Q1 2022 Earnings Call

Company Participants

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

Other Participants

- Alejandro Zamacona, Analyst
- Daniel McKenzie, Analyst
- Duane Pfennigwerth, Analyst
- Michael Linenberg, Analyst
- Stephen Trent, Analyst
- Syth Savanthi, Analyst

Presentation

Operator

Welcome to the GOL Airlines First Quarter 2022 Results Conference Call. This morning, the company made its numbers available along with three videos with the results presentation, financial review and preliminary Q&A. GOL hopes everyone connected has watched them.

After the company's brief remarks we will initiate the Q&A session, when further instructions will be provided. This event is also being broadcast live via webcast and may be accessed through the company 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 either be answered by 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 the company's management and on the information currently available to GOL. They involve risks and uncertainties, because they are related to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that events related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

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

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Good morning, everyone. I would like to start by ratifying our most important results for the period, which were made possible by the trust we obtained from our customers, investors, suppliers and especially our team of leaders. Our employees were responsible for getting us through the challenges of the quarter without disruptions in our operations.

Net revenue from passenger transportation grew significantly due to the consistent recovery in sales. Sales levels in January and February increased 10% and 30% respectively compared to the same periods in 2019. While in March, they expanded 60% due to the increase in sales to the corporate segment. In January we reached the 38.5% domestic market share and 99.7% flight completion above the industry average. This position was achieved by the diligent capacity management in the previous months. Compared to fourth quarter of 2021, we increased our capacity by 15% with more a (inaudible) recovery at the country's main airports such as Congonhas, Sao Paulo, a significant hub for corporate passengers essential for strengthening profitability.

Our occupancy rates and aircraft utilization continued to improve and flight frequencies expanded by 48%, when compared to the first quarter of 2021. The increase in demand and the number of passengers transported was followed by an important growth in our NPS. During the quarter this service quality indicator increased by 7 points and reached 45, GOL's highest score to-date reflecting the consistently force [ph] towards the improvement of our customer experience. In April, we signed a landmark cargo and logistical services agreement between our logistics business unit GOLLOG and Mercado Livre. This partnership contemplates a dedicated freighter fleet of 6 Boeing 737-800 BCF, which is expected to begin operations in the second half of 2022. And it can be increased to up to 12 aircraft into 2025. Part of these aircraft will be converted at GOL Aerotech and its personalization is anticipated to generate fleet optimization savings of approximately BRL25 million in 2022 and another BRL75 million in 2023. As such, we plan to increase GOLLOG's range of services and tonnage capacity by 80% during 2023 to generate additional incremental revenue of approximately BRL100 million in 2022 and more than BRL1 billion over the next five years.

I will give the floor to Richard Lark, our CFO, who will present some financial highlights.

Richard F. Lark {BIO 3484643 <GO>}

Thank you, Kaki. Our results reflect the social capital we have accumulated over two decades of collaboration with our clients, employees, suppliers, and investors. I would like to start today highlighting the important results we had in the quarter. We registered an EBIT margin of 5.6% and an EBITDA margin of 16.8%. Our detailed financial analysis for the quarter were shared in the press release and video presentation released this morning. We believe that you all had a chance to access them.

Regarding our capital structure. Our available liquidity remains stable at BRL3.3 billion with a short-term debt of BRL721 million at the end of the quarter. We have no significant debt amortizations within the next 12 months and sufficient long-term financing credit lines for the acquisition of new 737 MAX aircraft, a key part of the fleet transformation plan. On

April 13th the exclusive codeshare agreement between GOL and American Airlines was finalized, including an equity investment by American in the amount of $200 million. American now has a 5.3% participation in GOL's share capital, and was granted the right to appoint a member to the company's Board of Directors for the term of the exclusivity provided in the transaction.

This quarter we received eight Boeing 737 MAX 8 aircraft. The transformation of our fleet to a new and more efficient technology plays a key role in our strategy for the coming years, based on increased productivity, lower unit costs, and lower carbon emissions. Among the eight 737 MAX received in the quarter, three aircraft are under finance leases. We anticipate that in the coming years, around 50% to 60% of new aircraft received will be under finance leases. And despite the increase in our leverage, partially as a result of the acceleration in the fleet transition, we are optimistic that the improvement in EBITDA generated by this initiative will lead us to a net debt to EBITDA ratio of around eight times by the end of 2022.

