Y 2020 Earnings Call

Company Participants

- Eduardo Jose Bernardes Neto, Vice President, Sales and Marketing
- Paulo Sergio Kakinoff, President and Chief Executive Officer
- Richard F. Lark, Executive Vice President, Chief Financial Officer and Investor Relations Officer

Other Participants

- Dan McKenzie
- Duane Pfennigwerth
- Michael Linenberg
- Rogerio Araujo
- Syth Savanthi

Presentation

Operator

Welcome to the GOL Airlines Fourth Quarter 2020 Results Conference Call. This call is being recorded, and all participants will be in a listen-only mode during the company's presentation. After GOL's remarks there will be a question-and-answer session, at that time 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 the MZiQ platform at www.mziq.com. Those following the presentation, via the webcast may post their questions on the platform and your questions will be either answered by the management during this call or by the GOL Investor Relations team after the conference is finished.

Before proceeding, let me mention that forward-looking 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 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'll hand the call over to Mr.Paulo Kakinoff. Please begin, sir.

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. Today morning, we released our fourth quarter figures. Also we made available on GOL's Investor Relations website, three videos with the results presentation, financial review and 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. On January 15, 2021, GOL completed its 20th anniversary. During these two decades of continuous innovation, the company has transformed the history of commercial aviation in Brazil and democratized high quality air travel. This journey has made us the leader in Brazilian domestic market for the fifth consecutive year with the market share of 38%. A simple, human and intelligent airline committed to efficiency.

The fourth quarter '20 reflects MAX return to service and the concentrated growth in the number of passengers transported in domestic market, that in December accounted for 100% of GOL's network operations. In the quarter, consolidated gross sales reached approximately BRL2.5 billion, an increase of 44% in relation to third quarter '20. The company's daily sales in fourth quarter exceeded BRL27 million. With additional flights during the month of December, passenger revenue increased 96% over the third quarter '20.

In the 12 months, net revenue reached BRL6.4 billion, a reduction of 54% compared to 2019. In 2020, GOL was the only Brazilian company to be included in a select list of 13 global airlines that received the Stage 1 certification of the IATA Environmental Assessment, IEnvA, which is validation that the company has developed a consistent environmental policy and is fulfilling its responsibilities. GOL has been recently recognized by the MSCI in its ESG Rating Scorecard as one of the most sustainable and carbon efficient airlines in the world, reaching carbon emissions rates up to 20% below its industry peers.

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

Richard F. Lark {BIO 3484643 <GO>}

Thanks, Kaki. During 2020, GOL's management fully honored its commitments to the global capital markets, including the amortization of its 2022 senior notes, $70 million, in the first quarter of 2020, and its Term Loan B, it's main short-term debt, in the amount of $300 million in the third quarter of 2020.

Even during this very challenging year, we kept our liability management discipline. We've addressed all the relevant financial obligations provided for in our cash flow. We ended 2020 by significantly reducing our short-term debt balance and strengthened our solid partnerships with the main providers of working capital.

In December 2020, the company also obtained an important validation of the capital markets through the issuance of senior secured notes due 2026 in the amount of $200 million with a coupon of 8% per year. We've no significant capital markets maturities until 2024. This is a reflection of GOL's commitment to strengthening its balance sheet over the past five years.

During the quarter, the company achieved cash flow generation of BRL3 million per day and a liquidity position of BRL2.6 billion through its effective management of working capital with matching of inflows and outflows, which has been the key driver to maintain liquidity. The cost per available seat kilometer, CASK, was BRL0.2644, a nominal increase of 25% compared to the same period last year, but a 4% decrease when excluding the exchange rate variation during the same period.

In the quarter, the costs strictly related to operated flights, adjusted CASK, corresponded to BRL0.2006. This represents a 4.9% nominal decline and a 27.4% decline, when excluding the exchange rate variation compared to the fourth quarter of 2019 and demonstrates the company's continued focus on readjusting its unit cost structure to an even more efficient baseline when compared to pre-pandemic levels. GOL has converted the main fixed payroll and leasing costs into variable costs.

In addition, the return to service of MAX aircraft will enhance efficiency with the reduction of about 15% in fuel consumption, more flexibility to operate on both short- and long-haul routes, and an increase in autonomy compared to the 737 NG family and 16% lower carbon emissions. The following metrics demonstrate efficient capacity and pricing management with the company's permanent focus on sustaining revenue levels even with the reduction in the volume of corporate passengers.

One, an average yield per passenger of BRL0.2755, a reduction of 17% compared to the fourth quarter of '19, mainly due to the reconfiguration of the company's network, concentrating and distributing operations in its hubs, and consequently, increasing stage length. Two, average load factor of 81.1%, which was a reduction of 0.4 percentage points compared to the fourth quarter of '19 due to prudent supply management, adding capacity based on demand indicators with the help of our advanced data analytics tools and on-time departures of 92.5%, which was an increase of 6.3 percentage points according to Infraero and data provided by the main airports.

Adjusted EBIT was BRL347 million corresponding to a margin of 18%, which demonstrates the reestablishment of the operating margins necessary to support growth in operations and our continuous search for balancing supply and demand, and yields that allow sustainability.

Adjusted EBITDA margin was 30% in the fourth quarter of '20 and in 2020 reached [ph] 39%, a growth of 7.2 percentage points year-over-year. GOL ended December with a total fleet of 127 B737s and 93 aircraft operating in its network, which was an increase of 22 aircrafts compared to the end of September 2020. In the fourth quarter of 2020, despite the challenging operating environment, daily flights doubled to approximately

400 when compared to the third quarter of '20 to serve 177 markets, representing 54% of the daily flights performed in the fourth quarter of 2019.

