

Q1 2021 Earnings Call

Company Participants

- Antonio Carlos Garcia, Executive Vice President, Chief Financial And Investor Relations Officer
- Eduardo Couto, Director of Investor Relations
- Francisco Gomes Neto, President, Chief Executive Officer

Other Participants

- Josh Milberg, Analyst
- Myles Walton, Analyst
- Robert Spingarn, Analyst
- Ron Epstein, Analyst
- Unidentified Participant
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Audio Conference Call that will reveal Embraer's First Quarter 2021 Results. Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions to participate will be given at the time. (Operator Instructions) As a reminder, this conference is being recorded and webcasted at ri.embraer.com.br.

This conference call includes forward-looking statements or statements about events or circumstances, which have not occurred. Embraer has based this 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 obligations to update publicly or revise any forward-looking statements because of 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 might not occur. The company actual results could differ

substantially from those anticipated in the forward-looking statements.

Participants on today's conference call are Mr. Francisco Gomes Neto, President and CEO; Mr. Antonio Carlos Garcia, Executive Vice President, Finance and Investor Relations and CFO; and Mr. Eduardo Couto, Director of Investor Relations.

I would now like to turn the conference over to Mr. Antonio Carlos Garcia. Please go ahead, sir.

Antonio Carlos Garcia {BIO 21338149 <GO>}

Hi, everyone, and thanks for attending Embraer's first quarter '21 earnings call. This is Antonio Garcia, Embraer's Chief Financial Officer.

Before I start with the presentation, I just want to highlight that first quarter of 2021 was strong in terms of sales activity and we believe this trend will continue during the rest of the year.

We also presented better deliveries that combined with cost control and lower investment, resulted in a much lower cash consumption than in previous years. Our margins though were weaker than expected especially in Defense and in executive jets, mostly affected by events that we will detail during the presentation. And that we don't expect to re-occur in the rest of the year.

With all that said, it's important to highlight that we continue to deal with high levels of uncertainty in the context of the pandemic. And recovering our business that had been mostly impacted will depend on the vaccination improvement worldwide. Given this uncertainty, we will not provide formal financial and delivery guidance, though we are hopeful that we will be able to update you regarding our expectation for 2021 in the coming months.

Now moving to the presentation at Slide 4, highlights in commercial aviation. We announced today a new firm order for 30 E195-E2 jets from an undisclosed customer. This large order will be added in the second quarter backlog, it reiterates the continuous interest in the E-Jet family as we emerge from the pandemic. The deliveries for this new order will start in 2022. It's important to highlight that we also have several other active campaigns in different regions and anticipate a book-to-bill above 1 for the commercial aviation this year.

In terms of deliveries, we delivered nine E-jets during the first quarter, which was four units above the five E-jets delivered in the first quarter of last year. We had a good start of 2021 in commercial aviation, and we expected more balanced deliveries throughout the year versus 2020, when our deliveries were highly concentrated in the fourth quarter.

Among our deliveries, we had the KLM that's received its first 195-E2 this quarter. And KLM now operates 50 jets in its fleet. We also delivered our first E195-E2 in the African

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continent for Air Peace, another important achievement.

Finally an update on the E2 program. We rescheduled the entry into service of the 175-E2 for 2024 from 2023 previously, as we don't expect short-term scope clause changes in United States, and we continue to optimize our cash investment in uncertain market conditions.

In executive aviation, we had a very strong quarter with record sales and production sold out until the fourth quarter of 2021. In terms of deliveries, we delivered 13 jets, four planes more than the first quarter of 2020. And we expect the highest single-digit growth this year. We maintain our price discipline strategy and also had a solid backlog growth across the entire portfolio with a book-to-bill exceeding 1.75 times.

Finally, the small and mid size business jet segment continued their robust recovery driven by bottom-up customer demand, including first-time buyers.

Moving to Slide 5. In Defense and Security, the KC-390 Millennium continues to perform additional missions relating to its full operating capability certification. During the first quarter, it concluded the Cold Weather and Air-to-Air refueling tests. The KC-390 also attended a joint air exercise with the US Army called Culminating for paratroops operation.

Regarding the Super Tucano, we delivered the first two Super Tucanos to the US Air Force Special Ops Program and the seventh Super Tucano to Nigeria. In terms of new programs, Embraer and the Brazilian Air Force signed a memorandum of understanding for the study of one advanced unmanned aircraft, UAV.

