the moment, considering the whole organization, we have only eight active cases in our Company, considering 16,000 people. And we have most of our crew members still being exposed every single day, because there are scales, and everybody is flying.

So I think that we have been pretty effective in those metrics, because we need to serve this kind of service. In the size of our country, how important it is to fight against the pandemic to keep those essential service, that essential network operating. So I believe that we are in a good shape, promoting the highest possible level of safety and security to our customers.

Richard Lark:

Mike, in our calculations, obviously, those are procedures that are already being executed. The whole process, including cleaning and these other components, it is going to add about 10 minutes to our turnaround time. It starts at a little bit on utilization, but we are also forecasting, keeping utilization above 11 hours. And so I think that is what you are going to see, obviously, it is on a much more reduced operation.

But within that second part of the question, what Kaki just described, the procedures, we will have our traffic stats out this week for the month of April. One of the things that we have been hearing it at this company is trying to putting in a lot of effort to make sure that all of our counterparties that work with us have as much information as we have visibility on, and can provide to you probably beyond what we normally would do there.

And so, on the load factor side, for April we are expecting something in the low 80s that we closed out, probably around 82%. Similar for May, kind of, in the low 80s, kind of, around 80%, 81-ish. And with that, we are looking at low 11s hours on the aircraft utilization. And so kind of combining that with what Kaki was saying, what we have tried to do with this essential network is have it operating at the absolute minimum operating cost to serve the maximum demand.

And so, as we evolve, we will adjust that, obviously, and also, we will adjust on the customer side in terms of the procedures and the direct feedback we get because, as you know, we also manage our company using NPS, and we have the direct feedback on that as well in terms of how the customers are feeling about it. So it will be an iterative process as we work along here over the next couple of months in whatever the recovery phase would be.

And then, on the cost side, the only impact we see is a little bit on the turnaround time, and this is literally being rolled out as we speak. It has been in the planning, this week we start rolling out these new procedures. And so it will probably be a month or so before we have a combination of both the feedback on the efficiency side as well as the feedback on the customer side.

Mike Linenberg:

Great. That was all very helpful. Thanks gentlemen.

Savi Syth, Raymond James:

Good afternoon. I am just curious, the first question is on the term loan, given that things take longer to recover, I was wondering what your plans are for the term loan, and if that is included in the R$7 million a day cash burn that you think that you can get to in the 2H if there is absolutely no improvement in demand.

Richard Lark:

Number one, capital structure is not included in that. That is at the operating level, and so we are trying to give you guys some visibility, and that is the outflows, obviously. As you know, we have been managing for the month of April, based on the numbers we provided previously, managing the overall cash inflows minus cash outflows near breakeven. And so, those numbers we provided there are cash outflows, what we call cash burn. And so those are operational. They do not include capital structure.

As I mentioned, we have two structural maturities in the 2H. One is the term loan in August; the other is semiannual debenture amortization of our R$150 million in September. Our plan right now is to use cash to amortize those, both existing cash as well as future cash.

Those are still down the road in terms of the forecast, I think we would only adjust that position and that intention probably towards the end of June, based on whatever visibility we have on the recovery. And so the plan is to amortize both of those.

But as you saw, we were able to reschedule all of the capital structure components that we had coming due in the 2Q; March through the 2Q. The same semiannual debenture amortization on at the end of March, we rescheduled and put that into the March 22 amortization. But on that, there are various alternatives that we can work through on both of those. I think it is a little bit early to change the plan on that, and so that is our plan currently.

But I think we have to see things go on the revenue side because, obviously, the priority zero is to protect the Company, and to protect our liquidity to be able to preserve the Company, GOL Airlines, to be able to provide service and also to be able to finance what we need to do in terms of working capital, in terms of the recovery. But those are our plans right now. I think that is the best answer I can give to that question.

Savi Syth:

That is helpful. The cash burn information provided was super helpful, too. Just a clarification on, it was not clear if the R$9 million a day was for all of 2Q or if it was by end of 2Q? And just what changes to get some like R$9 million a day to R$7 million a day as you go into the 2H?

Richard Lark:

That is probably going to be pretty close to what the perm will be for all of 2Q. That is what we are targeting to be at for the month of June, kind of a run rate of June, if you will, but I think we will be pretty close to that for all of 2Q.

And the delta in terms of the small improvement in the second half, there is other things that we have been working on also, we had an effect. As we got into the downsizing and the restructuring, we had to use cash to negotiate and to reorganize our suppliers and credit facilities.

By mid-April, most of that cash is already spent, and so that also just reflects a more stable structural situation in terms of the fixed costs and the payables that we had, as we had a transition from a Company that was operating at an average of a little over R$1 billion a month of revenues with the associated working capital involved with that, and a massive downsizing, a 90% downsizing within a short period of time. So we had some catch-up to do to kind of reorganize the Company into the smaller operation.

It is really that effect, and so there is a little bit of a hangover effect with the negotiations we started in mid-March, and they really kind of finished in the first 15 days of April. And so when we go towards the end of this quarter and then into the second half, we have a more level situation in terms of working capital, more stability, one. That is on the cash outflow side.

