

Q2 2018 Earnings Call

Company Participants

- Nelson Krahenbul Salgado, Executive Vice President, Financial and Investor Relations
- Paulo Cesar de Souza e Silva, President & Chief Executive Officer

Other Participants

- Augusto Ensiki, Analyst
- Petr Grishchenko, Analyst
- Ricardo L. Alves, Analyst
- Ronald J. Epstein, Analyst
- Victor Mizusaki, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call that will review Embraer's Second 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.

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 economics, 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 any forward-looking statements.

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

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

Nelson Krahenbul Salgado {BIO 19113798 <GO>}

Good morning, everyone. We start with our presentation at slide number 4 with corporate highlights. First, Embraer and Boeing announced in July 5 a potential joint venture in Commercial Aviation, as well as new opportunities to explore its defense and securities business, especially on our new military cargo plane, the KC-390. We are excited about this potential partnership with Boeing and what it could bring to our businesses, not only with gains in Commercial Aviation, but also cost synergies and (3:01) opportunities for Defense and Executive business.

In the second highlight, mid-July, we attended the Farnborough Airshow in London, with static display and demo flight of our most recent models, the E190-E2, the KC-390, and the Legacy 500 with a lot of interest from customers.

During the quarter, EmbraerX, our new brand for disruptive technology, unveiled its VTOL concept, which is a new vertical takeoff and landing vehicle that could be used in urban areas to solve mobility problem. Finally, Embraer was selected once again the Most Innovative Company in Brazil and One of the Best Places to Work.

Next slide, slide 5, we show Commercial Aviation highlight. Embraer delivered 28 commercial jets in the second quarter of 2018, including the initial deliveries of our new Embraer 190-E2. We delivered three 190-E2s to Widerøe from Norway. So far, the aircraft had a good entry into service with 100% completion rate in the first three months, confirming the high level of maturity of the end throughput.

As far as new orders activity, we announced 15 E175 jets to American Airlines in May. Combine it with two previous orders already placed by American, we have 89 E175s so far to them in this new contract. During the airshow, we also announced several orders that will be detailed in the next slide with a total of up to 300 aircraft commitments including firm orders, LOIs and options.

In the next slide, slide 6, we show the Farnborough Airshow announcement in more detail. During the airshow, we announced 37 firm orders, including 25 E175s to United Airlines, 2 E175s to Mauritania Airlines, and 10 E195-E2s to Wataniya from Kuwait. That order also includes another 10 options. We also had important LOIs announced during the airshow, including up to 200 E175s to Republic Airways, and additional 21 E195-E2s to Azul, 3 E190s to NAC, up to 24 E195-E2s to Helvetic from Zürich and up to 5 E195-E2s to an undisclosed customer. We expect to confirm a great deal of this into firm orders until the end of this year.

Moving to slide 7. We start with the highlights for Executive Jets. We delivered 20 executive jets, 15 light and 5 large jets, in the second quarter of 2018, including the first Phenom 300E in Asia Pacific to Northern Escape Collection. Air Hamburg also signed an order for four more Legacy 650.

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As far as performance, the Legacy 450 set a new speed record in a flight between the United States and Europe in March. We continue to invest in new features of our Executive Jets program. The Phenom 100EV, the Legacy 450 and 500 will exhibit enhancements, including interior design, avionics and entertainment system.

Next slide, slide 8. We show the Defense & Security highlights, starting with the KC-390 program. First, in the quarter, you'll note that the flight test campaign of the KC-390 continues to evolve with 1,700 flight hours and we expect the Brazilian Civil Aviation Certification from ANAC in the second half of 2018, as initially planned.

In May, we had an incident with the KC-390 prototype number 1 that experienced a runway excursion during ground test in our facility in GPX, which resulted in extensive damage to the plane. Due to that incident, we had to change the planning for the final phase of the product development. We have now 96% of the product development completed, but we had to negotiate with the Air Force to use aircraft number 3 to replace the first prototype to complete the flight test that we still have ahead of us.

With that revision of the development program, we had to perform a cost base revision of \$127 million that was already recognized in the results of the second quarter of 2018. The first delivery to the Brazilian Air Force will take place in the first half of 2019 with aircraft number 4. The serial production of the KC-390 program progresses normally with assembly of aircraft 4 to 8. Moving to Super Tucano, we delivered two additional A-29 Super Tucanos to U.S. Air Force under the Light Air Support, LAS, Program.

