

Q3 2014 Earnings Call

Company Participants

- Frederico F. Curado, President & Chief Executive Officer
- José Antônio de Almeida Filippa, Executive Vice President Finance and Investor Relations Embraer
- Luciano Froes, Head of Investor Relations

Other Participants

- Cai von Rumohr, Analyst
- Darryl Genovesi, Analyst
- Derek Spronck, Analyst
- Eduardo S. Couto, Analyst
- Joseph B. Nadol, Analyst
- Myles Alexander Walton, Analyst
- Peter John Skibitski, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call that will review Embraer's Third Quarter 2014 Results. Thank you for standing by.

As a reminder, this call is being recorded and webcasted at ri.embraer.com.br.

This conference call includes forward-looking statements or statements about the events or circumstances which have not occurred. Embraer has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting the business and its future financial performance.

These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things, general, economic, political and business conditions in Brazil and in other markets where the company is present. The words believes, may, will, estimates, continues, anticipates, intends, expects and similar words are intended to identify forward-looking statements.

Embraer undertakes no obligation to update publicly or revise any forward-looking statements because of the new information, future events or other factors. In light of these risks and uncertainties, the forward-looking events and circumstances discussed on

this conference call may not occur. The company's actual results could differ substantially from those anticipated in forward-looking statements.

Participants on today's conference call are Mr. Frederico Curado, President and CEO; Mr. José Filipo, Chief Financial Officer and IRO; and Mr. Luciano Froes, Director of Investor Relations.

I would now like to turn the conference over to Mr. José Filipo. Please go ahead, sir.

José Antônio de Almeida Filipo

Okay, thank you, and good morning to all participants. We'll start this event with a presentation and then we'll move into the Q&A section.

So if you could go, start with page 3. Before the first business highlights I would like to report this important date which was last August 19th that Embraer celebrated its 45 anniversary. It's a very important moment for the company that happened last August.

With the next page, page 4, now the business highlights. Starting with the inauguration of Embraer Engineering Technology Center in Melbourne, Florida. This facility is initially focused on Executive Jet business but later will expand to all our other business segments. Continue with the example of Embraer's commitment to sustainability, we have the milestone of a 10-year anniversary of the certification of the Ethanol powered Ipanema airplane. And in line with that Embraer was listed for the fifth consecutive year on the Dow Jones Sustainability Index. During the third quarter, also Embraer received several awards and recognition in Brazil, especially related to people management and corporate governance, important - and very important priority for the company.

Next page, page 5. Now moving into the business unit highlights, starting with the Commercial Aviation business. We had a delivery in the third quarter of 19 E-Jets, a couple less than we planned, which we expect to be delivered in the fourth quarter. Also we continued to sell our current generation, two important announcements. First one is Japan Airlines, which signed a firm order for 15 E-Jets with additional 12 E-Jets options. Together with Republic Airways Holdings, signed a contract for 50 firm E175 jets which will operate under the United Express brand.

In relation to the E2 development, we are moving along with an important event of the first metal cut of the E-Jets E2 manufacturing in the Évora Plant in Portugal.

Next page, page 6, in relation to Executive Jet business. We delivered 15 Executive Light Jets in the third quarter for a total of 54 year-to-date light Jets. We also received recently certification both in Brazil and U.S. of our Legacy 500, which paved the way for deliveries, which first one happened in early October, the first delivery of the Legacy 500 program.

In page 7, still on Business Jet highlights, important milestone of the delivery of the Phenom 300 to NetJets delivered number 25 which should turn into total of 200

FINAL

Bloomberg Transcript

deliveries of this model by the company. Currently, our total Executive Jet fleet surpassed 800 aircraft. Another important recognition was the ranking of Embraer as number one in customer support and service satisfaction by the AIN magazine.

With regard to our global footprint strategy, Embraer broke ground the Legacy 500 and Legacy 450 assembly complex in Florida, Melbourne, and also during the quarter we continued to expand our customer support and service network into a Brazilian area.

Now moving to the Defense and Security on page 8, two announcements of the rollout program. The first one related to the first prototype of the KC-390. It happened in last October and this airplane and this program we had planned for the first flight to schedule for the end of this year. We also have the rollout of the first Super Tucano built in our Jacksonville facility for the U.S. Air Force Light Air Support program.

In relation to the Brazilian border control project, Sisfron, Savis participated in a successful exercise to verify the Sisfron implemented operational capabilities, which lead us to keep on track for the development of this project.

In terms of commercial activity, two important contracts, first of all, the sale of six Legacy 500 to the Brazilian Air Force, and this equipment will be used to perform flight inspection missions. Also Bradar was contracted by the Brazilian Navy to supply three radars.

