

## Q1 2009 Earnings Call

### Company Participants

- Frederico Fleury Curado, Empresa Brasileira de Aeronautica S.A.
- Luiz Carlos Aguiar, Empresa Brasileira de Aeronautica S.A.

### Other Participants

- Joe Nadol, Analyst
- John Vanusi, Analyst
- Nicolai Sebrell, Analyst
- Ron Epstein, Analyst
- Steve Trent, Analyst
- Unidentified Participant, Unknown

### Presentation

#### Operator

Good morning, ladies and gentlemen and welcome to the audio conference call that will reveal Embraer's First Quarter 2009 results. Thank you for standing by.

(Operator Instructions).

As a reminder, this conference is being recorded and webcasted at [www.embraer.com](http://www.embraer.com).

This conference call includes forward-looking statement or statements or about events or circumstances, which have not occurred. Embraer has based this forward-looking statement 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 amongst other things, general economic, political and business conditions in Brazil and in other markets where the Company is present.

The words believe, may, will, estimate, continue, anticipate, intend, expect and similar words are intended to identify forward-looking statements.

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The Company's actual results could differ substantially from those anticipated in the forward-looking statements.

Participants on today's conference call are Mr. Frederico Fleury Curado, President and CEO; Mr. Luiz Carlos Aguiar, Chief Financial Officer. Mr. Carlos Eduardo Camargo, Head of Capital Markets and IR and Mr. Rodrigo Jose [ph], Controller.

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

**Frederico Fleury Curado** {BIO 2004589 <GO>}

Well good morning, just a brief summary on the quarter. We after the-- pursuant to the certification of the Lineage 1000 received in December by Brazilian ANAC, we got the FAA certification this quarter.

We also had sale for 135 to the Government of Thailand. We have the confirmation of a contract with the Super Tucano for the Dominican Republic, eight aircraft. We also were able to move a second used 145 to Brazil's Federal Police.

And very importantly, we have the confirmation of the 24 Super Tucano aircraft to Ecuador in this quarter. And I think with the great importance and the highest highlights, we signed, after more than two years of discussions and refining of specs, a seven-year contract -- development contract, which will ultimately result to a new military cargo aircraft, the KC-390. It is actually a military cargo. But also a refueling platform and this will be a key program for the next 20 years of Embraer; very glad to have achieved that result.

We also have a second (inaudible) not with the same magnitude of importance. But also important, because it means a new customer to our customer base, which is the Brazilian navy, which is the modernization of 12 of their A-4s, which are embarked in our carrier.

So with those commercial highlights I will turn to our Chief Financial Officer, Luiz Aguiar to rollover the financial highlights.

**Luiz Carlos Aguiar** {BIO 6035667 <GO>}

Good morning, everyone. First of all I want to talk to -- about net revenues.

Net revenues for the First Quarter '09 total \$1.1 billion, 13.6% decrease from \$1.3 billion in net revenues compared with the First Quarter '08. Basically, due to fewer deliveries, as well as the mix of products last year just to bear in mind this figure, last year we delivered seven Legacy's, this year-- First Quarter this year just two Legacy's.

More than that we agreed direct the label share in total (inaudible) taking into consideration the production rate -- the current production rate, since the lay-offs were made by the end of February, the lay-off, we intended to adjust the number of employees directly related to the current production rate.

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And additionally, I would say that the learning curve effect on the Phenom 100 deliveries also had a negative impact to the First Quarter of '09 gross margin.

Turning to the sales general administrative expenses, the quarter's highlight is the decreasing trend of SG&A expense. The Company has been reporting consistent reductions of those expenses, mainly to the strict control of cost budget and personnel. Just to give you a brief figure regarding this quarter issue. The First Quarter '08 we had \$93 million as selling expenses compared with \$65.8 million First Quarter '09, while administrative general expenses was \$52.8 million in First Quarter '08 compared with \$37 million. We consider this a great achievement.

