Q3 2021 Earnings Call

Company Participants

- Antonio Carlos Garcia, Executive Vice President - Chief Financial and Investor Relations Officer
- Francisco Gomes Neto, President, Chief Executive Officer

Other Participants

- Florence Torres
- Jack Ayers
- Josh Milberg
- Marcelo Motta
- Matias Vammalle
- Nicolas Fabiancic
- Noah Poponak
- Ron Epstein
- Victor Mizusaki

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call that will review Embraer's Third Quarter 2021 Results. Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions to participate will be given at that time. (Operator instructions) As a reminder, this conference is being recorded and webcasted at ri.embraer.com.br. This conference call includes forward-looking statements or statements about events or circumstances which have not occurred.

Embraer has based these forward-looking statements largely on its current expectations and projections about the 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, estimate, continue, anticipate, intend, expect, 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 from those anticipated in the forward-looking statements. Participants on today's conference call are Mr.Francisco Gomes Neto, president and CEO; Mr.Antonio Carlos Garcia, Chief Financial Officer and Procurement; and Mr.Eduardo Couto, Director of Investor Relations. I would like now to turn the conference over to Mr.Gomes Neto.

Please go ahead, sir.

Francisco Gomes Neto {BIO 19328044 <GO>}

Good morning, and thank you all for joining our third quarter call today. I hope that all of you are well and safe. Thank you for your interest in our company. As you will see later in Antonio's presentation, our results for the quarter were in line with our internal expectations and with cash generation coming better than planned.

The Q3 results continue to show that our strategic planning and its execution are showing tangible, positive results for the company. Before we go into more financial details on the third quarter, I'd like to touch on some highlights in each of our business segments. In commercial aviation, we delivered nine E-jets in the third quarter, and so far in 2021, we have delivered 32 aircraft in line with our forecast for the year.

We continued to show positive momentum on the order front with another 60 aircrafts in a firm order with SkyWest, leading to book-to-bill in excess of 2:1 this year. Also within commercial aviation, a milestone was reached when Swiss airline Helvetic Airways performed the first revenue-generating flight of the E2 to London City Airport. The ability of the E2 to attend to this strategic airport will allow for further penetration of this family of jets in the European market. In Executive Aviation, we continue to see very good momentum on the demand front, and in the third quarter, this business registered record.

Further, our portfolio of finance and products is sold out through 2022, and into the first quarter of 2023, leading to book-to-bill in excess of 2:1. And this doesn't -- it includes the deal we announced at NBAA in Las Vegas of $1.2 billion sale of up to 100 Phenom 300E aircrafts. Finally, we delivered the 1,500 Embraer executive jet in the third quarter, showing our rapid growth within this industry as it only took us 20 years to reach this milestone, when the rest of the industry players took on average 34 years to deliver that many aircrafts.

On the next slide, we start with the highlights from the defense and security. During the third quarter, our subsidiary Atech delivered an updated version of the Brazilian Air Traffic Management System, which will be able to unify all flight plan processing in Brazilian aerospace. Also, we delivered six Super Tucanos to different customers, underlining the continued demand we see for this market-leading light attack and training trainee aircraft. We also continue to negotiate the C-390 production contract with the Brazilian Air Force, and we will share additional information regarding this matter once it becomes available.

The services and support continues its recovery along with commercial and business jet traffic globally. And we recently were able to attend the MRO Europe event in person a few weeks ago. During the event, we had several sales announcements including a full program support contract with KLM Cityhopper for its entire planned E195-E2 fleet which, at present, is expected to be the largest E2 operator in Europe. We are also proud that the executive aviation services placed first again in Pro Pilot's Product Support Survey for 2021 and was third placed in the AIN survey. Finally, our OGMA MRO subsidiary in Portugal was honored with a top 10 ranking of MRO service centers in Europe for 2021, a great sign as we expected to significantly grow this business in the coming years with exciting new business to ramp up.

On the next slide, with respect to Innovation, we continue to make progress on partnerships in the urban air mobility ecosystem through our subsidiary Eve in a segment with strong growth potential in the years to come. Further, our EmbraerX signed a multiyear agreement with the Republic Airways for the use of Beacon's maintenance coordination platform. Although currently not very large in terms of financial results, we see a very interesting opportunity for Beacon to grow and add new customers over the next few years. EmbraerX also announced a partnership with Pyka, a Silicon Valley company to accelerate the future of autonomous aerial agriculture operations.