Now next page moving to the financial results, we'll go now to page 10, with regards to our backlog. We reported a total of \$22.1 billion of firm orders in the end of the third quarter that represents the all-time high for the company. The big drivers of this number were the 28 KC-390 orders from Brazilian Air Force and the commercial contracts as mentioned earlier in the presentation.

Page 11, next page in terms of aircraft deliveries. We delivered 19 commercial aircraft in the third quarter to a total of 62 commercial aircrafts year-to-date. And with respect to business unit jets already mentioned the 15 light jets deliveries for a total of 10 large jets and 54 light jets year-to-date. At this point, we take the opportunity to reaffirm our guidance figures for the year.

Page 12, regarding revenues. We had a total of \$1.2 billion in the third quarter. It can be broken by Commercial Aviation of \$661 million, Executive Jets, \$213 million, and Defense and Security \$346 million. We believe we are on track to meet our guidance figures for 2014.

Next page, still net revenues in terms of year-to-date both in Brazilian reais and U.S. dollars. We have the year-to-date in dollar terms of \$4.2 billion in terms of revenues and R\$9.7 billion in terms of local currency. Our outlook for the year range between \$6 billion and \$6.5 billion.

In page 14, next page in terms of operating expenses. We continue to have a stable and controlled expense level. We had in the third quarter \$52 million of G&A and \$99 million of

FINAL

selling expenses. We believe that the total SG&A for the year will be represented as 10% of the revenue range which is in line what we've been saying before during the year.

Page 15, regarding EBIT, we had a total of income of operation of \$68 million with a margin of 5.5% in the third quarter, that reflects the lighter deliveries and the mix that we had in the quarter. In terms of year-to-date numbers, we had a total of \$347 million with a margin of 8.2%. Our outlook for the year is in the range of \$540 million to \$602 million (sic) [\$620 million] (11:58) and the EBIT margin of 9% to 9.5%.

Next page, page 16, in relation to EBITDA, following the same drivers of the EBIT, we had a total of \$136 million in the third quarter with a 11% margin. In terms of the accumulated number for the year we had \$548 million with a 12.9% margin. We are now confirming our expectation to meet the guidance figures for 2014.

Next page, page 17, in terms of net results, we reported a net loss of \$11 million in the third quarter, primarily due to the exchange rate situation, which affected the company's deferred income tax. This effect already happened in the past. But excluding that effect the net income would be approximately \$93 million in the third quarter. We have with the \$11 million loss in this quarter, the accumulated of \$243 million in terms of 2014 to-date numbers.

Next page, page 18 in terms of inventory. We had a total amount of \$2.8 billion in the end of the third quarter, in line with last year third quarter figure, and comparable to what we expect as we prepare to the stronger delivery activity in the last quarter of the year.

Next page, page 19 in relation to free cash flow. During the third quarter we generated \$49 million of operating cash flow and we also continued our investment plan with the program development at CapEx. So the free cash flow was an outflow of \$138 million in the third quarter. It's important to mention that this cash flow reflects an increase in our working capital requirement, year-to-date mainly due to the increase in accounts receivable. We have roughly \$300 million related to defense contracts that we expect to receive by the year end. This effect coupled with the typical strong cash generation in the fourth quarter led us to believe that we'll meet our guidance figure for the year.

In page 20, next page in terms of investment. In general, we are trending below our outlook. Research should not exceed \$60 million for the year, development should stay below \$300 million and the CapEx should be in line with the outlook of \$250 million. So far in terms of the year-to-date numbers we have the total of \$243 million in terms of investment.

In next page, page 21, the company capital structure, we continue to show a comfortable debt profile with a 5.6-year average maturity terms with 4% portion in the short-term. Reflected in our cash flow generation discussion before, we ended the third quarter with a net debt position of \$327 million.

With that, we will close this presentation and we are ready now, open for the questions. Thank you.

Q&A

Operator

Thank you. And our first question comes from Pete Skibitski from Drexel Hamilton. Your line is now open. Please go ahead.

Q - Peter John Skibitski {BIO 6760095 <GO>}

Good morning guys. I guess the first question I will ask is on the large cabin business jets, you delivered 10 year-to-date, and I was wondering of the 15 jets or so you need to deliver in fourth quarter to meet your guidance, could you give us a sense of how many of those have already been ordered as of today or maybe how many are really close to closing?

A - Frederico F. Curado {BIO 2004589 <GO>}

Sure. So as we have forecasted, we forecasted from 80 to 90 of the light jets and 25 to 30 of the large cabin jets. So as of today, we believe we are going to come to the lower - on the more cabin, we're probably on the right in the middle of the range with maybe some potential upside within the range.