Income from operations, total \$27.2 million. lower revenues in the quarter and an increase of other operating income expense and that arises from the non-recurring cost of the lay-offs, led to an operating margin of 2.4% in First Quarter '09, or a decrease of the 3.6% operating margin for the same period.

Therefore, non-recurring events, such as lay-off costs and revenues from contractual penalties of aircraft cancellations totaled \$32.4 million.

The First Quarter '09 operating margin had been 5.2% is today not considered. We made an adjustment in the specific indicator. If you compare the adjusted operational of margin, First Quarter '09 with the First Quarter last year, we had achieved a better margin this First Quarter.

Regarding EBITDA, EBITDA margin has been following the same trend as operating margin. If you don't consider the non-recurring events of the quarter, it would have been 6.8% margin, % EBITDA margin. It present an increase compared to 4.9% last year First Quarter, mainly due to the reduction on operational expenses mentioned before.

Let's talk about the net income; after \$45 million in income tax, we report a net loss of \$23.4 million in First Quarter '09, compared to a net income of \$85 million for the First Quarter of '08. And that margin was negative by 2% in the First Quarter, compared to a positive 6.4%.

It is important to mention here that income tax calculations based on Brazilian tax calculations. That is based on the former Brazilian GAAP and that in this former Brazilian GAAP we had around BRL280 million or around \$140 million, if we multiply by 34% we are going to get almost \$45 million as exactly the amount of money that we record as the income tax; important to say also that mainly provision doesn't affect our cash flow.

Accounts receivable and client financing; trade accounts receivable and customer commercial financing total \$981 million in First Quarter '09, represent 2% increase of \$962 million in the last quarter of 2008.

Inventories; inventories increased to \$3 billion compared to \$2.8 billion. Embraer is currently negotiate a program with supply chain to adjust acquisition of parts and

equipment and new levels of the aircraft demand and production. We expect to conclude those adjustments during the course of 2009, especially the second semester of this year.

Regarding our debt; our total debt is \$1.56 billion. We have been reducing our debt from \$1.8 billion down to \$1.5 billion, around \$260 million and the average cost in Brazilian currency was 8.8% basically, much less than the basic interest rate in Brazil. That was in the First Quarter 11 point--11-- one quarter 11.25%, much less than that.

And the average cost in foreign currency was LIBOR plus 3%, very competitive interest rate.

Regarding net cash, as we expected, we-- there was a reduction on our net cash position for the quarter. It's mainly due to the cash liquidation of our hedge position. We have spent around \$150 million to liquidate the non-deliver forward transaction. We spent around \$50 million regarding the severance package. It [ph] was a quarter of lay-offs that occurred in February.

Let's talk about the background right now. We have right now in March 31, 354 firm backlog and we have the total \$19.7 billion, as of March 31 as the total order backlog. That includes, of course, Commercial Aviation, Executive Aviation, Defense and Government segments.

Well that's all we -- I'd like to tell you right now and then (inaudible) open for your comments and questions. We are more than glad -- we are glad to answer those questions. Thank you very much.

## Questions And Answers

### Operator

Thank you. (Operator Instructions). Excuse me; our first question comes from Mr. Joe Nadol from JPMorgan.

#### Q - Joe Nadol {BIO 3056499 <GO>}

Thanks. Good morning. First question is on the -- just on the severance package. You said that it was \$50 million, just trying to understand exactly how that's flowed through the income statement, because it was a \$33 million in the other expenses, where was the rest of it?

#### A - Luiz Carlos Aguiar {BIO 6035667 <GO>}

Joe. Good morning, Luiz speaking. We -- this is specific account that you mentioned. We have included the lay-off expenses and have included as well the penalty that we have collected from the cancellation of the contract. And we have seen -- you have seen \$33 million. It means that \$50 million minus around \$20 million.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay. So the total amount in your income statement was \$30 million?

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

I'm sorry.

**Q - Joe Nadol** {BIO 3056499 <GO>}

The total amount in your income statement was \$30 million.

