Q3 2015 Earnings Call

Company Participants

- Eduardo Masson
- Paulo Sergio Kakinoff

Other Participants

- Duane Pfennigwerth
- Joshua Milberg
- Kevin M. Kaznica
- Michael Linenberg
- Pablo Zaldivar
- Ravi Jain
- Savanthi N. Syth

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone and thank you for waiting. Welcome to GOL Airlines' Third Quarter of 2015 Results Conference Call. With us here today, we have Mr. Paulo Kakinoff, CEO and Mr. Eduardo Masson, Financial and Investor Relations Director. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After GOL remarks, there will be a question-and-answer session. At that time, further instructions will be given.

This event is also being broadcast live via webcast and may be accessed through GOL's website at www.voegol.com.br/ri where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of GOL 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 conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Paulo Kakinoff. Mr. Paulo, you may begin your presentation.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you. Good morning, everyone and thank you for joining us for the third quarter 2015 earnings release conference call. Today, we start our presentation on slide number three, which includes important data on the current economic situation, which directly influences our results and those of the Brazilian aviation sector as a whole.

The past quarters were marked by a significant drop in Brazilian economic activity, with an increase in inflation and higher credit restrictions, as well as exchange rate volatility. These factors have been holding down the growth in demand and produced a direct impact on the performance of the Brazilian commercial aviation market.

In the first table on the last of the item, we highlight the devaluation of the real by 62% over September 2014. In the same comparison, the average fall of the real against the dollar was 55% in the quarter. It is worth noting that between July and September, the real had a minimum price of R$3.09 and a maximum price of R$4.20, a 37% variation within 90 days, a fact which brings remarkable challenges to the company's planning process.

In the following item mentioned the decrease of corporate passengers compared to the same period last year. Since June, however, we are seeing monthly growth of this volume, even it is light. In the fourth quarter this year, the increase in the capacity of the Brazilian industry only occurred because of the comparative basis. Just to remember you, the supply was greatly reduced during the FIFA World Cup in 2014.

I highlight the dynamics of supply since September when GOL's capacity was reduced by 2.7% and that of four of our main competitors was at 6%. When we compared the capacity accumulated into September 2015 against the same period of 2011, we reduced 4.5 billion ASKs higher than our main competitor that has reduced 4 billion ASKs. When analyzed, it means that we reduced approximately 7 billion ASKs, us ahead of our competitors. It's worth to mention that the two remaining competitors have neutralized this capacity reduction by increasing both combining more than 14 billion ASKs over the same period, bringing to the industry a growth of 2%.

We'll talk later about the trend in 4Q 2015, but I can already tell you that the adjustment in the domestic supply by the end of the year will be between 5% and 7% and now I'm talking only about the fourth quarter.

The price of aircraft fuel was R$2.13 per liter in the third Q 2015, a decrease of 13.1% compared to 2014. The reduction, however, was much lower than that observed in the international market, due to the exchange rate impact we have here, since the price of fuels in Brazil is indexed in U.S. dollar.

On the same slide on the right, we showed the operating performance achieved in the quarter, maintaining our strategy which has been implemented with total focus and discipline. On the first item, anticipating the effects of the economy in our operations and in order to maintain our strong liquidity position and the continuity of projects, we completed the capital increase of R$461 million in the quarter, mainly performed by our controlling shareholder and Delta.

We also completed the issuance of the long-term loan of $300 million with Delta as the guarantor. The previous quarter's cash, plus the resources of these few transactions, lead us to reach R$3.1 billion in cash, which represents 31.2% of our net revenue in the last 12 months. This percentage is one of the highest pace of all global aviation industry.

On the next item, we highlight an increase of almost 13% in ancillary revenues, which accounted for 12.6% of our total sales mainly due to the sale of GOL+ Conforto seats and the better performance of the cargo area. Another important item in the period is the maintenance of our leadership in the number of passengers transported in Brazil, Brazilian domestic market. For another quarter, the company extends its lead over our main competitor.

Moving on to the next, we retained our corporate sales lead with more than 32% of passengers flying for business purpose according to the data published by the Brazilian Association of Corporate Travel Agencies, Abracorp. In October, we have also maintained in the quarter and in the year, our on-time performance leadership in the domestic market, which is very important for customers traveling on business.

On slide number four, we showed total revenues growth of 1.1% in the quarter. Operating results EBIT was R$8.9 million in the period with a margin of 0.4%, a decrease of R$143 million or 5.8 percentage points compared to the third quarter 2014. I highlight here the evolution of 12 percentage points compared to the EBIT for the second quarter 2015, reflecting the initiatives already in place in the company.