On the large cabin though, we're looking more towards the lower end ends up with maybe a little bit risk on the lower end of the larger cabin. Having said that, we are still comfortable that between the two families, we shall achieve the revenue guidance for the segment for the year.

Q - Peter John Skibitski {BIO 6760095 <GO>}

Okay. Got it. And then I had a question on gross margins also, 19.5% they were up about 30 basis points year-over-year on really comparable revenue overall, and comparable revenue in Commercial also, but the mix was much better last year at Commercial as well as at Executive. So I wanted to ask, how do I reconcile that? Is it all kind of FX related, or maybe are the margin headwinds on the E175 maybe not going to be as bad as you had initially suspected, I was wondering if you can help me understand that?

A - Frederico F. Curado {BIO 2004589 <GO>}

(18:34)

A - Luciano Froes {BIO 17907241 <GO>}

Hi, Pete. It's Luciano. A little bit more color on that. Basically when we think about the consolidated gross margin you had a slightly lower, let's say, Commercial Aviation segment margin driven again largely because of the mix of more E175 in the quarter, but that was offset to some extent by higher gross margins in both the Executive Jets as well as the Defense and Security segment.

Q - Peter John Skibitski {BIO 6760095 <GO>}

Okay. And Executive, was that just kind of lower selling expenses within the segment? Or I'd say, no, that wouldn't impact gross margin. Why were gross margins higher in Executive this quarter even the mix was so much worse?

A - Luciano Froes {BIO 17907241 <GO>}

Actually there were a lot of Phenom 300s delivery in the quarter, 14 out of the 15 light jets. So that contributed to that - that reflects this gross margin of north of 22% that I alluded to.

Q - Peter John Skibitski {BIO 6760095 <GO>}

Okay, great. Okay. Thanks guys.

Operator

Thank you. And our next question comes from Cai von Rumohr from Cowen & Company. Your line is now open. Please go ahead.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Yes. Thanks so much. So I guess you are saying you are keeping your cash flow guidance, but you also indicated I think that CapEx plan of \$250 million, but you only did about \$106 million as you defined it in the nine months, in your development plan of \$320 million you've done \$111 million, so you indicated \$320 million is probably high. So those are pluses, how come the cash flow wouldn't be even better than that? What are the offsets to that?

A - José Antônio de Almeida Filippo

The investments will be lower, but as we mentioned we have the pressure on working capital, and so that's what we expect to see. So we're working on reducing the accounts receivable that we had a higher number in the end of the third quarter. We expect to see that coming down in the fourth quarter. That's what we are working.

A - Frederico F. Curado {BIO 2004589 <GO>}

Cai...

Q - Cai von Rumohr {BIO 1504358 <GO>}

If it comes down \$300 million, you basically would be down year-over-year and you would be up. So I am still a little bit confused in terms of what the real offset is because it looks like that should correct itself in the third quarter unless there is something, I think.

A - José Antônio de Almeida Filippo

Yeah, but they were going to be - the cash generation in the fourth quarter, which is stronger than the previous quarters as we'll be adding.

FINAL

A - Frederico F. Curado {BIO 2004589 <GO>}

Cai, this is Fred. Just add a little bit of color. As we can see the year-to-date cumulative free cash flow, it's significantly negative. So we ought to generate a very strong quarter which we are foreseeing. But I must say we do have a risk in this \$300 million accounts receivables or related to defense, most specifically the Brazilian Government programs. So there is a risk there, which may even prevent us from achieving our guidance.

So the view is that we will - I mean this is due, so this is something which is contractually due. But it is of course the fiscal or, let's say, the government budget in Brazil, it's public information. There are some constraints, so I think we must at this stage emphasize that, there is, yes, there is a downside risk to that guidance.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Thank you very much. And just one two-part follow-up, could you maybe give us color in terms of 2016, how you're sold out in terms of the E-Jets?

A - Frederico F. Curado {BIO 2004589 <GO>}

It's looking good. I mean I would not put a figure at this stage Cai, but it's getting better. So when we were sitting in 2012, we were looking at 2014, in 2013, looking at 2015, in now 2014 looking at 2016, so we're probably in the most comfortable position of this three years.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Terrific. And last one labor, where are you with your labor negotiations and what kind of a wage hike should we expect for 2015?

