Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Daniel McKenzie, Analyst
- Michael Linenberg, Analyst
- Savanthi Syth, Analyst

Presentation

Operator

Welcome to the GOL Airlines Second Quarter 2021 Results Conference Call. This call is being recorded and all participants are in a listen-only mode. After GOL's remarks, there will be a question-and-answer session. At the end of that time, further instructions will be given.

(Operator Instructions)

This event is also being broadcast live via webcast and may be accessed through the GOL website at www.voegol.com.br/ir and MZiQ platform at www.mziq.com. Those following the presentation via the webcast may post their questions on the platform, and their questions will be either answered by management during the 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 time, I will hand the call over to you, Mr. Paulo Kakinoff. Please go ahead.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Good morning, ladies and gentlemen, and welcome to GOL Airlines earnings call. I'm Paulo Kakinoff, Chief Executive Officer, and I'm joined by Richard Lark, our Chief Financial Officer. This morning, we released our second quarter figures. Also we made available on the company'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 second quarter 2021 was marked by three relevant themes for GOL's sustainable growth going forward. First, the resilience of the Brazilian air travel market. Demand for travel in Brazil is recovering rapidly as a result of the consistent decline in COVID-19 cases and fatalities since June 24, with a reduction of more than 2% per day in new transmissions registered in the country and with a reduction in all Brazilian states.

Brazilian government has guaranteed that 173 million shots will be delivered in the third quarter, an increase over the 143 million doses made available in the first half of 2021. There will be enough vaccines to completely vaccinate approximately 90% of all Brazilians over 12 years old.

Second, GOL's disciplined yield management led the company in a continuous and very agile manner to preserve the equilibrium between capacity and demand in the second quarter, keeping its load factors and yield high, and minimizing cash burn. In the second quarter 2021, GOL systematically presented a market efficiency superior to its competitors, which reinforces our commitment to balancing the size of the seat supply with the predictive demand forecast.

Third, GOL's path to continuing its sustained growth. Based on our expectations for vaccination rollout in Brazil, we anticipate that business travel will show a sharp recovery as of the first quarter 2022. When that happens, we will increase the GOL network to enable high frequencies in the Sao Paulo, Rio de Janeiro and Brazilian markets, restoring those routes to pre-pandemic levels. GOL will also resume international flights to South American and US destinations with discipline and following the restrictions and compliance rules of each country.

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

Richard F. Lark {BIO 3484643 <GO>}

Thanks, Kaki. A comprehensive financial review for the quarter was shared with the video presentations this morning. We believe you all had a chance to access them. In summary, GOL's adjusted EBIT in the second quarter totaled BRL144 million, corresponding to a margin of 14%, which shows the restoration of the operating margins necessary to support operational growth.

Adjusted EBITDA reached BRL222 million, with a margin of 22%, reflecting GOL's successful sustainability efforts in balancing supply and demand. The net debt ratio, excluding exchangeable notes and perpetual bonds to adjusted last 12 months EBITDA, was approximately 10 times on June 30, 2021, representing the lowest financial leverage among its peers.

Even in atypical year, GOL stands out among few airlines for repaying approximately BRL6 billion in debt since the beginning of 2020, due to its disciplined liquidity management and its ability to extract value from current assets. This strategy enables GOL to focus on growing with profitability, leaving the crisis with a lighter and stronger balance sheet compared to its competitors.

The equity issued for the reintegration of the Smiles loyalty program together with the capital increase led by the controlling shareholders totaled approximately BRL1 billion in new equity capital during the quarter. The resumption of the market towards the normalization of demand already points to a future emergence of consolidation opportunities in the airline sector.

The agreement that GOL signed for the acquisition of MAP Airlines is in line with this trend and appears as a rational move to strengthen our business model and increase the generation of value for our shareholders.

Now, I would like to return to Kakinoff.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thanks, Rich. I would like to close by thanking for employees, the team of Eagles, who are leading with care, clarity and confidence, resulting in successful management throughout the crisis and placing the company in a solid position in resuming its operations. We reiterate our confidence as we have done over the past months that the company will emerge stronger and even more resilient as markets normalize. We remain [ph]absolutely committed and optimistic through the diligent management of our balance sheet and our operations throughout the recovery.