EBITDAR reached R$377 million with margin of 15.2%. In the first nine months of 2015, this indicated (08:32) accounted for R$937 million and a margin of 13.2%, a decline of 5 percentage points versus the same period 2014. The fact is that in the last two quarters, the company and the Brazilian aviation industry have been facing one of the hardest periods in the past decade, due to the combination of the country's economic scenario with the significant decline in corporate demand.

On the operating side, as you can see in slide five, we increased the domestic supply from January to September by 1.6%, while demand grew by 3.8%. Consequently, the load factor expanded by 1.7 percentage points compared to the first nine months of 2014, reaching 78.7%.

GOL's increased capacity was lower than the industry average, and on the other hand, it was the airline with the highest demand growth increasing efficiency. Because of this disciplined management, the load factor in the company's flight expanded by 0.9 percentage points above average.

Moving on to the slide number six, I highlight those ongoing structural initiatives in relation to the new face of the Brazilian airline industry. The main trends are lower capacity, network readjustment, fleet reduction, optimization of costs and expenses and initiatives related to our workforce. We will talk about it in more detail in the next slide.

Slide number seven, we reaffirm our supply guidance for 2015 down by 1%. To accomplish it, since we have increased capacity into September by 1.6%, we will reduce supply in the domestic markets to between 5% and 7% in the fourth quarter.

On slide eight, to ensure the recovery of the profitability, you will notice the readjustments in our network, some already implemented since October and others in effect by early 2016. We redesigned our network with the diversification of destinations. And since October 25, we are already operating new routes from Congonhas in São Paulo to the coastal cities of Salvador, Porto Seguro, Ilhéus and Florianópolis, which are very popular destinations during the summer. In addition, we expanded operations to Maringá, Londrina, and Presidente Prudente.

For the high season, we will operate direct flights from Santos Dumont Airport to Navegantes and Florianópolis. We will also connect more cities to Porto Seguro with direct flights departing from Belo Horizonte, Rio de Janeiro and Brasília. From Campinas, we will have operations to Natal, Fortaleza, Salvador, Recife and Maceió.

In international market, we will adjust our capacity to Miami and Orlando in the United States, which will be seasonally operated from February 19, 2016. We are also conducting studies on the feasibility of operations in Caracas, Venezuela. We have already reduced the frequency to one flight per week. On the other hand, in order to capture opportunity in the region in profitable markets and routes, we're studying the possibility of operating in new international destinations, including Havana in Cuba. And of launching new operations to Buenos Aires departing from other cities in the Northeast of Brazil, keeping in mind that today we have flights from Fortaleza and Natal to the Argentina's capital.

Continuing with the development initiatives of our operational performance on slide number nine, in relation to our fleets on item number three, we highlight that change in the 2016 and 2017 aircraft delivery schedule, which provided for the delivery of 15 units. After negotiations with our partner Boeing, we obtained the approval and postponed the delivery of 11 aircrafts to 2027.

Therefore, in the next two years, only four aircrafts will be delivered maintaining the low average age of our fleet. We will be intensifying the subleasing aircraft during the low season in the Southern Hemisphere. We have committed to sublease 12 aircrafts in 2016 compared to seven in 2015. This kind of transaction is important due to a lower demand showed during the low season allowing us to adjust the fleet accordingly to the market. Although, the initiative does not generate any profit, it reduces expenses such as rental payment, maintenance and other items made by the lessors.

In the next item, number four, we highlight the optimization of cost and expenses with new processes and tools to improve crew and airport teams working schedule to a new and more modern software. We also have a group that is revisiting the contract of suppliers in several areas of the company in order to adjust them accordingly to our needs in the coming years. These contracts cover 100% of GOL's cost structure.

In item five, I'll highlight the redesign of our organizational structure, eliminating executive layers and making the decision-making process more agile and direct. And to finish with the initiatives taking the response to the current scenario, we decided to freeze new hires for now in order to increase our operational efficiency and not replacing the natural turnover in the company. We are taking into consideration the size of our operation and the demand for our flights.

On slide number 10. We continue to show GOL's evolution in efficiency and productivity since 2012. From the human resources perspective, the net revenue per employee ratio increased at almost – almost 32% in the last 12 months. Fixed demand (15:08) number per employees grew 16.2% on the same comparison basis.

On the operational side, GOL also presented continued evolution and per share net revenue generation per flight by approximately 36% since 2012, and improved the fuel consumption ratio by almost 14.2% in the last four years. And here, we're talking about fuel consumption without any gain in fuel prices.

Now, I would like to hand over the presentation to Masson. Unfortunately, we do not have the participation of Edmar today once he is under medical license until Friday, tomorrow. Next week, he will be back.

And now, I'd like to hand it over to Masson. Please, Masson.

Eduardo Masson {BIO 22004601 <GO>}

Thank you, Kakinoff, and good morning, everyone. I would like to invite you to look at the slide 12. The highlights that make up the company's results have already been discussed by Kakinoff. But I would like to mention again the currency devaluation by as much as 62% at the end of the quarter and 55% on average if you look for year-over-year. That reflects the economic slowdown in Brazil.

When you look to the revenue number in this quarter, has increased by 1% while the costs grew by 7%, impacted by exchange rate devaluation and inflation, but offset by the fuel price in dollars and the slight lowers (16:45) in real. This margin has impacted our EBIT by – EBIT margin by 5.8 percentage points. Remind you that the EBIT margin at the third quarter over the second quarter at 12 percentage points higher (17:04). Consequently, the EBITDAR is lower by 3.6 percentage points, achieving 15% at the third quarter. According to our evaluation, this clearly reflects the scenario where we are in despite that the company has been done. I would like to remind that, in the first quarter of 2015, the EBIT margin was above 60%.

(17:37) we should also highlight the impact of foreign exchange variation in our Q3 results (17:43). R$1.4 billion into the quarter – within the quarter or almost 70% of our losses. In nine month of 2015, the exchange rate accumulate is R$2 billion, with the year starting - remember how the real is starting at R$2.66 per dollar and ended the third quarter roughly at R$4 per dollar or R$3.98. This does represent almost 50% higher than the beginning of the year.

Regarding the pricing and the demand, it's easier if you look for the indicators of minus 2.6% of yields and 1.3% minus of PRASK (18:33). Clearly, it seems in this quarter we're working to mitigate the cost pressure with capacity management since August. Through the end of the year and gradual increase in the yield trying to mitigate the margins issues.

Moving now to slide 13, our net comparison (18:55) with 2013 where we are in the beginning of our recovery. Although the economic situation in Brazil has deteriorated since then, we remained at high level of almost 10%. If you compare to 2014, PRASK was lower 1.3%, but compared to the previous quarter, PRASK was 13% higher with 11% improvement in yields and 1 percentage point in load factors.

Now moving to the page 14. This slide explains to the market what's happened in CASK within the company. The CASK is ex-fuel or this is excluding fuel and exchange rate in our corporation (19:46) impact by R$0.0112 (sic) [R$1.12] (19:49).

At letter A, the issues of - the issue of employees who are under the bargain agreement and also that has been operating a greater (20:02) number of flights, passengers and destinies with the same numbers of employees. We have in comparison more destinies depending on our network change.

In terms of leasing or letter B of this chart, there was a reduction in almost in dollars due to the contract renegotiation, but in line of - this line is 100% impacted by exchange variation. Provision of services, the highlight is Smiles program which buys tickets from other airlines, but turn it into revenues and therefore helps the company's results. Being almost 37% real, this corresponds to more than 40% of this variation.

In the next letter, we see the maintenance in the - at the letter D. In terms of maintenance, due to the new maintenance process, again the lower number of events fundamentally depicts the company's management. And even if this line is being impacted, it's mitigated by the new process in detail. I'd like to highlight - to highlight the increase of the CASK per mile driven by improving the catering service - the other CASK, sorry. It's the last letter of this chart, letter E. And it's impacted primarily driven by the improvement of catering service to international flights.

Turning now to slide 15, we show what I had anticipate. With this fuel at different levels - fuel in at a different levels, our entire CASK (21:55) base is exposed in dollars by about 15%. And the international price of fuel has been reducing the participation that mitigates the exchange rate impact and exposure at our costs.

Turning now to slide 16, the slide shows the results from ongoing work in showing the CASK ex-fuel adjustment to our - to our average levels (22:16), sorry. We also present our recent published figures showing that we remain very competitive.

In the following slide, the number 17, I would like to talk about the leverage. Leveraging increased due to the exchange rate. We understand that it will impact the company's number, but I would like to highlight, the composition (22:54) of third quarter of 2012, which is (22:56). The debt in dollar, it's quite the same, it's stable if you compare to the second quarter of 2015. But we increased by $300 million and the term loan that we issued with Delta's guarantee at the third quarter of 2015.

