4Q19 Results Conference Call Transcript

February 20, 2020

Speakers

Paulo Kakinoff (CEO)
Richard Lark (CFO & DRI)

Presentation

Operator:

Welcome to the GOL Airlines' fourth quarter 2019 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 star zero 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 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, sir.

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's my pleasure to be with you all today.

Paulo Kakinoff:

This morning we released our fourth quarter figures; also, we made available on Gol's investors relations website three videos with the results presentation, financial review and a preliminary Q&A. We have once again delivered on our guidance thanks to the dedication and engagement of our team of eagles.

Despite several operational challenges in 2019 such as the Max delays and the unplanned maintenance on some NGs, Gol's net revenue was R$3.8 billion in the quarter, the highest ever recorded by the company, an increase of 18.8% compared to the same period in 2018. In 2019 net revenue reached R$13.9 billion, an increase of 21.5% compared to 2018. Gol's net revenue guidance for 2020 is approximately 15.4 billion record revenues.

This quarter rounds out what has been an outstanding year in our history. The superior experience provided to customers combined with Gol's low-cost operating model and sophisticated fleet management have driven our growth both in domestic and international markets. In this quarter recurring earnings per diluted share were R$0.88 and recurring earnings for diluted ADS were US$0.43. Gol's 2020 EPS and EPADS guidance is R$2.65 to R$3.15 and US$1.25 to US$1.50 respectively. Recurring pre-tax margin was 22.9% in the fourth quarter of 2019, increased 60.8 p.p. quarter-over-quarter.

In the full year of 2019 recurring pre-tax margin was 6.5%, a growth of a 3.4 p.p. year-over-year. Gol's 2020 pre-tax margin guidance is approximately 13%. Recurring EBITDA margin was 38.5%, an increase of 22.2 p.p. quarter-over-quarter. In 2019 recurring EBITDA margin was 31.5%, a growth of 11.5 p.p. Gol's 2020 EBITDA margin guidance is approximately 30%.The company returned R$800 million of cash to its capital partners in the fourth quarter, mainly comprised of R$617 million of debt repayments, 50 million of interest on own capital, and 102 million of share repurchases. Gol has a high level of fuel hedging protection in place, with our own 90% protection in the first quarter of this year and 68% hedged in 2020.

Once again, we improved our operating indicators. RPK increased 5.5%, totaling 10.8 billion in the quarter, driven by an 8% growth in the number of transported passengers, while ASK growth was 6%. Strong passenger demand and dynamic revenue management enabled Gol to manage the increase in unit operating costs, achieving the following indicators:

1- Average yield per passenger of 33.2 cents (R$), an increase of 13.8% compared to fourth quarter 18;
2- Average load factor of 81.5%;
3- Average aircraft utilization of 12.2 hours/day, an increase of 6.1% quarter-over-quarter; and
4- Flight completion of 99.2%, a growth of 0.6 p.p. compared to same quarter of 2018, according to Infraero and data from major airports.

We continue to drive strong revenue growth. The net was 3.8 billion, the highest for a quarter ever recorded by the company and an increase of 18.8% quarter-over-quarter. Gol carried 9.7 million customers in the quarter, with 9.2 million in domestic market, an increase of 9.5% over same period of 2018, and half a million in international market.

Net Revenue per Available Seat Kilometer – RASK – was 28.7 cents (R$), an increase of 12.1% over fourth quarter last year. Net Passenger Revenue per Available Seat Kilometer – PRASK – was 27.0 cents (R$), an increase of 13.3% quarter-over-quarter.

We have used our fleet plan flexibility to accommodate the increased demand for our passenger transportation services and to manage the Max delays and the recent unplanned maintenance requirements on some of our NGs. In the fourth quarter we added 16 aircrafts to the fleet; we have the expectation of the Max returns to service in our network in the beginning of second half of 2022.

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

Richard Lark:

Thanks, Kaki! I would like to comment about our controlled cost environment. Gol has the lowest unit cost in its markets. Unit cost based on Cost for Available Seat Kilometer – CASK – excluding non-recurring expenses decreased by 12.8% from 24.2 cents (R$) in the fourth quarter of 2018 to 21.1 cents, partially impacted by a 17% decrease in the average fuel price and a 2% reduction in fuel consumption for flight hour.

Fuel cost per ASK decreased 15.6%, mainly due to a reduction of fuel taxes. CASK ex-fuel – excluding our current expenses – increased by 11.1%, primarily due to increase productivity (operating efficiency, aircraft utilization and increase in ASKs), and a reduction in aircraft maintenance expenses due to a decrease in aircraft returns in this quarter, partially offset by:

1- A 32.6% increase in depreciation due to the addition of 16 aircraft in the fleet and a reduction in the depreciable life of capitalized engine maintenance and large components;
2- A 23.8% growth in personnel expenses mainly due to an increase in the federal payroll tax rate to 20%, and the hiring and training of 819 new employees due to the expansion of operations, new routes and new bases.

Our margins remain healthy due to the strong cost control, capacity and yield management, the company earned operating profits for the 14th consecutive quarter. Good demand enabled Gol to achieve a recurring EBIT margin of 26.5%, the highest achieved by the company since 2004. Recurring operating income was R$1 billion in the quarter and R$2.6 billion in fiscal 2019. Such figures were 830 million and 1.6 billion higher than the same period last year and 2018 respectively. Recurring EBITDA margin was 38.5%, an increase of 22.2 p.p. quarter-over-quarter.

