Operator:

Welcome to the GOL Airlines 1Q21 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 questions and answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach an 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 question 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 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, I will hand it over to Mr. Paulo Kakinoff. Please go ahead.

Paulo Kakinoff:

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

This 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 and then move to your questions.

The 1Q21 was marked by three relevant trends for GOL's resumption of growth going forward. The first one is the shareholders' approval of the merger of our operating subsidiaries, GLA and Smiles, at the March 24 extraordinary general meeting. The merger is expected to provide operating and financial synergies in excess of R$400 million per year, mainly through more dynamic management of the inventory of seats, unification of marketing initiatives, optimization of yield management and greater tax efficiencies.

There is high potential to generate value for the integrated entities as well as maximizing the competitive performance. The transaction will be self-financed through Smiles on cash generation, and it has significant benefits when considering the potential operational, financial and tax synergies that were not available in the configuration as separate companies.

Another important trend was our management of the second wave of the COVID-19 pandemic in Brazil, which reached its peak at the end of March. We maintained the necessary agility to adjust the supply according to fluctuations in demand. Fortunately, we are already seeing a promising decline in the second wave of COVID-19 cases with a corresponding resumption in ticket sales over the last few weeks. Based on the experience of airlines in the United States and the United Kingdom, countries that are more advanced than Brazil in the rollout of vaccines, we expect the national program for immunization to positively impact the normalization of demand for air travel in Brazil.

The third important trend this quarter was the reinforcement of the Company's long-term commitment to sustainability. This is a key component in combating the effects of the pandemic and is a strategic driver for proprietary and growth of the business going forward. GOL remains committed to being a leader in sustainability and is focused on reaching at 0 carbon emissions by 2050. Recently, we increased the transparency of goals ESG reporting, including detailed information using SASB and TCFD metrics as well as projections.

With that, I am going to hand you over to Richard, who is going to take us through some additional highlights and update on the 2Q21.

Richard Lark:

Thanks, Kaki. In the 1Q21, GOL's adjusted EBIT totaled R$208 million, corresponding to a margin of 13.3%, which shows the restoration of the operating margins necessary to support business growth. Adjusted EBITDA reached R$354 million. With a margin of 22.6%, reflecting the Company's successful sustainability efforts in balancing supply and demand.

As a result of a rapid response in adapting our capacity to demand levels, we went from cash consumption during the months of January and February, to a breakeven of cash inflows and outflows in March, closing the 1Q21 with R$1.8 billion in liquidity.

The net debt ratio, excluding exchangeable notes and perpetual bonds to adjusted LTM EBITDA was 11.4x on March 31, 2021, representing the lowest leverage among peers.

Even in an atypical year, our Company stands out among a few airlines in the world that has amortized more than R$4.1 billion of debt since the beginning of 2020, through its disciplined liquidity management and extraction of value from current assets.

Our current capacity planning scenario assumes a 39% reduction in the 2Q21 compared to the 1Q21. Operations are currently at between 185 to 200 flights per day, using 47 aircraft, which is 4x greater when compared to the essential network of April 2020.

After returning one leased, B737-800 aircraft in the 1Q21, GOL plans to return another five aircraft in the 2Q21. From the beginning of this crisis, until the end of April 2021, our Company has decreased its fleet by 17 leased Boeing 737 aircraft as well as reduced our 737 MAX deliveries scheduled for 2021 to 2022 by 33 planes. For the 2Q21, the Company expects to operate an average of 63 aircraft while maintaining personnel costs in their reduced position between 40% to 50% of pre pandemic levels.

Having converted a significant portion of GOL's fixed payroll and fleet costs into variable costs, we believe we are well positioned to expand the Company's leadership in unit cost. GOL expects to end June 2021 with around R$4.2 billion in liquidity after the Smiles reincorporation and the full amortization of its main short-term debt. Now I would like to return to Kakinoff.

Paulo Kakinoff:

Thanks, Rich. Despite the quiet celebration for GOL's anniversary, given the current circumstances, we could not forget to register again our sincere thanks to our customers, partners, shareholders and, in particular, to our team of Eagles for the Company's remarkable trajectory over these 24 unforgettable years full of achievements and celebrations.

