Q3 2021 Earnings Call

Company Participants

- Eduardo Jose Bernardes Neto, Vice President and Chief Commercial Officer
- Paulo Sergio Kakinoff, President, Chief Executive Officer
- Richard Freeman Lark, Chief Financial Officer, Executive Vice President, Investor Relations Officer

Other Participants

- Alejandro Zamacona
- Analyst
- Dan McKenzie
- Duane Pfennigwerth
- Matthew Breckenridge
- Michael Linenberg
- Stephen Trent

Presentation

Operator

Welcome to the GOL Airlines Third Quarter 2021 Results Conference Call. This morning, the company made its numbers available, along with three videos with the results presentation, financial review, and preliminary Q&A. GOL hopes everyone connected has watched them. After the company's brief remarks, we will initiate the Q&A session when further instructions will be provided. This event is also being broadcast live via webcast and may be accessed through the company website at www.voegol.com.br/ir and on 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 either be 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 hand you over to Mr.Paul[ph] Kakinoff, CEO. Please begin.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Good morning, everyone, and welcome to GOL Airlines' quarterly earnings call. I would like to start by highlighting our most important achievements of this period.

The first one was the continued recovery in demand, which showed solid growth during the third quarter. At the end of September, Brazil became fourth among all countries with the most vaccines administered against COVID-19. Approximately, 56% of Brazil's population is fully vaccinated and over 74% have received their first dose, a higher percentage than the vast majority of the countries, including the United States.

Similar to demand trends in other markets, the rising vaccination rate in the general population is supporting the air market's ongoing recovery. As a result, GOL's departures in the third quarter grew by 87%, reaching 52% of the levels in 2019. In response to this demand, GOL's expanding its network and has already announced a new route from Congonhas to Bonito, starting this December. We are taking a conservative approach to increasing capacity as travel demand recovers to help maintain high load factors and profitability in our[ph] routes.

The second important event was the transition of the fleet to Boeing MAXs[ph]. In preparation for the strong recovery in air travel that we expect to see in the coming quarters, we signed agreements to accelerate the transformation of our fleet with the acquisition of 28 additional Boeing 737 MAX 8 aircraft. This initiative is expected to reduce the company's unit cost by 8% in 2022.

Within[ph] the new contract, we went[ph] 2021 with 28 MAX aircraft, which represents 20% of the fleet. By the end of 2022, we expect to have 44 MAX aircraft, raising this total to 32%. With current purchase commitments, we will meet our 2030 goal of having 75% of the fleet in these new aircraft. And, as is widely recognized, the MAX is 15%[ph] more fuel-efficient, generates 60% less carbon emissions, and is 40% quieter compared to the NG. These aircraft position has to grow even more competitively, expanding roots to new destinations and providing efficiency gains, all of which will capture more value for all our stakeholders.

The third important achievement was the conclusion of the merger with Smiles into GLA. The transaction revenue[ph] generates greater value from several operational synergies as well as new opportunities and strategies that will become even more significant during the airline market recovery. We're optimistic that the synergies from this corporate reorganization, expected to be approximately BRL3 billion in net present value for the next five years, and the subsequent benefits to our shareholders will be realized in a relatively short period of time.

With that, I will hand the floor over to Richard, our CFO, who will present some financial highlights.

Richard Freeman Lark {BIO 3484643 <GO>}

Thank you, Kakinoff[ph]. Our most recent notable event was the success of our liability management program. In September, we issued $150 million in a re-tap at 8% annual interest rate on our senior secure notes, maturing in 2026. Moody's assigned the notes a rating of B2. Proceeds from the offering will be used for general corporate purposes, including aircraft acquisitions and working capital.

In October, we refinanced our short-term bank debt in[ph] the amount of BRL1.2 billion via the extension of the seventh series of debentures and the issuance of our eighth series of simple non-convertible debentures. This refinancing enabled the company to return to its lowest level of short-term debt since 2014 at about BRL1.5 billion, which will also improve GOL's credit metrics by better matching future assets and liabilities and reducing the company's average cost of debt. Our next relevant maturity date for outstanding debt is not until July 2024.

GOL's balance sheet is now in a stronger position in terms of its outstanding debt versus our peers, which we view to be a competitive advantage in the current market environment. In addition, the company advertised around BRL518 million of debt in this quarter, the average maturity of GOL's long-term debt, excluding aircraft leases and perpetual notes, is approximately 3.4 years with the main obligations already addressed in our cash flow.