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

Questions And Answers

Operator

Thank you.

(Operator Instructions)

The first question comes from Mike Linenberg with Deutsche Bank. Please go ahead.

Q - Michael Linenberg {BIO 1504009 <GO>}

Hey, good morning, Paulo and Rich. Just a few questions. You've provided a lot of detail in the slides about the recovery in demand and the rise of vaccinations and the reduction in transmission rate. For the second half of the year, though, you did scale back the redeployment of capacity. It's somewhat modest and maybe it's nothing more than a recalibration or even maybe acknowledgment that the business travel recovery will not really occur in earnest until the first part of 2022. Is that what's driving that moderation of supply for the second half of the year? Can you provide some color on that? Thank you.

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

Hi, Michael. Thank you very much for your question. Actually, I could summarize that decision like a flight towards profitability strategy because we are pretty confident on the demand recovery. This has been...

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay.

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

...pretty explicit since the vaccination program in Brazil took off and gained traction, which is happening right now. So, every day, we do see that there are more demand about to come. But also, you need you to carefully read what are the current pressure on costs that we are facing. The exchange rate, it is still playing against our cost structure. We have the jet fuel prices pretty high. So, we need not only demand to recover, but we need also a healthy, fair level to be achieved. And we will not depart on any market share driven strategy just to prevail our position. I believe that we need to continually (inaudible) our disciplined way to keep capacity balanced with the demand.

So, this is basically a clear measure to recover as soon as possible our profitability. And therefore, we are cautious about how we will deploy our CapEx. And we have translated that into a more modest outlook regarding the number of flights that we are supposed to operate in the second half of this year and it has some impact in our revenue outlook. So, we are pretty bullish on the demand recovery.

We believe that the Brazilian immunization program will be successfully developed as it has been today. But the industry as a whole needs to recover the margins and, therefore, we are maybe more conscious about that movement and the competitors.

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

Mike, in addition to that, there's a yield component in there also because the slower return of the large corporates, which is a much higher yielding customer, the large corporates today are not really present in our booking curve. We expected them to start coming back August-September and to be back more strongly in the Q4 and then fully in the Q1. But there's a yield component in that revenue guidance also that we initially went out -- and I think we're one of the few companies, airlines in the world that's actually put guidance back on for the second half of this year. There was an assumption of a stronger return and faster return of the large corporates, which goes into the yield. And we have -- as Kaki was saying, we have a quality focus on the revenue. It's not just about revenue. It's about high quality revenue. And our yield growth in the Q2 that was just behind us now was because of this dynamic capacity management. And so, in the Q3 and the Q4, there is a dynamic happening there where the Q4 yields will be much more driven now by the returns of the large corporate and the Q3 yield is going to still be more in the VFR leisure category. And we are increasing into Q3 leisure routes in the Northeast Brazil with more connections, but it has a lower yield. And so, the adjustment on the volumes also is a function of this focus on a high quality yield, not just revenue for revenue sake. And I think that shows up in how we've been managing our yields through this pandemic versus the market.

We're more focused on the quality and preserving the future revenues, and so we're not cannibalizing future revenues to create receivables. We're keeping the booking curve very short, which is where the demand is. And when the large corporates come back, that booking curve will lengthen out. Another way I could say it as well, we're, as much as possible, trying to save our future inventory for higher profitability and keeping it managed close to our vest, if you will.

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

And Michael, I really appreciate your question because it gives us the opportunity to better share our view on how the market is developing right now. From a more holistic point of view, I think that the company is taking the right decision in proceeding so, while we are also protecting our liquidity and our balance sheet. I mean, translating it to critical actions. Once we are -- we have been able to achieve both important targets, keeping liquidity and protecting our balance sheet, while we are amortizing our debt and fulfilling our financial obligations. It's important to notice that we are doing that having only 60% of the revenue that we used to get pre-pandemic.