In services and support, Embraer had strong new sales in their quarter, closing around \$360 million in new contracts, despite the market being still in recovery from the ongoing pandemic. Our services team also performed a workshop with the airline customers to discuss sanitization and healthy journey. They also launched a new digital platform for aircraft technical publications.

Finally, Embraer has been supporting the Brazilian Air Force in their KC-390 missions to combat the pandemic with more than 500 hour flight and 99.7% mission completion rate, which shows the outstanding reliability of these aircrafts.

Slide number 6. Moving to the financial highlights of the quarter, we show the backlog. The company consolidated backlog finished the quarter -- the first quarter at \$14.2 billion, which was mostly in line with the end of 2020. We are optimistic with a recovery in the backlog as progress through 2021, especially after we signed a firm order with an undisclosed customer for 30 E195-E2s that we will enter in the backlog in the second quarter.

We are particularly to happy with the performance of the executive aviation segment, which had one of its best sales performance in the recent years in the first quarter, which

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is typically a slower quarter. It's also important to note that we had no cancellations of commercial aviation or executive jet orders in 2021.

On the next slide, Slide 7, we show our commercial jets and executive jets delivery. We had a nice recovery in both segments in the first quarter of 2021 as compared to last year, with nine commercial jets delivered in the period and 13 executive jets delivered. We see a more balanced quarterly split of deliveries in commercial aviation for 2021 than we saw in 2020.

On the Slide 8, we show our consolidated net revenue in the first quarter, which were \$807 million as compared to the \$634 million in the last year first quarter. This represents year-over-year growth of 27% with improvements in commercial aviation and executive aviation and defense and security segment in the period.

Defense and security revenue would have been even better than the quarter but we had some Super Tucanos deliveries slip into second quarter and also lower revenue with the Brazilian government at this year budget was still under approval by the Congress.

On Slide 9, I'm pleased to show the evolution of Embraer SG&A expenses over the last few quarters. We recognized \$80 million of SG&A expenses in 2021 first quarter which compares to \$116 million in the first quarter 2020 which represents a decline of 30% year-over-year, resulting from our working on generating cost efficiency and the restructuring actions implemented last year.

On Slide 10, which shows both adjusted EBIT and adjusted EBITDA figures for the quarter and previous periods. The company had a consolidated adjusted EBIT of negative \$30 million in the first quarter of 2021 versus a positive \$9 million in the first quarter of last year. And our adjusted EBIT margin was minus 3.7%. The decline in adjusted EBIT in the quarter of course despite improvements in commercial aviation segment profitability, with most decline coming out of the executive aviation, defense and security segment. The executive aviation business had higher production costs in the quarter mostly related to the old programs obsolescence, atrophy in all quality costs that we do not expect to repeat in the upcoming quarters.

With respect to the defense and security, we had FX impacting and delays that impact fixed cost absorption as well less favorable mix of revenues with Super Tucano deliveries in the upcoming quarters.

The service and support margins in the first quarter were also slightly affected by the pandemic.

With respect to adjusted EBITDA, in the first quarter, we generated \$80 million positive representing an adjusted EBITDA margin of 2.2%. We expect both adjusted EBIT and adjusted EBITDA to improve as the year progresses.

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On Slide 11, our adjusted net income for the quarter was a loss of \$96 million represent a net margin negative of 11.9%. The net loss was largely as a result of the lower operating income combined with higher financial expenses as we increased our overall debt levels to improve liquidity last year.

We will maintain a strong liquidity level, but we are optimistic that an improved visibility of our financial performance beyond 2021 will give us the opportunity to reduce the higher cost bank debts to lower our financial expenses.

On Slide 12, we show our investment and free cash flow. First, with respect to investment, the company had a total of \$39 million including CapEx, development and research expenses in the period.

We continue to control our cash outflows by investments in the cost of the new portfolio of products and services caused by the pandemic and our level of investment now is adequate for the programs we are currently undertaking in their respective updated timelines.

Now moving to free cash flow. We did a much better job of controlling the cash outflows in the first quarter of 2021, compared with the first quarter of 2020, and even prior year's first quarter, in which seasonally, Embraer burns cash. We had a free cash flow usage of \$227 million in the first quarter of 2021, which compared to the \$677 million in free cash flow usage in the last year first quarter.

