

## Q3 2017 Earnings Call

### Company Participants

- Eduardo S. Couto, Head-Investor Relations
- John Slattery, President and CEO-Commercial Aviation
- José Antônio de Almeida Filippo, Chief Financial Officer, Executive Vice President, Finance & Investor Relations

### Other Participants

- Cai von Rumohr, Analyst

## MANAGEMENT DISCUSSION SECTION

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

Good afternoon, everybody, and welcome to the Embraer Third Quarter 2017 Earnings Call. This conference call is being held during our Embraer Day in New York with the presence of investors and market analysts. So, thank you all for coming. At this time, we'll present the third quarter results and the financial outlook. Afterwards, we will conduct a question-and-answer section and instructions to participate will be given at that time.

Thank you all that are here attending our event live. It's a pleasure to have you all here. As a reminder, this conference is being recorded and webcasted at [ri.embraer.com.br](http://ri.embraer.com.br). This conference includes forward-looking statements or statement about events or circumstances which have not occurred. Embraer has based these forward-looking statement 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 others, general economic and political 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 those 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 Paulo Cesar de Souza e Silva, our President and CEO; José Filippo, Chief Financial Officer and IRO; myself, Eduardo Couto, Director of Investor Relations. We also have John Slattery, Commercial Aviation; Michael Amalfitano,

Executive Aviation; Jackson Schneider, Defense & Security; and Johann Bordais, Services & Support.

Now, I would like to turn the conference over to José Filippo, our CFO. Please go ahead, Filippo.

## **José Antônio de Almeida Filippo**

Thank you, Eduardo. And welcome again to our third quarter 2017 earnings results and financial outlook. Starting with the highlights of the third quarter in page 4 with the Commercial Aviation; we delivered 25 E-Jets in the third quarter of 2017 and, September-to-date, we have 78 deliveries in Commercial Aviation, E-Jets. As far as commercial activity we had two new orders from SkyWest in the quarter for a total of 45 E175, and information that AerCap placed five E190-E2 with Air Astana.

Continuing with Commercial Aviation, an important milestone related to the E-Jets program that reached 1 billion passengers transported since the entry into service. Regarding services activity, we launched the first Embraer full training centre in Johannesburg, South Africa.

And finalizing the highlights of Commercial Aviation: an update on the E2 development program with information of the successful conclusion of the simulated ice and cabin evacuation tests; the confirmation of the first delivery of E2 aircraft to Widerøe set for April 2018; and the achievement of 80% of the campaign for E190-E2 certification.

Moving to next page: highlights of Executive Jets; we delivered 20 executive jets in the third quarter, broken by 13 light jets and 7 large jets. And we have until the third quarter of 2017, 59 deliveries. In those deliveries, we included the first delivery of the Legacy 500 produced in Florida, and the delivery of the first new Legacy 650E to Air Hamburg.

In terms of production development, we launched at the recent NBAA, the new Phenom 300E featuring new interior design. Regarding customer satisfaction, Embraer was ranked number one in customer support for the second consecutive year by AIN. And concluding the highlights of Executive Jets, in relation to our organization, we appointed Steve Friedrich as our new CCO.

Next page, page 6: Defense & Security highlights. In terms of commercial activities, the first in relation to the Super Tucano, we signed orders for 12 aircraft including 6 Super Tucanos for the U.S. Air Force that will be operating in Afghanistan and 6 others to an undisclosed customer. The U.S. government also approved the sale of 12 Super Tucanos to Nigeria.

Regarding the potential OA-X opportunity, the Super Tucano fulfilled all mission requirements for the U.S. Air Force initial capability test. In relation to the KC-390 campaigns, Portugal continues to advance with contract negotiations for five units. And the update of the KC-390 program development, certification is progressing with two

FINAL

Bloomberg Transcript

prototypes with more than 1,450 hours operation. The delivery of the first KC-390 is scheduled for the second half of 2018.

Next page: after the highlights of the business units, now moving to the financial results. And going to page 8, which is the firm order backlog, we ended the third quarter of 2017 with backlog of \$18.8 billion, an increase of \$300 million when compared to the previous quarter.

Next page, as far as deliveries, starting with Commercial Aviation. In the left-hand side of the presentation, we delivered 25 aircraft in the third quarter. It's now 78 to date as of September. In relation to Executive Jets, delivery of 20 aircraft broken by 13 light and 7 large and accumulated as of September of 59 in the year, broken by 40 light and 19 large planes.