We start at slide 10 to show our financial results with the firm order backlog. We ended the second quarter 2018 with a backlog of \$17.4 billion. That backlog still doesn't reflect recent orders announced at the airshow that we will include in the backlog in the third quarter. Actually, 35 firm orders from the Air Force will be included in the third quarter. And as I previously mentioned, we expect a review of the LOIs that were announced to be incorporated in the backlog and attending to fill (10:12) the contracts until the end of this year.

Moving to slide 11, you see aircraft deliveries. We delivered 28 commercial jets in the second quarter of 2018 and 42 year-to-date, which is in line with our guidance of 85 to 95 deliveries in 2018. As far as executive jets, we delivered 20 jets in the second quarter, 15 light and 5 large jets. Year-to-date, we have delivered 31 business jets and we expect again a strong second half in terms of deliveries, especially Q4. We reiterate our guidance of 105 to 125 executive jets this year.

Next slide represents net revenues. We reported \$1.257 billion net revenues in second quarter, broken by \$757 million in Commercial, \$207 million in Executive Jets, \$34 million in Defense, and \$256 million in Services & Support. It is important to highlight that the Defense revenues were negatively affected by the KC-390 cost base revision of \$127 million due to the incident with the prototype number 1 that led to a new plane of the program. And that happened because the Defense accounting is based on percentage of completion, so higher cost in the second quarter generates a revenue reversal of around \$100 million.

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On the positive side, our Services revenue grew 5% year-over-year in the second quarter of 2018. We maintain our revenue guidance unchanged to all four businesses units: Commercial, Executive, Defense and Services, as shown in slide 12.

Moving to SG&A at slide 13, we reported second quarter 2018 SG&A of \$112 million, broken by \$41 million G&A, and \$71 million selling expenses, which was \$8 million below the same period of last year. These numbers were positively impacted by the Brazilian real depreciation against the dollar.

Next slide, slide 14, we present the operating results. Adjusted EBIT that excludes special items reached \$110 million in the second quarter, implying an adjusted EBIT margin of 8.7%. The adjusted EBIT in the second quarter excludes the non-recurring impact of \$127 million related to the KC development cost base revision.

Looking at our EBIT margin by business, Commercial Aviation reported 10%, Executive Jets minus 2.4%, Defense excluding KC was negative 2%, Services & Support was 16.8%. Including the Service component in Executive Jets and Defense, EBIT margin for those two business units were around break-even during the second quarter of 2018.

This good operational performance reflects the result of our excellence programs and many activities that we have been developing to make sure that our operational activities are as best as possible. And with these, we maintain our 2018 outlook of 5% to 6% consolidated EBIT margin or an EBIT between \$270 million and \$355 million.

In slide 15, we show our EBITDA. Adjusted EBITDA that exclude special items reached \$171 million in the second quarter, implying an adjusted EBITDA margin of 13.6%. Here, we also maintain our EBITDA guidance of around 10% to 11% margin that means from \$540 million to \$650 million.

Next slide we show net income. Embraer reported \$6 million adjusted net income, excluding deferred income tax. Our net income was negative impacted by lower operating results, as highlighted in the previous slide, and higher financial expenses, including foreign exchange losses due to recent BRL depreciation.

Moving to accumulated investments in slide 24 (sic) [17], we reported \$67 million in total investments, broken by \$20 million research, \$10 million development, and \$37 million CapEx. It is important to mention that total investments are net of suppliers' contribution that in the first half of 2018 amounted to \$125 million. For the rest of the year, we expect total investments to be up, as we continue to progress as planned in the E2 program, and we don't anticipate any additional contribution from suppliers in the rest of the year.

As far as free cash flow, we had \$48 million cash flow generation in the second quarter of 2018, with \$134 million in cash flow from operating activities, and a cash consumption of \$31 million in additions to PP&E and \$55 million in intangible assets.

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Year-to-date, we reported a free cash flow consumption of \$383 million. We expect to generate healthy free cash flow in the second half of 2018, which is in line with our normal cash flow seasonality. We reiterate our 2018 outlook for free cash flow consumption of \$100 billion or better.

On to slide 19, we highlight our indebtedness profile. We ended up the second quarter of 2018 with \$3.3 billion in cash and \$4.1 billion in debt, implying a net debt position of \$721 million. Our debt profile remains healthy. We published debt maturity of 5.6 years, in line with our cycles of long-term investment.

Finally, in slide 21, we maintain our outlook unchanged and reiterate all aspects of our guidance.

With that, we conclude the presentation section and will turn to Q&A.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Ronald Epstein with Bank of America Merrill Lynch.