The major improvement to the free cash flow coming from the work we have done to better match our production rates and the supply chain to our current rates of delivery for the year. As well, ongoing price we are undertaking should be much more efficient with the working capital. For instance, our inventories in the first quarter 2021 are hopefully \$500 million lower then they were in the first quarter of 2020 and also in 2019. We have a much more work to do with respect to working capital, but we are confident that we are achieving more savings over the next quarters and years.

Finally, on the Slide 13, we have our liquidity position at the end of the quarter. We finished with a total cash of almost \$2.5 billion, total debt around \$4.4 billion and net debt of \$1.9 billion. Our maturity schedule is very manageable, with a little short-term debt and overall average maturity is now 4.2 years.

With that, I conclude my presentation. Now, I will turn the call over to Francisco for his final remarks. Thank you very much.

Francisco Gomes Neto {BIO 19328044 <GO>}

Good morning to you all. Thank you for your participation in our conference call. And after Antonio's presentation, I would like to highlight a few points. Recently, we passed the one-year mark from the beginning of the pandemic, and we are very pleased to now see increases in the number of vaccinated people in different regions around the world. This vaccination progress is fundamental for the recovery of the aerospace sector and

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consequently for an increase in new orders coming from our major customers, especially in our commercial aviation.

We continue to be focused on our strategic plan which aims to increase in revenues and profitability in the short and medium terms. As Antonio presented, we had revenue growth and the strong control of expenses and investments which led to a significantly better result in cash consumption, the beginning of 2021. This is the new management philosophy of Embraer, based on efficiency and profitable growth. And to reinforce this vision, we are naming our strategic plan, "Fit for Growth." Fit for Growth expresses in a simple indirect manner what we are doing? Generating more efficiency and competitiveness to grow in a sustainable way.

On the front of efficiency gains, we have already seen a reduction of \$500 million in current inventory levels at Embraer when comparing to previous years. And have you higher goals of reducing the production cycle of our aircrafts by more than 40% in 2022, leading to a substantial impact on our working capital and production cost reduction.

Regarding new sales coming from our current portfolio of products, we announced today the excellent news of a return of sales in commercial aviation with a new firm order contract for 30 E195-E2 aircraft. And we still have various other sales campaigns in progress, not just for commercial jets, but also for the C-390 Millennium and the Super Tucano. Also, in executive aviation, we are currently experiencing the book-to-bill in excess of 1.75 and our current business jets portfolio is sold out until the fourth quarter of this year.

On the front of innovation projects, diversification and the strategic partnerships, we continue to advance with potential partnerships developing markets for our commercial jets for the C-390 Millennium and for the development of a Turboprop aircraft.

We have also assumed control of Tempest, a cyber security company. And we fully incorporated Savis, our radar business resulting in better synergies in our defense and security segment.

Moreover, we continue to make progress investments to triple our engine maintenance revenues in next few years in Portugal in partnership with Pratt Whitney.

The development of the eVTOL is another project that is moving forward quickly, with the performance of new tests of our prototypes in reduced scale and fully scaled as well, in addition to the evaluation of potential investors in the project.

Finally, we continue to make progress in our ESG agenda, investing in projects for more sustainable technologies such as electrification, biofuels and energy efficiency. We are also implementing programs to guarantee more diversity in our company, including in the Board of Directors.

In summary, we are very confident in our strategy and in the actions currently being taken. Now is the time to be more efficient and grow in a profitable way. There are many opportunities in our sights, and we will be pleased to share with you all more good news as the year progresses. Thank you very much for your attention and for your interest in our company.

Questions And Answers

Operator

Thank you. We will now start the Q&A session. (Operator Instructions) Our first question comes from Myles Walton, UBS.

Q - Myles Walton {BIO 6802513 <GO>}

Thanks, good morning. I was hoping you could pick up where you left off, Francisco, with respect to the ordering, if you can give us any color in terms of the region that it's coming from? And also, you hinted there were further orders in the pipeline, both for the KC-390 and on the commercial aviation side in particular. I'm just curious, can you point again to maybe the region where the KC-390 might be making some penetration? You mentioned the joint exercise with the US. Are these NATO countries that that could be coming down the pike? So maybe just color on the pipeline. Thank you.

