

Y 2020 Earnings Call

Company Participants

- Antonio Carlos Garcia, Chief Financial Officer
- Eduardo Couto, Head of Investor Relations
- Francisco Gomes Neto, President and Chief Executive Officer

Other Participants

- Marcelo Motta, Analyst
- Mariana Perez Mora, Analyst
- Myles Alexander Walton, Analyst
- Noah Poponak, Analyst
- Robert Spingarn, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call that will reveal Embraer's Fourth Quarter 2020 and Full Year 2020 Results. Thank you for standing by. (Operator Instructions) As a reminder, this conference is being recorded and webcast at ri.embraer.com.br.

This conference call includes forward-looking statements or statements about events or circumstances, which have not occurred. Embraer has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting the business and its future financial performance. These forward-looking statements are subject to risks, uncertainties and assumptions including among other things, general economic, political and business conditions in Brazil and in other markets where the company is present. The words believes, may, will, estimate, 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 statement because of new information, future events or other factors. In light of these risk and uncertainties, the forward-looking events and circumstances discussed on this conference call might not occur. The company actual results could differ substantially from those anticipated in the forward-looking statements.

Participants on today's conference call are Mr. Francisco Gomes Neto, President and CEO; Mr. Antonio Carlos Garcia, Chief Financial Officer and Procurement; and Mr. Eduardo Couto, Director of Investor Relations.

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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 afternoon to all and thank you for joining us in our fourth quarter and fiscal year 2020 results presentation. I hope that all of you are well and safe, and I thank you for your interest in our company and most of all in the confidence in our future.

I will start with a short introduction about last year and afterwards our CFO Antonio will go into more details on the numbers for 2020 and the fourth quarter. I will return at the end of the presentation to speak a bit more about our main initiatives and my vision of the future.

Our challenges in 2020 were not just limited to the COVID-19 pandemic crisis. We also had to deal with the termination of the strategic partnership with Boeing in Commercial Aviation. This and other challenges negatively impacted our revenues and costs throughout 2020, directly affecting the results of the company. That said, we reacted quickly to adapt to the new reality in a integrated and structured way, prioritizing the health and safety of our employees, supporting our society with several initiatives to combat the pandemic and we also focused on cash preservation.

Based with this new reality, we adjusted our workforce to create a leaner and right-size the organization. We are now more agile to progress with efficiency gains, with sales campaigns and with strategic partnerships. During this process, we also recovered synergies with the reintegration of the Commercial Aviation business and its related services. Finally, we created a new business plan known as Embraer Strategic Plan '21-'25, which will be our guide for the next several years, to return to growth in a profitable and sustainable way, resulting in Embraer becoming more profitable than it was in the past.

Before I go into more details regarding the '21-'25 initiatives, we will discuss the 2020 results. I will now hand it over Antonio, and I will return in the end. Thank you.

Antonio Carlos Garcia {BIO 21338149 <GO>}

Thank you, Francisco. 2020 was my first year at Embraer and a very challenging and unprecedented year for the company. But I'm very happy with achievements that we had, which I will show you in more detail in the upcoming slides. The Embraer team is impressive and I'm convinced that Embraer is on the right bets.

Now moving to the financial highlights on Slide 5. The COVID pandemic impact was felt much more in Commercial Aviation. Our consolidated revenue declined around 30% in 2020, and Commercial Aviation and its related services responded for more than 8% of this decline. During the year, we made a great progress in integrating Commercial Aviation within Embraer and all of our businesses are now moving forward with a united focus on improving results as we gradually emerge from the pandemic. We have a resilient backlog with a strong customer and partners to build on, and we are proud to say

that none of our commercial customer canceled any of their orders during 2020. We, in fact, are cautiously optimistic in signing new orders in Commercial Aviation during 2021.

The Executive Aviation and Defense businesses show its encouraging performance during the year with a strong profitability improvement as we continue to work on this business to generate consistent margin going forward. The record margins in the Executive Jets proves that we are in the right way. We changed the company mindset to implement the actions to reduce cash outflows, expenses and optimize investment in SG&A in 2020 without compromising any of our ongoing projects or operating capability of the business.

Besides that, the right-size, we announced in the third quarter has been implemented and we expect that they win from that in 2021 results. We continue to work on reducing our working capital needs to unlock cash in our business, particularly with respect to inventories and accounts payables. As we highlighted in the second quarter, and again reiterating in the third quarter of last year, we finished 2020 with a very strong cash generation, which was ahead of our expectation of a breakeven cash in the second part of the year. We are also able to improve our liquidity during the less difficult time last year, securing more than USD1 billion in finance from different sources, such as (inaudible) private and public banks as well from the debt capital market with long-term bonds, finished the year with a very strong liquidity of USD2.80 billion in cash. It's important to note that due to the uncertainties related to the pandemic and its impact on our business, we are not announcing financial guidance for 2021 this time. We will continue to evaluate the possibility of relieving 2021 guidance as the year progresses.

So moving to the highlights for our Commercial Aviation business on the Slide 6. Deliveries recovered nicely in the fourth quarter, with 28 jets delivered in the period and a total of 44 aircraft delivered during 2020. This also included the milestone of the E-Jets number 1,600 delivered to Helvetic Airways. We also had delivered three important and long-term customers in 2020, include the AerCap, Air France, American Airlines, Azul, United Airlines and others. We had zero order cancellation since the start of the pandemic, a fact that we are very proud of, which illustrates a lessors speculative nature of our backlog compared to peers. Despite new COVID outbreaks in several regions of the world and at the end of 2020 and early 2021, has delayed some sales campaigns but we are confident that we will announce important new orders in short-term and throughout 2021.

Our Commercial aircraft continued to lead the recovery of domestic flights in several miles around the world, and Airlines recognized the economics and the environment in value of our best-in-class jets in the 750 seats category. We see strong demand for E-Jets around the world, and last year, lessors please up to 90 used E-Jets in the market and we added six new E-Jets operators during the pandemic.

Now shifting to Executive Aviation highlights on Slide 7. Embraer delivered 43 executive jets in the fourth quarter, leading to a total of 86 jets delivered in 2020, with no white tail carry over into 2021. As far as profitability, 2020 was really a great year for Embraer Executive Jets, as we present a strong margins off high-single digits and cash generation with a solid backlog and improving the sales. In terms of client recognition, the Phenom 300 was the best-selling Light Jets again in 2020, the ninth consecutive year, and last

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year, the Phenom 300 was not only the best-selling Light Jets, but also the best-selling twin engine jets in the entire Executive Aviation industry. We also reached an important milestone of the first Praetor 600 Jets delivered to the fleet launch operator FlexJets in 2020, a very important customer that has choose fleet launch operators to expand its business in a multi-year deal that was signed in 2019. I would also like to highlight that the pandemic recovery is on its way in Executive Aviation, as business jets operation are already back to over 90% of pre-pandemic levels, with a strong momentum in 2021 for Embraer.

So on the Slide 8, we go into some highlights for our Defense and Security business. During the year, we signed a contract with the Brazilian Navy as part of a construction with Thyssenkrupp to build four ships, with deliveries expected to happen between 2025 and 2028. These underscores our positioning as the true Defense house of Brazil. We were also very happy to announce the sales of two C-390 millennium, cargo transport and tanker aircraft to Hungary, closing our second export customer of these aircrafts after Portugal. We also delivered two C-390 aircraft to the Brazilian Air Force in 2020 and 16 A-29 Super Tucano to the clients around the world during the period. We also continue to work in 2020 with Brazilian Air Force to study development of a new light cargo aircraft with short take-off and landing capabilities. In terms of profitability, Defense and Security was our most resilient business during the pandemic. As revenue grew and our operating margin moved from the negatives in 2019 to a mid-single digit positive in 2020.

Slide number 9, with respect to our Services and Support business highlights. Let me first say that the business was significantly impacted in the early days of the pandemic, as most commercial and business jets where (inaudible), but since then service and support has shown an impressive and consistent improvement during 2020. The business continued to perform despite the impact of the pandemic, completing 11 conversion of the Legacy 450s to a new Praetor 500 Jets during the year. Also service and supports helped and supported our commercial airline customers to adapt the reality imposed by the pandemic, working to get E-Jets modify and certified for a cargo transportation cabins. For the long-term, we are proud that our argument OGMA, MRO business in Portugal was selected to become a new Pratt & Whitney authorized maintenance center for GTF engines in Europe. After some initial investments in the business, we are excited for the growth opportunity for OGMA to potentially triple its size in the next several years. Finally, we are optimistic for the future as we finish 2020 with service and support activities approaching pre-pandemic level.

Now let's go into more details on the quarterly and yearly financial results. On Slide 11, we show our year-end backlog, which finished 2020 at USD14.4 billion and declined mainly due to the impact of the pandemic on new orders, particularly in Commercial Aviation. Our total backlog fell around 50% in 2020, which compares favorably with our peers that faced larger cancellations, which also highlight our high quality customer backlog with a very speculative orders. We are also cautiously optimistic regarding a better order environment across all of our business in 2021.

On Slide 12, we turn to aircraft deliveries, which show a stronger recovery in the new normal levels in the fourth quarter, we delivered a total of 44 commercial aircrafts in the year, with more than the half coming in the fourth quarter and delivered a total of 86

Executive Jets in 2020, of which half came from the fourth quarter. The lower deliveries in Commercial Aviation were clearly impacted by the pandemic, while the Executive Aviation deliveries was less affected.

So moving to net revenue on Slide 13. Embraer reported just under USD3.80 billion in revenue for 2020, which was a 30% decline compared to 2019. As mentioned previously, decline in Commercial Aviation and its related service were responsible for more than 80% of these reductions. Looking at the geographical split of our 2020 revenues, performance of North American, European market has a direct impact on our business of just over 80% of our 2020 revenues coming from this region. Continued improvement on COVID cases, vaccine rollouts and eventually improvements on passenger traffic give us optimism for the future.

In Slide 14, Embraer presented a significant cost control during the year of 2020, as part of its cultural transformation as clearly show in the Slide 14. Our total SG&A declined almost 30% in 2020 as compared to 2019, excluding the bad debt provision of USD62 million in 2020. This reduction is impressive and hopefully in line with the decline in sales for the year. Despite a large portion of this year SG&A expenses being fixed cost in nature.

So regarding adjusted EBIT on Slide 15. Embraer had a solid fourth quarter with one of the best levels of consolidated margin in recent years, a 4.2% positive. This reflects not only the improvement in Commercial and Executive deliveries in the quarter, but also the improvements in Defense and Security and Services and Support lines, as well the benefits of cost control and the initial positive impacts of our restructuring actions taken in September. Adjusted EBIT in the fourth quarter excludes a total of USD27 million of positive net impact coming from restructuring expenses impairments and bad debt provision.

For the full year, we finished with adjusted EBIT of a loss of USD120 million, representing an adjusted EBIT margin of minus 2.7%. This compares favorably with last year breakeven level despite a more than 30% decline in revenues caused largely by the COVID-19 pandemic. We expect higher profitability levels in the future years as we continue to recover top line growth and cost reduction initiatives are mostly permanent. For 2020, the adjusted EBIT margin by segment was minus 7% at Commercial, plus 8% Executive, plus 6% in Defense and 4% Service and Support after removing items and one-off impacts.

Slide 16 shows our adjusted EBITDA, which was positive and USD146 million in the fourth quarter and also excludes the special items I already mentioned in the previous slide. Adjusted EBITDA margin for the fourth quarter was 7.9%. For 2020, despite the significant impacts the pandemic had in our business, and with revenue dropping 30%, Embraer generated a positive adjusted EBITDA of USD82 million for the year, with an adjusted EBITDA margin of 2.2%, which was very close to 2019 levels despite a meaningful decline in revenues.

On the Slide 17, we turn to adjusted net income, which for the fourth quarter was a loss of USD30 million and was better than adjusted net loss of USD93 million in the last year for

the fourth quarter despite lower revenue in the periods. For the full year, Embraer reported adjusted net loss of USD464 million, which was higher than 2019, driven by the lower operating income as well higher financial expenses. We believe that higher profitability in the coming years combined with lower financial expenses, as we continue to recover the top line and improve our cash position, will be important drivers for Embraer earnings rebound in the years ahead.

Another lever we pulled during 2020 for cash outflow was reduction of CapEx and development spending that we show in Slide 18. The total investment declined 60% to USD203 million, I thought it's very important to note that none of our ongoing products has been compromised in terms of timing. We are nearing the end of the development cycle for the C-390 millennium. The E175 development continues to progress as expected and we continue to invest in our Executive Aviation segment to maintain the competitive enough with the state-of-the-art products. As you look to the future, investments are likely to increase a little bit from 2020 levels, but not in a significant ways as our product portfolios view and any large investments will require strategic partners. We are also highly focused on improving free cash flow generation in the coming years.

So on Slide 19, we show the company's free cash flow in 2019 and '20. We finished the year with a free cash flow usage of USD990 million, but I'd like to highlight the strong cash generation in the fourth quarter of USD725 million, which almost equalize the last year record free cash flow generation. Also we promised to the market that the second half of the year would be breakeven free cash flow and we actually beat that by generating almost USD160 million of free cash flow in the second half. Cost control improvements in deliveries and more efficient use of working capital all helped in the cash flow increased for the fourth quarter. We continue to work to deliver a meaningful free cash flow improvements in 2021 versus 2020 as we gain further traction in our working capital initiatives as well additional cost efficiencies on revenue gains.

Finally, on the Slide 20 we show the company's stronger liquidity position. As Embraer finished the year with nearly USD2.80 billion in cash, much improved from the previous quarter and similar to 2019 levels. We were successful to get additional liquidity during 2020 via different finance sources. We have less than 10% of our debts coming due in the next 12 months and the average maturity of our debt is about 40 years.

With that, I will now turn the call over to Francis for his closing remarks. Thank you.

Francisco Gomes Neto {BIO 19328044 <GO>}

As you could see from Antonio's presentation, the pandemic has meaningfully impacted the results of our business. But the fourth quarter results are a clear example that we are making significant progress in our financial performance. The numbers reflect not only the actions implemented as a response to the crisis, but also the beginning of the execution of our strategic plan.

2021 will still be a challenging year, as the crisis has not ended yet and the scenario remains uncertain and volatile. But despite all of the uncertainty, we are confident that this

will be a year of recovery in our main markets to get back to a stronger growth from 2022 onwards.

With respect to our '21-'25 plan, I would like to highlight a few points. Our strategy for the next five years has two main objectives; to grow revenues and improve the profitability. To do this, we must work as much on the top line to increase revenues as on the bottom line to reduce costs and improve margins. We will achieve these objectives focusing on the following fronts; revenue growth of our current portfolio of products in our business units; on projects to bring efficiency gains and on initiatives for innovation, diversification and strategic partnerships.

Some of the actions of the business plan are already progressing and have started to show results, such as, on the sales front, in Commercial Aviation, it is market to consensus that the sector's recovery will begin first with regional aviation and the E2 family of jets is the best solution for customers that need to make their fleets more flexible, economical and efficient. This is in addition to a stronger and continued demand for E1 jets, principally in the U.S. market. We have various sales campaign ongoing and advancing vaccinations in different regions of the world will be a crucial factor in closing these new opportunities.

Executive Aviation in 2020 had its best performance ever with strong profitability and cash generation despite the challenges of the pandemic and starts 2021 even better with strong sales. The Defense business remains resilient with good growth prospects and improvement in profitability, as we continue to ramp up the learning curve and maturity of our multi-mission transport aircraft, the C-390 millennium and expanded the pipeline of sales campaigns for this aircraft and for the Super Tucano as well.

Overall across our businesses, we had one of the newest portfolio of products in way respective industries with the E2s, the Phenoms, the Praetors and the C-390. They are state-of-the-art technologically disruptive and highly capable products that are the result of the last several years of investments that we have made. These products should help us to grow much faster than overall market levels as we emerge from the pandemic. The Services and Support area is already approaching pre-pandemic levels and continuing a rapidly recovery with good financial performance. The 25-year multi-billion dollar contract signed between OGMA and Pratt & Whitney for engine maintenance in Portugal will triple the subsidiaries revenues in the next several years. This translates to revenue and profitability growth for Embraer.

On efficiency gains, already in the second half of 2020, we started to see significant improvements in inventory levels, reduction in the production cycles of our aircraft and components and cost reductions in general. In addition, we continued to focus maintaining our innovation D&A. We announced the creation of EV, a business dedicated to the development of the Advanced Air Mobility ecosystem and eVTOL, an electric vertical take-off and landing aircraft, a segment with strong growth potential in the years to come. And we also remained focused on the discussion of strategic partnerships to open new markets among others for our commercial jets, our multi-mission aircraft, the C-390 on development of the new turboprop project and on growth in our Services and Support business.

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I know that many of you have invested in and have followed Embraer for a long time and know our company very well. For that reason, I think it's important that you leave this presentation with a clear understanding regarding five key points. First, this is a different company today, we are not the same business that we were years ago and we are not yet the business that will become in the next few years. We are in a process of transformation and we are moving fast. Second, we are very confident in our strategy, and this confidence motivated us to accelerate and remain focused on execution risk discipline. Third, be certain that we will direct our team, our assets and our skill sets to be larger and more profitable company in the next few years, we can see many opportunities ahead of us, despite the short-term challenges we are facing. Fourth, we have today a very United leadership team, a company focused on the execution of our plan and the high level of alignment motivation and energy in the entire organization, which has made a big difference in our process of recovery after the pandemic. And fifth, Embraer is a company that is concerned with the environment, and one of the first in the industry to adopt advanced norms of environmental management and social responsibility in its region with high governance and ethical standards. We are committed to ESG and will progress even further on this agenda.

Finally, our Founder, Ozires Silva, the first Brazilian and one of the few North Americans to be recognized with the Daniel Guggenheim Medal, which is granted as one of the highest Awards in Aviation used to say Embraer always challenged the impossible and is capable of getting where it wants. Thanks to the passion and competency to always do the best. We preserve and incentivize this passion and the high competence of our engineering force in other areas. And now with more focus on results and simplicity of actions, we are sure that we are making a difference to be a bigger and more profitable organization for our shareholders. Thank you very much.

Questions And Answers

Operator

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

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

Hi, good afternoon. Thanks for taking my questions. I was hoping that you could perhaps touch on new products and you mentioned Francisco and Antonio about revenue growth and partnerships that would be required for really investing on new products, and I wonder if you could comment around both the turboprop area as well as the eVTOL area. How much Embraer is willing to spend to create those markets versus what they need from partners and when those partnerships might materialize?

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

Thank you, Myles. Francisco speaking. Thanks for the question. Well that separate this answering in two parts. First, I mean we do have very new and competitive portfolio of products, right, that we have considered in our five-year strategic plan, how the E2 family that we're still working in the E1 and 75-E2, the Phenoms and Praetors in Executive Aviation and in the new C-390 millennium in the Defense. For new products like the turboprop, like

Saab that we are working in different strategic partnership. For Saab, for example, we are working -- we are close to get a contract from the Brazilian Air Force. For the turboprops, we are working in this partnership front to find the partners to help us to fund and accelerate the development of the product and to open new markets for the product as well. So this is what we are doing. We are, I would say that, we are in advanced stage in such fronts, but we don't have anything conquest yet to share with you.

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

Okay, very good. And one other one, if I could, the profitability that you think the company can get to in your vision '21-'25, should we think about the EBITDA margins of Embraer over the past in mid-teens 14%, 16%, is that where you're trying to get to or do you think you can have a pathway to get about those margins? Thanks.

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

Thanks, Myles. Antonio speaking here. We are going to tell you around the EBIT margin first. We do believe we are -- with everything we have is for us be able to reach higher single digit EBIT margin throughout the five years plan, which we does not mention for the EBITDA that you had just mentioned.

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

Very good. Thanks Antonio.

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

Welcome.

Operator

Thank you. Our next question comes from Robert Spingarn, Credit Suisse.

Q - Robert Spingarn {BIO 5996882 <GO>}

Hi, good afternoon. I got a couple of questions, but first just a follow-up to what Myles just asked you, on urban mobility, would you seek a strategic partner there either for the aircraft side or for the air taxi side or might you access the public markets? And I'm specifically asking about EV accessing the public markets as a separate company?

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

Thank you. Thank you, Rob, for the question. As I said in my introduction -- in my closing remarks, I say, we continue to invest in innovation programs and projects and EV is one of the most important ones that we are working on at this moment. We see a great potential in that market no doubt for the vehicle itself, the eVTOL, but also for the Urban Air Mobility management as well. And we continue -- we are working to exploring potential investors and also the strategic opportunities, but we don't have also anything concrete to share with you at this at this point, but this is, in terms of innovation, one of our most important initiative, there's no doubt.

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Q - Robert Spingarn {BIO 5996882 <GO>}

Okay. And then turning to the competitive environment in the regional jet business, we've had a fairly significant change with Bombardier and Mitsubishi essentially dropping out of the new aircraft production market. So now really RJs are at least up to 110 seats, it's only Embraer. To what extent does this change the market dynamics for you and are you seeing any evidence of traditional Bombardier operators now looking at Embraer E-Jets for growth or replacement aircraft?

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

So Rob. This is Antonio...

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

Go ahead Antonio.

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

This is Anthony speak here. For sure, we do -- I do believe in what's with the two competitors not put aircraft to compete with us. Didn't change too much because we were the market leader. Anyway, we just see a V-shape recovered very strong in U.S. for the original jets, where we have almost done 75 E1. I would say, didn't change too much because from the 24th aircraft we delivered 2020 two-thirds was already for the regional jets in U.S. and we just continued to pursue our customer demands. For the new operators or the new -- the other airlines to take decision to right size their fleets, we do believe it's going to take more time to take a decision say, okay, now we go to buy 175-E2 E1 or even our E2s, we do believe this risk right size or change in the fleet profile is going to take two or three years in our opinion.

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

And if you allow me to compliment Antonio, the E2 the most economical, I mean, aircraft one single-aisle aircraft in the market, the most efficient one, it offers, I mean, reduction of about 20% in the cost of per sheet comparing to our the big narrow-body the competition. So we are very well positioned either with the E1, as Antonio said, or with the new E2s.

Q - Robert Spingarn {BIO 5996882 <GO>}

Do you see any chance to get the E2-175 into the U.S. market?

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

Well, go ahead.

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

Rob, we do believe there is scope clause to resisting until '25, '26. We are monitoring this? Yes. And we are concluding the development certification of the aircraft in 2023, and we do have other guys outside the U.S. for this product or the customers. But until 2025, I will not make any forecast right now that scope clause is not going to play a role in U.S.

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Q - Robert Spingarn {BIO 5996882 <GO>}

Okay. And just last question, a clarification with regard to the long-term forecast on Slide 22, when you say recovery in 2021 and then growth beyond, is that specific, I mean, do you see 2019-type numbers in 2021 at least in any area -- regional jets, biz jets or cash flows or is that really going to come after 2021?

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

Well, we see 2021 is still as a challenging year. And, but I think we did our homework in 2020, we right-sized the organization, we put in place a lot of initiatives to improve our efficiency, to sell more and we don't see a big growth in 2021 in terms of revenues, mainly because of the Commercial Aviation that are still strongly impacted by the COVID. But our other business units, they are much more resilient, as we said before, the Executive Aviation had its best year ever in 2020, despite of the COVID, we see a very good year for Executive Aviation in 2021 and the same for the Defense and Services. In the Commercial Aviation, we expect to see some growth from '22 onwards or to be back to pre-COVID levels, we believe that this will be from 2023 and beyond.

Q - Robert Spingarn {BIO 5996882 <GO>}

And when in there would you expect cash flow breakeven?

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

Rob. I don't want to give you a guidance, but we are fighting for the best already in 2021, but we are evaluating here before giving our guidance to the market. 2021 will be still a challenging year for us. For sure, cash -- free cash flow will be much better than 2020, no question mark, but we are still evaluating to give you guys a better guidance for this year.

Q - Robert Spingarn {BIO 5996882 <GO>}

Okay. Thank you both very much. Very helpful. Thank you.

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

You are very welcome.

Operator

Our next question comes from Mariana Perez Mora, Bank of America.

Q - Mariana Perez Mora {BIO 16856823 <GO>}

Good afternoon, everyone.

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

Hello.

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

Hi, Mariana.

Q - Mariana Perez Mora {BIO 16856823 <GO>}

So my first question is also a follow-up on (inaudible), could you please give us some color on the strategic, I mean, the strategy about spinning off if last year -- is it because of operations, is it because of like attracting investors? And if you can give any color if you were to see that company come public, how can that be?

A - Eduardo Couto {BIO 18009973 <GO>}

Yeah. Hi, Mariana, it's Eduardo here. I'll take that one. As we said, we created EV at the end of last year. As Francisco mentioned, we believe a lot on the Urban Air Mobility market, exponential growth market, and we are really, I would say, excited about that opportunity, and that was the reason behind the EV creation itself. We're exploring potential investors, any strategic opportunities, but we are not commenting at any specific alternative or any structure at this point, so that's pretty much what we can say.

Q - Mariana Perez Mora {BIO 16856823 <GO>}

Okay, thank you. And then the other one is on Executive, if I'm not wrong, your margins this quarter were close to 13% and it's the first time you have or you've seen double-digits since 2014. How sustainable is that kind of margins, how should we think about margins going forward?

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

So I do -- we do see the -- we are trying to follow structuring in the Executive Aviation, which is try to bid some in aircraft as we can sell, we can deliver, first one. We finished 2020 without any light deals in the inventory, first one. Second one, we are seeing a recovery, given that last year we delivered much less than 2019, in sustainable way, we just see the Executive Aviation is always in the higher-single digit EBITDA margin for the longer run. And for sure, we still have aviation to working our product portfolio to improve market share and be more aggressive on or the initiatives on some products. But we are well placed, we are the light jets market leader and we are proud of, I would say, sustainable, I would say, mid- to higher-single digit EBITDA margin in the longer run. And Mariana, it's important that when you mention about the EBITDA margin it's without services, it's just pure aircraft. If you compare with the peers, some peers they show the EBITDA margin with services. We are just talk about pure sales and deliveries of aircraft and that shows that Embraer is not only Commercial Aviation, it is also Executive Aviation, which has a lot of value to deliver.

Q - Mariana Perez Mora {BIO 16856823 <GO>}

Perfect. And if I may, last one from me, on leverage, how should we think about the balance sheet structure and trends in the near-term?

A - Eduardo Couto {BIO 18009973 <GO>}

Yeah. We had a very stronger fourth quarter, right, Mariana in terms of cash generation. We generated north of USD700 million in cash, that was very important to deleverage the

company. We ended the year with a very strong cash USD2.8 billion in cash, net debt around USD1.7 billion. The company is highly focused, as Francisco mentioned many times and Antonio, to generate cash, to continue to deleverage, also any new or heavy investments we need to come with partnerships, also to reduce the investment efforts from Embraer, which will also be important to generate cash.

So we are confident that we are in the right path and we expect free cash flow to improve meaningfully this year already and for the years to follow so that we generate cash and can deleverage the company. So we are not comfortable with the leverage we are today, okay.

Q - Mariana Perez Mora {BIO 16856823 <GO>}

Thank you very much.

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

You're welcome.

Operator

Our next question comes from Marcelo Motta, JPMorgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Hi, everyone. Good afternoon. Two questions from my side as well. The first is regarding the sales campaign, right, you briefly comment during the presentation that you do expect to have some results in the short-term, so just wondering how much more can you mention about it. And also if we look at the backlog of the company. I mean do you think it could go back to levels pre-COVID and things going to be a more short-term type of backlog as company is still working on the orders. So how can we think about those two lines? Thank you very much.

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

Thank you Marcelo for your questions. But I think I would answer in different way per se. For Commercial Aviation, yes, we have -- we are working a lot of campaign, E1 especially in the U.S. and for E2s in different markets. But the duration to close those deals really depending on the vaccination progress, many companies now they are expecting growth in their market airlines, but this COVID impact is still an issue for them. On the other side, Executive Aviation we are doing pretty well. We started very strongly this year with new orders, much better than -- then in the past. And Defense, we are very stable this year as we were last year, so it's a very resilient business that we have. In the service area, this is approaching the pre-COVID levels. So again, I think that for Executive, the Defense and Service we are doing pretty well in terms of orders, but in the Commercial, we really depend on the progress of the vaccination in the different parts of the world.

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

FINAL

So in regards to -- Marcelo this is Antony speaking here. In regards to our backlog, we take a look backwards and between USD10 billion to USD15 billion, USD40 billion we have, as I would say, is not risk for Embraer, we are, I would say, safe for the years beyond. There is cancellation -- having no cancellation is really, for us, means we have our customers supporting us and the reduction itself is, clearly we deliver a lot each of 2020 and we were not able to close too many deals and better COVID one -- wave one, wave two, see what's happened in Brazil here, especially the airlines, they are reluctant to take fast decision as long there is no visibility for the impact of the COVID. But I would say, we should be able to be minimally stable this year with the new campaigns that we are discussing right now.

Q - Marcelo Motta {BIO 16438725 <GO>}

Perfect. Thank you very much.

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

Welcome.

Operator

Our next question comes from Noah Poponak, Goldman Sachs.

Q - Noah Poponak {BIO 16071528 <GO>}

Hello, everyone.

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

Hello, Noah.

A - Eduardo Couto {BIO 18009973 <GO>}

Hi, Noah.

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

Hello, Noah.

Q - Noah Poponak {BIO 16071528 <GO>}

How are you seeing commercial production or unit deliveries for 2021 versus 2020?

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

Hello, Noah, this is Antonio speaking. We see a slightly better than 2021, not a big spike but slightly better with regards to units.

Q - Noah Poponak {BIO 16071528 <GO>}

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Okay. I guess I respect that a lot of the companies in the industry aren't providing guidance and we're also working through a pandemic, so there's just general high levels of uncertainty. But I guess I'm a little surprised you're not providing guidance because you -- if you're speaking to regional jet deliveries up a little bit, business jet seems even a little firmer than that, you have Phenom 300 as your highest unit airplane, which is a really well positioned airplane and then Defense was flat this year and is a little more insulated and then margins and cash flow are in your control beyond top line. Is there something else besides just the broader umbrella of uncertainty that I'm missing in that that's holding you back from providing an outlook for the year?

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

No, I would say, thank you for the question, it's really a great question. But, from the operational side, we are leading a great times in Brazil, we all know about this. We do not expect to issuing our operations, but you never know what can happen, which is one point. And the second point, we are just evaluating our free cash flow in a better way in order to be more precise, the issue for us is improving free cash flow and we are reluctant to give our guidance right now in order to -- we don't want to disappoint the market before we have clear idea what's going to happen this year. There are a lot of moving parts, especially the sales campaign that could change a lot of this number that we are going to provide you, that's why we prefer to keep our horses here for more one or two quarters, sorry for saying this, but that's the reality.

Q - Noah Poponak {BIO 16071528 <GO>}

No, that's fair and sensible. I just wanted to -- yeah, just wanted to ask that. Last one your answer to Myles question on future margins was a little surprising to me, where he was making the point that the company used to have a mid-teen EBITDA margin and your answer to him was you were looking at and thinking about high-single digit EBITDA margins in 2025. The company has had D&A that's pretty consistently been kind of 5% of revenue outside of 2020 where the revenues are depressed so that would mean that you're thinking EBIT margins sub-5%, that's just surprisingly low compared to where you've been historically what some of your targets have been over time. Am I missing something there?

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

No, no. Just to correct. I was commenting with regards to the EBIT margin, not the EBITDA. We do see higher-single digit EBIT margin for this period. And we are -- if you see Executive, we grow with 8%, in Defense we have 6% and now say we want to be much better. I was mentioning the EBIT margin, and for sure, the EBITDA margin will be double-digit anyways.

Q - Noah Poponak {BIO 16071528 <GO>}

Okay. I'm glad I asked for the clarification than I heard the acronym we were all speaking to correctly. Okay. Understood. And yeah thanks for the time.

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

Welcome.

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

Welcome Noah.

Operator

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

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