The net debt ratio, excluding exchangeable notes and perpetual bonds to adjusted last 12 months' EBITDA, was 9.7x on September 30, 2021, representing the lowest financial leverage among peers. Considering the amounts fundable from deposits and unencumbered assets, the company's potential sources of liquidity, resulted in approximately BRL6.1 billion of accessible liquidity.

The recent capitalization of the balance sheet, with the capital increase led by the majority shareholder, represented the recognition of GOL's value as Brazil's largest airline with the best product. The refinancing of our short-term bank debt in October, added to long-term capital of BRL2.7 billion raised in the second and third quarters of this year, totals over BRL3.9 billion of capital raised in the last seven months.

As for a discussion of financial results for the quarter, it was shared this morning in the video presentation, and we believe you all had a chance to access that. In short, our work to re-establish operating margins that can support the sustained growth of our operations is bearing fruit. We ended the third quarter with an EBIT reaching BRL338 million and an operating margin totaling 17.7%. Concurrently, adjusted EBITDA reached BRL464 million, with a 24.3% margin, evidencing our successful efforts in matching supply and demand.

I will now return back over to Kakinoff.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thanks, Richard. We're seeing a recovering demand for air travel, and we believe that now with greater population immunization and the significant expansion of vaccination we will have a strong fourth quarter coinciding with the start of the summer season.

I would like to close by thanking our employees, the Team of Eagles, who are working with extreme professionalism[ph] and commitment. All these intimidation[ph] persists[ph] in a solid position to expand operations and achieve profitable growth. We reiterate our confidence that GOL will emerge very strong and even more resilient as markets normalize.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. The conference call is now open for questions. (Operator Instructions) Our first question is from Stephen Trent with Citi. Please go ahead.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning gentlemen and thank you very much for taking my questions guys. I just kind of wanted your high-level views on international demand to the U.S. spooling up again. You know, now that you're partnering with American Airlines, what sort of bigger opportunity are you seeing on the horizon and do you see any opportunity as well for American deposit lease increase its stake in GOL at some point in the future?

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

Hi, this is Kakinoff here, good morning. Thank you very much for your question. Let me give you an overview on the North American Market specifically. Firstly, we are now gradually reached the international routes to have already made available the ticket sales for Cancun in Mexico, Dominican -- Punta Cana in Dominican Republic and we are now resuming flights to Montevideo and Buenos Aires. So United States, it will be likely the route to be add in our international portfolio.

But the second quarter next year and this is because you're right the borders are now open to the Brazilians. But and there is a considerable but which is the following, the exchange rate made the purchase -- the ticket purchase and the whole trip cost including hotels, credit card expense pretty expensive from a Brazilian perspective.

As you know, the real has devaluated quite significantly along the last quarter. So the Brazilian economic conditions also were affected during the last three months and the combination of a clear excitement to resume international trips has a great contrast with the important constraints imposed by the exchange rate. So the passengers are willing to fly mainly to the United States, but that, that trip became quite expensive at the moment.

So, I cannot say that there is a thing related to North American -- related to airline tickets to fly to United States. We are about to begin the Brazilian high season, December and

January. And typically that has deteriorated, whether you see more passengers willing to travel or leisure purpose. This is not going to be different this year, may be slightly better for the international markets and the second constraint, which is also affected ADR is that there is a backlog to provide North American Visas to the Brazilians which we will not be sold or rather address it in the quarter.

So, if you have a five members -- a family of five members, it's pretty much likely that at least one of them has no valid Visa at the moment, making not possible to fly to the United States. So all those things combined are affecting the potential flight catch up that we could get if not by this two constraints. And finally in our case, we have partnership with American Airlines, who has already deployed the considerable asset increase for the following three months.

So, we have decided to support that investment by selling North American airlines tickets in our channels as we have done already seeing see-through 2020 May and through that package, we are simultaneously attending our customers and supporting these additional capacity increase deployed by American airlines, our partnership.

We believe that this is the best strategy to cope with the current demand, and then we will resume our out flights from Brasilia to Florida where in market which it has not attended by American airlines at the moment from the second part of second year on. So, this is I mean an overview on the North American market on the Brazilian perspective in the airlines segment.

Q - Stephen Trent {BIO 5581382 <GO>}

Super Kaki. Really appreciate that. And then just very quickly one last thing on busienss travel, any sort of high level trends you are seeing in the domestic market and let me leave it at that? Thank you.

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

We might be surprised by the speed through which the business segment is recovering its pre-pandemic level. We are now verifying that, identifying actually that some specific segments in Brazil is catching up it's business level behavior even above the pre-pandemic level.

Those are the services in generally speaking, mainly those companies pretty much benefited by the new customer behavior. So like food delivery just to say one example and e-commerce. So those segments are booming and they are probably more than they were before the pre-pandemic and also some if I could say so some other traditional segments, those are pretty strong in Brazil, such as the agricultural business, oil and gas and some specific industry.

So we foresee that by the beginning of the next year we might be above our prior projection which has considered that one-third of the business travelers would begin for good, which might be another case. So it's too early to be precise on that projection, but at this moment, we see that some segments are recovering faster than expected.

Q - Stephen Trent {BIO 5581382 <GO>}

Great. Thank you very much, Kaki.

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

Thank you.

Operator

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

Q - Michael Linenberg {BIO 1504009 <GO>}

Oh, yeah. Hey, good morning everybody. I want to just kind of run through liquidity and I want to make sure I'm sort of comparing apples-to-apples here. So sub-queue your total liquidity, it looked like it ended at BRL2.1 billion and your guiding to BRL3.8 billion at year end. Is that, Rich is that predominantly the American Airlines investment and an improvement or an increase in your ATL or is there other things, we should be mindful of?

A - Richard Freeman Lark {BIO 3484643 <GO>}

You know, the, any transaction that's not closed is not in those numbers. So that is not in those numbers Michael, nor is new additional capital raising.

The Q3 number and I'll walk you through that Q3 number, which was composed of the BRL4 billion that you mentioned which is about BRL1.1 billion of cash investments, about BRL300 million of restricted cash, about BRL600 million of accounts receivable and BRL1.9 billion of deposits.

The way that would break down in the Q4 would be about BRL900 billion to BRL1 billion of cash and investments about which is down around BRL200 million because as we ramp up to the high season and get our fleet back up above a 100 operating aircraft we're investing in working capital spare parts. If you will to get all these aircraft up and flying.

So that's effectively going into assets but it's obviously consuming some liquidity and to some extent, it's also increasing our spare parts inventory which supports the collateral in our Senior Secured Notes program. There were restricted cash will be a similar balance of around BRL300 million.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yeah.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Accounts receivable increases about BRL200 million to BRL800 million, that's obviously associated with the ramp up and operations that we expect by the Q1, we should be back to a more normalized level of accounts receivable, which should be somewhere between BRL1 billion to BRL1.2 billion.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay.

A - Richard Freeman Lark {BIO 3484643 <GO>}

And then the deposit amount -- the deposit amount goes down from the Q3 to the Q4 by about a BRL100 million, because as we return aircraft, we use some of those security deposits as well as -- deposits to cost out the returns of entities, because as you know we're accelerating our transition from the NGs to the MAXs.

And so we're using those deposits to cost out their property deliveries which is why as we've said, we do have access to those deposits as a relates to the asset that they're supporting and so that's why we include that number in our liquidity, so that basically there's no external capital raising in there it's all operational so the different which is around that total number down from BRL4 billion to BRL3.8 billion it basically represents an investment in working capital spare parts to end the year with a little over 100 operating aircraft.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay that's helpful. It flattish to slightly down before anything and we know that we're hopeful that --

A - Richard Freeman Lark {BIO 3484643 <GO>}

There is no capital raising in there, as you know -- in addition to that and kind of maybe taking questions because we have some questions about how do we get to the BRL6.1 billion of liquidity. In addition to what I described, we have potential financing sources of based on being unencumbered assets that we have, of a little over BRL2 billion so how we get to the BRL6 billion, the additional BRL2 billion comes out of unencumbered assets, about half of that is the collateral we have through the loyalty program, in the Q3 we finalized the take in of the loyalty program.

So now we control 100% of those assets and the additional collateral we have in spare parts, intellectual property, which if we wanted to could be deposited into our senior secured health program, to raise additional capital. We have no plans currently to do anything with this additional collateral. But it is important to highlight that the unencumbered assets that we have represents a potential additional to additional BRL2 billion of long-term capital should we choose to pursue that.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Now that's super helpful. And then just you are always helpful and sort of calling out the call it the non-operating expenses associated with fleet idleness and personnel related costs and in this quarter this fourth quarter looks like it's just going to be under a BRL1 billion.

Now over the year that number has actually moved up meaningfully despite the fact that you are putting more people in planes back into service. So I don't know, is that an FX related issue what's driving that number? Or am I just my logic and thinking that as you put more people in planes back to work and that should go down? That logics that maybe there's something wrong there and how it's being accounted for if you could just detail that? Thanks Rich.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes. I think what -- I think it's a depreciation effect Michael which is a non-cash effect in there.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Let me get back to that, because some more technical calculation, but obviously in that, in the unit cost is the depreciation and so part of it relates to that. Also in the Q3, the number and the Q3 the number of flights have still reduced. And so there's substantial ramp up in the Q4.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay.

