Y 2019 Earnings Call

Company Participants

- Paulo Sergio Kakinoff, President and Chief Executive Officer
- Richard F. Lark, Executive Vice President, Chief Financial Officer and Investor Relations Officer

Other Participants

- Alex Bicknell
- Bruno Amorim
- Dan Mckenzie
- Marcos Barreto
- Michael Linenberg
- Savanthi Syth
- Victor Mizusaki

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. (Operator Instruction) This event is Also being broadcast live via webcast and may be accessed through the GOL website at www.voegol.com.br/ir and the MZiQ platform at www.mziq.com. Those following the presentation via the webcast may post your questions on the platform and their questions will 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 our 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.Paul Kakinoff. Please begin sir.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

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

Richard F. Lark {BIO 3484643 <GO>}

Good morning. It's my pleasure to be with you all today.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

This morning, we released our fourth quarter figures. Also, we made available on GOL's Investor Relations website three videos with the results presentation, financial review and the preliminary Q&A. We have once again delivered when our guidance thanks to the dedication and engagement of other team of the [ph].

Despite several operational challenging 2019 such as the Max delays and the unplanted maintenance on some NGs goes net revenue was R$3.8 billion in the quarter. The highest ever recorded by the company and increase of 18.8% compared to the same period in 2018. And 2019, net revenue reached R$13.9 billion and increase of 21.5% compared to 2018. GOL's net revenue guidance for 2020 is approximately $15.4 billion, record revenues disclosure [ph] what has been an outstanding year in our history.

The superior experience provided to customers combined with goes low cost operating model and sophisticated suite 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 per diluted EPS were $0.42. GOL's 2020 EPS and Earning Spear EPS guidance is R$2.65 to R$3.15 and R$1.25 to R$1.50 respectively.

Recurring pre-tax margin was 22.9% in the fourth quarter of 2019, increase it 60.8[ph] percentage points quarter-over-quarter. In the full year 2019 recurring pre-tax margin was 6.5% a growth of 23.4% percentage points year-over-year. GOL's 2020 pre-tax margin guidance is approximately 13%. Recurring EBITDA margin was 38.5% an increase of 22.2 percentage points quarter-over-quarter.

In 2019 recurring EBITDA margin was 31.5% it grow for 11.5 percentage points year-over-year. GOL's 2020 EBITDA margin guidance is approximately 30%. The company returned R$800 million of cash this capital partners in the fourth quarter. Mainly comprised of R$670 million of debt repayments, R$50 million of interested on capital and R$102 million of share repurchases. GOL has a high level of few hedging protection place with around 90% protection in the first quarter this year and 68% Hedge in 2020.

Once again, we improved our operating indicators. RPK increased at 5.5% totaling 10.8 billion in the quarter driven by and 8% growth in the number of transported passengers, [ph] ESP growth was 6%. Strong passenger demand and dynamic revenue management enables GOL to manage the increase in unit operating costs achieving the following indicators, One, average yield per passenger of R$33.2 and increase of 13.8% compared to fourth quarter '18. Two, average load factor of 81.5%. Three, average aircraft utilization of 12.2 hours/day, an increase of 6.1% quarter-over-quarter. And four, flight completion of 99.2% a growth of 0.6 percentage points compared to the same quarter 2018 according to Infraero and data from major airports.

We continue to drive strong revenue growth, the net was R$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 domestic market and increase of 9.5% over same period 2018 and R$0.5 million international market. Net Revenue Per Available Seat Kilometer RASK was R$28.7 of real, an increase of 12.1% over fourth quarter last year.

Net Passenger Revenue Per Available Seat Kilometer RASK was R$27 an increase of 13.3% quarter-over-quarter. We have used over fleet plan flexibility accessibility to accommodate the increased demand for our passenger transportation services and to manage the next delays, and the recent and plane maintenance requirements on some of our NGs.

We have used the fifth class flexibility to accommodate the increased demand for our passenger transportation services, and to manage the Max delays and the recent and plant maintenance requirements on some of our NGs, In the first quarter, we added 16 aircraft to the fleet. We have the expectation of the max returns to service in our network in the beginning of second half of 2020.

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

Richard F. Lark {BIO 3484643 <GO>}

Thanks Kaki. I would like to comment about our controlled cost environment, caused the lowest unit costs in its markets unit cost based on cost per Available Seat Kilometer CASK, excluding non-return expenses decreased by 12.8% from R$24.2 in the fourth quarter of 2018 to R$21.1, partially impacted by 17% decrease in the average fuel price and a 2% reduction in fuel consumption per flight hour.