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

Yes, \$33 million. The net was \$33 million.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

The penalties, Joe, helped them to offset our lay-off expenses.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Right. Okay. Then secondly on the inventories, wondering how much of the build from the end of the Fourth Quarter was finished goods, you know any white tails, etc. as opposed to work in process and supplier inventory?

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

Well Joe, to be honest with you I don't have the breakdown here. And what I can tell you, as I mentioned before, that we have been doing a great effort to adjust the inventory during the course of this year. We have expected to have this increase in the First Quarter and probably in the Second Quarter we are going to have -- no, we are not going to see any decrease in the Second Quarter and that's expected to see a decrease on this account on the second semester of this year.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Joe, just to add on, we -- as we delivered even above our guidance last year. I mean there are no white tails.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay. That was my question. Then finally on the Defense sales outlook, Defense sales were down year-over-year. You're looking for an increase. You've signed some contracts recently. Just wondering, do you still feel comfortable with a 20% type growth rate in Defense sales this year?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Yes, yes, we do. We're sticking to our guidance and there was a little bit of a shortage in the First Quarter. But not hugely. So it's not compromising what we believe will be achieved throughout the year.

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**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay. Is there a lot more coming in the Second Quarter or what's the timing? I guess what's the profile of Defense sales look like?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

I don't have it in my heart [ph]. He asked me what the profile of Defense was. Joe is asking if we should expect it. Certainly, we should expect a better Second Quarter than first. But is there any kind of a special quarter in terms of Defense revenues throughout the year, I don't know by heart.

I know that we have two aircrafts, the Presidential aircraft; one will be delivered the Second Quarter and the other on the Fourth Quarter. So there are some events here, Joe, I just don't have the breakdown with me here.

**Q - Joe Nadol** {BIO 3056499 <GO>}

That's okay. Just finally Fred, on the corporate jet side of things, how -- over the last several weeks since you talked to us last, what's the market environment look like in terms of cancellations, deferrals, customers keeping up with pre-delivery payments, taking delivery, etc.?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Well it's -- I think we probably can dare to say that we may be reaching the bottom of this situation. Important indicator is people who have deliveries towards the end of the year have made their pre-delivery deposits, which is, I think, a good sign; so people making deposits after the whole hoopla of the crisis. We have not had cancellations, at least to my knowledge in the last -- since we spoke. So we are kind of very cautiously optimistic, not the situation will improve dramatically. But we won't get worse than what it is, at least on our product line.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay. All right --

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

Joe, just to get back to the question of Defense. I think you mentioned that Defense is going need [ph] 20% the total revenue --

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

No, no, year-over-year.

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

Year-over-year, okay. Okay, that's okay.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

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12%.

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

That's going to be like around 12% this year.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Right, right. No. I understand, I meant growth. But -- okay, thanks very much.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Thank you.

## Operator

Excuse me; our next question comes from Mr. Steve Trent from Citigroup.

**Q - Steve Trent** {BIO 5581382 <GO>}

Good morning, gentlemen.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

All right Steve.

**Q - Steve Trent** {BIO 5581382 <GO>}

Hi, one or two questions from me. I was curious if there's any update on Brazil's jet fighter program. I believe it's the Government's boiled it down to Dassault, Saab and Boeing. And anything you're seeing in terms of color, or timing, or anything new on that front?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Steve, recently the Defense Minister confirmed sort of a decision towards August. So they had delayed about 30 days in their previous scheduling. But I think this delay it sounds more like a confirmation rather than negative news.

So I think it looks like the program will go ahead and the impact or the potential benefit from Embraer is more on the technological side which, as you know, it's a rather complex negotiation, which will get deeper as the Air Force down-selects or select their choice. So between the three, which are shortlisted. And this is really being run by the Defense Ministry and we are kind of the vehicle that the Air Force shall use. So we hope to be that absorber of technology.

The KC-390 is the -- that is a key, key program for Embraer. It's a new platform that's a \$1.3 billion investment from the part of the Government into a new product. It's going to be the largest aircraft we ever produced, several technological challenges and that is a sovereign program, very relevant to us.