Now, I'd like to return to Kakinoff.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thanks, Rich. After months of continuous recovery, we're seeing a contraction in travel demand due to rising number of COVID-19 cases in Brazil combined with extended international travel restrictions, the beginning of low season and customers waiting to get vaccinated. In relation to January, the company recorded a 28% reduction in the level of sales during February.

Now, in March, the company is implementing an even greater reduction and operate approximately 250 flights per day, placing its operations at approximately 40% of March 2020. We believe that the current market conditions, while difficult, are temporary, and that demand will continue to recover as the vaccine rollout progresses in Brazil.

GOL is prepared to react quickly in adapting its air network with the flexibility to face fluctuations in demand in the coming months. GOL will continue to be recognized for having the most adaptable and flexible business model, prioritizing the safety of customers and employees, with the best team and the lowest cost in Brazilian aviation.

Now, I'd like to initiate the Q&A session. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) And our first question will come from Dan McKenzie with Seaport Global. Please go ahead.

Q - Dan McKenzie {BIO 15071178 <GO>}

Hey, thanks. Good morning, guys. I guess, good afternoon for you. Couple of questions here. A few questions. Lots of cost savings initiatives last year that, obviously, are helping from a working capital perspective. And I am just wondering if you can elaborate a little bit on what the relief drivers were that came into play in the fourth quarter and how they're going to continue to come into play in 2021?

And it seems like the cash outcome in the quarter is different than what we're seeing in the income statement. And so I am just thinking that there is these -- these initiatives are coming in nicely. I am just wondering if you can elaborate a little bit more on those?

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

Yes, sure, Dan. A couple of things. Obviously, one is the pure cost component, the other is the working capital component. As you know, we're managing the company through the pandemic with kind of simultaneous focus on unit costs and working capital, the financial equilibrium. So, I will kind of answer it in that respect.

One, we had about BRL150 million in the fourth quarter, we had about -- some of this was work we have done in the Q3 that went into the Q4 but about -- just one second, Dan, I got to fix the phone here. Hold on a sec. Sorry. Four general categories. One was renegotiation of operating liabilities. Second was leasing. Third was payroll. And fourth was related to working capital that's across the board, that would come on the working capital equation.

And one of the components also in the fourth quarter related to how we are managing -- matching the operations inflows and outflows. Those are kind of the -- meaning, matching our capacity to the actual demand that we are identifying in our operations, so those are kind of the general categories that produce that positive operating cash that you see with the fourth quarter.

Now, I think it's a little bit more important to maybe link your question into the -- to the Q1. The same categories exists for us and the same levels, in terms of size, would be there. But then in the Q1, on a relative basis, in those categories that I described to you, around BRL150 million of sources on working capital come out of renegotiation of operating liabilities. A similar amount on the leasing side of the equation from Q4 to Q1, which is keeping those same levels that for us was a source of around BRL150 million of savings, if you will.

From a cash flow perspective, obviously, some of that impacts costs. On the payroll, which is the third category I mentioned, about BRL50 million or so, which comes from keeping the same level that we had at the Q4 based on our negotiations with the labor force. And then on the working capital financing side of the equation, a little over BRL800 million in terms of what we roll from maturities in the Q1 into the Q -- into the future quarters.

And probably I just want to answer that way is that this is like an ongoing management that we have been doing in this pandemic, which is working to match the cash outflows with the cash inflows. And a big source of it is on the working capital side of the equation in these categories, operating liabilities, leasing, payroll and then working capital that -- which has allowed us to maintain the levels of liquidity and cash burn that we're seeing.

On the cost side, specifically, we're reporting good numbers excluding the grounded portion of our operating assets, so that you can see what the unit cost would be without the inefficiencies of the aircraft on the ground due to the pandemic and we have kind of provided that information in there. But -- I think I preferred to answer to the question that way in terms of the focus on unit costs. But the sources, if you will, of the savings, the cash flow savings or cost savings, if you want to define it that way, are those categories. Hope that's helpful.

Q - Dan McKenzie {BIO 15071178 <GO>}

Yes, no, that's great. I appreciate it. Just maybe a couple more questions here. One, with respect to the corporate reorganization of Smiles, I wonder if you can just elaborate a little bit on the steps from here and whether GOL could start a competing loyalty program from the scratch? I think American did that once it's spun off Sabre. Are there other steps you could take to shift economics, just given the current crisis?

And then I will just throw out a second question here, and this might actually be for Eduardo. I am just wondering about the demographics of those people that are traveling and how that demand demographic has evolved? Any perspective on that would be great. And just, I guess, bigger picture. We've got a new health minister in Brazil. And whether there is the political appetite there to take the steps needed to really curb the pandemic, so the economy can open back up more fully? So a lot there, but...

A - Eduardo Jose Bernardes Neto {BIO 19125326 <GO>}

Hi, Dan. Good morning. I am sorry, sir, please go ahead. Go on.

Q - Dan McKenzie {BIO 15071178 <GO>}

No. I was just saying a lot there. But whatever you can share would be great. Thanks.

A - Eduardo Jose Bernardes Neto {BIO 19125326 <GO>}

Okay. Sure. So, (Inaudible). Actually I'll try to answer each one of the questions in same sequences. So firstly, regarding the Smiles and corporate reorganization, I hope you understand that we wouldn't like to raise any kind of speculations before the next shareholder meeting, which is scheduled to happen on March 24, next week. And then we've 30 days -- with Smiles holders, we've 30 days to decide which option they will choose closing then further, it's going to take a further 30 days after that. So at the moment, we're not willing to further speculate on any other alternative but having the shareholders deciding on the current proposals. And then depending on the final results, then we could discuss other possible actions.

