

## Q1 2018 Earnings Call

### Company Participants

- Eduardo S. Couto, Head-Investor Relations
- Nelson Krahenbul Salgado, Chief Financial Officer, Executive VP-Finance & IR
- Paulo Cesar de Souza e Silva, President & Chief Executive Officer

### Other Participants

- Audrey Preston, Analyst
- Bill Ledley, Analyst
- Gavin Parsons, Analyst
- Peter John Skibitski, Analyst
- Ricardo L. Alves, Analyst
- Ronald J. Epstein, Analyst
- Stephen Trent, Analyst
- Turan Quettawala, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call that will review Embraer's First Quarter 2018 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 and instructions to participate will be given at that time. As a reminder, this conference is being recorded and webcasted at [ri.embraer.com.br](http://ri.embraer.com.br).

This conference call includes forward-looking statements or statements about 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 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's actual results could differ substantially from those anticipated in the forward-looking statements.

Participants today on the conference call are Mr. Paulo Cesar de Souza e Silva, President and CEO; Mr. Nelson Salgado, Executive Vice President, Finance and Investor Relations; José Filippo, Executive Vice President; and Mr. Eduardo Couto, Director of Investor Relations.

I would now like to turn the conference over to Mr. Paulo Cesar de Souza e Silva. Please go ahead, sir.

### **Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Thank you. Good morning to all. So thank you for joining us this morning. Before I start, I would like to just make few comments of Filippo. As you know, he's leaving the company shortly. Filippo is staying with us until the beginning of May and then he will leave. I would like to take this opportunity to thank Filippo very much for this excellent job he did here at Embraer for the last almost seven years.

At the same time, saying few words about Nelson Salgado. Nelson is being with Embraer more than 30 years. So Nelson has been already in many functions at Embraer, including, years ago, he was the Controller of Embraer. And Nelson knows very well the company. So I welcome Nelson and wish him good luck in his new responsibilities. So with that, I would ask Nelson to start the presentation.

### **Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Okay. Paulo, thank you. Good morning, everybody. We start the presentation at slide 4 with the Commercial Aviation business highlights. Embraer delivered 14 E-Jets in the first quarter. The big highlight of the quarter, however, was the certification of the first E190-E2. The E190-E2 was the first aircraft to receive triple certification from ANAC, Brazil; FAA, U.S.; and EASA, Europe, simultaneously. That happened in the end of February in our facility in São José dos Campos.

As far as performance is concerned, the E190-E2 exceeded by 1.3% the original specification of 16% better fuel burn, confirming the E190-E2 as the most efficient aircraft in its segment, with more than 17% fuel consumption improvement compared to our current generation E-Jet. Just some days later, we delivered the first E190-E2 to the Norwegian company, Widerøe, on April 4 and that aircraft has already started revenue flights, with the first flight being completed on perfection on April 24.

Finally, our second model of the E2 family, the E195-E2 is also on track for entry into service in the first half of 2019.

Next page, page 5, where we show the Executive Jet business highlights. We delivered 11 executive jets in the quarter, eight light jets and three large jets. On market activity, we started to see signs of improvement in the business jet market conditions during the first

quarter of 2018, recording sales of 17 aircraft during the periods. As far as sales activity, we delivered the first Phenom 300E after receiving certification from FAA, EASA and ANAC in the first quarter.

The Phenom 300E is a new version of the Phenom 300, with a completed redesigned interior and also some other improvements. Another important milestone that we have – as mentioned before – is the Phenom 300 was again the best-selling and most delivered light business jet for the sixth consecutive year globally. We also launched a new tool called FleetLogic to support corporate flight departments planning.

And finally, on customer support, we developed a Phenom 300 interior layout option to seat up to 11 occupants, which is the highest number in its class.

Moving on to Defense & Security highlights and starting with the KC-390. The KC flight test campaign is moving towards final certification with the two prototypes exceeding 1,600 flight hours. First delivery is expected for the second half of 2018 to the Brazilian Air Force.

With the advance of the certification campaign, we've started also the production process with assembly of aircraft number 003, 004 and 005. As far as sales activity in other products in Defense, we delivered two A-29 Super Tucanos to our Latin American customer in the first quarter of 2018. We also delivered the fifth Phenom 100 to Flight Training Services (sic) [Affinity Flying Training Services], a provider in the UK that provides training services for the UK Ministry of Defense.