Fuel cost per ASKs decreased 15.6% mainly due to reduction of fuel taxes. CASK ex-fuel excluded on recurring expenses increased by 11.1%, primarily due to increased productivity, operating efficiency, aircraft utilization and increase in ASKs, and a reduction in aircraft maintenance expenses due to a decreased in aircraft returns in this quarter. Partially offset by One, 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. And two, a 23.8% growth in personnel expenses mainly due to an increase in the federal payroll tax rate the 20%. And the hiring and training of 819 new employees, due to the expansion of operations in the rules in your bases.

Our margins remain healthy, due to strong cost control, capacity and yield management the company earned operating profits for the 14 consecutive quarter. Good demand and able GOL to achieved 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 R$830 million and R$1.6 billion higher than in the same period last year and 2018 respectively. Recurring EBITDA margin was 38.5% and increase of 20.2 percentage points 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, R$230 million higher in comparison to September 30, 2019 and R$1.3 billion higher than December 31, 2018.

In the fourth quarter of 2019, the company repaid R$617 million of principle data leases, R$50 million of interest on capital and repurchase 102 million of stock. The net exchange and monetary variation gains in the quarter total R$372 million. Net debt excluding our perpetual bonds and exchangeable bonds to LTM. EBITDA was 2.4x at December 31st, 2019.

Now I would like to return to Kakinoff.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thanks, Rich. Summarizing in 2019 Blue accomplishes a number of significant milestones in its business strategies to be the first Airline for everyone and to grow its network both international and domestic. Our commitment to the continuous improvement results has proven this strategy assertiveness of offering a differentiated and high quality products, while relentlessly, focusing, and cost efficiency.

We've remain committed and offering the best experience in air transportation, which is physically services to customers on new and modern aircraft that connects our main markets with the most convenient schedules. We are focus on prudent management of our capital structure and liquidity, when seeing 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, which is scenario of increases the aircraft industry in Brazil and our continue capacity Supreme, making our company the first for everyone is what drives our best-in-class Brazil visions.

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

Questions And Answers

Operator

(Question And Answer)

Thank you, sir. The floor is now open for questions. (Operator Instructions) And the first question we have will come from Michael Linenberg of Deutsche Bank. Please go ahead.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. 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.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

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

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Actually we announced the new partnership agreement two weeks ago and to give you a better guidance on how much it's 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, wouldn't partner by another, we are also shifting the natural traffic generated by GOL found one company to the order, 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 created or sourced by this partnership, it can only get better.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Great. Then my second question and it's just really two quick accounting questions maybe to Rich. In the guidance, you do call out the minority interest line for 2020 and 2021, but presumably you will at, in the 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 too Rich on that, thank you.

A - Richard F. Lark {BIO 3484643 <GO>}

Sure. Hi, Michael. We've been providing that line item for a while now in our guidance, so it's nothing new. That's a 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 talk about with you guys is, 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. And so in addition to that you also have the tax effects as well. But that line item there that just reflects, what's been there 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 liquidated in May and then the merger would happen during the third quarter where that line item if you will would be zeroed out. So that's immediately earnings accreted -- immediately earnings accreted to GOL on a consolidated basis. And then there's the other effects which related to better tax efficiency, improve business processes and also some potential improved yield management on a consolidated basis. But overall improved competitively, I mean you've seen our cash flow generation already and that's going to get even stronger in that respect.

But yes, so that line item there is just -- it's just a help you and others understand and have visibility in an RNA because the only things we've been trying to do here at GOL, talking to myself is give the market better earnings visibility. And so we've been -- as you've seen over the years we've provided a significant amount of line item detail probably more than any other company out there. And we're committed to that. I mean, this is how we're thinking about managing the business. This is how we're managing the business, but obviously its guidance, its guidance since our guidance. You guys also have to come up with your own numbers.

But in terms of the earnings per share count, I'm not sure if I understood the question, but the fully diluted shared count that's -- that we're using in our earnings reporting on a diluted basis is 391 million shares and 195.5 million ADS. That includes the conversion of all existing stock options and includes the -- and as its converted for the convertible bond that was issued. And so that's fully loaded for all of the potential dilution effects based on what's currently issued via stock options or the convert, which is in our release denominated exchangeable amounts.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Yet I just -- 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 and that was actually the question I was going to ask, that you probably had it in there, that's presentable that is.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

That's correct. Going forward, so for the 2020 and then the 2021 guidance as if you're talking about the fourth quarter, yes, it's at the full effect for the Q4. And if you were to go back for the full year retroactively 2018, it would be -- there would be a slight reduction there. Correct, yes.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yes. That's fine. Okay, that makes sense. Okay, great. No, I appreciate it. Thank you.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you.