So the second is -- did I answer to your question?

Q - Dan McKenzie {BIO 15071178 <GO>}

I appreciate it, thanks. Yeah.

A - Eduardo Jose Bernardes Neto {BIO 19125326 <GO>}

Okay. So the second is related to demographic. Let me tell you specifically in -- on two different dimensions. Firstly is geographic. Geographically, there are three important aspects that should be highlighted. The mix of demand by part of the region of the travel hasn't changed much during the pandemic.

The Southeast region remains as they start of about 50% of all passengers, marginally oscillating in the last quarters. The participation of passengers restart again travel at the

North region has grown over the quarters.

So looking into the two year series, the demand originating from the South region has decreased since its participation in the overall demand. Because -- this is mainly because the South region has a larger portion of business travelers than on the other ones. And this is specifically the segment most affected by the crisis.

The destination mix substantially changed in the last year. The Northeast region, which has a huge leisure potential, grew as a destination and that's possibly a new trend which is going to stay, going to remain even after the COVID. It would be of saying that the Brazilians are finally discovering more the country side and our natural attractive leisure destinations, and that might create a new source of traffic, specifically having the Brazilians travelling more broadly within the country.

And finally the corporate markets, the shuttle markets mainly, the loss of faith in the demand composition. The same happened to South and the Southeast markets, which are now (Inaudible) for being more corporate markets, so that's an overview we didn't change that much during the pandemic. I believe that we're going to have more leisure travelers to the Northeast region when the pandemic spills over as a new -- or not new, but more sustainable and substantial market, and the corporate travel will recover or will resume only after we'll have this pandemic over.

We believe historically that there are two milestones ahead of us with regards to the pandemic development. Firstly is to achieve the population above 65 years being confidently vaccinated. And it's reasonable to expect that this effect will happen by the end of the second quarter considering the current vaccination schedule, which has been official shared with the public by the Brazilian health minister.

That would drop significantly the number of cases and deaths. And that's also could immolate the same pattern that we experienced for the quarter last year when the average -- the daily average of casualties dropped around 60% from its peak. And this is what we do expect to achieve when the population above 60 years, 65 years would be immunized.

That would represent drop from the current 2,000 something casualties per day to something around 1,000 or even below. Those are all overseen numbers, and that's the right word (Inaudible) overseen. But considering what we've learned in the first phase of this pandemic, they're using negative correlation between the number of (Inaudible) and the air travel demand. So I believe that by the end of the second quarter, we would see more consistent demand recovery that we are seeing at the moment.

And the second milestone would be around the 60-plus-percent of the population would be immunized, that would bring the combination of the so called herd immunization with the most explosive part of the population being protected and that could drive this to the end of the pandemic. Not the end of the disease -- I mean, the COVID-19, which will stay for years likely, like any other virals, but the pandemic has a good chance to be over in

Brazil by the end of the third quarter. We're all engaged and involved in such kind of construction.

And the third question you raised was related to -- please remind me, I am sorry. The health minister. The new health minister.

Q - Dan McKenzie {BIO 15071178 <GO>}

Yes.

A - Eduardo Jose Bernardes Neto {BIO 19125326 <GO>}

That -- we do expect that considering the circumstances and the urgency for new measures that we are going to have a new set of actions being taken to be more effective in combating the COVID development at the moment. I don't believe in a serious disruption in comparison to what we've done so far, politically speaking.

But I think that the need -- the level of -- sorry, the level of the urgency has made the a lot around the last weeks and personally, I do expect that we're going to have some good news ahead of us, likely such as pulling ahead some of the vaccines already scheduled to be delivered by the beginning of the fourth quarter and having more efficient public campaigns, incentivizing people, to follow the protocols and this kind of stuff. Okay?

Q - Dan McKenzie {BIO 15071178 <GO>}

Very good. Thanks for the time, guys.

A - Eduardo Jose Bernardes Neto {BIO 19125326 <GO>}

Thank you.

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

Thanks, Dan.

Operator

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

Q - Michael Linenberg {BIO 1504009 <GO>}

Hi, yeah. Hey, Rich, Kaki, good afternoon. I want to -- Rich, I just want to go back on the liability management. In the investor update, you provide sort of a guide there, where the liquidity is going from BRL2.6 billion to BRL1.9 billion. We know that the cash burn is BRL3 million a day, so call that BRL100 million. In the release, you do go on to say several important initiatives are relevant to ensure that the company maintains its liquidity at the end of Q1.

And with Dan you did mention it looked like the four different buckets and it's like -- I think it was BRL150 million, BRL150 million, another BRL50 million and then I think you are going to push off BRL800 million maybe on the working cap side. I am not sure if I heard those numbers right. Which then, it doesn't totally add. And I am just curious if you also have just regular debt coming due, number one, sort of part one. Part two is, are you also anticipating an additional transaction to get you to that BRL1.9 billion? Does something else have to happen in addition to the four pillars that you identified? Thanks.

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

Sure. Thanks for the question. That's and -- I will just kind of maybe add in there and get a free ride on. We get some questions from the call, a platform, the Internet. Sometimes when I give a little bit longer answer, it's only because I got a question from the screen that's right in front of me now and I try to answer the question of that person together.

And so I think complement that we had a question it says, it seems that the debt maturing this year, including leases, exceeds the company's cash balance. Are you planning to refinance that? So, obviously, we don't pay lease -- we don't pay operating expenses from cash balance. We don't pay leases from cash balance. We pay leases from operations. Maybe that wasn't exactly your question but this is how it works. We are a flow company. Airline is a flow company, inflows, outflow.