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**Q - Steve Trent** {BIO 5581382 <GO>}

Great, terrific and appreciate that answer. One other question; we're seeing some things here and there in terms of potential order activity. We're keeping our eyes for example on Aerolineas Argentinas. It seems that Japan Airlines might buy more of your planes. Are you noticing anything?

And I think you already partially answered this through Joe's question. But any recent developments in terms of what you're seeing activity-wise in your various marketing campaigns?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Steve, likewise, similarly to I answer to Joe about the Business jet market. It's -- we -- again, being a little bit optimistic, we could say that may be we are seeing the -- we are reaching the bottom of the situation. So the situation will not keep going worse. Aerolineas is a real campaign. It's a 10 year aircraft campaign. It's a very important campaign for us. I would not put Aerolineas Argentinas as a meaning of an upturn of the market. Definite [ph], I think it's more like a niche opportunity, an airline that has just been reincorporated by the Government and has desperate needs for re-fleeting. So Aerolineas does not mean that the market's upturning.

On the other hand. And interesting on Japan Airlines, I got the news by the press, probably as you did. So I hope the press is telling the truth. They do have options by the way.

So yes, very faint signals of some activity, definitely more encouraging than the last time we spoke. But I can't go much beyond that, not to show an over optimistic view. But we may be reaching a level of now and, hopefully, the situation will start improving a few months from now.

**Q - Steve Trent** {BIO 5581382 <GO>}

That's great. Thanks very much Freddie.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Thank you.

**Operator**

Excuse me. Our next question comes from Mr. Nicolai Sebrell from Morgan Stanley.

**Q - Nicolai Sebrell** {BIO 7321622 <GO>}

Good morning, gentlemen. I was wondering if you could first talk about the guidance a little bit more. In -- are you maintaining the \$5.5 billion 10% margin for the year? Is there anything that happened this quarter that you think introduces upside or downside to that? That's the first question.

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Second, if you could talk a little bit about what the hurdles are to the Aerolineas order. What needs to happen either in Argentina, or otherwise, for that to be clear? Is it just a matter of Government approval?

Then last question, a little bit more involved. In a scenario where things have stabilized, do you think you can keep the current delivery rate on the Commercial side going into next year?

And in terms of the Executive jets, as you ramp up the Phenom 300 production, is it more reasonable to keep Phenom 100 production going steady and then make Phenom 300's incremental of the current production rate and delivery rate? Or should we look at it more as you'll probably keep the same kind of Executive delivery rate, in terms of probability of what's going to happen going forward? Then there's a mix shift, even if you can't give us specifics, if you could just give us an idea of how to think about it, it would be really helpful.

### **A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

Sure, okay, Luiz Aguiar speaking. Regarding the guidance, we understand that the guidance is quite challenging. I'd say that the \$5.5 billion, the revenues, we are keeping the guidance. But think that we going to be able, especially because in the First Quarter if you analyze we are line of this guidance. Traditionally, we have our revenues the First Quarter, in terms of 40% of the total and the second semester is around 60%. Then I think \$1.1 billion [ph] in the First Quarter is still in line with what we have committed.

And in terms of margin it's a little bit tougher, no doubt about it. But we still keep the 10%. There are some events that we expect. For instance, the funding from our partners during the course of the year, we're going to help on that. Then we decided to keep. So far, the 10% of operational margin as well.

### **A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Yes, on Aerolineas, I don't see any show-stopper. I think, certainly, the fact that BNDES [ph] has indicated the potential financing for that order and that shows it will be a challenging operation into the various costs [ph] credit market today. I think it's a big step.

But of course, there are all the contractual discussions, which are relatively recent. And Aerolineas itself is reorganizing itself and so they also need a bit of a time to sort out their situation, their internal management etc. There is a new management there, which I think has produced good -- at least good indications. So no major hurdles we see. We need a little bit more time and typical campaign difficulties of that size, pricing, bargaining, etc.