And finally, our subsidiary Atech implemented the first fixed command and control and air traffic management center for an African nation. With that, we conclude our business unit highlights and move to the financial results.

Slide 8 we present our backlog. Our backlog reached \$19.5 billion in the end of the first quarter. It is important to note that with the launch of a separate business unit for Services & Support, we started to include services contract in the backlog like pool parts and maintenance programs that we did not include before. Excluding that addition from our backlog, the backlog was almost flat with increase in Executive Jets offset by a decline in Commercial Aviation.

Next slide, slide 9, we show aircraft deliveries by business unit. As I mentioned before, we delivered 14 commercial jets. This is a decline versus last year's first quarter, but it is in line with our 2018 guidance of 85 to 95 planes. In Executive Jets, we delivered 18 (sic) [11] aircraft broken by 8 light jets and three large jets. Here it is important to say that five planes were delayed to be delivered in the second quarter. We reiterate our 2018 guidance of 105 to 125 aircraft broken by 70 to 80 light jets and 35 to 45 large jets.

Next slide, slide 10. As far as revenues, we reported \$992 million in the quarter, broken by \$380 million in Commercial Aviation, \$128 million in Executive Aviation, \$243 million in Defense & Security, and \$239 million in Services. Compared to last year, our revenues in Commercial and Executive Aviation were affected by lower deliveries, while Defense

revenues were positively impacted by the KC-390 program. Our outlook for 2018 is unchanged at \$5.4 billion to \$5.9 billion.

Moving to slide 11, sales and general and administrative expenses. We reported a flat year-over-year SG&A at \$115 million, broken by \$44 million in G&A expenses and \$71 million in selling expenses. We remain focused on our cost-cutting initiative that will continue to positively affect SG&A as well as other costs in the near future.

Next slide, we show the operating results. Embraer reported an EBIT of \$26 million in the first quarter, implying an EBIT margin of 2.7%. This margin and result is in line with normal seasonality in the first quarter with lower dilution of fixed costs. We did not have any special item in the quarter.

Looking at the margins by segment, we reported Commercial Aviation at 4.5%, Executive at minus 16.7%, Defense at 4%, and Services at 9.8%. Again here, we reiterate our 2018 EBIT guidance of \$270 million to \$355 million, with 5% to 6% margin.

Next slide is slide 13. Our EBITDA reached \$90 million in the quarter with a margin of 9%. Again here, we reiterate the guidance of \$540 million to \$650 million, equivalent to 10% to 11% EBITDA margin.

Moving to slide 14 we show earnings. Embraer reported a net loss of \$25 million in the first quarter of 2018, implying a negative margin of 2.5%. Our earnings were down to the combination of lower operating results and higher financial expenses. These higher financial expenses are, however, in line with our strategy. In the end of last year, we anticipated that interest rates would go up. And we issued a bond in line with our strategy of maintaining high level of liquidity. So we issued a \$750 million bond. And now we are seeing the interest rates go up, we should benefit our financial revenues in the future.

Moving to investments. Our investments reached \$46 million during the first quarter, broken by \$10 million in research, \$13 million in development, and \$23 million in CapEx. Our first quarter development investment was positively impacted by a \$65 million received from suppliers contribution for the E2 program. The E2 development program, it's important to note, remains in line with our plan as far as budget and performance is concerned. Again, here we maintain our 2018 investment outlook of \$550 million.

Next slide. As far as free cash flow, we reported a free cash flow consumption of \$431 million, broken by \$311 million of operating cash flow, \$40 million CapEx, and \$80 million development. Given the normal seasonality for our first quarter, our free cash flow reflects higher inventories of \$330 million as we prepare for higher deliveries in the coming quarters, and also with the addition of some finished goods aircraft which deliveries are postponed to the second quarter. We reinforce our expectation of usage of no more than \$100 million of cash flow in 2018.

Finally in slide 17, we show our indebtedness profile. We ended the quarter with a total debt of \$4.2 billion and total cash of \$3.4 billion, resulting in a net debt position of \$759

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million, around \$60 million better than the first quarter 2017. Our debt level remains comfortable with an average maturity of 5.7 years.

With that, we conclude the presentation of our financial results and move on to the Q&A session. Thank you.

## Q&A

### Operator

And our first question comes from the line of Robert Spingarn from Credit Suisse. Your line is now open.

