

## BCP Research: Gol (GOLLBZ: -/CCC+/CCC+) – Upgrade New Sr. Sec'd 8% '26s to 'Outperform', 'Maintain Outright – Positive' on GOLLBZ 24 converts

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*Summary: We revisit our thoughts on Gol's US\$200 mm 8% 2026 notes, privately placed in Dec. '20, and now tradable with associated documentation also available. Notes are sr. secured, with first lien on GLA's intellectual property (IP) and aircraft spare parts. Recent appraisal of the collateral was US\$815 mm (25% LTV ratio), with the ability to further issue against collateral at a loan to value (LTV) ratio capped at 65%. Almost 2/3 of the value is attributable to the IP. Overall, we view collateral as essential components of a going concern airline, rather than value in a liquidation scenario.*

*FY20 traffic results (RPKs -52% y/y, LF 80%) have exhibited Gol's effectiveness at managing capacity through the crisis. We expect holiday travel will slow in 1Q21. Nevertheless, promising trends in vaccination rollout suggest impressive potential for operating leverage in the medium term, particularly when business travel resumes (39% market share FY19). We remain confident in Gol's ability to meet near-term cash requirements, with pro-forma 4Q20E liquidity of ~ US\$287 mm (see below) v. US\$3.6 bn in 4Q20E pro-forma net debt, reflecting 3.2x leverage on a fully recovered (FY19 adj. EBITDA) basis. We note approval of the proposed Smiles merger would require an additional ~US\$42-205 mm in cash use, as well as amortization of the US\$250 mm Delta term loan. However, that potential cash use would free additional assets for the collateral pool and broaden access to financing.*

**We maintain our 'Positive-Outright' rating on GOLLBZ 3.75% 24s, offering 'equity like' returns trading near the bond floor (86c), with favorable risk v. reward (3:1) and potential 36% upside on to 117c, predicated on a 5.6x TEV multiple on prior peak EBITDA (2019) by 2022. Additionally, we upgrade first lien senior secured GOLLBZ 8% 26s (98c) to 'Outperform' on our Top Picks, which could reach 114c in a similar full recovery scenario with unsecured 25s trading back to par. We think the secured 26s should trade at least 200 bps through the 25s. Similar instruments have seen far higher recoveries than unsecured bonds in adverse credit events and as such we see very favorable convexity for the 26s.**

			Amt Out (US\$ MM)	M/SP/F	Mid Price	Mid YTM	Recommendation
GOLLBZ	7.00%	1/31/2025	650	-/ CCC+/ CCC+	91.0	9.79%	
GOLLBZ	8.00%	2/8/2026	200	B2/-/-	98.0	8.47%	Market Outperform
GOLLBZ	8.75%	Perp	154	Caa1/-/ CCC+	85.0	10.29%	

	Amt Out (US\$ MM)	Mid Price	Mid YTW	Implied Vol	Cheapness (par)	Delta (par)	Conv. Price	GOL US Price	Recommendation
GOLLBZ 3.75% 7/16/2024	425	85.8	8.64%	21.86%	8.62%	52.29%	\$20.25	\$9.15	Positive - Outright

\* Source: Equity information sourced from Bloomberg. Convertible pricing as of February 10, 2021.

- **Issuer:** Gol Finance
- **Guarantor:** Gol Linhas Aéreas Inteligentes S.A. or GLAI and Gol Linhas Aéreas S.A. or GLA
- **Amount Issued:** US\$200 mm (\*)
  - \* Issuer may issue additional notes under the same conditions, without holder consent, provided:
    - Issuer is in compliance with LTV ratio after giving to effect of additional notes
    - Issuer/guarantors have entered into additional Collateral Documents for any Additional Collateral for which holders will have first priority lien
    - No default has occurred, is occurring, or will occur immediately after the issuance of addtl. notes
- **Coupon:** 8.00% per annum, beginning June 30, 21
- **Maturity:** 06/20/2026
- **Rank:** First Lien Sr. Secured

- **Optional Redemption:** Partial (> US\$150 mm remaining outstanding) or full redemption with consideration as follows:

Period	Dec. 24 2022 – Dec. 23, 2023	Dec. 24, 2023 – Dec 23, 2024	Dec 24, 2024 and Thereafter
Redemption Price (% of par)	108%	104%	100%

- **Liens:** Issuer/Guarantor required to maintain Collateral free of any Liens other than certain permitted liens (incl. Senior Liens over any Eligible Aircraft Collateral) and rights of holders of notes and any other indebtedness secured by such collateral
- **Collateral:** first priority Lien on Asset Collateral and Pledged IP (subject to Release of Collateral)
  - **“Asset Collateral”:** Rotable spare parts, non-rotable spare parts, spare engines, aircraft and flight simulators, subject to first priority perfected Lien, or second priority perfected senior Lien for Aircraft
    - **“Rotable”** = parts that wear over time but can be economically restored to a serviceable/fully-serviceable condition over the life of the flight equipment to which they are related
    - **“Non-rotable”** = includes **“repairables”** and **“expendables/consumables.”**
      - **“Repairables”** = replaceable parts or components, which can generally be economically repaired to a fully serviceable condition over a period of time less than the life of the flight equipment to which they are related (ex. Engine blades and vanes, some tires, seats and galleys)
      - **“Expendables/consumables”** = consist of items for which no authorized repair procedure exists, and for which cost of repair would normally exceed that of replacement (ex. nuts, bolts, rivets, sheet metal, wire, light bulbs, cable and hoses)
  - **“Intellectual Property” (IP):** Patents, trademarks, brand names, copyrights, domain names, etc.

	US\$MM
<b>GOLLBZ 8% 6/20/2026</b>	<b>200.0</b>
GLA IP	625.8
<b>Intellectual Property</b>	<b>625.8</b>
Rotables	123.2
Repairables	15.6
Expendables	50.5
<b>Spare Parts</b>	<b>189.3</b>
<b>Total Appraisal Value</b>	<b>815.1</b>
<b>LTV Ratio</b>	<b>24.5%</b>

- Appraisal Value: US\$815 mm, based on independent aviation appraisal and consulting firm, Morenten Beyer and Agnew’s (“mba”) appraisal of intellectual property collateral (Nov. 19, 2020) and spare parts collateral (Nov. 30, 2020)
  - Appraisal of fair market value of collateral due on each interest payment date (IP = second interest payment date of calendar year only), delivery of Additional Collateral (only additional) or in an event of Default

- LTV Ratio: The sum of the aggregate principal amount of Outstanding Notes and Pari-Passu Obligations, divided by the Total Collateral Value (Trigger LTV Ratio = cannot exceed 65%)
- Other Eligible Collateral: Incorporation into collateral pool at the option of the issuer, with all eligible collateral (excl. Smiles-related) pre-approved under supplemental indenture, and granted by GLA under Brazilian law governed Spare Engines Fiduciary Sale Agreement (SEFSA)
  - Spare Engines: first priority security interest in certain spare parts. To be perfected via filing with the Brazilian Aviation Registry (RAB) and the International Registry, and protected under recognition of rights agreements (RORAs)
  - Flight Simulators: first priority security interest in certain flight simulators
  - Non-Credit Card Backed Receivables: first priority security interest in non-credit card backed receivables, including cargo business-related receivables, and certain other receivables
  - Aircraft: first priority security interest in (a) some or all new aircraft acquired and not subject to third-party first lien financing and (b) second priority security interest in some or all new aircraft that are subject to third-party first lien financing. To be perfected via filing with the Brazilian Aviation Registry (RAB) and the International Registry, and protected under recognition of rights agreements (RORAs)
  - Fiduciary Assignment of Smiles Common Shares: Contingent upon repayment of the US\$250 mm Delta term loan, the fiduciary sale of all common shares GLAI owns in the capital stock of Smiles and associated dividends (\*)
    - (\*) Note: Excluding event of default, GLAI entitled to exercise voting rights at any time, and receive any payments to GLAI as shareholder of Smiles
  - Smiles Revenue Collateral: If/when GLA or GLAI owns 00% of Smiles outstanding shares, and the guarantor chooses to merge Smiles into GLA, within 30 days of the merger, the guarantor may enter into a pre-approved supplemental indenture. Includes all frequent-flyer program revenues and accounts, including all amounts within the Smiles Revenue Account and Collection Account
  - Smiles IP Collateral: first priority security interest in all intellectual property of Smiles (patents, trademarks, brand names, copyrights, domain names, etc.)
- Release of Collateral: Issuer and Guarantors entitled to release Collateral under the following circumstances (as long as it does not occur within/trigger a default, and LTV ratio will not exceed Trigger Ratio):
  - Sale or disposition of collateral as a result of foreclosure or remedy against the Collateral
  - Approval of Amendment, Supplement, or Waiver
  - Full payment of principal plus accrued unpaid interest
  - Legal/covenant defeasance under indenture
  - Any time at the election of the issuer, excluding “Pledged IP” and Spare Parts (excl. disposition of Spare Parts described under “Use and Possession of Spare Parts and Spare Engines”)

- Leasing of Collateral: GLA entitled to enter into lease with respect to Rotable Spare Parts to any certified air carrier, provided the lease is expressly subject and subordinate to rights of holders
- Disposal of Spare Parts: Sale, lease, transfer, relinquishment or possession of pledged Spare Parts or Spare Engines, requiring prior written consent from the collateral agent, permitted if...
  - Aggregate value of Spare Parts sold does not exceed 25% of the value of the Spare Parts contained in the Issue Date Collateral (or ~US\$47 mm)
  - In connection with power by the hour agreements, total care agreements, spare parts subscription agreements or similar arrangements
  - Value of spare parts in Brazil does not exceed 75% of value of Spare Parts contained in the Issue Date Collateral (or ~US\$142 mm)
- **Covenants:**
  - Limitation on transactions (sale, lease, etc.) with affiliates, if less favorable than transaction with a potential non-affiliate
  - Limitation on consolidation, merger or transfer of assets
  - Repurchase of notes required upon a change of control (101% consideration)
  - Reporting required, including:
    - Disclosure of quarterly (unaudited) and annual (audited) GLAI financials, including delivery to CVM, listed stock exchange and or SEC
    - Delivery of Officer's Certificate on each "Calculation Date", disclosing LTV ratio and whether an Event of Default exists and, if an Event of Default has occurred, detailing the Issuer and/or Guarantor's proposed course of action
  - Substitution of the Issuer by GLAI, or any wholly-owned subsidiary of GLAI as principal debtor, permitted without holder consent
- **Amendment, Supplement, Waiver:** Requires consent from majority of outstanding principal holders, with > 66.6% required to release all collateral
- **Events of Default:**
  - Delay of payment of interest > 30 days past due, and/or principal, at the time of maturity, acceleration or redemption \*
    - Note: Additional 2.00% interest accrual per annum on overdue interest payments
  - Failure to maintain LTV Ratio less than the LTV Trigger Ratio (65%) (\*)
  - Failure to amend Collateral Documents related to Spare Parts (incl. market value and itemized list) and/or make necessary filings, registrations and annotations (\*)
  - Failure by the Issuer/Guarantor to comply with covenants for > 60 days after the notice (\*, \*\*)
  - Failure to make Offer to Purchase and accept/pay for notes as required under Repurchase of Notes Upon Change of Control" (\*)
  - Default by the Issuer, Guarantors or any Significant Subsidiary (subs. with > 10% of GLAI's total assets and/or revenues), under any existing/future mortgage, indenture or instrument totaling US\$50 mm or more (\*)
  - Non-appealable judgement(s)/decree(s) against the Issuer, Guarantors or any Significant Subsidiary, totaling US\$50 mm or more, not dismissed within 30 days or discharged/waived within 60 days (\*)

- Voluntary case or involuntary case, or other proceeding commenced against the Issuer, Guarantors or any Significant Subsidiary, relating to debt under any bankruptcy insolvency or similar law, which seeks appointment of an official (trustee, receiver, liquidator, etc.), that is not dismissed, discharged or waived within 60 days (\*\*\*)
- Occurrence of “Event of Default” under credit agreement, indenture or similar agreement, evidencing Additional Pari-Passu Obligations or enforcement/foreclosure against any collateral (\*\*\*)
- GLAI ceases to own directly 100% of outstanding share capital of the Issuer (\*\*\*)
  - (\*) = Principal + unpaid interest due and payable immediately upon declaration, following submission of written notice to Issuer and trustee by holders of > 25% of outstanding principal
  - (\*\*) = Trustee/holders of > 25% of outstanding principal must notify Issuer/Guarantor to constitute event of default
  - (\*\*\*) = Principal + accrued interest immediately due and payable without a declaration/action of part of the trustee or noteholders

#### **Pro-Forma 4Q20 Estimated Liquidity – Based on Gol Reported:**

Pro-Forma Estimated Liquidity - Based on Gol Reported (1)	R\$MM	US\$MM
<b>3Q20:</b>		
Cash and Equivalents	499	89
(+) ST investments	400	71
(+) ST Restricted Cash	373	66
(+) LT Restricted Cash	180	32
<b>3Q20 Cash</b>	<b>1,451</b>	<b>259</b>
(+) ST Accounts Receivable	791	141
(+) ST Securities Receivable	-	-
<b>3Q20 Liquidity</b>	<b>2,242</b>	<b>400</b>
(+) Unencumbered Assets (2)	1,300	232
(+) Deposits (2)	2,295	409
<b>3Q20 Total Available Liquidity</b>	<b>5,837</b>	<b>1,040</b>
<b>Pro-Forma 4Q20E:</b>		
Cash and Equivalents	499	96
(+) ST investments	400	77
(+) ST Restricted Cash	373	72
(+) LT Restricted Cash	180	35
<b>3Q20 Cash</b>	<b>1,451</b>	<b>279</b>
(+) 4Q20E EBIT	290	54
(+) 4Q20E D&A, Impairments and Non-Recurring Expenses	281	52
(+/-) 4Q20 Est. Changes in A/R (2)	(52)	(10)
(+) Bond Issuance - Sr. Sec'd GOLLBZ 8% '26 (3)	1,018	200
(-) ST Debt Amortization (US\$186 mm)	(966)	(186)
(-) ST Debt Amortization (R\$229 mm)	(229)	(44)
<b>Pro-Forma 4Q20E Cash</b>	<b>1,800</b>	<b>346</b>
<b>Pro-Forma Estimated Liquidity - Based on Gol Reported (1)</b>		
(+) 3Q20 ST Accounts Receivable	791	152
(+) 4Q20 Est. Increase in A/R (2)	597	115
(-) 4Q20 Est. Decrease in A/R - Converted to Cash (2)	(649)	(125)
<b>Pro-Forma 4Q20E Liquidity</b>	<b>2,539</b>	<b>488</b>
(+) Unencumbered Assets (4)	1,300	250
(+) Deposits (4)	2,045	394
<b>Pro-Forma 4Q20E Total Available Liquidity</b>	<b>5,884</b>	<b>1,132</b>
<b>Base Case Liquidity Runway - Return to 2Q20 Cash Burn Levels:</b>		
Est. Cash Burn / day	(5.8)	(1.1)
<b>Pro-Forma 4Q20E Liquidity Runway (months)</b>	<b>15</b>	<b>15</b>
<b>Upside Case Liquidity Runway - Based on 1Q21E Cash Burn Guidance:</b>		
Est. Cash Burn / day	(2.0)	(0.4)
<b>Pro-Forma 4Q20E Liquidity Runway (months)</b>	<b>42</b>	<b>42</b>

(1) F/X reflects: 3Q20 (5.3802 avg, 5.6103 end), 4Q20 (5.3956 avg, 5.1935 end) and QTD 1Q21 as of February 8, 2021 (5.3689 avg, 5.3575 end)

(2) Reflects management guided R\$0.7 bn in accounts receivable as of end-4Q20, as reported in Gol's Dec. '20 Monthly Investor Update

(3) Reflects issuance of New Sr. Sec'd GOLLBZ 8% '26. New notes collateralized by IP, appraised at US\$625.8 mm, and Spare Parts (unencumbered assets), appraised at US\$189.3 mm, as of November 2020

(4) Reflects total reported available unencumbered assets (R\$1.3 bn) and R\$2.1 bn in deposits, as disclosed in Gol's September and December '20 Monthly Investor Update

### Pro-Forma 4Q20 Estimated Liquidity – BCP Calculated:

Pro-Forma Estimated Liquidity - BCP Calculation (1)	R\$MM	US\$MM
<b>3Q20:</b>		
Cash and Equivalents	499	89
(+) ST investments	400	71
<b>3Q20 Cash (2)</b>	<b>898</b>	<b>160</b>
(+) ST Accounts Receivable	791	141
(+) ST Securities Receivable	-	-
<b>3Q20 Liquidity</b>	<b>1,689</b>	<b>301</b>
(+) Unencumbered Assets (2)	842	150
(+) Deposits	2,295	409
<b>3Q20 Total Available Liquidity</b>	<b>4,826</b>	<b>860</b>
<b>Pro-Forma 4Q20E:</b>		
Cash and Equivalents	499	96
(+) ST investments	400	77
<b>3Q20 Cash (2)</b>	<b>898</b>	<b>173</b>
(+) 4Q20 BCP Est. EBIT	(220)	(41)
(+) 4Q20 BCP Est. D&A, Impairments and Non-Recurring Expenses	281	52
(+/-) 4Q20 Est. Changes in A/R (3)	(52)	(10)
(+) Bond Issuance - Sr. Sec'd GOLLBZ 8% '26 (4)	1,018	200
(-) ST Debt Amortization (US\$186 mm)	(966)	(186)
(-) ST Debt Amortization (R\$229 mm)	(229)	(44)
<b>BCP Calculated Pro-Forma 4Q20E Cash</b>	<b>730</b>	<b>145</b>
(+) 3Q20 ST Accounts Receivable	791	152
(+) 4Q20 Est. Increase in A/R (3)	597	115
(-) 4Q20 Est. Decrease in A/R - Converted to Cash (3)	(649)	(125)
<b>BCP Calculated Pro-Forma 4Q20E Liquidity</b>	<b>1,469</b>	<b>287</b>
(+) Unencumbered Assets (5)	-	-
(+) Deposits (5)	2,100	404
<b>BCP Calculated Pro-Forma 4Q20E Total Available Liquidity</b>	<b>3,569</b>	<b>691</b>
<b>Base Case Liquidity Runway - Return to 2Q20 Cash Burn Levels:</b>	<b>R\$</b>	<b>USD</b>
Est. Cash Burn / day	(5.8)	(1.1)
<b>Pro-Forma 4Q20E Liquidity Runway (months)</b>	<b>9</b>	<b>9</b>
<b>Upside Case Liquidity Runway - Based on 1Q21E Cash Burn Guidance:</b>	<b>R\$</b>	<b>USD</b>
Est. Cash Burn / day	(2.0)	(0.4)
<b>Pro-Forma 4Q20E Liquidity Runway (months)</b>	<b>24</b>	<b>24</b>

(1) F/X reflects: 3Q20 (5.3802 avg, 5.6103 end), 4Q20 (5.3956 avg, 5.1935 end) and QTD 1Q21 as of February 8, 2021 (5.3689 avg, 5.3575 end)

(2) BCP Calculated cash excludes ST and LT Restricted cash

(3) Reflects management guided R\$0.7 bn in accounts receivable as of end-4Q20, as reported in Gol's Dec. '20 Monthly Investor Update

(4) Reflects issuance of New Sr. Sec'd GOLLBZ 8% '26. New notes collateralized by IP, appraised at US\$625.8 mm, and Spare Parts (unencumbered assets), appraised at US\$189.3 mm, as of November 2020

(5) Excludes unencumbered assets (R\$1.3 bn) committed as collateral to GOLLBZ '26s. Includes R\$2.1 bn in deposits, as reported in Gol's December '20 Monthly Investor Update.

Pro-Forma Balance Sheet (US\$MM)	Gol (1)
BCP Est. 4Q20 Cash Burn / Day	(0.5)
BCP Est. 4Q20 Cash Burn / Month	(14)
<b>BCP Calculated Pro-Forma 4Q20E Cash</b>	<b>145</b>
(+) 4Q20E Pro-Forma Accounts Receivable	142
<b>BCP Calculated Pro-Forma 4Q20E Liquidity</b>	<b>287</b>
<b>Pro-Forma Months of Liquidity Runway</b>	<b>24</b>

### **Pro-Forma 4Q20 Estimated Liquidity – BCP Calculated (continued):**

Pro-Forma Years of Liquidity Runway	2.0
BCP Est. Pro-Forma 2020 Debt (2)	3,784
<b>BCP Est. Pro-Forma 2020 Net Debt (2)</b>	<b>3,640</b>
BCP Est. Fully Recovered EBITDA (2)(3)	1,152
<b>BCP Est. Pro-Forma Net Leverage (2)(3)</b>	<b>3.2x</b>
3Q20 Fx avg.	5,3802
3Q20 Fx end	5,6103
4Q20 Fx avg.	5,3956
4Q20 FX end	5,1935

(1) Adjusted for f/x changes

(2) Accounts for estimated additional financing, sale and leaseback and Boeing compensation post-3Q20. Excludes gov't WK Financing

(4) Fully Recovered in line with 2019 Adj. EBITDA. Net leverage = BCP Est. 2020 Pro-Forma Net Debt divided by BCP Est. Fully Recovered (FY19) EBITDA

Equity Upside/(Downside) (US\$MM)	GoI
<b>Current Market Cap</b>	<b>1,638</b>
<b>Current Enterprise Value (EV)</b>	<b>4,947</b>
<b>Current EV / EBITDA</b>	<b>12.8x</b>
2019 EV / EBITDA	5.6x
Fully Recovered EBITDA (1)	1,152
EV	6,489
Pro-Forma Net Debt	3,640
Implied Market Cap	2,849
<b>Equity Upside/(Downside) Potential</b>	<b>74%</b>

(1) Fully Recovered EBITDA in line with 2019 Adj. EBITDA

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#### Top Picks Universe

"Market Outperform" – The bond's total return is expected to exceed the total return of the J.P. Morgan Corporate Emerging Markets Bond Index series ("CEMBI") Broad Diversified High-Yield Index over the next 3 – 6 months.

"Market Perform" – The bond's total return is expected to be in line with the total return of the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

"Market Underperform" – The bond's total return is expected to be below the total return of the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

"Not Rated" or no comment – Currently, the analyst does not have adequate conviction about the bond's total return relative to the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

#### Quasi Sovereign Universe

"Market Overweight" – The spread of the bond to its similarly duration sovereign controller bond is expected to decrease over the next 3 – 6 months.

"Market Weight" – The spread of the bond to its similarly duration sovereign controller bond is expected to remain unchanged over the next 3 – 6 months.

"Market Underweight" – The spread of the bond to its similarly duration sovereign controller bond is expected to increase over the next 3 – 6 months.

"Not Rated" or no comment – Currently, the analyst does not have adequate conviction about the bond's spread to its similarly duration sovereign controller bond over the next 3 – 6 months.

#### High Octane Universe

"Speculative Buy" – Bonds that in our view have an equity investment risk profile and we think risk/return is significantly skewed to the upside

"Positive" – Bonds that in our view have an equity investment risk profile and we think risk/return is skewed to the upside

"Neutral" – Bonds that in our view have an equity investment risk profile and we think risk/return is balanced

"Negative" – Bonds that in our view have an equity investment risk profile and we think risk/return is skewed to the downside

"Speculative Sell" – Bonds that in our view have an equity investment risk profile and we think risk/return is significantly skewed to the downside

#### Convertible Universe

"Outright" – Convertible bonds that, in our view, present risk/return significantly skewed to the upside (3x upside v. 1x downside)



“Swap” – Convertible bonds that, in our view, offer attractive volatility differential between implied volatility of the convertible bond option call v. the 100D realized volatility and listed calls in the option market for the corresponding equity

“Busted” – Convertible bonds trading with out-of-the-money option calls that, in our view, offer an attractive yield to maturity, relative to risk/return

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