FINAL

Bloomberg Transcript

Q3 2020 Earnings Call

Company Participants

- Paulo Kakinoff, Chief Executive Officer
- Richard Lark, Chief Financial Officer

Other Participants

- Dan McKenzie, Analyst
- Matthew Breckenridge, Analyst
- Matthew Roberts, Analyst
- Michael Linenberg, Analyst

Presentation

Operator

Welcome to the GOL Airlines Third 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, further instructions will be given. (Operator Instructions) This event is also being broadcast live via webcast and may be accessed through the GOL website at www.voegol.com.br/ir and the MZIQ platform at www.mziq.com. Those following the presentation via the webcast may post their questions on the platform and their questions will be either answered by 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 they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that events related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

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

Paulo Kakinoff {BIO 5160310 <GO>}

Good morning, ladies and gentlemen, and welcome to GOL Airlines Earnings Call. I am Paulo Kakinoff, Chief Executive Officer; and I'm joined by Richard Lark, our Chief Financial Officer. Today morning, we released our third 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.

The third quarter of 2020 reflects a period of strong recovery in the volume of operations with a record number of passengers, since GOL initiated it's essential network in April. GOL is the only airline in Brazil that managed consistently to maintain a load factor at a level close to 80% across its network during the pandemic to date. Added to the cost containment and cash preservation measures implemented by the company, GOL is now in an advantages position to capture market share as a demand for travel continues to increase. The operating environment remains challenging, but the company is optimistic that conditions will continue to improve during the remainder of the year. We are seeing consistent growth in the search for GOL air tickets for leisure and holiday planning at the end of the year. This demand growth is specifically concentrated in the domestic market, which accounts today for 100% of the company's network operations.

The month of September was marked by a 43% increase in the search for airline tickets. As a result of this greater interest, the company registered a 60% increase in ticket sales, across all of its channels, compared to August 2020. In the third quarter, consolidated gross sales reached approximately BRL1.7 billion, an increase of 132% in relation to the second quarter 2020. GOL's daily sales in the third quarter '20 exceeded BRL20 million, which represent 50% of pre- pandemic sales level. With additional flights during the month of September, passenger revenue increased 110% over July.

Matching capacity to demand has been a key advantage of the company's fleet management. With better visibility regarding recovery, GOL's current capacity planning scenario assumes a 100% growth in the fourth quarter 2020 compared to the third, maintaining significant flexibility to respond to prevailing market trends.

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

Richard Lark {BIO 3484643 <GO>}

Thanks, Kaki. GOL's management fully honored its commitments to the global capital markets, including the amortization of its 2022 Senior Notes paying US$78 million in the first quarter of 2020, and its Term Loan B, its main short-term debt, paying US$300 million in third quarter of 2020. We have no significant capital markets maturities until 2024. This is a reflection of GOL's commitment to strengthening its balance sheet over the past four years.

GOL achieved better cash consumption metrics through its effective management of working capital with matching of inflows and outflows, which has been the key driver to maintaining liquidity. With the support of the company's partner banks, the main maturities of working capital debt and short-term CapEx financing were rescheduled. Such initiatives maintained a liquidity level of BRL2.2 billion.

The Cost per Available Seat Kilometer, CASK was BRL34.12, an increase of 52% compared to the same period last year. In the quarter, costs incurred related strictly to the flights operated adjusted CASK, corresponded to BRL21.56. Compared to the previous quarter, this reflects a 36.8% drop and demonstrates the company's continued focus on readjusting its cost structure to the pre-pandemic levels with the main fixed payroll and leasing costs converted into variable costs.

The Boeing 737 MAX is nearing approval to begin operating, and its return to service will increase cost savings, as the MAX-8 consumes 15% less fuel than the 737-800 NG aircraft: The following metrics demonstrate the company's permanent focus on maintaining liquidity allied to responsible capacity management in relation to the levels of customer demand and combined with efficient pricing.

This immediate action plan on the management of operations has enabled GOL to achieve: one, an average yield per passenger of BRL27.78, a reduction of 12% compared to the third quarter of 2019, mainly due to the reconfiguration of the company's network, concentrating and distributing operations in its main hubs and consequently, increasing stage-length. Two, average load factor of 79.3%, a reduction of 3.6 percentage points compared to third quarter of last year, but consistent since the beginning of the pandemic. GOL was the only airline to maintain this level of load factor. Such capacity management discipline is a major differentiating factor for this company. And three, on-time departures of 96.7%, an increase of 5.5 percentage points, according to Infraero and data provided by the main airports.

Adjusted EBIT was BRL114.4 million, corresponding to a margin of 11.7%, which demonstrates the reestablishment of operating margins necessary to support growth in operations, and a continuous search for balancing supply with demand and yields that allow sustainability. The third quarter of 2020 reflects a period of strong recovery in the volume of our operations, where we've achieved a record number of passengers transported, since the launch of our essential network in April. GOL ended September with a total fleet of 129 B737s and 71 aircraft operating in its network, which was an increase of 44 aircraft compared to the end of June 2020. Daily flights tripled to 360 in the third quarter of 2020 to serve a 134 markets, representing 39% of daily flows performed in the third quarter of last year. 118 of those markets are operated by the company and 16 by our strategic partners.

Now I would like to return to Kakinoff.

Paulo Kakinoff {BIO 5160310 <GO>}

Thanks, Rich. Through our values of service and safety, our customers are increasingly confident in flying. We are working on every front, including ticket sales, customer service, boarding, the in-flight experience and disembarkation services, to ensure that our travelers are comfortable with the entire flight experience. We believe Customers will want to fly with the airline they trust most on service and safety, both during and after the pandemic.

We are immensely proud to be the first and only airline in South America to announce agreements to guarantee the jobs of our over employees, in addition to offering Voluntary Leave, Dismissal and Retirement Programs. The dedication, commitment and professionalism in this extremely challenging moment has been crucial for us to have arrived here with solidity and for sure it will be a great competitive differential for the recovery into fall in '21. 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 Brazil aviation.

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

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Mike Linenberg with Deutsche Bank. Please go ahead.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yeah. Hey, good morning, everyone. Just I guess two questions here. One, this is sort of just a quick one on yield. You indicated, Rich, that yields were down 12%, but your stage length increased. So I'm curious if you actually have that number on a stage-adjusted basis, presumably, it would be better than down $12 million.

A - Richard Lark {BIO 3484643 <GO>}

Sorry about that. I was on mute. You're asking about the stage length change in the Q3, is that what you're saying?

Q - Michael Linenberg {BIO 1504009 <GO>}

Yes, because, I mean, you highlighted it...

A - Paulo Kakinoff {BIO 5160310 <GO>}

He is, actually, because it's...

Q - Michael Linenberg {BIO 1504009 <GO>}

Oh, go ahead, Kaki. Sorry.

A - Richard Lark {BIO 3484643 <GO>}

It's Mike, sorry about that, Kakinoff. Stage length was, in the actual, in Q3 was 1,172 kilometers versus 1,110 kilometers. So it's about a 5% variation -- a 6% variation versus last year.

A - Paulo Kakinoff {BIO 5160310 <GO>}

It was -- in -- the actual on Q3 was 1,172 kilometers versus 1,110 kilometers. So it's about a 5% variation. Well, a 6% variation versus last year.

A - Richard Lark {BIO 3484643 <GO>}

This is because Mike -- this is Richard speaking. This is because we have much more people connecting through the hubs. So there are less point-to-point flights in comparison to the pre-COVID network that we were operating. So to -- basically to perform the same region and destination trip, we have much more passengers connecting via a major hub such as Guarulhos or Galeao.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yes. And I think that -- yes. No, that's good to know. And what I was trying to establish is the fact that your yield performance, arguably, was better than the headline number because of the increase in stage length.

A - Richard Lark {BIO 3484643 <GO>}

Correct. It would be -- we may be, say, about 1/3 better.

A - Paulo Kakinoff {BIO 5160310 <GO>}

Yes, definitely, this is exactly the thing I would like to highlight. If you consider the share of wallet, I mean the customer willingness to pay, at least, the same amount of money that they were paying before to perform a specific trip of origin and destination is basically intact. I mean, we didn't notice any kind of purchasing power deterioration from the customer side. They are actually even paying slightly higher fares, considering the trip, which is much longer now, than it was before.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yeah. Now that's (Multiple Speaker)

A - Richard Lark {BIO 3484643 <GO>}

It might just on that -- I understand the logic of your question. I'm sorry, the -- you're helping us warm up here on this Wednesday morning (inaudible) one of the pandemic. We reported the 12% down quarter-over-quarter, but if you were to apples-to-apples that stage linked adjustment, it would have been down about 5% or 6%.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yeah. And then --

A - Richard Lark {BIO 3484643 <GO>}

And also, like were you saying, keep in mind as well that about 80% of the public in that number is a VFR customer. Whereas, you take that number last year, about 50% of the revenue, 30% of the volume, 50% of the revenue would have been a large corporate customer, which is not in there.

So if you were to apples-to-apples it for that, the yield would actually be an increase in yields for that same customer base, which is another way that Kaki was saying it, because we would think about the share of wallet. Our share of wallet is larger of that component of our passengers. In other words, while the overall pie has shrunken, our share of the pie has increased substantially.

And the other point I would just add on that is that to get to where we've got to now, with just the VFR passenger, that also kind of goes into the flexibility of GOL network, GOL product because, as you know, what's been driving force in our expansion, our network and our product has been the increasing share of wallet of the large corporate and all that massive investment we did under the tutelage of Kakinoff here in terms of the customer experience and the product. That is much less valuable now in this current customer base. And so the results you're seeing are of a GOL VFR airline. It's almost kind of like a GOL were Volaris or if GOL were just simply a what you think of as a ULCC.

In other words, it's not with a product that could attract large corporates and with the network it has, a massive number of frequencies between two of the biggest cities in Latin America, Rio and Sao Paulo, all that is just kind of set on the side right now.

A - Paulo Kakinoff {BIO 5160310 <GO>}

Yeah.

A - Richard Lark {BIO 3484643 <GO>}

So I would even -- just expanding on -- with your question, actually. If we were to apples-to-apples that, we had a very significant increase in yield and profitability. In other words, if you were to perpetuate GOL at this type of company, it would probably one of the most profitable company airlines in the world.

A - Paulo Kakinoff {BIO 5160310 <GO>}

This is -- actually, Mike, we are glad that you had time to go dip in the figures. You found yourself some time to analyze the three extensive reports that we had produced, then your conclusion is pretty upright. If I may, because, at least, that might be an interesting information to everyone, commenting a little bit more on the market dynamics. If we would consider the VFR segment only, I would say that we had already recovered 100% of the pre-COVID demand that we had. What's missing, actually, is the business for others.

As Richard mentioned, they could represent up to 25% of the total number of passengers in a certain flight and also up to 65% of the revenues. So that portion is missing because only 10% to 20% of those travelers are back in the skies. And this is -- what is somehow pressuring down the use and the net debt portion we see. And the other side, we had the exchange rate devaluation. I mean the real is almost 40% devaluated in comparison to dollar since the beginning of the year. So those are the two major forces affecting the total revenue.

The VFR use are pretty healthy at the moment, so is the VFR demand. But we are missing the corporate drivers. And at the same time, there is a considerable high cost from the --

pressure from the cost side due to the exchange rate.

A - Richard Lark {BIO 3484643 <GO>}

Yeah. Another way to say it, too, in terms of share wallet, Mike, it would be the look -- if you look at our average ticket. And the average ticket was down around 7%. And so if you were to adjust that for stage length, we had no decrease in average ticket.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yeah.

A - Richard Lark {BIO 3484643 <GO>}

The average ticket of the large corporate, which would be half of the financial revenue is two to three times, three times the average ticket. And so it's a substantial expansion in share of wallet.

Because that's how we think about it. We don't really think about market share. We don't think about market share, which is your share of RPKs. We don't think about seat share, which is your share of ASKs. We think about share of the spend, the customer spend, and that's how we define it; and maximizing our share of the corporate spend than we are. The 20% of the corporate that is traveling, we probably have close to 50% share of that, but that pie has shrunken substantially.

But of the other piece, which, as Kaki was saying, it's probably that nonlarge corporate pieces probably come back to prepandemic levels on a volume basis, and we significantly increased our share of wallet of that spend. And I think that also gets to -- I know we're anticipating a bit here as well, and we'll get to the other questions. But that also relates to how Brazilians are dealing with the pandemic and COVID and things like that in terms of traveling and things like that.

And so I think part of this is, is that -- which is very different than what's going on in Europe and in, let's say, a big number of U.S. states and most other countries in Latin America with the exception of Mexico. So Brazil's probably a second -- a close second to what's going in Mexico and what you guys are seeing over there with Volaris, just to kind of contextualize that for some people to try to put us into this Latin America box and want to compare us that way.

The only real essential piece that we're missing is the large corporates. And we can talk about that separately, but I'm saying with the exclusion of large corporates, if you were to just kind of extract that and cut out all of the excess -- the aircraft they have on the ground, all those excess costs that are there to serve the large corporate network. I mean half of our business is there to serve Brazil's large corporates. That's on the ground and only half of it's running. And super problem is that we're carrying on our backs all the infrastructure and the cost because the large corporates will come back at some point. And that investment's been made. It's already done. And when that comes back, look out operating leverage. I mean the operating leverage is going to be huge. Also because, as you see, we've transformed -- a huge chunk of our fixed costs have been transformed into variable costs. So for a period of time when those large corporates come back, just massive operating leverage.

I apologize for sliding some other points in there, but I thought that might be useful.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yeah. No, no, all good. And then just a quick second one here on just the guidance. But when I look at just some of the key metrics, things like liquidity up 4Q over 3Q, but net debt down about BRL1 billion, but then I'm looking at about BRL3 million of cash burn per day. And so sort of back of the envelope, I presume that you're either going to tap some external financing or maybe there's a hedge position that's unwell and that frees up capital? I mean I realize that's a restricted cash number, too. So what's driving that improvement in net debt and liquidity when it looks like cash burn's actually similar or slightly higher than what we saw in 3Q. Is there something external there, whatever you can say?

A - Richard Lark {BIO 3484643 <GO>}

Thanks. Thank you, Mike. I'm glad you asked that question. It gives us a chance to kind of unpack that a bit. One of the objectives, when we -- this company, we do a lot of work to provide our investors how we're thinking and try to quantify that also.

And obviously, there's a lot of work behind that, and there's a commitment to that. And generally, with the numbers that we provide, you can triangulate to pretty much all the numbers you want to get to. But obviously, given that there is, today, a lack of confidence over what our normal financing sources for airlines in general, we can go into that a little bit more.

But keep in mind, with us, with GOL in Brazil, one of the biggest sources of our liquidity is customers. Our main source of liquidity is clients, which is accounts receivable, sales. And we've been providing you guys on our monthly update sales. And so you can see the gap between sales and revenues.

Now our sales are running at a rate of twice the revenues in terms of bookings. And you've seen that in there. And so in the 4Q and the 1Q numbers there, there is, in that liquidity number, because remember, liquidity for us is cash plus -- which includes unrestricted and restricted cash and receivables. Accounts receivables. There's about 100 -- there's a 100 -- depending on the scenario, there's $100 million to $200 million increase in accounts receivables per quarter. And we expect that our overall balance sheet accounts receivable balance, by the end of Q1 of next year, will be about 70% of the pre-COVID levels.

Why is that important? Because we have to rebuild the current asset side of our operations. The current liabilities are there. We got enough of those -- we've got all the current liabilities that we need. What we lost, because of the pandemic this year, if you take the full effect of the -- from, say, end of March to the end of December, it was about

BRL9 billion of sales that were destroyed, evaporated. So that's what we've had to replace with all these initiatives.

But within that is rebuilding the receivables balance and it'll probably be towards the middle of next year where we get back to that roughly BRL1.2 billion average receivable balance per month, which is how we normally look. Now a lot of people don't -- I'd say a lot of people -- this is -- what we see in terms of the questions we ask, we rarely get questions on working capital and current assets. It's all about what's in that top line of the current assets. Rarely, does it go down below receivables, okay? And there's a lot going on in the -- in the current assets as you mentioned as well. We do have a significant amount of noncash non-receivables, current assets, which we described deposits.

And starting in August, September, and this will continue, we've been gradually unlocking some of those current assets into cash, that will continue. Between now and the end of the year -- in the fourth quarter and the Q1, there's also BRL100 million to BRL200 million per quarter of nonrecurring assets that will come into cash, okay. I'll also slide in there that we have a -- as part of our compensation agreement with Boeing, we still have an amount to receive there by the end of the year, which is also along the lines of those numbers that I'm talking about, which will come in there.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay so that -- yes, the vendor...

A - Richard Lark {BIO 3484643 <GO>}

And then the other -- I'm sorry?

Q - Michael Linenberg {BIO 1504009 <GO>}

I just said the vendor proceeds that many carriers are marking and they're sort of popping up their nice little surprises.

A - Richard Lark {BIO 3484643 <GO>}

Well, that was when we disclosed our agreement back in the Q3. There was a chunk that we received on April 1 and there's a chunk we're going to receive in December. And no, it's not insignificant. It's not as much as we received in April, but it's very helpful now, and also because it's in dollars. And so it has a big impact when it comes into reais here. We wish we had it now. We don't have it now. It's going to be arriving on Santa's sled right around December 25.

Now in addition to that, there are currency effects in there. There's a little bit of currency effects. But then just linking that in with what your -- where you're going as well with this. I'll also link it in with a related question, which is the -- where the net debt is going to be coming out and how that relates to the cash liquidity?

So in addition to receivables, other current assets, our compensation agreement with Boeing, if you will, kind of reorganizing and restructuring the current asset side of the balance sheet, which produces liquidity as we need it, it's expensive because we have to pay to unlock that, either a letter of credit or an insurance policy, things like that and the currency effects.

Yes, we do have planned a -- as you all know, we have planned a secured financing using our unencumbered assets. We have about $250 million of unencumbered assets, aeronautical assets, which can give us, if we needed, around $150 million, so call it, BRL600 million. It's possible that we could do that in the near future here. And so that's also in those numbers. And then finally, and it's indirectly related to what you're asking about because of our negotiations with leasing companies, there's a reduction in our effective aircraft lease debt at around BRL200 million to BRL300 million per quarter here. And so that also goes into the reduction on the debt.

And so when you -- one of the questions we've been getting related to what you're asking is -- we showed roughly BRL1 billion reduction in net debt there. So in addition to the liquidity components that I just described, in the IFRS 16 accounting, when you renegotiate a contract, you have to remeasure the accounting. And so in our particular case, with our company, we had -- we achieved mark-to-markets. And so we had lease reductions that were then put into longer contract terms.

And both of those can offset each other. The lease reduction is an absolute reduction in the overall on-balance sheet aircraft set -- and then the term extension is actually an increase because they're effectively net present valuing that. And the reason I'm highlighting this is it's very different than some of our competitors that presented a reduction in on-balance sheet aircraft debt only because of a reduction in the lease term. That's kind of like a double whammy in the wrong direction. So we got some real discounts and converted a portion to power by the hour. At the same time, we pushed the terms out by a little over a year.

There is a little bit of an impact on the discount rate when you guys unpack that and look into the financial statements going up when you remeasure. But you factually see in the Q3, were only for 39 aircraft. There's another 80 aircraft that would be accounted for in the Q4. And when all that comes -- when all the dust settles on that, probably by the time we get into Q1, including the currency effects, because we do expect a slight appreciation of the Brazilian real here, it'll be about BRL1 billion of reduction in on-balance sheet leverage related to the aircraft, which is our principal debt.

And so when you add that into the liquidity initiatives that I outlined there, that's how we get to those numbers that we're describing there. The multiple, the net debt-to-EBITDA ratio, LTM goes up to 6x in the Q4 just because it's -- the LTM calculation will be 3/4 of the pandemic and then the first quarter.

And then we get into the first quarter of next year, there'd be four quarters of the pandemic. So the EBITDA kind of collapses in there. But we're comfortable with that level of leverage because once we get back to large corporates and once the operating leverage kicks in, there's going to be a very rapid deceleration of that leverage to get back to our policy target, which is three times at some point on a run rate basis in the second half of next year.

Sorry for packing some other things in there. But the question you're asking on how we get to those numbers on the cash liquidity is part and parcel to the balance sheet leverage component also. So I wanted to kind of put those two components together because we were already getting a couple of e-mails after we announced this morning exactly on the question you were asking

Q - Michael Linenberg {BIO 1504009 <GO>}

Now that's very helpful, Rich. Thanks, Rich. Thanks, Kaki.

Operator

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

Q - Matthew Roberts {BIO 21643740 <GO>}

Hey, good morning. This is actually Matt on for Savi. I appreciate all the color on that lease that right there. Rich, if you could, could you just basically do these savings? Are they going to reverse at some point? Or what can we think about in terms of the income statement impact beyond 3Q? I know you said there were, I think, 39 aircraft and then 80 in 4Q. So how can we think about beyond there? And do those terms? Is it going -- is the cash flow impact going to reverse at some point?

A - Richard Lark {BIO 3484643 <GO>}

Just -- so I understand your question, why would the savings reverse?

Q - Matthew Roberts {BIO 21643740 <GO>}

Well, that's what I was asking. I mean would they, over time, does the rate on those? Does it change?

A - Richard Lark {BIO 3484643 <GO>}

No, no, no. I guess maybe I sorry, maybe I spoke too fast on the Michael Linenberg's question. No, those are -- those -- our contracts are renegotiated. So those are permanent reductions to the life of the leases.

That's the point I was trying to make is that, as we went through -- methodically through our adjustments, our main objective was to preserve our cost competitivity post pandemic. And then our second objective was cash flow relief; matching, if you will, our fixed costs to revenues, okay?

And so on the second point, what we set with our two main fixed costs, which is labor and aircraft, a term of, to the end of next year, end of 2021, in other words, roughly 18 months, is the time we needed to get to rematch our fixed costs, which would normally be 40% to

45% of our total cost structure back to revenues. And so how do we do that? With labor, we achieved some reductions and also transformed about half of our fixed labor costs into effectively variable power-by-the-hour type setups for the 60% of labor that works on operations. And that -- those agreements -- we were the first, and I think, only airline in Latin America, as far as I know, to get that type of agreement all the way through the end of next year. And so that we fixed matching fixed cost to the revenue ramp-up.

And then on the aircraft side, same deal. And so in addition to marking any above COVID rate leases that we had, in addition to adjusting those down to the new market, which is for the life of the leases, not just for a couple of months. We also -- so that lease rate was lower, that overall lease rate was lower. And then within that, unpacking it, a portion of that, obviously, we have 25 different leasing relationships, so each situation is different.

Because we have many aircraft that were not above market, not above the post COVID market. But then in the -- within the new monthly lease payments that we renegotiated, a portion of that was also transformed into power-by-the-hour for a period of time. So we can also match the fixed cost of the ramp-up. And so that was also used so that we didn't have to return more aircraft than we would then have to re-contract next year or replace with MAXes. So it was also a way for us of sheltering -- it's a way for leasing companies to sheltering aircraft at GOL without having to go through all the costs of the redeliveries. And that's why you also see the difference between our average -- a much larger difference between our average operating fleet and total fleet.

But that difference, which is roughly 20 aircraft, it's not costing us much more than, say, 10%, 20% of what the normal fixed cost would be. And those aircraft will be needed in the second half of next year as we get back to more normalized operations. So all of these things were kind of rolled into very customized negotiations, which we did. And from an accounting basis, you actually do the adjustments when you get the actual contracts signed by everybody. And as I was saying, about 1/3 of those were signed in the Q3 and the remainder was signed in October, basically. And then those come into the accounting effects.

But the other thing that I was saying is that we had an average tenor extension of about 1.2 years. And so the extension of the tenor in the IFRS 16 accounting actually increases your -- the present value of your debt. The opposite is the case, in some of our competitors, where they reduced the tenor, which translate into a debt reduction without any mark-to-markets or any -- the other components that I described. You guys can unpack that as you do your comparative analysis, which I know you guys spend a lot of time on that.

But when all that comes and said and done, it was all designed to -- once we get back to more normalized operations, what you should expect to see is the same unit cost advantage of 20% to 25% over our next competitor that you saw pre-pandemic. So when you go back to what you've been looking at GOL prepandemic, our unit cost, on a relative basis, one of our key directives is preserving that 20% to 25% cost advantage, which is essential to our competitive strategy. That's what we are going for. We believe we've achieved it and probably, hopefully, improved it.

I think we'll probably only know starting in the second quarter of next year to the third quarter when the dust settles on everything. But obviously, you guys have to spend a lot of time unpacking the nuances. Now the IFRS 16 accounting is a 2-edged sword. It puts all the aircraft debt on the balance sheet, but you have to unpack it and look at lease terms, for example, to understand what might be going on there, but we can obviously help you guys with that off-line in terms of understanding our accounting on that.

Q - Matthew Roberts {BIO 21643740 <GO>}

Yes, certainly. No, appreciate that. And then if I may one more on your debt and financing payments. I'm just trying to reconcile your debt amortization schedule presented last quarter to this quarter, specifically the U.S. dollar-denominated debt to Delta. Now that Delta said that, that was going to be paid over monthly through the end of 2021. Now is that fully operated in the schedule? Because I was looking at, basically, last quarter. You said $2.3 billion in U.S. denominated. And what would happen --

A - Richard Lark {BIO 3484643 <GO>}

That's included in the --

Q - Matthew Roberts {BIO 21643740 <GO>}

Spread out?

A - Richard Lark {BIO 3484643 <GO>}

That was included in the monthly update we provided on October 9, and it's also included in the schedule you saw there in the release which shows you our financial debt amortization schedule quarterly to the end of next year, broke down between dollars and reais.

And that -- what you're specifically asking for on the Delta loan was about $40 million per quarter. And then the -- it also -- that also includes in there a rollover, already concluded, of our Brazilian debentures, which was BRL148 million on -- that was due on September. At the end of September, that was rolled -- that amortization payment was rolled over to the March amortization payment because of the semiannual amortization payments that's also in the schedule. And then in addition to that, what you have there in the debt amortization schedule that's in that table, that is what is contractual, meaning not assuming rollovers of working capital, financing that we had and import financing.

Having said that, if you were to go back and look at GOL, historically, if you were to go back, GOL over the last four years, you would see that, that amortization schedule never applied. Prepandemic, the banks don't want to receive the money back and they want to keep the GOL credit, and so we were rolling that over based on cost analysis. And what we've been relying on during this pandemic is the return of the favor where we have been garnering support from our partner banks in the rollover of import financings and working capital.

And so if you take that -- roughly that number that would be in that category that we've always been kind of rolling over to match it with cash inflows, that's about BRL600 million between now and the end of next year. It's in those numbers also -- I'm sorry, that is not in those numbers, meaning that would be some cash relief from what you see off of that financial debt amortization schedule starting in the fourth quarter. But that's something that's normal for us, normal with our banking operations.

What's not normal now is the pandemic scenario. And so we've had support. The way I'd like to kind of say it is that with our commercial finance, right, and Delta would be in that category also because they're a commercial partnership or import financing. Our working capital -- that's all commercial finance. It's not -- it's all negotiable. It's not like a capital markets financing where it's not negotiable unless you use other tools that some of our competitors have used.

And I think it should be clear in the release, we've been honoring our commitments with the capital markets. I mean we're probably one of the few airlines and definitely the only one in Latin America that has been returning capital to investors this year. We've returned $380 million of capital to investors this year. Now -- but the way that has worked during this pandemic on the commercial finance side, with Brazilian banks and some of the international banks that support us with our commercial activities, the CapEx financing engine overhauls, we haven't received a dime of true additional credit, but we also haven't lost any credit.

And if you were to take the amount that was affected by the devaluation of the Brazilian real, where our partnership banks extended us credit to cover the exchange rate variation, we actually generated about BRL500 million to BRL600 million of additional credit for GOL since from March until now. And that's what -- that's why that's kind of created this roughly BRL600 million that we'll continue to kind of roll over and push out until we get on the other side of this.

Obviously, that assumes continued partnership, and that assumes that liquidity and normal functioning credit markets and markets. One thing that has helped that was the preparation that the Brazilian Economic Ministry had done for the balance sheet of the bank's prepandemic. There was a lot of liquidity in the system prepandemic that, obviously, has not been made available for airlines, but I think it also has created a situation where, from a -- let's say, from a commercial banking balance sheet perspective locally, the situation might have been drastically different if the Brazilian banking system was not as well prepared as it was coming into this pandemic.

But as I said, because of how we've treated our capital markets investors, we believe that we preserved our capital markets access. And we have been monitoring that closely. We are purposely avoiding schizophrenic capital raising like you saw with many other airlines maybe back in Q2 or so on. We might have done something in August, but then we kind of got massacred by a bunch of fear over how we were dealing with some short-term amortizations. We were very clear about how we were doing that. Market did what the market did. And now we -- our bond prices have almost recovered back to a level, almost, I say almost. They're almost back in the 80s to a level where we can start to think about using our capital market access in creative ways to raise additional cash.

A couple of the rules that you have when you're managing balance sheet of airlines is that airlines always proactively need more cash, and you need to raise that when the market wants you to. And so if we have those conditions, we're obligated to look at those and do that, not just for having cash cushion, but also for our budget for next year, which also can include some interesting items related to the comeback of the MAX, opportunities for aircraft acquisition and also other types of liability management that you know that are -- you guys know that are in our plans.

Hopefully, again, that was -- I tried to pack a lot into that just to kind of give you guys -- because we're getting a lot of questions, and it's all fine. Our strategy here has been to give as much information as we think we can, but obviously, then that generates a lot more questions and clarifications. But it's really important for our shareholders and our bondholders to have a really good understanding of how Kaki, me, Celso, Edu in senior management and other people that work with us here at GOL are thinking as they evaluate what they're thinking about GOL. Because obviously, the purpose of this call is to talk to our investors, right?

We have other formats. We talk to clients and travel agents and banks and leasing companies and things like that, I mean, this call is not to talk to our banks and our leasing companies and our clients. This is a talk to investors, and you guys and analysts are helping investors understand this.

And so we've erred on the side of as much information as we think we can provide. And some people value that and those are the kind of people that we want working with us because as an airline, that has to acquire aircraft and has a massive balance sheet and capital spending program, we do need the capital markets to help finance us, not just to finance our aircraft, but also to grow. So this is -- it's a very important relationship to us. And that's the main focus and one of the reasons why we've been spending so much energy on giving our investors, on an equal access basis, what I mean by that is that the same information that we give to one, we're giving to everybody on an equal basis. And it's a lot of work, but we think it's important. It's the right way to do business.

Yes. If you have another question -- we've got a couple of the questions to get through here. You can shoot us an e-mail off-line and we'll respond as usual. Maybe we can move to the next question operator.

Operator

And our next question is from Matthew Breckenridge with DSC Meridian. Please go ahead.

Q - Matthew Breckenridge {BIO 4045796 <GO>}

Hi, gentlemen. Thanks. I wanted to focus on Slide 32 for a second. On the liquidity -- well, I should say on the financial debt amortization schedule, the last time I saw this chart, it was all denominated in real. And so my question is, have you changed the format of this? So for instance, in Q4, do you owe $229 million and BRL186 million? Is that the proper way to read this chart now?

A - Richard Lark {BIO 3484643 <GO>}

Well, Matt, the dark gray is dollar and the light gray is reais. The reason why we did that is that when we were using our exchange rate assumptions for that, and then we get a whole bunch of questions on what's your exchange, what's your exchange rate? And so you can use whatever exchange rate you want to use for those dollar obligations. Those are the dollar -- what's in the dark gray there, those are U.S. dollar-denominated obligations.

As I was saying in the previous question, those are -- the majority of those are commercial debts. I'm not saying they are going to be renegotiated. I'm just saying that they're not capital markets. The first capital markets we have is 2024, which is that on that yellowish that's our convert maturity and then the 2025 that's $425 million. And then we have the 2025 maturity.

So you see most of the maturities that we have are in Brazilian reais. And you can also see that roughly BRL600 million when I was describing, which is Q4 and Q1, which is in the commercial category, import financing, working capital. And we'll continue to work with our banking partners to match those through our ability to deal with that.

Normally, the opposite is the case, meaning, when we renegotiated our Brazilian real debenture a couple of years ago to put it on a semi-annual amortization schedule, that was not what the -- that was about a BRL1.2 billion obligation. The banks didn't want that. They wanted us to just keep rolling that over in perpetuity because they like the credit and the other components that it provides.

We put that on a semi-annual amortization schedule, and we were half done with the amortization when the pandemic hit. And then we went back to them and said, "We have to now kind of rematch this." And so we've -- that's a good example of how we do this. I mean we took the March maturity -- originally, we took the March maturity, the March 2020 maturity and created a March '22 maturity. And then we took the September maturity and put it in March '21. That's the type of activity -- and that's a Brazilian debenture, which is more complex than just a simple bank loan because it's a security, it's not a loan.

And so that -- the only reason why we changed that on that schedule is just because we get a lot of questions on the exchange rate and so we just put it in dollars. So the debt on that schedule is in the currency of the actual contract and everything else is the same.

Q - Matthew Breckenridge {BIO 4045796 <GO>}

That being said, I hear you that you are planning on -- or you have the option to raise a secured financing in the near term. Have you thought about doing something similar to something your competitors' done and tapping the capital markets in a larger way to take the liquidity question off the table because that seems to be a recurring theme?

A - Richard Lark {BIO 3484643 <GO>}

We have some very different components. Number one, we -- I think we're -- well, Copa, I guess, tried to copy us. But now we have a true convert out there. So we have a technology if we wanted to use a convertible technique, which would not be an issuance in Brazilian reais referring to other situations you're imagining. So yes, we do have that ability if we want to use it, which is a positive.

The other difference we have is we also have a controlling shareholder, right, who has 60% of the economics of this business. He was the one who provided the support by the stock bar to make our first convert issuance viable. He does have the ability to provide stock bar and also other things. And so for us, it is a -- how would I describe it? We have a different way of doing things, and then we just have to pick our moments because we don't have an infinite well to tap into on those kind of things. And so we look at all options, obviously. I'm not sure that the market is there for us yet. I mean today was a big -- or, let's say, yesterday -- today, yesterday, U.S. elections was something that we were waiting for. We're announcing our third quarter results.

The other issue, as I mentioned, as we've been saying, we had that ready prepandemic because in the Q3 -- sorry, in the Q2 of this year, we were going to do an early redemption of our Term Loan B, and we also were going to do the -- we had a proposal to the Smiles minorities, which we prudently canceled both of those on March 13 -- prior to the 13th -- March 13 to preserve liquidity.

So we had that cash on balance sheet, and we had to preserve it. And so we had a project to do a secured financing, just a plain vanilla secure financing, using assets that are already on our balance sheet that are already financed with cash, pure cash, which are basically spare parts and spare engines. And we did do some work on that in the Q2 through July and had a very good receptivity on the structure we have created.

But what we generally do here is we spend a lot of time on the structuring work. Obviously, it's been more of a challenge when you talk about doing secure type issuance. So it's kind of a long way of saying is that what -- yes, but we have -- we've been articulating to you on using our uncovered assets would be roughly $150 million financing is because we know that's doable. It's fairly straightforward, and it's in our budget, if you will. Everything else is not in our budget.

And that also includes the potential Brazilian development bank supported local debenture, which we also continue to work on, trying to make that a viable structure. And that structure, the Brazilian Development Bank, has offered to co-invest up to 60% of a 5-year Brazilian real, basically, debt with warrants type structure. We have spent a lot of time on that over the last 7 months, and I've not yet been able to crack the code and figure out a viable way to come up with the other 40%. I think that's a little bit of what you see reflected in the other situation you're mentioning. I think they kind of morph into that in a different way.

But like I was saying before as well is that we like to believe that we've created and maintained. Ever since we went public in June of 2004, we busted our butts to try to keep a good relationship with capital markets investors, both debt and equity. And I think -- we think we can count on those. Our relationships are there when we need them.

And yes, as I was saying before as well, the rule of thumb is to get liquidity on the balance sheet so we can finance our growth and working capital expansion next year. We have to mesh a combination of that need with the market and the securities that we have, the collateral that we have, the -- if you will, the assets that we have, which are obviously limited because, for airlines these days, unsecured transactions are really not on the table. And so you have to do a secured transaction.

And so we've been very careful about how we're doing that because if we went out in the second quarter and just kind of burn through and cannibalized what we have, I think we'd be in a much worse situation now, like you saw with other airlines. It's hard to compare us to the U.S. airlines, which have massive left side of the balance sheet assets, aircraft, loyalty program assets and types of transactions that they can do that we generally have not been able to do in Brazil, such as securitizing future revenues or things like that.

We also have not gotten any grants or loans from the Brazilian government, which is what you've seen with the majority of the big U.S. airlines. They've been surviving, paying payroll and other things over the last months with free or low-cost -- very low-cost money from the U.S. government. We have not had that here in Brazil. We haven't gotten a dime from the Brazilian government.

Now while we have been able to postpone payments to government entities and taxes and things like that, we have not gotten that. And so it's been much tougher to get to where we are today. If you're a Brazilian citizen of the more -- I'd say, of a certain mindset, you might think that's good because the government has pretty much been hands off on this up until now. But we've had to get to this point on our own two feet. And we -- that's how we're working. We're expecting that we're going to have to survive on our own two feet here.

And so we're getting through our -- this phase now with our third quarter results. Let's see how the markets shape up here with the red and blue maps that are all on everybody's iPhones around here and we'll see. I mean in my experience of having done this for now over 20 years, we'll find the right moment to match what buy side finds interesting with what makes sense for us without throwing the baby out with the bathwater, meaning kind of creating some kind of a problem that we're going to have to fix in the short term.

But it's obviously -- it's a complex equation. And as you guys know as well, we always appreciate your feedback and thoughts, and we're studying what all companies are doing, competitors and noncompetitors to see what we can apply in the corporate finance of this company. And so stay tuned on that.