#### Q - Audrey Preston {BIO 20426628 <GO>}

Hi this is Audrey Preston on for Rob. So I was just curious, could you give us an update on the potential Boeing tie-up and what details are left to be negotiated and what benefits are you expecting to derive from this deal? And then what are you expecting to bring to the table yourself?

And then a follow up after that, with the Airbus and Bombardier deal expected to close next month, would that generate any additional pressure to accelerate that negotiation timeline? Thank you.

#### A - Paulo Cesar de Souza e Silva {BIO 17023173 <GO>}

So thanks for your question. We don't have too much to add on this topic. Boeing-Embraer, I think we have released again an update together with our financial results. So, we continue to work in the transaction with Boeing and with the Brazilian (00:18:00) technical group that was established. So the negotiations are quite complex. It's going well, but we have no expectation for any like timeframe to conclude this. So this is what I can add in addition to what was already disclosed in our earnings results.

#### Q - Audrey Preston {BIO 20426628 <GO>}

All right. Thank you.

#### A - Paulo Cesar de Souza e Silva {BIO 17023173 <GO>}

Sure.

### Operator

Thank you. And our next question comes from the line of Cai von Rumohr from Cowen and Company. Your line is now open.

#### Q - Bill Ledley {BIO 19350857 <GO>}

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Hi. Good morning. This is Bill on for Cai. wanted to check in on Biz Jets for a second. First, can you confirm the Biz Jet margins in Q2? I didn't hear those. Were they negative 16.7% or positive 16.7%? And if they were negative, how much were the impairments? And then, just broadly on biz jets, if you could speak to orders, what are you seeing, have they picked up recently and what are the products people are most interested in?

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Okay. Thank you. I confirm its negative 16.7% and that's basically due to a lower level of deliveries. There's no impairment impact here in Executive Aviation. And as we mentioned in the call, we see signs of recovery in this market, with actually average prices is going up a bit and increased sales activity.

**Q - Bill Ledley** {BIO 19350857 <GO>}

All right, thanks. And then just a follow-up on commercial margins. They were down a lot year-over-year, can you just discuss what's going on in that business line in Q1?

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Basically, Cai, (sic) [Bill] the Commercial Aviation and also Business Jets, we are short of about five deliveries in Business Jets and I believe three or four in Commercial Aviation. So aircraft is being manufactured but it was not delivered, given that the client asked to deliver these aircraft in the second quarter. So this is basically the major impact in both business.

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Yeah, and that's because the lower the number of aircraft as I said, it affects the EBIT margin because of lower dilution of fixed costs. The gross margin, however, is very much in line with what we used to have, or what we have generally.

**A - Eduardo S. Couto** {BIO 18009973 <GO>}

And if I add to Nelson, if we exclude these few deliveries that move to the upcoming quarters, the EBIT margin wouldn't be too different from what we report on the previous year, okay.

**Q - Bill Ledley** {BIO 19350857 <GO>}

All right. Thank you, gentlemen. Appreciate it. I'll pass it along.

**Operator**

Thank you. And our next question comes from the line of Ronald Epstein from Bank of America Merrill Lynch. Your line is now open.

**Q - Ronald J. Epstein** {BIO 4430430 <GO>}

Hey. Good morning, guys. Can you give us a quick...

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**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Good morning.

**Q - Ronald J. Epstein** {BIO 4430430 <GO>}

...quick update on how we're doing on sales campaigns for the E2? I mean the sales for the program over the last couple of years have been reasonably anemic. Now that the airplane is certified and in-service, right, what's going on? Is there anything closer to being booked? I mean how would you describe that?

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Thank you, Ron, for your question. Yes, definitely after the certification in February, right, of the E190-E2 and the first delivery and EIS of the E2 this week. So since the certification we are seeing more and more attraction, more interest. Our teams are very busy involved with our already clients and potential clients. Of course, I cannot disclose here any names in the stage of these negotiations. But I feel pretty good that we are going to have a very good year. The EIS of the E2 this week has been great. So the aircraft is performing very well and we are very bullish that that's going to be a strong year for us.

**Q - Ronald J. Epstein** {BIO 4430430 <GO>}

And can you just give us a sense, I mean, are you thinking a book-to-bill of greater than one. I mean that's sort of one metric maybe you could mention.