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

Yeah. Hey. Good morning, guys. Maybe just one or two questions...

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

Good morning.

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

One or two questions for you. There were a lot of LOIs announced at the Farnborough Airshow. Can you discuss a little bit about the conversion of those LOIs to firm orders and kind of what timeframe we would expect that?

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

Yes. This is Paulo, Ron. Good morning, everyone. We expect to finalize these LOIs, Ron, if not in the next quarter or through the end of September. So more likely, otherwise definitely into end of this year.

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

Okay. Great. And then, when we look at the sales campaigns going on right now, now that the potential deal with Boeing has been announced, are we starting to see some more things firm up? Because I would imagine some airlines might have been waiting on the sideline to see what was going to happen. I mean, I guess, it's another way to ask, when

we look at the ongoing campaigns, is there more activity that we can expect in the second half of the year into early next year?

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

Yeah. I think so. I think it's a combination of factors. We were engaged already in many campaigns. So what we are now seeing in Farnborough are the ones that were more advanced. The firm, of course, are the firmer ones but the LOIs - it's bit of advanced. I mean, it's an LOI because they're not accounted yet (20:23). However, the negotiation in these LOIs are already well advanced. So, for the other campaigns, we expect that we can do well that as well.

Going forward, with Boeing, of course, can be a very good - it's going to be very positive, right, going forward. Of course, we'd have to conclude the deal with Boeing, so on, so forth. I'm not saying that we will achieve this, but we do expect that we can (21:15) reach good terms with this alliance throughout the remaining of the year and beginning next year.

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

And then, maybe just one last question and then I'll hand it on. When we look at the deal with Boeing and the timeline that you guys have articulated, is there a way to potentially accelerate that in terms of maybe making some of the activities in parallel? Like is it possible to start going down the antitrust path to get their government approvals at the same time other things are going on? That way maybe the deal could close in the first half of 2019 as opposed to the second half. Is something like that possible?

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

Yeah. We are analyzing this now. We believe that it could have a possibility, but we are still analyzing this. And it is our intent of course to do deal as short as possible, right, in terms of time going forward. For the approval of the deal itself with the Brazilian government and then with our shareholders, we are targeting the end of December, okay? But, for the antitrust authorities in different countries, so we are seeing how much we can speed up this process in order to anticipate.

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

Okay. Great. Thank you very much.

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

Sure.

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

Thank you.

Operator

Our next question comes from Ricardo Alves with Morgan Stanley.

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

Hi. Good morning, gentlemen. Two questions on my end. First, on the Services & Support, I think I missed the number you mentioned in the highlights. But we calculated close to mid-teens EBIT margin. So it has been a little bit more volatile than what we expected, the profitability of Services & Support.

So I was wondering if you could explain a little bit what drove the strong performance this quarter on that division, and maybe what we could be looking at for the second half. And maybe, if you could give a little bit of color on how much Commercial Services contributed to that overall Service & Support performance? And then I'll ask my second question afterwards. Thank you.

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

Okay. The EBIT margin for Services & Support, the combination was 16.8% and 17%, right? It's just a bit higher than we generally expect. So, for the year, we project something around 14%, right? So, not a very big variation, right?

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

Okay. That's...

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

And the next question, it's around 60% Commercial and 40% Executive Jets in terms of...

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

Perfect. Very helpful. And then, my second question is going back to the cost base revision. Just if you could clarify if we should expect any further revisions or if you feel relatively comfortable with what's done this quarter?

And also, you mentioned the incident in May, but it would be helpful if you could remind us if there were any other issues related to the KC-390 project that led you guys to the cost base revision, just to make sure we're not missing anything here. Just because the \$127 million sounded a little bit higher than what we expected initially, so just a little bit more color on that. Thank you very much.

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

Okay. Actually, the revision that we made for KC-390 program was due to the incident that we had with prototype number 1. And losing the prototype in terms of yields of it for the flight test signified that we had to change the program so that it could use aircraft number 3 to make the flight test, right?

And with that, we had to keep in the overall engagement for a bit longer than we expected, not only in ourselves, but in suppliers as well, right? So the \$127 million that you

see is the combined result of everything that we see that had to be group dynamics (26:11), so that we can achieve the program targets that we've just spoken.

It's important to note that we already have 96% of the product development completed. So, at the same time that we cannot say that there will not arise any new issue, we don't expect anything new to happen, but because there is not that much left to be done, right, but also because we did this revision with the best information, the best knowledge that we have.

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

That's very helpful. Appreciate your time. Thank you.