But on the Phenom, I understand you're actually questioning -- asking more towards 2010 and on. We -- the Phenom 100 we're going to ramp up throughout 2009. And in theory, we keep ramping up in 2010 as well to reach the forecasted level which, as you probably remember, the capacity -- installed capacity that's to 17 aircraft a month.

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Today, I don't think we're going to go up to that level, probably going to stabilize the rate at the lower level, because of demand of course. When and how much we're going to decide during the course of the year. It will depend a lot how strongly the backlog holds towards the end of the year. So by the end of the year we'll probably be reaching 10 or 12 aircraft a month or something like that.

So whether or not we're going to keep at that level and keep increasing a little bit more, it will depend a lot on how solid the backlog shows throughout the end of the year. But we keep very confident on the Phenom 100.

And as far as the 300 goes, we believe we're going to have the same type of behavior we've seen with Phenom 100. So it's a relatively large backlog, brand new product; so first deliveries towards the very end of this year. So the real ramp up of that family will happen next year. So we will certainly add revenue coming from the Phenom 300 next year, adding to the rest of the products. So there will be a net positive contribution towards -- in 2010 by the Phenom 300; not in detriment and not offsetting any loss in the Phenom 100, which we see at least keeping the same throughput as 2009.

**Q - Nicolai Sebrell** {BIO 7321622 <GO>}

Okay. So as we think of your capacity going forward seven -- the 300s will be incremental to the capacity of the 17 Phenom 100s per month that you think you'll be able to do by the end of the year and within that delivery reduce [ph] capacity?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Yes. The installed capacity is for 22 aircraft. That's the investment already made for 22 aircraft. But I think most likely be below that because, of course, of this tremendous change in demand.

**Q - Nicolai Sebrell** {BIO 7321622 <GO>}

Right. And the 22 it's Phenom 300 and 100 combined, yes?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Yes, exactly.

**Q - Nicolai Sebrell** {BIO 7321622 <GO>}

Okay. Perfect, thanks.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

17 and five.

**Q - Nicolai Sebrell** {BIO 7321622 <GO>}

Thank you.

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## Operator

Excuse me. Our next question comes from Mr. Ron Epstein from Bank of America Securities.

**Q - Ron Epstein** {BIO 15893287 <GO>}

Yes. Good morning, guys.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Morning Ron.

**Q - Ron Epstein** {BIO 15893287 <GO>}

So just may be a follow-on to, I think, it was maybe one of Joe's questions. How is the financing environment, Fred? Is it getting any better, any worse, in terms of financing large commercial jets?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Okay, Ron, I'll ask Luiz to answer, Ron. He's probably more updated than I am.

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

I think nothing changed in the last -- in this quarter. We -- for sure, we continue to depend on the BNDES, I would say, here in Brazil. Basically, they have been support our client. They have been approved the (inaudible) recently. And we had some delivered the First Quarter that as well were done -- were supported by them as well.

And I would say that -- Ron, that by the end of this year we expect to have around 25% of our '09 deliveries financed by the BNDES. And they are doing their job. We are working together and they have been approved what we need so far.

**Q - Ron Epstein** {BIO 15893287 <GO>}

Okay. Now, do expect to do any bridge financing on Embraer's balance sheet? Are going to have to bring any aircraft on your own balance sheet, may be even for a temporary basis?

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

If you look at our figures, didn't happen the First Quarter. As a matter of fact we have tried to keep under control the utilization of our cash for this purpose. But on a case -- we have been analyze this on a case by case basis and, for instance, I can give you is an example.

When we have like -- we analyze the chance, the probability, of having BNDES on board in one single transaction. We extend -- sometimes we extend like one month or two months bridge loan to the client. But it's an exception. It's not a general policy.