We know that challenges will always exist, but we will continue to provide this essential service to Brazilians with our utmost dedication, whether for leisure travel, business or more recently in the transport of health professionals and distribution of vaccines. We reiterate our confidence as we have done over the past 12 months that GOL is emerging stronger and even more resilient as markets normalize. We remain and stand committed to the diligent management of our balance sheet and our operations throughout the recovery.

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

Stephen Trent, Citibank:

Good morning, and thanks very much for taking my questions. Just two quick ones from me, actually. Could you refresh my memory, one, if GOL is still doing any engine maintenance with Delta TechOps?

And two, any color on external customer flow maybe for later this year or next year with GOL Aerotech? I know you guys have various code-shares cooking with American Airlines and others. Thank you.

Paulo Kakinoff:

Good morning, Stephen. Actually, Delta TechOps is among our MRO suppliers. We still have business with them, and we might remain so. I think the highest possible diversity of suppliers, the bass is the price we can get. So we still have business, and will probably continue to do.

Regarding Aerotech, this is possibly one of the most positive outcomes of this pandemic. The Aerotech structure and our low-cost translated into most attractive MRO services, and price makes us even more attractive to some important airline players. Therefore, we have been already requested by new customers to send our price proposal, and I believe that we are going to have a considerable amount of new clients to our MRO facilities.

Stephen Trent:

That is perfect, Kaki. I will let someone else ask a question. Thank you.

Richard Lark:

Just a couple with that number. GOL Aerotech, which already does third-party services, is focused on airframes. It does not have the capability to do the heavy engine maintenance. And so our focus there is airframe maintenance, not the heavy engine overhaul.

Stephen Trent:

Perfect. Thanks, Rich.

Mike Linenberg, Deutsche Bank:

Good morning. Just a couple here. Rich, can you just walk us through to sort of bridge your liquidity at March quarter-end, R$1.8 billion. You are going to end at R$4.2 billion, and we saw the announcement yesterday of the rights offering. So presumably, that is in there. You talked about a Smiles piece. I am also trying to get a better feel for how you are thinking about the build in the air traffic liability, presumably tickets for travel for July and August showing up by June quarter-end. If you could just sort of tease out the different pieces and what is driving what, that would be great. Thanks.

Richard Lark:

Sure. Thanks for that question. First, the rights offering is not included in those numbers. I think it is important to get that out there. Part of it is because there is both the credit accretive and the earnings accretive use of proceeds from that. Credit accretive related to credit accretive liability management and continued deleveraging, and then also acquisition of aircraft. And we are not going to add that liquidity and keep expensive liabilities.

On the bridge there, going from the R$4 billion to the R$4.2 billion is basically because of increase in customer accounts receivable and forward bookings. Where we are right now is in the top of the trough, if you will. April for us normally is the lowest seasonal month. Normally, obviously, that is the normal trough, and is a trough on top of that because of the second wave.

And so basically, running through that for you quickly, Smiles on a consolidated basis, we paid a dividend out of Smiles of R$0.5 billion, that went out in April. If you take that scenario that we have articulated for you with the reincorporation of Smiles, that would be use of around R$300 million. But we can hit that separately. But that would be the, the assumption there of R$300 million in the scenarios that we are looking at there. We can talk about that separately.

Then there is the tale of the Delta loan. We have around US$25 million or still outstanding on the Delta loan, and so that goes out in the quarter. And then there is some small effects on working capital. Those are kind of the outflows.

Then there is this cash generation at our Smiles subsidiary of around R$300 million to R$400 million. Then the capital raising that we expect to be doing in the 2Q related to a retap on our 2026 Senior Notes. And then there is receivables growth in there of R$200 million to R$300 million. And so that is basically the bridge to the R$4.2 billion. If you were to include that R$0.5 billion of the capital increase, that R$4.2 billion would be around R$4.7 billion.