The other effect, it is a combination of the variable cost side of the equation that would relate to whatever we are doing on the revenue side. And so if we do get a ramp-up, the variable costs will follow proportionately and will not change that cash burn for the 2H. And we have already got the fixed costs more or less where we want them.

But basically, as we go from 1Q to 3Q, we had a transition there in the 2Q. Also into 2Q, remember, it is generally our down quarter, where we also take advantage of the down quarter with aircraft overhauls in our maintenance hangar. We generally have a massive pit-stopping exercise in the 2Q. And that is also in those 2Q numbers in terms of our hangar full-time is rotating through roughly seven aircraft at a time to catch up on maintenance and get a little bit ahead of the game as we prepare the Company for the 2H. So there is a little bit of that effect in there also in terms of the cash effect in the 2Q versus the 3Q. That is how I would be helpful on that.

But it is all operational. It is important. Like when I say operational, it is a combination of operating expenses plus working capital to run the airline. And then also financial expenses, interest expense related to that also, but not a capital structure for long-term assets, nor does it include anything related to asset sales or anything like that. So anything related to structure, assets, liabilities, not in there. That is more of an operational number.

Savi Syth:

Got it. And before I hop off, if I might clarify, what is in the restricted cash that kind of jump up this quarter?

Richard Lark:

It is a combination of factors. Some of them, we have deposits that are required for operations, legal deposits. And then, a big chunk of that is our roughly US$100 million investment in our hedging positions, which we have hedges that go out into 2022.

In our hedge portfolio, the majority of it is these caps and calls, which have premiums that were paid in previous years. But a portion of that, less than 50% are in costless collars.

We have done our positions. We are done in Brent, with the Brent put. We do not have any WTI puts, and most of those were immunized in the low 20s, at least the positions for this year were immunized in the low 20s.

We came into the situation with around US$80 million deposited, and we treat those as restricted cash because those are deposited with counterparties.

The bottom fell out with the Saudi-Russia oil price war, and we probably went up as high as US$120 million, US$130 million on the deposits, and that has come back down a bit. But a big chunk of that is that.

The reason I emphasize that is that we are fully deposited with counterparties on the working capital for our hedges. We are also immunized in the low 20s in terms of oil prices, and we do not have any WTI puts. And we already had, we came into this with already about 70% to 80% invested in that.

And this Company, over the last couple of years, we have effectively managed the Company with a US$100 million working capital budget to support our hedge positions times the volatility that exists with oil. And as the volatility has been enormous in the short-term, we have been up and down around that. That has been a real roller coaster.

But like I said, we are current on our margins. We are immunized in the low 20s. As we worked through the last couple of months, we added gamut to the portfolio. In other words, keeping participation in the upside to the tent that recovers.

In addition to that, we also have a small amount of cash collateral in credit lines, which are standby letters of credit, and those deposits we have to make in those credit lines increased because of the Brazilian Real devaluation.

But that is cash that is going to return. In that number, there is about R$150 million of cash collateral for a standby letter of credit, because we had that massive devaluation on the Brazilian Real. So, that is cash that is there to return.

Similar with the deposits to support our hedging positions, those are positions which go out 24 months. Depending on what your view is on oil, a portion of those deposits; for example, I will just give the simulation: if oil gets back to US$45 by the end of this year, 100% of those margin deposits would come back to us over time over the course of the year.

That is basically what's in that number there. We exclude that and call that restricted cash because we do not have immediate cash access to that.

Savi Syth:

Alright. Thank you.

Duane Pfennigwerth, Evercore:

Thanks. Can you just high level talk about the industry aid that may be on the table in Brazil? It sounds like it is all loans. What are the amounts based on? And what are you thinking about with respect to the cost of funding?

Paulo Kakinoff:

Starting by the most meaningful of those supports that are about to come is the so-called BNDES credit line. The figures are the following R$3.0 billion: roughly, five years for payment, waiving the first two ones in amortization and the first one in interest rate. And that would be R$3.0 billion per airline. And the due date announced by the Brazilian BNDES to have those lines being structured would be May 15th. So, that is the major expectation.

Some other initiatives were already implemented last month. I cannot mention the slots flexibilization, the allowance to not return the fares to the customers, or the possibility to return that up to 12 months in case that the customer would cancel his or her ticket previously bought; some other airport fees and navigation fees, those were either lifted or deferred to be paid after 90 days.

These are the highlights of the government support given so far.

Richard Lark:

Duane, specifically on the loan package, in Brazil, we do not have anything close to what we are seeing in France or the U.S., with the different tiers of grants for payroll and loans and then potentially, equity. The instrument that is being discussed is a kind of a debt with warrants structure.

Like I said, we price these things a lot of time, so based on current market environment, the pricing of that would be at about a 13% cost of capital. Within that, it would be an interest rate, as Kaki was saying, in the low kind of sort of 5% range. And then, there are warranties that would come in there.

We have been approaching that, very supportive. We have been supporting what the government is doing in that respect. The BNDES has also involved the private sector banks in that potentially. What they are looking for is what I think we are seeing in the U.S., on the industry side, not on the financial side, but kind of a public-private partnership between the BNDES and the commercial banks, such that it would also have a participation from the private credit markets, not just the government.