I now return the floor to Kakinoff.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you, Richard. I want to close by acknowledging the commitment and dedication of our collaborators, (inaudible). They are the ones who put us in a solid position to continue to expand operation in a sustainable way. However GOL is emerging stronger and more resilient as demand normalizes. We are even more confident now with this solid recovery of the corporate segment in March.

Operator, you may initiate the Q&A session.

Questions And Answers

Operator

Thank you. (Operator Instructions) The first question comes from Dan McKenzie with the Seaport Global. Please go ahead.

Q - Daniel McKenzie {BIO 15071178 <GO>}

Hey, good morning guys. Thanks. Focusing on cargo, 1 billion over the next five years, so a couple of questions here. How is the logistics team just following the win with Mercado Livre, thinking about other growth opportunities from here. And then given the growth, how should we -- what do you want us to know about this business, you know, how do we model 2023 growth margins versus the core airline, anything you can share would be great.

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

Hi, Dan, very good morning. Thank you very much for the question. Actually this is -- this new business is giving to us another set of opportunities in a such relevant and (inaudible) business which is the cargo -- air cargo transportation. We are now assuming six -- five aircrafts in our fleet. So they are all 737s 800 BCFs converted directly by Boeing supported by the launches. Once we re-operate such type of aircraft exclusively to Mercado Livre, certainly we could to expand this kind of cooperation towards additional goods being solely operated by us serving different market segments. This is just to share with you one of the possibilities. At the moment we are totally dedicated in delivering the best customer experience we can to Mercado Livre, which is our partner at the moment. And certainly this business alone will change dramatically the figures of our cargo unit. And our strategy already these 1 billion potential additional revenue along the next five years that also we mentioned that this operation only could add up to 80% of our current cargo revenues.

So we are pretty excited here, envisioning our opportunities (inaudible), but at the moment, we are very concentrated in Mercado Livre operations only. Certainly we will have another set of information being shared with you from the next earnings results conference on because now we have another business segment being operated by Mercado. But for the moment those are the information that we would like to share.

Q - Daniel McKenzie {BIO 15071178 <GO>}

I see, okay. Second question here, GDP has been revised upwards in Brazil. The revenue outlook for this year remains unchanged. I'm just wondering if you can speak to the pace of oil recapture throughout the quarter where we're at today? And how Smiles is helping to drive improvement in helping to I guess stabilize your yield versus '19?

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

Yeah, Dan the best answer to this question is given by the first quarter results itself because we are still facing a pretty volatile market in Brazil. There are several uncertainties, you know, there are those political instabilities in front of us. But even though we are -- even so we are producing superior results in comparison to everyones expectation. And this is driven by a set of different drivers, certainly one of them is the Smiles performance. The company is in its best shape, breaking records and already offering to the whole structure, I mean, the GOL cooperation, the benefits of the Smiles team not only those with tax benefits, I mean that are mainly our capability to proper price the miles and the points in the market much more directly correlated to our revenue management is king always in place here for GOL.

So we are making the most out of this extremely valuable assets developed by the Group along the years. So Smiles is directly responsible, and it's one of the drivers as I said for the results we have delivered. And also for this positive outlook we are sharing with you with regards to the market overall. The forward bookings curve is promising, and it does apply the same effect to the Smiles customers too.

Q - Daniel McKenzie {BIO 15071178 <GO>}

Yeah, thanks Kaki. And I guess what I really meant to get at is just the pace of the corporate recovery since the larger corporates...

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

I will (inaudible). Can you hear me okay or no?

Q - Daniel McKenzie {BIO 15071178 <GO>}

Yeah, yeah, it's a little bit faint, but I can hear.