Operator

And next we have Dan Mckenzie of Buckingham Research.

Q - Dan Mckenzie {BIO 15071178 <GO>}

Yes. Hey, thanks. Good morning guys. Few questions here, first I guess just the house cleaning question on the revised outlook for 2020. I did follow here and that's despite the incremental upside from the codeshare with American. So I'm just wondering what that factored in as a potentially factoring a slower GDP outlook for the country or I'm just wondering if you can speak to that?

A - Richard F. Lark {BIO 3484643 <GO>}

Dan, you were saying a slight reduction in the revenue forecast for 2020. Was that a question?

Q - Dan Mckenzie {BIO 15071178 <GO>}

Yes, that's correct.

A - Richard F. Lark {BIO 3484643 <GO>}

That's a tiny calibration there. It's nothing material. It reflects what's going on with our capacity situation. Like we have been, as you saw last year, we deed our revenue guidance by about BRL300 million with about 3% less overall 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 we're at record utilization, record load factors. You see we were getting on the RASM side and so what that reflects is, I'll 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've seen a shift there also between domestic and international. So what that really affects 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.

Q - Dan Mckenzie {BIO 15071178 <GO>}

Yes. Understood. And it does not reflect the revenue upside from the codeshare with American?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Actually when we -- hi, Kakinoff here. Actually, when we provide you the revenue guidance for the year. We were already assuming the partnership with another airline. So if you consider that both either United and American airlines, they are a much bigger in Brazil than Delta. We did assume something in between both to have all of their revenue guidance been made public to use. So there is no additional impact from that.

Q - Dan Mckenzie {BIO 15071178 <GO>}

Yes, understood. Okay, good. Bigger picture, hey Rich, I'm wondering if you can talk a little bit about depreciation. When you take a look at Southwest and other US airlines, they are depreciating aircraft over 25 years to 30 years. I'm just wondering if you can remind us what the average useful life as 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 CASM or on your costs?

A - Richard F. Lark {BIO 3484643 <GO>}

Yes, I mean we're something around 18 years on aircraft, which is obviously as you said; its west and Southwest of Ryanair. The bigger chunk in our larger effect in the -- what you've seen with what's been 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 have to do to manage through the Max situation and the pickle fork situation. And so what happened in the -- and as people sometimes forget that a big chunk of the value on the aircraft is not the airframe, it's the engine.

And so while we're depreciating the airframes over 18 years what we've seen happen because of the Max issue and the pickle fork issue is if -- if you go back to 2018 we had an average depreciable life on the engine portion of the assets of around seven years. And last year because of the technical calculations and the discussions with auditor's in terms of how this has to work, if you're going to be faithful to what the accounting legislation dictates, and 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 our -- those issues caused our average life on engine maintenance be reduced from seven years to four years, Okay. And so this year as we have the return to service on the Max and as we get that behind us and as we normalize our forward engine maintenance schedules that will go back to seven years, Okay. And that's the big chunk of that effect there. Now, yes, you're right in your first point is that we are filing IFRS Ryanair in Southwest, sorry, Southwest called five 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're discussing internally and eventually we'll discuss with our auditors.

And so you should also expect that to extend and that to therefore reduce the average depreciation component 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 third and fourth -- in the fourth quarter. That based on following what's permissible by the accounting rules that dictate that, you basically have to calculate what's your maintenance costs are going to be until you're going to be returning the aircraft and there's a lot of these aircraft that we've contracted, this capacity work that 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 these unplanned and temporary additional costs on the maintenance side to keep our NGs airworthy and flying. We've had additional engine overhauled charges and things like that. So all of those are kind of gone into the chasm line, if you will that's shown up in depreciation.

And so I'll even give you some like kind of an additional kind of info there. There's -- if you look at our run rate depreciation today or last couple of quarters and we have around BRL300 million to BRL500 million, extra depreciation it's being expensed in the last couple of quarters and will be expensed in the next couple quarters. It is related to these temporary effects. And so somewhere between three -- when this gets normalized again, which we expect will start to happen in the second half of this year.

There will be between BRL300 million to BRL500 million of run rate depreciation annual, which will then kind of phase out as we normalize the depreciable life of the engines, the 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 engine piece will be reduced by three years, but seven years to four years. So that's 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 into Southwest the Ryanair, which are let's say best benchmarks for goal Southwest the Ryanair. I mean they are brothers in terms of operating model, the type of asset we operate highly similar and we also operate at very high levels of utilization. So meaning that, that should also be reflected in the amount of depreciation we have and so the differences are very similar. But what I would say is as we kind of get beyond these events of last year, which we're continuing to deal with through the first half of this year, that will kind of phase out as the business and they're temporary effects. We're following the accounting guidelines and the accounting rules and we're not going to take any shortcuts on that and we're going to be very transparent about that. But I appreciate that question.