And that is what they are working on at this point. As you know, we view that as something that we would like to take advantage of as a facility that we can use if we need it, and also kind of help us to the extent that the shutdown has extended, something that we could use down the road a bit.

We do not have the specific terms on that yet. It is still in a process of discussions and due diligence, also between the BNDES and the private sector banks. We do expect in the short-term to have the details on that.

So, from a cost of capital perspective, it is efficient. Our Company, we here have a controlling shareholder that has 60% of the business. It is one of Brazil's largest transportation groups, well capitalized. And so, obviously, we, at this Company, are very sensitive to dilution by definition. And so obviously, we will look at that very carefully from a dilution perspective. But what I would say from an overall cost of capital perspective, from an executive perspective, it would be a reasonable cost of capital to the extent that it was needed.

And as Kaki said, the whole package that they are looking at for the airline sector is around R$10 billion. It will be up to R$10 billion, roughly R$3 billion plus or minus for the three large companies, and then R$1 billion for other participants in the sector.

But we really do not have any more details at this point, and we are also not going to get in front of the BNDES on providing details that they have not provided to us.

Duane Pfennigwerth:

Got it.

Richard Lark:

I think we need to wait a couple of weeks on that.

Duane Pfennigwerth:

Thank you. And then, just for my follow-up, to the extent that you can talk about it, obviously, some moving parts with Boeing, you deferred some aircraft. Typically, there is a cost associated with that. My guess is in this situation, there is not. You got some cash in the door here. Can you just talk high level? What did you give? What did you get with respect to any Boeing settlement?

Richard Lark:

First, we have confidentiality with Boeing. So we are really limited on what we can say. We provided as much information as we could in the release, as well as in the footnote of the financial statement, but that was something that we had negotiated for many months prior to this crisis.

Coincidentally, that deal was closed a couple of weeks before the crisis. And as you saw, as a combination of factors in there, the one that add the biggest value is the reorganization of the firm commitments.

We reduced the firm commitments substantially, as you saw on the footnote, and we also have the flexibility to do other adjustments in firm commitments as well as conversion rates for other version of aircraft that could come in the future.

That was a big component, and I would say the other component as well was a compensation for damages that we suffered because of the non-deliveries. It has been over a year now, and as you know, last year had significant additional expenses that we had to incur because of that. So effectively, we are being compensated with that in a variety of formats, and a portion is cash.

A portion is cash, and a portion of that cash already came in the first week of April, that amount that we disclosed there. Roughly US$100 million came in the first week of April. And then there is other cash compensation that also will be received as part of that agreement.

And we try to also quantify that in that roughly R$2 billion net present value, that is obviously spread out over a very long period of time. But one way you can look at that effectively, if you take where we would be going forward from now, you could look at that as a reduction in debt over a period of time.

That is real equity value for us, and that is the NPV of that over time. But obviously, it is complex. Each airline has their own complexities. And also within that, there was the reorganization of PDPs and things like that.

So it is a combination of factors. You saw the cash that came in, the R$447 million of cash that came in, which is very handy, came in the first week of April. And then there is the R$1.9 billion of present value that would come in also over a period of time, over several years based on what we do with our activities on the MAX. We are committed to the MAX as the spinal cord of our fleet plan.

But I think we want to see, once we get on the other side of this crisis, what specifically we are going to be doing in terms of accelerating or not the conversion of our fleet from NGs to MAX. One way you might look at this is that, companies like GOL are going to be very eager to take advantage of any excess produce capacity to even accelerate the conversion of our fleet to the MAX even faster than maybe what we previously discussed.

But that is not something we are going to really talk much about now. We have to get through this. We do have flexibility to downsize, if we need, just through letting the contracts expire on temporary aircraft that we took in last year because of the MAX delays.

But I think once we get on the other side of this and we get a new vision of what the forward demand is looking like, and what excess capacity of MAX there is out there, it is going to be a great opportunity for companies like GOLs that to even accelerate our shifts to the MAX.

Duane Pfennigwerth:

Thanks, Rich. Just really quick, last follow up. I think it said in the release you are looking for R$560 million of CAPEX for the remainder of this year. Is it an early view on 2021? And thanks for taking the questions.

Richard Lark:

That is the number that we would have that is mainly engine overhauls. That does not include any aircraft acquisition or PDPs. Assuming a normalization that number would be similar, roughly in the R$600 million range for next year. And then, added on top of that would be whatever we are doing with aircraft acquisition, meaning PDPs. So it could be potentially another R$100 million on top of that for PDPs.

All of that CAPEX in our case, is 100% financeable. Most of the engine overhauls we finance with very low-cost facilities with banks, and a big portion of it is done with the U.S. Exim bank guarantee, which is still there for us, which allows us to finance that, pretty much at 100% LTV in mid-single-digit interest rates and even more so on the PDP side.

So none of that really is cash outflow. We will continue to finance that and roll over the existing facilities that we have. So even though that is a CAPEX number of roughly R$600 million for the rest of this year and at least R$600 million for next year, that is not going to be a cash outflow.

Stephen Trent, Citi:

Thank you very much for the time gentlemen. Just two for me. The first, I was wondering if you have any kind of broad view, approximately what percentage of your domestic passenger flow is government officials, more or less, on a normal cycle basis?