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

(inaudible) we're having trouble with the (inaudible) have some -- it's not very clear. But let me just maybe couple on what Kaki said, on a couple of things. Where we're right now, we've been able to couple or adjust our to our yield management just like fare structure to delivered clearly towards the current level of (inaudible) pretty much at the begin of March. One of the -- we are here in Brazil (inaudible) delay given how jet fuel is priced for example, so that the jet fuel price we're going to have in May is based on the average price of basket of international oil prices in April for the whole month, the average is the average currency.

And so, we can continue to pay, if we have the demand ability to do it, and that's kind of go into a question, but (inaudible) still the context here on where we're coming from and why things was the way they were, we always started to get a recovery of corporate demand (inaudible) last year. So it is coming off of a very timid base, that covered maybe to kind of 60% by the end of -- 60% of 2019 by the end of December.

Looking at January, February, you know, these are hard seasons. But during that same period since November last year, we have been going with the combination of higher oil prices and a weak Brazilian currency. But then came February, February 24th to be exact when the travel restrictions, just restrictions in general came off COVID-19 restrictions. That also stimulated the final pieces (inaudible) on large corporate demand to come back pretty quickly, right at the end of February, which also coincided with the beginning of the war, February 24th you know exactly, it is certainly the same day almost.

And so, with the return of that final piece of the very large corporate demand for our business, and even the very large Brazilian corporates, which our network is organized to serve. Since that moment in time in the February, we were able to work through yield management and get a 100% recapture on what is happening with oil with a couple of nuances. WTI at the end of the Q1 was 32% up versus the beginning [ph] right, $75 versus $100. And 76% of overall between the same period of 2019, $57 to $100. But the exchange rate, the Brazilian currency appreciated 15% from the beginning of the year to the end of Q1 from (inaudible).

And so the effect on jet fuel for us from the beginning of the year to the end of March was a 15% increase, not these massive increases you're seeing affected (inaudible) and 40% that did affect April and May. 30%, not the 70% -- the 50% to 70% we've been seeing in other countries that you look at. That's a much lower number to have to deal with on the fare side where the exchange rate appreciated 15%, which also clearly was other cost that we have denominated to our maintenance, leasing, revenue systems in dollars. And as you saw, we have a good increase in Q1 of more than 30%. And that's how we started the Q2 period, which is normally the down quarter.

So from a normal situation, from a different perspective that given the return of the corporate demand at the end of February coinciding with the appreciation of the Brazilian real and regarding fact that when we were able to not just look at the -- look after the variations, but also have an increase in margins. And then, what Kaki was saying, and this is important because this effects GOL separately from what might be affecting (inaudible) as a whole. We were going -- at the end of June we reincorporated Smiles. And right around at the end of third quarter last year, we had reintegrated the yield managements teams in the center of the work together. The teams were kept separate, but they're working together, maximizing the profitability on the same inventory, which is produced by the (inaudible) inventory.

And at the end of June, at the end of Q1, we're expecting to already have generated synergies which equal 100% payback on what we paid for the Smiles take and it's more than half of these synergies coming from -- coming in operations. And given its small size (inaudible) comes out of revenues via yield. And so, we've been able to also increase substantially the quality of (inaudible) in terms of eliminating a lot of the problems we have in the inventory management in the company as well. A separate analysis goes in there because Smiles, is an important increase, a certain driver and increasing yield in Q1.

And as you saw in the release, the gross sales in Smiles were a 100% higher in Q1 of this year versus the Q1 of last year. And that's yield and that comes out of the integration of yield management processes. And that also come through a decline of (inaudible) all that is also in there driving what you're seeing in terms of our yields horizons et cetera. So just kind of coupled what Kaki said,(inaudible) going to do a follow-up on your question now. Please go ahead.

Q - Daniel McKenzie {BIO 15071178 <GO>}

Thanks, Rich. That's really helpful. Oil price is manageable. I guess this one last housecleaning question -- housecleaning question, given the volatility in oil, what's the spot jet rate you're paying at the pump?

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

The fuel price?

Q - Daniel McKenzie {BIO 15071178 <GO>}

Just at the pump today, just the housecleaning question.