A - Frederico F. Curado {BIO 2004589 <GO>}

Okay. Let me take the opportunity to give you a broader answer. We have several factories in Brazil, so I mean we have already settled an agreement with the factory in Botucatu that's a 7.4% increase in wages applicable from September on. The same proposal has been offered to our plant in Gavião Peixoto where the defense people are in Sorocaba, Taubaté and São José dos Campos. We have not yet positioned from the Gavião Peixoto, Sorocaba and Taubaté unions and we had a negative position from the São José dos Campos union.

We have three units in São José dos Campos and one of them, our employee since last night they have not been allowed. I mean the union has completely blocked the entrances of the factory. So we are paralyzed in our operations in that specific site, which is our largest site in São José dos Campos. There are two sites in São José dos Campos they are operating normally.

So I mean we do not know how long that's going to take to settle. It's conceivable that this will end up in the legal systems in court. But it is - our proposal is final. And what we really regret is that this specific union in São José dos Campos with its very, I would say, aggressive attitude of really blocking people's right to go and come freely is something

Bloomberg Transcript

we had seen happening in the same region in General Motors plant and the outcome is very negative for both the company and the employees.

So we just now have to see how this thing unfolds, and technically we - obviously we have some slack as far as being able to be shut down for a few days and still deliver all of our guidance numbers in delivery etcetera. But at this stage, we have to live day by day and see how this thing unfolds. Other than that factory, everything else is operating well.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Thank you very much.

A - Frederico F. Curado {BIO 2004589 <GO>}

Thank you.

Operator

Thank you. And our next question comes from Derek Spronck from RBC Capital Markets. Your line is now open. Please go ahead.

Q - Derek Spronck {BIO 17904184 <GO>}

Good morning. Thank you for taking my questions. My first question is on 2015 aerospace production. You should have a fairly good visibility on your production guidelines for 2015. Can you provide any color as to how you see 2015 shaping up as it compares to 2014, with regards to executive production as well as commercial aviation production?

A - Frederico F. Curado {BIO 2004589 <GO>}

Yeah, yeah. I think it's a fair question. Of course we will provide specific directions around - is that February, Luciano, or March, early March. So, but, yeah, an indication. We see on commercial - on the Commercial Jets production levels probably sustaining with the possibility of a little bit of a higher number. But I think sustaining the same level is probably a very fair assumption at this stage. We will have a pressure on the gross margin due to pricing. Pricing has become aggressive with, of course, the stiffening of the competition. Obviously on the tailwind side we have a potentially more favorable FX next year and our continuous effort to hold productivity and to keep our costs where they should be. Also the standardization of the assembly line where we have large quantity of airplanes, 175 airplanes for the same customer that also shall give us some benefit as far as productivity.

On business jets we - two important markets we see some reduction in activities these are Brazil and China. But on the other hand we are seeing an increasing level of activity in Europe, believe it or not and the United States. So that adds to the fact that we will be ramping up the Legacy 500 next year. So we are probably looking to some degree of increase in our business jet business. And as we increase the top line, of course, the trend is, we also improve our results because we do not need probably much more, if any more fixed costs to do that.

As far as Defense, I pretty much see a stable activity, a lot of execution to be done. We have been executing very, very well in that business. In this particular business, FX will play against us because, of course, a large part of our revenues is in reais. So, but it's probably a wash, so stability is probably a fair outlook at this stage.

Q - Derek Spronck {BIO 17904184 <GO>}

That's great color, Frederico. Thank you. Just another quick question on the Legacy 500 and the Legacy 450. I was at the NBAA and there was quite a bit of buzz around those two aircraft products. Has that buzz and anticipation of the product, has that been translating into a good order backlog and healthy pricing/margins on the first initial order set?

A - Frederico F. Curado {BIO 2004589 <GO>}

As far as book orders, I would say it has been - being reflected in the pipeline. So there is a significant amount increase in activity in the pipeline. So hopefully that will translate in a few months in actual orders in the increasing backlog. And you are right; I mean the product is really superior. So we do expect that family to move us in a good direction.

As far as margins, in the very first unit, no. I mean this is much more industrial, typical industrial learning curve. The only comment I would add is that this is - I mean so far, knocking on the wood here, has been the best entry into service that we have had in our airplane program. And this is not just a coincidence. We invested a significant amount of work and money and testing and rigs and et cetera to achieve that. So so far the airplane - we have one prototype continued its flying way ahead of the usual deliveries and the airplane has a very good degree of maturity. So we should have - I think it's fair to say we should have a relatively smooth learning curve ahead of us.

Q - Derek Spronck {BIO 17904184 <GO>}

Okay. Great. Thanks. That's all from me.

Operator

Thank you. And our next question comes from Myles Walton from Deutsche Bank. Your line is now open. Please go ahead.