Q - Dan Mckenzie {BIO 15071178 <GO>}

Very good. Now that's great clarification and agreed of course. If I can squeeze one last one in here. Compensation from Boeing, I'm wondering, if 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?

A - Richard F. Lark {BIO 3484643 <GO>}

-- This is under discussion at the moment and you understand that I would like to bring any kind of stir to this conversation by anticipating any results or any output from me. So I hope you can understand that I wouldn't like to comment at the moment that we are discussing those terms and issues with Boeing.

Q - Dan Mckenzie {BIO 15071178 <GO>}

Understood. Okay. Thanks for the time you guys.

A - Richard F. Lark {BIO 3484643 <GO>}

Thank you.

Operator

Next we have Savanthi Syth of Raymond James. Hello, Ms.Syth. Ms.Syth, your line might be muted.

Q - Savanthi Syth {BIO 17476219 <GO>}

Hi, sorry about that. Thank you. Good afternoon, everyone. Just curious, I know there's a lot of uncertainty here around kind of Boeing and Max . But I was kind of curious once the ground -- it's recertified, how much would there be from a training period, but more importantly, what do you think is kind of realistically the number of aircraft that maybe you can get delivered from Boeing in like 2020 and 2021?

A - Richard F. Lark {BIO 3484643 <GO>}

Hi, Savanthi. Good morning. We are assuming our planning, the official target is from Boeing, which is to have the plane returning by this year between July and August, that's the focus we a cautionary 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 into consideration the following figures: we have seven Max plains grounded here in Brazil, plus 12 in Seattle already available to be -- to be fly to Brazil and coming to service.

We do not know how much time it's going to take for Boeing to ground all those planes plot at the moment. So giving you just an idea, which might change a lot having more clarity as close as we're going to be to the retention service today. We are considering for this year to have probably the seven planes here and those are back plus more or less 15 aircraft coming from Seattle, a mix of the already to us ones and those units being produced as 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.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

It sounds like that's happening. Yes. I mean, we will have a small group of pilots that will go through the additional simulator time and we already have that taken care-off. I mean, we don't yet have Max simulators on our own. We have three empty simulators here in Sao Paulo, but use the Max simulators that are located at the Boeing facility in Miami and we'll have about a one to two week period. We'll look all through that training as it relates to the return to service. So we've also got that in our plan.

Q - Savanthi Syth {BIO 17476219 <GO>}

That's all helpful, color. Thank you. And just kind of curious with the 11 NGs with the sale lease back and just maybe just how kind of NGs do you have on kind of short-term leases and what's the decision point on kind of -- if you kind of extend those laces or kind of return them in like this 2021 period?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Yes. at the predicted time.

A - Richard F. Lark {BIO 3484643 <GO>}

And we have, I mean, what was your question on the NGs?

Q - Savanthi Syth {BIO 17476219 <GO>}

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 that's what was in that slide deck where what you can kind of flex up and flex down based on those returns?

A - Richard F. Lark {BIO 3484643 <GO>}

Oh, I see. Well those being the portfolio obviously. For example, if you take those NGs specifically those have two to eight year terms on those, and so those aircraft are getting phased out based on a preplan. So it's two separate decisions. We have the pre-planning decision and then the -- we have the pre-planning decision and then we have the financing decision, OK. So the sales of the aircraft related to the financing decision and you saw the results of that the -- those aircraft are still with Gol or flying and they will be phased out over a period of two to eight years. And all of the other inventory of NGs that we've sourced on a temporary basis, I say temporary short-term leases, generally kind of a two year or you've kind of a 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've sold and are you still on? Savanthi? Sorry.

Q - Savanthi Syth {BIO 17476219 <GO>}

Yes, I'm.

A - Richard F. Lark {BIO 3484643 <GO>}

Sorry, I just got a message -- I just got a message that the line went out and that's why we were jumping around here. I wasn't sure if I was talking to myself. So if you want to take the NGs that we've monetized plus the grouping of NGs that we source from the market on a global basis. That right now is close to one-third of the fleet and so those are the aircraft that are going to go out as the Max it's normalized, those immediately go out and then we can actually -- so we can accelerate the rig delivers on those or we can delay it.

And so that's why we're going to get back on track over the next four or five years. What that means is that, we will get back on track in terms of our plan of having roughly half of the fleet operating with the -- in the Max format. But right now, obviously we're in a holding pattern. We've been sourcing our additional capacity on an incremental basis every month with NGs that are available in the market.