And the debt in reals, if you compare quarter-over-quarter, the third over the second quarter of 2015. The debt in reals will reduce about R$200 million that is the company has been controlling leverage, watching the total debt and the amortization's schedule. So there is no pressure in the short term also in controlling the liquidity of the company. That's exactly what we see in the slide 18, which R$3.1 billion in cash is a comfort position of liquidity for us for the next years.

Now in the slide 19 relates to our cash position compared to the sector. This is also one of the company's pillars. The high liquidity ratio is part of our financial strategy. Today, GOL is one of the most liquid companies in the industry regarding to the liquidity over last 12 months revenues.

Now I give back the floor for Kakinoff to comment the revised guidance for 2015 and we'll end the presentation.

Kakinoff, thank you.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you, Masson. On slide number 20, as disclosed yesterday to a material fact, I will comment on the new operating margin EBIT guidance for 2015 with a range of minus 2% to neutral. This revision reflects the Brazilian economic scenario mentioned above, which had an impact on GOL's costs and expenses, and on the revenue front, transportation of passengers due to the weaker demand, which makes up (25:03) leisure and corporate customers has changed.

The new guidance also includes the variation in exchange rate and fuel prices in reals for 2015. We took into account the change in currency and in commodities to October and the guidance for the fourth quarter. We predict that the average dollar will remain between R$3.40 to R$3.30 in 2015 and fuel prices between R$2.15 and R$2.25.

The final message in slide 21, therefore, is that we are focused on the recovery of our operating results and to keep the liquidity with the reduction of our capacity and improvement of our network due to the market conditions. We will continue to focus on expansion of ancillary revenues, and seek continuous efficiency gains and strict cost control despite the exchange rate pressure.

Finally, we will maintain GOL's strong liquidity position, essential to go through difficult periods like the current one with more confidence and assertiveness. I would like to end the presentation by thanking you all to join us during this session. We will move to Q&A now.

Q&A

Operator

Thank you. The floor is now open for questions. First question comes today from Michael Linenberg with Deutsche Bank. Please go ahead.

Q - Michael Linenberg {BIO 1504009 <GO>}

Oh, hey, everybody, good morning. I have a couple questions here. Maybe I can start out, Kakinoff, asking you about some of the route changes or some of the network changes. Can you talk about the decision to start flying more out of Campinas, I know historically you've actually had a very low presence. When I look at the five markets that you've targeted from Campinas, today those are markets that are exclusively served by GOL (27:26), what's the rationale? And I always sort of thought that it made the most sense for you to concentrate your flying out of either Congonhas or Guarulhos, so if you could talk about that decision?

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

So, Michael, good morning. Actually, we are adding capacity in Campinas only on the routes where our equipment has more advantage in comparison to Azul's. I mean the 737 can fly to between brackets – long-haul distance within Brazil with much more efficiency. Therefore, we are extremely competitive on those routes mainly during the leisure high season where the demand for such tourist destinations is pretty high. We are now already verify nice trends – nice sales trends on those routes in Campinas. So, it means more strategic movement to extract the most of our aircraft, which is more competitive on those selected routes.

Regarding Guarulhos and Congonhas, to mention that, I need to start back while – sorry, I need to come back to some months ago when we analyze what has happened to the Brazilian industry and GOL itself. You should remember that in the first quarter of this year, we reached 6% positive EBIT margin, and then in the second quarter, it's dropped to minus 12%. So, the corporate sales scenario changed dramatically and very fast basically between the first and the second quarter.

As you know, GOL has built along the last three years the most attractive and competitive corporate network within the Brazilian industry. But that demand, from almost one month to another, has reduced by 35%. Our inventory is available for sale with 330 days in advance. So, you can imagine and understand the inertia to change, in the short term, our fleet size and our network simultaneously. This is something that we could only manage to implement in the third quarter this year, and it's a process predicted to come to an end by the second quarter next year.

We are fully redesigning our network in order to achieve a higher macro utilization (30:29) over the next year and to compensate this corporate demand drop we are facing today. So, Guarulhos and Congonhas, they are surely part of that strategy, because they are among the most important corporate airports in Brazil. What we have done here and you will see this movement being intensified over the following three months is to have a – to keep our corporate network advantage, at the same time that we can increase our fleet utilization. So, diluting cost and achieving lower CASK is our primary movement today related to the network redesign. So what we are introducing to the market today since – since yesterday through the press release is the first step of this network redesign in order to keep our advantage among the corporate airports, but simultaneously increase our aircraft utilization.