So, ahead of us, there are several fortress of our company. Those could unleash important potentials that we cannot utilize at the moment. Richard gave you one example. So, we are pretty strong on the corporate business, the corporate network, and at the moment, that demand is pretty reduced. And also, you know our business model. We perform the lowest cost in the industry basically because we have a standard fleet based upon a high utilization model.

We cannot access those benefits considering the current market size. And even though we have been able to keep liquidity and protect the balance sheet, so ahead of us, we have a more-than-promising outlook considering that the demand is about to recover and corporate travelers will resume their travels sometime in the near future. We are not considering the first quarter 2022. Meanwhile, we will keep ourselves disciplined in deploying exactly the same strategy. We will not increase our capacity over a healthy demand level. This is hopefully clear to you as an answer to your question.

Q - Michael Linenberg {BIO 1504009 <GO>}

Kaki and Rich, that's great color. Thanks on that. It's obviously very refreshing to hear that you're focused on margin rather than market share. Just a quick second one here. Just news out that American has made a minority investment in JetSMART. Does that open up any sort of opportunities with GOL and a carrier that has a pretty good footprint in Spanish-speaking South America? Any thoughts on that? Thank you.

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

Yeah. Michael, you know that it has a very strong partnership with American Airlines and we do believe that that movement is part of their strategy to enhance their already strong footprint in the region and that might be also promising to our partnership, considering that the stronger American will be in the region, also the more attractive we will be, our offer. So, I wouldn't like to speculate on any possible further step in our partnership, but we do welcome that movement on American Airlines in further investing in our region.

Q - Michael Linenberg {BIO 1504009 <GO>}

Thanks, Kaki. Thanks, Rich.

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

Thank you very much.

Operator

The next question comes from Dan McKenzie with Seaport Global. Please go ahead.

Q - Daniel McKenzie {BIO 6343435 <GO>}

Hey, guys. Thanks for the time here. It's kind of a big-picture question here. GOL really does seem like it's going to be a different airline in this next cycle. So, maybe you could just help us connect the dots on kind of before and after -- GOL before versus GOL after. So, big picture, what's new in this next cycle? We've got the Smiles transaction, we've got MAP, we've got fleet modernization, we've got a relationship with American Airlines, a switch from Navitaire, pardon me. And then, I think we've got positive GDP in Brazil for the second time in a decade. So, if investors were to collectively overlay these -- kind of the new GOL on your 2019 results, what kind of pre-tax margin earnings or upside would it have potentially driven, I guess, is really one question.

You've unpacked some of these for us previously, but I guess really what I'm getting at is the potential here for better margins, better free cash flow as we look ahead one to three years.

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

Hi, Dan. Definitely, we are still under a stressful situation given by the market circumstances. The COVID is still out there. The demand is too much below pre-pandemic levels, but we cannot disguise our, I'd say, satisfaction by testing our company through a very challenging period and getting out of that best, noticing how robust and resilient our business model is. And that is pretty clear when you take into consideration the way chosen by our company to deal with the COVID-19.

So, we took the path of negotiating with every single stakeholder. It was demanding to say the least. But we successfully came to well-balanced deals with basically every single stakeholder -- employees, suppliers, the lessors, even the customers considering that they were also affected by the network reduction that we were forced to implement. And now that clearly the worst portion of this desert crossing is already behind us, we see several promising prospectives ahead of us, exactly those ones you have mentioned in your question.

The company is like under the worst possible circumstances, the worst possible scenario and we are more than strong. We didn't lose the opportunity to further enhance our well-tested and proved successful model being refined already for more than 20 years. You can imagine that we are now even leaner than we were before. We have even more efficient processes in places. We didn't stop investing -- to invest, sorry, in further developing our digital platform, the data analytics structure, the fleet renewal. So, taking into consideration our recent past, this company went through a tough scenario much earlier than COVID-19. We got the MAX grounded, we got the pickle fork constraints, we faced the Brazilian exchange rate devaluation.

Things can always get worse considering the external factors, considering the circumstances, but it's reasonable to believe that the future periods are likely to be much better than the combination of those circumstances I have just mentioned. And once the company is at the level that we are right now and we have a much better future ahead of us considering those external factors, it's just a matter of time to unleash that potential. The company is now in a much better shape. It's not actually shy to be pretty affirmative in saying that we definitely are -- we're stronger than we were before having this pandemic in place.

