

Q3 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, Chief Executive Officer

Other Participants

- Alexandre P. Falcao, Analyst
- Cai von Rumohr, Analyst
- Derek Spronck, Analyst
- Kristine Tan Liwag, Analyst
- Myles Alexander Walton, Analyst
- Noah Poponak, Analyst
- Peter John Skibitski, Analyst
- Stephen Trent, Analyst
- Turan Quettawala, Analyst

MANAGEMENT DISCUSSION SECTION

Eduardo S. Couto {BIO 18009973 <GO>}

Okay. Good morning, everyone, and welcome to the Embraer Third Quarter 2016 Results. This conference call is being held during the Embraer 2016 in the U.S. with the presence of the investors and the market analysts here in Orlando.

At this time, the company will present its third quarter 2016. Afterwards, 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 ir.embraer.com.br.

This conference 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 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 believe, may, will, estimates, continues, anticipates, intends, expects, and similar words are intended to identify forward-looking statements. Embraer undertakes no

obligations to update publicly or revise any forward-looking statements because of new information, future events 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 for those anticipated in the forward-looking statements.

Participants today are Mr. Paulo Cesar de Souza e Silva, President and CEO; Mr. José Filippo, Chief Financial Officer and IRO; and myself, Eduardo Couto, Director of Investor Relations. Now, I would like to pass to Filippo to start the presentation. Thank you.

José Antônio de Almeida Filippo

Okay. Thank you for joining us in this third quarter results conference. As we do, we'll start with the presentation and then we enter in Q&A session. So with the presentation starting in page 3, the highlights and starting with the Commercial Aviation business. We have, in terms of deliveries, the delivery of 29 E-Jets in the third quarter compared to 21 E-Jets in the same quarter of last year.

In terms of sales activities, two important information; Colorful Guizhou Airlines order for up to 5 E190 in China, And also the announcement of AerCap to place with 5 E-Jets E2 with Borajet. This reflects what we are seeing the successful placement of E2s by leading companies with airlines. Regarding certification, we have the approval for E170, E175 for operation in Russia. We already had this approval for the E190 and E195.

In relation to the E2 development program, we had the third prototype of the E190-E2 joining the flight campaign and the status of the order activity with the backlog that reached 272 firm orders in a total of 670 commitment.

Moving to next page, in relation to the highlights of Executive Jets business, starting with the delivery of 25 jets in the third quarter broken by 13 lights and 12 large, a good mix between large and light. And also regarding sales, Colorful Yunnan order for two Phenom 300.

In relation to the programs, we launched the Phenom 100 EV with new avionics and modified engines. And in the Legacy 450 and 500 program, the first Legacy 450 assembled in Melbourne is now in flight test.

As we use the information before regarding the customer satisfaction, we were ranked number one in both AIN and Pro Pilot's Product Support Survey for 2016. This is something very important for the business jet.

Moving to next page, highlights of Defense & Security, starting with the KC-390 program, we had the flight test campaign that reached over 600 hours with now two prototypes. We concluded the delivery of the 20 aircraft to the U.S. Air Force in LAS Program. Also, we

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delivered the first Legacy 500 for airport in-flight inspection to the Brazilian Air Force. Regarding the development of the Brazilian satellite, the program is in final test.

And finalizing the highlights of Defense & Security, we got a new contract for environmental and monitoring of the Amazon region through the Atech subsidiary.

Moving to next page. And before we enter in the financial results, we would like to touch briefly on the FCPA investigation case. So the next page, as we already publicly announced, we reached the final agreement with the U.S. and the Brazilian authorities for a settlement of the allegations of non-compliance on U.S. Foreign Corrupt Practices Act.

With that, we agreed to pay the amount of about \$206 million to the U.S. and Brazilian authorities. And also the Department of Justice agreed to defer the prosecution for three years. Charges will be dismissed if the company does not violate terms of the Deferred Prosecution Agreement. And also we agreed to retain an external and independent monitorship for a period of up to three years to assess compliance with the Final Agreements.

The next page, we like to take the opportunity to say that the company embarked in a comprehensive effort to improve and expand its compliance program worldwide. Some key enhancements include the creation of a compliance department with the appointment of a Chief Compliance Officer, the development of a program to analyze the engagement and the payments for third parties, the improvement of policies, procedures and controls, and the enhancement of anonymous and other reporting channels, among other initiatives.

Some examples of such activities are the numbers that we're showing here that 20,000 people trained through - as of the end of 2015 and also over 7,700 certifications of third parties in a due diligence program.

On the next page, now entering the financial results, and we go directly to page 10, where we show our firm backlog that reached \$21.4 billion in the end of September despite the deliveries in the quarter. And we had a decrease of \$500 million when compared to June 2016.

Next page regarding deliveries starting from the left of this page. In terms of Commercial Aviation, the delivery of 29 E-Jets in the third quarter and accumulated of 76 deliveries in the year. In the right side of the page, Executive Jets delivery. We had the delivery of 25 E-Jets - sorry, 25 biz jets in the quarter, broken by 13 light jets and 12 large jets. The total accumulated in the year was 74 planes, broken by 48 light jets and 26 large jets.

We take this opportunity to confirm our guidance for 2016 which is in the range of 105 to 110 E-Jets and then 105 to 125 executive jets, broken by 35 to 45 large, 70 to 80 light.

In the next page, page 12, in terms of net revenues, we had a total of \$1.5 billion in the third quarter higher than the same quarter of last year due to the increasing deliveries. As

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of September 2016, the accumulated net revenues reached almost \$4.2 billion. For the full year, we are estimating revenues in the range of \$5.8 billion to \$6.2 billion.

Next page in terms of net revenue by segment starting from the right top, Commercial Aviation recorded a \$927 million in revenues in the third quarter accumulated of \$2.5 billion in the year. Down right in terms of Defense, the revenue is worth \$216 million in the third quarter accumulated of \$0.61 billion in the year so far.

And in terms of Executive Jets in the bottom left, the quarter revenues were \$367 million with accumulated worth \$1.06 billion in 2016. For all business units, we're expecting to meet the guidance range of net revenues in the full year of 2016.

Next page in terms of selling and general administrative expenses, we reported a total of \$120 million in the third quarter and accumulated of \$407 million into 2016. When compared to the same quarter of last year, we see a higher selling expenses due to the number of deliveries compensated by a lower G&A which reflects the company focus on cost reduction.

Next page related to EBIT. We show here the adjusted EBIT which actually takes into consideration several non-recurring items that have been impacting the previous quarters to help the comparison. We have a small table on the top - on the bottom right which explains what are those, basically the provisions made to Republic restructuring, Chapter 11, in the fourth quarter of last year. Then we have the contingency of FCPA penalty, which was the recording of the provision that we made in the second quarter and the final adjustments made in the third quarter. And also, some provisions related to the voluntary dismissal program which was in the third quarter of this year.

If we don't consider those events, we had the EBIT for the third quarter of 2016 positive in \$95 million with a 6.3% margin, split by Commercial business, 10.8% margin; Executive Jets, negative 1.9%; and Defense was zero percent. So those three combined accounts for the blended 6.3% that we're showing there.

In an accumulated basis, the adjusted EBIT was \$254 million for 2016 with a 6% margin. We are maintaining our guidance range of \$405 million to \$500 million for the adjusted EBIT in 2016.

Next page, regarding EBITDA. We had a total of \$187 million in the third quarter with an EBITDA margin of 12.4%. The same calculation was made excluding the non-recurring items for the EBIT that we just showed. Accumulated in 2016, EBITDA was \$507 million with a 12.1% margin. Also for EBITDA, we are confirming our expectation to meet the guidance range for 2016 in the range of \$735 million to \$840 million.

Next page. As far as net income, excluding extraordinary items, the net income in the third quarter of 2016 was \$90 million with a 5.9% margin. Accumulated in 2016, net income was negative of \$39 million (sic) [\$29 million] if we consider all the items. But in the recurring basis, it was positive in \$294 million.

Next page, page 18. In terms of investment, we had a total, accumulated in 2016, of \$423 million broken by \$29 million for research, \$244 million for development and \$150 million of CapEx. We estimate a total of \$650 million for investments in 2016.

Next page. Regarding free cash flow, we had, in the third quarter of 2016 a consumption of \$38 million. The development of the E2 program was partially offset by a positive cash generation by operating activities, mainly due to the level of deliveries in the third quarter and a positive working capital recognition. The accumulated free cash flow in 2016 is a consumption of \$693 million. For the full year, our estimate to have a consumption of \$400 million or better.

In next page, in terms of our capital structure, we had a net debt of \$653 million at the end of September. But regarding our debt, we had a total of \$382 million in the end of September with maturity terms of 5.5 years, totally adapted to the need of the company in the long-term investment.

Next page, we'd like to give you an overview on the status of our cost reduction plan. As we already mentioned to the market, we launched a program to reduce the recurring cost in \$200 million per year. And if you see in page 22, we show the details. The program was launched in September and is anchored in the labor adjustment which should represent about \$130 million of reduction.

The balance should come from reduction of other expenses like travel expenses, consultancy fee, and others, and that's where we're working today on that. We have been working with the leadership to that. There's commitment to the plan. There's been (17:17) details for each of them, and we are in the way to get the situation where we again would plan to have a full \$200 million range reduction in a recurring basis.

In page 23, we have the details of that which we had the voluntary dismissal plan which is about 1,600 employees already signed for it and we recognize in this quarter like we indicated the provision for the payment of this - termination of these employees. Also, the program includes a reduction in the 2017 budget which are the areas explained here.

In the next two pages, we show our guidance for 2016 which we are confirming our expectation for 2016. So we are maintaining our expectation in the numbers that we again developed.

In page 26, before we go into the Q&A session and have some - speak some words from Paulo to us, we like to recall some of the Embraer short- and mid-term opportunities. In terms of those opportunities, we try to show here what would be the opportunities for revenues, for margins, for free cash flow.

And we have for example in terms of opportunities for revenues the E2 entered into service with the program is developing well and we have the opportunity of accessing of course the E-Jet base.

Also, the E-Jets bring some opportunities today in Asia and the U.S. market. Super Tucano's sales, a lot of interest on this equipment and we're showing a lot of new orders and interest, growing interest for this product.

The development of the KC-390 under schedule as we expected to get into service in 2018, certification at the end of 2017. And also in the biz jets, the new customers for Legacy 500 and Legacy 450 and they're growing in terms of revenue services in all of the business units.

In terms of margins, the cost reduction plan is an important way of achieving those improvements. Also the ramp up of the Legacy 500 and Legacy 450, which are now in a moment where we can see their results for that. In terms of discipline in cost and in price, as we indicated recently for the biz jets.

Also some industrial optimization in Florida, we're eliminating some overlaps between Brazil and the U.S. I think we come to a moment where this can be better captured. And also the streamlining of subsidiaries and service centers. There's a coordination of data that could lead us to have better improvements and increase in terms of revenues and margins coming from services.

Regarding free cash flow, of course, everything in terms of margins brings better cash flow. And we we'll probably able to achieve higher EBITDA generation. Level of investments we entered into a phase although we have still the following years to finalize the E2 program. But after that, there will be an opportunity for us to reduce the level of investments in a program like that. And also some working capital gains in terms of managing better inventories and accounts receivable.

Just like some points to highlights that can be explored and we are working very hard on this to see how can we improve the results of the company, how can we have a better - in terms of revenues, in terms of margins and also consequently in cash.

Okay. With that, I finalize this presentation and ready for next moment of Q&A. But before we get there, I would like to have Paulo with some words for us.

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

So thanks, Filippo. Hello, guys. Good morning. So thank you for coming here to hear to us. So I think we are facing a very special moment at Embraer. So you remember in our call in July, so we had a couple of announcements that were very important to Embraer. So the first was the provision on the FCPA and the second was the revision on the guidance for - especially for business jets.

And I think at that moment, so we started to adjust to the company for the environment that we are seeing in all three business units. And also, regarding the FCPA, that was the beginning of the settlement on our case.

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So, let me elaborate a little bit on this because, of course, this is a high profile case for us. I think this is over now. We have to turn this page so the company unfortunately made that mistake years ago. The company is responsible for that. So I think we have already wrote in our press release everything about that. Internally, also, we had a few meetings with the leadership explaining what happened. And now, so we really have to turn this page and look forward and look to - into our operations in how we will develop Embraer going forward.

So, having said that, and immediately or in concurrence with the FCPA case, say, with a settlement right of the case, we announced this cost reduction program. It is highly necessary, so we had - we still have an efficiency in the company and so it is very much due.

We estimated that \$200 million and the orientation was that we have to get \$200 million cost reduction until end of this year. So I think you would appreciate that it is quite aggressive so we talking about 14% reduction in the cost in a few months only, right, so since August until end of this year. So we will start January with \$200 million less cost in the company.

Of course, that some of this cost will be offset by cost increase that we would have anyway which refers to the labor salary increase due to inflation in Brazil, which is under negotiations now. So we don't know yet what the index will be. And also, it is also impacted by the dollar-real rate, which we don't know also how the behave of the rate will be next year.

However, what is important is that we are now adjusted for this environment, right, and a lot of this \$200 million, the book of debt will be in our result for sure.

So another important element here, I think, for sure is that we will monetize - so we will have to consolidate our investments in the company made in the last year. So, of course, we have to finalize the E2 investment, which will go until 2018, the KC-390, until 2018. These two developments are going very well. So we are very pleased with the results of these programs. So, so far, is excellent results. Jackson and John Slattery will talk more about that.

So we are set to be on the market in 2018. So two amazing products. The KC-390 will bring Embraer in a more global basis right in Defense. The agreement with Boeing is very important. Jackson will talk more about that as well. So we are very bullish on this aircraft. KC-390 will be a success no matter what, so it is going to be a huge success in the market. The same for the two. So we have the best family of aircraft in the market. Each aircraft is optimized for its size. So John Slattery will talk more about on that.

On business jet. We have the best products in the market in the segment. We have invested heavily in the last years. So we are setting out to monetize these investments. So we are adjusting the cost of the business jet unit. We will make further adjustments there.

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So I'm sure that from next year on we will start to generate a good result in that unit. So we had announced also in July in the call that we have to understand the dynamics of this market. We will not fight for right market share. So we have to be more disciplined in terms of number of aircraft, right manufacturer, and sold.

So it means that we could potentially reduce a little bit the revenue going forward. However, we are favoring margins, so yields, right, in the unit. So it's not a good strategy to fight for right market share while we have a depressed market, right? So we have to really be careful on that.

So, all in all, I think we are really set to have a good moment add going forward. So it's very positive. So the team, the whole leadership team at Embraer is reacting very well for these adjustments. So this is important, very important because we do need the leadership to understand the moment of the company and identify the opportunities to be more efficient. And so we are doing that.

So, with that, guys, this is my final comment here. For next years, we will be looking also how to grow revenue in all the areas, and one of the area that we would like to go deeply because we see more opportunities there is on services. Okay. So we will be developing our plans going forward to take more opportunities in services. I believe it's an integral part of our business. We already have a good part of our revenue in services, around 18%. But we see a lot of opportunities to further develop this business, right.

So areas where we are not yet in and where we already are, so opportunities to further develop. So - and as you know, services is a very important vital part of the business because it does provide a more recurrent revenue and also margins are already slightly better than the aircraft in itself. So, this is where we will be looking at.

With that, so I thank you very much again for being here and I'll turn back to Eduardo.

Eduardo S. Couto {BIO 18009973 <GO>}

Okay. And, Paulo, thank you. And now we enter the Q&A session. We'll start with the audience here. We have support from the microphone. So if you want to ask a question, please raise your hand and we will be sending the microphone to you.

Q&A

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

Good morning. Peter Skibitski, Drexel Hamilton. So, Paulo, as you said, it sounds like a bulk of the cost takeout will stay in your results, I think is what you said. So is it a fair to conclude that adjusted operating margins will rise in 2017? And also, I'm very curious about if that implies that cash flow will turn to positive in 2017.

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

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Well, yes. Margins should be better the next year, right, so that's the plan. Of course, we have an execution risk here but we have to be focused on execution, on the commercialization it's already more or less set so it's more on the, right on the business jet. But we are bullish on the business yet, as I mentioned.

So on the cash generation, we should be – so, I don't know if I can give – I'd say that, but we already mentioned, right, in our call in July that the cash this year is going to negative for a couple of reasons but one of the main reasons is that as we decided to manufacture business jet this year, but not put pressure in selling and also deliver this year, right? So we will go with inventory of business jets for next year, around \$200 million. So this is one of the reasons that we are having this big, right, cash negative. But next year, it's going to be much better.

A - José Antônio de Almeida Filippo

Yes. I think it's important to call that we started the year 2016 and our guidance was a negative \$100 million or better. And then we changed that for negative \$400 million exactly when we announced that we were reducing our – the level for deliveries in the bizjet. So we'll built some inventories and we could expect 2017 that the opposite way, because those inventories would be sold but we already produced. But don't forget that we still have the level of investments of these two still peaking in 2016 and 2017 that's what we see. So it's still something that we have to face next year.

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

Myles Walton, Deutsche Bank. Just going to follow up on that for a second. The business jet unit, their margins were negative again. And, Paulo, you talked about next year being a better year. Are we going to hit low-single digit this year for the full year in business jets? Is that going to be profitable this year? And what is the target for business jet margins over the next couple of years?

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

Yes. We – of course, there is – the adjustments that we mentioned, they are under process – some adjustments to be made. There is a seasonality of biz jets, with typically the first three quarters are not the best quarters, so we expect to be profitable in 2016. We don't give the guidance for the margin itself, but we mentioned that we'll be like low-single digit. That will be something that we'd be expecting, and we hope that we can get by 2016 that's what we target.

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

Okay. And you're target for that business over the medium term?

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

The medium term, of course, as we adjust the capacity of that in terms of focusing the price rather than the volumes, then the company will adjust itself as well with those cost reduction measures will affect also bizjet, so we expect to have profitable business in the following years as we expect. I'm talking about bizjets, specifically.

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

Yes. Cai von Rumohr from Cowen. So, Paulo, you have up there one of the points being that there would be lower investment after the E2. While Embraer has done a terrific job at developing products, one of the complaints investors have is the cash flow has been not as consistent. If you look out to 2020, do you have any longer-term targets for where you think margins should be and where you think cash flow should be as a percent of sales or any sort of metric?

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

Well, in terms of margins, I think this business should generate double-digit margins, right, so somewhere between 11%, 13%. So I do expect that, going forward, with the adjustments that we are making, with enhancements, right, in products, so on and so forth and, of course, we have to count a little bit also on the improvement of the market. But I think we are set to have better margins going forward. So this is our, I'll say, target, right? So I believe investors will be happy if we can deliver that.

So, hopefully, we have to better understand also what is going on in this cycle now, right, in the commercial aviation cycle. But it looks like we'll continue to have a, right, a strong market with pockets of softness, right, at certain markets. But, however, overall speaking, so it's still very good and we are receiving very good interest on the E2. So John will talk more about that on the opportunities.

So I think this is right policy for margin. On the cash generation, if we don't invest, of course, we will be generate more cash, right? However, it's an industry that we can't afford not to invest. So we will have to look at what will be our next move. So we don't have yet, right, anything decided. We are looking, as always we do, to alternatives or what's next for Embraer, what's next in our business jets, what's next in Commercial, but nothing at all has been decided, so we have to be careful. So we have to - first of all, I want to monetize these investments that we have made in the last years and look also into the services business and see which opportunities that will be there in order to grow our business.

A - José Antônio de Almeida Filippo

Before we get to the next question, can we just ask you to hold, that to give the opportunity for the ones that are connected before your question?. There's a list of people...

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

Yes. We're going to now shift to the phone. We're going to take a question - before the next question from the audience, we're going to shift and take a question from the phone. Operator, can you help us?

Operator

Our first question comes from Noah Poponak with Goldman Sachs.

Q - Noah Poponak {BIO 16071528 <GO>}

Hey. Good morning, everyone. Paulo, where do you think you can be next year in 2017 relative to that 11% to 13% EBIT margin that you just mentioned?

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

Noah, good morning. That's a tough question. I don't know, so our plan - I mean, we are planning to be more efficient by all means, right? So we get - extract the most value on our products and our business units and growing our revenue. So, where we are going to be next year, it's not clear yet. But higher than what we are today and probably less than what I said.

Q - Noah Poponak {BIO 16071528 <GO>}

Okay. Can you quantify - are you able to quantify even if roughly what you see as the labor inflation and FX headwinds next year against the \$200 million?

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

Well, labor index, this is unclear. The ask is about 9%. I do expect that we negotiate to be much lower than that because we are showing to our employees, to our people that if we continue to keep growing salaries like this as we did in the previous year, so this is no longer sustainable. Max. I would say 9% but I do expect that we'll be less than that.

For the exchange rate, this is much harder to guess. So I think nobody understands or can guess, right, the exchange rates. So we already saw many forecasts that were not valid at the end. I don't know, we count. I think the exchange rates can be around the BRL3.20, BRL3.30 in average next year, right?

So now we are seeing BRL3.20. We had some real appreciation the last 30 days given the agreements between Brazilians with the money outside Brazil. So they - we're clear in, right, their investments outside Brazil and pay a fine for that and now, so right taxes. So a lot of money for the fine, for the taxes went into Brazil. So that's one of the reasons that the real appreciated in the last 30 days. But, today, which is the last day of this event, so the real is back around the BRL3.17, BRL3.18. So I think, from now on, it's going to be between BRL3.20, BRL3.30

Q - Noah Poponak {BIO 16071528 <GO>}

And can you guys just re-base us on your total company EBIT FX sensitivity just given it's kind of a moving target with the Commercial and the Defense pieces moving in the opposite direction?

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

Yes. Noah, it's (41:58) here. Our sensitivity for the FX, it went down a little but it still remains around 10 basis points to 15 basis points for each BRL0.10 weaker BRL against the dollar. So if the BRL get BRL0.10 weaker, we tend to expand margins by 10 basis points to 15 basis points.

Q - Noah Poponak {BIO 16071528 <GO>}

Okay. All right. I'll jump back in the queue. Thanks a lot.

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

Let's go back to question, please, the questions. Sorry for interrupting you.

Q - Kristine Tan Liwag {BIO 21935865 <GO>}

Good morning, Kristine Liwag from Bank of America Merrill Lynch. Post the E2, you guys are pretty clear that for long-term investors that we'll get a lot of return margins and steady free cash flow. But when you look at the competitive dynamics in your market, right, so the 70- to 100-seat market, you're getting a lot more competition out there, you've got the MRJ, you've got the Sukhoi, the Chinese are trying to desperately build narrow body aircraft either in that segment or a little bit higher. When you think about the long-term competitiveness of your portfolio, do you think that there would be a follow on to the E2 after the E2, or do you think - is your product really that much better than competition that you don't need to invest right away? Can you give us a little bit more background of how you're thinking about that issue?

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

Thank you. That's a very good question. And so, of course, that we'll have to look at the market, right, as always. So the market is very dynamic. So we have seen a big move now from the big manufacturers - or the main manufacturers, right, by investing in new products or the ranging of the current products like Boeing and Airbus. So they took a decision to range in their narrow bodies after Bombardier launched the CSeries. And with that, we also had to launch the E2. So at that moment, when these decisions were made oil price was \$130, \$140 and now it's \$45, \$50, right?

So, I don't believe that all these new products would be launched if we would have to take a decision today, right. So this shows how the market is dynamic in this regard, right. So, going forward now, I don't think that we will launch any new aircraft that will be larger than the E2 if Boeing and Airbus are still in the segment in where they are today. So I think we have taken the right decision few years ago when we decided not to go head to head with Airbus and Boeing, right.

Again, so we are that much able to do a very efficient narrow body. So, we have the know-how. So we have the people. We have the engineers. So we have the experience. But we don't see a strong business case to compete head to head with Airbus and Boeing. So if they decide to move upwards, to grow their aircraft in the 104- to 150-seater jets and give up a little bit of this market, yes, at that moment, it's different. So we will look again.

So going forward now, from 2018, we are going to have MRJ, we are going to have the Chinese with ARJ21 more in the market, right? And also Sukhoi. It's already in the market, so they are looking at a new version now of 100 seats.

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So we believe that we are in a strong position, so we have very good product, so the most efficient family of aircraft in the segment. We are market share leaders. We have incumbency. We have - I mean, we are, with the E-Jets in 70 countries - I'm sorry, in more than 50 countries, almost 100 right operators. So it's a huge incumbency.

So we have to continue to do our homework to continue to be efficient, right, in the product, in customer support, and do more of what we are doing with some enhancements. So with that, I believe that we will continue to have success in commercialization.

Q - Kristine Tan Liwag {BIO 21935865 <GO>}

Great. That's very good color. And if I could squeeze one more on that margin question. I mean, if I look at the \$200 million that you plan to save that you announced in September 2016, do we expect that all to flow through your numbers in 2017? Because if you do the math there, it looks like you're pretty much close to double digits in 2017, if that's the case.

A - José Antônio de Almeida Filippo

It should be half of that, ultimately.

Q - Kristine Tan Liwag {BIO 21935865 <GO>}

Great. Thank you.

A - José Antônio de Almeida Filippo

Derek?

Q - Derek Spronck {BIO 17904184 <GO>}

Thank you. Derek Spronck at the RBC Capital Markets. Commercial, you had a nice pickup in deliveries for the third quarter. Is that sustainable, accounting for seasonality into 2017?

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

Well, it's our plan for next year is to deliver more or less the same number of aircraft as we did this year, right, in commercialization. So we don't exactly the numbers, so we give guidance the next year, right, in January, February. But we can anticipate that's going to be more or less in the same order of magnitude, like, full year of 2017.

Let me ask you to wait a little bit as shown. I'm going to ask (48:30) elaborate right on this in his presentation. Is that okay?

Q - Derek Spronck {BIO 17904184 <GO>}

Yes. That works. And then just finally, you have about two months left remaining in the year. I'd say that you have a fairly wide range for your EBIT and EBITDA margins. Are you tracking closer towards the top end of your guidance range in 2016?

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A - José Antônio de Almeida Filippo

Yes. We're still in the middle, not top. I think that it will be fair to expect, and we are on our way to get there.

Q - Derek Spronck {BIO 17904184 <GO>}

Okay. And just finally on the settlement with the Brazilian and U.S governments, with compliance of the settlement, are there reoccurring cost as you continue to comply with the settlement that you reached with those two countries?

A - José Antônio de Almeida Filippo

Regarding the settlement itself, it's done. The company has its program of improving its process. I already mentioned that. As part of the ongoing business, there's no specific cost that will be expected related to the agreement. The agreement already sets.

Q - Derek Spronck {BIO 17904184 <GO>}

Okay. Thanks.

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

Okay. Now, we're going to take another question from the phone. Operator, can you help us.

Operator

The next question comes from Turan Quettawala from Scotiabank.

Q - Turan Quettawala {BIO 6362141 <GO>}

Yes. Hi, good morning. I guess maybe in terms of the margin targets for next year. You provided some really good color on the cost savings there. Is there – can you give us any sense of maybe where pricing is trending I guess more on the executive aviation side? I'm wondering if that can chew away some of that improvement that you're looking at in terms of cost. Hello?

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

Yes. Well, it's no secret, right, that the margin can be – that are under pressure. So we are seeing, right, the markets it is what it is. So we have five manufacturers, right, manufacturing around 650 aircraft, 700 aircraft this year coming from a market back in 2008 was at peak 1,300 aircraft. So it's a lot of pressure in this market. A lot of used inventory still, right? So it's a pressure, right, on this market.

So we count on improving margins next year by reducing our costs on, right, business jet unit. There are inefficiencies still in business jet because we are manufacturing aircraft in Brazil and we are manufacturing aircraft in the U.S. And as we transfer 100% of the business aviation into U.S., Melbourne, so there will be, of course, less cost associated with that and this cost reduction plan here also will be in place from January 1.

In addition to that, we believe that we have a product that merits a right of premium and we are seeing the market with the Phenom 300 and the Legacy 450, and the Legacy 500 is coming as well. So as we consolidate this product, especially the Legacy 450 and Legacy 500 in the market, so we believe that we will be able to gain some margin as well. So this is our forecast; this is our view for next year.

Q - Turan Quettawala {BIO 6362141 <GO>}

Okay. Great. Thank you. And I guess just one quick one here also on the cash payments. It's about \$325 million, I guess, in terms of both the voluntary retirement and the DOJ payments, all of that is going to go through in Q4, correct, on the cash side?

A - José Antônio de Almeida Filippo

No, in cash basis, we can foresee that the \$80 million will be made next year.

Q - Turan Quettawala {BIO 6362141 <GO>}

Out of that \$325 million?

A - José Antônio de Almeida Filippo

Yes.

Q - Turan Quettawala {BIO 6362141 <GO>}

Thank you.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you, gentlemen, and good morning. Steve Trent from Citi. Just two questions from me. The first is when you think about the - your order campaigns for the E2, any thoughts as to what is your base case thinking with respect to whether your Canadian rival gets additional help from its federal government and the - or should I say hope as the feds (53:42) haven't helped yet?

And the second question just on the military side, when you think about the Super Tucano, any color on potential new demand for that, whether it's coming from foreign governments or whether it could come from the eventual retirement of the A-10 in the United States?

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

So, thanks, Steve. On your first question, I think the E2 program is going very well, so in both, in technical and also by sales by Commercial. So if you look at that, we have launched this program in 2013, right, and three years after, so we are basically with 280 firm orders, firm-firm and 600-plus when we consider LOIs and other agreements. So I believe this is quite solid.

John Slattery will elaborate a little bit more, right, on the market. So we are seeing tremendous potential going forward. There are new events, there are new information that's important to share with you, and John will do that. On the Super Tucano, yes, there are more opportunities, and I also hold on my comments here because I don't want to jeopardize Jackson's, right, presentation, okay?

Q - Stephen Trent {BIO 5581382 <GO>}

Very helpful. Thank you very much, Paolo.

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

Hi. Alexandre Falcao, HSBC. I have two questions. First one on the gap between E1 and E2. If I'm not mistaken, you still have 35 - 30 to 40 airplanes to fill up the gap. As we're entering 2017, when is a date that we should see those, and can you spend a whole year of 2017 without those gaps? And second, where are you willing to go on margins to fill that gap? That's the first question. Thank you.

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

Thank you, Falcao. If you allow me just to go back to Steve's question, part of his question I did not answer regarding Bombardier in Canada, and this is a very important one. So I think we were already very vocal on this topic and we will continue to be. So, we can't afford to have in this industry governments', right, support that dis-balance the game and put in jeopardy the level playing field, right?

So, what Bombardier did, of course, is not good, and they destroyed the dynamics of the market because they offered their right product at the low cost. No matter what, I don't know you guys, if I asked it here what was the price, maybe some of you will say 23 or others will say 21 and 22. So whatever the price, it is below 27, 28. So this is below cost. Okay?

And so government of Canada, Quebec in this case, is banking this gap and we are very close to our government, and our government is taking actions in the sense of - by talking to the authorities in Canada to show that this is something that must stop.

Recently also, the United States government interfered as well in I think, last week and also started to be more vocal also right on this program. So we do count. We do believe that the federal government of Canada will not place this additional investment of \$1 billion. If they do, of course, we will be very rightly disappointed. And going to WTO - it's not Embraer, of course, it's Brazil that would go to WTO- it's a possibility. However, it's not efficient, right. So going to WTO is going to take six years to eight years. We will have a big dispute there, but what is important is what happens in the market meanwhile, right. So we are looking to that, so we are focused on that and, hopefully, there will be no need for that.

So, Falcao, your question, can you repeat, please, again? Sorry.

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

Yes. On the gap between E-1 and E-2.

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

Oh. Yes, the gap, yes. Yes, we still have a gap, but we are seeing a solid activity and John will talk more about that. So I believe we have until third quarter of next year, right, to close sales enough to place us in a better position in 2018. So it's still - it's not bad, 2018, right. But we still need more. But we are - we're very positive that being - orders are coming from the United States, on the 76 seats - seater or 190, 195 from the other countries, we will get there.

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

Okay. And just final question, how much of the Legacy family or how much of the margin increase on the bizjets depends on the Legacy's, the Legacy 450 and Legacy 500? How much you need to sell to come to your target or at least to have that improvement in margins going forward?

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

You mean for next year?

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

Yes. And going forward, yes.

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

Exactly I don't know how to answer this, Falcao, so I think we will have to look at that and get back to you.

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

Okay. Perfect. Thank you.

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

Okay. I think we still have a lot of questions, but we still going to have our individual presentations for the business units. So I think with that, we concluded our third quarter 2016 conference call. Thank you very much for all that are connected through the phone.

Filippo, do you have any final words?

A - José Antônio de Almeida Filippo

Okay. Okay. So, that's it. We concluded our third Q 2016 conference call. Thank you. Have a good day.

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