Now in addition to that, let me just kind of throw in there. That does not include that number, which is cash, receivables and deposits, which we have access to. That does not include our unencumbered assets. Which are not where we have leverage capacity. In our existing secured financing for spare parts and IP.

Then there is the IP of Smiles, and there are also recent accounts receivable, which we can also factor. So it represents effective leverage. If you were to take that R$4.2 billion and add the financial portion of our unencumbered assets, spare parts, GOL IP, Smiles IP and the increase in receivables. That number would go to about R$7.7 billion of total potential liquidity sources, including the unencumbered assets, which is around a R$2.1 billion increase over where we were at the end of the 1Q, because if you take the R$4 billion in total liquidity at the end of the 1Q, and you add in just the spare parts and GOL IP because we did not have access to the Smiles IP and there was no increase in receivables, that number, in terms of the total financeable is about R$5.6 billion. So that R$5.6 billion at the end of 1Q, goes to R$7.7 billion at the end of 2Q.

And part of that is also related to where we are in the recovery of the second wave. If you look in the rearview mirror, we had the last 15 days of January, through February, and you can see some of the data in the presentation we provided to you guys on the slide. That is in the rearview mirror now.

We have been now in the last two or three weeks, and maybe Kaki can comment on this, a big portion of that is related to the increase in sales that we are experiencing now as we (18:32 TECHNICAL DIFFICULTY)

Paulo Kakinoff:

actually, we have been supplied to keep our conservative approach towards the pandemic development, that is the winning strategy that has made us go through this desert crossing, protecting our Company and making ourselves able, alongside with every stakeholder, to protect the Company's future.

Therefore, we have shared with you a pretty conservative guidance since this pandemic started. But it is also important to highlight that already for three weeks, we have noted a quite considerable booking curve increase, in a rate of 10% growth per week, and it shows that we might emulate the same demand recovery that we have seen in the United States for the domestic market.

We have quite comparable characteristics. The country size, the robust domestic market. And we lived that once. In 3Q20 and 4Q20, we had resumed the pre COVID-19 demand in a very sustainable way, and then came this second wave.

But the biggest difference now is the vaccination, having the vaccines available. You possibly know that we have spent a considerable amount of our time in supporting the central government to acquire additional shots, to buy more and more vaccines. And the government has been successful so far, considering that we have already contracted 532 million shots for this year, which is enough to immunize 117% of the Brazilian population, considering that everyone will take the vaccine. And now, also, the national immunization program curve is ramping up.

So I think that we have considerable chances to emulate the same behavior we have seen in the United States. And actually, this is what we are seeing at the moment, considering the forward booking curve.

Richard Lark:

And then just to cover, just really quick, and sorry, Michael, there is a lot on here, because part of the walk-through liquidity relates like this because, again, as we are kind of been saying like we need to cover about R$0.5 billion of accounts receivable that we lost because of the pandemic. That is kind of what we are missing right now.

We start to get the recovery on that now. Those numbers that we gave on the roughly R$1 billion of revenues for the 2Q do not consider what Kaki was just talking about. We are seeing higher growth in that. Obviously, we need to get a couple more weeks into it before we are going to adjust at all our operating liability planning, but what is in those numbers for the 2Q considers May slightly over where we are in April. But at this point, it is looking like it is going to be higher.

Mike Linenberg:

What Kaki said about vaccination is clearly reassuring. And I know Brazil has actually a strong history in that area with respect to like Zika and malaria. So the rollout, I think, will go well.

Just one, Rich, back to you just quickly on two items that you mentioned. You talked about a 2Q retap on bonds. What were the notes? What was the series? Did you say 2016?

Richard Lark:

As you know, in December, we created this secured financing program. We deposited around US$900 million of collateral in there, and we did an initial US$200 million capital raise there.

Mike Linenberg:

So it is an add-on.

Richard Lark:

That matures in mid-2026.

Mike Linenberg:

You are adding on to that.

Richard Lark:

That is our secret weapon to go back to wherever we need to put in some additional liquidity, again, for credit accretive or earnings accretive use of proceeds. It is not going to be used for operations, but we have that.