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

Thank you.

Operator

The next question comes from Petr Grishchenko with Barclays.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Good morning, gentlemen. Thanks a lot for taking my questions. I just wanted to clarify a little bit on your backlog. What portion of that relates to Services & Support? Just want to understand how backlog kind of moves generically.

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

Okay. Thank you for the question. It's around \$1.5 billion that is related to Services & Support.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay. So, since fourth quarter, backlog declined from, call it, \$18.3 billion to around \$16 billion?

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

The first quarter already had the same amount of Services.

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

Yeah. The 2018 already had the same amount of Services.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay. And I wanted ask a question on Boeing, kind of follow up what previous caller asked. You talk about the bonds and how you intend to treat the bondholders. But,

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specifically, has Boeing agreed that potential JV would assume the bonds, given the gross leverage of the new entity will be in pro forma?

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

Yeah. Well, what we envisage is that all bonds that we have, which are actually tied to Commercial Aviation exports, they will migrate to the new JV with a similar amount of cash. For that, the new JV started with around \$0 net debt, right? So, that's the structure that we are looking at.

Q - Petr Grishchenko {BIO 19084897 <GO>}

That's great.

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

If I may add, Nelson, we are still checking the details, right, how we're going to do that. So, if you have a lot of previous steps in terms of approvals and the whole transaction to go first. But as Nelson mentioned, that's the initial idea, okay?

Q - Petr Grishchenko {BIO 19084897 <GO>}

That's great. I think it's a great intention. But my question is, has Boeing agreed to this structure? Has Boeing agreed that the bonds will immigrate to the entity given the pro forma leverage?

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

Yes. It's been discussed at this stage and that is the structure that has been agreed, the migration of the bonds, because they are actually tied to Commercial Aviation exports, as I mentioned. So they are part of Commercial Aviation.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Great. Thanks a lot and best of luck, guys.

Operator

The next question comes from Victor Mizusaki with Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. Good morning. I have two questions. The first one, can you comment what's the current status of the (30:03). Because of the truck drivers' strike, we had heard that the government could cancel this kind of incentive. So I'd like to know if you can comment about this.

And the second one, in the local press you have seen a lot of pushback from local investors about this deal with Boeing. So I don't know if you can comment what the company is doing regarding these complaints?

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

Can you please repeat the first question? We did not get it.

Q - Victor Mizusaki {BIO 4087162 <GO>}

So, if the (30:35) will be maintained or not? Because we heard that, I mean, the tax rebate would be reduced maybe in September. So I don't know if you can comment about this.

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

Yeah. No, we're not counting on any of these programs. We've already assumed that at one point will be gone. So, like, there's no provision included in our results about those programs, right?

And regarding the second question, I think it's natural that there are questions about the deal. It's a very complex deal, right? But we do not see that any of the shareholders are being treated differently, right? So, the proposed partnership doesn't change our current shareholder structure. And it does not change any shareholders' rights, right, including the Brazilian Government's rights that has the special share class with the (31:37) share, right? We think that this deal will bring operation and marketing gains that will benefit all shareholders equally without any distinction, right?

So it's important to make clear that we don't have any change in the equity structure of Embraer or any acquisition of Embraer's shares by Boeing, right? So the transaction of the partnership is really actually to explore our commercialization assets and liabilities in a more efficient way, given the current aviation assets. We think it's natural that there are some questions regarding the deal. And we hope that as soon as we are able to make more information available, our shareholders will see that this deal is very good one.

And, obviously, it's important to highlight that all the governance of the process is being totally expected and will continue to be, right? So the deal has to be approved by the board of directors, by the Brazilian Government, regulators, and shareholders in the end, right? So the formal partnership does not imply any change of control of Embraer. So we are very positive that we will be able to show shareholders that this is a very good deal.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. And I mean, do you have any understanding in terms of any argument on the company hosted conference call to discuss this transaction that it would be possible to pay a special dividend and also to draw buybacks. So I don't know if you have any update on this front.

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

Well, we imagine that we will be able to pay special dividends on the dividend – or when the transaction is completed, right? We just cannot affirm right now the exact amount because it depends on many factors that we are debating and with the carve-out process that is going on right now. But it is our plan to pay a healthy dividend to shareholders.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

Operator

Our next question comes from Augusto Ensiki with HSBC.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Hey. Good morning, gentlemen. Just a question on the Executive segment. You guys are about I think 30 or so aircraft in so far this year. And to hit the bottom end of the guidance, you have another like 70 or so aircraft to get there. And we've seen EBIT margin for the Executive segment improve significantly.