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Thank you. Myles for your question. At this point of time, unfortunately, I cannot disclosure more details on this order, it's really an excellent news and great with progress in our E2 program. And -- but I can tell you is that we have many other campaigns -- sales campaigns and not only for commercial jets, but also for the C-390 in different regions, and Super Tucanos as well. But I cannot disclosure more information to you at this point of time. Sorry.

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

Operator, can we take the next question?

Operator

Thank you. Our next question comes from Josh Milberg, Morgan Stanley.

Q - Josh Milberg {BIO 19336060 <GO>}

Hey, good morning, everyone. Thank you for the call and congrats on those efficiency slides that you highlighted and also on the 30 E2 order. With those orders and with the first quarter result, could you touch on how you see the mix between E2s and E175s both for this year and for 2022? And also, maybe talk about how the margins compare on the two aircrafts? A past concern of ours has been that -- that you're highly dependent on E175s, if we continue like that, the economics on it could deteriorate just because of

issues of fuel efficiencies and other factors. So it would be great to just hear your perspective on those points.

A - Francisco Gomes Neto {BIO 19328044 <GO>}

So Josh, go ahead, Antonio -- go ahead, sorry.

A - Eduardo Couto {BIO 18009973 <GO>}

Just in regards to the mix just mentioned in regards to the 2022 mix is something around 40% E2 and 60% E1 on the mix, more or less. This can't be changed? Slightly changed but this is more or less what we have in the pipe.

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Yeah, and the sales campaign is about -- yes for E1s and yes for E2s, Josh.

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

Just one point to Josh --

A - Eduardo Couto {BIO 18009973 <GO>}

Also (inaudible) so next for 2022 --

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Go ahead, Josh, sorry. Go ahead Eduardo, sorry.

Q - Josh Milberg {BIO 19336060 <GO>}

I was just going to add that --

A - Eduardo Couto {BIO 18009973 <GO>}

I was just going to say. So, I was going to ask you --

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Go ahead, Eduardo. We have a little bit of a delay here. Sorry about that.

A - Eduardo Couto {BIO 18009973 <GO>}

Yeah (inaudible) No, I was just going to add that you know you mentioned about the mix right saying that once profitability is lower, it's not really the case. I think we are doing -- we have a lot of initiatives to reduce costs and also we have good campaigns for the E175-E1 and and we are not seeing a big difference in terms of profitability, we believe we're going to be profitable on both E175-E1 as well as the E2.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay, that's great, Eduardo. And then, just on -- I think you mentioned in your release that the 30 E2 orders would start delivering in 2022. Can you give us an idea of how many you might deliver next year of that particular order?

A - Eduardo Couto {BIO 18009973 <GO>}

From this order, we are going to deliver the first 12 in 2022, Josh.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay, that's great, thank you guys.

A - Eduardo Couto {BIO 18009973 <GO>}

Welcome.

Operator

Our next question comes from Robert Spingarn, Credit Suisse.

Q - Robert Spingarn {BIO 5996882 <GO>}

Hi. I have a couple of questions for you. I don't know if this is for Francisco or Antonio. But you have the stock repurchase in the quarter. Should this signal to us confidence that you could be free cash flow positive this year. I know you're not guiding, but I want to think about how to interpret that?

A - Francisco Gomes Neto {BIO 19328044 <GO>}

No, we had a minor repurchase, right, that we launched last year, but we are not, you mean, buying back shares, we're not actively buying back shares at the moment, Rob..

Q - Robert Spingarn {BIO 5996882 <GO>}

Okay, and then just on your upcoming projects, the Turboprop and Urban Air Mobility, have you made any progress on the partnership search, is there any update that we can have there?

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Rob, we have had progress, actually you can see we are advancing very well in those fronts, the fronts for TP, for the C-390, for the E-Jets. But as we don't have anything concrete at this moment, I cannot disclosure more information with you. No, but I just can confirm that we are progressing very well on those fronts.

Q - Robert Spingarn {BIO 5996882 <GO>}

Okay, and then just, I think in the press release you talked about how expected retrofit non-quality costs negatively impacted the gross margin in the quarter at executive aviation, and I was wondering if you could provide some more color or specifics around the size of the impact there.