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**Q - Ron Epstein** {BIO 15893287 <GO>}

Okay. Okay. Here's one more question, if I may. In the past, Fred, you've talked about Embraer possibly doing another commercial airplane, may be something bigger. When we think about what's next in the Commercial product line, how should we think about that? Is it a revamp of the 50 seater? Is it something like the 3 Series or if may be you could give us some thoughts there?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

It requires a great discipline, Ron, to keep answering the same question in the same manner for years. But no, there's nothing new. What I have indicated is, well, first number one, we definitely are in the airline business. So do not be misguided that by having the (inaudible) to invest in Business jets we are going away from the airline business.

Neither have we nor have we -- we are seeing the Defense increase in detriment of the airline. It's a kind of an addition to our business results. So yes, we have to within the next - my 24 months, if you take now up to six months -- what I have said six months ago, it's now down to eighteen months. But within the next eighteen months or so. Let's say, towards the end of next year, we'll be probably leaning towards making a decision about either you know upgrading existing products or even developing new ones.

It would have been fundamentally -- this answer's not with the Company. This answer is in the market. So the same variables which we think are very important and I'll name two, the technological improvements which still have to mature a little bit more. We are working closer and closer with all three engine manufacturers. There is a lot of activity there, to understand what is really the best platform, in terms of engine architectures going forward.

But also monitoring the competitive landscape. We have to be sure where we are and do not take any steps beyond our ability. So we have the most competitive product line in the industry, in our segment; brand new products by the way; products which are in the market for less than five years. So they are selling. We are delivering them. They are being financed. The financial market accepts the good effort.

So we should not get any anxiety here to the change what we have. But we're not idle. We're not just contemplating the whole situation. We're working in the background to make sure, when we make a decision we make a solid one, as we have done over the last twelve years in any product that we have launched.

**Q - Ron Epstein** {BIO 15893287 <GO>}

Okay. Great. Thanks.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Thanks.

**Operator**

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Excuse me, our next question comes from Mr. Eduardo Puzzielo from Raymond James.

### Q - Unidentified Participant

Hi. Good morning everyone, it's Danielle [ph] here with Eduardo. We have three questions actually. The first one is on your gross margin. Can you kind of breakdown the impact at the gross margin level, meaning how much was from the learning curve effect of the Phenom 100? And how much would you say was the direct increase of labor since the lay-offs?

And also, on that topic, where do you see gross margin evolving for the rest of the year? Can you get to the 22% level guidance provided previously in [ph] your [ph] figured [ph]; elaborate more on this gross margin, because it was pretty low? That's the first question.

### A - Luiz Carlos Aguiar {BIO 6035667 <GO>}

I think for the question, first of all there is another additional reason for the gross margin. As I mentioned the mix of products last year we have delivered seven legacies; in the First Quarter of this year just two.

But I would say that, the majority of the effect, the impact, came from the labor -- the direct labor costs, taking into consideration that we have delivered only six Phenoms. I wouldn't say that a great effect comes from just six Phenoms. Six channels multiplied by \$3 million -- \$3.5 million it's like less than one Legacy.

And to answer your question directly, I would say that, for sure, the direct labor cost was one of the most relevant impact on the margin add, of course, to the fewer deliveries and a mix of products of those deliveries.

### A - Frederico Fleury Curado {BIO 2004589 <GO>}

Towards the end of the year (inaudible).

### A - Luiz Carlos Aguiar {BIO 6035667 <GO>}

I would say that in the course of the year, we expect to -- of course, we are going to increase both the revenues, in order to reach \$5.5 billion, going to help us on that. And more than that, we are going to get actually more funding during the next three quarters from our partners. I think that it's better -- it's good to say that we have got from them \$12 million in the First Quarter. Then we expect to have more -- \$120 million during the course of the year.

### Q - Unidentified Participant

So Fred, just to come back to the impact in the First Quarter, would you say that it was like -- I don't know, 100 basis point/200 basis points? I'm just trying to get to what would be a more normalized growth margin level here.

### A - Frederico Fleury Curado {BIO 2004589 <GO>}

Yes, Danielle, I may have misheard. But you mentioned that our guidance of 22%; we never -- to my knowledge, never gave any guidance to any gross margin. We haven't -- since I took office we stopped giving guidance on gross margins and giving EBIT margin as guidance, which is much more meaningful, I think.