We are basically taking advantage of one of our most valuable assets, which is our fleet's flexibility, operating a standard fleet of 737-700s and 737-800s, we can adapt ourselves faster than any other competitor to address the changes in the market demand. So, this is exactly what we are doing now. So, you will see every month some changes, some important changes in our network design, we have just started. Did I answered your question?

Q - Michael Linenberg {BIO 1504009 <GO>}

Yeah, that's actually – that's very helpful because – so we should anticipate additional changes to the network between now – and like you said, it's going to play out through June of 2016. So, no, that makes a lot of sense given the decline in corporate. Along those lines, on international, there was a plan to increase international and even to increase dollar denominated revenue, which this quarter looked like it hit just under 14%, but when I look at some of the changes in the international markets, like maybe scaling back service to Orlando and Miami, is that – how should we think about the growth of dollar denominated revenue? Is that actually going to – is that going to flatten out over the next couple of quarters or is that number still on a trend to get us to your goal, which I think in the past was to try to get that number closer to 20% over many – over several years?

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

Michael, thank you very much for the question, because it brings me the opportunity to clarify a quite, I'd say, controversial topic related to dollar denominated revenues. Let me tell you a little bit more on our strategy and what's going on in Brazil. We have increased our dollar denominated revenue, which is pretty important, basically by increasing our international network and in parallel attaching to GOL's network the demand and the sales coming out our partners, like Delta, Air France, KLM and all the other 76 airlines in the world, with whom we do operate either a code-share or interline agreement.

That's something that makes at least from our (34:33) perspective, much more sense, and even more sense in the current scenario. Why? If you do follow the sale prices, mainly connecting Brazil to the United States, you verify that the economic tickets have dropped from $950 on average in 2014 to the current $350. That's the fare price to get a seat to fly from Guarulhos to Miami, Orlando, New York and so on. So, even our competitors having a broader network, international network which would allow them to get more dollars at the moment, they have cut the price in dollars by two-fourths (35:34). So it means it's – there is no positive effect in having such type of dollar-denominated revenues coming out such depressive international long-haul flights, as we're facing today.

So, we will continue to expand our international – I'm sorry, our dollar-denominated revenues. But getting that advantage of having strong partners selling in their home countries the tickets to fly to Brazil and connecting with GOL, because from that direction point-of-sale United States, point-of-sale Europe as a whole, there was no fare reduction. But the South American Airlines, they are mostly selling their tickets in Brazil. And in Brazil, their willingness to fly to North America and even to Europe due to the current exchange rate is dramatically reduced, which brings us another opportunity reflected in this network changes we are just introducing now.

We have more leisure travelers choosing to fly within South America and mainly in Brazil during the leisure high season than any other year before. So, that behavior matches – perfectly matches our current network structure, because GOL is very dominant in Brazil and a very important player in South America. So that's the reason why we're now reducing our offer to Miami and Orlando. The point of sale in Brazil has been much less attractive than it was before. Sometimes and I do believe if this attachment is true to our competitors too, we cannot even pay variable costs in those flights. So, we will operate then only during the leisure high season, which means in Brazil the period between November and February, and June to August, that's our plan.

So, the new international routes being in consideration, now there are mostly within South America, and you have Havana as a promising destination, which will be implemented only after we'll manage to get the proper departure and arrival time in Havana, something that we didn't achieve it yet.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay.

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

Is that okay?

Q - Michael Linenberg {BIO 1504009 <GO>}

That's very comprehensive, Kakinoff. Thanks for all the detail. I really appreciate it. Thank you.

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

Thank you, Michael. Thank you.

Operator

The next question comes from Savi Syth with Raymond James.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Hey, good morning. I just wonder if you could provide what the mix of 800s and 700s are in your 2016, 2017 plan. And maybe more importantly, with the changes that you're doing to delivery and planned subleasing, how should we think about in 2016 capacity plans?

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

Hi, Savi. Here there is – I'm sorry – there is an information on page 13 of our results report, which could be understood, like somehow misleading. Because there you have the fleet size over the following years, and the PDP amount, they are not exactly matching, and I'll tell you why, because the fleet size figure reflects what is written on the 20-F, the SEC referential document.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Got it. Okay.

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

So, we are going to update it, but you can make yourself the following calculation. Instead of subleasing five aircrafts, we only (40:16) subleased 12 aircrafts in 2016. We are now postponing new aircraft deliveries from Boeing in the number of 11 aircraft, so you get only four aircraft from the previously forecast 15 aircrafts.

And we will also get some 737-700s. At the moment we are considering additional two in order to achieve the desired mix between the two families. So the net effect of that is that during the Brazilian low season, we will reduce the number of flying aircrafts to 123 aircrafts. And we will, as always, keep two in like – I'm sorry, as spare aircraft/maintenance program utilize the aircraft. So, during the – in comparison to the high season and the low season, we are taking out roughly 15 aircrafts.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

That's helpful, Kakinoff. And so for 2016, I know that the – holding on to starts was a concern and maybe felt like there wasn't a lot of wiggle room on the capacity front that is – is the thinking then that the capacity cuts that you're seeing in the fourth quarter carries on to 2016, or and maybe obviously more so in the season – maybe 2Q period? How should we think about the capacity plans as you're moving into 2016 and domestic versus international?

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

Savi, as you have already mentioned, we have some constraints now related to further disclosure once we are not giving any official capacity guidance to 2016, but I can share with you our thoughts and related industry behavior. We see that it's pretty much unlikely that the industry could prevent itself of further capacity reduction considering that the Brazilian economic outlook. We will remain the same or even become marginally better than it is today. I believe that this capacity reduction movement is supposed to continue over 2016, this is our thoughts based on the current industry trend.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

That's very helpful. And if I can switch to – on the cost side, the rent expense. If I looked at what you did in 2Q and given the – which is already benefiting from kind of new rates and given the kind of the devaluation you saw, I would have expected a kind of greater pressure on rent. Was there any kind of incremental benefits in the quarter that wasn't there in 2Q?

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

This is – we have discussions in place right now regarding the contract. We cannot give any kind of disclosure because we are protected under non-disclosure agreements. But I think that we are – we have still some room for the improvement.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

All right. Thanks again.

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

Thank you.

Operator

The next question comes from Bernardo Vélez with GBM. Please go ahead.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Good morning. It's actually Pablo Zaldivar filling in for Bernardo. We have a couple of questions. I'll first start with, after your network re-work, if we can call it that way, what is your yield outlook going forward? I guess that changing the routes and the frequencies should aid you to achieve better yields, so what are you expecting for the next quarter and maybe for the next year?

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

Hi, Pablo. Our network redesign is pretty much focused in two leases (44:57) and that's the competitions (45:01) we have made to further increase our use and to increase the net optimization (45:09). So that's the – I mean the disclosure we can give to you right now, without also damaging our strategic movement, because we wouldn't like to give any strategic information in advance to our competitors.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. Thank you. And the other question regarding your debt outlook, during the quarter, we saw that you restructured your debt kicking most of the amortization forward, do you expect any more changes on this schedule or do you think that as it is, it could work out for the time being considering the current economic scenario do you expect (46:05) going forward?

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

We do not expect any significant change. We want (46:11) the Brazilian economic scenario and the Brazilian credit scenario does not allow any kind of fraud related to reaching that (46:19). Anyhow we do believe that we are in a good shape considering our cash amount and the debt profile over the following five quarters.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. Thank you very much for taking my questions. That will be all.

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

Thank you.

Operator

Our next question comes from Josh Milberg with Morgan Stanley.

Q - Joshua Milberg

Kakinoff, Eduardo, good morning and thanks for the call. Just a question related to your updated full year guidance. Your new 2015 EBITDA margin range implies that the fourth quarter profitability could be similar to what we saw in the third quarter or even worse, just taking into account that in the first nine months you were at a negative 1.2%. In the fourth quarter, you'll have the benefit of better seasonality, but also, the likely negative effect of a weaker average currency on costs. So just wondering if the currency effect is what explains your guidance or if there are other factors that could pressure cost in the fourth quarter like expenses related to returning aircraft? Any color you could give on that would be great.

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

Hi, Josh, good morning. Actually, probably the missing information which made you not able to come yourself to the conclusion, right conclusion, is the lag between the international oil price and the Brazilian jet fuel price, which takes on average 30 days to be - to reflect it. So we are considering already that lag, and surely, we are going to have an average dollar in the fourth quarter, likely even higher than we had in the third quarter.

So we are considering all those aspects to give you this guidance, and this guidance suggests at least the same operating profit that we achieved in the third quarter or higher.

Q - Joshua Milberg

Okay. But there's nothing extraordinary on the cost front that would be a source of pressure?

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

No, not at all.

Q - Joshua Milberg

Okay. Thanks very much.

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

Thank you.

Operator

The next question comes from Ravi Jain with HSBC.

Q - Ravi Jain {BIO 16135293 <GO>}

Hi, good morning. I had a couple of quick questions. One was more on how you see the industry and the strategy of GOL in that sense. The last time GOL was aggressive in capacity deductions domestically. It was kind of filled up by smaller players and things like that. I just wanted to kind of read your mind and your thoughts on how you see this industry managing this crisis and how you see goals position after that. Do you kind of see the smaller players kind of getting a little larger and is that what you see at the end of the crisis or do you think that you'll continue to have the same industry structure that you have today?

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

Ravi, it's quite hard to tell - to talk on competitors' mindset and movements, but I'd say the industry is giving to the market clear their signals that - their signs that there is a different behavior related to capacity. The major difference in comparison to the first capacity reduction cycle we levered (50:05) since 2011 is that now the pressure on the demand does not allow any capacity increase even from the other - coming from the other competitors. So personally I do not see room for the same effect to happen next year.

Q - Ravi Jain {BIO 16135293 <GO>}

That's helpful and a quick follow-up. The second question that I had was on your negotiation with the labor unions. Any color that you could give as to what is your expectations of employee costs going forward will be helpful.

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

Unfortunately, not yet, (50:45) we are just starting all those discussions and negotiations.

Q - Ravi Jain {BIO 16135293 <GO>}

No worries. All right. Thank you so much.

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

Thank you.

Operator

The next question is from Stephen Trent from Citi.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Hi. Good morning. It's actually Kevin Kaznica stepping in for Steve. First of all, Steve and I send our regards to Edmar and I hope that he's okay. Our first question is, what would be your view on the competitive landscape? I guess just circling back to that, looking in the quarter when (51:17) competitors seems to have some hold back from recently launched one half line (51:22)? And the second one, it seems you've tried to fail to (51:25) merge with another carrier? And then another one finally, you got some capital from a foreign carrier after repeatedly failing (51:33) to IPO. How do you see these competitors responses to the current environment?

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

Hi, Kevin. If I understood you correctly – I'm sorry because there was some noise in the line. We do not have the same clarity on our competitors' figures, at least not at the same time that we have from other leased airlines (52:04). So it's really hard to comment on the financial situation in order to predict what would be their movements now. I do not see regarding the capital markets, we do not see room for IPOs in Brazil and since already months (52:31) there are no movements regarding that subject. So I'm sorry for being pretty limited to answer your question.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

I know it's helpful. And maybe I guess just kind of to hammer that point home, do you see I guess the movements in industry like competitors as kind of being really, really defensive and desperate?

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

It could be. It could be, but honestly, I couldn't say anything substantial regarding that subject, sorry.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Okay. Thank you. And then I guess my next question will be, is it possible that I guess reduced political policy uncertainty in Brazil in the future, maybe like next year could give you guys are comfort to cut more capacity aggressively or are you pretty much comfortable where you are right now?

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

I think that the hardest thing in Brazil since the beginning of this year has been to make predictable plans happen, because the volatility was never so high as it has been today. The political scenario not even came close to any stability. So a lot of discussions we could change the scenario again. So nobody would bet on the current macroeconomic scenario in October last year and it happened.

So what we have done here is to prepare ourselves to move even faster in case that the scenario further deteriorates and personally I do not believe so, but in case that is happened, I think that our competitive position would make us have some advantage and this is exactly what we are reinforcing now.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Okay. Thank you for the color.

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

Thank you.

Operator

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

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Hey, thanks. Thanks for the time. You touched on it earlier, can you give us some directional guidance on CapEx for the company in 2016 and 2017, given these deferrals?

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

We think that we could – hi Duane. We think that we'll achieve some – a range between the same level of 2015 or less. We have redesigned and we are just implementing a new maintenance program delivered by Boeing, which took us 18 months to be fully implemented. We've started in June this year. So it's likely that it could even reduce.

I'm talking only the maintenance line the CapEx for 2016. For the other lines, we are not able to give you – to give further colors. Beside the PDP, the natural PDP reduction, once we are postponing delivering strong 2016 and 2017 to 2027. So those are the two – the only two lines of the balance where I can give you colors.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. I guess it would be helpful to know when you can – what cash CapEx is expected to be in 2017 and 2016. It feels like a pretty big variable. It's a small number for you, but it looks like your cash in Venezuela increased slightly. Can you explain what drove that?

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

Yeah. This is really...

A - Eduardo Masson {BIO 22004601 <GO>}

FX variation (57:01) hi Duane. It's Eduardo.

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

It's that FX variation and it's a marginal effect. So there is no, I mean, any additional cash being raised in Venezuela.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. And then what percentage of Smiles do you still own that is not pledged as collateral to Delta?

A - Eduardo Masson {BIO 22004601 <GO>}

Duane, it's Eduardo. We do not disclose how much we pledge for Delta, okay.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. Thanks for the time.

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

Thank you.

Operator

The next question comes from Matt Roberts with Raymond James.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Hey, good morning. And this is Savi actually. Just two follow-up questions here. On the average price that fuel has been fixed in the next two quarters, is it possible to kind of provide some color? I think you've talked about what it is in the fourth quarter in your guidance implicitly, but how should we think about 1Q on the fixed portion?

A - Eduardo Masson {BIO 22004601 <GO>}

Hi, Sallie. It's Eduardo.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Hey Eduardo.

A - Eduardo Masson {BIO 22004601 <GO>}

Hey, how are you? It depends – the fourth quarter it depends the facts. As we already mentioned, we do not expect to have any increase in the international prices. So to talk about the fuel prices in (58:42) for the first quarter, we're still waiting what's going to happen in the dollar – the currency here in Brazil. But probably, if we are at the same level dollars per real or per real per dollars, probably we're going to face in the first quarter of 2016 the same level as we have in the fourth quarter of 2015, okay.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

That's helpful. Thank you. And then just on the red line (59:16), was there any kind of sale leaseback gains that were recorded?

A - Eduardo Masson {BIO 22004601 <GO>}

In this quarter, in the third quarter?

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Exactly, yes.

A - Eduardo Masson {BIO 22004601 <GO>}

No, we do not have.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Okay. Great. And then my last question was just on the – Kakinoff, you mentioned about the kind of international, doing less U.S. and then more South America, but there are some South America jets are also priced in U.S. dollars or are they priced in kind of local currency?

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

Yes, the product sales in Brazil, in (59:52) Chile, other countries we are flying, they are dollar denominated.

A - Eduardo Masson {BIO 22004601 <GO>}

Yeah.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Okay. Great.

A - Eduardo Masson {BIO 22004601 <GO>}

And Savi, only to remember you, when we're across the board, we typically use the global distribution system to sell. And since we sell through the global distribution system, we set the price in dollars.

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

The dollar becomes the working currency. Okay?

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Okay. Very helpful. All right. Great. Thank you very much.

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

Thank you. Thank you.

A - Eduardo Masson {BIO 22004601 <GO>}

Thank you.

Operator

The next question comes from (01:00:26) with BlueBay.

Thanks. Hello?

Hi, Marie (01:00:35). Hello.

Hi. Hi, there. Sorry. Thank you for taking my question. I just wanted to ask you. I joined just now, so I don't know if you already answered it, but about the negative book value that you have and any unsecured debt apart from maybe the bonds, is there – with the banks if you have any, is there, I mean do you think the banks will get booked by this and potentially this can raise some liquidity issues or you do not expect such thing?

A - Eduardo Masson {BIO 22004601 <GO>}

Hi, Marie (01:01:09). It's Eduardo. We don't have any kind of constrain in our debt related to our negative equity. So in this case, we do not expect to have any pressure over the debt terms related to debt, if it's clear from you what the question, sorry.

Q - Operator

Yeah. Sorry, no I think this was clarified before that there is no constraint as in there is no covenant speeches (01:01:42) or anything like that, if your book value of equity turns negative, but just thinking about any rollover that you would need in the next coming a couple of years. I'm wondering if you think this can be a problem when you try to roll any that you have? And I think that it's mostly the unsecured debt that will be more problematic.

A - Eduardo Masson {BIO 22004601 <GO>}

No, I don't think so.

Q - Operator

Okay. Okay, fine. Thank you.

A - Eduardo Masson {BIO 22004601 <GO>}

Okay. Thank you.

Operator

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

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

On behalf of our team, I just would like to thank you very much for your attention and time. Have a nice day.

Operator

This concludes GOL Airlines' conference call for today. Thank you very much for your participation and have a nice day. You may now disconnect.