The reason I am saying that, Michael, is that we specifically avoided doing schizophrenic capital raisings during the last 12 months. I think the announcement last night on the equity investment by the controlling shareholder is an example of that. It is the right time for that to be coming in right now.

And also, with this program that we set up, we have significant borrowing capacity. We have US$400 million of additional borrowing capacity on that. That trades in the market, it is there. It is perfected, and that is our proprietary tool.

Mike Linenberg:

You said US$400 million?

Richard Lark:

We have additional borrowing capacity there. We have a bad connection, I apologize.

Mike Linenberg:

Yes, every time you say the number, you cut out. You cut out every time you say the number. What is the additional borrowing capacity? Is it US$400 million?

Richard Lark:

With collateral, we have (25:32 TECHNICAL DIFFICULTY) and we have US$300 million to US$400 million of additional financing capacity in the secured program.

Mike Linenberg:

Great. This is great. It is reassuring that the rights offering is not in the liquidity numbers. So we know there is upside there. Thanks for answering to my questions, gentlemen. I appreciate it.

Dan McKenzie, Seaport Global Securities:

Good morning. Congrats on all the initiatives here this morning on the transactions. Couple of questions. One, I am wondering if you can just add some more color around the Smiles transaction. So the US$400 million synergies highlight in the release, what are the timing of these synergies, are they immediate? Do they ramp up, say, over several quarters? And then how do they break down revenues versus costs? And then just finally on this, I am wondering if you can just share with the final mix of equity versus cash that was opted by the Smiles shareholders?

Richard Lark:

Sure, Dan. Actually, let me start with the second thing. The next week is the end of the withdrawal rights period. Then, by the end of May, there is the choice period where minorities will pick between two options. One option is 80% cash, 20% stock. And then the other option is vice-versa, 80%

stock, 20% cash. And that decision will be made by roughly the end of May, and then there is the operation component phase of the Brazilian Stock Exchange, and the actual closing and liquidation would be on June 23. So there is almost still two months ahead on that.

What we kind of put in the presentation, I realize many of you guys might have not had time to look at that yet. But if you look at pages 22 to 25 of the videos that are on the GOL website, we gave you guys a lot of granularity on that, but I will summarize it for you now.

Structurally, there are many funds that when you give an option of stock, they are obligated fiduciary wise to take the maximum stock component and so based on what we know for our process with the minorities during the take in process structural as well as what has been indicated to us.

We know that around 70% are going to be taking the more stock option. And so in that scenario, with 70% taking the more stock option that would be R$537 million required for the cash component, and then the dilution on (TECHNICAL DIFFICULTY 29:01) would be 7.8%.

If the base takes the maximum more stock option, 100% taking the more stock option, that would then require R$301 million of cash usage and would be 9.9% dilution. Where the GOL price is trading today, it is pretty much trading at the rational financial breakeven where economically rational decisions would result in taking 100% of minority shareholders taking the more stock option. Obviously, there is still six or seven weeks between now and the liquidation.

So there is an option component in there, given the volatility of the GOL stock. But if the GOL stock stays where it is or increases above where it is today, it is likely that we would see 100% taking the more stock option. And that is why I said in the previous answer that we are assuming that is going to be on a consolidated basis of R$300 million cash outflow to Smiles minorities. And the implicit goal local PN stock price used in that for the dilution calculation is R$27. So that would be 9.9% dilution at the R$27.

But if you go to Page 24 of the presentation, we put up there today, you've got scenarios that go between 70% more stock and 30% more cash. And 100% more stock, 0% more cash, and you can kind of see how that would play out there. So that number is right there. And the estimated end of 2Q cash balance at Smiles is around R$600 million.

So in all of those scenarios, the cash balance at Smiles, the liquidity, if you will, is more than enough to cover that cash component. That is why we kind of use the phrase, it is kind of self-financing.

Now on the synergies, the estimated NPV of the synergies is R$2.8 billion. Most of that is going to be realized over a five-year period. The synergies start to be realized once we get the transaction done. So, if you will, in July of this year.