Having said that, we definitely expect the gross margin to resume to the levels which we saw last year. And we actually expect to see, I think, I probably have said already, a little bit of improvement in the gross margin during this year, majorly due to the exchange rate compared to last year, some improvements, of course, also in productivity. But just to maintain, increase a little bit of gross margin comparing to the level of production we have now, it's a much bigger effort, productivity-wise once the scale of your actions are, of course, less negative and [ph] lower [ph].

So we expect gross margin to resume. If you take the last quarter of last year, last year's 20.8% to be in that -- to go back to that level maybe and probably a little bit more than that.

### **Q - Unidentified Participant**

Right, okay thank you very much. Back on the part of the question, or second question is, on the \$50 million which is the cost of lay-offs, do you think that you know you basically booked all of that in the First Quarter? Or can we expect more expenses in the Second Quarter? And if so, how much are we talking about?

### **A - Frederico Fleury Curado {BIO 2004589 <GO>}**

Yes, just maybe a little bit. The bulk of the expenses were accrued in the First Quarter. We have -- of course, we have one in the higher court that -- what we think is absolutely a wrong decision on the lower court about paying 20 plus more days to everyone. So we're not making provisions to that. So if everything goes as we think it will, we should have just a residual extra cost in this quarter.

### **Q - Unidentified Participant**

So just to clarify, if you -- let's say, if you get a favorable ruling from the lower court, then there is basically no other impact in the Second Quarter. But if you lose then there could be some?

### **A - Frederico Fleury Curado {BIO 2004589 <GO>}**

Yes. If we win, which I think it's very, very high chance, because if you win it is because Brazil is respecting the law basically, which we hope to live in a country the rule of law shall prevail. There will be a probably -- maybe a single digit impact in the Second Quarter. If we lose there will be a little bit more, because then we will be talking about probably almost a full month's salary to everyone who has left on end of February. But I think that this is a very unlikely scenario.

### **Q - Unidentified Participant**

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Great. And last question on your income tax payment, which was also kind of high for the quarter, I know -- and I know that that's a very difficult topic to give guidance, because it is related to the Brazilian GAAP accounting. But what would you say would be a reasonable level for income tax, if you could provide that for the market as a guidance? Thanks.

**A - Luiz Carlos Aguiar {BIO 6035667 <GO>}**

Well it's quite difficult, even for us, to measure that. Just to give you a flavor of what happened in this First Quarter. And this calculation is based on the former law in Brazil, 6404, the famous one. And take into consideration this 6404 law, we waited, we recorded BRL280 million as a profit, I would say that around \$140 million profit.

If you multiply by 34% and then we are going to get the result of BRL90 million, it means \$45 million. That's exactly the amount of money that we have recorded as income tax. As you know -- you probably know, it is all provision that doesn't have any impact on our cash. But it means that in Defense, especially the foreign exchange, because ForEx then continues to impact on the result of the tax regulation review.

What I can say is the foreign exchange rate continues to be set and then probably you are going to have much less. The amount of money is going -- its value is going to be much less than we had in this First Quarter. But if you have any overshooting or even any devaluation of the currency we're going to continue to have this type of movement. It's not so easy to measure that, that's why we recommend to analyze our Company before tax; down to EBIT and down before tax, because it is not an easy tax to project the figure.

**Q - Unidentified Participant**

Okay. Fred, thank you very much for all the detailed answers.

**A - Frederico Fleury Curado {BIO 2004589 <GO>}**

Thank you. Thank you, Danielle

**Operator**

Excuse me; our next question comes from Mr. Joseph Nadol from JPMorgan.

**Q - Joe Nadol {BIO 3056499 <GO>}**

Hi, I had one follow-up question, which was on the R&D. Is that the \$120 million, is that the line where we see the receipt from suppliers, is that what you're speaking about?

