

## Q2 2012 Earnings Call

### Company Participants

- Frederico Curado, Empresa Brasileira de Aeronautica S.A.
- Jose Filippo, Empresa Brasileira de Aeronautica S.A.

### Other Participants

- Cai Von Rumohr, Analyst
- Carter Leake, Analyst
- Darryl Bunivesi, Analyst
- Joe Nadol, Analyst
- Myles Walton, Analyst
- Noah Poponak, Analyst
- Pete Skibitski, Analyst
- Ray Neidl, Analyst
- Ronald Epstein, Analyst
- Turan Quettawala, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. and welcome to the audio conference call that will review Embraer's Second Quarter 2012 results. Thank you for standing by.

(Operator Instructions) 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. Embraer undertakes no obligation 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 from those anticipated in the forward-looking statements.

Participants on today's conference call are Mr. Frederico Curado, President and CEO; Mr. Jose Filippo, Chief Financial Officer and IRO; Mrs. (Elaine Puno), Controller; and Mr. Luciano Froes, Investor Relations Officer.

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

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

Thank you. Good morning, everyone. Thank you for attending the conference. I would like to apologize for the short-notice postponement of the -- of our time this morning and it was for a good reason. I am in Brazil, actually. We just announced this contract with Conviasa from Venezuela and the ceremony, the signing ceremony, was witnessed by both presidents. So I, obviously, had to be here. So that was the reason for the delay of the call. So I apologize, and thank you for your patience.

We had a good quarter, this Second Quarter for us, a relatively strong delivery flow with a good mix. We've associated with a more -- even more (inaudible) FX, as far as the US dollar, along with all the improvements we have been doing the last several years on our PPE. And so that all combined translated into strong operating results. As we always anticipated, having a little bit of relief in the exchange rate, plus all the investments we are doing in our population with volume, that translates into operating results.

So I remain optimistic about the long term. We do have some challenges in the short term, as far as sales. We are moving ahead and still targeting for a 1 to 1 book-to-bill ratio. Of course, it's more challenging than it was three months ago. It's still doable.

And we remain focused in our fundamentals, in our strategy, of continuing to sell and prepare the improvements of our commercial airline product line, focusing, also, on the final development and certification of our latest 500 and 450, and also, of course, making defense a more and more important business in our business portfolio.

So I think all that is translating into results and will keep doing so.

A final word before I turn to my friend Filippo, our new CFO. It's his first call, earnings call, and as far as -- it also is our first call with Luciano heading the RI area.

So before I turn to Filippo, I just would like to mention that we remain focused on a conservative economic and financial management of our Company, preserving a healthy balance sheet and also, as far as being a consistent payer of dividends, as we have been the last 12 years.

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So with that, of course, I'll be back at the end for Q&A. I would like to ask Filippo to please go ahead and commence the presentation of our quarter. Thank you.

**Jose Filippo** {BIO 1726218 <GO>}

Okay, Fred. Thank you. So thanks for all who join us in this call.

I would like to go through the presentation now. So we should start on page three, there with the highlights for each of the business unit segments, starting then on page two in the commercial E-jets. We had in this quarter the delivery of 35 E-jets and then we got to 858 total deliveries since into service.

Important also, as we announced in last air show, the sale of 5 more E-190s to China's Heibei Airlines.

Also, an important thing about our commitment with sustainability that, together with our partners, we were able to perform a flight with the new fuel during the Rio +20 conference, and it's confirming our, again, commitment to sustainability initiatives.

So moving to the next page, now with the executive jets, also the delivery of 20 executive jets in 2012 Second Quarter.

Also, we had -- we finalized the agreement with AVIC for the plant in Harbin, so now we're starting this activity there. We had 10 orders from ICBC, a leasing-type firm, and 5 options and the plant is already producing, so we expect to have the first delivery for next year.

The next page, in terms of Defense and Security, as we've been indicating this is a unit that has been growing. The highlight is that we had in the Second Quarter 2012 43% growth in terms of revenues compared to the Second Quarter of last year. Also announced the sale of 8 Super Tucano to the Indonesian air force, and also the important agreement made or signed with Boeing that will bring to us opportunities in terms of commercial activity, and also in system integration.

Next page is a summary of the revenues by segment. As we've been saying, it's a strong quarter.

In the top left chart, the total, the consolidated numbers, \$1.7 billion sales in the Second Quarter accounting for the year-to-date number of \$2.9 billion, which highlights for Commercial Aviation, the right top chart where we get to \$1.9 billion year-to-date numbers.

There were strong deliveries in the Second Quarter, driving this number, and we expect a more stable delivery rate throughout the year for the Commercial Aviation activity.

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Going forward with this chart, in the bottom left chart, the Executive Aviation, we have \$261 million sales revenues in the Second Quarter. For the executive aviation we have expectations to have a stronger second half, especially in the last quarter, is the trend of this activity.