And that's come from a lot of different places and the demonetization decision that has happened in terms of the -- we'd be doing on monetizing the portfolio, those aircraft that you saw go out this year, those are 11, we would've did that last year and our original plan were not for the Max situation. Because these are demand 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. And then we realized again on that and then we paid-off all the liabilities on that and we have 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.

So that's how I was kind of like package that whole deal there. But on the fleet plan side of the equation, it's important to remember that our fleet plan is a function of what we're doing in terms of growth, demand and our magic capacities independent as a financial situation and also independent of the asset disposition decision. Because we're already locked into what our -- we're not transforming from a old aircraft to a new aircraft or different types of aircraft model to a new type of aircraft model. Now we're just doing effectively a true updating within the fleet from the NG to the Max. And so all this work we've been doing contractually in the direct leasing market has just been basically bridge the gap in this updating that we are doing.

And so 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 match -- very easily can match the deliveries of Max's into the fleet. It's perfectly matched with the re-delivery of an NG backed out to our partners, which are these -- now we have a portfolio of 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 is going to return to service. And so, and we think as we've kind of highlighted, we think this is a kind of a competitive advantage for GOL. This ability to kind of flex our capacity not just throughout the cycle with demand, but also enter year seasonally and obviously the other half of the counterparty on that is the leasing companies and our subleasing partners that do that.

And so we have a great partnership there that allows us to kind of almost make indogenous if you will, any volatility we might have either on the demand side or on the supply side. It's not necessarily perfect match, but we think, GOL has the most mature fleet management process, which gives us kind of a leg up on all of 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 pudding, the proof is in our numbers, not just on the operating side, but also on the equity value that we've realized on our own aircraft assets, right. I mean we have that as almost kind of like a side component that creates value for all of our shareholders and that's the consistent.

If you look at the aircraft modernizations we've done since 2016, as we ended -- we came to the end of the financing cycle on the first order of 80 aircraft with Boeing, which we did back in 2005, we've monetized 100% of those 40 aircraft that we had in financed fleets formats with the Exim Bank guarantee, a significant value creation for the company and for all of our shareholders. And that also puts us in a unique category along with the companies that were mentioned 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 aircraft 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 are kind of starting to give us credit for that.

Q - Savanthi Syth {BIO 17476219 <GO>}

No, it's definitely kudos to the team for not only kind of monetizing it but also using it operationally as well. That's pretty great. Thanks for the answer.

Operator

Next we have Victor Mizusaki of Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. I have just one question. On slide 10, you showed a table with load factor valuation and after several quarters of full bookings, basically showing load factor expansion. And now, I mean that you showed the slide, basically we see flat load factor across February to April. So I'd like to understand here that if these are kind of results for all, let's say a dollar airlines our lions, that in much more capacity decisioning and if you can also comment a little bit 0about the Ops.

A - Richard F. Lark {BIO 3484643 <GO>}

Yes, sure. Victor? Yes, thanks for the question. Yes, I mean, the first comment is that, yeah, we're guiding if you will, or showing kind of, that's based on what we can see. We can see as based on what we can see today, we'll have a good visibility for the next 90 days. You guys also -- for those of you who invested in the DL system, you can calculate this stuff also. That fact that we're guiding for loads is it's either positive or negative and we're at record all-time highs for load factors in the industry. Structurally it's very difficult to have revenue maximization RASMS if you will, and low tax is much higher than that. It's just not structurally possible.

Just based on how our network works, how Brazilian networks work, where we still have a large portion of flights which are not -- to-point flights, they are connecting flights, that's the point one. For your second question, which I mean, those low factors as we've seen in the short-term are decent, slat, I mean, I don't think that we would think that they -- if they went up a little bit or down a little bit, it doesn't change. The second, I think question that you're actually asking, which is on the capacity side, which is something that obviously we're, we're concerned about. I mean, GOL is growing its capacity at or below industry demand, that's what you have with ours. That's how we manage this business.

And that is -- there are a lot of people ask us about our hedging program, but the hedging program is a compliment to what we're doing, capacity management or revenue management. And so we work to get the capacity question, right, we work to optimize revenue management and then we compliment with hedging. Our two competitors LATAM and Azul, are growing at twice that rate independent of what the industry is doing.

LATAM is putting seats into the market in the first quarter here at a rate of two times, what GOL is putting in, If you look at and part of the interesting thing now and part of what we can talk about as well as you have, this will be the last quarter with a year-over-year comparisons include Avianca Brasil in the denominator. As of April in the second quarter, that will be out of the situation. And the first quarter of last year of Avianca Brasil was operating about 3.3 million seats in the market. In the Q1 of this year and again, all this is publicly information -- public available information. If you guys have invested in the DL system, this year, if you go into the DL system, you'll have about 4.6 million seats there. So that's an increase of about 1.3 million seats.

We are adding about one million seats year-over-year, LATAM is adding about 2.1 million seats over year-over-year. And Azul is adding 1.5 million seats year-over-year. Now, you're an analyst, you can calculate things about supply and demand and how that might impact 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 was a significant increase in capacity. Remember this effect that you're looking at, which still includes the Avianca Brasil in the Q1, that's going to disappear in April. And the stock reality is, is going to be -- you're going to look at a much higher industry demand -- industry supply growth rate in the year-over-year comparisons. And so that's what I would say for that. He wants to compliment that.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Yes. Victor actually Rich have gave you the long answer. If you are like also to offer the short land and eats meat repeating over and over, that we will always purifies yields, instead of fighting for capacity. Our load factor projections for us is that, we will do whatever it takes to protect our healthy deals and our health prospers action.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you.

Operator

Next we have Marcos Barreto of Citi.

Q - Marcos Barreto {BIO 20572041 <GO>}

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, does consumer laws need to change first for that to happen. And what are your views on that? Thank you.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi, actually the market is open and we have no, I mean concrete info on new primers. I mean the company is already for 19 years defending the idea that the market should be open and a foreign capital restriction should -- what happened. We are not afraid of any kind of competition and I need to tell that, none of the information already is spread through the breadth of the news, is really confirmed. So I wouldn't like to do add more speculation and something that is not presented through as the concrete action fund in new competitor.

A - Richard F. Lark {BIO 3484643 <GO>}

Yes. Brazil is already a very highly competitive market. I mean, we have 58 domestic and 58 domestic and international airlines operating in Brazil. Brazil is already a very highly competitive market.

And then Brazil is a structural characteristics and with a very high, highly concentrated demand, passenger that has certain needs and characteristics and things like that. And, the goal that we've been, working over the last 20 years has been constantly adapting our product to be the most attractive and the most competitive from a customer perspective in the market. That's kind of, one of the secrets of our success is we have the best product in the market and 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. I mean that is, Brazil's an open market. It's competitive, it will continue to be, and, this shouldn't be news. And what you're seeing is just the reflection of that and I think also reflects the fact that Brazil is back in terms of demand and value creation and attracting investment domestically. We're investing in and we're the main, we make the most investment in the Brazilian aviation sector us.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

In the cost side, there is something that I'd like to share. Last year we sold 37 million tickets. Those were sold at the maximum fair around $35. So if I would translate that into a new airline, that airline, I mean, coming to the market and selling to 21 million tickets gets at that low level, low fare level two to transport the passengers in every state land lands around 1,100 kilometers, that airline would need to start its operation having at least 42 737s or 44, A320s, or even 62, Embraer E-Jet. So the companies who is already offering by far, the largest number of each wheel seat low fair availability and all of their other, I mean, stronger or the strongest possible protection we should get is really a low cost company.

At the same time that we are also offering to the high-yield customers, leather seats, additional leg room or WiFi, we're getting snacks for free and just kind of stuff they go created a very strong fortress and that has been tested by already strong competitors in the market. And if you consider our performance last year, we have another roof 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 that much.

Q - Marcos Barreto {BIO 20572041 <GO>}

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

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you.

Operator

And next we have Bruno Amorim of Goldman Sachs. Please go ahead.

Q - Bruno Amorim {BIO 17243832 <GO>}

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 slower pace versus probably quarter and Richard, you well pointed out this is the last quarter with let's say easy comp. So the question is, does the 5% RASK growth expectation for the first quarter mean you expect much less than 5%, you need 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.

A - Richard F. Lark {BIO 3484643 <GO>}

Come on, Bruno. You're asking me what I think about the guidance I just provided, you that's not a question, right? I mean our guidance we provided to help you guys think about, this is how we're managing the business, right? I'm not going to give you a qualitative evaluation of the guidance. So it's not a fair question, but I think what you're, what you're asking about, again, we're providing you guys an understanding of how we're managing this business. And, it's not a question of being confident or not confident because we're managing the business, we're in a highly competitive business, right? A big chunk of what we do depends on the engine industry rationality, you guys know that, Okay? We haven't provided second quarter guidance for anything.

We're giving you much more information. I would argue, 500% more information than you're getting from our competitors. So I think your question needs to be directed to some of the other guys, because we've given you our information. Now, you have, a lot of guidance out there. That's how we're managing the business. And I think if you look, if you look back over the last couple of years, you have your answer to that question. We're committed to that, that's how we're managing the business, right. We've had trucking strikes, we've had -- we've gotten out of coronavirus, that's happening. We've had, if you go back to the beginning of January 2020, let's go back to beginning of 2018 and a very, we had a 3.15 exchange rate.

Now we're right now sitting on all-time low of the value of Brazilian Real, if you will, what you would say 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're performing better and we're managing everything under our control, right. And where these levels of profitability at the old time, the old time weakest point in the history of the Brazilian route. 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 of new kind of interesting way to think about it, is that the Q2 already, as you know, in Brazil, that's our low seasonal quarter, right? Just seasonality wise, it's post carnival and it's kind of in between, the end of the summer season in Brazil, which this year will ended kind of next week, because we're ending summer season right now.

Weather here is great, by the way, for those of you who aren't here, it's been fantastic, sunny and high-70s, low-80s, carnival is next week. And then, Brazil kind of gets back to work. We've got three months of, intense business traffic, but a lot of the leisure travel kind of drops off until July, when we have the our winter school vacations in Southern Cone and things like that. And so, there's sort of 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 we're going to outperform in the second quarter relative basis. I think, on a full year basis you have what we're working toward and we're going to spare no effort to deliver what we're guiding to our investors, the GOL investors. We're not delivering that to the market, we're delivering it to the GOL investors and those who decided to be our capital partners, be it on the equity side or on the bond side we're extremely committed to that. Also on the bond side is everyone knows, we're committed to get the company back to a BB rating and we already have the coroner ratios that speak to that. 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, but yes, we do expect to go back to being BB, but that doesn't depend on us.

So what our competitors do, which are growing at twice our rate on the capacity side and arguably more than twice the rate of the demand of the market, you just look at the Q1, right, you 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. You don't need me to help you kind of work through that math there. But I think, it is going to be a interesting quarter, the second quarter for all of us to see how we kind of manage through that. And I think they're all going to be smart differences on profitability. And the main source of that is going to be the differential business models for sure.

And then the 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 were only 40% of the market. Our protection is what talking up was mentioning, on the call side, that's our, our protection is, everything we're doing on the cost side to keep this differential on unit cost 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 depended 25% in the past it's not good enough.

And so, I mean, this is what you can expect from us, but I'm sure there's going to be more trucking strikes and more coronaviruses and more 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 of years.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

The capacity variable is that, capacity deferrable verbal you need to do a robot. So that's, that's something we need to, to take appropriate care. And there is a yellow to orange light. Ahead of us looking forward to the bubble. We are noticing for the second quarter, these capacities being added on top of the market increase is really the matter we need to all to take care of that.

Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you -- . Yes, I think at the end of the day, that was the question, right. So from second part, the one word, the year-on-year growth in a ASK will be much stronger than in the first quarter, so if RASK is going up by 5% of the first quarter, my guess was that it should grow by much less than 5% going forward, but I think you have answered to the question so that's all for me today. Thank you so much

A - Richard F. Lark {BIO 3484643 <GO>}

-- I mean, it's important to say, that's a mathematical equation. The Avianca Brasil 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 impact yields, yields are affected by what's going on sequentially.

And so for example, second quarter yields are not determined by first, second quarter of 2019 capacity. No impact, whatsoever. That's like on the other side of the universe. 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 definitely the both case, but I can tell you is that, our mature process, 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 an interior or things like that. And so we actually, we also match, we have the ability to match our Q2 capacity with Q3 demand, our Q2 demand. Not everybody has that ability, everybody has different ways of managing their businesses. And so like what I think we're also trying to say and what he was saying is that, we're matching our demand -- our capacity with demand. And so please don't put everybody into kind of this generic box, right, that's not correct. And, 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 to be turn 2Q '19 capacity. Not that's it.

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay. Thank you

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Welcome.

Operator

(Operator Instructions) Next with Alex Bicknellof HSBC.

Q - Alex Bicknell

All right. Good morning guys. Thanks for the call. The question is regarding the gearing texts in Brazil in your planning and your guidance, how much did you guys actually put in there? And we're seeing, almost week-after-week nil regarding that we're going to see not only fiscal scenes in the federal level deduction, but I think that's probably for 2021, but also in a real just outpaced some follow-on, on a reduction there. So when do you think is the end game here and basically does it change or rustically where do you refuel your aircraft and there's any upside to that? Thank you.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi. With regards due to the GDP calculations, we do have seen a quite sophisticated model to our other markets. Because as you know, the country is too big and there are different GDP growth in each of the regions. So giving you just parameter, which is not fully explaining our a couple nation model, we were considering a GDP growth between 2% to 2.5% in a national basis. And at the moment, you should take the first quarter demand and the second quarter bookings. I think that the market might be slightly below that level, but is too soon to determine whether our assumptions should be revised as a or not? I don't think so. I didn't want it. Okay.