**A - Luiz Carlos Aguiar {BIO 6035667 <GO>}**

Yes. We -- you remember Joe, that we try to price [ph] really for a little bit more than we had in the past. In the past we got the cash from the partners and the certification milestone on we recorded. And now we have try to do pari passu both. Then we expect to improve our operating margin through this process. It's going to be around that. It's going to be around this figure that I mentioned before.

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**Q - Joe Nadol** {BIO 3056499 <GO>}

So this is -- so, it's \$120 million is an offset to your gross R&D to arrive at a net, which you expect to be what for the year?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

\$200 million.

**Q - Joe Nadol** {BIO 3056499 <GO>}

\$200 million. So it's \$320 million gross \$200 million net?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Yes; basically, yes.

**Q - Joe Nadol** {BIO 3056499 <GO>}

And we can expect the biggest part of that \$120 million to be when you get the \$300 million certified. Is that correct?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Well at least yes. Relatively speaking, yes; but there will be a -- not as sharply as last year, (inaudible). There is a much better matching of events and the reclamation and cash. But yes, certification, it's always an important event that triggers probably higher, relatively speaking, a percentage contribution -- or recognition.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay. Thank you.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

You're welcome.

**Operator**

Our next question comes from Mr. John Vanusi [ph] from Cinicos [ph].

**Q - John Vanusi**

Hi. Good morning, just a couple of quick clarifying questions if you don't mind. Can you give us the Business jet backlog number in dollars?

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

Yes. In dollars it is \$6.8 billion the Business jet. In numbers of aircraft, it is approximately 800 aircraft for the Phenom 100 and 300 combined. The Lineages, we have sold more than 20 aircraft already, the Lineage 1000. And for the Legacy we actually do not disclose that.



## Q - John Vanusi

Okay great, thank you very much. Also, just staying within that if you could discuss sort of your revenue expectations in terms of the ramp up in that business through the year. Obviously the First Quarter looks like it -- it looks like you're expecting a pretty significant ramp up through the remainder of the year to get your guidance and I'm just wondering if you could just discuss that a little bit more?

## A - Frederico Fleury Curado {BIO 2004589 <GO>}

Talking about the 100?

## Q - John Vanusi

Yes, just -- yes. And for the Business jet business overall.

## A - Frederico Fleury Curado {BIO 2004589 <GO>}

Well the Legacy you know is a very simple equation. We have reduced the Legacy and Lineages from 36 plus that we delivered last year to 17 aircraft. Is it 17? 17, right; between Legacies and Lineages; b the way, we expect to deliver the first Lineage in this quarter.

On the Phenom, we have delivered in April, the number of aircraft, I think was six or seven, which is more -- or the same as the First Quarter as a whole. So the ramp up is there. The production line we're talking about zero [ph] number, probably around 40 plus. So industrially speaking, I think we're on a good track to keep -- to achieve our delivery guidance.

And also, as far as backlog management, the few deferrals and cancellations we have had have been replaced with people who have given us such large backlog; people who want to advance their position. So it looks solid from both marketing and production angles.

## Q - John Vanusi

Great, thank you very much.

## Operator

Excuse me; this concludes today's question and answer session, I would like to invite Mr. Frederico Fleury Curado to proceed with his closing statement. Please go ahead sir.

## A - Frederico Fleury Curado {BIO 2004589 <GO>}

Well thank you all for your participation today, it is definitely a tough year for the industry, we have a clear plan here as we have had following the last two years.

I just wanted to re-emphasize that the First Quarter was not any off the chart point in our path towards recovery. We did expect to have a lay-off and that will have a cost impact. It took us about 45 days to -- or more activity days to implement it. So that penalized the

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gross margin the First Quarter. But we remain solid about our guidance for the year and keeping on our strategy, we're improving our productivity and expanding our businesses, including Defense and Business jets.

So thank you all. And look forward to talking to you in the next quarter. Thank you.

## Operator

That does conclude Embraer's audio conference for today. Thank you very much for your participation. Have a good day and thank you for using Corus Call.

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