And the company now didn't capture most of the benefits of having a significant number of new technology planes available in our operation. We are just 10 737 MAX in our fleet at the moment. You know how fast we are about to renew our fleet and those are -- and this is just one of the meaningful benefits that we are about to get. I think we are happy due to the way we have managed this crisis, protecting everyone, company, jobs, employees, stakeholders, investors, our liquidity, paying our debt obligations. And what we have ahead of us, it can be everything, but something not promising. This is exactly where we are right now. Well prepared and well positioned to capture what's about to come.

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

And then just to complement, a couple of things there. Maybe just like from an asset liability perspective, GOL pre-pandemic/post-pandemic, pre-pandemic, as you know, we spent the better part of three years dealing with the MAX issues, the MAX grounding, the pickle fork problems, a lot of pain and suffering with the asset side of the equation.

The -- sorry, just getting some distractions here in the window outside of our conference room here. The -- did you close that? Well, I was going to tell you, so post pandemic, that's all behind us. In fact, as you know, we're pivoting here in the next couple of months. We're pivoting to an acceleration of the fleet transformation from the NGs to the MAXs. And so, as we kind of roll into 2022, we will be kind of where we wanted to be three years ago from an asset perspective and back with our more normalized activities of transitioning in new aircraft and transitioning out the old aircraft.

The average age of the GOL fleet has kind of creeped up over the last three or four years to be about three or four years higher than we normally would want to have it. And so, we'll get back -- from an asset perspective, we'll be back reorganized in that perspective. There's a lot of equity value creation in that regard.

On the liability side, we will be better than we came into this pandemic. We had emerged 2019 as far as 2020 basically staring 3 times leverage down the barrel for last year, then the pandemic happened. But we didn't postpone any of our work on the liability management side of the -- on the balance sheet side of the equation. It's like we intensified it.

And the second quarter was a line for us. We finalized the take in of the minority interest of Smiles. That liability was eliminated at very good economics for everybody involved. And we also -- if you go -- just on the debt side of the equation, since the beginning of 2020 up until now, our company has amortized BRL6 billion of debt. There is only one remaining piece in our capital structure which is pretty much our only short-term debt, which we'll finalize that in the Q3.

And so, by the time, we get to post-pandemic, we not only will have significantly reduced the debt of our company, we will also have reprofiled the entire debt where our next significant debt maturity is 2024. And all that work continued during the pandemic. So, both from an asset perspective, we corrected the asset problem we had, which is -- you're kind of stuck for the next two, three years with the NG generation of the fleet. Now we're going to go back to accelerating transition from the NG to the MAXs, which has significant cost reductions, significant equity value creation for our business in the way we do it.

And then, on the liability side of the equation, we're pretty much done. That work has been completed. There is a final piece to be completed here in the Q3. But everything pretty much there is according to plan. And so, there is a lot of significant -- there's a lot of latent value creation.

And going back to the first part of your question, that is going to necessarily transform into pre-tax earnings and even post-tax earnings. Obviously, you see the exchange rate variation swings in our net results. We've always recommended to kind of put on the side. And if you remember conversations we were having back in 2019, we were focusing everybody on our earnings generation, earnings guidance. In fact, there was one analyst -- I think he was the first guy to publish this morning. He was all talking about earnings, which for me was a sign of relief to finally see sell-side analysts talking about earnings as opposed to the other issues. And that's the focus that we want.

But in terms of how that would translate into the actual numbers, I would kind of point to what we were guiding you guys back in 2019 in terms of the parameters of our business, in terms of margins and growth. But the short answer -- I just gave you the long answer.

The short answer to that question would be a normalized post-pandemic pre-tax margin of around 10%. That's the number that kind of comes out of how we manage this -- the structure -- the operating structure and the financial structure of our business. That's kind of the spot that we look for and we're in a much better position -- that's what we were kind of guiding you guys in 2019 pre-pandemic.

We're in a much better position now. Just the Smiles take in on its own has the potential to increase those pre-tax earnings by BRL400 million a year, and that will be starting to get phased in here in the third quarter. That's done already. The MAX, the transition to the MAX is -- obviously, it's phased in over a 3 to 5 year period. But on an aircraft to aircraft basis, that's roughly a 15% reduction in CASK that gets phased in. And that's structural. And both of those things that I just mentioned there, just to cite a very few, are structural. And so, the goal after the pandemic, as Kaki was saying, will structurally be better than the goal pre-pandemic.

And the volume sort of the equation, structurally in Brazil, we are a little bit waiting for the large -- we're in a waiting message here for the large corporates to come back because they're the most affected by the dynamic related to the pandemic. But structurally, Brazil, given our raw material -- and you mentioned this a little bit on the GDP side of the equation. Brazil, we're not like US, high-end services economy, or Europe, high-end manufacturing economy. We are primarily a raw materials economy with a little bit of low-end manufacturing, and that requires -- and it's a very large country with those productive elements spread out across a geography the size of the 48 states. And so, there is a huge necessity for air travel to make Brazilian GDP happen. And so, we'll go by the way of Brazilian GDP. Structurally, oil and gas sector, agro business sector, real estate sector, infrastructure sector, all those sectors are primary large corporate clients, which right now are traveling with us. And so, when that springs back, that immediately kind of fixes the only kind of, if you will, balance sheet problem we have right now, which is we're missing about BRL0.5 billion of accounts receivables. And those get back on the balance sheet immediately.

And eventually, probably by the Q1, we'll transform into an effective and additional BRL1 billion of receivables when we get back to kind of a run rate of, call it, BRL1 billion a month of sales. That will kind of translate into an overall receivables balance of about BRL1.5 billion. That's the only kind of piece that's missing from the management of our business right now.

As Kaki said, we kind of managed the business over the last almost now 18 months without that, using our current -- other current assets and using the other tools that were available to us. And at the same time, operating with two pretty simple directives. One was to emerge after the pandemic with a unit cost lower than we entered, and we've achieved that. And number two, keep the financial equilibrium to get us through this pandemic. And pre-pandemic, it was kind of matching, if you will, revenues with expenses. During the pandemic, it was matching cash inflows with cash outflows. It's the same management we were doing pre-pandemic. And obviously, we needed a lot of support. We were also able to use the capital markets to provide some additional long-term capital, the controlling shareholder did a capital increase. I think we're the only airline, maybe with the exception of Alaris that during this pandemic has done a capital increase.

So, all those things are already done. They are behind us. And so, we are a little bit waiting for the large corporates to come back now, which we've articulated about what our view is on that. But the work on the balance sheet was pretty much done pre-pandemic. We kept the final phases of it during the pandemic. The work on the assets, we had to wait for the MAX situation to get resolved. That's resolved. And now, we're pivoting back to that, kind of what you guys were used to seeing in the first cycle of GOL with all this value and cost reduction we were creating when we did our first order of Boeing aircraft.

But thanks to that question because I think -- I think that's -- it's definitely where our focus is. I think we kind of started our pivot in Q2. There was an effect of the second wave here, as Kaki mentioned. The vaccination rollout in Brazil is gaining huge momentum. You're already seeing the Governor of the State of Sao Paulo is already pretty much signaling he's going to turn off all restrictions. And Sao Paulo is the economic engine of Brazil. The State of Sao Paulo is about one-third of Brazilian GDP. So, that's going to have a huge ecosystem effect on the country. So, we will have the jitters for elections that will start to pop up towards the end of the year. We still have a little bit excess volatility on the currency. A part of this will be affected by the currency. Many of the questions that we've been getting on the results, a lot of it is explained by currency and oil prices. Obviously, we manage those within yields and risk management. But those are obviously determined by this global scenario.