The last chart, in the bottom right, for the Defense and Security, as we indicated this is growing fast. We had to date \$498 million of revenues, and now we're moving along with this activity in growing rates and new opportunities of business.

So this is the summary of all these segments in terms of revenues. If we move to the next page, we see the breakdown within each activity and we see the year-to-date numbers for 2012 that we have the major part accounted for Commercial Aviation, at 67%, but if we remember by going to the past, it used to be accounted for 80% or 90% of the total Company. So it indicates and confirms the breakdown of portfolio of the Company having more participation in the Defense and also in the Executive Aviation.

Here we have the 67%, then, for Commercial Aviation; 15% for Executive Aviation; 17% to Defense; and 1% for the business, typically spare parts and agri-business planes.

Okay, next page the backlog. I think that's already mentioned. Fred already indicated that. We reported a \$12.9 billion of backlog, so we're now working on opportunities of new sales. We announced today an important sale. We expect to see movement in these numbers. So results to be in following quarters. But the report now is the \$12.9 billion for the backlog in the figure of June 2012.

Next page, now talking about revenues and gross margin. We have in the last chart \$1.7 billion of revenues in the Second Quarter. It was a strong revenue. Important to highlight is the higher margin. We had 23.6% of gross margin, the highest since last year. It's important that this is the result of a favorable product mix and also the exchange rate is also impacting positively in this margin. We had this 23.6%, then, in the Second Quarter.

Next page, in terms of expenses, SG&A, there was a small increase in G&A in this quarter, but mainly because of the startup expenses of the Melbourne plant and Evora plant in Portugal. But as Fred indicated, we are committed to control and to reduce the costs, so we had the benefit of the dollar for diluting some of the local Brazilian costs, but we're still committed to go forward and do plans and we have our programs in place to be followed and to deliver. The focus will be definitely for reducing costs and being more effective.

So now we accounted for \$194 million in the Second Quarter, a little increase in terms of G&A, as we said, compared to the previous quarter.

Okay, next page, the operating income, (inaudible) in income for the quarter, \$197 million, a good margin, 11.5%. Year to date, we had 10% of margin. It's a combination, as we said before, with the better mix, and also the dollar effect in reducing some of the cost.

We are -- actually, we're going to, in general, the presentation is going to talk about our target or guidance revision because of exactly the performance that we're doing so far.

Next page, the EBITDA. The same trend, a better mix and favorable.

And cost reduction, we got to a good margin, 15.4% in terms of EBITDA margin in the quarter, and \$265 million of total EBITDA, in terms of cash. It's an important trend, as well, so we are confident that we can keep this level going forward.

In page 13, next page, net income, it's good now to recall what happened in this quarter regarding income tax. The net income was impacted by the deferred income tax, a situation basically of the non-cash items, assets, that were impacted by the increase in the exchange rate, the Brazilian reals to the dollar, that caused us to have a gain that was considered in terms of tax as recorded as a deferred income tax. It's not a cash impact, but we had actually reported \$54 million as net income, but it would be \$187 million if we had excluded this non-recurring situation that we had in this quarter.

So the situation happened. It should not be the same for the next quarters, especially because we understand that the exchange rate will not suffer the same impact that we had last quarter.

But it's not -- again, just to recall -- this is not a cash impact. It's just a deferred income in the result.

Next page, inventories and cash flow. We had total inventory accounting for \$2.5 billion in the end of the Second Quarter, a reduction compared to the First Quarter, in trend and in line with what we expected. So we hope and we are going in the direction to go in the same level or below the levels that we had in the end of last year, which was almost \$2.3 billion in the end of 2011.

In terms of cash flow, we had, in the Second Quarter \$155 million in terms of operating cash flow generation. This was compensated by investments, typically the level of investment of the Company, which totaled over \$131 million, broken down by PPE \$76 million and intangible investment, recording \$55 million. So the net was \$25 million, the next cash generation for the Second Quarter.

Next page, in terms of investment, the major part is development and then CapEx. We are in line with the forecast, so we still forecast to be having in the end of the year what is the outlook that we set as the guidance previously. So we have today, as of June, \$31 million expense -- or impacted in research, \$119 million for development, and \$84 million in CapEx. The projected numbers will be as we expected to meet the projections as we indicated before.

In page 16, we talk about our cash and debt position. I think that from the left, in terms of our debt, we have a total of \$2.2 billion of total debt, and this is 78% long term and 22% short term. This was the -- this long term was increased, basically, because of the issuing

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of the bonds that we made early June. This was an important moment. The Company was very successful on issuing that bond in a moment where the market was not positive, but it was affirming the capacity of the Company to access this market. And also important is that you see the maturity of the debt. Because of this issuing of this new bond that matures in 2022, we bring our average term of our debt to 6.1 years.

It's a very good and healthy position that, as Fred indicated before, we also look very carefully and we follow very carefully.

In terms of net cash in the right side, keeping similar levels that we had in the first -- the First Quarter, \$290 million net cash position in the end of the quarter, no change, because the bond was basically invested with -- the proceeds of the bond, so we're not affecting the net cash position of the Company.

Okay, now we get into the final page, which is the revision of our 2012 outlook. And in page -- in the end, we have the revision of operating results, the EBIT, that we are revising the current outlook from \$460 million to \$530 million range to \$520 million to \$590 million of EBIT forecast for the year, or outlook for the year.

We have here a more favorable scenario. The year-to-date performance also supporting this revision, and we have, of course, the impact of the exchange variation that's positive for us, and also the stimulus package impacting, again, positive in terms of some of our costs.

So again, in terms of EBIT we have the amount of the range, but also the margin was increased in 1percentage point from 8% to 8.5% to 9% to 9.5% for the year.

In terms of EBITDA, the range was increased to \$720 million to \$840 million as the range for the year, and the margin that goes now, updated one, to 12.5% to 13.5%, another increase of 1percentage point from the previous guidance sent to the market.

So basically, this is the -- those are the financial numbers that we have and now we turn back to the questions we'll be glad to answer. Thank you.

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Pete Skibitski of Drexel. Please go ahead.

### Q - Pete Skibitski

Hello, guys. Your operating margin in the quarter was, obviously, excellent, and I was wondering if you could sort of bifurcate or maybe trifurcate for us the contribution from

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FX, and then from volume, as well as from performance, maybe give us a sense of what the individual contributions were towards the great margin?

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

Can you take that, Filippo?

**A - Jose Filippo** {BIO 1726218 <GO>}

Yes. Yes, Fred. Thank you for the question.

Basically, the impact of -- or the benefit of the exchange rate in the quarter was about \$10 million to \$15 million in the quarter. This was a positive impact.

**Q - Pete Skibitski**

Okay, so volume and performance were bigger contributors towards margin?

**A - Jose Filippo** {BIO 1726218 <GO>}

Yes, definitely, they were -- this was not the major impact.

**Q - Pete Skibitski**

Okay. And can you give us a sense of why second-half margin rates are expected to be down from the Second Quarter?

**A - Jose Filippo** {BIO 1726218 <GO>}

Yes. Again, what -- a good impact in the previous quarter was the product mix was favorable. We may see, going forward, a more -- a higher participation of Executive Aviation. That brings a lower margin. So that's why we see a little -- it could be something that could be more even in terms of the maintenance of this level.

**Q - Pete Skibitski**

Okay. Thank you very much.

**Operator**

Our next question comes from Ray Neidl of the Maxim Group. Please go ahead.

**Q - Ray Neidl** {BIO 14015874 <GO>}

Yes, I just wanted to verify a couple of points here, one being some of the deferrals or cancellations that you've had for your Commercial aircraft. And looking at Boeing and Airbus, Boeing in particular, with the weak global economy, they seem to be picking up orders, whereas Embraer seems to be getting some cancellations.

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I'm just wondering, is that unique to your customer base, startup carriers, smaller airlines in Asia, Europe, that are doing the cancellation, or is this something that could be a little bit longer-term trend? That combined with new competition coming from companies like Mitsubishi, where now we've got four big worldwide manufacturers doing R-jets?

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

This is Fred Curado here. Well we are not seeing a general trend of cancellations. We had a renegotiation of one particular contract, which represented some, I think, maybe 5 aircraft less. So we are ones and twos here and there. I would definitely not call it a trend.

We -- I mean, we still have Commercial activity. Of course, the main challenge that we have now is probably sales. There is a worldwide slowdown of the economy, but there are opportunities. We are -- we have campaigns going on in Latin America, also in North America, for a change after a few years. Even with this, it's pretty flat, maybe a little option activities here and there.

Asia shows some activity. Africa, not so much. So there are opportunities out there, and we are probably not very bullish on huge amounts of sales in the next few months. And we're steadily keeping our -- Commercial discussions and campaigns and prospects and the cancellation that we have had in this first half was a significant contribution from the Business Jet side, as well.

**Q - Ray Neidl** {BIO 14015874 <GO>}

Okay. And do you see much of a threat with Mitsubishi now aggressively marketing their new product? They have two big orders in the US, which I think Bombardier was hurt more, but it could have been a potential customer of Embraer, as well.

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

Yes, sure. We -- I mean, we were, indeed, surprised by the big announcement. Having said that, which, again, I think it's an important development in our industry. We should not minimize that.

Having said that, we're talking about an order which is five to six years out in the future, 2017. And we do foresee a surge of demand, especially if (inaudible) do move upwards, which seems to be, let's say, a relatively firm trend. So we see a window of demand for larger regional jets in the next few years. So probably before 2017.

So although we have respect and we acknowledge that this was -- this last announcement was an important one, we feel comfortable that in the short mid term we have very competitive solution for demand, which I believe will pop up, and, by the end of the decade, by 2018, so just around the same timeframe of these potential delivery of the new competitor, we will have the next generation of our E-Jets, which will be a step function, because (inaudible) type of aircraft.

So we also believe that --



(technical difficulty)

## Operator

Ladies and gentlemen, please remain on your lines. Your conference will resume momentarily. Again, please remain on your lines. Your conference will resume momentarily.

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

Hello? Am I back.

## Operator

We may now resume the conference. Our next question comes from Myles Walton of Deutsche Bank. Please go ahead.

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

Thanks. Good morning.

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

Myles?

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

Yes?

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

If you excuse me, I do not where my line broke up, but I was just finishing my answer to Ray. And this -- I'm not sure that he got it or not, but just to make sure, I was just mentioning that by the end of the decade we will have the new generation of E-Jets, so -- or else we have a strong offering in the short term. We also do have a strong one in the long term.

So we feel good enough about competition, which we always foresaw that would come, one day or another.

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

So Fred, I guess to pick up on more of a near-term demand picture, you're looking at next year and you're probably starting your production rate planning and talking with suppliers. What level of order activity do you need to have in the second half to avoid trimming production from the 2012 level?

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

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Myles, at this stage we are -- we're keeping the production rate on the Commercial jets as they are. We have a bit of a challenge for a few jets that we still have to fill in for next year. If we flow normally throughout -- today, our confidence that we will not change, will not increase or decrease the production rate of E-Jets.

On the business jet side, there could be a slight increase in maybe one or two products, and on the Defense side, the limits are different. It's just there's organic growth there, which we definitely see, as well.

So the best vision we have today is a flattish (inaudible) a small increase of our activity next year.

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

Okay. On the business jet side, can you give us an update on, is the Legacy 500 still on track for a September 1st flight? And also, what were the amounts of liquidated damages from business jet cancellations in the quarter?

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

Well as far as the flight, it's still targeted for the Third Quarter. I don't recall a 1st of September date, but I think we said Third Quarter.

And as far as the cancellation fees, maybe Filippo can help, but I think it was in the range of \$20 million, but, please, Filippo, can you confirm?

**A - Jose Filippo** {BIO 1726218 <GO>}

Yes. It's \$12 million in the Second Quarter.

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

Great. And the last one for me was the services piece of your business is really showing great sequential strength and year on year. I'm curious, is that kind of for the full-year target of 775 across all your services portfolio, is there now upward bias to that, or is this kind of the run rate you're expecting?

**A - Jose Filippo** {BIO 1726218 <GO>}

Yes. We --

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

(inaudible).

**A - Jose Filippo** {BIO 1726218 <GO>}

We expect to see the maintenance of this target in the level that we are performing today.

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

Okay, so no upside to the target. You're just kind of on track to where you thought you'd be?

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

No, no. Not yet.

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

Okay. All right. Thanks.

## Operator

Our next question comes from Cai Von Rumohr. Please go ahead from Cowen and Company.

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

Yes. Thank you very much. So not to beat a dead horse, but looking at the potential for RJ deliveries next year, when do you have to make a decision on if you were to change that rate and so you need to get orders by early Fourth Quarter or when before you need to make a rate decision?

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

Yes, Cai. This is Fred. We -- as I just told Myles, we do have a few slots for next year to fill in. There is not a deadline like August or September. So I think the best answer I can give to your question is at this stage, we believe the orders that we need to fill in the 2013 production at the current level will happen over all the course of the Second Quarter.

So I think that's the best way I can put the way we see the situation to you.

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

Can you help us -- if you look at your backlog, obviously you'll have enough backlog going into next year to fill the slots. I think Ascend or one of those services estimated you had, I think, 65 to 70 slots filled for next year. Would that be a reasonable guess, something in that order of magnitude?

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

Could you repeat the numbers again, please?

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

About -- that you have somewhere between 65 and 70 slots filled for next year, already?

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

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Yes, I don't exactly know, but that sounds right, Cai.

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

Okay, terrific. Then, you've mentioned Defense looks a little bit better for next year. Could you give us an update on some of the drivers that, as we look forward the rest of this year and next year, that could drive that Defense business?

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

Yes. One key driver is the development -- probably the most important driver is the development contract for the KC-390. Next year it picks up as far as the engagement of our engineering resources, and, of course, the development itself. So as we move from PDR and CDR into the actual development, so that will go up. So as we recognize that contract revenue, revenue income as physical progress in the contract, that's a main driver.

Then we'll have several different contracts spread across Super Tucano deliveries, some other development. We also expect to start having next year the first revenues regarding the satellite business.

So KC-390 is the main one and a real broad combination of several other actions will be the drivers.

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

Thank you. And the final question, could you give us a little color on the biz jet market? There have been some mixed trends, some signs of pickup, some signs of areas that are weak, but just how do you see that going forward, Fred?

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

Cai, it's some positive signs out there. For example, the reduction (inaudible) fleet. What we see is there is some pricing pressure. On the other hand, we see some (inaudible).

So with some pricing relief, which, of course, goes south as far as margins and what we'd like to do, we see that there is a demand to be stimulated. So we are relatively optimistic about maintaining or slightly increasing the activity on our side, even before we introduce the Legacy 500 service, which is in 2014. Then, of course, we'll have a step function in that business.

So I believe there is room for -- at an optimum combination of price and volume, to make our business a little bit more robust in the next 18, 24 months.

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

Thank you very much.

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

Thank you.

## Operator

Our next question comes from Joe Nadol, JPMorgan. Please go ahead.

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

Thanks. Good afternoon. Fred, just on the SG&A, you posted a little bit of a sequential increase from Q1 to Q2, and I just wanted to get a better feel for -- it sounded like there may have been some unusual items, startup costs for a couple of facilities, and I just wanted to get a bit more granularity on your expectations for the second half of the year?

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

Yes. We did have, Joe, some non-recurring startups, which take probably the most of it. Filippo would know exactly how much.

And this is -- I have a permanent state of war against SG&A, so it is not over. We are keeping a straight and strong hold on those costs. So dynamic should not go up, especially -- and more than that, benefit from a more -- a positive exchange rate, which in this particular case, is responsible for -- the costs this year are higher than our usual mix, it's probably 7% in reals. So we should capture the benefit of that (inaudible) rate more than we have so far in the year.

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

And so, do you anticipate that SG&A can be flat sequentially? Or do you think it can go down?

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

Filippo, once we are not together, if you can also mention about the specific view, if we can keep it at that level or there's a chance to reduce it in dollars?

**A - Jose Filippo** {BIO 1726218 <GO>}

We work on a stable rate. We don't think it will be any different than we've seen today.

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

So \$194 million per quarter? Okay. Okay. Then just --

**A - Jose Filippo** {BIO 1726218 <GO>}

Sorry, Joe. Just to conclude Fred's answer, the amount that we had was \$4 million impact for the startup costs that we mentioned.

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

Okay.

**A - Jose Filippo** {BIO 1726218 <GO>}

And we don't see any increase on that going forward.

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

Okay. on the Defense side, you're working on a number of new contracts. The Brazilian economy has slowed down quite a bit the last few months and, Fred, if you think that has any implication on the timing of the Defense tenders, or if you think that everything, in terms of the big programs, is on schedule?

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

Yes. The current programs we're already contracted, the main driver, again, being the KC-390. We have not had, so far, any indication from the Brazilian government of any request to delay the contract or something like that. So so far, so good on that aspect.

There is a true need to re-fleet and do the things that we are doing here. I mean, the F5 refurbishment, and the AMX mid-life-update program, the A4 (inaudible) update program, and the KC-390, most importantly.

So my indication so far, it seems to be, let's say, one of the drivers of the Brazilian budget priorities. And we, of course, will be working very hard to keep it this way.

Investment, in our case, as you know, Joe, represents high quality labor positions. So that probably helps defend the (inaudible) should be maintained in investment and rather than expensive, which is not our case, but we do not have any participation in the budget, as far as the expenses. It's an investment account.

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

And how about the (inaudible) and the timing of that program, as well as the fighter?

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

What was the first part of it, Joe? Sorry, I missed it.

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

The (inaudible), the radar surveillance program?

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

Okay, got you, (inaudible).

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Well the (inaudible), we still believe that there is a likelihood of the contract -- well, the first phase is on deployment right now. They should have some sort of conclusion in the next few months. And it is our belief and hope that they will contract this first phase before the end of the year. That is the (inaudible).

On the F-X, I do not have such a visibility. It's a more complex and, of course, international tender. So I would not risk to give you any more timeline on this one.

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

Okay. Then, just finally, one detail, on the 3 large-cabin deliveries in the quarter on the biz jet side, what was the mix? Were there any Legacy 600s or lineages or were they all 650s?

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

No 600s. There were 650s and Lineage. I don't -- I really don't recall by heart, but at least one Lineage was in there.

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

Okay. Thanks.

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

Thank you.

**Operator**

Our next question comes from the line of Noah Poponak of Goldman Sachs. Please go ahead.

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

Hi. Good afternoon, everybody.

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

Hello, Noah.

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

Fred, I'm wondering -- you just had this announcement of a new commercial order that's international that's not US-scope-clause driven. I'm curious how many more campaigns there are going on that are relatively serious, relatively late stage that are outside of the US-scope-clause-driven activity? Just kind of generally, without talking about specific airlines, obviously. Is that happening or are you really counting on those US orders to get to that maintained book-to-bill of 1 that you talked about earlier.

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

Noah, this is -- you posed the same question to me in the First Quarter and have to tell you that it is now, after three months, it is a bit more challenging to get there than, even the 1 to 1 ratio than it was three months ago, but it's still doable.

We have something, probably, between five and 10 campaigns. They're not large numbers. The combination of them can, mathematically, take us there, yes. We had more, actually, in discussion than we needed to get to the 1 to 1, but, of course, we want to win everything and some will not happen this year.

So it's still doable. In the United States maybe one, one major airline, will make a decision this year, probably just one. So we're not just like -- well, we have like just one bullet. We're really working around the globe. But of course, one order in the United States would -- certainly we'll go over the target.

But your question is, if that does not happen, how likely that we could (inaudible) the target? It is -- it's still doable and three months from now, in the next call, then we would have a probably more -- a more a precise view of whether or not or how close we're going to get to that limit.

But if the campaigns that we have today, they -- we have some of them which are key for us. If they happen, we're going to get there.

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

Okay. That's very helpful.

Then, as a follow up, both with international campaigning and with the US campaigning, really in everything commercial, what are you finding yourself doing with price now? Are you having to get more aggressive on price to make some of these move faster and, given how competitive some of the US ones are going to be, or not?

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

So not so far. Pricing pressure is there, coming a little bit out of your segment, to be frank. It's on the narrow-body world, which is not where we are, there is stiff competition there. So that, somehow also affects our market. So I think we have been fortunate, so far, and very disciplined (inaudible), but it is a growing concern, having some pricing pressure, especially for us to (inaudible) a little bit, that that may happen.

But so far, we have not done anything outside of our classical behavior of being very conservative in the quality of the deals we sign.

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

Great. Then, just one other one for me. I wondered if you might tell us anything you can that Sky West told you, if anything, in terms of why they are choosing to procure the MRJ? I'm just curious the degree to which that was price versus which specifications of the aircraft they really liked?



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

Well it's really -- there's not much beyond what's in the press for me to comment. The way we see it, they have a -- let's say, an option, if you will, which probably will translate into a firm contract, that's what really is going to happen, out in the future.

We do not see that as a definite conclusion that Sky West will re-fleet all their 700-plus aircraft with the MRJ. So we believe there is a strong demand, in large quantities in the earlier timeframe. And also beyond 2017, which are still open opportunities for the other players among them, ourselves.

We have not -- we have (inaudible) flying with Sky West for a long time and, indirectly, on their Flight Express jet, we also became a supplier of what has been a traditional bargain airline the last several years. So we believe we may have a chance to participate in the rest of the procurement, which is still open, in our point of view.

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

Okay. Thanks a lot for taking my questions.

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

Thank you.

**Operator**

Our next question comes from Carter Leake of BB&T Capital Markets. Please go ahead.

**Q - Carter Leake** {BIO 16268380 <GO>}

Good morning. Thanks for taking my call. Recently you've been quite optimistic about orders that would emanate from North America and we're well versed on scope limitations and the changes that are in play right now.

I was wondering if you could give a little bit more color as to, of the four remaining airlines, US Airways, American, Delta, and United, who could order aircraft, could you give some color on who you think might order, the size that you think the orders could be, and, in particular, if you could actually speak to the scope limits, where you think there'll be? Do you think American will be capped at 80 seats? Do you think United will ever break through 50 seats? Do you think American will end up more like a Delta deal where there are limitations, significant limitations?

But any color on your optimism of the US market would be helpful?

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

Okay. Thank you. What we have that's concrete, so far, is an additional number of larger regional jets, 70-plus-seat size for Delta Airlines. That came in a recent agreement, on top of the union's agreement for them to fly the 717s they acquired.

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So that is concrete and besides that, we have two developments. One an American Airlines (inaudible) that is part of their Chapter 11 discussion with the unions, an increase towards 70-plus seat size. We do not know exactly the number of seats of this 70-plus range. My understanding is that this is a key issue for, let's say, the new American Airlines.

And we also believe that United -- there are some recent communications of United with their pilots and their unions talking about the need to match this trend of other major airlines in the United States to increase the size of regional jets, to partly phase out the smaller ones.

So I think this is how we see it. We believe it will happen within the next 18 months, before the end of next year, probably -- this, again, this now is our opinion that all majors, all those three airlines will have more flexibility and the numbers will be more clear as they really close down their deals with their unions.

So Delta should go, probably, beyond those 70 airplanes. American may represent potentially hundreds of airplanes, because what they have today in their fleet, just ERJs they have more 200 aircraft, (inaudible) turboprops and, of course, United has hundreds and hundreds of regional jets. So a significant portion could be replaced over the next several years and the decisions, probably, will start being made in the next months, within the next 18 to 24 months. This is how we see it.

**Q - Carter Leake** {BIO 16268380 <GO>}

So Delta we don't -- scope is done and the deal we have, so that will just billing up the known orders, and we quantify that. But American, you think, will be in hundreds, but it's fair to say that it could be a split, given that American flies CRJ-700s. And on United, perhaps, if you could clarify -- you think -- I'm curious on your optimism of why you think United, because they're not in bankruptcy, why the pilots would give the absolute minimum that they would have to versus matching a trend, as you say?

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

Well the numbers I gave you were the total demand, of course. They are not what we expect to sell. So yes, definitely there will be -- there will not be a monopoly of supply on the regional jets. There will be winners, more than one. We just think that we're going to take a fair share of that demand.

I'm not sure I understood your question on United.

**Q - Carter Leake** {BIO 16268380 <GO>}

Well I just -- we'll move on from that. Let me move on just on residual value risk, if I could. The Continental Express Jet aircraft, do you still have residual value guarantee risk on those aircraft? And if so, could you give any color as to how that risk might be claimed? For example, are we close to those aircraft entering a window where Express Jet could make a claim?

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

We -- Filippo can help on this one. We do have in our financials a disclaimer of our total exposure in RV (inaudible). I do not believe we specify what airline, but I'll ask Filippo to clarify what he can.

**Q - Carter Leake** {BIO 16268380 <GO>}

Okay. And the last one, on just the quality of the 190, 195 order book. If I look at it, there's a high concentration, if you look at the Conviasa order today, you look at Azul and TRIP, and even though they've made great strides, they're still startups. Does the fact that the order book contains a large amount of sort of young carriers, upstart carriers, carriers that don't fly your aircraft today, does that concern you at all?

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

I don't see that. Particularly those 200 aircraft we have in backlog, they're spread in several different airlines, several different regions, and, very importantly, three or four strong, leading companies.

So concentration -- we probably still have a quantity for JetBlue, which is not a startup, and Conviasa, but that is not a startup, either. It's a flag carrier. That has not been -- they have not been acquiring aircraft for many years, which we see as a plus for us, because we are particularly well positioned after today's order to replace, if not all the narrow bodies they have, a portion of what they have that they can certainly do most of the US -- flights to the United States with the 190. It has the range and the right size for that.

So we're comfortable about our customer base, and it's a very different situation than we had 10 years ago, 15 years ago, on the (inaudible) where you had a handful of customers, the bulk of the orders. So we (inaudible) we have today 60 -- I think 63 operators (inaudible) than last month. So it's beyond the 737 and the A220, it is the largest customer base in the industry.

**Q - Carter Leake** {BIO 16268380 <GO>}

Great. Thanks for your help.

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

Fred and Carter, just to clarify the question, we -- in some reports that we file publicly, we state the amount of guarantee that we have. We do not disclose by customer, and we currently have about \$690 million in total guarantee offers. That's the amount that we have today.

**Q - Carter Leake** {BIO 16268380 <GO>}

And would most of that -- but most of that would be against US carriers, wouldn't it?

**A - Jose Filippo** {BIO 1726218 <GO>}

Yes.

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**Q - Carter Leake** {BIO 16268380 <GO>}

Okay. Thank you.

**A - Jose Filippo** {BIO 1726218 <GO>}

Thanks.

**Operator**

Our next question comes from (Darryl Bunivesi) of UBS. Please go ahead.

**Q - Darryl Bunivesi**

Good morning. Can you comment on your capture rate on the E-Jets after market as compared to the ERJ after market? I was just wondering, based on your agreements with your suppliers if a higher mix of E-Jets versus 50-seaters in the fleet is positive or negative for your services business, kind of peak-out differences and age differences aside?

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

I'm not sure I fully understood your question, but we do have a higher content on the stream, cash-flow stream of the after market in the E-Jet than we have in the 145. Was that your question?

**Q - Darryl Bunivesi**

Yes. I guess I understood that you have probably have a higher cash-flow stream associated with it, just because it's a bigger aircraft, but I'm just wondering if, based on agreements with your suppliers, if you've allowed them to capture a larger share of the after market on the E-Jet, as compared to the previous generation aircraft?

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

Yes. It's a combination of that. We did have, when we developed the E-Jet in the -- 10 years ago, 12 years ago, the negotiation in the procurement we set provisions so we could have a higher participation, so not only volume, because of more sales, but also the intrinsic percentage of our participation in the after-sales support.

That, combined with a strong push in the last few years to really have (inaudible) and for -- to each other from just selling spare parts to really from a nose-to-tail full maintenance (inaudible).

So we are very (inaudible) with inventory, so we are providing -- by providing closer and better support to the airplanes, that also generates demands for our services vis-a-vis a just, let's say, third party just offering spare parts and no comprehensive service offering. So it's a combination of two things.

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## Q - Darryl Bunivesi

Great, thank you. Then just looking on your guidance, can you just provide some color on what's included in your updated margin guidance for the -- for currency, and also what's included for the stimulus?

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

Currency I'll ask Filippo to confirm. As far as the stimulus, we believe it's going to be something like \$30 million in the year. So \$10 million to \$15 million already recorded, so maybe \$20 million more to go, or something.

Filippo, can you confirm the number and also the exchange rate?

## A - Jose Filippo {BIO 1726218 <GO>}

Yes, you're correct, the amount that you gave. And \$15 million to \$20 million of the impact and the -- together with the benefits, and it's stable, the currency is stable. We don't assume that it's going to be increased.

## Q - Darryl Bunivesi

Okay. So roughly 2 the rest of the way?

## A - Jose Filippo {BIO 1726218 <GO>}

Yes, exactly.

## Q - Darryl Bunivesi

Thank you.

## Operator

Our next question comes from Ronald Epstein of Bank of America. Please go ahead.

## Q - Ronald Epstein {BIO 4430430 <GO>}

Yes. Good afternoon. Fred, I just wanted to talk to you quickly about what you're seeing and what you're thinking on the M&A front, especially now after it looks like Hawker was picked off by the Chinese. I mean, is there much out there? What do you see going on, and maybe a second part of the question would be what impact do you think it really has on the industry, with the Chinese becoming more involved through Hawker?

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

Hello, good to hear you.

## Q - Ronald Epstein {BIO 4430430 <GO>}

Thank you.

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

We'll -- yes, let's put it this way. If you (inaudible) to fuel an aggressive move by the Chinese for Hawker-Beech after they acquired Cirrus. They are probably after any assets that can expedite their quest towards becoming a worldwide leader in aviation.

Having said that, we (inaudible) that China is -- there's several different players there. So this new player was also unheard of before this deal, and it's not clear what are the links between them and the actual two large corporations in China in charter aviation, which is Comac and AVIC, how strong are the links or not, in that thing.

So it's a -- I think it's a trend, but, obviously, there is a strategic value for companies like that which are not -- the value is not -- the strategic value is not there for the traditional players for them to favor more aggressive bids from companies like this Beijing Superior company.

We believe the Chinese will be a force in aviation. It is hard to tell when. Though I think if there is no accelerator, it's going to take maybe 10, 15 years.

But there are some shortcuts that they can take, by acquisition, by cooperation, which they would get mobile knowledge on certification and stuff like that. So it's -- I think it's an irreversible move. It's the state's priority and we ought to be prepared for that.

But again, it was not a huge surprise to see this move for Hawker by the Chinese. I don't think that alters the overall market landscape. It certainly does not alter our strategy of organic growth towards a broader (inaudible).

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

Okay. Then, I guess, from Embraer's point of view, or maybe your thinking, what are you thinking about M&A now? I mean, are you still open to it, or -- you've made some small acquisitions in Defense, I guess, over the last year or so. I mean, are you still going to continue to do that? Or how are you thinking about M&A activity?

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

As a means, not as an end. We are constantly monitoring possibilities. I think our main driver is organic growth. We have, let's say, a reasonable capacity in terms of gauging new development and we're very alert for opportunities. So and Hawker, of course, I did mention they had increased our conversations that maybe a few assets that could be of our interest. We did not see such interest at the level of pricing that was disclosed.

So we would not do M&A for the sake of M&A. If it fits into our strategy, complements what we're doing, that's wonderful, as it has done in Defense and we may do some more, but it is not something that we are pursuing by itself, just aiming at growth on the top line.

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

Okay. Great. Thank you very much.

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

Thank you, Ron.

**Operator**

And our final question will come from Turan Quettawala of Scotiabank. Please go ahead.

**Q - Turan Quettawala** {BIO 6362141 <GO>}

Yes. Thank you. Good afternoon. I just had one quick question. Just looking at your E-Jets options here, you have almost \$600 million in options, I guess. Just wondering, Fred, is there any activity going on there which could help you with your skyline here in the near term?

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

Yes. There is. We have some margin activity, not in large volumes, ones and twos. Some are -- some airlines are letting them just expire, and some are exercising them.

So it's a very -- in fact, we did try to model the past performance of the option confirmation. It's very, very hard. It's very dynamic and, of course, there's a strong correlation with the economic scenario.

But the answer to your question, yes, we hope to announce some option confirmation in the next few months.

**Q - Turan Quettawala** {BIO 6362141 <GO>}

Great. Thank you very much. All of my other questions have been answered.

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

Thank you.

**Operator**

This concludes today's question-and-answer session. I would like to invite Mr. Frederico Curado to proceed with his closing statements. Please go ahead, sir.

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

Yes, I stand between yourselves and your lunches, so thank you for participating and talk to you in three months. Take care. 'Bye-bye.

**Operator**

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

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