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A - Antonio Carlos Garcia {BIO 21338149 <GO>}

Rob, just from my side, Antonio speaking, we were expecting a kind of black zero [ph], we could take the \$30 million as I would say additional cost part of it is going to be compensated the quarters to come.

And again, something like \$30 million to \$40 million, that was what we saw and part of we are going to recover in the coming quarters.

Q - Robert Spingarn {BIO 5996882 <GO>}

Okay and then --

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

Just to add, Antonio. Sorry, Rob, Neto here. Now just to add that you know the retrofit cost now we sold and delivered some demo aircraft during the quarter. Sometimes when you're delivering a demo, you have some additional costs right to bring that demo to the normal conditions. So it's really a one-off type of cost. The prices were very good. Now, we are really positive in terms of pricing for our business jets, but we had those extra costs related to those demos that end up being affecting the margins, but it's really non-recurring.

Q - Robert Spingarn {BIO 5996882 <GO>}

Okay and then just as a final question -- go ahead.

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

No, Robert, I would just complement what Neto just said that we are -- another front that we have is a strong focus on improving quality and reducing the non-product costs in the company. So we do expect good improvements in that front as well.

Q - Robert Spingarn {BIO 5996882 <GO>}

Okay. and then just last, Antonio, you mentioned strength in the light, mid size orders in executive jet and in that category. And you mentioned there are some first-time buyers. Is there a way to -- you had I think a 1.75 book-to-bill, so maybe 20, 2 orders in the quarter. What percentage of those were first-time buyers?

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

. It's really a good question. I really do not have a clue about this, I can send you afterwards. But we are seeing this at the entry-level because we do not have use it our E1 aircraft available in this, category in the second end market, that's improving, and I need to check on with you later on.

Q - Robert Spingarn {BIO 5996882 <GO>}

Okay, thank you very much. Thank you.

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Operator

Our next question comes from Ron Epstein, Bank of America.

Q - Ron Epstein {BIO 15893287 <GO>}

Hey, good morning guys. You talked a little bit about this on the call, if you could elaborate on the sales campaigns you're seeing. I know the customer for the 30 aircraft that you sold is undisclosed but are they sort of a trunk carrier, or are they start-up carriers. Any color you can give us there? And I've got some other questions after that.

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

Ron, we also are anxious to disclosure that information, but I think you need to -- I recommended that you wait another much that we will give you more details of what that order in one, two months. Sorry.

Q - Ron Epstein {BIO 15893287 <GO>}

And then on the other campaign activity that's going on, if you can give us a feel for that. I mean, what do you feel so good about a book-to-bill better than 1 this year?

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

We do have many other activities sales campaigns going on in North America, Europe, in other regions, and yeah, as I said, we do see that with the progress in the vaccination, our -- airlines will be more motivated to close the deals with us and we are confident we have the best option, the most efficient product, the regional aviation that is the E2. So we are very well positioned with this market rebound at this point of time. So again, we do -- we expect to have more good news in the -- during the rest of the year in terms of new deals.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it. And can you guys -- I'm not sure if you did, you don't typically, are you comfortable breaking out the margins for the business aviation segment?

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

Yeah, we -- in terms of margins, Ron, we do here, we had these negative margins around 5% negative for executive, but as said, we had these retrofit and non-quality costs, probably removing that, the margins would have been positive. So the way we are seeing now the current sales that we are performing, they are doing quite well on executive jet in terms of profitability.

So we are feeling good about margins in that. Are you asking about the executive jets our commercial executive jets?

Q - Ron Epstein {BIO 15893287 <GO>}

Yeah, executive jets.

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A - Antonio Carlos Garcia {BIO 21338149 <GO>}

We are feeling really good the book-to-bill is strong and the profitability for these new sales that we are getting are looking really, I would say, interesting.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it, got it. And then maybe shifting gears to the turboprop discussion. Are you guys -- if you can say, going at that alone or are you thinking about risk sharing partners? Can you share maybe from a broader strategic perspective, are you going to take all that risk yourself or do you want to share that risk with maybe an engine provider and some other firms?

A - Francisco Gomes Neto {BIO 19328044 <GO>}

No. Thank you again. So, our primary, strategy is to really to find partners to help us to fund the project and accelerate the project, that's what we are doing. But what we have done working in partnerships -- strategic partnerships for the -- to help us to fund the turboprop.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it. And then maybe one last question and then I'll give up the line. Investors have been focusing a lot on ESG concerns and one area as a team, we've been focusing a lot more on is the Governance side of things, and something we've noticed over the years is Embraer's Board doesn't have a lot of aerospace folks on it. Is there any move going forward to maybe diversify the Board with more aerospace people on it and maybe have a Board that's a little bit more international?