Paulo Kakinoff:

Actually, that figure, just an estimate, it is really low. I believe between 5% to 10% of government officials at the moment.

Richard Lark:

There has been a collapse in demand, and so they are much a larger portion. But normally, if you were to look at our top three clients, within our top three clients, it is usually the government in the largest sets; all of the ministries and government employees, along with Petrobras and Vale, end up kind of being the largest consumers of corporate air travel in Brazil.

It is kind of in the 1% range, 1% to 2% max overall. It is up a little bit more now just because the government is working more probably on a relative basis than your average company in Brazil, which have implemented policies of travel restrictions and things like that. But roughly in that range.

Stephen Trent:

Okay, very helpful. And just one quick follow-up. When I think about your engine maintenance, I know in the past you have done roughly half of that perhaps through Delta TechOps, and I know that you guys now have GOL Aerotech, which is even going to do some third-party work. Could you just maybe give us a view going forward to what extent GOL Aerotech is going to be the main source of your engine maintenance?

Richard Lark:

No, we do not have any plans to have engine maintenance today inside of GOL Aerotech. Engine as a business, engine maintenance is a significant capital investment, where we would have to have a different revenue plan to source those.

So it is not in the plan currently, we will continue to use third parties for our engine overhauls, which is good, because there is also third parties in Brazil, GE as well, we have to GTO in the U.S. and then Air France-KLM in Europe, and we have worked with others as well.

It is a very specific niche business, which requires a very large capital investment and therefore, you have to have a global sourcing of clients. For us today, given our size, it would not make sense for us to have that investment for our size business. When you get these mega global airlines, at some point, it makes sense for them to do it. We are far away from that.

Aerotech for us, both for GOL as well as for third parties, is focused on airframe maintenance and painting. We do have a small engine shop there where do a little bit of engine work, but nothing of the sophistication that you have at the large engine overhaul providers. It is a really specific business where you really have to have some significant scale to justify the capital investment.

Stephen Trent:

Okay. Very helpful. Thanks very much, guys. I will leave it there.

Mike Linenberg, Deutsche Bank:

Just two quick follow-ups. Kaki, I may have misheard you, when you were describing the BNDES, the five-year loan. Did you say that you would not have to pay interest and it would not amortize? I do not know if you said two months or two years.

Paulo Kakinoff:

Two years. Actually, three years.

Richard Lark:

The amortization, it would be on years three, four, and five. And again, we do not have specific asset on that. First, no interest in the amortizations three, four and five. So it would be kind of an average life of sort of four years, if you will.

Mike Linenberg:

Okay. And then, Rich, just one other question. You talked about the Boeing agreement, and you said you listed a whole slew of elements that were tied to it, as well as a reorganization of the PDPs. I am just curious, when I look at your non-current assets at your deposits, they are up 23%. I am not sure, maybe, the PDPs are not even in that, although, I think that they would be in that. So, why is that up so much? And how does that reconcile with your view about sort of reorganizing the PDPs? Is there something in there that I must be missing?

Richard Lark:

Are you specifically referring to pre-delivery deposits or deposits in general?

Mike Linenberg:

Pre-delivery deposits and both deposits, I guess. Because are they both included in that line item? Or is that something else?

Richard Lark:

There is also an exchange rate effect in there. So if you look at something that would happen at the end of 1Q, from December to March, we had like a 30% devaluation of Brazilian Real.

Mike Linenberg:

Yes. So it is down. I guess, if I were to adjust apples-to-apples, the number is actually down. Okay, that answers my question. That is all FX. Thank you.

Jamie Nicholson, Credit Suisse:

Thanks so much for the call. I just have a couple of follow-ups on your liquidity. You mentioned you received like $100 million of cash in the first week or so of April, but that also you used cash for some of the renegotiations of the payment deferral. So I am wondering if you could give us a cash balance as of April 30th. That is my first question.

And then, secondly, you mentioned that if oil goes back to US$45, 100% of the cash margin deposits would be accessible. So I am just wondering, if Brent stays at US$30, how much of that oil hedging margin goes to that hedge and is not accessible? Thanks.

Richard Lark:

Thanks for the question. On the second question, if oil stays where it is, we would have, over the next eight quarters, an expense of roughly US$100 million that would roll through the income statement. That cash is already deposited in those margins and all of our calls and caps are out of the money. And so if GOL would stay where it is, we would just, on a quarterly basis, be recognizing the losses that are already deposited in margin.

That is a little more front-end loaded, meaning most of that, probably about 60% to 70% of that will be recognized inside of 2020, but there is no cash outflow because all that cash is already deposited. And like I was saying, we immunized in the low 20s.

At the other end, what I would say is like, if oil went up to US$45 by the end of the year, based on the structure of our positions, we'd get back about half of that cash into our cash, so roughly US$50 million would come back to us. And then we still have the 2021 positions.

On the first part of your question, and we also kind of gave some information on where we expect to finish the 2Q. There are really no changes in the liquidity. Obviously, we are managing inside of that. The receivables are running down a bit. We have a total liquidity of around R$4 billion, of which the total cash component right now is R$3.3 billion. And within that, available cash is R$2 billion.