Can we then assume that by year-end you're going to be touching in the positive EBIT margin and hopefully there's a big improvement in the gross margin this quarter? Is this sustainable for year-end? So, can we get to mid-single-digit positives for EBIT?

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

Yeah, positively. We are very confident in the turnaround of our Executive business so that we can sustainably generate positive margins and cash flow. The result from the first quarter was a bit low because of the low-end business, but that is a normal seasonality that we have and we will be within our guidance for the year, right? And we are really very positive.

And it's important to point out that we continue to be very disciplined in our prices, right, so that if we have to move in sales to keep our prices, that's the priority nowadays, and we are very confident that we will deliver consistently mid-single-digit margins from this year onwards.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Thank you. And as far as – so you guys have been stressing price discipline. Have you seen that to be with case with your competitors? Have you noticed any of them offering maybe outsized incentives or otherwise?

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

Sorry. I did not understand. Are you talking about advantages?

Q - Augusto Ensiki {BIO 15988025 <GO>}

Just how the competitive landscape is currently in the Executive segment?

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

Well, the business jet market is quite competitive, right? So, as we all know, I don't know exactly what sort of incentive you are talking about. In our side here, in our case here, so

what we are seeing is a good recognition for the services that we provide, the after-sales support.

As you probably know, we have got for the two years in a row the best service in the segment. And with that, we are seeing our clients giving value for this. So we have been able through the recognition to get better prices for our products. We have recently delivered the first Phenom 300EV with a new interior. We have the Phenom 100 also with more range being delivered and, of course, the Legacy 450, Legacy 500.

So, all-in-all, there is a lot of incentives that we are offering to our customers, which are making us with the ability to get a better recognition from the market and, therefore, better prices and more sales.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Thank you very much. Appreciate it.

Operator

The next question comes from Augusto Ensiki with HSBC.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Sorry. Thank you for taking the follow-up. Actually, on the Defense side, is there any update in terms of sales campaigns for the KC-390? Is there any detail you can give us on any that you might be, I guess, getting close to firming up? Thank you.

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

Well, the campaign for the sale in Portugal is progressing very well, and we hope that we will conclude that within a short period, right? And I think it's important also to mention that the formation of this new JV with Boeing in Defense, which will focus in the short-term in the KC-390 sales potential, right?

We believe that this new JV will open a very important market which we have not counted on previously because of the geopolitical influence that our competitors could have there. But with the partnership with Boeing and their engagement in selling and marketing the product, we believe that we will gather much more sales in the KC in the mid-term.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Perfect. Thank you again.

Operator

The next question comes from Noah Poponak with Goldman Sachs.

Hi, everyone.

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

Hi, Noah.

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

Hi.

Q - Operator

This is Matthew (39:59) on for Noah. In your conference call, the JV with Boeing, you alluded to additional investment in the KC-390 and business jets. Could you help us understand what that entails and provide some sense of the sizing and timing of those investments?

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

No. We have not a strong definition on that, right? We just anticipated that with the KC-390 JV, there may be need for some investments, right? And this is important because this is - and that's different from the type of partnership that we had with Boeing in the past in the KC-390. So we're thinking about doing other different things now that may require some investments, right?

But there is no definition on the amount of that and no definition of investment in executive aviation either, which we ineffectively (40:52) aviation will keep focused on our turnaround plan. So we want to get this business with positive returns and positive cash generation, and we will do that before thinking about any other new product development. It's important to note that we go on, however, updating our products to keep them competitive. So, that we will continue to do.

Q - Operator

Got you. So, following up on that, you talk about sort of a potential next-generation KC-390 and the investments going into that. Could you give us a sense of sort of maybe the extent of those potential changes, sort of what markets you're targeting and potential timing for that?

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

No, that's something that the JV - we are working with Boeing in the business case development. Not necessarily we anticipate that there will be a new version of the KC, right? There may be differences in terms of the strategy. We don't know. But we will do whatever is necessary to unlock markets that today we cannot access. But it's not right to assume that this will result in a new version of the KC.

Q - Operator

Got it. Thank you. And just thinking about the Commercial JV, if there were to be a new aircraft developed there that sort of would involve additional capital infusions, would you look to be contributing additional cash in order to avoid dilution or seek to maintain the cash position at Embraer?

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

Yes, in principle, yes. So we want to keep our share, right, of 20% and going forward. So, that's steady.

Q - Operator

Got it. Thank you.

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

Sure.

Operator

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

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