We take the opportunity to confirm our expected outlook for 2017 of the range of 97 to 102 aircraft for Commercial Aviation, and 105 to 125 aircraft in Executive Jets.

Next page, regarding revenues. We reported a total of \$1.3 billion in the third quarter of 2017 and accumulated of \$4.1 billion in 2017. Revenues by business in third quarter were \$846 million in Commercial Aviation, \$267 million in Executive Jets, and 190 million in Defense & Security. For the total individual business revenues outlook, we are maintaining our estimates for 2017.

Next page, page 11, SG&A expenses. We had in the third quarter, the total of \$116 million in SG&A expenses, lower than the previous quarter and last year. The reduction reflects our focus on cost control and in relation to G&A, it was negatively affected by a one-time expense which will not repeat in the following quarters. As of September 2017, the total SG&A expenses achieved \$355 million.

Next page. In relation to adjusted EBIT, we reported a gain of \$69 million in the third quarter with margin of 5.3%. When we break our margin by segment in the quarter, we have Commercial Aviation with 13.8%, Executive Jets of negative 11%, and Defense with negative 8.5%. In Executive Jets business, the margin was negatively affected and impacted by the lower deliveries and unfavorable mix. Despite those negative figures, we identified gross margin price improvements when compared to the previous quarters. In Executive Jets, given the typical seasonality, we expect a strong fourth quarter returning to a full year margin to breakeven. In Defense margins, we have negatively impacted by cost base revision and scope reduction in the modernization programs. For the full year, we expect low single-digit positive margin. For full year 2017, we are confirming our outlook expectations of \$450 million to \$500 million (sic) [\$550 million], and 8% to 9% margin, more towards the low end of the range.

Okay, next page. Adjusted EBITDA, we had \$143 million in the third quarter with 10.9% margin. As of September, the accumulated EBIT - EBITDA reached \$492 million with 12% margin. For the full year, we are maintaining our estimate of the EBITDA from \$770 million to \$890 million and 13.5% to 14.5% margin.

FINAL

Bloomberg Transcript

FINAL

Next page, page 14. Adjusted net income was \$70 million in the third quarter - sorry, \$75 million in the third quarter with 5.7% net margin. Year-to-date adjusted net income reaches \$221 million with 5.4% margin.

In page 15, investments. Total investments as of September 2017 were \$398 million, broken by \$32 million in research, \$259 million in development, and \$107 million in CapEx. Our investment outlook for 2017 remains for \$650 million.

Next page, adjusted free cash flow. We had the consumption of \$23 million in the third quarter reflecting the operating cash generation. For the full year, we are maintaining our estimates of maximum consumption of \$150 million, but we believe we can do better.

Page 17, regarding our capital structure. As of the end of the quarter, we had a total debt of \$4.3 billion with total cash of \$3.6 billion, returning to (13:00) net debt of \$753 million. Our debt average term was 6.1 years at the end of the quarter.

Okay. With that, we conclude the financial results of the third quarter and turn to the discussion of the financial outlook.

Next page, in page 19, we would like to reiterate our outlook for 2017. However, we would like to mention that we may finish the year at the lower end of EBIT margin range, and in terms of free cash flow, we may be better than the consumption of a \$150 million maximum indicated.

Next page. As we consider that 2018 will be a transition year, we would like to present the preliminary outlook for the year. In terms of revenues, we are indicating the range of \$5.3 billion to \$6 billion. For deliveries, the range of 85 to 95 commercial aircrafts and 105 to 125 executive jets. EBIT is being estimated from \$265 million to \$360 million, with margin range between 5% and 6%. Free cash flow should be a consumption of \$150 million or better.

Next page, we highlight the short-term headwinds that we believe will affect 2018 results, which includes the ramp up of the E2 program, the final development of that program as well, the Commercial Aviation delivers below the level of a 100 aircraft, a soft biz jet market, and also constraints of Brazilian budget that is affecting the business. However, when we see the mid-term, we anticipate meaningful gains in our profitability and cash generation related basically to the complete development of the E2, the levels of above 100 aircraft for deliveries in Commercial Aviation, expectation of an improvement in the business jet market, high revenues from service, KC-390 international opportunities as well as Super Tucano opportunities, the phase of production of the KC-390, and a more normalized CapEx.