Lastly, we would like to share the continued success of our balance sheet and liquidity strengthening. Gol reported operating cash flow generation of approximately R$1 billion in the quarter; total liquidity was R$4.3 billion, 230 million higher in comparison to September 30th, 2019, and 1.3 billion higher than December 31st, 2018. In the fourth quarter 2019 the company repaid R$617 million of principle debt and leases, 50 million of interest on own capital and repurchased 102 million of stock.

The net exchange and monetary variation gains in the quarter totaled R$372 million. Net debt (excluding our perpetual bonds and exchangeable bonds to LTM EBITDA was 2,4 times at December 31st, 2019.

Now I would like to return to Kakinoff.

Paulo Kakinoff:

Thanks, Rich!

Summarizing, in 2019 Gol accomplished a number of significant milestones in its business strategy to be The First Airline for Everyone, and to grow its network both internationally and domestically. Our commitment to the continuous improvement results has proven the strategy assertiveness of offering a differentiated and high-quality product while, relentlessly, focusing on cost efficiency.

We remain committed in offering the best experience in air transportation with exclusive services to customers on new and modern aircrafts that connect our main markets with the most convenient schedules. We are focused on treatment management of our capital structure and liquidity, maintaining cost leadership and continuing as a preferred airline for our customers, while driving sustainable margins and returns for shareholders.

And to conclude, we remain optimistic for the first quarter of 2020, with a scenario of increased air travel industry in Brazil, and our continuous capacity discipline, making our company the first for everyone, is what drives our best-in-class Brazil aviation team.
Now I would like to initiate the Q&A session.

Q&A

Michael Linenberg, Deutsche Bank:

Hey, good morning everybody. I have two questions.

First, I want to ask a question about your new agreement with American Airlines and how that ramps up at the same time that I believe you'll be winding down your Delta agreement, and so… Is there anything that will be noticeable in... whether it’s the March or the June quarter, where revenue will either come under pressure and then it will start to ramp back up? So, can you talk about the timing and the mechanics about it? And then, maybe even compare and contrast the two agreements, which one, maybe from a big picture revenue perspective, where you see the agreement with American getting you maybe a year or two out from now? Thank you!

Paulo Kakinoff:

Hi Michael, it’s Kakinoff here. Good morning and thank you very much for the question.

Michael Linenberg:

Hey, Kak!

Paulo Kakinoff:

Hi! Actually we announced the new partnership agreement two weeks ago, and to give you a better guidance on how much is going to positively impact our company, the seats availability to the United States will be two times as big as we had before with Delta, so I mean, we have a much larger seat availability base than we had before.

We are ramping up the revenues because as you know we are selling seats in advance, so by replacing one provider by another, one partner by another, we are also shifting the natural traffic generated by Gol from one company to the other, which is going to take some time. What I can tell you for sure, due to the much larger number of seats available, is that revenue wise, the day after the replacement, we had already the same amount of revenue rated or sourced by this partnership. It can only get better.

Michael Linenberg:

Great. And my second question, and it's just really two quick accounting questions, maybe to Rich. You know when the guidance you do call out the minority interest line for 2020 and 2021, but presumably you will at... in a not-too-distant future, you will own 100% of Smiles and so that line goes away, and I'm not sure if that was there for illustrative purposes. And then, the other question I have is just on the diluted share count, so, maybe to Rich on that. Thank you.

Richard Lark:

Yes, sure. We've been providing that line item for a while in our guidance, there's nothing new, that's part of the architecture there on the guidance to help us be able to talk to the market about earnings so we have to provide all the information so everything we talked about with you guys, everybody has the same access to all the info, and that just kind of helps you understand how we're producing earnings, and so we're now focusing more on providing, let's say, recurring fully diluted earnings guidance, and that's an important component, so in addition to that you also have the tax effects as well, but for that line item there, that just reflects what's been there, and that comes out of our accounting, it gets excluded out of the consolidated results that's where that piece comes out, and yes, we have next month a shareholders meeting where the Smiles minorities will decide if they want to accept the proposal that's out there. If that happens, that would probably be liquidated in May, and then the merger would happen during the third quarter.

Where that line item, if you will, would be zeroed out, and so that immediately earnings accredited to Gol on a consolidated basis, and then there's the other effects which relate to better tax efficiency. Gol improved business processes and also some potential improved yield management on a consolidated basis, but overall improved competitivity. When you see in our cashflow generation already, and that's going to get even stronger in that respect. But yes, that line item there is just to help you and others understand and to have visibility in our earnings, because one of the things that we've been trying to do here at Gol, Kaki and myself, is give the market better earnings visibility so we've been... you know, as you've seen over the years, we provided a significant amount of line item detail, probably more than any other company out there and we are committed to that.

I mean, this is how worth thinking about managing the business, this is how we are managing the business, but I would say its guidance, its guidance, it is our guidance, you guys also have to come over with your numbers, but in terms of the earnings per share account, I'm not sure if I understood the question, but the fully diluted share count that we are using in our earnings reporting on a diluted basis is 391 million shares and 195.5 million ADSs; that includes the conversion of all existing stock options and includes the... and "as if" converted for the convertible bonds that was issued. So that's fully loaded for all of the potential dilution of tax based on what's currently issued, it's stock options or the converts, which in our beliefs denominated exchangeable notes.