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

(Multiple Speakers) in reals is 560 at this moment, remembering that there is a 45 days delay in comparison to international prices. So at the moment we are filling our aircrafts with the prices compared to international cooperation of 45 days ago.

Q - Daniel McKenzie {BIO 15071178 <GO>}

Understood. And I hear you loud and clear Rich on the recapture here. Good job.

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

Yeah, just on that, we have the number for the Q1, our price (inaudible) to Q1. And we also have, in our very detailed guidance, you have our assumptions for the full year right. And so, that's really what matters in terms of (inaudible). Thanks a lot, okay. Next question please.

Q - Daniel McKenzie {BIO 15071178 <GO>}

Understood.

Operator

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

Q - Michael Linenberg {BIO 1504009 <GO>}

Hey, good morning everyone. Nice job. Nice to see the recovery really starting to take hold. The American codeshare which, as you said Kaki and Rich, I guess effective just about a week or two ago. Couple of things, what's the potential revenue pickup like what are you assuming maybe in year one, and as sort of a part two to that question, do you plan to seek antitrust immunity with the regulators to offer maybe a more comprehensive type arrangement, maybe on par with some of the other agreements in the region?

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

So we do not have -- good morning, actually we do not have any new requests to be submitted to the antitrust authorities considering the network we have designed, which is pretty much comprehensive. I would say mainly with regards to the North American market and the whole American Airlines network. What's important to highlight is the current market performance on those routes produced by the codeshare in comparison to the overall demand. You know that the international routes and international markets didn't recover as fast with domestic in Brazil post pandemic period. And this is something to be changed in the near future. We are now also perceiving a higher demand and a higher forward bookings for the international routes, and even considering these the market size is more than we had pre-pandemic for the international travelers, the partnership between GOL and American Airlines is already today two times bigger than we had with our business partner.

And it demonstrate how much stronger the American Airlines network branch and the customer willing to fly with the American Airlines in Brazil and in the region. So at this moment we are experimenting a higher than expected demand in comparison to the overall market. And this has been introduced basically by the (inaudible) in this partnership GOL and American Airlines. But for the moment, this is what we have to share, and we have already the antitrust approval for the network we have deployed today and the work which is supporting the forward bookings are into the end of this year.

Q - Michael Linenberg {BIO 1504009 <GO>}

Kaki, when you say -- times bigger than your next biggest partner, are you referring to like say a current partner like Air France-KLM or you talking about versus Delta versus what you had...

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

(inaudible) comparison to our North American partner, our prior North American partner, Delta. So -- and is explained by the network size by the capacity deployed by American Airlines in the region. So it's a much bigger company for the South American markets, and mainly in Brazil you know the -- just to give you another reference on that subject, the American Airlines credit card in Brazil has its second largest customers platform right after the United States, so the brand is really powerful here and the company is in customers' top of mind share. So therefore we are just I say -- therefore we can say that we are just in the beginning of this -- of capturing the high value of this partnership. We are reaching the huge potential right now, and more to come (Multiple Speakers).

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. That's great, Kaki. Thanks. And then just turning to the slides, Page 4 where you break out your corporate and kudos to the team this is -- we haven't seen anything like this from any other carrier, you guys have been very transparent with corporate, and to break it down into, I don't know, it looks like 10 different groups, this is fantastic data, and you can see that big -- almost as if somebody turned on a light switch back in February with corporate. So I see there is a line there for corporate and there is a line there for consolidator, which is green, but there are three other lines there, what are those lines? Are they leisure, are they VFR, is it cargo? What -- can you -- I'm just curious.

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

You're right, we have the other sub segments mainly leisure. (inaudible) this is just to show you the contrast between the recovery speed of those two different segments. We have been positively surprised by the large corporate demand, overcoming the most optimistic forecast we have shared before. You know GOL, all along the pandemic kept its optimisms related to how strong would be the corporate demand recovery, Also in contrast with some of the most pessimistic prophesies shared by some specialist saying that the big companies wouldn't return to their pre-pandemic travel habit in (inaudible) as it was presented, even considering that some structural changes would come. And there is, I mean, we do see less and less passengers taking the plane for a one-day (inaudible) only, and flying by overnight. But at the same time there are much more companies willing to visit customers in person or combining the business trips with leisure.