A - Richard Freeman Lark {BIO 3484643 <GO>}

And I will kind of revert back but in the Q3 also in the month of September as you know, we scaled -- we had to scale back a little bit given the transition of our PSS which impacted our, our skill and our revenues and our ability to improve fixed cost solution, because of the migration to the revenue system, which was done in August and September.

But into Q3 we had 70 aircraft operated and so we still have 60 aircraft still idle in the Q3. And so, what you're seeing there is in the Q3 is the effect of those 60 aircraft still idle. That number at the end of the Q4 will be reduced to hopefully less than 30. And so those will work. We're trying to separate that out, I think, we're one of the few companies that tries to separate that out for you guys and then we're separating the idle cost versus the total. But we're probably only see a normalization on a unit cost basis for comparative purposes in the Q1, because we're still going to have idle cost in the Q4.

Q - Michael Linenberg {BIO 1504009 <GO>}

So, now when you say normal in Q1. Are you saying that approaches zero in Q1? Or I'm just assuming it gets to zero by the back part of 2022, but maybe it gets there sooner?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Oh no, no, no and if you want because again, we've returned aircraft. We are this Q4 is activation of a majority of the grounded aircraft. And as we get into the January/February high season it might be a little bit in there in the Q4 but for the most part will be eliminated.

And that would you get into the normal seasonality of Q2 for us is kind of a down seasonality normally lot to see where, how the as Kaki said, we could have some positive surprises on the corporate demand taking the Q2 of next year a little bit better than we might normally see.

But our broad to Q1, because again we're 100% domestic focus. We don't have widebodies, we don't depend on the international piece and the right sizing we did in our capacity and our fleet if you will should kind of triangulate to GOL being back to more or less normalized operating efficiency by end of December, beginning of January.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay, great. And thanks for that. Rich. Thanks everyone.

Operator

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

Q - Dan McKenzie {BIO 6789743 <GO>}

Hey, good morning guys. A couple of questions here. I guess first, another question on the corporate recovery, big picture. You know, what are you hearing from corporate customers today on their travel plans for next year? And then just related to that, given the FX volatility. I believe there's a certain percent of the revenue that actually benefits from a weaker Brazilian Reals.

So I'm thinking the oil and gas sectors, I'm thinking agriculture. So, it seems like there should be a component of the revenue there that should do a little better, if the Brazilian Real weakens, but, maybe you could clarify or even correct me on that.

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

Yeah, this is -- firstly the customers have done is the following days. The large corporates, they are basically saying they will resume flights from January 1 and it's somehow attach it to their home office policy which is for the vast majority that is into the end of this year. When we talk specifically to those segments, we have just repeated. They are already putting some troubles ahead. But this is not even close to the potential, they have told us to the next year on.

In a side note, the way we have restructured ourselves to address that specific market via AU passenger service system disabled, we will likely give us an additional set of sales, because we can now in a much more flexible and fast way to address some specific demands rated by the corporate site. So I believe that we will have the combination of a better product with a redesigned network which might accelerate the speed we are now envisioning to have that -- to see that segment -- that specific segment catching up.

Q - Dan McKenzie {BIO 6789743 <GO>}

Yeah, and I guess -- go ahead. I'm sorry Rich, go ahead please.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Sorry again, no that's all.

Q - Dan McKenzie {BIO 6789743 <GO>}

Well, I guess, just tied to that point I guess what I was trying you know, trying to get at is it seems like there should be some pent-up demand next year. And so, I guess, it just was thinking that there's potentially some more revenue upside here that folks might be under appreciating. But, you know, going back to, I guess, a question for Edu or is just with respect to that cut over a Sabre that you just reference. The ability to market products in a way digitally that you haven't been able to historically. So, as you think about the grand vision, you know, what is the time frame for exploiting that full capability and how material could that be?

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

I think, that is going to be -- we're going to have a 100% of the -- this improvements and enhancements deployed until the end of this year. And then we will gradually because those are marketing events. We will be gradually offering them to the customers along 2022. It's really difficult to give you a flavor on how materials those improvements can be.

But we are now basically closing every single gap that we could get from a customer service point of view to a full legacy company at the same side -- this really speaking any, I'm talking about digital service. At the same time, that we are now resuming the cash advantage that we always had. So, I believe that the combination of the two things, we will it's more than promising, it's something that can definitely positive reflect our results. But I wouldn't like to because I couldn't at the moment to share any accessories or precise numbers on that expectation.

Q - Dan McKenzie {BIO 6789743 <GO>}

Okay. Thanks for the time, you guys.

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

Thanks. Let me just before going to the next question, on the sell side analysts. Let me read some question we have from one of our buy side investors, sending us questions on the platform and I'll basically do that so that we don't have to save the people that sent the questions to the platform don't have to wait until the end of this, but we'll come back to the next question from the sell-side analysts as they go through this question from one of our typical investors has three components on the results.

Please explain what was the right-off of deposits for aircraft leases and aircraft lease deposits and maintenance reserve deposits.

So just to explain that to you and answer your question in the cash flow in the quarter and the third quarter, we recognize provisions for return of aircraft that was BRL176 million and against that we were able to use and reverted BRL166 million of maintenance reservices. And then we reduced -- we have a reduction in deposits of BRL264 million.

And all this relates to what I was speaking about previously but it were first to us maintaining current our maintenance provisions for the transformation of the fleet from MAXs to NGs. So really the provision for the return of aircraft it's in that and you can see that in the tables in the back of the release and also in the footnote to the financial statement, it is about a BRL176 million, which has to be provision because, you know, from an accounting perspective because we are accelerating return of NGs to MAXs. And we are no longer constituting anymore maintenance reserves because we're utilizing deposits, maintenance reserve deposits to qualify that out, as I mentioned in the previous question.

So, there's more or less a 100% offset between use of maintenance reserves, and what I just mentioned. Within that question as well, there was -- what was the provision for legal proceedings in your cash flow. In the cash flow we have payment to our legal proceedings in there about a BRL150 million related to continued use on fees on fins, taxes, and then there is in that amount as well in that legal proceedings, line item that you're looking at there from the person asked the question.

There are other credits that increased, a BRL192 million that compensate -- or compensate these values of these legal proceedings in the same amount. And then the final component of the question in that category, what was the -- what was the reason for the increase in other expenses in the third quarter versus the second quarter of 2021, which is basically BRL296 million versus BRL167 million.

And that is the necessity we had to constitute an increase provision for contingencies on peace and corporate taxes for the importation of aircraft because one of our peers (inaudible) lost a process in the amount of -- lost a law suite the amount of BRL150 million and so that force us to change our perspective from a possible loss on that discussion if those taxes applied to the importation of aircraft the probable.

And in the accounting policies process when it goes to probable, it doesn't have to constitute a provision, but that was based on we have not yet lost the discussion with the government but has one of the -- our peers did lose the discussion that then creates the need to increase the amount of provision on that. So hopefully that answers your questions on some of those details as you're looking at those items that are less focus on. So operator, we can go back to the call list on the sell-side analysts.

Operator

And the next question will be from a Savi Syth with Raymond James. Please go ahead.

Q - Analyst

Hey. Good morning. This is Matt on for Savi here. Either Rich or Kaki. If you could, regard any the 2022 CASK outlook, the 8% reduction versus 2019. Could you give us a little bit of color on what you're thinking in terms of capacity production and utilization there? Also is there any change in the NG redeliveries or anything we should consider there?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Sorry -- if you could -- you're asking about we didn't -- could you repeat the question, because I think you're asking about 2022.

Q - Analyst

2022, right the CASK outlook. Okay. So, I think it was more so maybe on the you talked about a 8% reduction in CASK from the fleet. I wasn't sure if the slide I believe it was 23 (Multiple Speakers) '22 or?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Okay. You're talking about the CASK. So the MAX has a lower operating costs than the NGs and so as our aircraft portfolio increases, the amount of aircraft that are MAX that has a effect of reducing our unit cost. The main source of that is the lower fuel consumption and we're getting the as advertised roughly for us, it's about 60% less fuel consumption and so, I think that's what you're asking about that.

Q - Analyst

Okay. Certainly that makes sense. I'm sorry, I thought it was a maybe really looking to 2022 on the CASK side. Is there anything that we should consider them in terms of how you plan to return to your fleet utilization or capacity early looking to 2022 that we should consider beyond the (Multiple Speakers)

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yeah, to answer the question, we will back -- in our ecosystem, we will be back to more normalized aircraft utilization numbers in the Q1 which for us is -- it should be three type process, kind of 12 hours utilization we expect to be back above a 11 hours of utilization in the Q1.

Q - Analyst

Okay. Thanks Rich. And then if I could on the revenue side versus what you were thinking in late July, in last quarter, when you provided guidance to now, what's in the 4Q revenue outlook? What has changed. I know you're looking out in the 1Q, how some corporate segments have come back faster, but that 4Q never has gone lower versus late July. So I was wondering, what has changed since then?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yeah sorry, I think we revised down the revenue forecast for the Q4, it's mainly based on lower, the overall yields in the market and which has a big effect just given the still situation of low efficiency and then also and that's overall market, that's not just us. And then the and we've been staying out of the way of that scenario. And how do we stay out of the way of that? You know, we keep capacity lower.

And so when you combine those effects, it's staying out of the way of the low yield environment given the overcapacity coming out of competitors and adjusting our offer down, our capacity down those two effects magnify into the reduced revenue. But the catalyst is obviously more on the yield side. We have the ability to flex up capacity faster if we need to given the amount of aircraft that we have but we have had a management during this 20 months of the pandemic focused on two key metrics.

One is preserving our unit cost advantage in the post pandemic environment and also matching our cash inflows with cash outflows. And so that limits what we can do. And you've seen how we've done that for those of you that are followers, you see how we've done that through the pandemic intern in terms of minimizing any operating cash burn. So, how can we do that through the capacity equation. If you'll do better, we can try cut off. But as Kaki mentioned, we're now in the process of reactivating our core networks, which is mainly focused on the business traveler.

And as you saw in the slides as well that shifts our focus from a network perspective from that massive hub we created well, who knows the managed to pandemic based on connecting flights, which was not that convenient for gold passengers to going back to a more point-to-point network with very attractive point-to-point flights out of our other hubs and also from our channel markets out of San Paolo, Rio and Brazilian. That's happening as we speak.

And so at the goal in the goal ecosystem that can have a significant impact on yields as if we have some positive surprises on the corporate is coming back. I think we'll see that more in the Q1 because we're still in a transition on that. We're still not back to normalize levels on market capacity as well as demand from the business traveler.

And those effects that you mentioned on the revenue side, obviously, they have the effect on EBITDA because it means lower scale and so let's fix cost solution and so that's why our expectations for Q4 EBITDA are down a bit. The other thing that is in there is as I was mentioning, I think in one of the previous questions is an increase in CapEx about a BRL200 million increase in CapEx in the Q4.

That mainly relates to investments in spare parts inventories and other assets related to reactivation of the operating segment. So when you kind of those are the factors one obviously on the yield capacity side and the other on the CapEx side that account for about a BRL0.25 million reduction in our target of liquidity for the end of the Q4. But half of that number is investment in assets. Like I said it also as a side benefit of increasing the collateral pool, that's in our secured notes program and those same effects will get you to the difference in the leverage.

Those exact same effects, all kind of roll into that and so it's a transitional quarter for us. And there are some exchange rate effects in there obviously. They kind of run through those calculations and put pressure on it on the net side of the equation also and those result in massive negative exchange rate effects, but those are not economic and don't affect the cashflow just to highlight that, because we have gotten some questions on what are exchanged and monetary variations for those that are maybe familiar with investing in developing countries with weak functional currencies and our functional currency is Reals, therefore, we have to recognize the exchange rate variation on the balance sheet and that produces accounting effects in negative and positive, the exchange and monetary variations, which continue to be quite large given the short term negative evaluation of the Brazilian Real. And so that the most part we recommend kind of packing that out which is what we try to do in our furnished disclosures.

Q - Analyst

Certainly. Thank you very much for the color there, Rich. I appreciate it for the time.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Okay.

Operator

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

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Hey, thanks. Good to speak with you. On fleet, can you just maybe playback for us the fleet simplification opportunity here? I mean, it's not just MAX and you've outlined those. You did a number of fleet transactions pre-COVID, short-term leases to solve for a gap, then COVID hit. Can you just help bring us up to speed on where we are with respect to those shorter term leases rolling off and what the fleet simplification opportunity is here?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes. We still have a fair amount of NGs on the short-term operating leases where we have the optionality of either extending those or returning them. The -- the net there to crack is the availability of MAXs.

The market right now is constraint, in terms of the availability and MAXs is given that Boeing is still only producing a below 20 MAXs a day. So, it's still quite low which is about a third of what they were producing pre-pandemic. We have all the financing sources wind up to add as many MAXs as we want to in the short-term and next year. The bottleneck is the availability of new MAXs there are still some -- out there but they have significant configuration costs and other issues that make them less attractive now.

So we have the ability to accelerate the returns of NGs based on the structure of our aircraft portfolio which is -- which is still to the today of 100% of operating lease. And I think another part of this implication that you're mentioning that you're hinting at is that we will do also as we move into the acceleration of the transition from the NG to the MAX, listen to this, the operating cost benefit based on the lower fuel consumption and higher seat count on those aircraft and so on is the component of how we're financing those acquisitions.

And so, we will also be doing more finance lease transactions, as we move forward, somewhere in the order of between four and maybe as much as 16 of those next year, depending on the availability of MAXs and there's a significant equity value creation that comes with that. As you saw on the previous cycle when we did 40 finance leases on the first part of the Boeing, we created in excess of BRL500 million of cash equity gains through that process.

And also gives us equity to borrow against and things like that. So the end of the other component I would say Boeing of that is our ability to hit back in the in the game of owning a portion of our fleet. The reason why we're on a 100% operating leasing.

Today as you know pre-pandemic, we had finalized the monetization of our NG portfolio and we were in the midst of still in the midst of the MAX grounding. And so, we in that and then the pandemic happen all that's kind of got pushed out. So, we have enormous flexibility to return NGs at a faster pace. And the bottom line is the availability of MAXs to do it operationally we're scaled up in our operational capacity on the normalized basis is usually two aircraft receipts and two redeliveries per month.

Two in, two out for total, we can go as high go as high as three per month given our operational capability. And so for us, it's operational easily done operationally to bring in 24 MAXs and transition out 24 NGs, make sure if we need to do. So our fleet plan is a little bit less than that and part of this because we're still in the sourcing of the right MAXs for that activity.

But I think it's important to mention that none of that is going to consume our liquidity because we already have the financing sources lined up to pay for those MAX acquisitions that are in our plan plus some additional as if we need it we already have the fuel the liability is lined up and we're still working on additional sourcing of aircraft. Hopefully, that answers your question.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Yeah listen, it does. The delivery rate came up on the Ryanair call as well. So, I guess the question would be for the deliveries that you've outlined for the rest of this year and into '22. How many of those are already built? And how does that forecast feel relative to kind of the delivery rate that you're seeing?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Well, in terms of what's coming out of the factory, we would need somewhere between 8 to 10 aircraft. If it's at the sources the factory at the sources the white tail market, we've got that covered. And that's what we're working on as we speak. Initially the white tail market is we have some additional reconfiguration costs that we wouldn't have if it was coming out of the factory for us but maybe you can help us convince Boeing to ramp up production to some more aircraft.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

I wouldn't, I wouldn't, I wouldn't be your guide for that. But just, I'll speak one more in here, Rich, because I'm always interested in your thoughts here. You know, what FX rate kind of drives the long-term plan and, for what it's worth, you know, how do we get there? How do you see the pass to that long-term rate? Thank you.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Well, we're not in charge of that but the most bank market forecasts so for and appreciating Real, something with the four-holds on it at some point next year. If you take fair value calculations. Our fair value calculations are below four. We're now 12 months inside of presidential elections in Brazil.

And so that is going to be a factor that will maintain volatility high. We addressed in our presentation on the videos, on the website this morning and also in our release in the Brazil fiscal situation is much better and improving and it's much better than the U.S. fiscal situation for example.

And GDP in Q3 was up 4%, it's around 3% for the Q4 which is down a little bit, but I think my own personal opinion will be you're going to see weakness in the currency because of the blue dynamic between now and October next year, but I'm going back to Kaki's point that is going to keep a relatively captive audience for us for domestic air travel, which is perhaps a silver lining on that, which is why we're not focused today on in driving international travel just give it a little purchasing power of Brazilians in Reals.

But I have to point you to market projections on that because there's it does seem to be disconnect between the fundamentals of Brazil and the currency, which are related to other factors high oil, prices are a goal factor for Brazil, the raw materials sector in Brazil the extraction economy, which primarily drives the Brazilian economy has been doing very well during this pandemic. And that will create a positive effect in and what other people are asking about in terms of the elasticity of the return of corporate travel in terms of those sectors being consumers of air travels.

So, on the volume side, I think the exchange rate change rate is less of an issue that obviously does affect cash flow because it pressures both the oil price that we have to pay which is bounded in dollars as well as the aircraft costs which is not ideal. But it doesn't look like we're going to be getting any let's say market relief on that anytime soon and just given the volatility and the relative perception of the outside world long on Brazil. And that's my two sense on that, but we're not the boss of that. We're price takers on that.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Very fair. Thank you.

Operator

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

Q - Alejandro Zamacona {BIO 20103878 <GO>}

Thank you. Hi Paulo, hi Richard. Thank you for taking my questions. I'm just curious on what's your view on the potential recovery of the international market to pre-COVID levels and what would be the impact on yields amid the international market reactivation?

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

Hi Alejandro, actually, we are not that bullish on the international market recovery for 2022. There is two different regulations and different sanitary requirements which make us doubt whether it's going to be possible to harmonize all of them in the first half of the year. So this is one thing.

The second is also that a potential overcapacity we will be deployed because you can imagine the total amount of widebodies available in the world. So it has not been those have not been utilized for many months.

And also clearly if there's going to be when the specific segments being severely affected by the so-called new normal behavior is going to be the long haul business trips. I think that this customer we really think twice before deciding to take a plane or in short, business trip mainly long haul. So honestly, I think that can always speaking the international markets will be affected -- they are already affected and that effectively we will last longer than expected.

So, by another hand, I believe that the long haul usual travelers will be there. And mainly for the most important tourist destinations. So but, you know, how important was the business traveler pre-pandemic for those airlines operating widebodies, business classes, businesses and first classes. I am not that bullish about this specific market demand.

Q - Alejandro Zamacona {BIO 20103878 <GO>}

Okay. Thank you. And then second question if I may on the maintenance. We saw a significant increase during this quarter in the maintenance expense. So, we were wondering what was behind this increase and what can we expect going forward? I assume that it's a catch up from the deferred maintenance, but I'm just curious on hearing your thoughts? Thank you guys.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes sure, Alejandro. I guess you didn't hear the answer to the previous question. But I'll go through that again. The, you're asking about the increase in maintenance expenses from Q2 and Q3 from BRL88 million to BRL246 million. That is from and maybe, I'll give it -- I'll answer from a different perspective, that is related to the acceleration of the transition of the fleet from NGs to MAXs where we are accelerating the returns of aircraft.

Now, over the next couple months over the next year and what you have to do on a quarterly basis is always be fully provisioned on your future redelivery estimates. And so as we're accelerating now the return of the NGs, we have to top up, we have increased the amount of provisions for maintenance on aircraft.

And so, in that particular case that there's a certain number of aircraft in the -- on the mid-single digits where those provisions increase that goes in there always remember that that's you always have to be estimating if you do your accounting properly always ask that question to make sure the company is our provisioning properly their future redelivery costs.

You have to always be adjusting your provision for that. And for us you know the mean component of those delivery of cost is engine overhauls and so, in our particular case as we increase the number of NGs that we're returning and number of MAXs that we're bringing in, those provisions in the Q3 increased from BRL88 million to BRL246 million. Okay. (Multiple Speakers)

Sure, no worries. We have one more person in queue to ask the question. But before that, I'm going take another question that we have from the platform, which is asking about Yields, RASK and CASK in Q2, Q3, Q4. And so I'll just walk through that. You know, we had a 15% increase in yields in the Q3 and what's implicit in our Q4 guidance is basically flat Yields versus Q3. We will be conservative on that given the capacity environment.

Given that we are forecasting low-tech was up a little bit that will in the Q4 is implied a slight increase in RASK. Over where we were in the and the Q3, we did the BRL0.26 in the Q3. You think we could be around something around BRL0.28 in the Q4.

Now to the cost side of the equation, the recurring unit costs that we did in the Q3 of just under BRL0.22 in those Q4 guidance numbers that we provided is a similar level even though we are as I was mentioning increasing the operating fleet and diluting fixed costs as we return NGs and accelerate the transition from the MAXs, we have a combination of higher expenses for maintenance for the redelivery attire provisions and also and also higher depreciation.

So, that's goes to just looking at that basically addresses that question which is basically a conservative forecast for the Q4 guidance we're providing. It's mainly volume driven. It's not being driven out of an increase in yields or a reduction in unit costs. As Kaki was mentioning, if we get a higher possibility on the business side that's going to have a positive impact on yields and could translate into better rather than numbers for the Q4. So with that operator, we can go back to the last question in the queue.

Operator, you can go the last question in the queue.

Operator

(Operator Instructions) This will be the last opportunity for questions for GOL's management. The next question is from Matthew Breckenridge from DSC Meridian. Please go ahead.

Q - Matthew Breckenridge {BIO 4045796 <GO>}

My questions actually been answered. Thank you very much.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Okay, Matt. Thanks.

Operator

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

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

I just would like to thank you all very much for the attention. Have a nice day.

Operator

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