Michael Linenberg:

Okay. My question on that was that you have the 391 for the quarter, but for the full-year you have 392 and yet the deal was done in the middle of the year, and so presumably you were including 392 on a full year basis pro-forma for January 1st offering, I mean, that's kind of how I saw, that was actually the question I was going to ask, you probably had in the deal... [overlapping of voices]

Richard Lark:

That's correct... I thought... going forward, so for the 2020 and then the 21 guidance and if you are talking about the four quarter, yes, it's the full effect for the Q4, and if you were to go back for the full-year retroactively 2019 there would be a slight reduction there. Correct.

Michael Linenberg:

Okay, that's fine. Okay, that makes sense. Okay, great. And I appreciate it. Thank you!

Richard Lark:

Thank you!

Dan Mackenzie, Buckingham Research:

Oh yeah, hey thanks. Good morning guys, a few questions here. First, I guess, you know, just a house cleaning question on the revised outlook for 2020 did fall a hair and that's despite the incremental revenue upside from the code share with American. So, I'm just wondering what that factored, as a potentially factor in this lower GDP outlook for the country, or I'm just wondering if you can speak to that.

Richard Lark:

You're saying a slight reduction in the revenue forecast for 2020, was that your question?

Dan Mackenzie:

Yeah, that's correct.

Richard Lark:

Oh, that's a tiny calibration there, it's nothing material. It reflects what's going on with our capacity situation. We have been, as you saw last year, we beat our revenue guidance by about R$300 million with about 3% less over our ASK growth. And so, it's the same effect. We've now gone back up to near 13 block hours a day of utilization and so our record utilization, record load factors, you see, we are getting on the rising side, so what that reflects is... I would say a little bit more conservative outlook on the return of the Max and what we can do on capacity. We've reaffirmed our capacity guidance, but you're seeing a shift also between domestic/international, so the real effect is the issues we've been dealing with on the fleet side of the equation in terms of being constrained in that regard—don't read into it any more than that!

Dan Mackenzie:

Understood. And it does not reflect revenue upside from the code share with American?

Paulo Kakinoff:

Hi, Kakinoff here. Actually, when we provided the revenue guidance for the year, we were already assuming the partnership with another airlines. So, if you consider that, both either United and American Airlines, they are much bigger in Brazil than Delta, we did assume something in between both to have our revenue guidance being made public to you. So, there's no additional impact on that.

Dan Mackenzie:

Yeah, understood, okay, good. A bigger picture, Richard, I'm wondering if you can talk a little bit about depreciation. When you take a look at Southwest, another US Airlines, they are depreciating aircraft getting over 25 to 30 years. I'm just wondering if you can remind us what the average useful life is that Gol is using, and if Gol were to use assumptions similar to what US Airlines use. What impact that might potentially have on your chasm or on your cost?

Richard Lark:

Hey Dan, we are assuming around 18 years on aircraft, which is obviously as you said, it's less than Southwest and Ryanair, but the bigger chunk in our, larger effect in the... what you're seen with us be going on in the depreciation line has been more based on the depreciation of capitalized engine maintenance, okay, and the effects because of what we had to do to manage to the Max situation and the pickle fork situation, and so, what happened in... people sometimes forget that a big chunk of the value on the aircraft is not the airframe, it's the engine. And while we are depreciating the airframes over 18 years, what we see happen because of the Max issue and the pickle fork issue, if you go back to 2018, we had an average depreciable life on the engine portion of the assets of around 7 years. And last year, because of the technical calculations and discussions with auditors in terms of how this has to work, if you going to be faithful to what the accounting legislation dictates. When we have to do that, we subject ourselves to the rules of the game in terms of making decisions on impairment and provisions for returns for aircraft and provisions for future maintenance. We have to follow those rules right, and that caused... those issues caused our average life on engine maintenance to be reduced from seven years to four years, okay?

And so, this year as we have to return to service on the Max and as we get that behind us and as we normalize our forward engine maintenance schedule, now we'll go back seven years, okay? And that is the big chunk of that affect there. Yes, you are right in your first point, that we are following IFRS. Ryanair and Southwest follow slightly different accounting rules, and they have a longer depreciable life even though we operate the exact same aircraft, and so this is something that we are discussing internally and eventually discuss with our auditors, and so you should also expect that to extend and to therefore reduce the average depreciation component in the in the unit cost component.

But the big overwhelming effect here is when we got into the Max issues, in the second quarter of last year, and they were confounded by the pickle fork issues in the fourth quarter, that, based on following what's permissible by the accounting rules that dictate, you basically have to calculate what your main costs are going to be until you're going to be returning the aircraft and it's a lot of this aircraft that we contracted, this capacity work and we've done over the last year or so to match with market demand, many of these leases have been short-term.

And so we've been forced to provision that and also with the unplanned and temporary additional cost on the maintenance side to keep our NGs, but air worthy and flying we've had additional engine overhaul charges and somethings like that, so all of this kind of going into in the chasm line if you will, not showing up in depreciation, and so I'll even give you some additional kind of info there, if you look at our run rate depreciation today or last couple of quarters, we have around R$300 to 500 million extra depreciation, it's being expensed in the last couple of quarters and will be expensed in the next couple of quarters, it is related to this temporary effects, and so, somewhere between three... when it gets normalized again – which we expect will start to happen in the second half of this year – there will be between R$300 to R$500 million of run rate depreciation annual, which will then phase out as we normalize the depreciable life of the engine for seven years which is the depreciable life of those engine maintenance. When we do the engine maintenance, we basically then have a maintenance holiday until the next maintenance event, which is roughly seven years. The last year and this year we've been doing a lot of unscheduled and intermittent maintenance that cause the average depreciable life on that portion of the asset, which is the engine piece, that will be reduced by three years, but seven to four years, that has been a significant effect.