There is a variety of components there. There is a yield management component, better optimization of yields. There is a better cash management component in terms of not having cash trapped earning, CD rates on cash. We can allocate that more effectively across the group and higher opportunity cost situations. And then there is the tax efficiency component, which is really twofold.

One is a reduction in the taxes on revenues on the Smiles revenue stream, there is a significant reduction there. And the better utilization of the GOL NOLs, but those start this year, and it is potentially around R$400 million of incremental additional cash flow that can already be realized in the 2H21.

I think for all intents and purposes, that is a done deal, and so that will start to get incorporated into the cash flow management of the Group. How much we can realize on the tax synergies, part of it is going to be related to the utilization of the NOLs at a Group basis, and how profitable the overall entities are, but you can use approximately R$400 million of incremental cash generation in the 2H21.

Dan McKenzie:

Thanks for taking the time to walk through the presentation. Very helpful. Second question here, I am looking at the R$129 million in the natural amortization of debt from aircraft leases in the quarter. And if I just do some simple math on what that could mean, say, over the coming three years, it looks like GOL could potentially pay down R$7.5 billion to R$8 billion of debt. And so that is just setting aside debt maturities, just looking at deleveraging that comes from the natural amortization of aircraft leases. And I guess I am just wondering if you can triangulate that math with how you are thinking about the balance sheet and how you want to manage the balance sheet in a normalized demand environment?

Richard Lark:

That is at the heart of a lot of what we have been doing during this pandemic, which is a different management, much more focused on cash utilization than margin maximization. We kind of have two guiding directives that we have used to guarantee that we have a unit cost equal to or lower than where we came into the pandemic, and the other was to keep matching asset liabilities, which will ultimately mean that on a run rate basis in the 4Q21, we will have a leverage equal to or lower than when we came into the pandemic.

That, for us, from a policy perspective, we generally target in terms of what makes sense for us, meaning how the margins go through the cycle from peak to trough. We work with an average leverage of 3x of net debt-to-EBITDA, and so that is where we will be on the other side of this, normalized and excluding grounded aircraft and excluding the LTM effects of the pandemic. We could start to see on a run rate basis, those statistics again on a run rate, normalized basis, 4Q21. But just a couple of other points there because this is important.

And I think we are not necessarily getting a lot of credit for this, given how people have looked at it. Since the beginning of this year till now, we have amortized over R$4 billion of debt. A portion of that has been returned to investors, some has been a reduction in other types of that.

And so we have continued to do de-levering during this crisis. So the problem is not really the denominator. The denominator, meaning the LTM EBITDA has kind of collapsed. That is why that number has gone up to this 11x using the LTM statistics.

Pre-pandemic, we were kind of starring at around 2.5x leverage for the end of 2020, again, pre-pandemic, at the beginning of last year. And that for us means that we are managing the leverage from peak to trough. We want to kind of be between a 2x and a 5x from peak to trough in terms of the economic cycle. Obviously, barring pandemics, which aren't part of the normal economic cycle.

On your question on the leases, you are correct. They have increased R$1.5 billion. Part of this is because of the way the IFRS 16 calculations work, but they have increased R$1.5 billion during the pandemic from a portion of our negotiations then related to deferrals that will be repaid starting in 2022 at a rate of 20% to 30% per year. So that R$1.5 billion that our Company achieved in terms of deferrals will be gradually reduced over a two to three-year period.

There is another component to be careful for those of you looking at the FX, the BRL is devalued at 30%. And that and also increased our gross lease set by another R$1.5 billion. It is a different R$1.5 billion.

Now we say that R$1.5 billion devaluation and then that was offset, and that will be offset by a R$1.5 billion debt repayment. And so if you assume that, that FX variation comes back and you combine that with the R$1.5 billion, specifically on leases, debt repayment. Starting in 2022, 2023, 2024, just that component on the leases is a R$3 billion deleveraging in the next three years, which I think you might be getting at. So on the lease side, there is R$3 billion.