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Thanks for this question again, Ron. Yes, I mean we have -- we had some changes in our Board recently. So we have now another woman, (inaudible), and she came from -- she used to work in the aerospace sector in Brazil as CFO of LATAM, this was a good movement and also we are now -- we announced recently our Chairman, that we are looking for two people -- two foreigners to be part of our Strategy Committee in the first moment in the first step and the second step to be part of our Board of Directors.

So, this is also good movement in the direction of we have more internationalization in aerospace knowledge in our Board.

Q - Ron Epstein {BIO 15893287 <GO>}

Great, thank you very much.

A - Eduardo Couto {BIO 18009973 <GO>}

Just one point going back to Rob's question about the mix on executive jets, it's around 50%. It depends on the aircraft. But on business jet around 50% of the sales are for first time buyers.

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A - Francisco Gomes Neto {BIO 19328044 <GO>}

Okay. Thanks Edu.

Operator

Thank you. Our next question comes from Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you. I have two questions. The first one, Francisco, you mentioned, I think that in the opening remarks that's basically I mean the opening read, sold into full production capacity for executive jets in the year. So my first question if you can disclose this number meaning what to expect to sell for 2021? And my second question is with regards to commercial aviation, when I take a look on -- if I see your debt, I can see a negative gross margin in commercial aviation for the first quarter. So I think part of it's because of a production scale, but can you comment a little bit more about this?

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Well, regarding the executive jets, I mean, what I said is that, yes, we are sold out in our business jet portfolio until the fourth quarter this year and we -- which is great for us, now that the book-to-bill is 1.75, now that reduced for us, and we expect a growth of just below 10% compared to the last year levels in the executive jets.

In the commercial aviation, yes, we are suffering with the margins, because of the too low volumes. We are still working with low volumes compared to the previous years. And we expect the situation to improve substantially from 2022 onwards as markets will recover. And in part of that, we are working very strongly to reduce the cost of our products with many initiatives as the cycle time, the production cycle reduction or actions to reduce the cost properly in order to combine the sales growth, there we see an important improvement in the margins of all business, but especially commercial aviation.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, thank you.

Operator

Our next question comes from John Cooper, JP Morgan.

Q - Unidentified Participant

Yeah. Hi, everyone, actually John Citron [ph] from JP. Question I have also on margins. I'm looking at the defense and security segment, Antonio had mentioned in the beginning of the call that it was impacted because of a delay related to the approval of the government's budget. So my question is, have these things been normalized? And secondly, can Embraer change its opinion by the end of the year, probably release a guidance or at least something for the second semester of 2021? Thank you.

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A - Antonio Carlos Garcia {BIO 21338149 <GO>}

So John, yeah, thanks, for the question. With regards to the defense and security, the government budget was approved late March and the situation should become normal on the defense and security side and we expect to give you guys a guidance in the mid of the year. That's our best guess to date.

Q - Unidentified Participant

Okay, thank you.

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

Welcome.

Operator

Our next question comes from Myles Walton, UBS.

Q - Myles Walton {BIO 6802513 <GO>}

Thanks guys, thanks for let me back end. Sorry, my phone cut off. Francisco, I was hoping you could give some color on the KC-390 campaigns and if the testing that's ongoing now and completing is basically a catalyst for orders to take place in Cold Weather and Air-to-Air refueling testing, are there customers who are waiting to see these results, which would then manifest into orders?

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Well, Myles, we are really working hard to conclude the certification -- all the certification process for the KC, we developed this, some of them we just mentioned, refueling and the other ones and for sure this will help us to open new markers for the KC-390, and as I said before, we are working in several campaigns for the KC, and also looking for other partnerships to help us to open new markets for the KC-390. This is what I can share with you at this point of time, Myles.

Q - Myles Walton {BIO 6802513 <GO>}

And what is the timeline for the completion of all the testing -- when does it finish --

A - Francisco Gomes Neto {BIO 19328044 <GO>}

We hope to conclude everything still this year.