But thanks for asking that question, because it's a technical question, it's something that you see because you're looking at how that's going in Southwest and Ryanair which are our... let's say... that's benchmarks for Gol, Southwest and Ryanair, they are brothers in terms of operating model, the type of asset we operate, highly similar. We also operated very high-levels of utilization, meaning that that should also be reflected in the amount of depreciation we have, so the differences are very similar.

But what I would say, as we kind get beyond these events of last year which were continuing to deal through the first half of this year, that will kind of phase out the business and the temporary effects. We are following the accounting guidelines and the accounting rules, and we are not going to take any shortcuts on that, we're going to be very transparent about that, but I appreciated that question.

Dan Mackenzie:

Very good, that's great clarification, and agreed of course.

If can squeeze one last one in here. Compensation from Boeing, I'm wondering if you know you have had any preliminary thoughts about how that might be used or how that might be reflected in the financials as we move forward here?

Paulo Kakinoff:

This topic is under discussion in the moment and you will understand that I wouldn't like to bring any kind of disturb to this conversation by anticipating any results or any outcomes from it, so I hope kind of understand that I wouldn't like to comment at the moment that we are discussing those terms and issues with Boeing.

Dan Mackenzie:

I understand. Okay, thanks for the time, you guys!

Savi Syth, Raymond James:

Sorry about that, thank you. Good afternoon everyone. I'm just curious, I know there's a lot of uncertainty here around Boeing and Max, but I was kind of curious once the ground, it's pre-certified. How much would there be from a training period, but more importantly is what do you think is going to realistically the number of aircraft that maybe you can get delivered from Boeing in like 2020 and 2021?

Paulo Kakinoff:

Hi Savi, good morning. We are assuming in our planning the official target informed by Boeing which is to have the plane returning by this year between July and August that's the forecast we are considering, which is built into that project. So, to give you a clear understanding on where we are going to be the day after, you should take in consideration the following figures, we have seven Max planes grounded here in Brazil, plus twelve in Seattle, already available to fly to Brazil and to come into service. We do not know how much time it is going to take for Being to unground all those planes parked in Seattle at the moment. So, giving you just an idea which might change a lot, having more clarity as closer this is going to be the return-into-service day, we are considering for this year to have definitely the seven planes here in Brazil back, plus more or less 15 aircrafts coming from Seattle in a mix of the already produced ones and those units being produced until the end of this year. So, by the end of 2020, we believe that our Max fleet would be around 20 units. That's the forecast we can share at the moment.

Richard Lark:

Yes, we will have a small group of pilots that will go through the additional simulator time, we already have that taking care of. We don't yet have Max simulators in our own [unintelligible – noise] we have NGs simulators here in Sao Paulo but we use the Max simulators that are located at the Boeing facilities at Miami [unintelligible - noise] one-week period we will go through that training as it relates to the return of service so we also get that in our plan.

Savi Syth:

That's very helpful, thank you. I just kind of curious with the with the 11 NGs with the sale lease back and just maybe just how many NGs do you have on a short-term lease and what's the decision point on if you going to extend those leases or going to return them and like this 20 to 21 period?

Paulo Kakinoff:

[unintelligible - noise] ... to extend those leases or ... at the predicted time.

Richard Lark:

What was your question on the NGs?

Savi Syth:

Just kind of curious when those decisions need to be made and just how much flexibility you have in there, and I guess that maybe what was in that slide there where what you can flex up and flex down based on those returns.

Richard Lark:

[unintelligible - noise] So, in the sales of the aircrafts related to the financing decision, and you saw the results of that, those aircrafts are still with Gol, they are flying, and you know they will be phased out over period of two to eight years and all the other inventory of NGs resourced on a temporary basis as a temporary short-term leases generally kind of 18-month to a 24-month period. Those also can be extended and maintained with us and so, if you want to include the NGs in that component right now these NGs that we have sold, and... are you still on, Savi? Sorry.

Savi Syth:

Yes, I am.

Richard Lark:

I just kind of ensure that the line didn't go out and that's why we were jumping around here, I wasn't sure if I was talking to myself. So, you want to take the NGs we've have monetized plus the grouping of NGs we've sourced from the market on a global basis. That right now is close to 1/3 of the fleet, and so those are the aircrafts that going to go out as the Max it's normalize those immediately go out and we can actually, so we can accelerate the redelivers on those or we can delay it. So that's why we're going to get back on track on the next four to five years, that means is that we will get back on track in terms of our plan of having roughly half of the fleet operating in the Max format. But right now, obviously we're in a holding pattern, we've been sourcing our additional capacity on an incremental bases every month with NGs that are available in the market. And that comes for a lot of different places, and the monetization decision that has happened in terms of what we'll be doing, monetizing the portfolio, those aircraft that you saw [unintelligible] we would do that last year in our original plan, were not for the Max situation, cause the demands for that asset continues to be very good and we've had some interesting opportunities on that for a while, and so once we got a little bit better visibility on getting on the other side of a portion of the Max situation, we decided to go ahead and transform those from assets into leases, if you will.

Now we realized the gain on that and then we paid up all the liabilities on that and we had some cash left over on that which is also matched into our liability Management program which is going to basically be the source of funds for even further reduction of debt on the unsecured side of the balance sheet. That's how we'll package that whole deal there, but on the fleet plan side of the equation to support our number that our fleet plan is a function of what we're doing in terms of growth, demand and our magic capacities independent of the financing situation also independent of the assets disposition decision, because we are already locked into what our... you know, we're not transforming from an old aircraft to a new aircraft or a different type of aircraft model to new type of aircraft model, no, we are just doing effectively a true up catering within the fleet from the NG to the Max, so all this work we've been doing contractually in the direct leasing market, it is just basically bridging the gap in this operation that we are doing. And this also won't, pray for us, it will neither create a shortage of capacity and neither create an excess of capacity because we can very easily match the deliveries of Max into the fleet, it's perfectly match with a redelivery of an NG back out to our partners, which are these that we have a portfolio over 20 leasing partners that we deal with.
And so, they're working with us very closely to match their availability and also their ability to replace the NGs out there as the Max comes back to service, and we think, as we kind of highlighted, we think this is kind of competitive advantage for Gol. This ability kind of flex our capacity not just throughout the cycle with demand but also inter year seasonally, and obviously the other half, the counterpartying on that is the leasing companies and our subleasing partners that do that, and so we have a great partnership there, that allows us almost make endogenous if you will, any volatility we might have either on the demand inside or the supply side. It's not a perfect match but we think Gol has the most mature fleet management process which gives us kind of lag up on all this.

If we didn't have this process we wouldn't have been able to deliver the numbers we did last year, it would not have happened, and so I think that the proof is in, the proof is in our numbers, not just in the operative side but also in the equity value that we've realized on our own aircraft assets. We have that almost as a kind of a side component that creates value for all of our shareholders, and that's been consistent. If you look at aircraft modernizations we've done since 2016, as we ended, we came to the end of the financing cycle on the on the first order of 80 aircraft we did with Boeing which we did back in 2005, we've monetized 100% of those 40 aircraft and we had in finance lease formats with the Exinbank guarantee at significant value creation for the company and for all of our shareholders, and that also puts us in an unique category along with the companies that we were matching before, along with Southwest, along with Ryanair because the source of that value is the type of aircraft and also our position as one of the top five owners and operators of those aircrafts on a global basis.

That's kind of like a hidden asset if you will that we've always had in the business and we think, I think some of you now or kind of starting to give us credit for that.

Savi Syth:

That's definitely kudos to the team for not only can monetizing it but also can introducing it operationally as well, it's a pretty good. Thanks for the answer.

Victor Mizusaki, Bradesco BBI:

Hi, I have just one question. On slide 10 you show a table with load sector evolution, and after several quarters for bookings basically showing low factor occupation at now, I mean that you showed the slide basically we see flat load factor for February to April. So, I'd like to understand here that is a kind of result from the other airlines adding much more capacity in the system and if you can also comment a little bit about the yields.

Richard Lark:

Yes, sure Victor, thanks for the question. First comment is that we are guiding, if you will, we are showing... that's based on what we can see today. We have a good visibility for the next. You guys also, for those of you who invested in the deal system, you can calculate this stuff also. We... you know, the facts for guiding flat low is not a positive or negative and we were on record all-time highs for low factors in the industry.

Structurally it's very difficult to have revenue maximization. If you will, and low factor is much harder, it's not just structurally possible. Just based on how networks... how our network works, how Brazilian networks work, where we still have a large portion of flights which are not point-to-point flights, they are connecting flights. That's point one.

And your second question, I mean, those load factors as we've seen in the short term, are decent, flat, I don't think that we would think that, if they went up a little bit or down a little bit, it doesn't change the second, I think the question that you're asking, which is on the capacity side, which is something that, obviously, we're concerned about, I mean, Gol is growing its capacity at or below industry demand, that's what you have with us, that's how we manage this business and that is... A lot of people ask us about our hedging program, but the value of a hedging program is a compliment to what we do in capacity management of revenue management. So, we work as the capacity question right, we are customizing revenue management and then we complement with hedging.

Our two competitors, Latam and Azul are growing at twice that rate, independent of what industry is doing. Latam is putting system to the market in the first quarter here at a rate of two times what Gol is putting in. And part of the interesting thing now in part of what we can talk about as well, is this will be the last quarter with a year-over-year comparison including Avianca Brazil as a nominator.

Now as of April, in the second quarter or that will be out of the situation. Now on the first quarter of the last year Avianca Brazil was offering about 3.6 million seats in the market. In the Q1 of this year - and all this is publicly available information if you guys invested in the deal system - this year if go into the deal system, you have about 4.6 million seats there, okay? So that's an increase of about 1.3 million seats.

We are adding about 1 million seats year over year. Latam is adding about 2.1 million of seats year-over-year and Azul is adding 1.5 million sets year over year. Now, you're an analyst, you can calculate things about supply and demand and how that might impact unit revenues. You saw our guidance for the Q1 on unit revenues, we're expecting it to increase at a rate of 4 to 6%, that's based on our management, right? And so, the overall market I think is going to have a tough time with that because there's a significant increase in capacity. Remember this affects what you're looking at, which still includes the Avianca Brazil in the Q1, that's going to disappear in April, okay?

And the stark reality is going to be... you are going to look at a much higher industry supply growth rate in the year-over-year comparison. And so that's what I would say, I don't know it Kaki wants to complement that.

Paulo Kakinoff:

Victor, actually Richard gave you the long answer, if you will I'd like also to offer the short one. And that one is me repeating over and over that. We will always prioritize yields instead of fighting for capacity. You see our loads factor projection considers that we will do whatever it takes to protect our healthy yields and our healthy past projection, okay?

Victor Mizusaki:

Thank you.

Marcos Barreto, City:

Hi everyone and thank you for taking my question. Just if you could correct me on this, regarding foreign carriers launching domestic service in Brazil, don't consumer loss need to change first for that to happen? And what are your views on that? Thank you.

Paulo Kakinoff:

Hi. Actually, the market is open, and we have now... I mean, concluded info on newcomers... I mean, the company is already for 19 years defending the idea that the market should be open, and the foreign capital restriction should be lifted, what happened. We are not afraid of any kind of competition and I need to tell you that none of the information already spread to the press, to the news is really confirmed, so I wouldn't like to add more speculation on something that is not presented to ourselves as a concrete action from a new competitor.

Richard Lark:

Brazil is already a very highly competitive market, we have 58 domestic and international airlines operating in Brazil, Brazil is already a very highly competitive market, and in Brazil there's structural characteristics with a very highly concentrated demand, a passenger that has certain needs and characteristics, some things like that, you know. And Gol, we've been working over the last 20 years constantly adapting our products to be the most attractive and the most competitive from a customer's perspective in the market. That's kind of one of the secrets to our success is to have the best part in the market. We don't take for granted the cost side of the equation as you can see. One of our policies is to maintain a significant differential on the unit cost side of the equation. So that's how we manage that. Brazil is an open market, it's competitive, it will continue to be, and this shouldn't be news... And what you're seeing is just a reflection of that and I think it also reflects the fact that Brazil is back in terms of demanding value creation and attracting investment domestically... we are investing. We make the most investment in the Brazilian aviation sector—us!

Paulo Kakinoff:

On that cost side, there is something here I'd like to share. Last year we sold 37 million tickets, 21 million of those were sold at the maximum [sic] fare, around 35 dollars. If I would translate that into a new airline coming to the market and selling 21 million tickets at that low level, low fare level to transfer the passengers in every stage length around 1,100 km, that airline would need to start its operation having at least 42 Boeing 727s or 44 A320s or even 62 Embraer's E-Jet so the company is already offering, by far, the largest number of, if you will, seats low fare availability and that's the strongest possible protection we should get. This is really a low-cost company at the same time that we are also offering to the high yield costumers leather seats, additional leg room, wi-fi, organic snacks for free, and this kind of stuff, Gol created a very strong fortress. And that fortress has been tested by our already strong competitors in the market. And, if you consider our performance last year, we have another proof of how strong that business model is, I mean, we cannot control the market: it's open, anybody can come. I think that the company is prepared to fully compete in that market.

Marcos Barreto:

Ok. That was my only question. Thank you very much.

Paulo Kakinoff:

Thank you.

Bruno Amorim Goldman Sachs:

Hi, good morning, I have two questions.

The first one on the outlook for the first quarter. You are guiding for 4 to 6% growth in a much lower pace versus prior quarters, and, as Richard well pointed out, this is the last quarter with let's say easy. So, the question is: does the 5% RASK growth expectation for the first quarter means you expect much less than 5% unit revenue growth in the full year 2020? And if so, how comfortable are you with the margin guidance for the full year? So that's the first question. Thank you.

Richard Lark:

Bruno, you're asking me what I think about the guidance I just provided, that's not a question, right? Our guidance that we provided to help you, guys, think about, this is how we are managing the business, right? I'm not going to give you a qualitative evaluation of the guidance, that's not a fair question, but what you're asking about... again, we are providing you, guys, an understanding of how we are managing this business, okay? And it's not a question of being confident or not confident. It's how we are managing the business. We are on a highly competitive business. A big chunk of what we do depends on industry rationality, you guys know that, okay? We haven't provided second quarter guidance or anything, we're giving you much more information. I would argue 500% more information than you are getting from our competitors. So, I think your question needs to be directed to some of the other guys, okay? Because we've given you our information, now you have a lot of guidance out there, and that's how we managing the business, and I think if you look to the last couple of years you have your answer to that question. We are committed to that, that's how we are managing the business, right? We have trucking strikes, we have now Corona virus that's happening, we've had ... go back to the beginning of January 2018, we had 3.15 exchange rate; we are right now sitting on an all-time low of the value of the Brazilian Real, if you will, an all-time high of the Brazilian Real and you can see our profitability there. So, I think you have the answers to these questions! We are performing better, and we are managing everything under our control.

And where these levels of profitability are at the all-time weakest point in the history of the Brazilian Real. So that's really all I can kind of say about that, but another thing that I have spoken to the market about is that, and this is kind of more interesting way to think about it, it that in Q2, already as you know in Brazil, that's our low seasonal quarter, seasonality wise, it's post-carnival it's kind of in between the end of summer season in Brazil, witch this year end next week really, we are ending summer season right now, weather over here is great by the way, for those of you that aren't here it's been fantastic, sunny and high 70's, low 80's. Carnival is next week and then Brazil kind comes back to work, we've got 3 months of intense business traffic, but a lot of the leisure travel kind drops off until July when you have our winter school vacations in southern cone and things like that. The second quarter I think is going to be kind of the first test, first real test post industry rationalization that we're going to have here on how everybody's doing. And so, if you were to ask me that question, I do think I do think we're going to outperform in the second quarter, relative basis. But, you know, on a full year basis you have we're working towards. We're going to spare no effort to deliver what we're guiding to our investors, to our investors, to the Gol investors, right? We're not delivering that to the market. We're delivering it to the Gol investors and those who decide to be our Capital Partners, be it on the equity side or on the bond side. We're extremely committed to that. And also, on the bond side as everyone knows, you know, we're committed to get the company back to a BB rating. And we already have the credit ratios that speak to that and, you know, we are already are at a BB. If you just look at our credit ratios and also the industry quality. And so, you can read into that. Yes, we do expect to go back to being a BB, but that doesn't depend on us. Okay? So, what our competitors do, what Tam and Azul, which are growing at twice our rate on the capacity side and, arguably, more than twice the rate of the demand in the market, you just look at the Q1, right? You're back into those numbers there, our capacity is up in the low to mid-single digits, and you've got Latam and Azul in the high teens to low 20s. Right? You don't need me to help you kind of work through that math there. Right? And I think it is going to be an interesting quarter, the second quarter, for all of us to see how we kind of manage through that. And I think there are going to be stark differences on profitability and the main source of that is going to be the differential business models, for sure.

And then a second source of that is going to be how each one of us have approached capacity and revenue management, and revenue management also depends on what you got on the product side. And then, but our protection is not that, I mean, we're only 40% of the market. Our protection is what Kakinoff was mentioning on the plus side. And that's our protection is, you know, everything we're doing on the plus side to keep this differential on unit costs of 20 to 25% versus our next competitor. And the way we manage the company here is we're never satisfied with that, I mean, even though we've been at 25% in the past, it's not good enough. And so, this is what you can expect from us but I'm sure there's going to be more trucking strikes, and more corona viruses, and other disruptions that this company is going to have to manage through. And so, all I would do directly to there is going to look at how we've managed through these things over the last couple years.

Paulo Kakinoff:

Bruno, the capacity variable is that capacity is a variable we need to worry about. So, that's something we need to take proper care. And there is a yellow to orange light ahead of us looking forward to the booking level we are noticing for the second quarter. This capacity being add on the top of the market increase is really the matter we need you all to take are about, okay?

Bruno Amorim:

Thank you, Kaki. Well, I think that, at the end of the day, that was the question, right? So, from second quarter onwards, the year-on-year growth in ASK will be much stronger than in the first quarter. So, if RASK is going up by 5% in the first quarter, my guess was that it should grow by much less than 5 going forward. But I think you have answered the question so, that's all from me. Thanks so much.

Richard Lark:

Oh, that it's important to say, I mean that's a mathematical equation. Avianca Brazil has not been operating in our market, in terms of impacting yields, since April of last year, okay? So, be very careful with that because, even though it's in the denominator, mathematically, because you look at the year-over-year comparisons, that's not what in fact yields. Yields are affected by what's going on sequentially. Okay? And so, for example, second quarter yields are not determined by second quarter 2019 capacity. No impact whatsoever. That's like on the other side of the universe. Okay? Second quarter yields are going to be determined by the trends that have evolved since the first quarter of this year, where we are right now. And all of us have flexibility on capacity in terms of different ways of managing our capacity to adjust. For example, in the Gol case, what I can tell you is that our mature process, you know, we generally take out of our fleet in the second quarter, we remove as much as 10% of our capacity and put it into structural maintenance, painting of aircraft, maybe a retrofit on our interiors, things like that. And so, we actually have the ability to match our Q2 capacity with our Q2 demand. Not everybody has that ability. Everyone has different ways of managing their businesses. And so, what I think we're also trying to think, what Kaki was saying is that, you know, we're matching our capacity with demand. Please don't put everybody into kind of this generic box. Right? That's not correct and I'm just trying to make sure that you guys have the full information about this and be very careful about thinking that Q2 2020 yields are going to be determined by 2Q 19 capacity.

Bruno Amorim:

Okay. Thank you.

Alex Falcone, HSBC:

Good morning, guys. Thanks for the call. My question is regarding the VAT tax in Brazil. In your planning, in your guidance, how much do you guys actually put in there? And we're seeing, you know, almost week after week, news regarding that we're going to see not only PIS COFINS, in the federal level, reduction, but I think that's probably for 2021, but also, you know, Rio just outpaced

São Paulo on a reduction there. So, when do you think is the end game here? And, basically, does it change logistically, where do you refuel your aircraft and there is any upside to that? Thank you.

Paulo Kakinoff:

With regards to the GDP calculation, we do assume a quite sophisticated model into our quarters because, as you know, the country is too big and different GDP growths in each of the regions. So, giving you just a parameter, which is not fully explaining our calculation model, we were considering a GDP growth between 2 to 2.5% on a national basis and, at the moment, we should take the first quarter demand and the second quarter bookings, I think that the markets might be slightly below that level, but it is still too soon to determine whether our assumptions should be revised or not. I don't think so, at the moment.

Richard Lark:

Alex, I think that is an interesting question because it also… what we've been seeing over the last couple of years since Brazil emerged from the 2015-16 recession, I remember that was a 37% GDP contraction, which resulted in a 15% collapse in demand. We've been, you know, since 2016 when we started recovering, and now we're kind of back to this low 2s run rate. There is a couple of factors there: 1) it appears to be a higher quality GDP and it's based much more on the investment and production side of the equation than the government and the consumption side of the equation. So, and that has implications for our business. For example, you know we've continued to have very robust demand from the business clients, the corporate clients, okay? But we're kind of still waiting for the increased demand from the leisure customer, which is based on other factors. But there's other components today that I think are interesting with Brazil. We also didn't have in the past. I mean, we've never had this situation today in Brazil of very low single-digit inflation and interest rates. And it's not necessarily translating into higher consumption. Part of that is the Brazilian consumer is still the Brazilian individual, people like us. We're still recovering from the 15-16 recession in terms of security and disposable income and savings. We're still, you know, refilling the coffers of our bank accounts and our economic stability. We're still recovering from that here in Brazil. And so, we see probably a higher than normal historic elasticity on the corporate side. You know, corporate is growing 3 to 4 times GDP, where historically would have been more 2.5 times. But we're seeing a much lower contribution from the leisure side. And so, within the GDP component, you kind of got to look at it from that perspective. Then Kaki was mentioning as well is that, the way I like to say this is not, you know, please don't try to put Brazil into this box of, like, it's good or bad, or it's a whole country. Now Brazil is also growing internally regionally and that's why we've also been expanding our reach intra-Brazil, inside of Brazil. I mean, you see we're doing internationally and expanding our reach where Brazilian consumers are traveling internationally. We're also expanding regionally, and that's also based on what's going on economically regionally and so, outside of many of the main urban areas that historically were always the real drivers of Brazil, you're seeing much higher growth rates above this overall GDP growth in other areas, such as the northeast of Brazil. We've seen demand growth in the northeast of Brazil, which is in the teens, in the low teens, and so also what you're getting with us, in terms of our network, is we're constantly seeking out markets based on our holistic, unified one single fleet type aircraft network, in seeking out how to maximize our return on capital. And so, it's a little bit more than just kind of, you know, Brazil GDP, which is a good thing. I mean, we're becoming a more complex… Brazil is becoming a more mature economy in a lot of respects. It's still highly concentrated. Well, I mean, don't, you know, we're still a long way away of saying that we're not highly concentrated and not a highly natural resources raw material-based economy. Our corporate customers continue to be, Petrobras is in the valleys, and the companies that are based on the natural resources chain, and so we will go by the way of Brazil, and Brazil is going by the way what's going on with commodities. I mean, if you want to oversimplify it, that's how it is.

We're also seeking out competitive differentials in terms of our network management and our product management that we think also are, if you will, turning a little bit of this Brazil volatility a little bit more endogenous than it was in the past. I think that's reflecting the fact that we're seeing our demand growth be much higher than the historical elasticity rates. I would just kind of add that on there in terms of those of you who might not be necessarily, you know, day to day on Brazil and are thinking about how we're thinking about the Brazilian economy factor in our projections and imagine our network in the short term, meaning kind of this year or next year. That's kind of what, you know, even though, yes, we are using kind of a low 2's GDP forecast in our projections. That's true. There's a lot of other factors that come in there in terms of how we make our network decisions and our capacity decisions. It's all focused on maximizing return on invested capital. That's what you get with us.

Alex Falcone:

Okay. That's super helpful. Can you just touch base, if you can, a little bit, on the ICMS reduction on the state levels? Is that factor in your guidance or is that something that eventually, you know, there's some upside to that? And if you can also comment on the federal tax, you know, there is news that we're probably going to see a reduction on PIS COFINS, I'm not sure it's going to be effective for this year, and what does that mean? Is that pure profitability for you guys or it's basically industry-wide thing, a thing that everyone is just going to pass through, this industry crisis?

Paulo Kakinoff:

Oh yeah. Thank you very much for the question. We're not assuming any further ICM reduction on top of those valid today. Because those state level negotiations are not predictable on a timeline. Therefore, we are always considering only those ICMS agreements already in place. Regarding the federal taxes, I need really to highlight how positively we are welcoming the initiatives from the government, the reforms and mainly the policies applied to the civil aviation sector in Brazil, mainly highlighting those initiatives to reduce the additional costs in place in our country, mainly in comparison to the most developed markets. I would like to mention mainly the tax burden on fuels, the infrastructure investments and also discussions on the legal disputes, on… *judicialização*, how do I say?

Richard Lark:

I mean, all of these efforts… there's a lot of work in progress and these things are going to improve the overall competitivity in sectors. So, a work in progress in a lot of areas like… he's talking about areas that there is a big effort focus and also, you know, let's say, reducing the consumer claim cost that we have in our business. And so, there's no there's tax reform that's going to reduce those impacts on the overall kind of weight of the infrastructure of our business. And then, on the legal claims that come from the consumer, which in Brazil is enormous.

Paulo Kakinoff:

Yeah. I'm just highlighting the absurd of having that airline being obliged to pay a kind of legal indemnizations for the customers whenever the flight is canceled due to weather conditions. We are the only country in the world where this kind of penalty is applied to an airline. So, we do see a clear good view coming from the government in order to address those structural disadvantages of our market. Therefore, there is a very high expectation that positive outcomes will appear over a certain period of time. Those are challenging issues to be addressed that clearly this government is trying to address, all of them.

Alex Falcone:

Fantastic! Thank you so much!

Richard Lark:

[overlapping voices]. We're going to now switch over… We're going to close up this call. We have to switch over to our Portuguese language call. And so, if anybody else, you know, some of you continue with us, some of the local analysts, continue with us into that other call, and so I'd ask is if there's any anyone else who… there's some other people that are kind of showing up here wanting, at the last minute, to ask some additional questions, we have to shift over now to our Portuguese language call but please, I can see analysts there all the ones the other additional that want to speak are also native Portuguese speakers, and so please join us on that other call. We're going to shift over to that right now.

Paulo Kakinoff:

Thank you very much for your attention. I hope this session was helpful to you all and have a nice day. Thank you.

Operator:

And thank you, sir. This concludes the Gol airlines conference call for today. Again, we thank you all very much for your participation. Thank you. Take care and have a great day.