If you take a snapshot of yesterday, that is what it is. R$4 billion of total liquidity, of which R$3.3 billion is the cash component, of which liquid available, could write a check, is R$2 billion. We are managing within that.

What I mentioned that we use a little bit of cash is that, in exchange for longer payment terms, if you were, more runway, we invested some cash upfront, and each negotiation is different, but in terms of reorganizing that. And we expect to more or less be at that level by the end of this quarter also. And, obviously, within that number, for April, is the compensation we received off of our agreement from Boeing.

Jamie Nicholson:

Okay. Thanks. And then, just one other follow-up on the trade receivables. I know the government has given an extension on that, but how much of the receivables is in your cash versus held at credit cards? Does that make sense?

Richard Lark:

What you mean is in the accounts receivable, I thought you said government receivable.

Jamie Nicholson:

No, accounts receivable.

Richard Lark:

Accounts receivable, about 70% to 80% credit card, and then the remainder are a combination of travel agents and cargo agents, where we have a specific relationship with them as they might be just dealing directly with their clients on a cash basis. But around 70% is credit cards.

In Brazil, we do not have credit risk on credit cards. And we also do not have the withholding risk for a couple of reasons. One is that the government changed the rules regarding reimbursements in the context of this crisis. Normally you can get a cash refund or change your ticket. If you want a cash refund, we normally refund you 95% of the amount, and the 5% is basically to pay for our costs. That rule has changed in the context of the crisis, such that if you want to get a cash reimbursement, you have the legal right to that, but 12 months from now. And so we did not get a run on the bank from that sense.

But also, even before the rule has changed, we had very low refunds requests. Most people were requesting to exchange the date of travel. Part of it is the habit, and I think part of it is the repressed demand. And part of it all is also that you have a 5% cost. If you are going to travel anyway, you are much more rational to exchange it for a credit as opposed to get your money back.

We have access to all those receivables that we had. And obviously, the balance that we came into the situation with is running down. There is a small receivable balance that is being created because we are selling, albeit at a number that is the 10% of normal, but we continue to use factoring of those receivables, which we do through banks, and we basically have access to those receivables.

There is why I say that in Brazil, we have a structural difference with some of the markets. The average default credit card purchase in Brazil is done on three monthly installments without interest. So you run a receivable balance, but the bank has the credit risk of those receivables. And either the bank passes those installments through to us every 30 days with no interest charge, but if you want to have access to that sooner, we have an interest charge in there, and we factor those receivables.

So, the receivables mechanism in Brazil, which is by far the large chunk of sales for companies like us, I guess I can only speak in our case, you may be seeing different things in other companies, but we have had no barriers or restrictions in the normal flow of receivables, and that also being combined with a very low amount of refunds.

I think the highest refund I saw on that week when the panic was starting, the highest refund pay was maybe 6% of the total amount. And that was even before the rules got changed where, if you want a cash refund, you can have access to it a year from now.

Jamie Nicholson:

Okay. Thanks. That is helpful clarification. And then just one final question, if I may. Do you have any access to credit lines other than what you talked about with the BNDES?

Richard Lark:

Sure. We do not have any undrawn credit lines, if that is your question. Is that your question?

Jamie Nicholson:

Yes.

Richard Lark:

It does not really work that way in Brazil. In Brazil, we do not have a standby line of credit facility like you see with other airlines you look at. I am always very envious of airlines like Southwest that keep that standby credit line. Because generally, in Brazil, Brazilian banks have to provision a standby facility, so they prefer that we borrow against it.

And so, what we do is we work to occupy our credit that we have with banks in a more positive way. For example, we have about R$4 billion of credit if you take all of our counterparties and sum it up. Everything that goes from just normal working capital stuff, including credit with counterparties for whatever activity, including hedging, including security deposits, what we do with leasing companies, and then all the way into kind of the more medium-term area, which would be engine overhauls and things like that.

The other component that we have is the exchange rate effect, because a portion of what we are using these credit lines for is USD-denominated spending. So we did see around a R$200 million impact based on what was going on with the exchange rate. And so we got that with the banks.

In other words, the banks gave us additional credit, which was not an additional cash necessarily to us, kind of like free cash, but when we went and reorganized all of these working capital lines, we were able to get additional credit effectively because of this devaluation of the Brazilian Real. As I was saying before, from December to March, we had about a 30% devaluation in the Brazilian real. And so we were able to capture that.

So effectively, we ended up getting about another – I said Reais, but it is US$200 million effectively of credit to deal with the exchange rate variation when we went to roll over these facilities. And all of these facilities, as I mentioned, we have roughly R$4 billion of credit lines with a large amount of counterparties, it is very spread out, 20 different counterparties, and in all of our different activities to support the business.

All of those have been rolled over, to a minimum, July. And because some of those, by definition, are just short-term facilities where you could not roll it much longer anyway, so that gave us significant credit relief through the end of July, and we are fairly comfortable with that.

In terms of what is in the system, we did not lose any credit, and we were able to absorb the impact of the weakened Brazilian Real on that.

But no, we do not have any undrawn working capital credit lines that are there for us to draw on. The way we are dealing with that from our plan is the two things I mentioned in the previous question: one, if we needed to transforming this roughly over R$1.5 billion of deposits, exchanging them for letters of credit or insurance mechanisms or other things to free up that cash, which will come back to us, and then also roughly another R$1.5 billion of uncovered assets that we could raise financing on through structured transactions.

Those two categories there, for us, are at least R$2 billion of potential additional cash credit to the extent that we wanted to work and unbundle that. Those do not have high execution risk if we wanted to do that, they just have costs. Unless, of course, we would get a much worsening of the credit markets.

Like I said, in the worst part of the storm, we were able to bank down the hatches and retain all of our credit. And so to the extent that the credit markets are still there and could potentially improve once we get a visibility on the reopening of the economy, we do not think we are going to see any negative effects on that portion of our business. The large amount of working capital that we have to support our business.

Jamie Nicholson:

Okay. Thanks. Thanks for all that color. I appreciate the call. Thank you.

Rogerio Araujo, UBS:

Thanks for the call. A couple of follow-ups here. A couple of questions here. One is on the ticket sales that you are making right now. If you look at your bookings, in which months people are starting to buy tickets, if they are already doing that? I would like to have a sense on when PRASK is likely going to start to recover, if there is any sign on the bookings at this point in time?

And also, on the traffic recovery, when you say that the cash burn should be something around R$7 million a day by 2H, which would make our current cash position last by year-end, do you expect any traffic recovery during this period in those calculations? That is my first question. Thank you.

Richard Lark:

That is the billion Real question you just asked.

Paulo Kakinoff:

On our math, our revenue, on a monthly basis, is around R$1.1 billion, R$1.2 billion. That is definitely the R$1 billion question.

Rogerio, there are good news and bad news. It is very hard to predict and to be precise in saying, "okay, in the month X or Y, we are going to see the demand recovery". At the moment, being very transparent, we are noticing a meaningful growth in relative terms in comparison to last week regarding the demand for the following four weeks.

But the current demand is so depressed that, even if you find 15%, 18% growth in comparison to last week, we are talking about R$500,000, R$600,000. That is really not going to move the needle. So it is too early to say, and that is the bad news.

The good news is, if you check our commercial approach, we are not burning first in order to build cash at the moment at a very low level of RASK. We are not promoting dramatically the future. We are basically selling our essential network, and we are keeping the healthy fares that we usually sell for the months beyond July.

Therefore, I believe that, whenever we are going to see the pandemic somehow controlled – not necessarily solved, but controlled –, after the peak period, or having the health system capable of taking care of the coronavirus cases, I believe that the sales will resume, and that has, in a positive way, a very dramatic effect in our cash position.

Because you imagine that we have 11 months sales in advance, so the inventory for the next 11 months is always available. At the moment, we have only 10% of those seats being demanded. And whenever you bring back to the market a minimum level of confidence, then you are going to see exactly the opposite effect that we are leaving today. So much earlier than we are going to incur in the cost to operate those travels, or those flights, we have the cash being boosted by the sales recovery.

Therefore, if you ask me, I believe that we are going to still face at least more 30 days, maybe 60 at the current levels. But then, by foreseeing a more controlled pandemic scenario, the sales will recover pretty fast.

And everything that I said is related to the domestic market, which stands for 90% of our revenues. International is not only a big question mark, but personally, I do not believe it is going to recover anytime sooner than the 4Q, maybe only in 1Q21.

Richard Lark:

Rogerio, what we are seeing right now, where we sit, assuming no more additional restrictions on travel or moving the opposite direction on lockdowns or shutdowns, we are seeing, for example, our booking rate, our sales rate right now for the month of May is like R$5 million to R$6 million a day. That is probably a useful number for you to get your head around that where we sit right now.

If you do the math on that, we would have higher revenues than that in the month of May just because we have other bookings of people that would be traveling. But the run rate on cash generation, cash coming in, if you could compare to those burn rate numbers that we provided, today, it is around R$5 million to R$6 million, what we are expecting right now, assuming no additional restrictions. That is the equation that we are working with. We have been working to try to achieve a cash breakeven, a combination of cash inflows and outflows.

In addition to that, the sales rate, we do have receivables. And so we are complementing that run rate on sales, which is new receivable, by using existing receivables as they come in, but obviously, they are winding down.

As we said a couple of weeks ago, we are pretty much managing the Company at a cash breakeven from an operational perspective, not including any capital structure issues. And that is why I was saying in the previous question that we are more or less maintaining the same level of liquidity that we had at the end of the 1Q.

And your second question, I am sorry; it was on unit operating costs?

Rogerio Araujo:

Actually, that was my only question. I have a second, which is related to debt amortization. I think there is a large debt to expire in August. Any news on that? And what you are expecting in terms of debt amortization in the 2H20?

Richard Lark:

Maybe I did not hear the previous question, I could also direct you to that. But no, the plan is to conduct our amortizations when due. We have an amortization of U$300 million in August, and we have another amortization on a Brazilian Real debenture in September of R$156 million. The plan today is to amortize those when due.