And then capital (Technical Difficulty] everything we've in terms of capital structure at GOL is to support the long-term assets. We've no significant capital structure maturities until 2024. So just kind of put that on the side for the folks that are looking at the balance sheet and looking at the IFRS 16, the timing of leases, I mean those are all operating leases at our company.

And -- yes. And that bucket specifically, we've been managing our relationships and contracts with the leasing company, keeping them at a minimum level that matches as much as possible with operations. As you know, when we get our negotiations in the second and third quarter of this year, we have got a big portion of those into -- we transfer the portion of fixed costs into the variable costs, which also include a portion of those aircraft in power-by-the-hour contracts with a low portion of fixed cost and then variable cost.

And so that component is dealt with. But it's important to remember that that portion, in other words, all of the aircraft leasing is treated as on balance sheet debt, and then a portion of that is the short-term component. I am just going to put the capital markets debts on the side. We have no significant maturities until 2024. We are staying current on interest.

In terms of the lease debt, we are able to match that with the level of operating inflows, let's put that on the side also, which get to the heart of your question. Now, the way our company has worked, our airline, we have -- since the beginning of this pandemic, avoided schizophrenic capital raising and done our best to preserve our non-cash current assets, which are things that you see on the balance sheet like restricted cash deposits kind of those things on the upper left-hand side of the balance sheet.

It also includes our hedging activities, legal deposits. And so, we continue to manage the company in that way, releasing restricted cash and deposits when we need to now within the -- and those will finance a part of the overall need, number one. And secondly, is what we do in terms of receivables, receivables management, factoring things like that, those balances have come down. But you do see in those numbers there, receivables balance and we factor, sales have ramped down significantly in the short term, put a lot of pressure on that.

And then finally is other -- all of those are really on the upper left-hand side of the balance sheet. Then we have sources of new funds that come on the upper right-hand side of the balance sheet, outside of what we already have. And yes, we've been able to at this company -- at our company, we never lost credit from our commercial banking relationships and we've been able to, when needed, have short-term credit coming in there when we have a deficit from a working capital perspective.

And so, if you look at this Q1 and this scenario is going to extend into the Q2, we've been able to finance this operating deficit with freeing up of non-cash current asset. And then we also are able to -- where that is not sufficient in terms of a timing perspective, meaning that we can unlock our restricted cash, unlock our non-cash current asset, it takes a little bit longer, we've been able to finance that gap with short-term credit facilities. And that's -- and you will continue to see that going forward.

The liquidity that you are seeing now and that we are reporting, last time you saw that here in the recent cycle was August. And when we get down to that level of BRL1.9 billion, BRL1.8 billion, that's really kind of like the absolute minimum for us. And we have been in fact caught, I'd say, we did a good job all the way up until around January 15 of being one step ahead of the game on the pandemic in terms of data analytics and seeing where the demand was.

And then I think we, like many other countries around the world, airline markets, at least in terms of what we see around South America, Latin America, it was a surprise in the last 15 days of January, the demand collapse because of this wave of COVID. We immediately at the end of January used our primary tool, which was capacity, because all those deposits are selling capacity (Technical Difficulty) demand.

And so, we did that work at the end of January. Obviously, there was a phase in February. But pretty much by the end of February, we have done what we need to do on capacity. And you've now been seeing publicly and I know you look at the capacity systems religiously every day. You have seen the ramp down in capacity. But that work was done last 15 days of January and first 15 days of February.

And then what you saw, competitively, you saw the other companies with a -- I don't know, a four- to six-week lag, pretty much follow suit on that and pretty much everybody has kind of fallen into the same category. I think we've had an advantage of having advanced data analytics investment done years ago where we see it immediately. And so for us it was (Technical Difficulty) December was the home to hurricane, and we have to deal with another three or four months of (Technical Difficulty) the second leg of the hurricanes.

Now, overall, we will be operating at this level of liquidity in the short term. There's a little bit of season -- normal seasonality in there that you would have. But it's hard to kind of extrapolate that out. And clearly, you see kind of March, April be the worst month for us (Technical Difficulty) portion of our capacity would ramp down anyway. But it's hard to extrapolate the effects right now because of everything that's mixed in here. But -- and as we said, like the key chuck that's missing, it has been missing, was the large corporate piece.

But what happened in the Q1, about mid-January, is we lost something that we had was a significant portion of the high value VFR traffic. And that -- and so a little bit of what Kaki was mentioning, it's a combination of -- we had restrictions come back in and a little bit -- vaccine is around the corner, so people are sort of waiting. But we -- in the 12 months of this pandemic, this is the most restricted we've been here.

And also speaking from the perspective of the city of Sao Paulo, which is about 15%, 17% of Brazilian GDP, and the state of Sao Paulo, which is about a third of Brazilian GDP, the economic engine of Brazil, this is the most restricted we've been in terms of movement and activity, let's say, mobility wise. Having said that, the economic activity is much higher than it was when we first had these restrictions.

And so there's a little bit of that, there's a little bit delay in momentum is happening here, just the restrictions are different. I mean, we have curfew now from 8 P.M. Till 5 P.M. [ph]. And so, at 7:30 everybody runs home. But they are already set up to do (Inaudible). But that significantly impacted this kind of high end VFR component because beaches and hotels are effectively closed. And so that client base that we had, we had to deal with it during the Q1.

It eroded a bit of our liquidity, probably versus what we had planned coming into the year, probably to the tune of something along the order of, say, BRL300 million or so, maybe a little bit more versus where we expected. And so, we are a little bit lower at amount right now. But we had -- a lot of these deals that we had kind of locked in, we've loosened them up a little bit in December and January, and we just kind to clamped down on them again back to where we had already sort of negotiated and set it. That I'm saying on the fixed costs with aircraft, with labor.

And then on the -- going back to the question that related to the -- when you looked at debt maturities. Like I said, we don't have any capital maturities. We don't have any -- what we have is really more commercial finance maturities. And those -- we are constantly matching those with expectations on future cash flow as well as we can -- we'll continue to roll those over even though from an accounting perspective you report those based on -- usually report those based on what you have specifically on a contract.

So for example, in that maturity stack that you see for Q1, there is about BRL300 million on the -- on a local debenture we have with two banks, and that gets rolled out into the future for the commercial finance things.

All those commercial finance things, I think we have been explaining this at a symposium [ph] during this pandemic how the commercial finance works at our company and we continue to do that. Those aren't -- we are not the corporate trustee or EETC trustee or a bond trustee.

We don't have any of those kind of structural impediments to do that. But at the end of the day, it's about how effective we continue to be managing working capital. We do not have visibility on -- we did not have visibility and continue not have visibility on when the large corporates are coming back. And now we lost a portion of the short-term booking curve, which is this -- that we kind of think it was around 15% to 20% of our VFR traffic, which was doing these traveling based on the mobility and the lack of restrictions.

This was across the region. I mean, we saw with many of our counterparts at least in South America, and I think even Mexico this kind of 15% back step affected everybody on a relative basis. But if you look at Brazil right now and you compare it to all the major domestic airline markets around the world, it's the worst right now in terms of this back step.

In fact we are, like almost 100% negatively correlated with like what's going on in the U.S. in terms of the ramp up in domestic traffic. Our experience tells us that we are probably about 60 to 90 days behind what you are seeing happening in the U.S. I can say March where you are, it's going to be May where we are because May where you are might end up going back, right.

And so this biological phenomenon that's happening at the end of the day very few authorities seem to have a -- the real grip on structure. But the only point -- the final point I'd mention, and this is a key point, because everything I was talking up to now allows me to answer a lot of questions on the working capital side.

In terms of major sources of new funds, like I said, we did not do -- we did not burn up all of our -- we have not got any external funding from the government here, like, the U.S. quotes a number, something like $40 billion has been pumped into the airlines. I don't know what the final number is there, but it's mind-boggling for us here. We've not gotten that.

And so -- but -- so we have to be very careful about preserving our tools to access responsible capital. You saw in December we created this secured financing structure. We deposited about $900 million of collateral in there and -- which gives us up to $500 million, $600 million of financing capacity with a 5.5-year deal 8% coupon, we did $200 million. And so we've got capacity in there of at least $300 million.

And one of the things that's been important to us through this pandemic, which all of our partners appreciate is we've been current on interest in all of our -- I would say, our Capital Markets Day. And so we did out -- and those capital markets deals generally are semi-annual interest payments. We paid around BRL30 million of interest in January. We are so 100% in compliance with the best -- what I consider, the best ESG metric you can have is if you are not in default or in the Chapter 11, even though that's (Inaudible) ESG are looking at more of things like carbon emissions.

But we have kept in compliance with capital markets and that's allowed us to keep our capital market access. Obviously with us, we don't have the luxury of permanent capital market access and so we have to have windows which are a combination of when the market is favorable, the global market is favorable, and those windows of having our quarterly results disclosed. And so, that's kind of a little bit longer of saying is that we've got at least $300 million of financing capacity in the new secured mechanism that we have created. That's probably our go to mechanism.

In the short term, if we need to put some additional cash on the balance sheet, and as you know, Mike, the two rules of capital markets activity when you are seeing from an airline is always remember that an airline always needs more cash and to go to the market when the market wants you to go to market. And those are the rules of the (Technical Difficulty) it.

It wasn't you that told me, the other guys retired. And he would always call me up and he is like, how come you're not raising more capital now and you always think it's going to get better to raise capital. But we are more mature in that respect. We have those tools available. And that's without mentioning the other tools we have. We have mature unsecured securities to trade and have continued to trade decently in the market. We get a lot of reverse inquiries on -- if we want to do caps on our unsecured bonds and unsecured convert.

And our answer to that is, well, right now we have an even better vehicle, which is the secured vehicle with interest and collateral (Technical Difficulty). So if we need to, we can go to that. But, of course, we have to be careful and pick our moments because we will have incidents, like if we run out of those things we can't call up our friends in Washington D.C. And ask us -- ask them going to send us $15 billion, that's not going to happen, so we have got to survive.

But I think it's also meant that we have in an indirect way we have created a lot of value here with our existing stakeholders across the capital structure, both bondholders and we preserved our latent credit quality. We haven't blown up the right side of our balance sheet. For example, if you compare our end of year 2020 balance sheet with our end of year 2019 balance sheet, you actually see a slight reduction in current liabilities, you see a slight reduction in air traffic liability and you see a lengthening of our long-term debt.

In other words, if you just look at the right side of the balance sheet and forget about the left side, the right side of our balance sheet is better than it was at pre-pandemic. But, of course, what has happened is we lost about half of our current assets that were distorted by the pandemic. I say current assets, I mean the effects of cost of revenues and receivables, but -- and so we've been trying to preserve the right side, so where then the left side of the balance sheet fills up again. And we think that's going to be at some point in the second half of this year you're going to see a company that looks a lot like it looked like in the second half of '19.

And then also on a unit cost basis, that I was saying in the previous question that the other kind of guiding record that we had here is to do everything we can to preserve our unit cost advantage, so that when we come back on the other side of this we look a lot like we looked at the end of 2019. But also we've a couple of very tough months to get through here. We are not -- we are trained airline operators, we're not trained scientists in the field of epidemiology or how this is going to be managed. So, we are using the same information you guys have in terms of managing and reacting to this pandemic and the virus.

As Kaki mentioned, we are now -- we are probably like two months behind where you guys are in terms of the vaccine roll out but we're starting to get momentum now. I mean, this momentum. If you walk around the street around here and you've got, what you call it, makeshift -- temporary or makeshift vaccine -- vaccination centers set up on the street, and so that infrastructure is starting. But that's against what has happened here over the last month or so where hospitals have gone to full capacity utilization.

If that was not the case, we have probably would have not had the restrictions coming back in. But because the hospital infrastructure is not sufficient to support what's happening now with the second wave, the government's came in and put in these restrictions to try to help slow down that curve. Without saying, if you remember back when these things started, it's 15 days to flatten the curve, right, since we're already a leader with the highest curve we have had.

So, that's how I'd answer that. And if you have some other questions on, just shoot us an email, we can go into the details on that. I just like to maybe move to the next question. We have (Multiple Speakers)

Q - Michael Linenberg {BIO 1504009 <GO>}

Yes, which I would just -- yeah. I would just add -- putting words to numbers, it seems, and to Kaki's point about, we get to September in Brazil and things are on the up and up. The BRL1.9 billion in the March quarter of liquidity, that's your low point, right, because you get to June 30, and you should be selling July, August, September and people should actually feel better, because the numbers are better.

And I think that's the point is that the BRL1.9 billion is the low point, just based on everything you and Kaki have said. Again that's a reasonable conclusion there, but like you said anything can happen. So that's kind of how I'm coming out on it based on what you're -- you've been able to give and how you've been able to manage. But you (Technical Difficulty)

A - Eduardo Jose Bernardes Neto {BIO 19125326 <GO>}

Just to emphasize a little further what we've above said. We could consider the high likelihood that July would be much stronger than we're foreseeing right now, assuming, as I said before, that the population above 60 years will be already immunized. And the fourth quarter milestone I have mentioned would be the kind of trigger to resume faster the business drivers, so we are sticking to this plan.

Q - Michael Linenberg {BIO 1504009 <GO>}

Very good. Thanks, Kaki. Thanks, Rich.

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

Thank you.

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

Thank you.

Operator

The next question will come from the Duane Pfennigwerth with Evercore ISI. Please go ahead.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Hey, thanks. I wanted to ask you just a couple of questions on network development. And understand this is a bit of a weird time right now. I mean, the good news, bad news is, you are very experienced with cycles. This is not your first rodeo in Brazil. You figured out how to find relative competitive strengths in the past. But I just wanted to ask, as you look at the competitive landscape holistically, what are you seeing, is it logical, is it rational? And maybe in that answer, could you comment on slot waivers, are they still in effect, etc.?

A - Eduardo Jose Bernardes Neto {BIO 19125326 <GO>}

Hi, Duane. At the moment, I believe that we might be facing a kind of a phenomenon that happened exactly by the beginning of the pandemic in Brazil. So, some of the players reacting faster or -- either reacting faster or see in the radar what's really going on a little bit earlier than the others. Definitely there is, at the moment, a reduction in demand caused by the increase in the COVID case -- in the number of the COVID cases in Brazil and that's affecting the forecast quite significantly.

And that's why we have been so, I would say, rational about the near-term capacity being deployed. And I can tell you that this is exactly the same behavior noticed among the competition. So I believe that there is a series, I could say so, a lack of rationality in the market at the moment. But I believe it's going to be fixed in one or two weeks, considering the current demand weakness.

Anyhow, we're not depending on it and we took our measures in order to -- as we already -- to manage our own performance quite independently of what is being decided by our competitors, but I couldn't tell you that at the moment 100% of the market is rational because it is not. It is what we have seen so far.

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

And we haven't -- we didn't go the route of having debt financing like some of those guys. All the other guys have their own debt financing, so we have managing it differently.

Generally we -- for five years now we've been the leader, at least Brazil domestically, on setting the tone, literally since May of 2016, that's when the things looked over, GOL's been the leader and everyone else has been a follower. That has generally been the case and it varies across the board in terms of the lead lag.

I mean, part of what was Kaki was saying is that, we recognized really quickly in January that what was happening and at the end of January, we started the process of ramping down our capacity. And I think other folks took somewhere between one and two months to come up with that. And I think that's -- part of it is our -- and it's how we manage the business on a day-to-day basis, part of it is investment that we made in data analytics, which allows us to have maybe a bit -- a little bit better handle on that component there.

Does that answer your question, Duane?

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Yes. That's helpful. And then just a few comments, it's something we should know, but what is the status on slot waivers? How long before those need to be kind of extended?

A - Eduardo Jose Bernardes Neto {BIO 19125326 <GO>}

So Duane, we've mentioned it before (Inaudible). Actually we are under a formal waiver until the end of September. So, I mean the IATA summer season is -- even at this and we have already engaged in new conversations with the Brazilian authorities because considering the pandemic outrun, it might be that we all will need a further seasonal waiver to be applied. So this is our expectation, which is going to be the very, very starting -- I am sorry the season is starting next October. I mean the IATA winter season. So, we're now addressing this discussion toward the Brazilian civil airline authority and I hope that we're going to have something related to that.

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

Okay. Let's just -- we are going to -- just so we kind of get through all of the questions in fairness to everyone. And we are going to move to next question. But just before that I'm going to slip in a question that we got from one of our big investors that asks, your release said that you were able to get a good portion of leases and power-by-the-hour agreements. Do you feel that you continue to have these favorable agreements as travel recovery in developed markets potentially outpaces recovery in Brazil, especially with rising cases and a slower vaccine rollout?

So, the short answer is, yes. We -- I was responding a little bit on the Mike question, but maybe drill down a little bit. I mean, we can keep our minimum payment which can be up to about 70% reduction and continue to extend that if we've a slow recovery. Also given potential new taxation on leases, GOL can get some grace in March and April to preserve payments.

Power-by-the-hour is on about half of our contracts, the other half for deferral-related, in that situation deferrals would be expanded. And our lessors are supportive and understand the situation, we continue to work on that with them. That ends up working out to be that we would in that worser [ph] scenario, we end up paying no more than about 50% of our lease payments according to our agreements.

And also it goes into one of the previous questions as well, when folks look at the on-balance sheet accounting of the short-term lease payments versus what would actually happen when you look at that number. If we need it to, the number could be half of what that short-term liability is on the balance sheet, which is, if I remember correctly.

But that's not how we manage the business in terms of looking at the on-balance sheet next 12 months lease payable. But the difference there would be about BRL1 billion of cash savings during fiscal 2021. So now we can go to the next question. We've another three question, the people in the queue here. We will try to get through them to the top of the hour, where we need to switch to our Portuguese call as everybody knows we do these things in both English and Portuguese. So, please, next question.

Operator

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

Q - Syth Savanthi

Hi, good afternoon, everyone. I all probably ask two couple of quick questions. First, Kaki, to your -- in your response to Dan, you talked about kind of the phases of recovery. I am just kind of wondering what your corporate clients are telling you in terms of what they need to see to get comfortable returning to kind of business travel?

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

Yes. Savi, that's including three different groups. I mean 20% -- sorry, one-third of the business travelers never stopped flying in -- even during the pandemic, so those are the essential workers that helps sustain this kind of business attention forever. And this is, I'd say, the base level which never change.

The second group, another third is made of large corporates that those are under human resources policies that are blocking down of flying. So I believe this is the group that we referred sort of resume when the pandemic will be either under control or probably over.

And then you have another portion, maybe one-third, which I believe two-thirds of this, one-third, possibly will take much longer are or maybe even not come back. Those are the travelers that we'll replace with the business travel by one of the new technology such as video conference and these kind of stuff. I believe that when I say that, we'll have from the third quarter on more business.

So that's resuming their old habits, I believe that we'll have on top of the current one-third who's still traveling, we would be another third, maybe 40 percentage points on top of the 30% is still flying.

Did I answer to the question?

Q - Syth Savanthi

That was perfect. That's very clear. Thanks, Kaki. And then, Rich real quickly, just on the fuel hedging front. What's in place for 2021? And are you doing anything more than -- I am guessing not but just curious on a quick update on the hedging?

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

Yes, sure. We continue to do a pretty good job of dealing with that. It's been less important. Our normal objectives are related to margin management and basically permitting enough time to adjust yields to pass on cost increases, that's been pretty much irrelevant during this pandemic. We came into the first quarter, with about a 50% hedge ratio for 2021 and 20% hedge ratio for 2022, in the low-50s, if you'll.

And what we did during Q1 is we -- when we hit our view triggers in the low-60s on oil, that's been what I was saying, I think it was in the first question that those gains, if you will, are -- if you will, a non-cash current asset. And so, I think during this pandemic, if you go from the beginning of the pandemic until now, we probably had -- probably close to somewhere between BRL400 million, BRL500 million of cash inflows because of gains on our fuel hedge position. It's not really much to hedge against given the demand dynamic here and the inability to do yield management period.

But once yield management comes back on, you will expect to see it. But it's a little bit lower than those hedge ratio I mentioned. It's not relevant for us right now. It's how we are managing the business. And we -- actually, our view is things have overshot a little bit now. So we are not going to be putting on any new hedges at this level right now in terms of our fundamental view on that.

I am going to now move to -- before we move to next question, I am going to fit in one more of the questions we are getting from the -- on the platform here, just to kind of be efficient with the time. And the question was basically, to what do you attribute the drop in your total liquidity from the end of Q4 to the end of -- what you're expecting from end of Q1 in your perspectives?

Answer to that would be our accounts receivable dropped about BRL200 million over the course of the first quarter here, 2021. We finished 2000 -- December, we finished with around BRL700 million in accounts receivable and now we have about BRL500 million, that's related to the drop in the forward booking curve. And this is a temporary effect.

We had around BRL1 billion a month on average throughout the year of accounts receivables pre-pandemic. That balance right now is about BRL500 million. As I said in Q4, that was around BRL700 million. Now, if we had the same level of receivables with the forward booking, today we'd have liquidity of about BRL2.2 billion to BRL2.3 billion. So I hope I answer that.

So now let's go -- we can squeeze in one more question here. And it looks like I am not going to be able to get the last question Matt, but you can -- we can set up a call later. We can move to the last question here, operator.

Operator

The next question will come from Rogerio Araujo with UBS. Please go ahead.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Thanks very much. Hey Richard, hey. So it's -- so thanks for the opportunity. I have a couple here. One is, on the debt amortization that is expected for the first Q '21, it's about BRL900 million. So my question is, is the BRL3 million per day cash burn expected for the first Q, does it include this BRL900 million debt amortization? And also how does the company intended to finance that amortization? That's the first one. Thank you.

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

Okay. Araujo, did you just start -- have you been on for the whole call or do you just joined now?

Q - Rogerio Araujo {BIO 17308156 <GO>}

I am here for the whole call.

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

Okay. We already answered this question. I mean...

Q - Rogerio Araujo {BIO 17308156 <GO>}

Can you be more specific than -- please, Richard, can you be more specific how you are going to finance that? I heard you saying a bunch of options you had. But can you give more specific then please?