Q - Myles Alexander Walton {BIO 6802513 <GO>}

Thanks. Good morning. Hey Fred, I was hoping you could give me a little color on the defense sales for the year. I think the target is \$1.2 billion to \$1.3 billion and you did \$1.1 billion year-to-date, so, I guess, I am a little confused that the fourth quarter could fall off quite that much?

A - Frederico F. Curado {BIO 2004589 <GO>}

Myles, I mean you are right. I think in the Executive Jet business we may be looking at a lower end of the revenue guidance. In Defense we certainly would be looking at the high

end. And in that case I think we have some upside risk of surpassing that. So it's a fair question, a fair point.

Q - Myles Alexander Walton {BIO 6802513 <GO>}

And is there anything in particular that's driving it, modernization work or short cycle work? I would imagine with the reais weakening it would have actually been more of a headwind to your full year, but...

A - Frederico F. Curado {BIO 2004589 <GO>}

Sorry, Luciano saying...

A - Luciano Froes {BIO 17907241 <GO>}

Yes, (32:49)

A - Frederico F. Curado {BIO 2004589 <GO>}

Yeah, no, Myles, it's across the board. I mean one anti-dose that we have for a potential negative impact in the reais revenues, revenues in reais in the fourth quarter is deliveries of LAS, Super Tucano in the United States. So I think again it's very likely that we are in the end range or even surpass it.

Q - Myles Alexander Walton {BIO 6802513 <GO>}

Okay. And then one other one was that you talked about in the release that lower development and R&D expense and you talked about in the call and you made a point to say that development timelines haven't moved those. So presumably the cost of the, the net cost of your development should actually come down. And I am curious is that more from a supplier contribution perspective or just the net cost of your developments have come down and in particular in what programs?

A - Frederico F. Curado {BIO 2004589 <GO>}

It's a combination of factors, Myles. I would say a little bit of conservative planning probably from our engineering, because this has been probably the most the highest volume of engineering work the company has ever endeavored. So I think there was maybe a little bit of conservatism there. There were a little bit of efficiency itself, so there is a continuous effort from our current team to drive efficiency. And also as you mentioned, I mean our partners contribution which are more event related. So I think the combination of several factors shall keep us probably below \$300 million, I would say more maybe between \$250 million and \$300 million.

Q - Myles Alexander Walton {BIO 6802513 <GO>}

All right. And then just one last one just to confirm, you said that Defense sales flattish into 2015 or growth, and presumably you are going to overachieve your guidance this year, so I guess that's flat to where you achieve, but maybe growth from where your guidance currently is. Is that the way to think about it?

A - Frederico F. Curado {BIO 2004589 <GO>}

That's a good question for clarification. I meant flattish as far as the guidance.

Q - Myles Alexander Walton {BIO 6802513 <GO>}

Okay. All right. Thanks so much, gentlemen.

A - Frederico F. Curado {BIO 2004589 <GO>}

Thank you, Myles. Thanks for the question.

Operator

Thank you. And our next question comes from Joe Nadol from J.P. Morgan. Your line is now open. Please go ahead.

Q - Joseph B. Nadol {BIO 3056499 <GO>}

Thank you. Good morning.

A - Frederico F. Curado {BIO 2004589 <GO>}

Hi, Joe.

Q - Joseph B. Nadol {BIO 3056499 <GO>}

Just a first question on the \$300 million of defense receivables, are those related to any milestones like first flight on the KC-390 or is this now due and payable and the government is just late?

A - Frederico F. Curado {BIO 2004589 <GO>}

No, it's contractual, so we have a progress....

A - Luciano Froes {BIO 17907241 <GO>}

(35:43)

A - Frederico F. Curado {BIO 2004589 <GO>}

Yeah, accrual. And it's not past due. I mean I just - we are just, I am just raising this possibility because, of course, if you remember the last quarter, we did have this - I think it was \$150 million to \$200 million which was a little bit past due which was paid. So we see - we sense some difficulties there. But contractually speaking and we know the efforts on the government side are to honor those payments. But I think at this stage it's correct to say, yes there is a risk.

Q - Joseph B. Nadol {BIO 3056499 <GO>}

But is it due - is it in any way tied to first flight on the KC-390?

FINAL

Bloomberg Transcript

A - Frederico F. Curado {BIO 2004589 <GO>}

No, it is not.

Q - Joseph B. Nadol {BIO 3056499 <GO>}

Okay.

A - Frederico F. Curado {BIO 2004589 <GO>}

We have revenues in our contract is just development program there.

A - Luciano Froes {BIO 17907241 <GO>}

Percentage of completion.