Obviously, you have seen what we have been able to do with the capital structure during this crisis. The end of March, semiannual amortization of R$150 million where we reorganized, we put it into the March 2022 amortization. And what I said in the previous answer is that, to the extent the plan would change on that, that would be something for us to look at towards the end of June, which is not the plan right now, because our number one priority is management of the airline, it is always to protect the Company first.

So I think we will have to see where we are in June vis-à-vis liquidity, the forward booking curve, as well as overall conditions in the credit markets and the capital markets, as it relates to any changes on those plans. So, that is basically the plan.

And those are the only two capital structure components that we have in our cash flows over the next 12 months, then we have another maturity of R$150 million on the debenture in March 2021.

Rogerio Araujo:

Very clear. Thanks so much. Have a great day.

Alex Falcão, HSBC:

Good morning, or good afternoon guys. Quick question on my end. I know there is not a lot of details there, but if you comment on the help from BNDES, there is a warrant component there. Is there any threshold of dilution that would make you not go for this sort of help that you can share with us? Thank you.

Richard Lark:

Number one, we do not have the specifics on that and so we are just talking in general terms. But what do you mean? Dilution? What do you mean more specific? Do you mean at any level? What do you mean by that?

Alex Falcão:

Are there controlling shareholders not to go below the threshold, losing control or whatnot? I am wondering that probably the same deal that is going to offered to you is going to be offered to the other companies, specifically Azul. Azul being a corporation, I am guessing that there would be a difference. You guys do have a controlling shareholder. What is the threshold that those controlling shareholders will be willing to be diluted?

Richard Lark:

I see what your question is. You are right. Azul really does not have any shareholders with skin in the game. I think you are right there. I think in our case, it is a little bit different. Maybe for you and people that do not know as much of our structure, we have a controlling shareholder, a group that has 100% of the voting stock. And the shares that are traded in the market are not voting stock, it is non-voting stock. And so we have a dual share class.

And if you were to roll that on a consolidated basis, the controlling shareholder has a little over 60% of the total economics. So there is substantial amount of economics on our side of the equation.

If you are saying from the respective of losing control, no, there is no scenario that I could see where our controlling shareholder that has got 100% of the voting stock would be diluted below 49%. I just do not see how that could happen.

On the economic side of the equation, so the voting is not an issue within this Company. In the other company you are mentioning, there is a very complex architecture where with a really tiny piece of the economics, there is one individual that is keeping control of the company. I think they have less than 5% of the economics over there and are controlling 60% of the votes. But again, the market approved that and, so that is the structure that they got approved with their shareholders, so I assume it works with them.

In our particular case, we have a very different situation. Our controlling shareholder is one of the largest transportation conglomerates in Brazil, enormous in terms of operations, obviously, and the airline is the most important investment and focus for them.

If you look historically, they have invested over R$250 million in the business. Originally, it is a start-up, and then they put in R$100 million in March of 2009. If you remember that the echo of the 2008 crisis, the Company needed some primary equity capital in March of 2009, and the same thing happened again in October 15, about R$100 million of primary equity capital that went into the business then.

And so they have significant skin in the game, obviously, but we do not have any indications of interest from them on providing any primary capital to support the Company at this time. I think you have to have some visibility on the recovery and what the other options are as well.

We have worked at this Company, so that the Company would not have to call capital from the controlling shareholder, because it has met significant capital calls twice in the past, and we will continue to do so as management.

Obviously, as management, we have to protect the interest of the Company, and we are always going to work in that regard. And then obviously, our Board will decide. But I think historically, if you look at historically, the owners of our business have always been very responsible and flexible when it comes to doing what is best for the Company, and their decisions have always been made within the best interest of the Company. We do not do related-party transactions. It is very separate how we manage the business.

But you are right, the best anti-dilution protection for our minority shareholders is the presence of the Constantino Group in terms of how they also would look at dilution.

Paulo Kakinoff:

Alex, I just would like to add that, independently of the terms, we should not take for granted that the Company will utilize that credit line. Even being very attractive, we would only take it in case it is going to be perceived as either needed or attractive enough in order to replace other sources. We have given emphasis to our own capabilities to deal with the current situation.

But, resuming my prior answer, nobody knows how long this crisis is going to last, how warm and large this desert crossing is. That might be very helpful, to have this new credit line available. But it is nothing that we have treated like a solution. Having the credit line available is not necessarily going to take it in the total amount. It is pretty much related to the conditions that will show up.

Richard Lark:

But I think from an equity perspective, we have complete alignment. If you are speaking on behalf of public market shareholders and minority shareholders, from an equity perspective, we have complete alignment in terms of how we would look at dilution.

Also from a credit perspective as well, obviously, it is separate. But as Kaki was saying, we have been very supportive of the structures that have been proposed by the Government of BNDES because our objective would be to work with our own two feet, our own operations and our own private access to capital as hard as we can.

But if that is not there, it will be very valuable to have a support mechanism to help us if the private market mechanisms such as the commercial banks and the capital markets are not there for us, because we think we can always get good deals and negotiate good deals with those counterparties. We have good relationships. But if that is not there, then it will be extremely valuable.