Q - Myles Walton {BIO 6802513 <GO>}

Okay, very good. And I think you gave executive aviation margins, but could you give the commercial and defense and services margin there?

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

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Yeah, sure. As I said, executive had this retrofit and non-quality cost impact, was around minus 5%; in commercial -- actually services, on service was positive 10%; on commercial, around minus 10%, but it comes from a very low base and as we are recovering volumes and as Francisco described that the margins should continue to trend up. In defense, we are also affected by some Super Tucanos that slipped for the upcoming quarters, and they have good margins and also the budget right there was all that discussion on the budget, we end up having lower revenues in defense, that's we were anticipating which affected fixed cost dilution and affected the margin as well, so defense was also around minus 5%.

Q - Myles Walton {BIO 6802513 <GO>}

Okay. And Antonio, just one on cash flow. So you came in probably better than you'd expect on the cash flow in the first quarter, and does that get better sequentially to the point where you know that you'll be positive cash flow for the year yet?

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

Myles, thanks for the good question. We are not there with our planning. For sure, we would be much better than last year. No question mark. And we are revising our forecast here, we are trying to do everything to be really cross (inaudible), but I cannot give you the precise number right now. But it will be much better than last year because we do not have any liability management or load that we needed to pass through this year here. We are just managing our bank indebtedness means we have the situation under control, but I promise you guys we're going to get our guidance in the coming months.

Q - Myles Walton {BIO 6802513 <GO>}

Thanks so much.

Operator

Our next question comes from Mathias Wemmail [ph],(inaudible) Asset Management.

Q - Unidentified Participant

Hi, thank you very much. I'm really sorry, my questions have been answered. Thank you.

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

Okay, thank you, Mathias.

Q - Unidentified Participant

Welcome.

Operator

Our next question comes from Ron Epstein, Bank of America.

Q - Ron Epstein {BIO 15893287 <GO>}

Hey, guys. So I already asked my questions, I got in twice, sorry about that.

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Okay, we like to talk to you, Ron -- you could get in touch --

Q - Ron Epstein {BIO 15893287 <GO>}

I like to talk to you guys too. Thank you.

Operator

Our next question comes from Paul Anderson [ph], (inaudible).

Q - Unidentified Participant

Hi. Thanks for taking the question. Most have been answered, but on the short-term debt, how do you expect to manage that this year, pay it down?

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

Yeah, most of our liability management was done last year, right, when we issued the new bonds when we raised money with private banks. So this year, we have very few amortizations and even for 2022 and 2023, the amortizations are also low. So we are checking, we want to reduce our financial expenses. We are being, I would say, very mindful on how we do our liability management to reduce those financial expenses, but probably we are going to be paying down some debt going forward.

Q - Unidentified Participant

Okay. The amount on the balance sheet is listed at \$357 million, is that amount that would be paid down?

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

A big chunk is -- the big chunk is a debt we have in Portugal, it's a bank debt, and probably we're going to pay down that one.

Q - Unidentified Participant

All right, great. Thank you.

A - Antonio Carlos Garcia {BIO 21338149 <GO>}

You're welcome.

Operator

Our next question comes from Ron Epstein, Bank of America.

FINAL

Q - Ron Epstein {BIO 15893287 <GO>}

Hey, guys. I'm back, I actually got one, so my apologies for that. What response are you seeing from airlines on the GTF, right, because a new aircraft are powered by the Pratt engine and what's the feedback you're getting from the airlines on the GTF?

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Well, Ron, first of all, feel free to make all the questions you want. It's a pleasure for us to have this interaction with you. I mean what we can say that we have gotten very positive feedbacks from Zoom [ph] from Helvetic for example and KLM regarding the performance of our E2s with a performance even better than we promised -- even think better than expected. And I think the feedback is that it's very positive.

Q - Ron Epstein {BIO 15893287 <GO>}

And on the new campaigns, is it going to -- how do I say, helps moves everything?

A - Francisco Gomes Neto {BIO 19328044 <GO>}

Absolutely, absolutely, we are using this as a stronger argument -- a stronger to potential customers and they are seeing this with the more focus on the reduction of emissions, our E2s I mean are showing 25% emission reduction compared to the previous generation, it's really a great performance.

Q - Ron Epstein {BIO 15893287 <GO>}

Yeah, that's great, thank you very much guys.

Operator

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

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