As the world ramps back up -- everybody watched the Powell's comments yesterday. So, I won't repeat those. But there's a lot of pieces that are missing in the economic system that has to get replenished here for things to get back to normal. And Brazil is going to benefit from that because we're a supplier in that dynamic, including higher oil prices benefits Brazil. Currency is always a bit of a question in terms of -- is the dollar going to appreciate or weaken, but it seems like all the signs there are for a weakening dollar which would also benefit our business. But that's just kind of what I would wrap around that. Short answer was 10% pre-tax margin, the long answer is what I just -- so, thanks for that question.

Q - Daniel McKenzie {BIO 6343435 <GO>}

Understood. No, I appreciate the comprehensive answer. The second question here is far simpler. Just sort of a housecleaning question. The number of MAXs that are on firm order coming in 2022, I guess, is one housecleaning question. And then, secondly, I know you said that the liability management is behind you. Is there the opportunity to optimize the cost of the liabilities, I guess, as you think about the cap structure, the cost of your debt to optimize that. As you become more profitable, is there the possibility to lower interest rates with refinancings, and thus drive some non-operating earnings leverage as well over the coming one to three years.

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

Yeah. On the right side of the balance sheet question that you asked, a couple of comments. One is that we have not deviated from our financial policy targets, and so we kind of what our right cost of debt is and our right cost of equity and we picked our moments. Right? Even though the stock goes up and down, the bond prices got up and down. If you look at the moments where we've raised the capital, they've been at moments that fit in our policy. So, we don't see a big benefit of doing any refinancing. I guess, all the debts we've done now, we've got maturities '24, '25, '26. Our convert is effectively a 3% coupon for us, our '24 maturity. Our '25 maturity is effectively a 7% coupon for us. And the secured deal we did, which effectively came in around 8%, it's still a reasonable number in there. The '26, which is an 8%. We've never been -- there has been moments, flashes in the pan where we've been kind of looking at, gee, maybe we could do a 6% long-term financing for GOL, but it's always done -- at the peak of the market, and so we're -- in terms of our structural long-term liabilities in the capital markets, they make sense. I mean, yes, we would always look at -- so, activity, we've done bond buybacks over time, we've got the perp out there. We've gradually whittled away at that.

Pre-pandemic, if you go back to January of last year, we were thinking about -- the perp actually was starting to look more like debt than equity at that point in time, just given where Brazilian interest rates were and we were thinking about paying it off.

But, remember, the aircraft -- the main chunk of our liabilities now going forward are going to be aircraft related, secured aircraft financing. And all of those -- our entire toolbox is available to us in terms of the export credit guarantee facilities, which are effectively cost of borrowing for, like, 85% LTV on those assets at about 4% to 5% per year in dollars. And it's hard for us to do much better than that.

So, most of our activity on the financing side now and going forward is going to be on secured aircraft financing, which is in the very low-single digits. And on the Brazilian real side of the equation, there we just kind of go with the local market rates. The only significant local working capital liability we have today is the debenture, like I said, which we will -- and that generally is a good low rate locally.

I don't think I did mention there was kind of the medium-term stuff, which generally relates to engine overhauls and import financings, what you see on our balance sheet. That generally kind of follows market rates and they're kind of rollover working capital facilities. Again, just to kind of understand how we're thinking about it, we also have significant collateral available that we now have, given that we own 100% of our loyalty program, which if we wanted to tap into that to raise some long-term money at the appropriate time, that could potentially be a source of anywhere from $300 million to $500 million of additional liquidity for us if we needed to do it.

And the only question mark there, and I purposely did not mention it because we don't have any plans to do it, is using the equity instrument that we have. GOL continues to be the most liquid stock in your Latin America universe. We have a strong controlling shareholder. You saw what he did in the Q2 with the capital increase. And so, we're very disciplined and limited on what we do on the equity side of the equation. I think that would be something we would only consider very much post-pandemic in terms of having a fair value for the equity of the company.

As you know, also now, we are a -- we're an independent in terms of not having a strategic equity partnership with any strategic partners, and so obviously that possibility is also open for us as well as we would think about it.

But those kind of use of proceeds, if it was an equity related use of proceeds -- there is no liability management for us left to do. So, those will be focused more on growth and investment. And for us, growth and investment is -- 95% is going to be aircraft related, which is going to be demand related and what we're doing on the planes.