A - Frederico F. Curado {BIO 2004589 <GO>}

Percentage of completion, that's the term. There is no specific event first flight which you believe is going to happen by the way.

Q - Joseph B. Nadol {BIO 3056499 <GO>}

Okay, that's my next question. So on another area, the Legacy 650 you said you expect growth next year overall in Executive, driven by the Legacy 500 which of course makes sense. I am wondering if you could give a little more commentary on the Legacy 650 and how it's competing right now. There is a lot of new aircraft in the mid-cabin area and what your expectations are going into next year for deliveries of that platform?

A - Frederico F. Curado {BIO 2004589 <GO>}

I think we probably will also see some improvement in the Legacy 650. It's an airplane that has a very good potential in the U.S. I think we have a homework to do as far as our own marketing, our own, the way to sell the product, and then to really have it in the market, position it in the market. It's a great product. And I think we ought to do a better job. So yes, I also expect an improvement in the Legacy 650.

As far as the lineage, this is a much more niche product. So we also will be seeing low single-digit numbers, 3, 4, 5, 6 things in that range year-over-year. But the Legacy 650 should perform better. This has not been a great year for the Legacy 650. It should improve next year.

Q - Joseph B. Nadol {BIO 3056499 <GO>}

Can you give just a little more color on that, Fred? I don't want to push too much on it, but there is a lot of new competition, so there are some signs of certainly the U.S. market improving in general. I know this has been more of a European product at times in the past but maybe a little more color on why you don't think it's sold as well this year and why you do think it'll get better next year?

A - Frederico F. Curado {BIO 2004589 <GO>}

FINAL

Yes, in very candidly Joe, I think it's been our own ability to market the aircraft. I think there is nothing wrong with the airplane; it's quite a contrary. And we have had a specific, let's say, underperformance in the United States. So this airplane is not an European scenario airplane. This airplane is perfect for the U.S. but I think we've done a much greater job of selling the airplane abroad than we have in the U.S. So we are focusing on that as well. And these things does not happen overnight. But we are - my team is really focusing also improving the Legacy 650 next year.

Q - Joseph B. Nadol {BIO 3056499 <GO>}

Okay. And then just one more, if you guys wouldn't mind providing, as you have done in recent calls, the segment operating margins and gross margins?

A - Frederico F. Curado {BIO 2004589 <GO>}

In the quarter, on specific quarter.

Q - Joseph B. Nadol {BIO 3056499 <GO>}

In Q3 yeah.

A - Frederico F. Curado {BIO 2004589 <GO>}

Yeah, on specific quarter, as far as operating margin, Luciano help me here, is around 4% Commercial, around 13% Defense, and a negative 5.5% for Executive due to the very low deliveries.

Q - Joseph B. Nadol {BIO 3056499 <GO>}

Okay. I'm sorry, I missed the Commercial, and if you wouldn't mind giving gross as well.

A - Frederico F. Curado {BIO 2004589 <GO>}

Commercial - gross, I don't have it either.

A - Luciano Froes {BIO 17907241 <GO>}

Commercial gross was 15.9%.

A - Frederico F. Curado {BIO 2004589 <GO>}

16%.

A - Luciano Froes {BIO 17907241 <GO>}

16% and operating margin 4%. Executive 22% gross and negative 5.5%, Defense 23% gross and 13% operating margin.

Q - Joseph B. Nadol {BIO 3056499 <GO>}

Very good. Thank you very much.

Bloomberg Transcript

A - Frederico F. Curado {BIO 2004589 <GO>}

Thank you, Joe.

Operator

Thank you. And our next question comes from Eduardo Couto from Morgan Stanley. Your line is now open. Please go ahead.

Q - Eduardo S. Couto {BIO 15918458 <GO>}

Hey, hi. Good morning, guys, and congratulations on the strong results. I have a question on the currency on the BRL. We saw a big movement in the currency in the last month or so. Can you remind us what is the lag between the movement in the currency and the impact of that in your results? In other words, when can we expect to see this R\$2.50 or even weaker BRL being reflected on ERJ's result?

A - Frederico F. Curado {BIO 2004589 <GO>}

Go ahead.

A - Luciano Froes {BIO 17907241 <GO>}

No, no, normally it takes like two quarters to have a full impact because it has to pass by the inventories and then go into revenue. That's the timing of the effect typically.

A - Frederico F. Curado {BIO 2004589 <GO>}

Growing, right, so we have from no impact to full impact.

A - Luciano Froes {BIO 17907241 <GO>}

Yeah.

A - Frederico F. Curado {BIO 2004589 <GO>}

Within two quarters.

Q - Eduardo S. Couto {BIO 15918458 <GO>}

Okay. So probably we're going to see that more reflected next year.

A - José Antônio de Almeida Filippo

Yeah. We still can capture something if it remains that level in the last quarter, but if it stays there – because normally we reduce the inventories in the end of the year. So if it was a stable quarter, several quarters, that would be something like that, but we're probably going to capture part of that in the last quarter as we deliver most of the inventory.

Q - Eduardo S. Couto {BIO 15918458 <GO>}

FINAL

Okay. And just a second question regarding commercial orders, can we expect more orders from the U.S. already next year are the conversion of options into firm orders in the U.S. already in 2015, or this is more for 2016, 2017?

A - Frederico F. Curado {BIO 2004589 <GO>}

No, no, I think it's correct to assume that we should see some more activity next year which will lead us towards filling up the production line like the backend of 2016 and mainly 2017. So yes, we expect that.

Q - Eduardo S. Couto {BIO 15918458 <GO>}

Okay. And just a final point, Fred, can you give us your view regarding this Brazilian regional aviation plan. I think it should be approved this month in the Congress, so any additional thoughts on that?

A - Frederico F. Curado {BIO 2004589 <GO>}

Yes, we are obviously very close to the issue. There would be a - the issue is in Congress right now. There was a report issued yesterday by the special commission and the report changed the government Executive Branch project. So they decided to postpone the vote from today to next Tuesday. So we are in the hope that in Congress they do not distort the bill sent by Executive Branch. But now it's really down to the basic politics in Congress and we will know by Tuesday. So at this stage it's a bit hard to predict where this thing is going.

Q - Eduardo S. Couto {BIO 15918458 <GO>}

Okay. Can we expect orders coming out of this regional plane or it's just too early to assume that?

A - Frederico F. Curado {BIO 2004589 <GO>}

If the project - if the bill sent by the Executive Branch is approved, as it was issued, yes, there will be - because it's a cascade effect. Fundamentally there will be support for probably 100 more, 300 to 200 new communities which do not have air service today. This is low density traffic, and so that will drive demand for more airplanes and for smaller airplanes, airplanes typical of our size. So we have - as it is public information we have been discussing not only with Azul which has already confirmed a new order but also with TAM and GOL in that respect. But it's kind of a go, no go. And if the plan is approved, I think the potential is there. And by the way this is not - I mean we have to expect some competition there as well. I mean there is no protection for our airplanes. So Bombardier, we also have ATR which has a large fleet in Brazil. They also will potentially benefit.

We work very hard to prevent that but it's a potential for regional airplanes in Brazil which still today is very much concentrated in the trunk (45:40) lines. And it's a little bit uneven fleet distribution compared to the U.S. or Europe.

Q - Eduardo S. Couto {BIO 15918458 <GO>}

Okay. Thank you.

Operator

Thank you. And our next question comes from Darryl Genovesi from UBS. Your line is now open. Please go ahead.

Q - Darryl Genovesi {BIO 20862546 <GO>}

Hi, good morning.

A - Frederico F. Curado {BIO 2004589 <GO>}

Hello.

Q - Darryl Genovesi {BIO 20862546 <GO>}

Can you just put a little bit more – I know you've done some of this already, but just a little bit more color on the moving pieces for 2015. So I guess in particular, I think you guys have given some guidance in the past with regard to the real for a, I think, it's a 1% EBIT margin benefit for every 10% that the real weakens. Is that guidance still good or has that changed with the ramp up of the Florida factory?

A - Luciano Froes {BIO 17907241 <GO>}

Hi, Darryl, so as far as next year, it's still a little bit too early to try to put specific numbers on that. Of course we have to see exactly where the revenue and cost structure will be, especially as all the three business units comprise the revenues and cost structure. So of course the general move will help and is a tailwind, but putting specific figures for next year, we'll have to wait a little bit more to get more clarity. As Fred mentioned in early March, we'll have a better view there.

Q - Darryl Genovesi {BIO 20862546 <GO>}

Okay. I mean is the – when I'm just thinking about the percentage move on your currency exposure, I mean my impression is that almost all of that is related to Brazilian labor. So when kind of thinking about the big weakening in the real that we've seen year-to-date relative to the labor inflation numbers that you're talking about, I mean, should we assume that those apply on roughly the same dollar cost base?

A - Frederico F. Curado {BIO 2004589 <GO>}

On the cost, we may simplify that, but keep in mind that there's also the pricing issue which I mentioned specifically more on the Executive Jet, sorry, on the Commercial Jet side, smaller airplanes E175, the mix is more E175 than E190, so lower priced airplane and large transactions and stiff competition. So I mean, we are sorry, but I think we really cannot advance much for it at this stage.

Q - Darryl Genovesi {BIO 20862546 <GO>}

Okay. Maybe a little bit bigger picture question then, with regard to the Legacy 450 and Legacy 500, any updated thoughts on what you think the ultimate market is for those airplanes. I think you guys had initially thought of it as kind of a 40 a year, kind of number, but with the additional capacity that you are putting in to Florida for Legacy 450 and Legacy 500 production, I think maybe expectation there have increased. Is that a fair assessment?

FINAL

A - Frederico F. Curado {BIO 2004589 <GO>}

You are breaking up, so the last part of the question we missed it because you are breaking up.

Q - Darryl Genovesi {BIO 20862546 <GO>}

All right, is that better?

A - Frederico F. Curado {BIO 2004589 <GO>}

Yes.

Q - Darryl Genovesi {BIO 20862546 <GO>}

I was saying with regard to the ultimate Legacy 450 and Legacy 500 production rate that you think you can achieve. I think a few years ago you were sort of characterizing it as a 40 a year kind of opportunity, and just wondering if that expectation has increased. I guess, based on the fact that you guys are putting more mid-size capacity into Florida, it sounds like maybe your expectations have moved up there, and just wondering where you think that program ultimately goes?

A - Frederico F. Curado {BIO 2004589 <GO>}

Yeah. I mean if you look at that segment pre-crisis that segment was a very healthy one. So although in the short term we may look at numbers which are in the 40 a year or 50 a year range, I mean we have decided to have just in Melbourne where these airplanes will be manufactured just there we're going to have - already launched the infrastructure for 6 airplanes a month, for 72 airplanes a year.

Q - Darryl Genovesi {BIO 20862546 <GO>}

Right.

A - Frederico F. Curado {BIO 2004589 <GO>}

We will start producing these airplanes in Brazil. So if that goes beyond 72 a year airplanes which may sound like a little bit of a dream today. But if you look back to pre-crisis numbers, so the numbers were actually higher than that. We can easily add capacity, so today we are committed to infrastructure for 72 airplanes a year, 6 airplanes a month, and we will, of course, as the demand takes us.

Q - Darryl Genovesi {BIO 20862546 <GO>}

Great, thank you.

A - Frederico F. Curado {BIO 2004589 <GO>}

Thank you.

Operator

Thank you. And our last question comes from Pete Skibitski from Drexel Hamilton. Your line is now open. Please go ahead.

Q - Peter John Skibitski {BIO 6760095 <GO>}

Yeah, Fred. I just want to ask on the Saab contract getting for Gripens, getting signed with the fab, I think I read it to be US\$5.4 billion which seemed to be larger than I expected anyway. So I just wonder if you can tell us what Embraer share of that would be at this point now that it's signed, and maybe what kind of a timeframe you would expect to get started and complete that contract.

A - Frederico F. Curado {BIO 2004589 <GO>}

Sure. My understanding about it - although that we have no direct involvement in this contract between Saab and the Air Force, that this \$5.4 billion is probably related to escalations and stuff like that. So there is - to my knowledge there is no change in the subject matter of the contract, 36 airplanes and all the logistics associated.

We have moved from an MOU to a, let's call, a very advanced MOU or almost like a semi-contract with Saab. And at this stage I do not have yet numbers, so I can't tell you X percent is going to be us. But as far as scope of work you have a significant - the most significant amount of engineering work on the (51:56) version.

We also have significant amount of work in engineering as far as adaptations of the aircraft to the Brazilian Air Force's specific requirements. We will assemble a number of the airplanes in Brazil. That number may be probably no less than 15 airplanes, or less 15 airplanes in Brazil. That's still under discussion. And we also - there is also a provision where there'll be some sort of a joint marketing of the airplanes between Embraer and Saab to new markets.

So this is a complex content. And as I said, we will be able to put figures in that probably within six months. There is some work which would be started, but very, very small as far as just contacts between engineering teams. So timeframe is six months, we shall have a full final contract between Embraer and Saab and then of course we'd be able to disclose to you more precise figures.

Q - Peter John Skibitski {BIO 6760095 <GO>}

Okay. Are you expecting to generate some revenue on in 2015? Is that a fair statement?

FINAL

Bloomberg Transcript

A - Frederico F. Curado {BIO 2004589 <GO>}

No. If there is some it will be negligible, no.

Q - Peter John Skibitski {BIO 6760095 <GO>}

Okay. Got it. Thank you.

Operator

Thank you. This concludes today's question-and-answer session. And that does conclude Embraer's audio conference for today. Thank you very much for your participation. Have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript