



## Gol Linhas Aéreas Inteligentes S.A.

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*Public Company*

*Incorporated: 2000*

*Employees: 3,307*

*Sales: BRL \$2.6 billion (\$1.0 billion) (2005 est.)*

*Stock Exchanges: Bolsa de Valores de São Paulo New York*

*Ticker Symbol: GOL (ADR)*

*NAIC: 481111 Scheduled Passenger Air Transportation;  
481112 Scheduled Freight Air Transportation*

Gol Linhas Aéreas Inteligentes S.A. is a leading Brazilian airline operating a low-cost business model *à la* Southwest Airlines. The name translates to “Goal Intelligent Airlines.” Gol flies a uniform fleet of 29 Boeing 737s to about 40 destinations. Aeropar Participacoes S.A. is the major shareholder, with 75.15 percent of total capital. Unlike Southwest, Gol arranges its route network in a hub-and-spoke system, which increases passenger feed and aircraft utilization. According to *Air Transport World*, Gol’s employees are trained to think in terms of business objectives and the compensation structure includes various incentives such as profit sharing. Within a few years, revenues have reached the \$1 billion mark. This explosive growth has come in spite of global recession, rising fuel prices, high inflation, and one of the airline industry’s worst recessions. Gol rivals Ireland’s Ryanair Holdings PLC, which also flies the low-cost carrier model, as the world’s most profitable airline.

### *Origins*

Gol Linhas Aéreas Inteligentes S.A. was launched in 2000 with backing from the Aurea Group, a bus company entrepreneur Constantino de Oliveira had formed in the 1950s. Accord-

ing to the Associated Press, start-up capital was an estimated \$12 million. The Associated Press noted the timing of Gol’s formation was helped by a newly relaxed regulatory environment regarding fares and the availability of personnel following massive layoffs at Viação Aérea São Paulo S/A (VASP).

Oliveira had reportedly sent his sons across the world to study low-cost carriers such as Southwest, Ryanair, and easyJet. One of the sons, Constantino de Oliveira, Jr., served as the new airline’s CEO while his father was chairman. They imported a focus on strict cost control first learned in the bus business. In fact, the airline was priced to compete with intercity buses.

### *Passenger Flights Beginning in 2001*

Gol began passenger operations in January 2001—the middle of the South American summer vacation season. Following the low-fare business model used to great success by Southwest Airlines in the United States, the new airline started with a fleet of three leased medium-range, mid-size Boeing 737 aircraft resplendent in its white and orange livery. By the end of its first year, Gol connected seven destinations in Brazil.

Gol aimed to grow the market by using low fares to attract new segments of the traveling public. When Gol started, its ticket prices were half those of its competitors. According to the Associated Press, Gol kept costs down by relying on ticketless reservations and by cutting out traditional perks such as hot meals and liquor. Gol also had no airport lounges, first or business class seating, frequent flyer program, or in-flight entertainment systems. The no-frills policy extended to its headquarters, a nondescript, four-story building at São Paulo’s Guarulhos International Airport that lacked elevators.

Gol had about 1,100 employees in 2001, when it carried two million passengers. After losing \$1.5 million on revenues of \$95.8 million in 2001, its first year, Gol posted a net profit of \$10.0 million (BRL 3.9 million) in 2002 as revenues more than doubled to \$191.4 million. Passenger count rose to 4.8 million in 2002. Gol accomplished this in the face of a severe devaluation of the real that hurt all Brazilian airlines, which paid for fuel and aircraft in U.S. dollars.

### Company Perspectives:

*We offer travelers in Brazil a low-fare transportation alternative that we believe is an attractive value relative to conventional airline and bus transportation. We have a diversified passenger base, with customers ranging from business passengers traveling within densely populated centers in southeastern Brazil, such as São Paulo, Rio de Janeiro and Belo Horizonte, to leisure passengers traveling to destinations throughout Brazil.*

*Our operating model is based on a variation of the point-to-point approach used by other successful low-cost carriers worldwide. In high-density competitive markets, such as São Paulo to Rio de Janeiro, we operate direct point-to-point service at low fares. When providing service to our other markets, our aircraft make multiple stops on our route network linking multiple destination points, which attracts customers who prefer to pay lower fares even if this means making one or more stops before their final destination.*

The fantastic growth continued unabated in spite of a recession. In 2003, net profits were up fivefold to BRL 175.4 million (\$60.3 million) as revenues more than doubled for the second consecutive year, reaching BRL 1.4 billion (\$481.5 million). Employment was up to 2,453 people, and more than seven million passengers flew the airline.

Gol's fares were said to be an average 25 percent less than those of competitors. The airline began offering discounted night flights in late 2003. These prices compared with those for 20-hour intercity bus journeys.

### Going International, Public in 2004

In May 2004, Gol placed a massive aircraft order for 15 Next-Generation Boeing 737s, with an option for up to 28 more. At retail prices, the deal was worth \$2.7 billion (BRL 8 billion). By this time, Gol was flying to about 30 destinations.

Gol went public in June 2004, floating 17.6 percent of its total capital on the Bolsa de Valores de São Paulo and the New York Stock Exchange. It was only the second South American airline, after LAN Chile, to list on the New York Stock Exchange, according to *LatinFinance*, which reported that 72 percent of subscribers were international. The shares would peak at double their original price within a year.

The initial public offering (IPO) raised BRL 878 million (\$281 million). Some proceeds were earmarked toward the \$2.5 billion U.S. Export-Import Bank loan used to finance its large Boeing order. There was a secondary offering in May 2005. The influx of capital helped Gol keep its costs of borrowing down in a country known for exorbitant interest rates. By the time of its IPO, Gol was Brazil's third largest airline (behind VARIG and TAM) with a 22 percent share of the domestic market, according to one estimate.

Gol was chosen as *Exame* magazine's Company of the Year for 2004. *Aviation Week & Space Technology* ranked Gol the world's top publicly traded airline, in terms of competitiveness,

### Key Dates:

- 2000:** Gol is formed.
- 2001:** Flight operations begin.
- 2004:** Gol goes public; international flights are launched to Buenos Aires, Argentina.
- 2005:** Flights to Bolivia are added.

among those with less than \$1 billion in sales. Gol also won praise for the transparency of its investor relations.

Revenues were about \$622 million (BRL 2 billion) in 2004. Net income was \$96.2 million (BRL 256 million). More than three-quarters of sales were from the Internet, making Gol one of Brazil's leading e-commerce companies. However, travel agencies, which charged commissions of up to 15 percent, handled half of these Internet ticket sales.

Gol started a popular service from São Paulo to Buenos Aires, Argentina, in late December 2004. This was its first international route. Dow Jones reported that tickets for this route sold in Brazil cost twice as much as those in Argentina due to government price controls. Gol was adding flights to Bolivia in June 2005 and other countries, such as Uruguay and Paraguay, soon after.

At the same time, the airline was investing in its facilities, building its own BRL 30.5 million (\$12.8 million) maintenance center at the Cofins airport in the state of Minas Gerais. Gol was estimating revenues to be BRL 3.0 billion (more than \$1 billion) for 2005. The airline leapfrogged debt-laden VARIG to attain the second largest share of the domestic market, 27 percent. (TAM Linhas Aéreas S.A., more oriented to business travelers, was the leading player with a 43 percent market share.)

The Brazilian air travel market was still growing more than 10 percent a year, noted *Institutional Investor International*. Fewer than one-fifth of Brazil's 180 million inhabitants flew once a year or more. Mexico was considered another relatively undeveloped commercial aviation market. A Mexican joint venture with Inversiones y Tecnicas Aeroportuarias S.A. (ITA) was expected to begin operations in 2006.

Gol continued to cut fares in order to keep its growing fleet full. It was placing new emphasis on price-sensitive business travelers. According to *Dow Jones International News*, Gol was second in the domestic market with a 20 percent share. One new regional rival, OceanAir, was also a feeder partner, since its turboprop aircraft operated from short runways in Brazil's interior that Gol's jets could not reach.

The fleet was expected to number 34 planes by the end of 2005 and 69 planes by the end of 2010. Gol enjoyed a relatively untapped market and few strong competitors. Challenges included the rising cost of fuel and instability of the Brazilian economy.

### Principal Subsidiaries

Gol Transportes Aéreos S.A.

**Principal Competitors**

TAM Linhas Aéreas S.A.; Viação Aérea Rio-Grandense, S.A.

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