

## Q1 2020 Earnings Call

### Company Participants

- Antonio Carlos Garcia, CFO
- Francisco Gomes Neto, President and CEO

### Other Participants

- Alexandre Pfrimer Falcao, Analyst
- Cai von Rumohr, Analyst
- Joshua Milberg, Analyst
- Myles Alexander Walton, Analyst
- Ronald Jay Epstein, Analyst
- Victor Mizusaki, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to the audio conference call that will review Embraer's first quarter 2020 results. Thank you for standing by. (Operator Instructions).

As a reminder this conference is being recorded and webcasted at [ri.embraer.com.br](https://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 obligations to update publicly or revise any forward-looking statements because of new information, future events and 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 forward-looking statements.

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

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

### **Francisco Gomes Neto** {BIO 19328044 <GO>}

Good morning, everyone. Thank you all for joining our call today. I am Francisco Gomes Neto, President and CEO of Embraer.

I'd like to make some initial remarks before passing to Antonio Garcia, our CFO, that will explain the results.

We are living unprecedented times in the world with the COVID-19 outbreak this year that has brought meaningful impacts to our industry, productivity to the markets and uncertainties to our customers, employees and suppliers.

I strongly believe that in difficult times like this we need to stay focused on our strategy.

I have chosen five main areas that, in my view, will make Embraer to emerge even stronger of this crisis. On Slide 3, we highlight them.

First, and most important one, the health and safety of our employees. Our priority is and will continue to be to protect the health and safety of our people. We have been taking many measures to protect our associates who need to perform work on site. Measures such as sanitizing common areas and workstations, use of masks, adopting cafeterias in work areas to ensure appropriate social distancing and providing medical support and guidance in compliance with all the World Health Organization recommendations.

Second, cash preservation. Embraer has launched a cash management team. We have daily meetings to discuss our current liquidity and defining actions to preserve our cash. As for example, strict expense control, very high focus on account receivables, inventory reduction and a more robust investment approval process. Such initiatives will help us to close this crisis and will remain as new processes in our company after the crisis.

Third, recapture synergies. We are already working to eliminate duplications and regaining synergies in our Commercial Aviation. We will manage this business along with the others to be more efficient, eliminating redundancies and reducing costs.

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Fourth, business plan update. We are working with the leaders of each one of our business units to review our five-year projections in the light of market conditions, establishing strategic initiatives, potential partnerships, targets, KPIs and a well restructured execution process with focus on growth, cash generation and profitability.

And finally, our fifth area of focus is to build a lean and efficient organization.

Before the pandemic, part of my time was dedicated to visit Embraer sites around the world. I'd like to be very close to the teams into where our products are made.

I had great conversations with leaders of different sites, different areas and many levels of our organization. And I'm strongly convinced that we have a lot of opportunities to make Embraer a more lean and efficient organization. Hosting initiatives as operational and commercial excellence, programs to reduce costs of our products and always keeping our innovation DNA.

I'm very positive that Embraer will exit this crisis much leaner, more efficient and competitive to grow profitably in the years ahead.

Now before moving to Antonio, I want to highlight some important initiatives related to social responsibility that Embraer has been performing in Brazil and abroad. At Slide 4, we highlight that Embraer has been working with its supply chain to produce around 5,000 ventilator parts in Brazil. We made a partnership with the Albert Einstein Hospital to make 700 intensive care units available. Embraer is also producing face masks in Florida to be used in our U.S. facilities. The Brazilian government is deploying our KC-390 Millennium to transport supplies, medical equipment and ambulance to several locations in Brazil. And Embraer has also donated 40,000 COVID tests to the Brazilian public health system.

With that, I conclude my initial remarks and would like to pass the call to our CFO, Antonio Garcia. Thanks for your attention.

**Antonio Carlos Garcia** {BIO 21338149 <GO>}

So thank you, Francisco.

It's a great pleasure to talk to all of you. Now moving to Slide 6. As Francisco mentioned, we are operating during unprecedented times with developments regarded to the COVID-19 pandemic, evolving almost daily and growing risks to the global economy, our industry, customers and other stakeholders.

Despite all uncertainties, Embraer's liquidity position remains solid with our continuous cash discipline. At the end of the first quarter, we finished with a total cash of USD 2.5 billion and a good debt situation with no major maturities coming due until 2022. We are also in discussion with local and international banks to bring additional financial lines to further strength our liquidity in short term.