Also, we have in place a cost control and cut program which includes basically tools like zero-based budget, digitalization, cost management, and organizational design. Those initiatives will contribute to the performance improvement.

With that, we conclude the presentation of the third quarter results and the financial outlook and we turn into the Q&A section. Thank you.

## Q&A

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

Yeah. Just for the Q&A instructions, if you are in the audience, just raise your hand. We have mics on the room. If you are on the phone just press star one in your phone. We'll start with the audience. So, just raise your hand and then we can start.

Thank you. Good afternoon. Filippo, the EBIT margin guidance for next year, the 5% to 6%, I imagine the bulk of that pressure is the transition in Commercial with the E2. But what is that consolidated 5% to 6% contemplate as far as Executive Jets and Defense?

### A - José Antônio de Almeida Filippo

Okay. In terms of Executive Jets, we still see a soft market. So, we keep in a flat level of the market and the deliveries as well. We still have improvement in terms of the manufacturing system. We're moving into the Florida facility and that, for us, is still a process of positioning our product into the levels of price and margin, which I already mentioned that this quarter we already saw an improvement of that. So, if you see, we don't give this information, of course, is sometimes you cannot see internally, but we can tell you that even prices and gross margins were improved if you compare by module from quarter-to-quarter, not last quarter to this quarter. So, we think that's a positive indication, but we still see the market soft. So that's not enough for us to really have a difference in terms of the contribution.

In terms of the Defense, we're still in the phase of developing. We're just starting the manufacturing of the aircraft KC-390. As we indicated, we plan to have the first delivery next year, but that brings all the inefficiency of the learning curve of the manufacturing side. So that's basically the combination of the other businesses that will not be able to offset the level of deliveries in Commercial Aviation.

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

Okay. Thank you. And if I could just ask a quick related follow-up, I think the cash flow guidance for next year, which is similar to where you see this year shaping out is probably pretty in line with what our expectations were, but I think on a lower EBIT margin range than what people were expecting. So, where's the offset? Is it on the other working capital, is it on the investments?

### A - José Antônio de Almeida Filippo

It's basically the investment in the E2 that we get to a phase where we have lower investments, the peak of the investments were basically this year and last year, so we still - we start to see a reduction in the level of investment that can compensate that. That's basically why we're setting the same level this year.

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

Okay. Thank you.

Good morning. Could you give us some more color on the \$50 million roughly loss in the other column this quarter in terms of how much of that is just ongoing corporate expense. If we exclude all one-timers going forward into 2018, what's a normalized level for corporate expense?

**A - José Antônio de Almeida Filippo**

Normalized corporate expense, I think we should consider about \$30 million to \$40 million.

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

Per quarter?

**A - José Antônio de Almeida Filippo**

For that quarter, we had an impairment impact which it sometimes happen, this is not a recurring thing, but because of the way you have to account, sometimes they have this impact. Also some IT expenses. Those we had integrated into (19:38) the system that we have to incur the debt. And the - and basically other corporate projects, but we don't see that as being like the trend for that. So, typically, like I said, we could use like \$30 million to \$40 million will be a decent level for that.

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

Okay. And then just on, in - biz jets have been weak year-to-date, you've kept your guidance. How many are in backlog already? How many of you slots are sold for the fourth quarter? Just want to get a sense of the risk there and is that the major governing factor to your - the width of your EBIT margin guidance of 8% to 9%, or are there are other factors?

**A - José Antônio de Almeida Filippo**

What - we don't see different that we saw before, they're same level, the challenging market, short-term decisions from the customer. So, the backlog is not a large backlog that we're going to - as we saw recently, when we - in the end of the year that - when we released the backlog by business. It's a smaller piece of Executive Jets, that's basically because the decision on the customer is more short-term. So, it's not - I don't think this is the best that we have seen this, but it's more like the typical dynamic of the market today.

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

Is that the - is that the major factor to the width of your EBIT margin guidance? 8% to 9%, whether it comes upper end of biz jet range or lower end of your range?

**A - José Antônio de Almeida Filippo**

Yes. Correct. That scenario is still what we see for 2018.

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

Okay. Thank you.

Thanks. Filippo, on the cash flow for this year. Have you ever had a fourth quarter where it's a negative cash flow?

**A - José Antônio de Almeida Filippo**

That's right.

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

It implied as, I think, that's a negative \$150 million. I'm not sure you've - Embraer's ever had a negative fourth quarter cash flow. So, I'm just wondering is there - what's the level of conservatism there, so it seems like it would be well north of positive?

**A - José Antônio de Almeida Filippo**

Yeah, well, the - like I said, the guidance is better than \$150 million. We indicated that we believe that not going to be in the lower end of this guidance. Fourth quarter is typically stronger than the others. What we have here is of course some investments that we had the contribution of suppliers, mostly in the beginning of the year. So, we don't have this in the end of the year. And also, that we may have to - in the ramp up of the E2, as we start to produce the E2 next year, there's going to be some working capital that will be required for the E2 program. That's why we didn't revise in that, but we indicated and I think we can believe that and expect that we can be better than that limit.

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

Okay. Okay. And then, the margins as you look beyond your mid-term, the pretty steep ramp, is the chart graphically accurate? Can I take a ruler? But can you give some color, what is mid-term, is it 2019?

**A - José Antônio de Almeida Filippo**

It's something - for two years to three years.

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

Two years to three years.

**A - José Antônio de Almeida Filippo**

And the margins could be like a high single-digit...

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

Okay.

## A - José Antônio de Almeida Filippo

Low double-digit - in that range.

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

Okay. Thank you.

I was wondering, if you can give a little bit more color in terms of 2019, because the E2 production ramp will probably be going up, you'll have more deliveries of E2s in 2019, but you probably get a bit of a learning curve impact as you kind of - as you work through it. So - and then maybe just, you've had a bit of a better biz jet market. Does that sort of triangulate to flattish margins into 2019, or do you think there's more pressure in 2019 as well?

## A - José Antônio de Almeida Filippo

No. We don't want to give some specifics for 2019. I think at this point we're trying to elaborate a little bit more on 2018 because we really think this is not a typical year. And going forward it's more like the view of the mid-term rather than do specific in 2019. Of course, all of those, what we call the tailwinds, that we highlighted there would be contributed to this and we believe like, in two years to three years we have an abnormal situation, if you will, that we can compare to the years that we had before without those typical effects that we'd be facing these days. But basically, we don't want to be specific on a next year, I mean following to 2018.

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

Thank you.

Maybe we would take a question from the phone? We have a question from Cai von Rumohr from Cowen. Cai?

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

Yes. Thank you. Thank you very much. So, Filippo, maybe you could give us some color on next year, in terms of what are the milestones we should look for to tell us that the E2 is improving or the KC-390 is improving? And secondly, you're assuming the margins go down fairly substantially, is that likely to be a bigger dip in the first half and improvement in the second half relative to your normal pattern? Or does it get worse relative to the normal pattern as we go through the year? Thank you.

## A - José Antônio de Almeida Filippo

Okay, Cai. Thanks for the question. Cai, I believe that we're going to have, of course, the same seasonality of the business that we had before. So no - of the margins, normally, in the beginning of the year tends to be lower than the end of the year, specially the fourth quarter. But we don't believe that's going to change for next year. We planned and we expect to be about 10% deliveries next year related to the E2 and that brings this inefficiency that we just mentioned about the learning curve for that. And we would know

FINAL

Bloomberg Transcript



if the program is doing well, if you follow the certification process, if you follow the capacity for us to start to manufacture, and I think that's basically how we see next year.

And again, we're calling it level of 100 aircraft which is a level that we've been seeing recent years, that next year because of the estimate that we've just send out we're going to be lower in that amount. So, that's also the dilution of fixed costs is going to be impacted with that, and we will need to have an increase in production going forward due to the increasing revenues - or sorry, increasing deliveries up in the mid-term that that we mentioned. So, that's basically, (26:23) exactly what you ask that's basically how I see this trend in the short-term.

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

Thank you.

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

Good afternoon, gentlemen and thanks for the time. Two questions for you. When we think about the margin on the E2, is there any plan to include gains from risk-sharing partners as you did back in 2004 with the E-Jets rollout? And then the second question pertains to the Brazilian budget, I mean maybe it's obvious but - excuse me - if you could give us maybe a little more detail as to where the process is now on the KC-390 and versus where you thought it was?

**A - José Antônio de Almeida Filippo**

Okay. Thanks, Steve. In terms of the contribution for the risk-sharing, we're already having this during the development phase. So, it will follow typically how we do in terms of develop - I don't there is something we should change now. This is what they reflected in the situation today and the problem itself. I don't think there's something we should expect differently now. In terms of the Brazilian budget, of course, this is a common information about the restriction they're having.

However, the key problem for us, which is the KC-390, we're following well. So, our accounts receivable didn't increase, so having the same level of last quarter. But we keep on track on that. We already mentioned that one thing that we saw here was a reduction in scope of modernization program, which is not like the same level of the KC-390, but something that also we could see. There could be an impact that we saw. Recently, we're dealing with a reduction of scope to be able to accommodate the requirement of the customer - the client. That's basically how we are doing. But in terms of payables we are doing, normally, there is no change on that.

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

Okay. Thanks (28:43).

Thanks. Good afternoon. Had to look. (29:00) Just back to the E2 margin topic, any willingness or ability to actually quantify for us how much lower those margins are coming in compared to the Legacy regional jet and what the ramp to your historical commercial

margin looks like on the program just because that's by far the biggest lever in where the margins go from here?

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

I think in terms of the margin of E2, let's think about 2018 that we indicated most of the reduction on the margin comes from, of course, the Commercial Aviation programs. E2 is one of the drivers for this reduction. But, again, we have to think about 2018 as a very unique year for that because we're ramping up, there's first deliveries, like I said, 10% we expect to be delivered of the E2. That brings all this learning process.

Historically, I think Embraer has been able to improve all this capacity to manufacture. Remember that when we had the larger orders from the American market on the E175 that we are delivering now, we mentioned about the price pressure because of the size of the order. And at that time, we were able to improve the costs through efficiencies and learning on how to do more standard orders. And so I believe that we have capacity to really, in the short term, be able to transform that into an efficiency (30:37) and the learning curve should be shorter. So, for 2018, we're not counting on that because this is really the learning piece of this process; after that, that we expect to ramp up in terms of increasing margins. So, to boast mostly what we indicated for 2018, reduction is due to the Commercial Aviation inefficiency, if you will.

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

Can you tell us if E2 margins in 2018 are slightly positive, break-even, slightly negative, largely negative?

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

They will be positive; low, but positive.

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

Okay. That's helpful. Can you speak to pricing in recent commercial orders? And then, on top of that, your sort of, I guess, near to medium term outlook for campaigning on the Commercial side?

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

John, do you want to take that?

### **A - John Slattery** {BIO 16433077 <GO>}

Given the quantum of orders that we - the size of the orders that we're experiencing, as Filippo referenced, there has been a certain amount of pressure over the course of a number of quarters. What I can tell you is, as we cadence into the final quarter, and I'll reference it in my presentation later, we are starting to see some more price discipline in the marketplace, our ability to improve margins somewhat so and we continue - I'll give you more granularity on why we continue to see a lot of momentum on the E175 in particular at very significant levels. I'll give you more granularity on that.

So, in summary, for sure there was some softness in those margins, but it does feel now as if we are improving our position when it comes to margins. But we are certainly, in addition to that, maintaining a - what I would describe as a significant amount of momentum in terms of orders around the E175-E1 platform.

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

Great. Thank you.

Thank you. Can you give us a sense of the E175-E2 and what your plan would be there if scope clause doesn't get lifted in 2021, and if it is to continue to build it, what that would do to margins?

**A - John Slattery** {BIO 16433077 <GO>}

Sure. Well, firstly, we're committed to the revised guidance of the entry into service of the E175-E2 in 2021. That aircraft, we believe, will have a commercial penetration, significant commercial penetration outside of the U.S. It's a very different machine to the E175-E1. I see opportunities in China, in India, in Western Continental Europe, and in the Scandinavian countries. And so, we are now proactively marketing that aircraft outside of the U.S. because, as you know, it's not scope-compliant. And I expect to get some traction on those activities next year. Of course, it's a 2021 entry into service guidance now. So, whether we'll close transactions next year or not - I don't know yet, but I can tell you we're proactively marketing that aircraft outside of the U.S.

In relation, just to address the U.S. environment - whilst we have no visibility as to when scope will change in the North American climate, we continue to address that market very successfully with the E175-E1 platform. On a relative basis, since January 2013, I believe we have won over 85% percent of the seats in that market in North America, and since January of this year, we've won 100%. So we have the platform that the customers want in North America. And when scope is released, we'll have the platform for them with an even more efficient aircraft in the E175-E2.

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

And just as a follow-up, can you tell us should we expect the SkyWest 100 order for the E2 to roll into an E1?