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Yeah. So we are targeting at least one.

**Q - Ronald J. Epstein** {BIO 4430430 <GO>}

Okay.

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

But given the level of activity that we are seeing, so it can be greater than one.

**Q - Ronald J. Epstein** {BIO 4430430 <GO>}

Okay. Okay great. And then back to Business Jets for a moment. When you - the sense of recovery that you're seeing, is it just in the smaller product, is it in the larger product, is it the U.S., is it Europe? And can you give any more feel for the kind of the tone and tenor of the recovery you're starting to see?

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Sure. I think first of all, we are seeing overall improvement in the used aircraft, right. So inventory is being reduced. So prices on the used aircraft started to fall. We are seeing slightly better prices on the new aircraft, definitely U.S. and Europe, I think these are both markets - regions that are leading this recovery, okay.

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So, U.S. given the tax reform and the economic growth. Europe more of course on the economic growth in the whole European countries. We are seeing a good perspective for the medium size aircraft and super-mids, Legacy 450, Legacy 500. So we are seeing very good activity there. So we are also on the Business Jet unit business, so we are more positive this year. So, I believe we are coming out of the woods finally. Is not a great improvement, but it's an improvement.

**Q - Ronald J. Epstein** {BIO 4430430 <GO>}

Okay, great. Thank you very much.

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Sure.

## Operator

Thank you. And our next question comes from the line of Noah Poponak from Goldman Sachs. Your line is now open.

**Q - Gavin Parsons** {BIO 18748617 <GO>}

Hey, this is Gavin Parsons on for Noah. Good morning, everyone.

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Morning.

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Hi, Gavin.

**Q - Gavin Parsons** {BIO 18748617 <GO>}

Just taking a step back and looking at regional jet demand from a higher level. The global fleet has been pretty flat for the last decade or so and most of the demand has been replacement-driven. So do you think that changes meaningfully over the next 5 to 10 years or do you think replacement demand will kind of be the more meaningful driver for you?

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Well, we stick to our market forecasts, about 6,000 jets for the next 20 years from the segment's 70 seats up to 130. So don't forget that we have the U.S. markets for our 76-seater, right. So it's still a lot of opportunities in the U.S. for these aircraft as we move forward. And for the 190/195 E2, as I mentioned before, started to deliver. So we are seeing and we will continue to see great opportunity.

So we are stick to our market forecast. So we continue to see that size of the market. We have China with opportunities not for replacement but for growth, right. And we have other markets in Asia as well for growth, and replacement in Europe, so definitely, right,



and as well as Middle East. But I think it's a mix of growth replacements, right, and scope change or scope relaxation a little bit in the United States as we replace the 70-seater with the Embraer 175.

**Q - Gavin Parsons** {BIO 18748617 <GO>}

And then you called out impairments, I guess residual value guarantee impairments on commercial jets. Can you talk about what you're seeing in the marketplace today as far as values, the trends and remind us what your total exposure is and what you have in guidance for the year?

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

I don't have the specifics here, so - I'm sorry, you are talking about ERJ 145?

**Q - Gavin Parsons** {BIO 18748617 <GO>}

Yeah and other expense you highlighted expected impairments on commercial?

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Impairments on Commercial. So it's basically with reference to the ERJ 145 that we still have some in our books, right. And from time-to-time, so we have this impairment, but I don't have the specifics now here. The market is improving a little bit for the ERJ 145, we are seeing relatively good demands in countries in Africa, for instance, and Eastern Europe. So we have been able to place these aircraft in the secondary market. But always there is a need for some impairment, right. In the past, this impairment was bigger, now it's being much reduced. But I don't have the specific, Edu, so do you have any?

**A - Eduardo S. Couto** {BIO 18009973 <GO>}

Yeah in the first quarter we had around \$10 million - about \$10 million to \$11 million on this impairment of used aircraft, this is not really RVG. For the upcoming quarters, we are expecting less than that. So, we shouldn't see the same amount for the rest of the year. But it's always difficult to know.

**Q - Gavin Parsons** {BIO 18748617 <GO>}

Great. And then just last one for me. You're highlighting improvement in the Business Jet market and orders, but 1Q deliveries looked a little bit seasonally light. Did you say there was some slippage to the second quarter there?

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Yes. Exactly. So five aircraft that slipped to the next quarter.

**Q - Gavin Parsons** {BIO 18748617 <GO>}

Got it. Thank you.

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Sure.

## Operator

Thank you. And our next question comes from the line of Pete Skibitski from Drexel Hamilton. Your line is now open.

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

Yeah. Good morning, guys, and best of luck to José Filippo.

## A - Operator

Thanks, Pete.

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

Also congratulations on the E2 entering service. My question is on the strong revenue growth in Defense, I'm not sure I understand what drove that, it was up really sharply year-over-year. It looks like you think it would flatten the balance of the year. Can you give some more color on the strength in Q1?

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Yeah. That growth was mainly driven by the KC-390, because we actually started to work on the contract for the full delivery of aircraft to the Brazilian Air Force. So as I mentioned, we have aircraft number 003, 004 and 005 in production and that contract has revenues recognized as we move on with the assembly of aircraft. So that is responsible for most of the increase in the Defense revenue in the first quarter.

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

Okay. And it's percentage of completion, so you're not going to get a bump in revenue in the second half, when you actually deliver. Is that correct?

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Well, you recognize revenue as you assemble the aircraft, but there is always a significant portion left for the final delivery of the aircraft.

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

Okay, okay. That's very helpful. Okay. And then last question is just as the Brazilian economy kind of stabilizes and returns to growth, what kind of defense budget growth are you guys expecting going forward as a result of that?

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Well, we are expecting the growth in our program, so that we can have the commitments the government has for the delivery of the KC-390s ahead. There is no new program for

the moment, but we have the contracts for the final - the big contract, the final certification of the KC-390, and also for the deliveries of the KC-390.

Looking at our other product lines, we have expectation of continuing work on the border protection program. And also we've been working with the government for the second geostationary satellite that is actually needed already for Brazil.

So, I'll say these are the major activities that we foresee with the Government of Brazil.

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

Okay. Do you guys think the election later this year is going to have any kind of meaningful impact to the Defense outlook?

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

No. We don't expect a impact because these are long-term contracts that don't - they go from one government to the other, so we don't really expect any impact because of the change in government.

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

Okay. Thanks, guys. Appreciate it.

**Operator**

Thank you. And our next question comes from the line of Turan Quettawala from Scotiabank. Your line is now open.

**Q - Turan Quettawala** {BIO 6362141 <GO>}

Yes. Good morning and thank you for taking my question. Also wanted to wish Filippo all the best for his future. Just I guess my first question, just wondering if you could talk a little bit about your Executive Aviation business. Obviously, the sales were - the deliveries are a little bit softer in Q1, I understand there was a bit of movement from Q1 to Q2. But could you give us a sense of how much sales you need to do on that business to kind of get to the guidance here on deliveries for 2018?

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Well, despite the fast deliveries in the first quarter, we are maintaining our guidance for the year, right. So, if you look at our guidance, that's where we expect to get. And with that, we will improve our margins as well.

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

It's important to mention also the transformation we are going through in the company, right, with the program for excellence. So we are now in the - this year 2018 is a very important year, so we have launched the program August last year, and we are implementing now. So it's going well, so it's moving well. So our plan fully takes into

account this program that is being managed by us, with the support of McKinsey. So it's going very well, as I said, and we are on target so far.

**A - Eduardo S. Couto** {BIO 18009973 <GO>}

If I may add Paulo, it's Edu here, Turan. We had, I would say, a positive trend in terms of pricing on executive jets. If you look our average prices, they were 4% to 5% better in the first quarter of this year compared to last year, and this improvement was across most of the models. So we are feeling better demand and some price recover, so that's the reason we are, I would say, cautiously optimistic on executive jets.

**Q - Turan Quettawala** {BIO 6362141 <GO>}

No, I understand that. I'm just trying to understand how much of the 105 or so in deliveries is in backlog?

**A - Eduardo S. Couto** {BIO 18009973 <GO>}

We are very confident in our guidance of 105 to 125. So I think the risk is very reduced. We don't disclose how much sold out we are, but we are very, very comfortable with.

**Q - Turan Quettawala** {BIO 6362141 <GO>}

That's helpful. Thank you, Eduardo. I guess maybe just one more from me. Paulo, I was wondering if you can talk a little bit about - obviously I understand the Boeing deal is pretty complicated here to kind of get done. I'm just wondering, is the uncertainty around that affecting the business at all, with regard to maybe campaigns on the E2, and I guess even just something maybe, if you could provide some insight on how the employees are faring as well. Thank you.

