

## Q1 2011 Earnings Call

### Company Participants

- Andre Gaia, Head
- Cynthia Benedetto, CFO
- Frederico Curado, President, CEO

### Other Participants

- Caio Dias, Analyst
- Joe Nadol, Analyst
- Nicolai Sebrell, Analyst
- Noah Poponak, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. and welcome to the audio conference call that will review Embraer's First Quarter 2011 results. Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions to participate will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded and webcasted at [www.embraer.com](http://www.embraer.com).

This conference call includes forward-looking statements, or statements about events or circumstances which have not occurred. Embraer has based its forward-looking statements largely on its current expectations and projections about future events and financial trends effecting the business and its future financial performance. These forward-looking statements are subject to risks and 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, believe, may, will, estimates, continues, anticipates, intend, expects and similar words are intended to identify forward-looking statements. Embraer undertakes no regulations to update publically 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 on today's conference call are Mr. Frederico Curado, President and CEO, Ms. Cynthia Benedetto, Chief Financial Officer, Mr. Andre Gaia, Head of IR, and Mr. Rodrigo

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

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

Good morning. Thank you for attending our conference. So briefly, just some highlights. As far as commercial activity, I think we have important successes in this quarter, the Alitalia agreements for sure was an important contract for us. Follow-on order also from Trip in Brazil. The fact that they had 175 and now it's risen to 190 is also relevant, shows the benefits of commonality. Some new territory, such as Dniproavia in Ukraine for ten 190's. So this is also positive as far as broadening our customer base.

In China, we have a couple of successes. We had CDB Leasing for China aircraft, those airplanes would be flown by China Southern and also another ten plus five confirm -- five options for Hebei Airlines, a new customer of Embraer in China. Follow-on orders confirmations of options from KLM, so that's again I think, is an important endorsement for the product line.

As far as Executive Jets, I think some important structural results, certification of the Legacy 650 in the US. It was already certified, as you may remember in Brazil and Europe. So that completes our certification efforts for this new model. We got an award for the Phenom 300 from Flying Magazine. That was delivered the same day of our opening ceremony of our new facility in Melbourne, Florida. So the factories already been furnished with tooling and the equipment and we maintain our shadow to have our first deliveries before year-end.

Furthermore, we also -- we kept expanding our customer support network with not only in the United States, but also in China, Middle East, Africa and India and Australia. And the final comment, I think a very important one, the execution of a Memorandum of Understanding with AVIC, our current partner in Harbin to extend the partnership beyond the 145 and we adapt the tooling, adapt the factory to produce the Legacy 600-650 in China, which we represent the first business jet to be produced in the country. I think this is a -- opens an important perspective for Embraer in that market in China.

In the Defense and Security area also I think a few important results, a couple of contracts, modernization of 43 AMX's and also the modernization of the 11 additional F-5, the Brazilian Air Force acquired a few -- I think last year or a couple of years ago. And I think very importantly, a couple of acquisitions that we performed in Brazil, OrbiSat, a company specializing in radars and also Atech, which is a very high level engineering company for C4I, which fundamentally both will extend the portfolio of technology and products that Embraer may offer to the Brazilian armed forces, but also potentially for exports.

And not a final agreement yet, but a Memorandum of Understanding also, with Aeroelectronica Systems, which is an avionics subsidiary of Elbit from Israel. So the idea is to develop a framework agreement eventually to produce, jointly produce the UAVs for the Brazilian market.

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Well turning to our financial results, we had revenues of roughly over \$1 billion in the quarter. We had an exception of contribution from services on this quarter and as you may have seen, that has contributed also to an exception of profitability. But anyway, 60% of our revenues came from commercial jets, 10% from business jets, 12% from defense and security and 17% from services.

And as we presented during our last presentation last month when we discussed the 2010 results, we are keeping the breakdown or divulge in the breakdown of those services because you know, three parts of that composition of service, they actually come as a result of the three main businesses of Embraer, commercial, executive and defense. So we will report (training half) those numbers consolidated but we kept them open so the analysts could follow and keep their models updated.