On the other big components, the Smiles complex represented for us about US$600 million of debt. If you take the term loan B, which became the Delta loan, and then the minority interest, that is gone at the end of the 2Q. Probably gone. The only other potential target of our liability management is the BRL debenture that we have outstanding today, which is about R$600 million, which has a very unproportional, unfavorable collateral mechanism today, because it has the fiduciary assignment of our accounts receivables there. So that will also be disappearing.

But once we have taken care of that, there is really no other liabilities that we would, on a normalized basis, change. There are structural liabilities that are part of our business that are always going to be on the right side of the balance sheet, be they the capital markets instrument, which is our secured debt, our unsecured debt and our unsecured convert, or the working capital facilities we have, which are related to financing working capital, and maintenance and things like that.

So all those liabilities will stay. We have been rolling those over during the pandemic, but they belong in the capital structure with few exceptions. What has happened again in the world of pandemic. We haven't had a liability problem. We have had an asset problem. Where we had a significant portion of our current assets wiped out by the pandemic, which is around R$1 billion.

And so like, as Kaki was saying, is that as we get the recovery on the revenues, we get back around eventually probably by the 3Q on a normalized basis, around R$0.5 billion of corporate sales per month. That will translate into additional receivable of somewhere between accounts receivable on our balance sheet of between R$0.5 billion and R$1 billion. And so once we have the normalized accounts receivable, normalized current assets, and we go back to having 60 days receivable, 60 days payables, that is when our balance sheet will look normalized.

But there is not a whole lot we need to do on the non-current portion of the assets and liabilities. There are some final pieces there as related to the Smiles complex. As I mentioned, the Term Loan B which was paid R$300 million in August of last year, and then we had a US$250 million loan from Delta, that has pretty much paid off where we are right now. And so if you look at it from a big picture basis, we will continue to deleverage.

And I should also say in the 1Q numbers, once you guys unpack it, you will see that we also deleveraged in the 1Q. If you back out exchange rate effects and look at the Delta loan and the cash effects backing these things out, that is the long answer. But the short answer would be, our objective is to return to a 3x net leverage, which we believe is sufficient to get our credit rating to a BB.

And we already have that latent in what we are doing here right now. You cannot see it because of the pandemic effects and also some of the exchange rate effects, but we already have that kind of locked and loaded, if you will, in terms of the work we have done on both the working capital structure as well as the long-term capital structure.

Fortunately, you are probably only going to be able to see once the EBITDA starts to normalize, which will be more of a 3Q and 4Q events. I apologize for the long answer, but I know you are focused on the lease component, but I think I was clear there with the lease component. The negotiations we did focused on NPV positive mark-to-markets, focused on converting what we needed into power by the hour so that we could keep aircraft on the ground without having to return them until the recovery happens. And then deferrals, but deferrals that will match perfectly, not just with the ramp-up, but going in terms of getting back to the 3x leverage on the capital structure.

Dan McKenzie:

That is terrific. Thanks for the comprehensive answer, Rich.

Savi Syth, Raymond James:

Good afternoon. Could you share how many MAX aircraft do you expect in 2021? And what your thinking might be in 2022 and 2023, at least kind of a high and low estimate? And around that, are you still thinking maybe roughly R$2 million for aircraft in kind of sale-leaseback gain from a cash contribution standpoint?

Paulo Kakinoff:

Savi, actually, we are expecting to get between eight to ten more aircraft, and we are, at this moment, discussing with Boeing, how many and how fast we could speed this process up. I believe that we are going to have interesting news to share with you pretty soon.

But you know, and everybody knows that we are willing to speed this process up as much as we can, and I think that the negotiations are progressing quite well.

And now I think that it is really hard to tell how much we could get through a sale and leaseback because the market prices are pretty volatile, but we see a clear appetite from the lessor side to support these kind of transactions.

So I think that there would not be any kind of bottleneck coming from the lessor side in enabling us to achieve this faster renewal program being implemented.

Richard Lark:

And we also have finance lease mechanisms available for us this year as well, which may be combined opportunistically with the aircraft of available in the market, including outside of our existing order.