So, with that, I kind of wanted to shift it back to the -- your question on the MAXs. Because I said, like, whatever we're going to be doing there is going to be linked in to what we're doing in asset acquisition, which is effectively MAXs.

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

Yes. And, Dan, we are considering to get over the next 18 months, something between 20 to 30 aircraft. It's likely that we will be more to the top of the range. Maybe even slightly above. But that's -- that should give you something in ballpark numbers.

Q - Daniel McKenzie {BIO 6343435 <GO>}

That's helpful. Thanks for all the time, guys.

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

Thank you.

Operator

(Operator Instructions)

The next question comes from Savi Syth with Raymond James. Please go ahead.

Q - Savanthi Syth {BIO 17476219 <GO>}

Hey, good afternoon. If I might, as a follow-up to kind of Dan's question on MAX delivery because it -- how are you thinking about the NG returns and what's the typical kind of return cost for an NG? Hi. Savi, actually, we have been pretty successful in negotiating -- dealing with the lessors in order to get new planes replacing old contracts. So, we are -- that's one of the advantages of renewing the fleet at this moment. So, we didn't utilize that resource pre-pandemic. And now, we have the opportunity to address the necessity to return some NGs through new contracts being dealt with the same lessors. They have been pretty supportive and also interested in doing so. The NG has proven -- again, it's liquidity in the market. So, we have demand for our old aircraft. And the deals that have been discussed -- either discussed or already negotiated with some lessors are showing that we will not face more -- additional discuss in renewing the fleet, replacing the current NGs by the new MAXs. Those aircraft -- both are actually great planes. They have -- they are demanded by the market and we are also making the most out of the effective prices that we do have in our contracts with (inaudible). At the same time, the long-lasting relationship with most of the lessors are bringing to us attractive deals to replace those.

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

And all of our aircraft return -- future aircraft return costs are already provisioned in the balance sheet. The accounting rules require you to fully provision all of your aircraft redelivery costs in your balance sheet. So, if you will, they are already expensed.

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

That's a very important topic. We have no surprises on the road with regards to the returning costs.

Q - Savanthi Syth {BIO 17476219 <GO>}

That's helpful. I appreciate that. And then just -- as you think about the 20 to 30 MAXs coming over the next 18 months, are we assuming like half for replacement, half for growth or how should we think about that kind of the net fleet view here?

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

This is basically -- we are replacing. But the other contract gives us the flexibility to rapidly adjust the number of aircraft in operation following the demand. So, we could -- we have protected our capability to either increase or reduce within the 12-month period the size of our fleet. And those are the tools we will definitely utilize whenever needed, either to increase in a very fast way the number of aircraft we are operating or further reduce in case that we would be facing any kind of possible crisis -- political, economic or whatever could come.

It's important to highlight our areas. We guided you along the last 20 years to make business in Brazil. This is possibly one of the most volatile markets in the world considering the different scenarios we are facing from time-to-time due to political or economical circumstances. So, this is one of the most important assets of our business model, is that how fast we can adapt ourselves following the circumstances.

Q - Savanthi Syth {BIO 17476219 <GO>}

I appreciate that. And if I might, if this is a long response, we can connect -- catch it offline, but since these power by the hour setups are somewhat new, I was just wondering, what's the economic consideration of flying an aircraft? Like, how do they differ when you have the power by the hour versus a kind of a regular lease? I understand, with the power by the hour, you don't have to pay unless you're -- mostly you don't have to pay unless you're flying it. But does that give it a higher hurdle to actually fly it? I was just kind of curious what the differences and economic incentives are between the two types of leases.

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

Overall, we just focus on CASK. And so, we either do a finance lease or a sale leaseback or direct operating lease. It's all how that's going to impact our unit cost. In our particular case, at GOL Airlines, we use that tool as a way of managing our fleet during this pandemic.

As I mentioned before, pre-pandemic, we spent about almost all of three years with the issue with the MAXs. We had accumulated -- to meet demand, we had accumulated around 34 aircraft that are on these short-term leases. There were basically buying us time to get to the resolution of the MAX problem. Pandemic hit, that became an asset because of the short-term nature of those contracts. And that allowed GOL to negotiate very favorable terms with leasing companies, which involve mark-to-markets, power by the hour and deferrals.

In the power by the hour calculation, in the power by the hour construct in our case, in the case of GOL, we calculated on average how many aircraft we're going to need at the end of the pandemic, and which was minus -- we returned around 15 aircraft during this pandemic. So, we did do a downsizing. One of the few airlines in our market that returned aircraft. Number one.

Number two, then we calculated how many aircraft on average we were going to have to keep on the ground until things normalized post-pandemic. And those are the aircraft that we then negotiated to convert into power by the hour. So, basically, we're paying a very low six monthly cost and then we only pay if we fly the aircraft because we also have a very high degree of seasonality here in Brazil. In a normal year, we would do, say, like, over 1,000 flights in the peak months of January and July and as low as 600 flights in the low months. So we have a huge seasonality.

So, in our case, we use the power by the hour tool to be able to keep aircraft on the ground without burning cash as opposed to having to return those aircraft and then resource them on the other side of the pandemic. And so, we preserved our ability to rapidly ramp up and follow demand here over the next couple of months as corporate demand comes back.

And what I'm saying also applies to flight crews, right? We did not fire any technical people, pilots and flight crews. We did a deal with the unions that transform about half of those fixed costs into variable costs as well. Same thing with our fleet. Effectively, what we did with our fleet is we transformed about 50% of it into variable costs. Same thing with the labor, so that when we ramp up, we can call back that labor. We don't have to go and hire pilots or hire aircraft. And so, for us, it was a way of avoiding aircraft returns and -- extra aircraft returns, which also has cash outflow as it relates to the returns, stagnating that, and also disconnecting employees that we would need back on the other side of it.

So, for us, both of those tools were just a way for us to kind of manage this valley of the pandemic. It's not something that we normally -- we're doing in our company. We did have -- over the 20 years, we did sometimes have power by the hour contracts, but it was generally -- it was just a special situation. It's generally not where it's flying to. Everything we're doing is always focused on minimizing the CASK without much consideration for the cash component.

During the pandemic, we had to prioritize the cash component in the short term. So, that's why we, in our particular case -- so, I think be careful, different airlines use different constructs on that. For us, it was a way of managing our assets, so we wouldn't have to cut the assets during the pandemic and then pay expensive rates to rehire those assets post-pandemic. So that was like one of the tools that we use. Okay?

Q - Savanthi Syth {BIO 17476219 <GO>}

That's super helpful. Thanks. Thank you, both.

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

So what I want to do is, we have a couple of minutes. We need to switch to our Portuguese language portal. We have one question on the webcast platform, which I'll just read here and answer it. It's from (inaudible) which is one of our equity partners. Can you comment on the increase in CASK and CASK ex-fuel in the Q2 in comparison with the Q1? What is the reasons?

Well, basically, on the operating side of the equation, Q1 to Q2, we had a 5% reduction in stage length. which is a function of how we're managing the network. And so, that obviously -- a 5% reduction in the stage length has a corresponding lower dilution of the overall costs. And then, there was a slight increase in maintenance expenses as it relates to some of the things we were talking about, about preparing aircraft for the ramp up. We've been spending money, having expenses to get aircraft ready for growth in Q3 and Q4, as well as the transition from the NGs to the MAXs.

On the ex -- well, actually, then on the fuel -- that's on the ex-fuel side of the equation. On the fuel side of the equation, from Q1 to Q2, we had about a 20% increase in the average price for jet fuel based on what's going on with international oil prices. So, those are the mean reasons for that.

With that, I think we will finalize the questions and Kaki will just give the closing remarks.

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

So, yes, I just would like to thank you again for your attention and mainly for the great support along this crossing because you all have paid a huge attention to every single step that we have taken and always giving us your calls to clarify our strategy. So, I just would like to thank you very much for your support and attention so far. Thank you. Have a nice day.

Operator

This concludes the GOL Airlines conference call for today. Thank you very much for your participation. And have a nice day.