As far as deliveries, we delivered 20 commercial jets, two business jets and six -- sorry, eight business jets, being two small ones -- two large ones and then six small ones, so 28 jets in total in the quarter. We feel comfortable about our guidance as far as deliveries in 2011 of 102 commercial jets and 18 Legacy and Lineages in the 100, about 100 Phenom's.

Our backlog as a result of those sales for the first time in many quarters, it went slightly up. So that solidifies a trend of stabilization that we have been witnessing in the last few quarters. I think that's an important element for our future as well. And as previously mentioned, with the exception of contribution of services and within that exceptionality, we also had exceptional elements of margin in services.

So as a result of product mix and service mix, we have a very robust gross margin, which I anticipate and say that we do not expect to have that same level of gross margins throughout the rest of the year. But anyhow, it was a very important result to produce strong operating and net margins in the quarter.

So this \$1 billion represented 24.3% of gross margin, which you can see in a couple of slides turning to an 8.9% EBIT margin. Now, before that talking about SG&A for a bit. It's fundamental that we are keeping those expenses relatively stable. As you know, we have tremendous headwind in those accounts due to the appreciation of the Real vis-a-vis the Dollar and the way to, of course, to offset that is continuous work and efforts and productivity and our P3E, our program -- our excellence program. So roughly in line with expected and the -- as a result of that strong margin and the predicted SG&A, we have a higher-than-expected -- internally expected income from operations that totaled \$94 million in EBIT, which represents almost 9%, 8.9% margin.

We -- despite of that, we get our forecast, our guidance for the year, which calls for 7.5% margin or \$420 million of operating profit because as I just said, we do not expect that this 24% gross margin is sustainable throughout the year. As far as EBITDA, direct result of this positive results, it reached a 14.8%. Same comment I just did about the EBIT, we at this stage, we're maintaining our outlook for 2011 at \$610 million or 11% margin for the year.

Net income was almost a 10%, almost a double-digit margin. And that have two elements, one is the strong quarter and the other one of course, is from some tax credits due to the

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appreciation of the real, which has a negative impact to our non-monetized assets, inventory mainly. And which generates a tax credit, with no cash effect. So this is part of our -- this is a structural issue of our operations, as you know, in some quarters we have benefits, some quarters we have reduction of our results due to this volatility. But in anyhow, there is no cash implication and we just have to keep in mind that these results came from a non-recurring or an extraordinary tax credit due to the appreciation of the real.

We had an increase in our inventories that comes from fundamentally some deliveries which we expected to have achieved and we did not. Some were work in process as well. Having said all that, we keep comfortable that by year-end, we should see numbers comparable to the numbers we ended the last fiscal year, in other words, something around \$2.1 billion, \$2.2 billion by the end of 2011. So this we see as a transitory increase in our inventories, which should be diluted over the remaining of part of the year.

So our free cash flow was negative on this quarter. As we'll see in just short while, we had, as predicted a stronger CapEx disbursement in this quarter. And that of course, has contributed to this negative value, which you know we also are comfortable within -- over the year, we will reverse and come to a positive throughout the year.

Our indebtedness remains pretty much under control, with a good turn with maturity. And at this stage is about \$1.5 billion and we have free cash of \$2 billion with us, so that's results not net cash of about \$0.5 billion, which obviously part of that is in our inventory accounts, as you may conclude. So with that, I will open it for questions for Q&A and we'd be glad to answer your questions. Thank you.

## Questions And Answers

### Operator

Excuse me, ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mr. Nicolai Sebrell with Morgan Stanley.

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

Hi, Frederico and team. Good morning. Two questions. First, on executive jets and the second one on the margin, which I'm sure there are a lot of questions on and I'll be the first. But on the executive jets, obviously, the First Quarter deliveries and the reduction in guidance, relative to deliveries last year for this year a little bit disappointing. Could you comment a little bit more on either the relationship of the number of deliveries you expect this year relative to the backlog that you have?

You have, if I'm not mistaken, over 500 aircraft in the backlog, which brings up the question how real is that backlog or maybe in better in terms, do you have serial deferral customers or customers that have deliveries but they don't want for several years and is that why the backlog seems large relative to the number of deliveries, at least in my view?

On the margin, I understand that this margin is not repeatable, but in order to reach like a 7.5% margin for the year, that means that we're going to see some pretty low single-digit margins in following quarters. Is there upside risk to the guidance, or is it simply that following quarters might be a little bit weak? And that's it.

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

Okay, Nick, on the business jets a couple of comments. The lower-end of the business jet market is just too slow. So we did not see a strong activity there differently from the higher-end. So with that, that isn't a structural issue it is still there and that was the fundamental reason why we have reduced, we have announced a reduction on -- in 2011 vis-a-vis 2010 last month.

We also had a few issues in our standard line. So we had a combination of a few customers that did postpone, a few commercial issues involving customers. We did have a few cancellations. Those (itemization) or those penalties, they are embedded in our non-operational -- other operational income. And the question about the backlog, I think it's a fair question. But it is hard to give you a very firm answer once -- we actually do not know if -- whether or not we will have a postponement until typically 18 months or 12 months before delivery.

That's when the customers they really have to start making more sizable down payments. So it's -- to say it's pretty solid or to say it's not solid at this stage, would be a premature statement anyway. But definitely, the amount of cancellations and request for deferrals is much, much lower than it was during the financial crisis. But it is still a fact.

So that combined with a -- the issues we had in our production line, which are already overcome, that result in the load in expected deliveries in the quarter for business jets. So we remain firm at this stage about the deliveries for the year, of 18-plus 100 for the year. Also, of course, with the certification of the Legacy 650 that will enable us to start delivering that airplane to our US customers.

As far as margins, Nick, if I'm not wrong in my math here, the remaining part of the year we are expecting something around 7% margins to get to our 7.5% weighted average. So it's not very low single digits, it's -- that is -- I don't see a risk to our guidance. I just think it's a bit too premature to assume that from the good result of First Quarter, we should increase our expectations for margins throughout the year. So 7% throughout the year and as you know for sure, the FX keep putting pressure on our costs. We are below (160) now. I think it's still the most rational and the best estimate we can provide.

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

I guess I was talking about their seasonality in the numbers and some quarters you drop lower than others and -- but I understand what you're saying.

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

Yes.

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

One quarter does not make a year. But following on that on the margins, how much service revenue -- what was the source of the service revenue, if you can generalize for the increase in the quarter. And how much do you expect to see again, maybe in future years. This is the type of thing that repeats periodically, just so we can better understand how to model that in the future.

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

I'm going to ask Andre to give you detail.

**A - Andre Gaia**

Hi, Nick. We got \$100 million on commercial, \$30 million in defense and \$8 -- almost \$18 million in vector aviation. Those numbers came a little higher than what we expected on average, on a per quarter basis. But I believe that the guidance for services that we provide continues to be the same numbers. So next quarter tends to be -- on a relatively basis, may be smaller, but certainly services that are important margin contributor to the Company. And of course, we are working to continue to improve this as a source of revenues in the margins.

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

Alright, Andre. Thanks very much. I'll ask the rest of my questions offline.

**A - Andre Gaia**

Okay.

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

Thank you, guys.

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

Thank you.

**Operator**

Our next question comes from Noah Poponak with Goldman Sachs.

**Q - Noah Poponak** {BIO 16071528 <GO>}

Hi. Good morning, everybody.

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

Good morning.

**A - Cynthia Benedetto** {BIO 17063151 <GO>}

Good morning.

**Q - Noah Poponak** {BIO 16071528 <GO>}

I'm going to try the margin question as well. To me, they look potentially maybe more sustainable than we're discussing here. And I guess, you're quoting the services mix. But if I look back to the Fourth Quarter, the services mix I think was one of the lower numbers it's ever been. And the unit volume in the current quarter is fairly low, obviously very, very low on bus jet you're basically running no volume through the factory, is kind of lower than where it's going on the regional jet side. And again, last quarter we were close to 10% with a pretty low services mix.

When you had us down for your investor day, you guys spent a lot of time talking about the many different cost and efficiency initiatives you layered in during the downturn. You had two quarters of year-over-year volume growth with 30%-plus incrementals, which is kind of what you see coming out of a downturn when you've done what you guys did with cost. So I just wonder how much that kind of incremental margin trajectory is actually sustainable given everything you did during the downturn.

Then maybe it even makes sense to talk beyond '11 and into '12 when you probably have a lot more confidence into better volume. Can we -- is a double-digit operating margin reachable with much better volume in '12 given everything you did on the cost side or is that starting to stretch? And are there any other kind of offsets to look for going forward that I'm missing?

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

Well it's -- of course, I must refrain from quantifying anything, but positively your rationale is sound. We -- the Company has really streamlined its operations and keeps doing so. As we get more volume, and hopefully this may be true in the next years to come. We do not anticipate the need to significantly increase our fixed costs, so there's a natural dilution there. And as we, of course, as we work on productivity, also the variable costs should be favored by that.

Are we going to jump from 7.5% to achievable this year? Can we go to double-digit margins? That's something that which of course, we have to quantify down the road. But the trend is upwards. I would agree with you. We -- if you take our gross margin in the last several quarters, let me see here, it's within 20% and 21% if I'm not mistaken. And so a significant part of that is based on US dollars so there's a stable element there.

So we do not see much of a downside risk. But the other part which is exposed to the real, to our currency, that's -- there's a lot of effort to keep it there. So if you look at our 20%, 21% averages the last several quarters and just jump to 24%, we have to look at that with caution and not to project based on that. So at this stage again, we're not trying to be over-conservative, just trying to be professional in the sense that this is the best estimate to have at this stage.

**Q - Noah Poponak** {BIO 16071528 <GO>}

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Okay, that makes sense and is hopeful. On the regional jet side, the order activity has been very strong for a few quarters in a row. You've got I think 60 units announced four months into the year. Do you have an internal projection for what the total annual order activity might look like just given the many campaigns that you still have ongoing?

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

Well we are targeting to achieve at least a one-to-one book to be ratio. So that will give us north of 100 aircraft. Of course, let's say that the specific targets that my -- that Paulo Cesar has agreed with me is more than that obviously. But we expect at least to achieve a -- to keep our backlog hopefully increase it a little bit.

**Q - Noah Poponak** {BIO 16071528 <GO>}

Okay. Then I'll try one more, which is on the Boeing call last week there seemed to be some contradictory comments from the company relative to what they've said in the past. They started talking about needing to protect a -- less capacity in the narrow body market than they had talked about before where they seemed to be alluding to stepping up. They were talking as low as 145 being the most important part of the market.

And Fred, on your last earnings call, you sort of specifically talked about waiting to see what Boeing's move is, feeling like they might move a little higher and potentially vacate that space for you. What did you think of McNerney's comments? Do you think they just still don't know what to do? Do you think they're trying to confuse the competition? Maybe just give us your latest thoughts on what's likely to play out in that part of the market.

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

Well it's tough for me to comment on Jim McNerney's. I'm certain do not believe he would say anything to confuse the competition. I think they control their own destiny. The 145 -- well, it is true that we need to wait and see what Boeing does before making our decision. It is also true that we have fundamentally a couple of strategies. One, depending on the competitive landscape, we should try to risk stretch out the e-jets to get a little bit more size on our upper end.

In another strategy, we would develop a brand new aircraft, probably a fiberglass aircraft if we perceive a more vacant space in that area. It's very difficult for -- at this stage to -- I have actually no clear reading about where Boeing's going to position their family. They have been -- we are -- and obviously follow that very closely. So there have been declarations that they could consider something larger also to potentially hit the replacement niche of McNerney's segment for the 757. In the recent -- well, the other way around, that was not important and they should go as low as 145.

**Q - Noah Poponak** {BIO 16071528 <GO>}

Right.

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

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So the question is where will be the optimized -- where are they going to position the central aircraft? If they position the central aircraft at 145 seats, probably they will have the smallest variance, which it's an important presence in that market. If they move let's say the center of the 7 new family upwards, for I think it measure from 145 to 185 or something like that.

So if they go upwards, depending on what is the smallest variance of that family, that may represent let's say more space than we have today in the marketplace. So it's very difficult for me to comment on somebody else's moves, but I reiterate my comments, which are whenever we see Boeing fix in this final important piece in this complex puzzle, we will then go and address our decision. What's our next move in the commercial jet markets.

**Q - Noah Poponak** {BIO 16071528 <GO>}

Thanks a lot, nice quarter.

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

Thank you. Thank you.

## Operator

Our next question comes from Mr. Joe Nadol with JPMorgan.

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

Thank you. Good morning.

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

Hello Joe.

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

So my first question is just on defense. You made a number of acquisitions there as you noted. And clearly this strategy is taking shape here. I'm just wondering if you can provide a bit of a sense on -- well, first of all, what areas might be targeted for acquisitions? But then secondly, more importantly, how much capital this could involve over the next 1 to 2 to three years?

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

Okay. Hello, Joe. We -- acquisitions for (airborne) are not an objective themselves, they are ultimately they are strategies for us to increase our -- not only our presence in Brazil, but also strengthens our portfolio. Those two companies that we have succeeded, you'll notice that small company with a very advanced technology in radar, with strong presence in the Brazilian army, talking about ground equipment, not airborne equipment. So we have acquired 65% -- around 65% of the company, so obviously we have control of the company. And we retained in our shareholder's agreement the intellectual capacity existing in the company.

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So I think that was -- it's a small business still. So so far we have invest -- this will pop up in our next quarter, something like \$40 million in terms of investments in those two acquisitions. So those numbers are not exactly very much material to Embraer. But I think it's really enhancing our suite of technologies. And also, in the case of OrbiSat, given that's a -- I'd say more direct access to a customer that we did not have a direct relationship which is the Brazilian army.

On the Atech side, they are an important supplier for the Brazilian Air Force, which is a customer we know well. And they're particularly important as far as C4ISR technology. So they have been very active, many years ago in the (CSM) project. In some specific technology, they actually are beyond where we are. So there's a good complementarity between the disciplines within Embraer and Atech.

In that case, it's 50-50 and so of course, we have ordered a shareholder's agreement, very constructive relationship with existing shareholders. So we have obviously a position in the board so we are in the process of integrating the company. By integrating, I want to clarify, which is integrating it's -- we do not, we have no intention to absorb those companies into Embraer. So those companies remain standalone companies and we will integrate our efforts in the sense that we optimize the combined commercial and technical and strengths of each.

Future acquisitions will depend fundamentally on the analogies of one, the investment case itself and the other, what is the real synergy with Embraer. Those two were from day one -- were our main objective and main targets. There were another company in Brazil which were acquired by other players, which were not exactly a focus of us and more in the ammunition fields, which had not -- we not particularly looking at. But for what we want to do, which is sophisticate the C4Is and also on this radar technology. We were fortunate, not only fortunate, Gaia did a great job in managing to succeed in those couple of acquisitions.

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

Okay. Let me move over to a couple of numbers questions. The \$8.4 million of other income in the quarter, is that something you view as -- as in the past as sort of it gets up some quarters, down some quarters, but essentially not sustainable or is there something that's changed about the way -- with your new segments in your acquisitions if they're something now that will be recurring in that line?

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

Well at least part of that is due to cancellations, which certainly we hope are not there in the next quarter. But if you want to add a thing or, Andre, another --

**A - Andre Gaia**

Yes. The -- I think the trend, Joe, accepts support a consolation as Fred said as we hope not there next quarter. I think we may have some volatility in this number since there are provisions, adjustments there. There are any types of fees that we short and we are

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shorted there too. So there are -- it's kind of a day-to-day business and there's account to just change accordingly. So -

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

Okay.

**A - Andre Gaia**

Okay?

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

Is there joint venture income in there?

**A - Andre Gaia**

No.

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

Okay. Then just finally, getting back to the services gross margin, and this is my last question. It seems like there's two issues going on here. One is that services was a bigger part of the mix than usual and the second is that services gross margins themselves were higher than normal. Is it possible to either give us some number that illustrates how much of it was mixed and how much of it was just services being abnormally high, in and of itself?

**A - Andre Gaia**

I don't have the breakdown here, Joe, but I'd say that probably it's kind of a half and half.

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

Okay.

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

We can provide maybe some more precise data later on. We just don't have it here now.

**A - Andre Gaia**

Yes.

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

Okay, that would be helpful. Thank you.

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

Thank you.

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## Operator

Your next question comes from Mr. Caio Dias from Santander.

### Q - Caio Dias {BIO 21849043 <GO>}

Good morning, everyone. My first question is related to the exposure to the FX, because according to our estimates here of course at the operating level, we do see a mismatch between your revenues and costs of around 15% to 18%. But given your strategy to protect your borderline, which is based on keeping some cash in Brazil, have almost 50% of your gross cash position denominated in Brazilian reais. According to our estimates, the exposure is much less than 10%.

So the question is -- first of all, I'd like you guys to confirm if you currently don't have any hedge position? And second, if it's this sensitivity I just mention of less than 10% of the depreciation of the real, will you go through your bottom line, is accurate or if I'm too optimistic? Is this -- my first set of questions, I put this way.

And my second questions are follow-up on the Boeing strategy. Think back Boeing strategy over your own strategy when defining whether to go for a new family of jets. If Boeing does decide to increase the size of its smallest jet in their new family, opening space for you guys to maybe operate in a new -- launching a new model, a larger model, is it possible to further extend the e-jet 195 and avoid creating a whole new family and just reenter the current aircraft? Or in order to operate in a larger size of aircraft, you believe it's mandatory to launch a whole new family and develop a new family of jets? That's my question.

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

Okay, so I'll ask Cynthia to answer the first and I'll address the second.

### A - Cynthia Benedetto {BIO 17063151 <GO>}

Hello, Caio. You're explanations, making an analysis on the net exposure phases, considering the portion of the cash and the revenues generation is roughly correct. Of course, this may vary depending on the actual tax rate, but it's not far from what you should expect.

Since we establish on FX we have no hedging, no financial hedge other than trying to expand our natural hedging efforts. And these efforts are not only maintaining the balances (caliber), but also the growth on defense business with more sales to the Brazilian government, different areas, but they are reais related sales. This is also creating some leverage and some protection for the Company. So all-in your 10% growth -- net exposure, sorry, is not far from what we are seeing on a quarter-to-quarter basis. And for FX, we don't have any financial hedging hired or contracted or in place, apart from the natural hedging strategy.

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

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Okay, on the Boeing question, it's -- both strategies are technically viable and it depends, our -- let's say, our alternative, our option will depend in a large basis on exactly where we see the position of the others products in the market. So if -- just by re-engineering the 195, we don't get the necessary performance of to stretch it a little bit. So it is doable. We would need to re-wing the aircraft and the engine, which would be -- which is in our consideration anyway.

So to be very objective, it is possible, yes, to augment the capacity of the 190, 195 by a new -- develop a new version of the aircraft, which would contemplate a new wing and new powerplant. And obviously, as we do so, we would do other improvements as well. Or, if you want to stretch it further, then that you have the threshold when a larger aircraft becomes a more viable solution. We -- whatever we do has to be absolutely unbeatable as far as operating costs, maintenance costs and performance. So it depends fundamentally on how much bigger we believe there is an opportunity out there to penetrate into this segment.

**Q - Caio Dias** {BIO 21849043 <GO>}

Okay, very clear. Thank you very much and congratulations for the quarter.

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

Thank you, Caio.

## Operator

(Operator Instructions) Our next question comes from Noah Poponak with Goldman Sachs.

**Q - Noah Poponak** {BIO 16071528 <GO>}

Hi. Good morning again.

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

Long time, no see, Noah.

**Q - Noah Poponak** {BIO 16071528 <GO>}

No kidding. I wanted to ask you to elaborate on what's going on with business jets in China. We were just there and met with a few of your folks who had some very interesting things to say about how quickly that is developing. And you just made the announcement on the 650. How do you think about that competitive landscape? Gulfstream has the most share there now. Bombardier is obviously making inroads with manufacturers there. You've done what you've done. What are the next steps? Do you need more JV-ing, more partnering and how do you think about where market share shakes out there over the next three to five years?

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

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It is indeed a complex question. And I do not believe there is a simple answer to that. I can share my views with you. It's a very, very small market today. A market dominated by high profile brand aircraft, Gulfstream in particular and large aircraft. So this goes very consistent with the Chinese culture of brand awareness of importantly, that that's the brand. And of course, size of the airplanes.

If I'm not -- if my numbers are correct, they have just a few hundred airplanes, corporate airplanes fly in China, which is almost zero. It's almost a non-existing market. And the Chinese government in their last 5-year plan, there is -- there are mentions about their willingness also to develop in their pursuit to become a major player in aerospace, they not only focus on commercial aircraft, but they focus also on Tier 1 equipment. So (Embraer) Avionics and (inaudible) hydraulics, et cetera. And lately on business jets.

There is an RFI out there for a potential collaboration with a western manufacturer. And of course, Embraer is considering it's -- submitting a response to that RFI which is not directly connected to our project in Harbin. Apparently Harbin's much more driven by the continuity of that investment. The 145 -- not 145, any 50-seater, either jet or turboprop today at today's oil prices and further it never again will have feasibility as far as economics. Just too low number of seats, even for turboprops.

So the solution will be either do something else or to close -- shut down the factory. I think we just delivered the last aircraft, by the way. So the Legacy being a derivative of the 145, investment is really small compared to adaptation of their factory for something else. So I think people are kind of a fast track for -- into this potentially booming market in China. And so there is -- there are advantages of being the first to market, the first to be there locally.

We -- the most I want to say about this probably as far as our position has the major partner of the Chinese business jet aviation. I don't think we can say that. I think we have a nice start lead, lead start. And it will depend a lot on how we succeed in markets in the airplanes. We have the advantage that the Legacy is indeed a fabulous aircraft as far as size, as far as operational costs. And we have the whole infrastructure in place. We have a bunch of spare parts for the 145 to have our technical people on site. So it's an airplane which is already supported, or a sister airplane already supported in China who have -- I don't know, probably 60 or 70 airplanes in service in China.

So the way I see it now, we have a winner opportunity to make first strikes in China. But I think they definitely want to do something much, much deeper such as they are doing in the (ERJ-21-seat), particularly in (C919 up). So I foresee a -- one day a Chinese indigenous business jets either developed by themselves or developed by themselves with somebody else. Both movements I think will be more clear within the next, in my point of view, 12 months, 24 months. And so in a very synthetic view, this is how I see our position there.

## **Q - Noah Poponak {BIO 16071528 <GO>}**

And how do you feel about your chances of being the winner of that RFI that's presumably with COMAC?

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

Well it's really hard to say at this stage. It's not even RSG it's just an RFI to just collect information. And again --

**Q - Noah Poponak** {BIO 16071528 <GO>}

Right.

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

-- it's a broad range of manufacturers, when you put -- when you consider people like Gulfstream, Embraer and Cessna and Beechcraft and Bombardier. We are so different with different coverages of product sizes and it's -- I think that's too early to tell. I would love again, I would love to say, wow, being a partner of AVIC in Harbin, that gives us a preferential treatment.

I'd love to believe that. I do not. I think we are at the same position as everybody else. Again, we do have an opportunity of a fresh start and to be at -- to be in the market first than anybody else. Even if there's another project to establish a production in China, should not take whoever is that second player longer than us to be there. But apart from that, it is our wish, is what we work for, but I really cannot say we have some -- any special leverage because of Harbin.

**Q - Noah Poponak** {BIO 16071528 <GO>}

Got it. Okay. Thank you.

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

Thank you.

**Operator**

(Operator Instructions) This concludes today's question-and-answer session. I would like Mr. Curado to proceed with his closing statement. Please go ahead.

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

I would just thank you all for your time and attention and consideration. So talk to you next quarter. Thank you very much, have a great week, all of you.

**Operator**

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

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