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

No, it's not affecting at all. So we are in touch and contact of course with our clients, so the campaigns that we are involved is not predicated at all in the transaction. So we feel very good about that. So internally, of course, there is anxiety, right, to see the outcome of this. But there is no issue whatsoever. So I'm sure that people is very much focused on their job. And, however, having said that, we want to, of course, to have an outcome for this transaction as soon as possible. So it's important that we reach a final resolution on that soon.

**Q - Turan Quettawala** {BIO 6362141 <GO>}

Okay. Great. Thank you so much for your help.

**A - Paulo Cesar de Souza e Silva** {BIO 17023173 <GO>}

Thank you.

**Operator**

Thank you. And our next question comes from the line of Stephen Trent from Citi. Your line is now open.

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

Good morning, gentlemen, and thanks very much for the time. And I echo as other folks' comments, very best wishes to Filippo. I had two follow-up questions on the Defense segment. When we look at the activity here in the United States, there seems to be at least some indication that there might be additional opportunities for the A-29 and maybe the Air Force having a close look, and just curious if you have any comments on that.

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Yeah, there is a growing interest in the Super Tucano and the United States Air Force is actually performing right now an evaluation process for light attack aircraft. The Super Tucano has been selected as one of the two finalists of this campaign, which is moving ahead and we are cautiously optimistic about our prospects in this, as the Super Tucano is really the only aircraft around with combat-proven experience.

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

Okay. That's very helpful. Appreciate the color. And just one more while I'm at it, it's encouraging to hear the KC-390 rolling along in terms of the contractual work you're doing for Brazil's military. Any indication at this point – anything you can say with respect to how the efforts are going vis-à-vis potential international attraction for the aircraft, especially as Boeing has some skin in the game on this process?

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Well, in the defense market, we know that things really start to heat up when your own air force receives and starts to operate the aircraft, right. So, we continue to see a lot of interest in the KC-390. We've been approached by many, many air forces throughout the world. There are some campaigns going on, but we really expect to see that turning into real sales as the Brazilian Air Force receives and starts operating the aircraft.

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

Okay. Very helpful. Let me leave it there, I'll let someone else ask a question. Thank you.

**Operator**

Thank you. And our next question comes from the line of Ricardo Alves from Morgan Stanley. Your line is open.

**Q - Ricardo L. Alves** {BIO 16840901 <GO>}

Good morning. Thank you, gentlemen. Just one for me, most of my questions have been answered. On the Defense profitability, I mean, this big improvement from minus 8% to positive 4%. Now that you're getting ready to deliver the first aircraft, is this the kind of profitability we should expect for the next few quarters? I remember you guys guiding low

- if I'm not mistaken, low to mid single-digit margin for the Defense segment in 2018. So just wondering if that should continue. And also if you could give a quick update on what you expect in terms of margin per segment. I guess it shouldn't have changed because you're reiterating your margin guidance, but just to make sure, because we saw this big bounce back on Defense and a significantly lower profitability on the Executive side. Thank you.

**A - Eduardo S. Couto** {BIO 18009973 <GO>}

Okay, thanks, Ricardo. I would say the first quarter margins on Defense were more normal, we're back to a normal level, that last year was really unusual, we had negative margins mostly driven by some cost base revisions that we had in some of our programs. This year, at least in the first quarter, we didn't have any cost base revision. At this point, we are not anticipating that for the remaining of the year. So we expect to see better Defense margins.

Looking the margins per business, we don't give a guidance on that, but as we already mentioned, Executive Jets should be a low to mid-single similar to Defense. On Commercial, we expect to see a mid to high single-digit. And Service & Support, mid-teens or a low double-digit, that's more or less how we see the margins per business.

**Q - Ricardo L. Alves** {BIO 16840901 <GO>}

Thank you so much, Edu. Helpful.

**Operator**

Thank you. And I'm showing no further questions over the phone lines at this time. I'd like to turn the call back over to Nelson Salgado for closing remarks.

**A - Nelson Krahenbul Salgado** {BIO 19113798 <GO>}

Well, thank you very much all for attending our results conference. Thank you.

**Operator**

And that does conclude Embraer's audio conference for today. Thank you very much for your participation. Have a good day.

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