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

Yes. Again, Okay. Yeah, because we got -- we've to respect everybody's time here and we can also go into the math with you offline. But basically, contractually, we have those maturities, but the majority of those are commercial finance which are with specific counterparties and we basically roll those over.

And so we don't have -- majority of those maturities we don't have as cash outflows from an amortization perspective. What we have is interest expense payments. So that's basically it. But I can go into the details with you offline, so we can get to that. But there is -- as I mentioned, it's BRL300 million of difference is in there. And then there's about another BRL400 million or so of commercial finance that it's -- as I mentioned, during the pandemic, every single quarter, and every single quarter we get the same question.

We are constantly working to match those cash outflows with cash inflows, and same current on interest to preserve our credit access and so that's about BRL700 million of those numbers you mentioned during that category. And then the rest, the gap there is just how we manage our working capital. So, if you need more than that, we can talk offline.

You said, you've another question?

Q - Rogerio Araujo {BIO 17308156 <GO>}

Yes. Thank you, Richard. And next question is regarding yields. So with the current FX depreciation and the oil price expansion, what kind of yields does the company need to be profitable in terms like, can you say the amount of expansion in yields necessary versus '19 levels or something like that for the company to be as profitable as before? Also considering all the efficiencies that you have implemented during this crisis?

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

Yes, I mean if you saw in Q4, those levels, because -- remember I was mentioned before, we have got two main reason we mentioned the company did in pandemic, one is on the unit cost side, and the second is on the equilibrium side.

That, if you look at the adjusted profitability in the Q4, EBITDA margin, EBIT margin, those are the levels that we had pre-pandemic in terms of profitability. Excluding the aircraft on the ground, which is that piece of assets that we're keeping, so that we have the -- as opposed to returning those assets, which we could if we want to do, returning those and then contracting those back, we don't think it's necessary.

So those aircraft that we've to today on the ground are going to be necessary on the other side of this pandemic, which we believe is going to be in the second half of this year. And so, the Q4 numbers that you saw on an adjusted basis excluding the grounded portion of the fleet, is -- that's the level of profitability that we need and that's level of profitability than we have -- we had pre-pandemic.

So that's latent in our structure right now -- there is a little bit of inefficiency there in terms of aircraft utilization. We are not near where we want to be on that, but I think that's the best indicator of how we have been managing our company. Another way of saying it for you is based on the current dynamic right now with the current level of operating cost -- cash which is being affected by the pandemic, comparing let's say fourth quarter -- on the fourth quarter 2020, we had that EBIT -- the yield would be BRL0.28 and so use that however you want to use it because I know you do a lot of work on the yield side of the equation and you're looking at things like that.

And so on a recurring basis, that BRL0.28 yield compared to BRL0.21 cash, it gives us that very nice positive EBIT. If you take a total basis, which includes all the aircraft on the ground inefficiency, that's breakeven, BRL0.28 minus BRL0.28 is zero. And so that's kind of how we manage the business to the Q4.

And so on a fully loaded basis, we had that breakeven in the Q4, but on our current basis, which we have been trying to give you guys this data in the release, it's a lot of work for us to kind of give you that actively, so that you can use that. Because it would be very difficult for you to come up with that on your own. I think that positive EBITDA of about BRL0.07 for ASK.

And if you look at our competitors, they are not even close to matching between yield and unit cost. That's how we've been managing our company, I am not saying that the other guys are they're managing it for whatever other objectives we have had. But we have got two primary directives during this pandemic, one is to make sure that we keep our unit cost advantage and that when we come out of this, we have a unit cost that is equal to or lower than where we came in.

And then proper matching of assets, liabilities during the pandemic. The yields component and this is important, right. I mean, today, the yield is pretty much given to us -- demand is given to us, we don't have the normal tool of yield management in the traditional sense really doesn't exist today. We don't have the ability to either stimulate or repress demand today, just because of where demand is and the capacity. It looks like, I think I saw your report and you were highlighting the overcapacity. I mean if you look at it on a fully loaded basis, yes, with the grounded aircraft versus the current demand, that's -- demands that we have today, obviously, there's overcapacity. And it's going to depend on how people manage those aircraft on the ground.

You see what we have been doing, I mean, last year, we returned 13 aircraft and received three aircraft as we are transforming to MAX. We're the only company that you cover that returned aircraft last year. We have the ability to do that and we have the continued ability to do that. And we've given you some insights on what we're thinking about for this year as well, we are going to planning on returning another nine aircraft and that hopefully, will be replaced by MAXs coming in as we get back on our fleet transformation.

And that's the key to the unit cost, because, again, it's like for us, we start with unit cost. The yield generally we're trying to optimize it, given the demand that we are getting. And normally, in a normal environment, we have a pretty good ability to do yield management with our large corporate and managing it through the acute seasonality that we have here in Brazil.

But right now, anyone that tells you at least in our market here that they are doing yield management either doesn't know what they're talking about or they're selling you a bill of goods because we do not have the ability to stimulate demand with fares and also the demand that's there today is not necessarily being suppressed, if we increase fare. So keep that in mind, that probably continues for at least a couple of months until we get back on track here with normal yield management.

And so with that we are going to have to the closing remarks, operator. We had one or two more people in the queue. But we know you guys, and so please shoot us an email or we will follow-up, in fact, with you later today to see if we can help you with any additional questions. So with that, I think we can go to closing remarks. Operator, please?

Operator

This concludes today's question-and-answer session. I would like to invite management to proceed with closing remarks. Please go ahead.

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

Thank you all very much for your questions. I hope this session was helpful to you all. And please do not hesitate to get in contact with us in case you need any further clarification. Thank you very much.

Operator

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