A - Richard F. Lark {BIO 3484643 <GO>}

Alex, I think that's an interesting question, because I can, what we've been seeing over the last couple of years, since Brazil emerge from the 2015, 2016 recession, I remember that was a 3% to 7% GDP contraction, which resulted in a 15% collapse in demand. We've been, -- since 2016 when we started recovering. And now we're kind of back to this low twos run rate. There's a couple of factors there.

One is it appears to be a higher quality GDP, in overseas, based much more on the investment and production side of the equation than the government and the consumption side of the equation. And so, and that has implications for our business. For example, we continue to have very robust demand from the business client, the corporate client. Okay. the corporate client and but, we were 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 fast, 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, Brazilian consumers is still as a Brazilian individual. People like us, we're still recovering from the 2015, 2016 recession in terms of security and disposable income and savings. We're still 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, corporate is growing three to four times a GDP, where historically it would have been more two and a half times. But we're seeing a, a much lower contribution from the leisure side.

And so within the GDP component you kind of look at it from that perspective and then look what he was mentioning as well. Well, I'd like to say this is not, please don't try to put Brazil into this box of like it's good or bad or it's the whole country. Now Brazil is also growing internally, regionally. And that's why we've also been expanding our reach in inside of Brazil. I mean, you see what we're doing internationally and expanding our, our reach to 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 another areas, which is in 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. And seeking out how to maximize our return on capital. And so it's a little bit more than just kind of 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, 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. We are and our corporate customers continue to be the Petrobras and the valleys, 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 are also a seeking out, competitive differentials in terms of our network management and our product management.

But we think also are if you will turning a little bit of this Brazil volatility a little bit more indogenous than it was in the past. I think that's reflected in 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, day-to-day on Brazil and are thinking about how worth thinking about the Brazilian economy factor in our projections and in the management of our network. In the short term, meaning you kind of this year and next year. That's kind of what you know. Even though, yes, we are using kind of a low twos 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. And it's all focused, on maximizing return on invested capital, that's what you get with us.

Q - Alex Bicknell

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 sector in your guidance or is that something that eventually there's some upsides to that. And if you can also comment on the federal tax, there's news that we're probably going to see a reduction on fiscal themes, 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 sort of industry wide saying or thinking everyone is just going to pass through this your prices.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Yes. Well, thank you very much for the question. We are not assuming any further ICM reduction on top of those valid today. Hey, so we will -- because state level negotiations are not predictable on a timeline. So therefore we are always considering, all the goals that ISM ISMS agreements already in place. We got into federal taxes. I need to really to highlight all positivity. We are welcoming the initiatives from the government the reforms and mainly the policies applies you the decision of the Asian sector in Brazil mainly highlighting those initiatives to reduce the additional costs inflation in our country maybe in comparison to the most developed markets I like to mention any -- mainly the tax burden on fuels, the infrastructure investments and also discussions on the legal disputes, on not just...

A - Richard F. Lark {BIO 3484643 <GO>}

Yes. All of these efforts -- there's a lot of work in progress and these things are going to improve the overall competitively sector. There's a lot of work in progress that a lot of areas like he's talking about there is that there's a big effort focused on also, let's say reducing the consumer claim costs that we have in our business. And so there's tax reform that's going to reduce those impacts on the overall kind of weight of the infrastructure on our business and then on the legal claims that come from the consumer, which in Brazil is enormous.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Yes. I'm just highlighting the absurd of having the airline being obliged to pay a kind of legal remuneration for the customers and I've heard a flight is canceled due to weather conditions. We are the only country in the world where these kinds of penalty is applied to an airline. So we do see a clear, good view coming from the government whereas those stricter, I would say the advantages of our market. Therefore, there is a very high expectation that positive outcomes will appear over a certain period of time. I mean, those are challenging issues to be addressed, but clearly this government is trying to do address all of them.

Q - Alex Bicknell

Interesting. Thank you so much.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

We're going to now switch over. We're going to close out this call. We have to switch over to our Portuguese language call. And so if anybody else, some of you continue with us, some local the analysts continue with us into that other call. And so I'd ask is, if there's anyone else who -- which a lot of people that are kind of showing up here wanting to at the last minute ask some additional questions. We have to shift over now to our

Portuguese language call. But please as I can say, unless they're 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.

A - Richard F. Lark {BIO 3484643 <GO>}

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

Operator

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.