So even starting from our own point of view, which always very optimistic to fortunately been surprised by a much stronger demand at this moment. And this is where we have tried to demonstrate in such chart, such a slide by making offering yield comparison on how much faster has been the corporate demand recovery in comparison to the leisure, which is by the way also really strong.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. And then just, that's super helpful. If I can just squeeze in last one. Just on the slide, Page 5, and shows you how closely I look at these. You talk about markets that you've reopened and you highlight some of the international markets. And you have Orlando there, which I know you're going back into. But you have instead of Orlando city code, you have Miami city code. And so, I'm not sure if that's a slip up or not, but I would think that with the American agreement, when I think about secondary Brazil to help out the American hub, GOL would be with the right cost structure and the right airplane size flying say a 737-8 MAX from say a Belem or Recife, Salvador, Manaus to Miami. That would make sense, that would make a lot of sense. So I don't know if that was unintentional or not, but maybe it's giving us and look into your future plan.

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

(inaudible) Miami we're going forward with our MAX operation, even pre-pandemic we were doing flights from (inaudible) to Miami, but also is that forward strategy even in prior periods our exclusive codeshare with America. And now with the exclusive codeshare with American, America is now dominant market share in Miami, there is a significant narrow-body operation that we can develop in partnership with American. Miami is American focus on the long -- wide-body to the longer distances in the Southeast of Brazil and (inaudible).

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

Yeah, Mike, the maximum information I can share at the moment is that we are taking care for most of your very interesting suggestions, okay. (inaudible) several interesting possibilities, opportunities coming out of our partnership with American Airlines. But you're right, 737 MAX is a fantastic machine. And we are really not only excited, but we are more than satisfied with forward bookings coming out the bigger flights to Florida. Those are about to be resumed this month. I think that there is a clear potential for additional routes and markets. And they are supposedly about to come, okay.

Q - Michael Linenberg {BIO 1504009 <GO>}

Very good response gentlemen. And nice quarter again. Thank you.

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

Thank you.

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

Thanks Michael.

Operator

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

Q - Syth Savanthi

Hey, thanks, good morning. And if I might ask the business recovery question a slightly different way. I was wondering if you could say because the forward sales is super helpful. But I was kind of curious where your business revenue is today versus kind of this time in 2019. And generally in your 2022 revenue outlook, what are you expecting that to recover to?

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

Hi, Savi. The comparison to is those could be better explained (inaudible) situations that we are at the moment comparing second quarters 2019 and 2022. We are transporting very smaller number of business travelers than we were other time, but producing a much higher revenue. And this is related to those two effects I have previously mentioned. The type or the reason for the business travels have changed slightly. So they are not more just one-day trips. And they have been replaced by longer journeys. And in a materially higher number of times those travelers are bringing their families along. So extending their business trips and producing what we have internally managed the (inaudible). So that's why we have higher yields, longer stays destinations. And therefore producing higher revenues. So those are the main figures to compare.

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

I just have one Savi -- (Multiple Speakers) Savi just (inaudible) we estimating Q2 for us is going to be a transition back to what you kind of more saw as our normal mix of traveling passengers pre-pandemic. And so by second half (inaudible) in our full year guidance with the approaching kind of the mix that we had with -- kind of pre-pandemic, which would be roughly 70% of our inventory being flown by -- for business purposes, 30% (inaudible) leisure. And then within that, within that mix and close to overall about 30% coming from the high yielding large corporates. That would probably be -- would have been end of June, July, that we will achieve that pre-pandemic mix, Q2 is kind of a -- it's been bit of a transition.

Q - Syth Savanthi

That's super helpful. Thank you. And if I might.

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

(Multiple Speakers) I'm sorry Savi, I just like to add another item to this business traveler analysis that we have likely shared. One thing I really would like to highlight is our capability to adapt the network and the flight schedule to this new business travelers profile. I mean we identified this trend by the end of last year. And then we are now in the second quarter already offering a totally redesigned network in terms of, as I said, (inaudible) and routes in order to cope with the new customer profile. So that's one of the benefits, one of our main assets due to those business model. I mean better than expected, it can really adapt ourselves to the new market demand and profiles.

So, but please go on, I didn't (inaudible).

Q - Syth Savanthi

No, no, that was a good point, I'm glad you interrupted. If I might just ask on the fleet plan, like the MAX deliveries outlined in this fleet plan are a little bit different than the kind of the MAX, I think the firm orders or the MAX deliveries in the 20-F. I was just kind of curious what the difference was, if you're -- if you've kind of reworked the delivery schedules since then or you're building in some conservatism on the MAX deliveries?

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

No, (Multiple Speakers) actually the --

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

Go ahead, Kaki.

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

Thanks Rich. Actually we are not deviating that much from what we have shared and demonstrated previously. And it happened because, you know, as previously mentioned, we have combined our all delivery schedules with some opportunistic movements whenever we find attractive offers in the market. So we have somewhat blended our own order with another -- with other opportunities that we can take. By the end of the day -- sorry, by the end of this year I think that we will be pretty close to the final figure we have already shared. But it's more related to how we are building this year-end scenario related to the fleet than dramatically changing the numbers that we have already shared with you.

But Richard, I think what do you like to add...

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

No, I was going to say, Savi (inaudible) yes, the order book is less than the total MAX that we're sourcing from the secondary market, the (inaudible) market et cetera in our aircraft that were produced for other clients that were bringing in (inaudible) MAX or MAX order book per se. That -- and part of the objective on that is to do a catch up versus the now it's almost four years we had -- where we had the MAX running in pandemic, and so -- and then during the pandemic reduced our total order book through this risk. And so we're trying to do a big catch up outside of our order book working in the market. And so, feel free to, if you find any extra MAXs out there, let us know.

Q - Syth Savanthi

Well, I suppose I'm looking at just to add, '22 matches up with the '20 aspects, but '23, '24, '25, it looks like the '20 (inaudible) like 59, 79, 96, that's why I was kind of curious as to the '20 seem to have a higher number. And that was where the question came from.

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

Okay. Yeah, I'll follow up with you offline on that. And...

Q - Syth Savanthi

Okay. Sounds great. And just one last question on just the capacity restoration as you kind of exit the year, where do you expect kind of domestic and international to be understanding that things can change and you're being kind of very responsive to demand.

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

Sorry, Savi, I am not sure that I fully understood your question. But if I am not wrong, you were asking when we will have the two different market delivering pre-pandemic numbers with regards to the capacity, right?

Q - Syth Savanthi

Something along those, where you expect to be at the end of the year versus 2019, yeah, in domestic versus international?

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

The domestic will be definitely the same pre-pandemic level, even slightly above. And international, I still believe this is going to be below 2019 levels. We might be surprised that you know the current volatility in the exchange rate and also the macroeconomic environment combined with the different piece of COVID-19 restrictions relaxation in the different markets might postpone the international markets recover as we would like to have. The domestic definitely will be by the end of the year at the same level we were pre-pandemic.

Q - Syth Savanthi

Thank you.

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

You are welcome.

Operator

The next question comes from Duane Pfennigwerth with Evercore ISI. Please go ahead.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Hey, thanks. Firstly, nice job getting your results out more quickly. I wanted to commend you on that. Just a couple of questions for me, I'm not going to ask 5 or 6 to dazzle everybody with my Brazilian knowledge. But just a couple out of respect for the other people on the phone. Look, yields look great now. And I wonder if you could comment more broadly on supply demand. GOL has been very disciplined, not just in this crisis, but in past crisis as well. But you continue to be a share donor. By our rough math, you're going to be down about 4% in domestic in the second quarter, the second calendar quarter, Azul was up 9 points relative to 2019. So can you just comment broadly on how you see supply demand and at what point is GOL kind of no longer willing to be a share donor in Brazil domestic?

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

Thank you very much for your question, that gives me a very high valuable opportunity to once more emphasize how important capacity discipline in the market is. You have correctly mentioned that we had the standard with concept already for many, many years. And hopefully you and I have seen that we have (inaudible) to have concept in a very disciplined way. And this is from our perspective, this is more important than ever. Therefore, even had led the market in the first quarter as you have already seen in quite comparable manner with the 2019 levels. We are clearly demonstrating to the market that we will not fly, I would say, let me try and get the right word, we will not fly just to produce market share. We (inaudible) if it's going to result in market share result, if we will be able to continuously sustain and prepare as much as we can these yields recovery (inaudible) that we have been able to deliver.

So that's a very, very important message we will like to deliver here. Because that's the basic, the fundamental pillar of our strategy and the way we have driven our business. The results are speaking for (inaudible). And another aspect related to the market share is that we have seen some of our -- some competitors not only in domestic market, but also international offering a higher inventory than you really fly. So you may take for granted this market share gaps that you have mentioned based on the first quarter experience we do have.

I still believe that the industry is and will continue to behave in a more rational way than it did between pandemic and it does (inaudible) as we play in the market, as we have been able to observe. So -- but independently of the inventories availability that we are seeing right now, I can tell you from the gross perspective that we will continue to protect and defend the proper balance between capacity and demand.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Thank you for that extensive answer. And then just for my one follow-up and a follow-up to some of Mike's earlier questioning. Just very simply not this quarter or next quarter, but can you just remind us what the international strategy is? And what are the milestones that you're waiting for maybe it's sort of the US testing requirements to go away, but how are you thinking about international? How are you thinking about the US and how has that changed with the American partnership here? Thank you for taking the questions.

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

My pleasure. Talking more broadly on our international network, you have probably seen that on average we are resuming one international destination from -- since August last year. And these gradual (inaudible) to resume international flights is always -- is also proving to be the most effective one because we are facing still meaningful volatility all over those markets with regards to the regulatory constraints. There are some countries ahead on COVID-19 restrictions relaxation, some others are still more conservative that we are producing very attractive RASK on all of those routes already announced and in operation.

So the next one will be the North American market flight from Brasilia to Florida. Those operations are about to be resumed this month of May. And we are now considering to keep this the same pace for along the next months. So they have more international destinations to come, but we will keep our quite conservative strategy of only deploying new routes in case that we are sure that those routes will produce attractive RASK, otherwise we would rather keep the planes out of operation.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Thank you.

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

Thank you very much.

Operator

The next question comes from Stephen Trent with Citi. Please go ahead.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning gentlemen. And thanks very much for taking my question. Most of mine have been answered, but just a quick question for you on the maintenance side. I haven't heard you guys mention GOL AeroTech for a while. Could you just maybe give me a little bit of color with respect to, how you see potential third party business developing with that. And to what extent you're running any of your engine maintenance through GOL AeroTech? Thank you.

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

Hi, Stephen. And thank you very much for the question. At this very moment we are discussing, analyzing exactly those alternatives. One fact I'd like to share that the demand for the MROs worldwide is pretty high at the moment. It does produce at this -- I'm sorry, that give us an interesting set of opportunities to go (inaudible) in order to increase revenues serving other airlines, other companies, but also those represent a challenge considering our own fleet maintenance struggle. So we are reviewing our strategies, the alternatives in order to design and the best allocation, we can at the same time that we will take the highest possible number of customers being served by the GOL Aerotech structure. So I think that we will be able to give you more precise information on this strategy in a few weeks.

Q - Stephen Trent {BIO 5581382 <GO>}

Thanks so much, Kaki. And super quick dumb question/follow-up, you are still doing some of your engine maintenance through Atlanta, or is that kind of all phased out?

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

Sorry, could you please repeat it again. (inaudible)

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

We still have, in our diversified engine [ph] overall portfolio (inaudible) we still have stuff with Delta tech ops. Correct, yes.

Q - Stephen Trent {BIO 5581382 <GO>}

That's perfect. Let me leave it there. Thanks again guys.

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

Thank you.

Operator

(Operator Instructions) The next question comes from Alejandro Zamacona from Credit Suisse. Please go ahead.

Q - Alejandro Zamacona {BIO 20103878 <GO>}

Hi Kaki, Richard, a couple of questions here. I'm wondering if you can share any thoughts on how -- and GOL's ability to do the pass through of higher fuel prices to final customers? And any expectations for yields for the remaining year, also considering the potential recovery of the business segment that you have been discussing during the call? Thank you.

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

Yeah, we -- I apologize because the audio is not the best today in the setup and we haven't been able to correct it during the call. But in one of the previous questions we were kind of walking through what you call the pass through, we call the recapture, which has depended on the traveler mix. And so, when we had the strong recovery in the large corporates at the end of February, we've been able to recapture a 100% of the variation in fuel prices on our cost structure. We were -- we have been struggling to do that from November of last year until the end of February when -- November of last year is really when fuel increased, oil prices increased significantly for us because it was simultaneous with a very weak Brazilian real.

And the other phenomena that's happened also this year, and you saw in the first quarter was an appreciation of the Brazilian real by about 15%. And so that has compensated a large portion, not just of the increase in oil prices of our, you know, our jet fuel prices in Brazil are effectively priced in US dollars. But also it helped us -- has helped reduce the cost of other dollar-denominated expenses such as lease payments, maintenance costs and things like that. And so, yes, we entered the second quarter with a significantly higher level of yields as you saw in our first quarter results this morning and we've been explaining on the call.

And then just on the second part of your question, could you just repeat it again please.

Q - Alejandro Zamacona {BIO 20103878 <GO>}

Yeah, if you expect higher yields amid the business recovery segment?

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

Yeah, I think your question was just kind of a general going forward. I think Q2, we are at this mid level that we kind of shared with you in the presentation today, we showed some interesting data on the corporate recovery. And I correct that, Michael was referring to the inflection was between week 9 and week 11 of the year. So we continue to operate at that level. As you know the second half, we expect to have normalization of demand, second quarter is a transition. And when I say normalization of demand, it's the normalized mix, 70% business traveler is about 30% of the mix being the large corporates. And the second half also represents majority of our revenues for the year, July is always a good month.

So we do expect to have continued buoyancy, continued improvement in the yield environment. We've been super-disciplined, there's been a lot of questions on capacity. I think the discipline and the ability to have high-quality yields is directly correlated with discipline on capacity management. We continue to do that, as Kaki was saying, we don't have as a target as directly focused on market share. We focus on other metrics. During the pandemic we were focused on cash management, not margin management. And also emerging from the pandemic, with the unit cost, lower than we came into the pandemic. And we were able to achieve both of those. And so, now we're pivoting back to margin management, which we'll be focused on in the second half of the year. And so, yield management will be an important component of that, as will continue to be capacity management, whereas Kaki was saying, we don't have -- it was a question on market share, which tends to be kind of a US market focused question. But we know that's not a metric for us. We're focused on -- and this will pivot back towards in the second half of the year, you know, profitability management and balance sheet management. And we've been the most disciplined on capacity in that respect. And that tends to result in less flight cancellations versus our competitors.

There was a data mentioned in one of the previous questions about somebody's forward inputs into the system, those aren't necessarily what ends up being flown. There has been much less volatility in our imported schedule and the actual schedule we flown versus our competitors who had put a higher number of flights in the system, and then end up canceling a much higher number of flights. And so, we're careful about using those to project results in the future in terms of yields. Obviously that is a big determinant of capacity. But we continue to be a leader in the most disciplined and most conservative on capacity. The reason why I'm saying all these points is that, those -- all the factors that I mentioned will tend to support for us at GOL a solid -- we expect a solid yield environment for the next couple of quarters.

Q - Alejandro Zamacona {BIO 20103878 <GO>}

Okay, Richard. Thank you.

Operator

Excuse me, this concludes today's question-and-answer session. I would like to invite Mr. Kakinoff to proceed with his closing remarks. Please go ahead, sir.

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

I just like to thank you all very much. And wish you a very nice day. Thank you.

Operator

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