And, of course, as I said, for our controlling shareholder, this is the most important business for them. And so, of course, he is going to look at it from the perspective of protecting the Company if push comes to shove and we got to that situation.

But that is what you have with our Company. I think we have an advantage, or perhaps a different situation where we have an owner. Because I have been working with airlines in my career for over

20 years, and I have been working with GOL for 18 years, in my experience with airlines, especially from the perspective of finance and the markets, there is a very high correlation between long-term success and a strong owner to that business. So I think if you look out at the history of airlines, you see that.

So we do have that at this airline here. This is not a passage for our controlling shareholder. This is not a private equity investment. This is not a temporary situation. It is a long-term permanent situation. So, of course, all that is going to go into their decision. Because you ask me a question about the controlling shareholder, and we do not represent the controlling shareholder, we represent the Company. I am just telling you that, from my experience, they have, like I said, three times they put equity, primary equity capital in this business, and the primary equity capital came in when the Company needed it most. March of 2009, October 2015.

I cannot predict the future, nor do we have any indication. I think this situation is a little bit different. In the past some, of the problems were related to dislocations in the market or overcapacity, which is not what we have right now. We have just a pure lack of demand.

So I think until we would get a visibility on what the new size of demand is going to be, and therefore, the new size of the Company because us as managers of the Company, we are going to match the size of our Company to whatever the demand is, where Brazil domestic market is, one aircraft type, all that.

So we have some advantages that Kaki, me and our colleagues here have in matching our operations to what the new demand is going to be. But I think once we get on the other side of that, when that is, then I think those kind of things could be on the table as in the past, once we have a visibility to what the revenue side is.

That is what I would say to that. They are telling me we only have another couple of minutes on the call here. We have another couple of people in the queue, so I think we will go to the next question.

Maggie Cheng, Indosuez Wealth Management:

Thank you for taking my questions. When you look at your financial statements for the debt amortization schedule, why is there a R$711 million in the 2Q? And my second question is, do you hedge the assets for the US$300 million and subsequent interest payment of all your outstanding USD debt?

Richard Lark:

We have a bad connection on this, Maggie, but I got the second question. Like I said, we do not do balance sheet hedges, because of the cash flows from the USD assets without the aircraft, we match those with the long-term liabilities. We do a small amount of short-term hedging in currency, sometimes to cover short-term payments, or we will hedge an amortization from time to time.

But most of the currency hedges that we put on in the recent periods have come off very quickly, because we also set exit triggers. So we have realized some profits on that.

But, no, currently, we do not have any exchange rate hedges against future USD liabilities. And I apologize, I did not get your first question.

Maggie Cheng:

The first question is, when I look at your financial statements, there is a bar chart on the financial debt amortization schedule. Besides the R$150 million you have mentioned in Reais and the US$300 million, in the 2Q, there is also a R$711 million debt to be paid?

Richard Lark:

We are really sorry, because I think there is some really bad connection. Try one more time, please.

Maggie Cheng:

It is about the liquidity. You spoke about the R$2 billion available, it is really cash. And then, when I look at your debt amortization schedule in the financial statement, I see that there is a R$711 million to be paid in the 2Q. And then, in the 3Q, there will be a US$300 million plus R$150 million. It is quite high if I took R$2 billion cash as available liquidity to repay debt.

Richard Lark:

I think I understood what your question is. The priority of the Company today is managing the working capital. The R$4 billion of liquidity we have, we are not going to use to pay off all debt and call it a day. That is not going to happen, obviously.

In addition to that, as I was describing, when I was describing that R$7 billion of liquidity, that is probably the number you should look at. In other words, imagine this scenario where we were winding down operations in the next 12 months and going to hibernate the Company and not do anything and go on vacation. We would have work to basically drain out R$7 billion of liquidity, put it on the table now and then consume all that, and then we would just amortize those liabilities with excess liquidity.

The right way you should look at what you are saying on available cash, that is for working capital, and that is for managing the airline part of the business. Other amounts that we have in unencumbered assets and the other mechanisms that I mentioned, they will have to be executed.

The way you should think about that is those will be for capital structure. Kind of separate the two things, because basically, what we have in the cash today, the cash liquidity, both available and in receivables and other things, that is to manage the working capital of the business. Working capital for the airline, operating company.

And then the other elements, if you want to think about it this way, because this is also how we think about it, but the other elements that we have to do, be it raising money off of unencumbered assets, or be it unlocking cash deposits that we have, that cash could be available for capital structure issues. That is how I would suggest you think about that and separate the two issues.

Because we do not mix the two things here. Working capital is working capital, capital structure is capital structure. One is in the treasury department, the other is in the corporate finance department. And those are separated and are not mixed.

Maggie, you can shoot me an e-mail, and we could set up a time to go through that just given the time, because what we have to do now is, we have to jump on our local call. We spent a good hour here on the call, so we are going to have to cut it off now. But if anybody else has any other questions, please shoot us an e-mail. And so with that, I am going to hand off to Kaki to close out the call.

Paulo Kakinoff:

I just would like to thank you all for the attention. Hopefully, this session was helpful to you all. We are here available. Thank you very much. Have a nice week.

Operator

Thank you. This concludes today's conference call. You may now disconnect your lines, and have a wonderful day.