**A - John Slattery** {BIO 16433077 <GO>}

No. SkyWest is very pleased with their E2 order and I expect SkyWest will be one of, if not the largest, operators of the E2 in the world in sequence.

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

Thanks. Just staying on the topic of the E175, and your point about that being where you're seeing a good deal of momentum. And also the point about the E2 is representing, I think, 10% of your deliveries next year, can you just comment a little bit on how you see the sort of mix - the Commercial mix next year, obviously your mix has been

skewed very heavily toward the E175 in recent years, and just maybe how you see that in 2018 and beyond?

**A - John Slattery** {BIO 16433077 <GO>}

I think we're going to continue to see the E175 play a meaningful center stage role for many years to come. I'm going to give you some idea of the quantum's we're talking about, but it is a very significant demand. There's just sort of a series of waves, it's like surfing off the west coast of Ireland, the waves are coming in very quickly, which is great for us because we seem to have the platform that the airlines are looking for. So, I will tell you that our marketing teams are also spending a lot of effort continuing to market and deliver E195s and E190-E1s. There's a lot of focus from Paulo and Filippo to ensure that, from a revenue and a margin perspective, that, of course, we sell and deliver the larger platforms, but pragmatically I think over the course of the next few years you're going to see the E175 play a meaningful role in the sales and deliveries.

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

That's great. And then just following-up about the question - the prior question on potential conversion, I think, from E2 to E1. Are you seeing any prospects for things going in the other direction, some conversions of E1s to E2s?

**A - John Slattery** {BIO 16433077 <GO>}

No, that's not something that's under Paulo's guidance. That was just not something that we entertained as a broad matter. You know what, there are - I would say, one, two - maybe one customer in the world but we're open to having that conversion with, customer possibly not based too far from where we're sitting right now. But as a general matter, no, we're not interested in cannibalizing the E1 to sell E2s. And by the way, we're - there's no pressure from the customers either. Customers that want E1s, they want the E1s now. So, as customers cadence into the E2, they're going to make larger commitments to the E2s. But as we cadence to the sunset of the E1, particularly, the E190 and the E195 platform, as airlines are ordering their E2s, and their E3s and their E5s, if they have a large incumbent fleet of E1s, they're not going to make that jump yet to the E2, they're going to add to their fleets with incrementally one, so we're not seeing that pressure and we're not encouraging it.

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

So, a cash flow related question, if I could. It looks like your implied investments for the fourth quarter would be about \$250 million to achieve your \$650 million for the year. I don't believe I saw investment guidance for 2018. So, can you characterize that \$250 in the fourth quarter? Is that a peak quarter? How does that look going forward into 2018?

**A - José Antônio de Almeida Filippo**

Well, we not - we don't - not - breaking this down for next year. There should be less than they did levels that we having - for two years, we have the level of \$650 million. We may have less in the next year but we're going to be seeing more details soon in the future, not now. On the - in the beginning of the year, as we release the results of 2017, we want

to do a full revision on the guidance, and we'll provide those detailed information, but it could be less than what we have this year.

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

Thank you.

Just a discussion about the mid-term free cash flow outlook. One of the big variables, I think, is not listed there is, would there be a project a follow on to the E2 and then there has been chatter about turboprops and maybe another business jet, that sort of a thing. To what degree does the next-generation platform factor into that outlook?

**A - José Antônio de Almeida Filippo**

No, the outlook does not consider any new project. We're talking about the mid-term to - two years to three years. So, it's not - we have to finalize E2 and there has - we have been investing a lot in terms of plans and new programs, we have today the E2 under development phase, 80% already developed. We have the Legacy 450 and Legacy 500, and we have the KC-390 plants in Embraer Portugal, the Florida facility, Gavião Peixoto in the countryside of São Paulo. So, it's a huge level of investment that we enter recent years. I think it's now time that we make those investments to generate some cash for us. So, it's not a - it's something that we could expect and are not considered in the projections that was shown there.

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

You don't feel a compelling need to launch a new platform in the near future?

**A - José Antônio de Almeida Filippo**

No, there is of course the maintenance of platforms that we currently do. Like we just exited the (40:28) Phenom 300E, the Legacy 650 also. So, we do permanently - we do investments in terms of maintaining the competitiveness on the products on all other the new platforms.

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

Thank you

Any other question? Okay. I think that concludes today's Q&A section. Thank you all that are on the phone for connecting. Now we're going to have a short break and we'll come back for the detailed presentations. Thank you.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect,*

*incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript