

## Q2 2016 Earnings Call

### Company Participants

- Eduardo S. Couto, Director of Investor Relations, M&A and New Businesses
- José Antônio de Almeida Filippo, Executive Vice President-Finance & Investor Relations (CFO)
- Paulo Cesar de Souza e Silva, President & CEO

### Other Participants

- Alexandre P. Falcao, Analyst
- Cai von Rumohr, Analyst
- Derek Spronck, Analyst
- Joshua Milberg, Analyst
- Myles Alexander Walton, Analyst
- Peter John Skibitski, 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 2016 Results. Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. And instructions to participate will be given at that time. As a reminder, this conference is being recorded and webcasted at [ri.embraer.com.br](http://ri.embraer.com.br).

This conference call includes forward-looking statements or statements about events or circumstances, which have not occurred. Embraer has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting the business and its future financial performance. These forward-looking statements are subject to risks, uncertainties and assumptions, including among other things, general economic, political and business conditions in Brazil and in other markets where the company is present. The words believes, may, will, estimates, continues, anticipates, intends, expects and similar words are intended to identify forward-looking statements.

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conference call may 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. Paulo Cesar de Souza e Silva, President and CEO; Mr. José Filippio, Chief Financial Officer and RIO; and Mr. Eduardo Couto, Director of Investor Relations.

I would now like to hand the conference over to Mr. José Filippio. Please go ahead, sir.

## **José Antônio de Almeida Filippio**

Okay. Thank you, and good morning, everybody, and thanks for joining our conference of the second quarter financial results. I'm going to go as usual through the presentation, then I'll pass to Paulo Cesar for his remarks, and after that we'll be ready for the questions.

So, starting the presentation in page three with the corporate highlights. Earlier this month, we participated in the 2016 Farnborough Air Show where we had a chance to debut our E190-E2 and the KC-390 in the international market. Together with that, we were able to have the first-time display of the Legacy 500, the Super Tucano and defense systems in the same trade - air show. In terms of commercial activity, we were able to announce the commitment for 25 E-Jets, the current generation and the E2 version.

Next page, page four, regarding highlights for Commercial Aviation. We delivered 26 E-Jets in the second quarter of 2016. Regarding new operators, TAP from Portugal became a new E-Jet operator. As far as orders activity, we had several recent announcements. Japan Airlines ordered for an additional E190. Nordic Aviation Capital ordered for four E190. Kalstar Aviation from Indonesia ordered for up to 10 E190-E2. And Arkia from Israel, letter of intent, for up to 10 E195-E2. In relation to the E2 development of the program, we had the second prototype join the flight test campaign, and now we have over 50 hours of flight tests.

Next page, page five, moving into the Executive Jets highlights. We had a delivery of 26 jets in the second quarter, broken by 23 light jets and three large jets, which included the delivery of the first Phenom 100 to Etihad Flight College.

In terms of commercial activity, we announced that Across from Mexico had an order for 23 jets, mean eight Legacy 500, eight Phenom 300 and seven Phenom 100. Also, AirSprint order for up to 12 Legacy 450. And Air Hamburg, the purchase agreement for an additional Legacy 650. Regarding production activity, we started in our Melbourne facility, the first assembly line of the Legacy 450/500.

Next page, page six, highlights of Defense & Security business. Starting with the KC-390 program, two important information. First that the flight campaign reached over 400 hours with now two prototypes. Also that the KC-390 were able to a demo tour in Europe and Middle East after the Farnborough Show. And very important to the commercial phase

of the program, Embraer and Boeing signed an agreement on global marketing and support for that product.

An update on the LAS Program for the U.S. Air Force, we delivered the aircraft number 19 out of 20. And finalizing the highlights of Defense in relation to other Embraer defense programs, Visiona advanced with the satellite test for the Brazilian client.

Okay. Next page and finalizing the highlights. But before entering in the financial results, two important information. First, the update on the SEC and DOJ investigation. And in page eight, we have been reporting this matter since 2011. And in May 2015, we informed that we started negotiations with the authorities for a potential settlement. Now, we are announcing that the negotiations have significantly progressed, due to that, we are recognizing a loss contingency charge of \$200 million. It is important to say that final settlement is likely to include a deferred prosecution agreement and imposition of independent monitor. It's also worth to mention that negotiations with the U.S. authorities are ongoing and subject to change.

Next page, the second important update before the financial results is the 2016 outlook revision. On page 10, and due to more difficult conditions in the business jet industry this year, we are reducing expected deliveries by 10 aircraft for 2016. We now expect the range of 105 deliveries to 135 deliveries in Executive Jets broken by 70 to 80 light jets and 35 to 45 large jets, resulting in lower revenues to the range of \$1.6 billion, \$1.75 billion from \$1.75 billion to \$1.9 billion. We are also reducing the other revenues by \$50 million.

In this page, we show the changes in our estimates. But it is also important to highlight that the reduction on the margins, EBIT and EBITDA and the lower free cash flow generation driven by higher inventory levels and lower profitability. We had the revision on the free cash flow generation for the year from negative \$100 million to negative \$400 million.

In next page, we will detail our new guidance. So now, in page 11, we now expect total revenues in the range of \$5.8 billion to \$6.2 billion when we break this by business unit. In Commercial Aviation, there was no change, deliveries in the range of 105 to 110 E-Jets and revenues from \$3.45 billion to \$3.65 billion. This would represent 59% of the revenues consolidated of Embraer 2016.

In terms of Executive Jets, as already adjusted, deliveries from 70 to 80 light jets, 35 to 45 large jets and the net revenues in the range of \$1.6 billion to \$1.75 billion, which would represent 28% of the revenues of the company. In terms of Defense & Security, net revenues unchanged in the range of \$0.7 billion to \$0.75 billion. To sum up the total revenues, other revenues of \$50 million representing 1% of the total revenues.

Continuing next page, page 12, in terms of EBIT and EBITDA. The EBIT range from \$405 million to \$500 million, a margin from 7% to 8% and EBITDA, the range of \$735 million to \$840 million with margin from 12.7% to 13.5%. In terms of free cash flow, as already anticipated, the expected of use of less than \$400 million. And finalizing the outlook for

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2016, we are maintaining our total expected investments of \$650 million, broken by \$50 million in research, \$325 million in development and \$275 million in CapEx.

Now, we move to the financial results for the second quarter 2016 and year. And starting with page 14, our firm backlog. It was unchanged compared to the end of March in the total of \$21.9 billion.

In page 15 as far as aircraft deliveries. From the left, we delivered 26 aircraft in Commercial Aviation to the total of 47 to date, actually in the end of the second quarter, June 2016. In the right side of the sheet, we have the delivery of 26 Executive Jets in the second quarter, broken by 23 light jets and three large jets and a cumulative of 35 light jets and 14 large jets in the year. In the bottom of the page, our outlook for 2016 already adjusted, Executive Jets from 35 to 45 large and seven to eight light jets and maintaining the E-Jets commercial from 105 to 110 deliveries.

Moving to next page, page 16. We reported net revenues of \$1.36 billion in the second quarter with accumulated of \$2.67 billion in 2016. Next slide, slide 17, breaking revenues by segment. The top right, Commercial Aviation reported \$857 million in the second quarter, accumulated of \$1.57 billion in the year. Going down, right now, in terms of Defense, a total of \$210 million in the second quarter, accumulated of \$0.4 billion in the year. And moving down left, bottom left, the Executive Jets reported revenues of \$293 million in the second quarter with accumulated in the semester of \$0.69 billion.

Next page, page 18, regarding SG&A expenses, we had a total of \$147 million in the second quarter, similar to the same period figures in the second quarter of 2015. Accumulated, \$287 million in the year. Next page, page 19. As far as operating results, we reported negative operating results of \$127 million in the second quarter. But excluding the \$200 million provision, the operating results would be positive in \$73 million. The recurring EBIT margin was 5.3% in the second quarter broken by, EBIT margin by business of 10.7% in Commercial Aviation, 2.4% in Defense, and negative 8.5% in business jet. Accumulated total EBIT margin was 5.9% in 2016.

In page 20 regarding EBITDA, we had the recurring EBITDA of \$152 million in the second quarter with an EBIT margin 11% in the quarter. In 2016, EBIT reached \$320 million with a 12% margin without extraordinary charges of \$200 million.

Page 21, we reported net loss of \$99 million in the second quarter, which would be a positive \$101 million excluding the \$200 million provision. Accumulated in the year, we have the recurring \$205 million. And with the charges, the reported one of \$4 million as of June 2016. In page 22 in terms of investment, we had the total of \$245 million in the year broken by \$17 million research, \$139 million in development and \$89 million in CapEx. We are maintaining our estimate of \$650 million for the full year investments.

In page 23, as far as free cash flow, we reported a negative free cash flow of \$439 million in the second quarter and accumulated consumption of \$655 million in 2016. The use of \$200 million in operating activities was due mainly to higher inventories. As we already indicated, we are now estimating the consumption of no more than \$400 million in 2016.

Next page and finalizing the presentation, our capital structure. The total debt of \$3.7 billion with an average maturity of 5.7 years and as a consequence of accumulated negative cash generation in the first half of the year, we reported a net debt of \$613 million in June 30.

With that, we finalized the presentation and before we start the Q&A section, I would like to turn to Paulo Cesar for his remarks. Thank you.

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

Thanks, Filippo. So, good morning. So thank you for joining us in this call. So this is my first call as CEO of Embraer and for me, it's an honor to take the leadership of this company and I'm very glad to assume this leadership in a moment that I - the company has a huge legacy coming from the Frederico Curado, the former CEO who take over in 2007, and started to make important investments, new products, setting the tone for the future. So, for those that - who attended the Farnborough this year, so you could see the materialization of what I'm saying. So, for the first time, Embraer brought all the three business units with updated products.

So, we have there the KC-390, the E190-E2, and the Legacy 500. So, all brand-new aircraft, brand-new programs representing total investment of about \$5.5 billion in the last years. So, we believe that - I believe that we are in a good position, an excellent position to move forward and to maintain our position in the market. When we look at the performance of this - especially the KC-390 and the E2, I will start by the - the KC-390, only around 100 hours after the flight test, flight campaign I started. So, this aircraft flew to Farnborough. In the air show a very high level of maturity in this flight. After Farnborough, the KC-390 went to visit a few countries, and it was also a spectacular ride performance.

So, the thing for the E2, so 50 hours after the first flight, we brought the E2 to Farnborough and also with the excellent flight, so, showing that both aircraft have a varied level of maturities. So, we have set to go to the market and be successful with these new programs. So, the Legacy 500 also is being showing a lot of interest and is being considered already the best aircraft right in the category. And the E2 family are the most efficient aircraft in the segment from 70 to 130 seats. So, the E2 also family, so we have launched this program little bit over three years and we have accumulated so far almost 300 firm orders and more than 670 orders when we add also options in LOI. So, this is already a huge success in the market.

So, I'm sure that Embraer is set for a bright future. There are good opportunities here for us to improve our margins. I believe that since we have now invested a lot in these programs, as I said, we have to concentrate now in our cost side in becoming more efficient and adjust the company in a way that we can deliver a better margin. So, I'm quite positive that there is a good room for that and this is where one of the right - my focus will be exactly on this. Talk about the market a little bit starting by business jet market. I think it is a soft market. It is a soft market. The new guidance or the revision of the guidance that we are making today is in line with what the market is doing, right?

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So we are seeing the market in general reducing guidance by around 8%, right? So, we are doing the same. We do not want to fight against the market. So, we have to recognize that it is a soft market. So, we will no longer fight for market share. I believe that we have to sustain our business and make it in a - a sustainable, right business. So, it's not selling by selling but it's selling in order to also make money and give a return to our shareholders. So, this is what we are looking for.

Business jet may not recover for a while. Nobody knows, but no one expect that in the next two years or three years this market will recover. We still have a lot of used aircraft in the market, around 11% of used aircraft inventory when compared to the size of the fleet, right - total fleet. So we have around 400 used aircraft in the market and the forecast this year is for deliveries of around 640 aircrafts - 650 aircrafts only coming down from the peak in 2008 of 1,200 aircrafts. So, it is a different market, and we have to adjust to this new market.

On the Commercial Aviation, so, we are very bullish as I said. So, the E2 is going very well. So, we are involved in many campaigns, a lots of interest in these aircrafts and on Defense definitely. So, we have the KC-390 as a huge potential to boost the Defense business. So, the show up of the KC-395 or the level of interest that this aircraft has attracted. The agreement that we made with Boeing for marketing and after sales support for the KC-390 on a global basis. The efficiency of this aircraft, the flexibility of this aircraft, so, I'm sure that the KC-390 will be a huge success. So, we are very bullish on the Defense on the KC-390 going forward.

Last but not the least, a word about our provision. I think it's very important that we are getting to the end of this case. That's important for us. So, we will turn this page and with that, so, you'll be looking again to develop our business and to further develop right Embraer.

So with that, I'll turn to you for your questions, please.

## Q&A

### Operator

Thank you. Your first question comes from the line of Myles Walton. Your line is open. Please ask your question.

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

Thanks. Good morning. I was wondering if you could talk a bit about the cash flow guidance? So \$50 million of that looks like lower profitability. But the other \$250 million of the negative revision to free cash flow, is that all inventory? And similarly, Filippo, what should we think about planning wise for 2017 in terms of reversing that inventory?

### A - José Antônio de Almeida Filippo

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Yes, Myles. Good morning. Actually, it's exactly what you mentioned. The increase of the consumption of cash this year is pretty much related to the inventories. Production is already set in terms of supply chain for this year. We try to make some possible adjustments, but we expect to end up with some higher level of inventories, which will be the higher, the most impacting in the consumption this year. Of course, we expect to, in this strategy to really discipline in terms of the way we approach the executive market in terms of sales. We expect to be maybe, what's possible next year without pressuring the price. And that definitely we can have an adjustment in terms of production for next year. They'll be using the inventory that we end up this year potentially. They'll be reverting back part of that next year if possible. That's how we assess this.

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

But how much of a delivery cut next year - that's a pretty big implied delivery cut next year that would take place on business jets if that's the case. So, I guess as a placeholder, are you looking for business jets to be down 10% next year or more?

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

I think it's too early to say that the projection for next year is going to be down sometime soon in the future. However, I think that we work - we don't work in a reduction. This reduction probably we plan to have to be flat for next year. That's the first, not a continuous reduction. That's not where we're going.

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

Okay. And then, can you comment, Paolo, maybe on the Legacy 450? I don't think it's been delivered here in the first half. When does that start to pick back up in terms of deliveries and what's the obstacle?

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

So, we will start delivering the second half now. So, it's all good. So, we are in good shape to start to deliver the 450. So, we are very bullish as you know on the 450, 500. So, two great products and I'm sure that so the market will recognize the 450 as much as it's been recognized the 500 as being the two best lighter aircraft in the category.

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

Okay. The last one, could you give the - Eduardo, could you give the segment margin or margin by segments for EBIT basis?

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

Yes, Myles. I can give to you the for the second quarter, Commercial was 10.7%, Defense 2.4% and Executive minus 8.5%.

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

Okay. Thank you.

## Operator

Thank you. Your next question comes from the line of Cai von Rumohr. Your line is open. Please ask your question.

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

Yes. Thank you very much. Could you maybe give us a little bit of color by model? We're hearing from one of your competitors that you're bringing the price of the 500 down to compete with the Latitude and that the 450 is really not selling well? Thanks.

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

So, Cai, I believe the pressures on the business jet unit are huge. As I mentioned, so we are seeing a soft market, and our competitors have adopted a new strategy that is to discount the price of their product. So we are following this. Of course, that we have to be responsible, and also give our answer right to the market. However, we hope that going forward now with more discipline in our side and not looking at market share only, and also adjusting our cost, our internal cost, especially in the unit, so we believe that we'll be able to get back to the margins that we need to make this business sustainable.

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

Just a quick follow up. If you're going to carry some inventory over to next year, I assume its business jets. What is the impact going to be of presumably having to discount, to move some of that inventory and the adverse overhead of kind of cutting production rates down even more and what can you do to kind of offset that to sustain the profitability or at least to minimize the profit downsize in biz jets? Thanks so much.

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

So, I - the carryover on the inventory on the business jet unit is already reflected in the guidance that we gave on cash flow - right on free cash flow this year coming from \$100 million to \$400 million negative. So, it's already there. And next year, we will adjust the production of the biz jet unit for the new levels that we are going to, I'd say, forecast for next year. But there will be a carryover for next year.

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

Thank you very much.

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

Sure.

## Operator

Thank you. Your next question comes from the line of Alexandre Falcao. Your line is open. Please ask your question. Alexandre Falcao, your line is now open to ask your question. Please go ahead.

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

Okay. I'm sorry. Thank you. So, my question is regarding Defense. We're expecting because of the FX, a bigger reversion on Defense. So, just wanted to know if you guys could walk us through what happened there. And is this just a part of the reversion of all the provisions, particularly last year or that we shouldn't expect any bigger improvements in the margin in that front? Thank you.

**A - José Antônio de Almeida Filippo**

Okay, Alexandre. I don't think there's going to be a major impact in Defense. There is, of course, as we already indicated last year, the exchange rate impact that - the contract of Defense. But as we have less to go in terms of the contract, this effect tends to be lower. However, of course, we are seeing that those negative impacts that we had last year, they are no longer happening, and this is important to confirm that this impact there.

So, you saw - I think the Defense tends to be in a way that we already indicated to you recently in the mid-single-digit, something that we could work for this year. So, I don't think there's going to be necessarily major impacts there. But it's going to be something positive, of course, but not in a big impact because of the stage of the development of the contracts that are affected by the exchange rates.

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

Okay. Perfect. Just one more follow-up question on commercial. Just wanted to know where you are in terms of the gap between the E1 and E2? Where do you see - after these new orders, what do you see in terms of GAAP specifically for 2018, where we are right now and how much more you need to feel comfortable for the transition? Thank you.

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

Well, so, we are - in this regard, I think we are doing very well. So, we have 2017 in very good shape and 2018. So step-by-step, so we are closing this gap. So we still have, I would say, about 35% maybe for 2018. But we are very much comfortable that we will also fulfill 2018. So we still have like two years right until there. And given the level of activities that we are seeing, in the commercial right size, so we have the comfort that it's going to be okay. So beyond that, it's too early to say. But these orders that we have recently announced, of course, it calls also for deliveries in 2019 and on.

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

Okay. Perfect. And just a follow-up on that. In terms of modeling, how much of the options you guys usually model that are converted specifically for the E1?

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

Well, this is a tough question, because of course, the market is very dynamic. So it depends on the moments of the market. But historically, a ballpark number of a rate conversion is about 60%. This is more or less the number. So it's not an exact number, but as I said, a ballpark number.

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

Perfect. Thank you.

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

Sure.

## Operator

Thank you. Your next question comes from the line of Derek Spronck. Your line is open. Please ask your question.

**Q - Derek Spronck** {BIO 17904184 <GO>}

Okay. Thank you. Good morning. As you round out the development of the E2 - it would seem like a natural progression for you to develop a large cabin business aircraft. Is that still under consideration given the current environment in business aircraft? And if not, what are other areas or products do you find potentially interesting as a future development program?

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

So, that's a good question. We don't know yet whether or not we would be looking to a new business jet. I think we have to look at what we have done in the last years and monetize these investments before we can move forward and go into new investments, have investments. So, as I said at the beginning, so, I think we have excellent products now in the three business units, and we have to make sure that we can consolidate these investments before we can write plan for new investments in the future. Of course, there will be new products in the future, but at this moment now, I think our focus must be in consolidating these investments.

**Q - Derek Spronck** {BIO 17904184 <GO>}

Okay. And would you have a couple of opportunities in Defense perhaps in maybe smaller programs, or smaller investments that you're looking at?

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

Sorry. Can you - no, no. No big investments in Defense now. Of course, always intense in I would say a product, but no big investments. So, our focus also on Defense is to go more international, trying to diversify more the business in terms of geography. And as mentioned before, the KC-390 is a terrific aircraft and I'm sure that we'll go more and more international in Defense as well.

**Q - Derek Spronck** {BIO 17904184 <GO>}

Okay. Great. And just quickly on the Commercial side. Can you comment on the pricing and order environment in the Commercial? And any update on the potential scope clause changes in the U.S. to 100 seats? And then finally, are you seeing any competition from the MRJ or the Superjet picking up?

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

MRJ, Superjet, not really, especially MRJ, right? So, I think they are still late in the program. Superjet, a little bit in Russia, in the countries surrounding Russia. Of course, we have in Mexico. But other than that, so we are not seeing too much Superjet in the market. And scope clause in the U.S., I think this will not happen any time soon. I think there is still a long way to go until the scope clause may change from 76 seats to 100 seats. Of course, if this changes, we'll be very well positioned. It seems that we have the most efficient aircraft right in the segment. We continue to sell very well, the 76 seats in the U.S. And we continue to follow the opportunities in that market for the 100-seat plus in the major airlines. So, there might be opportunities there that we have to be very close to it, and that may happen maybe next year.

**Q - Derek Spronck {BIO 17904184 <GO>}**

Okay. And are you seeing any signs of a little bit more rationale pricing from your major competitor in the regional jet space?

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

Well, I think this is well known, right, so, what our competitor strategy is, right now in the market. So, we are following this very closely. I think we have already been very vocal regarding this point. So, we want to make sure that our competitor will not use government money from the taxpayers in order to provide aircraft at below cost right in the market. So, I think this is very important to make this point. And every time we believe that this is happening, we'll be vocal about that.

**Q - Derek Spronck {BIO 17904184 <GO>}**

Well, as a taxpayer, I appreciate that. Okay. Thanks, guys. Appreciate that.

**A - José Antônio de Almeida Filippo**

Thank you.

**Operator**

Thank you. And your next question comes from the line of Pete Skibitski. Your line is open. Please ask your question.

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

Yes. Good morning, guys. And Paulo, congratulations.

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

Thank you.

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

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Paulo, can you talk about the commercial order environment? Farnborough was fairly quiet. And I apologize if this was asked, I got on the call late. But how is the campaign environment in the second half of the year? I've seen some mention of some potential large ones in India. And do you think you can get to a 1 times book-to-bill in commercial orders this year?

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

Yeah. I have to be very careful of what I say here, because I don't know if our competitors are on the line, right? So, I have to be careful. But anyway, so I think in Farnborough, we have announced important orders, so not very large number. However, important orders in the sense of new airlines, right, to join the E2 program, E1, E2 program, new jets program and also repeating orders. And going forward in the second half, so we are involved in many campaigns. Again, so not individual large orders, but diversified airlines and the diversified regions of the world. And that this is very important to us. So, we are not seeing any big, big, very big campaign now, but many like campaigns and which brings important diversification to us.

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

Got it. Great. Great. And then just one follow-up. On the \$200 million contingency, again I might have missed this, but can you give us a sense of the timing on the cash impact to that? Is the cash payment going to be a similar order of magnitude or is it likely to be less? And is that going to be kind of a 2017 event? Can you give us any more color on that?

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

Not yet. So, this is a provision that we made now. We are still negotiating with the DOJ and SEC. And that this is what we can inform now.

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

Okay. Okay. Understood. Thanks, guys.

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

Thank you.

**Operator**

Thank you. And your next question comes from the line of Victor Mizusaki. Your line is open. Please ask your question.

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

Hi. Thank you. I have two questions. The first one, taking a look on your guidance for business jet sales and the cash flow generation for this year, if you assume that production rate is unchanged, can you add basically 10 new business jets to your inventory

with an average price of \$30 million? Is this number correct? And the second question, can you give us an update on the negotiations with Republic Airways?

### **A - José Antônio de Almeida Filippo**

Yeah. I think that, Victor, in terms of the calculation you made for the inventories of Executive Jets, I think the number of aircraft is reasonable. However, the price seems to be a little bit higher than what you should expect. So, maybe it's about there but with a lower amount.

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

So, regarding Republic, so I can give an update. I believe Republic Chapter 11 is moving well, right, the sense of Republic of being able to have agreements with the major airlines and major suppliers. So, Republic already reached an agreement with Delta, United. And now, it's negotiating the final stage as far as understanding with American Airlines.

Regarding Embraer, so we are in deep dialog now for the 24 aircraft that we have to deliver next year. We are postponing nine aircraft from this year to next year as already announced. And therefore, so next year, we will have it more delivered. So, we basically will deliver next year approximately 20 aircraft and four in 2018. So, it's not yet 100% finalized, but this is the ballpark number. In this regard, so it's going well. So, we are in the final stage of negotiations with Republic.

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

Okay. But of these nine aircraft that should be delivered this year, is this number incorporated in your guidance or do you have something that maybe you can change in the future?

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

No. The guidance is kept to the same. So, we are not changing at all the guidance. So, we will meet our guidance in the Commercial Aviation.

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

Victor, it's Eduardo here. Just to be clear, as we ship some lots, we continue to see 105 to 110 deliveries this year even if we don't deliver planes to Republic this year. So that's the point.

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

Okay. Thank you.

### **Operator**

Thank you. Your next question comes from the line of Josh Milberg. Your line is open. Please ask your question.

## Q - Joshua Milberg

Good morning, everyone. Thanks for the call. You commented on the margin performance by division in the second quarter. I was just hoping you could give us a rough idea of what margin expectations are for the individual divisions, or what's embedded into your full year guidance in that respect? And maybe also what you see as the biggest risk to that guidance now?

## A - José Antônio de Almeida Filippa

I think that the revision on the guidance was basically driven by the Executive Jets. I think we're comfortable about the other business the way we started and initially guidance that was provided. So, as we said, the Commercial, like a low double digit. Of course, the Defense in the mid single like I already mentioned. Executive is what we already reviewing. So, it's going to be, again, probably a little bit less than originally. It will be like targeting the mid single-digit but probably lower than that, towards that.

## Q - Joshua Milberg

Okay. And what FX assumption are you working with now?

## A - José Antônio de Almeida Filippa

We worked with the current situation, which is BRL 3.3 per dollar.

## Q - Joshua Milberg

Okay. That's very helpful. And then just moving a little bit away from the result, I was just hoping you could revisit the whole issue of any discussions by the Brazilian government on either removing or mending some of the tax breaks you get either thinking about maybe the payroll tax benefits and (49:57)?

## A - José Antônio de Almeida Filippa

Of course, there has been a lot of discussions on the tax, the defeso (50:03) situation. The Brazilian government has always talked about tax benefits that was given or some type of thing. I don't think that we have any specific benefit to that. I think (50:18) is something that covers investments in technology for the whole industry, which tends to be kept. We don't think there's a big risk of that to be changed. So basically, the adjustments that we already saw are the ones that we're expecting. We don't see major changes going forward for that situation.

## Q - Joshua Milberg

Okay. Thank you very much.

## Operator

Thank you. We have no further questions. This concludes today's question-and-answer session. That does conclude Embraer's audio conference for today. Thank you very much for your participation and have a good day.

FINAL

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