The approach we have taken is that we want to have additional cash reserve on our balance sheet before we go out and walk-in any finance leases, like we have very attractive long-term financing available for 85% or so of the acquisition price of the aircraft. We just have to come up with the other 15% of our own equity contribution.

Obviously, we can lever that as well. That is something that will definitely be present in the second half of this year as we get on the other side of the intense focus entirely in operations. But with us, in particular, we want to accelerate our transformation from the NG to the MAXs soon as possible.

Savi Syth:

That all makes sense. And we will stay tuned there. Can I quickly follow-up? As you bring back aircraft into the system, should we expect any kind of maintenance catch-up that is related to that? And how much of that might be incremental cash versus being able to use up maintenance reserves that you have already?

Richard Lark:

In our case, it is not required for increasing operations. We have the regular outflow on engine overhauls that we need to do anyway. So none of that is going to be incremental. What can be incremental to us is if we accelerate the transition from NGs to the MAXs, because as it relates to the aircraft delivery process, then we have extra costs and cash outflows as it relates to the re-delivery process.

Now we can use some of our non-cash current assets of deposits and reserves and other things to cost out those returns. But that for us is not of a high-class problem because if we are accelerating the transition from the NG to the MAXs is because we locked in some attractive acquisitions of aircraft, and then we can generally work out the details with the counterparties on that being a leasing company or whatnot in terms of how we pay, if you will, or finance the aircraft redelivery costs. But what we have been guiding on the CAPEX per quarter is more or less what we need to kind of be spending here in terms of engine overhauls and so on.

Savi Syth:

I appreciate. Thank you.

Victor Mizusaki, Bradesco BBI:

Thank you. I have two questions here. The first one, Richard, you mentioned about the secured bond program, basically saying that maybe the Company can issue bonds in the 2Q. But when we take a look on your press release, we actually see some targets for ESG. So my question is if there is any plan to maybe issue sustainability-linked bonds in the near term.

And the second question is related to the equity raise. In the guidance for the 2Q, you are not assuming the capital increase. So I would like to understand, is there anything pending? Or why did you try to do not include the R$500 million?

Richard Lark:

I am sorry, Victor, it was breaking up. Can you repeat the second question?

Victor Mizusaki:

Yes. The guidance for the 2Q, the liquidity position, you mentioned in the conference call that you are not including the equity raise of R$500 million that should be concluded next week. So I would like to understand if there is any reason why you chose to not incorporate this in your guidance.

Richard Lark:

Okay. Number one, that is not correct. You (51:25) the situation there. There is a couple of sell-side guys this morning that made a lot of mistakes by trying to put stuff out quickly. The date that you referred to is the filings with the SEC. Because in Brazil, print devices are mandatory, and in the U.S., they are voluntary. What we do is we always make our print devices available to all of our ADR shareholders, including retail investors. So we give our printed devices and make them available to everybody.

So what you referred to there, May 7, is not when the capital increase closes, it specifically refers to when those documents are filed with the U.S. authorities, because there is that component as well. And so there is a delay there.

The capital increase process would be finalized by the end of May. And also, what I was trying to say in the previous answer, maybe you did not hear, is that those resources will be used for specific credit accretive and earnings accretive opportunities, most likely in the 2Q. So it is not necessarily going to change our overall liquidity position.

There is an asset coming in, and then there will be a liability going out, or cash going out. Some of the activities with aircraft acquisition, for example, if we go out and spot buy an aircraft today, those aircraft are already produced on the ground, so you have to make the deposit for the predelivery, or just pay your equity component. It is not the normal cycle for us, which would be a 12 to 24 month process of gradually making the predelivery deposits.

So the main reason it is not in there is that the use of proceeds for equity here, we always match our assets and liabilities. Long-term equity capital has to generate returns appropriate to equity capital. That is going to be used for highly credit accretive liability management and highly earnings accretive asset acquisition. So that is the main reason on that.

In terms of your question on the green bond or something like that, we do not have any plans to do that right now. We do not have anything under study. I think it is something we may study in the future, but we have not spent a lot of time looking at that because we have been looking at other types of financings for this Company, for this airline.