This quarter, we are going to start sharing some highlights regarding enterprise excellence. We reached the lowest inventory level since 2018, with a reduction of 22% in the last 12 months. In terms of operational efficiency, we reached an increase of 6.5% and also a reduction of 10% in the production lead time of our aircraft. I will now hand it over to Antonio to give further detail on the financial results, and I will return in the end. Thank you.

Antonio Carlos Garcia {BIO 21338149 <GO>}

Thank you, Francisco, and good morning, everyone. I would like to start with our backlog. We ended the third quarter with a backlog of $16.8 billion. This is up 20% in six months and is the second consecutive quarter-over-quarter increase this year.

Looking at each segment, we have a good sales activity in our commercial aviation business, with another 16 firm orders from SkyWest, bringing total firm orders this year to 64 commercial jets. In executive aviation, a strong backlog continues across the entire portfolio, with record third quarter sales, and a book-to-bill ratio in excess of 2:1. Backlog in services and support also grew from prior quarter's level. In summary, our backlog has reached levels not seen since 2019. This gives us confidence our Fit for Growth plans are working and revenue and profitability will continue to increase.

Moving to deliveries. In the third quarter, we delivered nine commercial jets and 21 executive jets for a total of 30 aircrafts during the period. The nine deliveries in commercial aviation represents 29% increase compared to the third quarter 2020. Year-to-date, deliveries were at 32, 100% increase over the same period last year. Of the 32 deliveries, 17 were E2s. Sales continued to perform very well showing a recovery in our core markets.

Executive aviation delivered 14 light jets and seven large jets for a total of 21 aircraft in the third quarter. Year-to-date, deliveries were at 54, 25% increase over the same period last year. We expect these positive trends to continue with 2021 deliveries of commercial aviation jets reaching between 45 to 50 aircrafts and the executive jets between 90 to 95 aircrafts by the end of this year.

Turning to net revenue. Third quarter net revenue was $958 million, up 26% from the same quarter last year. Commercial aviation revenue growth was driven by higher deliveries, while executive aviation growth was due to a more favorable mix of deliveries. Services and support growth was due to the expanded commercial executive and defense services. Defense also posted a revenue increase due to advances in our main programs and the deliveries of Super Tucanos.

Year to date, net revenue was $2.9 billion, up 50% from last year. We had solid revenue growth as all of our business units posted higher third quarter and year-to-date revenue compared to 2020. We expect fourth quarter '21 revenues to remain strong and we expect to end this year between $4 billion to $4.5 billion in revenue.

Looking at SG&A. SG&A continues to trend favorably over the last seven quarters. Year to date, SG&A was down $48 million or 15% compared to the same period in 2020. As a percentage of revenue year-to-date SG&A was at 9.1%, compared to 16.1% in the first nine months of 2020, down a full 7 percentage points. Selling expenses was up due to increased sales and market activities, demo flights and in-person customer engagements.

Although the trend is up, selling expenses is far below 2021 levels -- 2020 levels, sorry, due to our focus on more cost-effective ways to reach our customers. As a percentage of revenue, year-to-date selling expenses was 5.2%, less than half of the 10.8% level in the same period of 2020. General and administrative expenses were $36 million this quarter, equal to the average of the last seven quarters. As a percentage of revenue, G&A has held steady at 4% in each of the three quarters this year. It's important to reinforce, we remain highly focused on SG&A efficiencies and apply lean principles to our SG&A functions.

Moving on to EBIT and EBITDA. We are very encouraged by the continued improvement in margin performance for the company. For the third quarter, on a consolidated basis, our adjusted EBIT margin was 3.7% and our adjusted EBITDA margin was 8.3%, both up over 9 percentage points compared to the same quarter in the prior year. Year-to-date, margins are similar with adjusted EBIT at 3.8% and adjusted EBITDA at 8.9%, both above last year. On a dollar basis, year-to-date adjusted EBIT was $111 million compared to a loss of $177 million in 2020. And adjusted EBITDA was positive with $258 million, compared to a loss of $63 million in 2020.

In our business segment, adjusted EBIT margin for the quarter were as follows: commercial aviation was at 4.5%, improvement from last year on higher deliveries and improvement mix; executive aviation was at 6.7% driven by a robust price discipline and consistent profitability; defense and security was at 10%, resulting from a good mix of Super Tucanos and KC deliveries; services and support was also at 10.8% with improved service contract performance. Additional expenses related to re-integrations costs, ongoing arbitration costs and other non-business-related costs explain the total company margin is slightly below the business segment average.

These improvements on EBIT and EBITDA margin are results of our Fit for Grow initiatives and enterprise efficiencies. This next slide shows our adjusted net income for the quarter. Adjusted net income was a loss of $1 million or $0.18 per ADS. Although negative, net income is trending up on a trailing 12-month basis, driven primarily by revenue growth and corporate efficiencies.

And as our top line grows, our fixed cost leverage and financial level will improve, providing additional positive impact on earnings. Moving on to investment and cash flow. I'd like to first highlight our remarkable cash flow recovery. Third quarter adjusted free cash flow was a positive $21 million, which was the first time in more than 10 years we generated positive free cash flow during the third quarter given the seasonality of the business.

More efficient inventory management, better production planning, and strong sales and executive and commercial and the down payments associated with the sales have led to our positive cash flow in the quarter. On a year-to-date basis, our adjusted free cash flow was negative $160 million. Although negative, this is far better than where we were this time last year. Looking to the fourth quarter, we expect these positive cash flow trends to continue.

So today, we are taking the opportunity to increase our 2021 free cash flow guidance to positive $100 million or better. We are very happy that only one year after the worst downturn in the aerospace history, Embraer generates positive free cash flow, emphasize not only our top-line recovery, but also results of our cost and working capital initiatives.

Now to investments, our total investments were $56 million in the third quarter and $145 million year to date, both in line with last year. This is important because it shows we continue to balance the need to invest in our future with the need to preserve cash.

This next slide shows our cash and liquidity position. We ended the quarter with $2.5 billion cash and cash equivalent, a slight increase from the prior two quarters. Our debt balance was at $4.3 billion with net debt of $1.8 billion, both had a slight decrease from three months ago. Our average debt to maturity decreased to 3.8 years. We expect to continue to generate cash in the fourth quarter and beyond. So our leverage will naturally decrease. We remain focused on generating cash, reducing our debt level and improve our credit metrics. And of course, lower debt levels, we reduce our net interest expenses and have a positive impact on net income.

Finally, as I mentioned earlier in my remarks, we are increasing our free cash flow guidance to positive $100 million or better. Guidance in all other metrics remain unchanged.

With that, I conclude my presentation and hand it back to Francisco for his final remarks. Thank you very much.

Francisco Gomes Neto {BIO 19328044 <GO>}

Thanks, Antonio. The third quarter and year-to-date results reinforce our confidence in our strategy. During the last nine months, we have just seen the net revenue was up 50% from last year, SG&A expenses down 15% and adjusted EBITDA at 8.9%. All that means, focus and discipline in executing our long-term strategic plan.

In a year of recovery, on top of sales and deliveries, the efficiency gains projects have proved to be a key element in improving the company's performance. The updated guidance with a positive free cash flow for the full year shows not only the good momentum of the company, but also the combined focus on the top line and higher profitability. Regarding ESG practice, we are also making progress on our journey. This quarter, we announced new ESG commitments, which include to be carbon-neutral in our operations by 2040, using 100% energy from renewable sources in sustainable aviation fuel in our own flights.

We will also work together with the suppliers in the whole industry to achieve a net-zero carbon emissions aviation by 2050, developing products based on sustainable technologies such as electrification, hybrid propulsion, and hydrogen. A final note regarding innovation. This quarter, we were awarded by the largest and most prestigious finance newspaper in Brazil, Valor Economico, as the most innovative company in the country among all sectors. It is an incredible recognition for all of those who work to make Embraer a face of excellence in engineering, innovation, and technology.

Thanks to our great team for their focus and passion on creating disruptive and sustainable technologies and executing our strategic plan. We thank you all for your interest and confidence in our company.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question & answer session. (Operator Instructions) Our first question comes from Josh Milberg with Morgan Stanley. One moment, please, Mr.Josh. Florencia Torres with MetLife, you may proceed.

Q - Florence Torres

Hi. Hello, everyone. Thanks for taking my question and congratulations for the results. I have two questions. One is regarding cost. If you are expecting any issue regarding the shortage of supply that everyone is suffering in the coming quarters or any strategy in terms of inventories regarding that? And the other one is regarding target on the leverage for next year, we are expecting to back to the 3x level. Thank you.

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

So for the first part, with regards to shortage, we -- just a moment. With regards to shortage, we -- I would say we are -- for this -- to the end of 2021, we may have some issues, but the material is confirmed. Maybe they will not arrive in time, that's why we're still keep a range when we give the guidance. And for our production planning for next year, we also have the confirmation from our partners, our suppliers. But we are going to follow up on a daily basis, because we know that the whole industry is being affected by the shortage. And what we are doing to some extent, we are also cautiously building up some material, especially where we do see more risks associated with this shortage especially for next year. And your second question, I was not able to understand. Could you repeat that?

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

It's about the leverage, Antonio, if we expect to reach a leverage of 3x next year.

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

We are confident that this year will be net debt per EBITDA around 4, maybe slightly better, and we are confident that we are going to reach the level next year at 3. That's more or less our planning. And just to remind, one year ago, we were at 20 and we should close this year, I would say, four or even slightly below, and next year, having no doubt that we are going to reach the 3. Thank you.

Q - Florence Torres

Perfect. Thank you so much.

Operator

The next question comes from Josh Milberg with Morgan Stanley.

Q - Josh Milberg {BIO 19336060 <GO>}

Hey, everyone. Thank you for the call and congrats on the results. I had several questions on the executive business. And just for starters, with that good book-to-bill that you mentioned and the strong backlog, I was hoping you could talk a little bit about the executive pricing environment. We've gotten some input from the industry folk in recent months suggesting some meaningful upward moves, but it would be good to get your perspective on that. And as a second question, you mentioned being at the Las Vegas exhibition, and I wanted to see if you could touch on the competitive landscape and if you're seeing any competitor product developments that could pose a threat longer term.

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

Thank you, Josh. So I mean the business jet industry is really -- has been really a good surprise for us -- for all of us this year, right? I mean, the business jet industry is growing likely to reach 10% year-over-year in 2021. And this is good for all of us. We have been doing very well with our team and enjoying this market with a good discipline in prices. So which has helped us -- I mean, showing a good result in executive. We do believe -- well, we are sold out until the first quarter 2023, as we said before. We have a great -- I mean in regard to competition, we do believe we have a great portfolio of products with the Phenoms, I mean Phenom 100, the Phenom 300 that continues to be our best seller, but also doing very well with operators, the Praetors, the 500 and the 600.

We do believe in the market -- I mean, in Las Vegas, we do believe that we want to have a soft landing of the demand from 2022 and 2023 onwards with the growth -- average growth close to the pre-pandemic levels of one digit. But so far, I think we are doing very well in the executive market.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay, that's helpful. And good to hear that you sort of -- you see a soft landing, because this is an industry that's seen a number of false starts in recent years. And there's the issue, of course, of how much COVID has been boosting your performance there and the overall industry performance. If I might just squeeze one more question in on the commercial side, just wanted to hear a little bit about how your campaigns have been evolving there and how you're seeing the 2022 delivery scenario at this point.

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

Okay. It's still above the executive jet. I mean, we have other reasons to believe that this -- in this soft landing, I'd say, right? I mean the wealth -- the global wealth growth, the economic activity, and the market liquidity, also the pre-owned market, that is one of the lowest levels ever, right? We are below 5% in the normal levels, 5% on the fleet in operation. The levels -- normal levels used to be double of that.

And this -- and I also know that the first-time users and first-time buyers in this market also are good indicators that we are in a different level. It's not that we are growing not only because of the COVID, but there are other reasons for that, right? Regarding the commercial, we are also optimistic with the market. I mean, the E1, I mean 100% of our E175 fleet is already back in service. And this aircraft has been fundamental to support the market recovery.

So our market intelligence has indicated that there are over 500 aircraft in North America to be replaced in the next 10 years and our E175-E1 is the only scope-compliant aircraft in production today. So good perspectives for the E1. And also the rightsizing post-COVID is going to benefit our E2s. I mean, we have a strong sales activity. I could say that we have a triple-digit number of aircraft under activity commercial discussions. And also, this increased pressure from environment, CO_2 reduction, puts our E2 in a very good position as we have the most environmentally friendly aircraft in that category.

So because of that, we are really optimistic with -- also with the Commercial Aviation for the next years.

Q - Josh Milberg {BIO 19336060 <GO>}

And you're saying that -- I mean -- and just to add a point here, I mean, on the E2 having this ESG angle, I mean that very sort of angle does not, in any way, kind of pose a threat to the E1 just given that -- the lack of alternatives at this point even with high oil prices being where they are from your standpoint?

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

Could you please repeat that, please?

Q - Josh Milberg {BIO 19336060 <GO>}

Well, I was just making the point that, I mean, you're highlighting the environmentally friendly driver of the E2, and just wanting to raise the question of E1 being sort of a last-generation aircraft and high oil prices today that that in your view does not in any way threaten demand for the E1 just because there are no alternatives?

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

Well, I think short term is the perspective we have for E1s. But in parallel, we are still working in the new alternatives. I mean the turboprop new generation is one of them. We have seen stronger interest from customers on that project. And everything is going well for a business plan for that aircraft to be approved by the second half of next year. And we consider with the E175-E2 as well. So we have to continue working that project.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay. Really appreciate all the perspective.

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

And Josh, just to complement one point here in regards to the planning for 2022, you saw in my speech, we sold 64 commercial jets and it should be something -- slightly above 60 aircrafts for next year, something like that. Just to give your memory is to confirming with the suppliers with the customer. But just to give you a perspective, it's more or less where is yourselves next year.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay. That's good visibility. Really appreciate it.

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

Thank you, Josh.

Operator

Our next question comes from Ron Epstein of Bank of America.

Q - Ron Epstein {BIO 15893287 <GO>}

Hey. Good morning, guys. A couple of questions. So the cash flow in the quarter clearly was good. Now in the past, it's been lumpy. So I mean, how should we think about cash flow going forward? Is this a trend towards better cash flow on a more consistent basis? Or is this more of a one-time thing?

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

Ron, this is Antonio speaking. Thanks for your question. As I mentioned in previous calls, we do see, I would say, the cash flow generation on a sustainable base. I would say, in a mid-term perspective, we should be able to show free cash flow, I would say, 50% of our EBIT for the first beginning. That's more or less the $100 million that we are disclosing right now and it's assuming the growth that we are in the recovery here, that should be more or less following for the coming years. It's more that our projections are telling us. We are, I would say, quite diligent for investment in the new products, we know even -- into more details and highly focused on cash generation for the legacy business. New business, we need to find alternatives to not compromise the legacy business we have in the company here.

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

And if you allow me to complement that, Ron, it's Francisco speaking now. We also continue to work on actions to reduce the inventory, to increase the turnover of our inventories, and to reduce the working capital in our operations. So all of these activities, combined with the growth will -- makes us to believe that -- make us to believe that we will continue with this good performance in cash generation.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it, got it. And when you think about EBITDA margins, how should we think about where those could go as you work through the efficiency programs? Is there sort of like a notional target we could think about as investors?

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

Ron, for sure, to date and no-brainer, we are close to 8.9% year to date. That should be, I would say, in the long run, we do see ourselves between 10% to 15%, but it does not mean that we are happy with those numbers, but it's already a good sign for us. It's more or less our long-term planning.

Q - Ron Epstein {BIO 15893287 <GO>}

Okay. So if we were to think a range 10% to 15%, that's a reasonable range, and could potentially maybe even higher depending on how things go.

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

Yes, absolutely. And we do see the recovery in the commercial aviation slowing down coming back 2023, '24, let's say, it's more value to monetize, but it's going to take longer because of the recovery of the commercial jets.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it, got it, got it. And then maybe on that front, on the commercial jet front, what are you seeing in terms of sales, campaigns, activity? As we start thinking about 2022, how do you think that year could -- and I know you haven't guided yet for 2022, so I'm not really asking you for that. But just broadly, do you have a sense on how 2022 from an order activity front could appear for the E-Jets?

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

Well, Ron, I think, as I said before, in the answer before, we see good perspectives for the E175-E1s because of the quick rebound in the U.S. market for domestic flights, very good opportunities we have in the next years. In the E2s as well, as I said before, we are working in a lot of our commercial campaigns. And this rightsizing post COVID, this increasing pressure from environment, this puts our E2 in a good position. I mentioned also this first experience of the Helvetic Airways in the London City. I mean, many things are happening that we believe will put our E2 also in a good position for next year onwards. We are optimistic with both of those products.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it.

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

Ron, I just want to come back to the EBITDA margin issuance. It's important to mention if you see the Q3 and we try to give you guys information in order that you do the math, because we do -- as you know, we have some costs that we are handled in a central way, in the corporation, without affecting the margin of the business units, like the integration of the Commercial Aviation, arbitration costs, and we are still restructuring the company. And I would say, we are today, without this, already above 10%. But we are not adjusting, because we don't want to disclose those numbers. But without this, we are already above 10% today.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it, got it, got it. And then maybe just one last question, if I may. On the -- there's been a lot of discussion around the potential of maybe a new turboprop, a new platform. Where does that stand?

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

Well, Ron, as -- also as I said before, I mean we are seeing a very strong interest from customers, I mean, suppliers and also investors in that product. And everything is going very well for the business plan approval by the second half of next year. So we are also very optimistic with this - the development of this product -- of this new product.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it, got it. Thank you very much.

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

You're welcome, Ron.

Operator

Our next question comes from Victor Mizusaki with Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. First, congrats for the solid results. I have two questions here. The first one is related to the -- to guarantee deposits, right? I mean, we saw a material increase in the third quarter. So I'd like to know if it could make sense for us to talk some of that commercial car delivers for 2022? I mean, if we compare what happened this year with guaranty deposits and delivers, if we try to estimate what could happen in 2022, that maybe the company could deliver more than 60 aircraft next year, commercial aircraft? And the second question is related to provisions. I mean the write-off that the company booked in the third quarter. When we take a look into audit figures, we can see a write-off of BRL33 million. So I don't know if you can give additional details. Thanks.

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

Hello, Victor. Thanks for your question. Let's say, start, from the answer to the provision side. We have some movements in our obsolete materials that we are selling right now. That's why we did an adjustment in Q3. It's not a big issue. It will come back in the coming months as soon it gets the material sold and delivered. And I would say we do have a chance to be above 60, but we are -- continues to discuss shortage management, especially the suppliers in order to make sure that we will be able to fulfill the cost.

The situation is not, let's say, first starting different industry like automotive, but we are seeing right now that, assuming that we are picking up, our competitors are picking up that we may see more restrictions that we are seeing today. But we do have space to be above 60 and we are going to guide -- give a guidance for 2022 in our next call.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you. And Antonio, if I may, just a quick one. You mentioned some expense with the arbitration process with Boeing. Can you give any kind of update on this matter?

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

Yes. Unfortunately, we are not able -- not allowed to give too much detail, and that's why we are not adjusting the cost. Or you could do the math in a different way, but we are -- what I can tell you, we are in the process to continue, and next year would be more or less, I would say, a kind of important year for the arbitration. But it's going to take more two years, I think.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

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

Welcome.

Operator

The next question comes from Marcelo Motta with J.P. Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Hi, everyone. Thank you for taking the questions. Two questions as well. First, if you guys could provide any update regarding Eve and the eVTOL business. I mean we all know the material fact that the negotiation is going. So just wondering how you guys feel about the negotiations, if there have been any bottleneck or anything that might be leading to a lower-than-expected conclusion for that. And the second question is regarding services and support. I mean, the segment continued to show a very strong growth, continued to have solid margins. You announced several agreements during the quarter. So just wondering if you guys can provide us some expectations on how much this line could grow or how much those new agreements have been adding to revenue or how much they could add in revenues in the mid-term.

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

Thank you, Marcelo, for the questions. The first one regarding EVE, what I can tell you is that negotiations with our partner Zanite are ongoing. But we cannot comment further. The company will keep the market informed of any relevant developments of this operation.

About the second one, yes, you are right, I mean, our services and support area is doing very well. It's enjoying the return to operation of our aircraft, both in commercial and executive business. And we have -- yes, we have good plans to grow further in that area, not only with Embraer aircraft market, but also in the non-Embraer aircraft market. We have, as we said, in the previous call, we signed an important contract with Pratt & Whitney for the GTF engine maintenance in Portugal.

It's a multi-billion contract. And this will allow us to grow that operation in Portugal, I mean almost triple the revenues in the next years, and this will help our service at Embraer as well. So again, we have very good prospects and opportunities to grow our services and support area.

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

Two-digit growth --

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

Yes. Two-digits growth, every year, exactly, for the next five years.

Q - Marcelo Motta {BIO 16438725 <GO>}

Perfect. Thank you very much.

Operator

The next question comes from Noah Poponak with Goldman Sachs.

Q - Noah Poponak {BIO 16071528 <GO>}

Hi. Good morning, everyone.

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

Hi, Noah.

Q - Noah Poponak {BIO 16071528 <GO>}

The commentary around being sold out next year on executive deliveries, at what level of delivery is that the case? And that being sold into the first quarter of 2023, how -- what do you want that lead time to be on a sustainable basis?

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

Noah, thanks. Thanks a lot for the question. I mean, as I said, well, we are sold out through the first quarter 2023 actually. So our team is doing a great job enjoying this good momentum in the market. So we are still -- we are working this production plan for next year, but we do believe it is still in another two-digits growth for next year. And as I said before, we believe in a soft landing of the demand from '22, '23 onwards, I mean, with a growth average close to the normal pre-crisis that would be one-digit growth. And because of many reasons, as I said before, the wealth growth, the pre-owned fleet and the new users and new buyers that are coming to this market. So this is our view on the executive market.

Q - Noah Poponak {BIO 16071528 <GO>}

Okay. So you're planning for double-digit growth in units 2022 versus 2021?

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

Correct.

Q - Noah Poponak {BIO 16071528 <GO>}

Can you tell us what -- do you happen to have the number on the exact book-to-bill in executive in the quarter? I know you said it was over two, but if you just happen to have that precise number, that would be helpful.

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

As I said before, it's in excess of 2:1, the book-to-bill.

Q - Noah Poponak {BIO 16071528 <GO>}

Okay. And just to confirm the cash flow conversion target you're referring to, 50%. That's EBITA, E-B-I-T-A, as opposed to EBIT or EBITDA?

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

Noah, for the first beginning -- it's EBIT operating results, 50% commercial, for the first beginning, recall regarding (inaudible) with upside potential, but I do see today in a short term 50% what we generate in regards to EBIT, not EBITDA.

Q - Noah Poponak {BIO 16071528 <GO>}

50%, free cash flow to EBIT?

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

Yes. Because we are still having a higher interest cost in our company, it was a company two, three years ago at $6 billion revenue. Today, are at $4 billion revenue. And we still have this issue of being able to generate enough, I would say, business size in order to be able to compensate the interest. That's why I give you, for the time being, these metrics. But I promise you guys, I'm going to refine this number for the next call.

Q - Noah Poponak {BIO 16071528 <GO>}

Okay, great. Okay. Thanks so much.

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

Thank you.

Operator

The next question comes from Jack Ayers with Cowen & Company.

Q - Jack Ayers {BIO 22370508 <GO>}

Hey, guys. Good morning. This is Jack on for Cai today. Thanks for the question. I guess just previously following up on the margin commentary, it looks like your guide implies EBITDA margin improving sequentially from Q3 to Q4. I guess if you could just talk about or provide a framework for how we think about Q4 margin by segment. Like is it defense, biz jet, I think your guide implies Q4 biz jet deliveries sort of expanding here in Q4. If you could just provide some color around the key sort of moving pieces around margin there would be helpful. And then on just backlog and book-to-bill, specifically this quarter, if you could provide what the defense and commercial backlog was, that'd be great.

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

Thanks, Jack, for your question. If you see today, our year to date either EBIT or EBITDA margin, we are at, I would say, at the high end of our guidance. We do see for Q4 highly driven by executive aviation, because we do have, I would say, more or less 6 -- 40% of the delivery is going to happen in Q4. That's the first point.

Commercial aviation is more or less close to breakeven. Then services and support, also then with upside potential. We do have difference at the same level, but we are cautious on the EBIT and EBITDA margin guidance, because we are still negotiating with Brazilian Air Force, the contract -- the current contract of the KC. We may have some risks that I don't want to say -- saying that we are going to improve it, because we still have a challenge here to end of this year. That's why we decided to keep the EBIT and EBITDA guidance at the same level.

For sure, today, we are much better, but -- in the high end, but we do have a challenge to end up this fiscal year. And in regards to the backlog, defense on the quarter, we have, I would say, added no new contracts in defense, in just a moment here, the U.S. defense and commercial. In commercial, we added the 15 SkyWest that we booked in Q3 on the backlog.

Q - Jack Ayers {BIO 22370508 <GO>}

Got it, got it. And then I guess just as a follow-up to cash, it looks like you're increasing your cash guide for full year. What about '22 cash? Llike how we should think about that growing off of this '21 base? And is that really just a function of volume and deliveries?

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

Yes. We do see for next year all cities range between $100 million to $200 million. I don't have to give our guidance right now. But we -- assuming that we are coming back to, I would say, not pre-pandemic level, but slightly below the pre-pandemic level, we should be able to keep between $100 million to $200 million, because we continue in the efficient, problem is not only driven by delivery itself, but everything you are doing with regards to inventory management, purchasing, improving the working capital, we still have, I would say, a potential to improve this figure that we are seeing right now.

Q - Jack Ayers {BIO 22370508 <GO>}

Great. Thank you so much.

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

Okay.

Operator

The next question comes from Matias Vammalle with BlueBay Asset Management.

Q - Matias Vammalle {BIO 21300524 <GO>}

Hi. Good afternoon. I think a big part of my questions have been addressed, but just piggybacking on the most recent one. Again, just trying to think about working capital into next year as I see some offsetting forces. On the one hand, you have fairly low inventory levels right now and we're seeing increases in a lot of input costs. And to the extent that you see some upside in your potential deliveries next year, I would imagine inventories can be a bit of a drag on working capital. On the other hand, you're seeing better-contracted liabilities. So again, just trying to understand perhaps the different push and pull dynamics of your working capital. If you could just comment a little bit on, again, your expectations on inventories kind of going forward, and if you think that can be offset by other work.

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

Thanks for the question, Matias. And this is a good opportunity to meet -- to share with you guys those other activities we are doing. So first of all, our five-year plan is focused on the sales of the existing product portfolio. And we do have, as I said before, the potential to almost double this -- the revenue of the company in this period, focusing on the existing portfolio of products.

We -- last year, we went through an important rightsizing program of this company. And also we started to focus on important initiatives to reduce the cost of our aircraft to focus on improving our accounts receivable and to increase the turns of our inventories. We have the target to almost triple the turns of our inventory turnover in the next three to four years. So again, I mean, with all these activities, rightsizing the company, to reduce the cost of the products, to reduce the expense, to manage responsibly the SG&A of the company, going to a period of more growth that we expect from 2022 onwards, then we expect that we'll improve our financial performance either in the profitability, and more specifically, in the cash generation as well as stated by Antonio before.

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

Just to complete, Matias, we -- if you ask me today, we continue in the crisis mode here. We know about inflation, high inflation in Brazil or worldwide with the raw material too. We are -- we have the -- and the contracts backing in regards to pass through, I would say, and we continue to run efficiencies in our productioning or back costs in order to offset any additional deviation we may have.

Q - Matias Vammalle {BIO 21300524 <GO>}

Perfect. Thank you very much.

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

Okay.

Operator

The next question comes from Nicolas Fabiancic with Jefferies.

Q - Nicolas Fabiancic {BIO 17380195 <GO>}

Hi. Thank you, guys, for the call, and congratulations on the results. Just a quick one here on the rating agencies. After these strong results, the strong recovery, it's notable to us that the three agencies still have you on negative outlook. Doesn't seem to make any sense. We actually think that there's a credible path here back to investment grade. So just wondering what's the latest in terms of conversations with them, timing with the agencies. And then on liability management, you guys mentioned the level of interest expenses and sort of thinking about reducing gross debt.

How would potential issuance fit into those plans may be coming back to the market opportunistically with a new 10-year? And specifically, I wanted to ask around the ESG agenda that you guys mentioned. Clearly, we've seen a lot of Brazilian corporate focus on ESG and doing things like sustainability-linked bonds. So is that something that you guys are already starting to think about? Thank you.

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

Nicolas, thanks for the question. I start with the rating. We just take, for example, Fitch. We are one notch below investment grade. The last week, the report this year, then this was negative. They already changed it to stable. And I do believe we are going with the new information we are providing, they are going to put in the positive trend. And it's my hope that we get back our investment grade in 2022, most probably end of 2022.

That's the first question. And for sure, we are -- with regards to universal liability management, we are discussing, and Q3 will be the basis for the debt market to go to refinance our debts and increase the length for maturity level. That's also in our agenda. And these bonds will be a red ESG bond, a green bond.

Operator

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