Q - Matthew Breckenridge {BIO 4045796 <GO>}

Okay, so what -- now that I've done the currency adjustments over the financial debt amortization schedule, it appears that the Q4 and the Q1 amortizations are now larger than they were before. Is that accurate?

A - Richard Lark {BIO 3484643 <GO>}

So depends on your current assumption, Matt. If you wouldn't mind, like I have to get -- we have to get to another five questions in the next 0.5 hour. So no problem, we can set up a call separately, and we'll just walk through that.

Because I do tend to get criticisms from, not the buy-side guys, one of the sell-side guys when I don't -- one guy, I won't mention his name, who criticized me in the last quarterly call and said, "You spent 10 minutes on that question." I'm like, "Yes, but it was a good question." I apologize for that. But if you don't mind, we can take that off-line. That would be great.

Operator

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

Q - Dan McKenzie {BIO 6343435 <GO>}

Hi, thanks. Couple of questions here, if I heard correctly, Rich, you're looking to get the three times leverage by mid-2021. And so I guess just to clarify, is that the target after some potential capital raise this year in embedded in the outlook I guess that's one question. I guess -- and where I'm going with that is the goal, it seems to imply a recovery that somewhat faster that I would have anticipated.

So that's my first question really just a clarification question.

A - Richard Lark {BIO 3484643 <GO>}

Yeah, well, thanks for that. A couple of things, one is that, as you know, like it's not a goal or a budget. We have a policy here, we just manage this airline at or below three times leverage. That is our WACC minimization. That is the right number for this company. We've always had that. Then we have to deal with the volatility of all the issues we have to deal with here with the Brazilian airline, currency, economy, oil prices, now this pandemic. And so we still seek that.

We will in -- when I was saying more in the transition from the first half to the second half of next year, on a run rate basis, Dan, because part of the problem in that number is that -- is the EBITDA, right? And so you're tracking what we're doing with our levers. There's a currency component in there.

But on EBITDA -- the new normal or the post-pandemic EBITDA is only going to start to be normalized in the second quarter of next year. I couldn't tell you which month. The second quarter is going to be a weird comparison, right, Because Q1 of this -- Q2 of this year was destroyed. It was the first quarter of the pandemic, and then Q2 of next year is probably going to be the first quarter that starts to be more normalized, which would normally be a down quarter, but it's probably also the same quarter where the large corporates come back and they start working again in traveling and transporting their workers around Brazil.

And so the way that we -- the way we're thinking about it, obviously, if you look at a 12-month number, you're going to be carrying the LTM. But on a run rate basis, Q2 annualized or Q3 annualized next year based on what we would think we've done on costs and on capacity adjustments, meaning getting the aircraft match the demand, we'll probably have that rematching. In other words, the assets and liabilities on a run rate basis will relink right around in the middle of next year.

And so at that point in time, obviously, it's going to be -- we'll have to help with the calculations. In addition to getting our costs back in line, we also want to reconnect with that goal.

Now how do -- the other part of your question is yes. I mean if we need to make further adjustments, either on costs or reducing fleet to get to that number, our first go-to is going to be reducing the assets because the main liability we have, if there's overcapacity, ends up being aircraft. If we rightsize the aircraft, it's not a liability.

And so -- in that number that you're saying on a leverage basis, remember that includes all the aircraft that even though we're 100% operating leases, all of those are in the IFRS 16 accounting, which is about 70% of our own balance sheet net. And so we got to get the aircraft rightsized to the demand scenario. We think our plan is going to do that. We already have that plan. And so that rematching will probably happen between Q3 and -- Q2 and Q3.

We don't have any other significant liabilities to liability manage because our 2024 convert maturity, our 2024, '25 debt maturity, those cost me 3% and 7%, respectively. And then I have a perk, which is 8.75%, which has gone back to looking like equity in the current environment. So I don't really have any other targets for liability management other than aircraft.

And so -- but if we rightsize -- if we get the aircraft matched with demand, we don't need to raise additional capital. But, as I was saying before as well, and this is a rule I learned from one of your predecessors who since retired, he was also from the state of Florida, Dan. I'm talking about. He always just to call me up and say, "Rich, you know the rule, it's like airlines always need more cash And you all call me up when -- he called me up once when goes market cap was $8 billion. But first, they called me want to $6 billion, and then he call them was an $8 billion is like, "Rich, why don't you raise more equity?" And I'll be like, no, we have to pick our moments. I got the controlling shareholders. So the reason I'm saying is that we're very cognizant of that, and we don't have -- we can't raise equity right now. We don't have the plans to raise equity. And so that's not on the table for us right now at this company.

But we do have other ways of supporting ourselves financially through this. I'm not exactly answering your question directly because part of this depends on the recovery, as you're saying. What we see on this is, as I was describing, this comparison that you guys are going, "Oh, 2019 is the baseline." Okay. I'll talk to you on those terms, but that's not the right comparison. The right comparison is whatever the new demand scenario is because we're going to match our capacity to that, and therefore, our liabilities, and therefore, our leverage. It goes the other way around. We match the demand.

Now of course, airlines are probably one of the only industries in the world that have the ability -- most industries have to match their offer, their supply to demand. We also have the ability to stimulate demand or suppress demand, right? That's one of the beauties of revenue management. The problem during this last 8 months is that airline revenue management has been extremely hampered because you can't create demand in this.

In fact, you have the stories there where, at the beginning of the pandemic, you could fly to London for 100 -- for $50 because the revenue margin models were just spiraling downwards because they're trying to stimulate demand, but it just kept going and going and going.

We're starting -- we've been using data analytics, and we're starting to get some of those pensions back. But until the large corporates come back here in Brazil, Dan, that's off the table. And so you got to -- you guys will know because many of you guys in conferences talk to large corporates and just ask them, you guys include it.

I mean if you guys are buying tickets and traveling ongoing Brazil, large corporates are probably back and said, "You'll know when we know when that happens." And so this is kind of a moving target. It's going to be evolving. As a scenario I'm describing, it's not -- like I said, Michael was saying, thanks for giving us the Q1 of next year. Those are -- that's our best guess about what we're thinking there. And that's Brazilian domestic market. We think we'll be, end of Q1 -- at the end of this year, we'll probably be serving about 90% of our markets. That'll probably continue through Q1, which will be the Brazilian summer season.

Carnival is only next year, which is on February 15. Normally, that would be -- marked the beginning of the Brazilian business here. But on a revenue basis, you can see, by the end of Q1 of next year, we're still going to be below 70% of the 2019 comparison. But we're not keeping 2019 cost structure or fixed asset structure. We're adjusting that. And I believe, as of the second quarter, we'll be matched to whatever the new demand scenario is.

As you also know, we have the ability to flex our fleet up or down, not just with the operating lessors, but also through the deal we have with Boeing. We also have the ability to, if the MAX comes back, accelerate the transformation to the MAX because, organically, roughly for the next couple of years, we have roughly one to two aircraft per month that naturally expire off of operating leases. And so we have the ability to downsize further. We could downsize by another 40 aircraft over the next couple of years if we wanted to, just organically, naturally, or those could be replaced with MAX aircraft.

And that's part of the reason why I was saying in the previous question that one of the reasons why we increased the variable cost component of our leasing contracts was so that we wouldn't have to return another 20 aircraft next year and then get them back when demand comes back. And so we can keep them on the ground at a very low cost, and so we're kind of naturally hedged for a period of time on all demand scenarios that can be possible, the worst-case finance scenario and the best case demand scenario.

Q - Dan McKenzie {BIO 6343435 <GO>}

Thanks for the comprehensive answer. And I guess you actually led to my second question, and that's just the corporate mix, and that's -- you're right, the $64 question of when that comes back. And so I'm just wondering, if you can kind of help us attract the piece of that recovery where we are today? What might that mix look like. And so the January of 2021 are we at 20%, 30% of corporate travel versus year ago potentially?

And then just, if we could link in the relationship with American, I see you're getting two times the traffic on the US, Brazil route versus kind of your prior partner. So 27% of the market share. So it seems that this could also help propel some of this corporate next for you as well, potentially domestic system. I just wonder if you could just maybe shed some more light on, kind of how you're thinking about that?

A - Paulo Kakinoff {BIO 5160310 <GO>}

Actually, the situation is still pretty volatile. It's really hard to predict exactly what is the mix between leisure and corporate revenues by the second quarter, but we are sticking to the previous forecast. I mean we believe that from the second quarter next year on, we will see the corporate traders demand resuming. And I believe it will be -- it might be mainly domestically, mainly the Brazilian market that might be something around 80% of what it used to be. And then gradually increasing until we will achieve the pre- COVID levels.

This is what we are now forecasting at the moment. We do see small and medium companies already flying and the big accounts, those are the ones missing. And this is because they are all under certain compliance rules. Those are not allowing the executives, neither the employees to take the planes.

I mean, that situation might be solved only when we will have available one of the three following alternatives: the vaccine already inoculated, the herd immunization or new medical or improved enhanced medical protocols, which will drop dramatically the fatality rate. And when we can expect at least one of those three things happening, I don't believe that we should pragmatically expect to have it before the second quarter -- or earlier than second quarter next year.

I'm talking about American Online --

A - Richard Lark {BIO 3484643 <GO>}

Let me just add a point there because I know maybe less for you, Dan, because I know you're a Brazil aficionado and you even take our flights to like Fortaleza in places like that. So the -- for those, we're now -- in fact, I was reading data yesterday, we're looking at -- in Brazil, we're approaching around 300 -- or below 400 fatalities per day, approaching 300. It's going down, right? There's been a real collapse. The peak was in July, close to 1,100.

Now if you look at that and if you look at that versus what's going on in -- I wish we'd put a graph in the -- I know we had a graph on that in one of these presentations, but it looks like an x chart. If you look at Europe and some of these other markets, they're going up at a slope of 1. Brazil's going down at a slope of 1. It looks like an x. And we're just starting our summer season now. In fact, had a little bit of backtrack this week. It feels like fall this week, we're all winning sweaters here, I am at least (inaudible) but the -- it's been in the 50s, 50 degrees at night, 60s in the morning, good sleeping weather, but it should be like in the 80s. And so we've got now three months to four months to five months of summer in front of us. And here, in Brazil and also in the Southern Hemisphere, and you're starting to see Chile and Argentina think about opening up again to -- and we had, in Brazil, a really high level of self-quarantining in the A&B segments in the second quarter. The CD&E segments did not and so when you talk about here to herd immunity, it was kind of the default option for the CD&E segment of the population. In those cases kind of spike through July.

And as Kaki was saying, at the same time, Brazil gained a lot of time to be very proactive on the front of vaccines. And as a tropical country, in the neighborhood I live in, once a week, there's a truck that goes around and sprays buildings and houses for dengue, right? And so we have -- there's a lot of infrastructure that is built in to protect ourselves against certain types of things. And I'm not making light of it at all, but just when we hit 300 fatalities per day, that fatality rate will be lower than the fatality rate in Brazil for homicides right? So there's a very different perspective. Like when I look at U.K., like when the U.K. hits like 1,000 deaths per day from COVID, that's a country that has one homicide per day in home to our country. And so it's a very different perspective.

So just remember, when you talk about us here in Brazil, and the concept of co-living with these phenomena, I think our reality is going to be different than maybe you're seeing in some developed markets like U.S. and Europe.

A - Paulo Kakinoff {BIO 5160310 <GO>}

It's a very controversial topic in every single sesh [ph], which is what we can describe is the customer behavior at the moment. And the customer behavior is, I mean, towards more mobility than we had before. And I mean, we are approaching, mainly in the big cities, the -- between -- I mean, the normal lives in terms of how much the people is willing to recover, resume its pre-COVID life for the -- his or her recovered life. And that plays in favor of the airline segment. I mean the demand is continuously increasing. And I believe -- we expect that it will stay like this for the following months, this is.

So talking a bit about American Airlines. We have experienced the partnership fully for the first three weeks of March only, and that was already enough to verify that the potential is hanging between two times to three times of more traffic between the two companies than we had with our prior partnerships.

A - Richard Lark {BIO 3484643 <GO>}

Just keep in mind that we already had an interline with American. And so that's the data we're already observing through the interline with no code share and no larger partnership.

A - Paulo Kakinoff {BIO 5160310 <GO>}

That is because American Airlines is much bigger than any other American fare-related in Brazil. And we are looking forward to resuming the strategy as soon as the company will fly more often to Brazil as it is predicted. So those are the comments on American Airlines.

Operator

This concludes today's question-and-answer session. I would like to invite Mr. Kaki now to proceed with his closing remarks. Please go ahead, sir.

A - Paulo Kakinoff {BIO 5160310 <GO>}

Ladies and gentlemen, I hope you follow our presentation and Q&A session helpful. For Investor Relations James available to speak with you as needed. Thank you all 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.