I think if we could generate a benefit out of that, we would do that, but I think for the most part, and I am speaking a little bit out of ignorance, is that versus what we are doing already, GOL has been doing ESG related metrics and management for 20 years. This is not anything new for us. What we are doing is providing a lot of more disclosures on it, mainly because investors are requesting us to put more information out there. And we also have good conversations with buy side folks that are raising funds to focus on companies with good ESG initiatives.

So we kind of feel like we can access those pools of capital without necessarily slapping an ESG name on something we are already doing. But I said part of it, I was speaking out of ignorance because generally, we spent a lot of time studying and preparing these things before we go out and do it.

We have seen companies go out and do these things where they are committing to certain things. But as you can see, we have already committed to things we are doing internally anyway because we think it makes sense, including being net carbon neutral by 2050 and a whole bunch of variety of other types of initiatives, but potentially, but we do not see like any change in our capital access because of what we are doing, I think it tends to be a little bit the opposite.

For companies that do not have the proper metrics and goals, one of the more important things is actually have specific goals that you are working towards. You will lose investors in your existing securities. We have many investors that we engage with on ESG metrics that are in our current securities. And if we did not provide the disclosures that we provide, they would not be able to invest in our current securities, and they would have to disinvest.

But I do not know. I think in our particular case, we have more limited tools, more limited opportunities. The tools we have developed today are pretty much the tools that we need. We have equity, which provides the base and finances long-term investments. We have our unsecured bonds. We have got an unsecured bond on a perp, which kind of occupy a level and a capital structure right above that. Part and parcel of that is our unsecured convert structure, which fits in there nicely and allows us to monetize the volatility of our stock and attract a certain type of investor. And then recently, we put on top of that in terms of the capital markets, the secured financing program.

So right now we feel like we kind of have all the right tools to properly finance our assets and all types of cycles. Now whether an ESG bond or a green bond would fit in here, it would depend on the use of proceed sector.

We would have to have what will be the use of proceeds for that, and that is something that we have to study. Because all of our capital markets raising are always use of proceeds driven in terms of where the proceeds are going to be allocated to create value.

And so we would have to see that. But perhaps there could be something more of a working capital nature because obviously, a lot of what we are doing in ESG is much less related to long-term capital and it is much more related to operations. It is how we operate our aircraft, how we manage the Company. And so perhaps we would look at something from a working capital perspective.

But everything we do here has to go through the prism of proper matching of assets liabilities. And any time we have highlighted that is when we get on the wrong side of the balance sheet gets flipped in the wrong direction.

And so as I was saying, I think in the answer I gave to Dan, we think that we have got the proper capital structure policy today. That is something we could study, but I do not see anything happening in that category this year.

Victor Mizusaki:

Great. Thank you.

Guilherme Mendes, JPMorgan:

Good morning, everyone, and thanks for taking my question. Actually, it is a quick follow-up on the Smiles and the capital increase. Just wanted to better understand the timetable for the transactions. You mentioned that both transactions should be concluded by the end of May. I just wanted to doublecheck if the capital increase should happen after the full incorporation of Smiles. And if not, if the capital increase may impact the exchange ratio between Smiles and GOL shares? Thank you.

Richard Lark:

The answer is no across the board. I will just repeat the previous answer. The liquidation of the Smiles transaction would be June 23. The withdrawal right period ends next week. The choice in terms of cash and stock is the end of May, and that transaction will be finalized by the end of June.

And no, the capital increase does not impact anything related to Smiles. If anything, it impacts it in a positive way because investors that made or are making the decision, if they want cash or to become a GOL shareholder, are effectively getting that for free. It was not something was involved in their decision at the shareholders meeting a little over a month ago.

But no, it does not affect any of the calculations there. The only thing that affects those calculations was the dividend payment made by Smiles a couple of weeks ago, where the ex-dividend price gets adjusted down by about R$4, as we have explained.

Guilherme Mendes:

Great. Thanks, Richard.

Operator

We have no more questions in the queue. This concludes the GOL Airlines conference call for today. Thank you very much for your participation, and have a nice day.