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I cannot give you details now, but I expect to have news to share with the market in the coming weeks.

On a different subject. During the first quarter, we finished the internal segregation of the Commercial Aviation business, which basically shut down the whole company during the month of January as we transitioned all of our operating system, which impacted our deliveries during the quarter. Then as we already disclosed around a month ago, we received notice from Boeing regarding their interest to terminate the strategic partnership between our two companies in the Commercial Aviation business. Embraer has been in compliance with all of the conditions under the agreement, and we will work in the arbitration process to pursue any and all remedies available to compensate Embraer for the wrongful termination of the agreement by Boeing.

We will not make further comments on the arbitration procedures, given its confidentiality aspects.

By the way, the COVID-19 and the termination of the MTA caused a delay in our closing procedures, and we should be fast in the coming quarters with our report.

With respect to the COVID-19 impact, we are seeing the biggest impact in the Commercial Aviation business, while Executive Jets so far remains fairly resilient as well as Defense & Security. We continue to discuss deferrals with our commercial customers. And up until now, we haven't received any cancellation request. The good news is that key markets for Commercial Aviation in Europe and United States are already resuming operation and in many cases, using smaller regional jets that should lead the aviation recovery.

So Slide 7, let's talk about the measures for cash preservation. We create in March – beginning of March a cash management team, and we have daily discussion about our cash position, and it's a forum where we have the whole management team take decision with the one subject – one target is the cash preservation.

In regards to our order book and cash inflows, we have been daily monitoring our orders and market conditions with an increased focus on receivables collection. We are also rightsizing our production plan with the real-time planning and direct supplier negotiation to check the parts delivery and postponed payments. We were able to reschedule deliveries with all of our main suppliers, and we thank our supplier for it.

Regarding the workforce, our HR team and the leadership did an outstanding job. We reached an agreement with our unions for furloughs and workday salary reductions.

It's important to highlight that the sale reduction has included all of our leadership, including senior management and our Board of Directors. We have more than 50% of our Brazilian workforce under this program. And I'm proud of the speed with which we responded to the COVID pandemic with this temporary workforce adjustment. We will continue to evaluate the structure of the company following the termination of the

arbitration of Boeing and work to make Embraer as efficient as possible and capture our synergies.

Finally, we are reducing inventory levels, cut investments and expenses with a strong discipline and cost control.

I'm very proud of Embraer team's response to the cash preservation action so far.

Moving to Slide 8, we show highlights for the Commercial Aviation business. During the first quarter, Embraer delivered five E-Jets.

It's important to note that the first quarter, it's always seasonally weak. And this year, we were closed during the month of January as we work to finish the carve-out of the Commercial Aviation business.

As far as orders, we didn't have any cancellation since COVID-19 outbreak, and we are working closely to our customers to adjust our deliveries to their current needs, which should bring deferrals to our deliveries.

In terms of new order, SkyWest placed an order for 20 E175 aircraft, which brings the total number of orders for SkyWest to the impressive mark of 180 planes since 2013. We also display the E195-E2, which recently entered service in the second half of 2019, at the Singapore and India air show prior to the worsening of the COVID-19 outbreak. And finally, we would like to reinforce the statement of the International Air Transportation Association, IATA, that expects regional aviation to lead their travel recovery in the upcoming months.

Slide 9. Some highlights about Executive Aviation. During the first quarter, we delivered a total of nine business jets, of which five were light jets and four were large jets. We are proud to see the new enhanced Phenom 300E receive triple certification from FAA in the United States, EASA in Europe and ANAC here in Brazil.

In terms of sales activities, our bizjet customer reconfirmed their orders for the year with few deferrals, and we maintain our book-to-bill of 1:1.

As far as operations, Embraer Executive Jet facility in Florida were defined as essential operation in the state, and we did not close, continuing with aircraft production, final assembly and customer deliveries. Also, Embraer Executive Jets has offered its business jets demonstrators to be available to transport critical patients in need of medical treatment during this pandemic.

Moving to Slide 10 to talk about defense. The Defense & Security business celebrates the official signing of the contract with the Brazilian Navy and which Embraer is working with Thyssenkrupp for the production for - of four ships to be delivered between 2025 and 2028. The first Super Tucano destined to the Nigerian Air Force performed its inaugural

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flight and Embraer signed an additional contract for two Super Tucanos for U.S. Air Force Special Operations Command.

As far as the KC-390, currently, we have six KC-390 cargo aircraft under different stages of production for the Brazilian Air Force as well as Portugal, and we expect to deliver two KC-390s this year to the Brazilian Air Force to continue to modernize their fleet with this state art of plane. As I mentioned before, the Brazilian government has been used their two KC-390s already delivered for logistics operations across our country to help in the combat against the COVID-19 pandemic in Brazil. And finally, an important milestone for the Brazilian Air Force Gripen project. We have the first metal cut for the F version of this fighter jet, which is a two-seat version that Embraer is developing together with FAB.

Let's go to the financial results, Slide 12. Our backlog. Our one - first quarter 2020 backlog was valued at USD 15.9 billion, which although is slightly lower than the 16.8 of the end of the year, it still represents several years of deliveries across our business units. Some of the reduction is mainly driven by the FX conversion of contracts in local currency.

Next Slide 13, we presented the aircraft delivery starting with the Commercial Aviation. As I mentioned previously, the first quarter is usually the slowest in terms of deliveries for both commercial and Executive Jets. Plus this year, it was impacted by the fact that in January our operations were largely paused to the entire month in order to complete the segregation of the Commercial Aviation business.

Embraer delivered a total of five commercial jets and nine Executive Jets during the first quarter.

Moving to Slide 14, net revenues. In the terms of consolidated revenues, Embraer reported USD 634 million in the first quarter of 2020, which was down around 20% from the last year first quarter, most driven by the lower commercial deliveries and the impact of the blackout period in January 2020.

Commercial Aviation revenue reached USD 140 million; Executive Jets, USD 130 million, driven by the better mix of deliveries in the quarter, especially with the delivery of three Praetor 600s and one Praetor 500; Defense & Security, USD 149 million; and Services, USD 230 million.

Next slide, on Slide 15, we present the SG&A expenses for Embraer. Overall, we have a positive trend in our SG&A expenses.

In the first quarter, we had some adjustment due to the collective vacation in January and the temporary paid leave in March to close the facilities in response to the COVID-19 pandemic. Regarding the increase of selling expenses, this was mainly driven by higher adjustments for bad debt provision, given the COVID-19 pandemic's risk effect. This was around USD 33 million in additional provision for the first quarter and the selling expenses.

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Moving to operating results at Slide 16. Embraer reported adjusted EBIT of USD 9 million in the first quarter of 2020 with a margin of 1.4%. The adjusted EBIT in the first quarter excluded roughly USD 55 million in noncash items related to the COVID-19 outbreak.

It's important to highlight that our adjusted EBIT in the first quarter includes separation costs of USD 21.8 million comparing to the USD 12.3 million in separation costs booked in the first quarter of 2019. Even with higher separation costs this year, operating results were better than last year, mostly driven by higher margins in the executive and defense.

So next slide, 17, we show the adjusted EBITDA. Embraer first quarter adjusted EBITDA also excluded the cost related to the COVID-19. Adjusted EBITDA reached USD 65 million of a margin of 10.2% for the period, which represents a significant improvement compared to the USD 31 million in EBITDA and 3.8% EBITDA margin in the last year for the first quarter.

Moving to the next Slide 18, we present net income. Embraer's adjusted net income reached a loss of USD 104 million in the first quarter, implying a negative margin of 16.4% for the quarter. Our earnings have been negatively impact by the combination of the separation costs similar to the impacts already showed in the EBIT and EBITDA and higher financial expenses. Our reported net income was much bigger loss of USD 292 million but mostly driven by the deferred income taxes items that has been triggered by the Commercial Aviation drop down for the deal conclusion, which is not the case anymore.

On Slide 19, we present Embraer investment and CapEx development. During the first quarter, Embraer invested USD 47 million, of which researching expenses were USD 6 million, development was USD 28 million and CapEx USD 30 million. And in regards to development, the most part of the investment was for the E175-E2.

Next slide, Slide 20, we show the company's free cash flow. First quarter free cash flow usage is almost always the highest during the year, generally due to the lower deliveries and high investments in working capital to prepare for higher deliveries in the remainder of the year.

In the first quarter of 2020, our free cash flow was negative USD 677 million, which is healthy in line with our free cash flow usage in the last year first quarter.

Finally, on Slide 21, we show our current indebtedness profile. Our net debt position at the end of the first quarter stood at USD 1.3 billion, with a robust total cash position of USD 2.5 billion and the total debt of USD 3.8 billion. We are confident in our liquidity position at the present as we have no major debt maturities until 2022 and '23, and we continue to work in additional financial lines. Our debt to maturity is mostly concentrated in long term with four years duration.

With that, I conclude my presentation.

I'm pretty confident that Embraer remains and will continue to be stronger.

Please, Operator, you can open for the Q&A session. Thank you.

## Questions And Answers

### Operator

(Operator Instructions). Our first question comes from Myles Walton, UBS.

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

Thank you. Good morning. Thanks. Good morning. Antonio Carlos, maybe you or Eduardo [ph] can provide the margins by segment.

It sounded like kind of like Defense & Security and executive aviation actually had pretty good performance. So if you can just highlight that. And then I had a couple of other questions.

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

Hey. Hi. Good morning, Myles. Yes. As you said, we had a very good quarter for executive and defense. Executive margins were around 2%, positive margins, as we have been saying, executive margins are recovering. Now we have a very solid portfolio of products with the finance and operators, and that's - it's helping the margins and that is shown in the results.

In defense, also, as you mentioned, as we concluded the KC-390 development, margins would improve. And that's also already showed in the results. We have double-digit margins slightly above 10% for defense. Also good margins given the conclusion of the KC development.

On commercial, margins were affected by very low deliveries, right? As Antonio mentioned, we were shut down in January. We only had five deliveries, so margins in commercial were slightly negative. And finally, on service, we keep our double-digit margins as we have been showing in the last couple of quarters.

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

Okay. Great. And then for the free cash flow, Antonio Carlos, I know you're in the process of securing financing and looking at ways of cash preservation. As you look at it today, for the remaining three quarters of the year, will free cash flow be positive?

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

We - Myles, good morning. I would say the Q2 will be also a tough quarter for us. But then as we always do, we will recover in Q3 and Q4.

But I do see a pressure in Q2 because we have the biggest impact of COVID on the cash flow side and then likely to see a recovery in Q3 and Q4, if nothing change in the current

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scenario that we are living right now.

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

Okay. So do you think year-end balance sheet position is similar to where it is right now?

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

Let's say a little bit above USD 2 billion in regards to the liquidity - more or less our target.

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

Okay. And the last one, Francisco, the slide on short-term strategy is helpful. Can you give a comment towards the medium-term strategy of the company? And whether recombining what has already been separated is something that you're pursuing in the medium term or are you looking at other alternatives?

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

Sure, Myles. We are just in the process to review our five-year strategy plan, I mean with a high focus on the commercial aviation, but also we view this five-year plan for the other business units as well in the light of the COVID situation. So we expect to complete this process in a few months. And in this process, we are evaluating all the possible, possible actions we can take, including potential partnerships.

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

Okay. All right. Thank you.

**Operator**

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

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

Hey. Good morning guys.

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

Hello.

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

Can you give us a feeling for how your conversations are going with your customers?

There's a narrative that regional aviation smaller capacity aircraft could lead us out of this downturn. Are you seeing any evidence of that with your customers? And if you are, can you give us any feel for what you're hearing?

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

Well, we have, at this point of time, a quite stable situation. We have seen some deferrals of our customers, but no cancellations. We might have some change in the following months depending on the progress how this crisis evolves.

But at this point of time, I mean we believe our situation is quite stable in terms of production program for 2020 and 2021.

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

Okay. And then if we shift to the business aviation end market, the margins this quarter were better than I think folks were expecting. How does the demand front look? Have you seen any deferrals or cancellations there? Or what's going on in the business aviation side?

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

Well, the business aviation has suffered much less than the Commercial Aviation. We had some - a few deferrals for this year. And we might have more opportunity next year because, I mean, more executives might increase the yield of share in flights or even decide to buy their own jets for a more reserved transportation. The executive aviation might be an opportunity after this - post-COVID.

And by the way, although our Commercial Aviation - although we believe the regional and domestic flights should start earlier, I think this will be a good opportunity for our E-Jets, I mean, to recover first and also the respective service for those jets.

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

Okay, great. Thank you very much.

**Operator**

Our next question comes from Josh Milberg, Morgan Stanley.

**Q - Joshua Milberg**

Good day everyone. Thank you for the questions. Your comment on where you see cash at the end of the year was very helpful, but I was hoping you could update us a little further on your - the target of USD 1 billion in potential cash savings for 2020 that you touched on, on the last call.

Specifically, I was hoping you could address the CapEx and product development of that. And just what kind of investment flexibility you see around the E2 program. That's my first question.

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

Hi Josh. Yes, as we mentioned on the previous call, we continue to work very hard on the cash side. We have this cash management team that Antonio is leading, and we have

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been able to identify a lot of potential cash savings. This is going to be very important for us to offset some of the deferrals, especially in commercial. So I would say, overall, the cash situation has been stable in the last four to five weeks, which is very good. So we are working hard to reduce investments.

In terms of the workforce, we have more than 50% of our workforce in work hours and salary reductions. So all those initiatives combined with suppliers that we are renegotiating orders and also postponing payments, all of that will help a lot our cash consumption this year. First quarter is always the weakest quarter in terms of cash consumption. But the second quarter should be also a weak quarter. But after that, we expect to recover.

I don't know if Antonio wants to add?

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

Just to repeat that we are targeting to finish the fiscal year with liquidity around USD 2 billion. That's our target.

It's more or less where we are today with some small adjustments. And we are also going down for investment, more than 50% in by the - for all programs.

**Q - Joshua Milberg**

Okay. That's helpful.

But also taking a little bit of a longer-term view, can you just remind us of roughly what the amount of investment is due for the E2 program? And how much of that corresponds to the E2-175? And maybe also just comment on whether you've contemplated the possibility of a later entry into service for the E2-175.

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

We don't have any assumptions.

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

(Inaudible). Yes, yes.

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

I was just going to add, Antonio. We don't have any decisions in terms of deferring our programs at this point. What we can say is really we have been spending the last couple of years around USD 400 million to USD 500 million in investments, and these numbers should go down quite substantially. So investment should be more at the ballpark of USD 200 million to USD 300 million.

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

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## Q - Joshua Milberg

Okay, that's fair.

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

- in regards to 175-E2, we are revising our investment and our time lines. As soon we have a final compute, we are going to communicate to the market. But for now there is no change per se.

## Q - Joshua Milberg

Okay. That's very helpful. And then just one follow-up on the defense profitability.

I think you suggested - and you had suggested in the past that your shift from the development to production phase of the KC would - could in fact mean higher profitability. And - but we've also seen very high levels of volatility in your margins in defense in the past.

So just wanted to get a little bit of a better sense if you think that the margin that you had this last quarter is something that could be pretty recurring over the remainder of this year and beyond.

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

That's a good question, Josh. As we have been saying, right, we had tough margins in defense in the last couple of quarters, mostly driven by the end of the development of the KC-390. Now that we are concluding the development and we are moving from development to production, we expect margins to get better.

I think first quarter was already an indication of that. We had double-digit margins in defense, and we expect defense margins to maintain at a healthy level as we move away from the KC development.

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

And by the way, we really -

## Q - Joshua Milberg

Thank you. That's very helpful [ph].

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

- still have a really small reduction in regards to revenue for the defense side, it's more or less stable, which gives us a kind of, I would say, comfort to go through the year with a nice number.

## Q - Joshua Milberg

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Okay, got it -

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

And if you allow me also, when I mentioned in my initial remarks initiatives as operational excellence and cost reduction for specific products, we have projects to focus on cost reduction of the specific products and the KC is included in that project. So we expect that going forward to 2020, 2021, we expect a very high focus on this cost reduction programs of our products, with a positive impact in the results of such products as well.

**Q - Joshua Milberg**

Perfect. Thank you.

**Operator**

Next question comes from Alex Falcao, HSBC.

**Q - Alexandre Pfrimer Falcao** {BIO 5515455 <GO>}

Good morning. Thanks for the questions. My question is regarding the news talking about the negotiation between you guys and BNDES for a debt facility. Can you give us any details on how would that work, size, any equity component into that? And secondly, given your perspective on where your cash is going to be earlier in the call, would that be necessary? Or it's going to be a standby facility, depending on how the environment evolves? Thank you.

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

Hi, Falcao. Our liquidity, as you said, right, remains quite strong. We closed the quarter with USD 2.5 billion in cash, very solid cash. Despite that, we continue to evaluate potential new finance lines. We're not giving - disclose at this point, but we are confident that there is plenty of liquidity available for Embraer. And if it's necessary, we're going to continue to add liquidity to the company.

So we don't see that as 100% necessary. But I think it's very important for us to keep a strong balance sheet. We have the finance lines available if we want to improve that.

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

Just another comment here.

If it's enough or not, I'd say USD 2 billion is our target because we also want to show that Embraer is still liquid that we still work in the market also for future business to close with our customers and, again, have no fear that we are able to do it, and we need to feel also that we have a strong financial position throughout this year, even with everything what you are seeing right now, okay?

And for the time being, we don't want to comment about the financial line, but at the least, we do not see any equity as a priority right now.

**Q - Alexandre Pfrimer Falcao** {BIO 5515455 <GO>}

Okay, that's super helpful. Thank you.

**Operator**

Our next question comes from Mr. Cai von Rumohr, Cowen.

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

Thank you very much. So we're about 2/3 through your second quarter. Could you give us some color in terms of the demand for business jets or what you're seeing in the market and for commercial? For example, a number of the dealers we talked to said the first months of the quarter when COVID was coming out, there were no deals closing. Are there more deals closing now?

Also, now that people have looked over their situation, are you seeing both in bizjets and in commercial more or less requests for deferrals? Thank you very much.

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

Okay. In regards to - for sure, we do see a huge amount of deferrals for the Commercial Aviation. And for the business jets, we have released, I would say, below two digits deferrals and especially the fleet owners, they are confirming their orders. And that's more or less the three-year seeing right now, highly concentrated in Commercial Aviation for this fiscal year in regards to deferrals.

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

So bizjets, you have a chance of being close to where your earlier forecasts were in terms of how you see demand at this moment?

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

Yes.

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

Close (inaudible) -

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

And even during the Q2 with all restrictions, Embraer still continues to deliver aircraft.

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

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Terrific. And then you mentioned kind of once we're through COVID, where the company is going longer term. You mentioned examining partnerships.

I was surprised that you didn't - you and Boeing didn't continue the partnership on the KC-390, which looks like it wouldn't require cash on your side. It would have had a lot of benefits for both parties with limited investments.

Could you comment on any other potential partnerships, like with the Chinese or others, just the ones that are potentially in the mix? Thank you.

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

All right. Cai, Francisco speaking.

As I mentioned in my remarks, we are now in the process to review our five-year strategy plan. And of course, some initiatives are related to potential partnerships in the different business units. So - and of course, in markets like China, India and others are potential ones. But we are in this moment reviewing and analyzing what could be the potential or possible business models for potential partnerships.

Regarding the KC, the original business plan for the KC did not include the countries as U.S., for example. So the market perspectives remain positive for the KC-390 and, of course, I mean, here, we also have opportunities for future partnerships. But at this moment, we are still in the process to evaluate alternatives and possible business models.

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

Does that include for the commercial business or just mainly the defense and bizjet businesses?

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

No. Commercial business. Commercial business. For example, I can mention one project we have, the TP, the turboprop that we have started studies on this project. This project is a good candidate for a partnership with potential markets that might be very interested in having this aircraft.

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

Terrific. Thank you very much.

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

You're welcome.

**Operator**

Next question comes from Victor Mizusaki, Bradesco BBI.

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**Q - Victor Mizusaki** {BIO 4087162 <GO>}

Hi. Thank you. I have three questions here. The first one, if you can give additional comments on the provisions for bad debt, if this is for – if this is related to specific clients?

Number two, thinking about the second quarter, how much can we assume of savings with labor costs with all the initiatives that you mentioned?

And then the last question, I mean, you mentioned that the target is to keep a minimum cash liquidity of like USD 2 billion. But can you comment about the net debt position by year-end? What can we expect?

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

So I'm going to answer your first question. With regard to bad debt provision, we didn't change the procedure we have internally. What has been changed is the rating of the major customers and by evaluating this, we were – we do prefer to build up additional provision in order to avoid certain risk [ph]. Again, same methodology just changing, huge change in the ratings of our customers. That's the answer for the first question.

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

The – regarding the labor costs, Victor, we – as Antonio mentioned, right, we were super agile to reduce labor costs and adjust our labor force to the COVID-19 situation, right? I think that was very important. And I think we are faster than most of the companies in the market. We were able to put more than 50% of our labor force in work hours reductions, reducing salaries and that includes the whole leadership, even the Board.

So that will be an important saving. That is part of the whole cash preservation initiatives. So we're not giving a number, but it's an important initiative.

In terms of net debt, we are working hard on the cash preservation, and that's – it's going to help the – to reduce the potential cash burn. We should close the year with net debt a little higher than last year, but we still don't have a number to provide at this point.

I don't know if Antonio wants to add something.

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

Okay. Thank you.

**Operator**

(Operator Instructions). Please hold.

This concludes today's question-and-answer session.

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

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