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EMBR3.SA - Q4 2019 Embraer SA Earnings Call

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OVERVIEW:

Co. reported 2019 net revenues of \$5.4b and adjusted net loss of \$218m.



CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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Robert Michael Spingarn *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Ronald Jay Epstein *BofA Merrill Lynch, Research Division - Industry Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call that will review Embraer's Fourth Quarter 2019 Results. Thank you for standing by. (Operator Instructions) As a reminder, this conference is being recorded and broadcasted at ri.embraer.com.br.

This conference call includes forward-looking statements or statements about events or circumstances, which have not occurred. Embraer has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting the business and its future financial performance. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things, general economic, political and business conditions in Brazil and in other markets where the company is present.

The words believes, may, will, estimates, continues, anticipates, intends, expects and similar words are intended to identify forward-looking statements. Embraer undertakes no obligations to update publicly or revise any forward-looking statements because of new information, future events or other factors. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in its -- on its 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, Executive Vice President, Finance and Investor Relations; and Mr. Eduardo Couto, Director of Investor Relations.

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

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

Good morning, everyone, and thank you for all joining the call today. My name is Antonio Garcia. I am Embraer new CFO, and I will present the earnings results of Q4 and 2019 for the first time. I joined the company in January 2020, and my background comes primarily from the automotive sector, working for German companies in Brazil and abroad.

I'd like to say a few words before we start the presentation. First, I would like to thank Nelson Salgado, our previous CFO for a nice transition phase, and Nelson returning to operation is going to lead our team as the Chief Operation Officer.

Second, I decided to change my career and my personal life coming back to Brazil with my family after years living abroad because I truly believe the Embraer values and the vision for the future. I'm really impressed with what I have seen so far at Embraer. Embraer is a great company with a lot of opportunities, hard work and passionate employees.



My mission at Embraer is to help the company to extract its full potential with increased financial discipline and focus on cost, my pillars are [founded] in people, cash discipline and shareholder value. I have no doubt that together with our team, we are prepared to face any challenge ahead.

Slide #4. We found ourselves in a very uncertain time with the COVID-19 outbreak and its impact evolving every day, risk to the global economy that continues to grow. That's why it's important to say that the Embraer liquidity position is very strong, with a total cash of \$2.8 billion at the end of the year. Hence, an additional liquidity of \$600 million raised now in March.

Looking at our debt, we have less than 15% of our total debt coming due in the next 24 months. We have no major debt principal payments until 2022 and 2023, and most of our debt has a maturity that stretches out to 2025 and 2027. It's also important to mention that our average debt to maturity is almost 5 years. Despite that we are taking additional measures to preserve our liquidity to preserve our cash, which includes inventory production adjustments, extension of payment cycles, CapEx and expense reduction. And we are all committed with the business continuity with the health of our employees, with our partners, customers, suppliers and in principle also protect the shareholder value.

Regarding to the Embraer and Boeing partnership. Embraer finished the carve-out of Commercial Aviation business at the end of January successfully, and we continue to work on satisfying the closing conditions for this transaction. The European Commission has recently stopped the clock again after previously [updated] their deadline for June 23. So we now expect their analysis to go past that date.

Slide #5. With respect to COVID-19 outbreak, we have a crisis committee at Embraer monitoring the development of this situation. We have implemented contingency plans to act as quick as necessary as this pandemic continues to unfold. If the measures being taken around the world to slow down the COVID-19 becomes persistent, this could negatively impact the global economy and also our business.

Governments have already imposed measures like quarantines, flight and travel restriction and restriction of movements between countries, all of which we expect to disrupt both the supply chain and demand sides of our business. Embraer has already announced some measures such as a temporary shutdown of operating facilities in Brazil and put the majority of its workforce in paid leaves or working remotely. That said, given the level of uncertainty related to the spread of COVID-19, we are suspending our guidance for 2020 results.

As soon as we have better visibility into the impact of the virus on the company business, we will issue an updated guidance to the market.

So let's talk some highlights of our business. Starting from the Commercial Aviation, Page #6. For the Commercial Aviation, Embraer delivered on its guidance for the year with a total of 89 E-Jets delivered in 2019, which includes 14 jets from E2 family delivered.

During the year, we booked a total of 69 firm orders from American Airlines, Azul, SkyWest, United, Fuji Dream, Binter and KLM and others. Our E-Jet E2 backlog ended the year with a total of 153 firm orders and more than 570 total commitments.

In 2019, we were proud that the E195-E2 received a triple certification by ANAC, the FAA and EASA, leading to the first delivery of this aircraft type to AerCap and Azul Airlines in September 2019. Finally, the smallest and newest neighbor of the E-Jet family, E2, the E175-E2 made its finally -- successful first flight.

Page #7. Let's talk about Executive Aviation. So some highlights about the Executive Aviation. Executive Aviation, we met also the guidance for 2019, in regards to delivery. We delivered 109 jets, of which 62 were light jets and 47 large jets. Important to say that we delivered all aircraft produced in 2019 and ended the year with 0 [white space] in our inventory.

During the year, we delivered the Phenom 300 number and 500 in its history, and we were pleased to have this model of jet leading the light jet category in deliveries for 8 years consecutively. It's really an amazing achievement. 2019 marked a very good year for the Executive Jets business in terms of sales activity, which was the highest in the past 5 years. We increased our margins fairly strong price discipline. Our sales also includes a firm order contract with Flexjet worth \$1.4 billion for a combination of Phenom 300 and Praetor 500 and Praetor 600 jets. During the year, our new Praetor 500 and Praetor 600 jets received certification from ANAC, the FAA, and EASA outperforming on several key performance, met its -- further making the case that jets are the most capable technology development, jets in their respective classes.

Also, we recently announced a further upgrade to the Phenom 300E jet, including comfortable and technology enhancements as well as performance enhancement to allow it to become the first single pilot business jet ever to reach Mach of 0.8.

Slide #8. Let's talk about the Defense business. The Defense & Security business, which continues its transition from the C-390 product development phase to seamless production, which the highlight of (inaudible) which serves with the Brazilian Air Force with 2 aircraft delivered during 2019.

We were also pleased to welcome Portugal as the first export customer for the C390 Millennium version of this aircraft with a firm order of -- for 5 medium lift cargo transport planes and related services. This contract was included in our backlog in the fourth quarter of 2019.

Further diversifying our business, thyssenkrupp Marine Systems and Embraer signed a contract to build the Brazilian Navy, new Tamandaré warship. We also signed a memorandum of understanding to start the initial study with the Brazil Air Force for joint development of a new light military transport aircraft, illustrating that Embraer continues to consolidate its position of the defense house for the Brazilian government. We have expanded our work with the Brazilian Navy with Tamandaré contract, adding to our existing strong position with the Brazilian Air Force and growing exposure to the Brazilian Army.

Slide #9, a highlight of both our Services & Support business unit. We continue to grow the Services & Support business during 2019, signing new maintenance contract to our -- to support leasing companies in Commercial Aviation and increasing our MRO footprint for Executive Jets. We recently announced expansion of our Executive Jets services center in Fort Lauderdale-Hollywood International Airports.

Embraer Services & Support also expanded its training capacity for commercial and Executive Jets. As far as Services & Support sales, we have the record sales for the Defense & Security in 2019.

In terms of fleet coverage, we had an important achievement with 100% of the E2 fleet in service is covered by our total support program. Finally, our MRO in Portugal, OGMA, had a great 2019 with increased services in the engine overhaul business.

So talking and moving to the innovation technology, Slide #10. EmbraerX reached a significant milestone by unveiling its new eVTOL flying vehicle concept for the future urban air mobility and tested a scale model mock-up of the vehicle as well. In addition, EmbraerX launched a business platform for maintenance services in aviation, named Beacon, which several customers started to join.

Embraer and WEG also signed a cooperation agreement to work on electrical propulsion aircraft and Embraer Ipanema crop duster plane. We test the new technology during 2020. Finally, Embraer and L3Harris are studying a platform for a new air traffic control to support urban air mobility.

So now we start with the financial results. We start with the company's firm order backlog on Slide 12. Our backlog reached \$16.8 billion at the end of the year, which is roughly \$500 million higher than we had at the end of 2018, and with strong year of sales in the Executive Jets as well as a key contract signed Defense & Security such as the contract with Portugal for the C-390 aircraft, leading to the increase of -- in 2019 numbers.

As we usually do with our fourth quarter results, we are showing the breakout of our backlog, with Commercial Aviation remains the largest contributor to our backlog in value terms representing 53% of the total. Executive Jets represents around 10%; Defense 25%; and Services & Support, 13%.

So next (inaudible) is Slide 13. We present the aircraft deliveries starting with Commercial Aviation. As mentioned earlier, we met our 2019 guidance with a total of 89 commercial jets deliveries and also meet our Executive Jet delivery guidance with a total of 109 deliveries. [Point out] in the Executive Jets business, 2019 marked a solid growth in total delivery compared with 2018, and our mix of delivery was also more favorable, we delivered 47 large jets in the year. This is driven by the introduction of the Praetor 500 and Praetor 600 jets during the year, and we are also excited about the future for this best-in-class aircraft.

Moving to the next, revenue, at Slide 14. 2019 revenue of \$5.4 billion was within our previous disclosure guidance range and represented a growth compared to 2018 of almost 22%. Higher deliveries in the Executive Jet segment and better performance in Defense & Security were the major

drivers of the growth in this year. By segment, Commercial Aviation represented 41% of the revenue, followed by the Executive Jets at 26%, Services & Support 19%, Defense & Security at 14% of revenue.

Next slide, on Slide #15, we present SG&A expenses for Embraer. Our continuous effort to become more efficient have helped us to reduce our SG&A expenses, in which of the 6 years from -- on the slide. Selling expenses in 2019 was \$286 million, while general administrative expenses were \$190 million in the year, and we are continuously for efficiency program to continue to reduce this number.

Moving to the operating results in Slide #16. Embraer 2019 adjusted EBIT was negative \$5 million, was in line of our guidance of approximately breakeven. These results do not include around \$71 million in impairment charges related to phase out of our Legacy family, [new] Executive Jets, that was recognized in the fourth quarter. But this number includes separation costs related to the carve-out of the Commercial Aviation business in preparation for the strategic partnership with Boeing of \$120 million. If we adjust this separation cost, 2019 adjusted EBIT would have been \$115 million positive, representing a margin slightly above 2% for the year.

Our operating margins by business segment, excluded impairment charge and separation costs, were positive 1.2% for the Commercial Aviation, positive 1.6% for Executive Jets, Defense & Security was negative 6%, Services & Support was positive 13.2%.

We'll move in to adjusted EBITDA on Slide 17. Embraer's 2019 adjusted EBITDA was also impacted by the separation costs. Adjusted EBITDA reached \$182 million or a margin of 3.3% for the year. If you take away the impact of the separation costs, adjusted EBITDA would have been \$303 million with a margin of 5.5%.

So on Slide #18, we present the net income. Embraer reported an adjusted net loss of \$218 million in 2019, imply a negative margin of 4% for the year. Our earnings have been negatively impacted by the combination of the separation costs similar to the impacts already shown in the EBIT and EBITDA and the higher financial expenses. The impact of financial leverage should be [go away] as we close the transaction with Boeing as we'll transition to the majority of our debt to the joint venture.

On Slide 19, we present Embraer investments. In 2019, our CapEx was \$158 million and our R&D was \$328 million, leading to a total amount for investment of \$486 million. Major investments this year were related to the consumers development of the E2 family of jets as well as expenses related to the separation of assets and liabilities to the Commercial Aviation business and related services.

So moving to the Slide 20, we talk about cash flow. As a consequence of the higher number of Commercial and Executive Jets delivery, in the fourth quarter, Embraer finished the year with one of the highest quarterly positive free cash flow figures in the history of a generation of \$739 million in free cash flow. We are proud of it. We finished the year with a free cash flow usage of \$182 million, which was within previously announced range of free cash flow usage between \$100 million to \$300 million. We also reached this guidance as a result of our positive free cash flow generation in the fourth quarter.

On the Slide 21, we show our indebtedness. Net debt position improved from \$1.3 billion at the end of the third quarter to \$612 million in net debt at the end of the year. As mentioned earlier, our liquidity position is strong with almost \$2.8 billion in cash and equivalents, not including the \$600 million we recently raised 2 weeks ago. Our debt is mostly long term and has an average maturity of almost 5 years with no major principals due until '22 and the year '23.

As we continue to monitor the potential impact of COVID-19, I remain confident in our strong liquidity position, Embraer ability to weather the next few months and, again, just to reconfirm, our ability to continue the business and continue to support our partners and our shareholders, in the first place, the health of our employees.

I will now turn the call over to our President and CEO, Francis Gomes Neto, for his closing remarks prior to the Q&A session. Thank you.

Francisco Gomes Neto - Embraer S.A. - President & CEO

Good morning to all the analysts and investors connected to our call today. I am Francisco Gomes Neto, President and CEO of Embraer.

The coronavirus pandemic is affecting the whole world, and our lives. We are still not able to quantify the impacts that the recent measures of social distancing and travel restriction will have not only on our business but on many others around the globe.

Our customers, especially in Commercial Aviation, are sharply reducing capacity for domestic and international flights, and we have started to see increasing risks to our deliveries for the upcoming months. We are taking important measures and have launched a crisis committee formed by our senior leadership to monitor the situation daily.

We have already temporarily closed our main facilities in Brazil and put our workforce at home. Nothing is more important to Embraer than the safety and health of our employees, customers, and associates. We are also implementing measures to preserve our liquidity and maintain our solid financials during these turbulent times.

But we also have good news, and I would like to mention some important achievements of Embraer during 2019. We had record cash generation in the last quarter of the year of almost \$800 million. We had record sales in the Executive Jet business, keeping strong price discipline and the successful launch of the Praetor family. Embraer delivering the first 2 KC-390s to the Brazilian Air Force and completed the first international sale of our new military airlifter to Portugal in the Defense & Security business.

We signed several contracts with the Brazilian government, including the Navy, Army and Air Force, reinforcing our position as Brazil's defense house. And also very important, we carved out the Commercial Aviation business and its related services into a separate business as we continued to move forward in the partnership with Boeing.

Regarding the partnership with Boeing, we still need antitrust approval in Europe, and we continue to work together with Boeing team to get it. We believe representing, important and a strategic partnership and remain a priority for Embraer.

Finally, I'd like to reinforce that Embraer has already tested different crisis in the past, and we are confident that this time won't be different. And together with all our employees, customers and partners, we will come out of this virus outbreak even stronger.

We'll keep the market updated as the conditions continue to evolve in the coming months. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question come from Ron Epstein, Bank of America.

Ronald Jay Epstein - *BofA Merrill Lynch, Research Division - Industry Analyst*

Just a broader question, how are the conversations going with your customers on the -- on the commercial business. What are they coming to you -- what are they saying, I mean, how should we think about what the next 3, 6, 9 months could look like in the commercial airplane business?

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

Ron, this is Antonio speaking here. Ron, its important to mention, for sure, we are focused to all of our customers. That is important to mention that Embraer have not yet cancellation of orders that's important for us. And we are discussing about some deferrals of deliveries from 2020 to 2021, it's more or less in a nutshell the discussion we are having.



And we needed to also mention this.

Ronald Jay Epstein - *BofA Merrill Lynch, Research Division - Industry Analyst*

And then in the -- when we look at the business jet business, what have you seen there? I mean has there been an impact yet on customer decision-making? And how's that?

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

I'd say that what we are seeing right now regards to impact on the Executive Jets we have, let's say, small request for deferral, but just quarterly wise, and we're having no cancellation against, let's say, pretty stable for the time being.

Francisco Gomes Neto - *Embraer S.A. - President & CEO*

If I may add, Antonio, I said earlier, Ron, on Executive Jets, we continue to deliver planes. We had a few deliveries this week, and we also continue with our sales activity. We had a couple of sales being confirmed this week as well. So we are feeling good on the Executive Jets side despite all the uncertainties of the COVID-19.

Ronald Jay Epstein - *BofA Merrill Lynch, Research Division - Industry Analyst*

Okay. Okay. Great. And then -- and maybe just one last question, if I may. On the KC-390, when we think about the delivery profile of those aircraft this year into next, how many aircraft do you expect to deliver this year? I guess they would go to what the Brazilian Air Force, right?

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

We have an [ER] plan 2 aircraft to be delivered this year. But just evaluating right now with the supply chain because we are talking for our customer, now we are aligned with our suppliers in regards to the parts because, as everybody knows, we have this traffic restrictions. And what we are doing right now is just to make sure that we have the parts to produce and deliver their aircrafts, but we have (inaudible) the programs (inaudible).

Operator

The next question comes from Robert Spingarn, Crédit Suisse.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Can you hear me?

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

Yes.

Francisco Gomes Neto - *Embraer S.A. - President & CEO*

Yes, we can.



Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

Loud and clear.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

On the Boeing deal, what is it that you think the European Commission is focused on at this point that pushes it to the right? Any color on that?

Francisco Gomes Neto - *Embraer S.A. - President & CEO*

Well, I mean we are -- and Boeing, we continue to work together to establish this important strategic partnership. We -- as I say, we still needed the antitrust approval in Europe, but we continue to work with Boeing to get it. So providing the documents they ask and try to do this as quick as we can.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Okay. And then is there any -- what is the latest in terms of your expectations for proceeds from the Boeing deal? Just given the COVID-19 situation, does this change anything with regard to the payment of the special dividend?

Francisco Gomes Neto - *Embraer S.A. - President & CEO*

Well, this -- we are now focusing on the -- to get this approval of the antitrust authority in Europe. And we'll find -- and we still -- we'll work together in order to overcome the situation of the COVID-19 to make this deal happen.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Okay. And then just going back to the aftermath of 9/11. At a point where the 50-seat market was very active, there was an unexpected mix shift or demand shift toward the 50 seater away from the narrow-body. Because of the slow recovery expected and the idea that you could fill a 50 seater more easily than a 737 or an A320, do you expect some kind of mix shift in demand away from the Boeing and Airbus narrowbodies and perhaps the A320 toward the E-Jet for the next few years to accommodate the lower demand in traffic?

Francisco Gomes Neto - *Embraer S.A. - President & CEO*

It's a good point. Our commission, marketing people, they are analyzing all the possible impacts, but I'd say that it's too soon for us to come with a good prognosis on this.

Operator

Our next question comes from Cai von Rumohr, Cowen.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Yes. So in the U.S., as you know, they just passed the \$2 trillion support package. Does Brazil have a support package that gives new support? And if not, what sort of numbers based on the closures that you currently expect? What sort of numbers might this be and just in terms of incremental cost?



Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

Cai, we think -- work to get additional sources of liquidity, I would say too early to say what you are getting here. But for the time being, we are having some support from U.S. in regards to tax deferral and -- but more or less what we have today.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. And then you had this very good fourth quarter cash flow. Could you update us on what was the status of payments on the KC-390? And have you early in the year seen resistance by commercial customer or bizjet customers to make (inaudible)?

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

Yes, Cai. As far as payments from the government and free cash flow overall, we had a very strong fourth quarter, right, as you mentioned. We generated almost \$800 million in cash. So we had a lot of deliveries on both commercial and business jets and also payments from the government. So we were able to reduce the level of receivables from the government during the quarter. And it was very important for us to generate the cash that we did during the fourth quarter.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Got it. And then I think at one point, you talked about the incremental cost of keeping commercial and bizjet defense business for something like \$10 million to \$15 million in op expense and \$10 million to \$15 million in interest expense per month. Are those numbers still valid?

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

Sorry, Cai. You're talking about the additional cost from the delay on the deal?

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Well, the incremental cost of sort of running 2 separate businesses.

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

The main cost we have is the additional financial expenses around \$10 million to \$15 million per month. And also, you're totally right, we have additional cost of running 2 businesses, another \$10 million to \$50 million per month.

Francisco Gomes Neto - *Embraer S.A. - President & CEO*

Despite of [our cash balance]

Operator

Our next question comes from Josh Milberg, Morgan Stanley.



Joshua Milberg - Morgan Stanley, Research Division - Equity Analyst

You guys have covered a lot of ground, but -- already, but I wanted to just revisit the Commercial profitability outlook. We saw that in the quarter, you've been adjusting for separation costs that your Commercial profitability was below past fourth quarters. And I know that you've had the issue of the 175 [SC] and also E2 ramp up. And I just wanted to ask, assuming that you didn't have further separation costs and also assuming that COVID wasn't an issue, can you just talk a little bit about how profitability for Commercial might have evolved this year?

And also, just remind us what the sort of rough mix of E2s and E1s you were anticipating for 2020?

Antonio Carlos Garcia - Embraer S.A. - CFO & IR Officer

Josh, a lot of uncertainties right now with the COVID-19, right? But going to your question, the [main impact] on the commercial side as far as profitability were the mix, right? We had more deliveries in the U.S. Those orders, as you know, they are bigger. So given the bigger orders, they tend to have slightly lower margins.

The second point that affected Commercial was the E2 ramp up. We continue to ramp up the E2. Last year, we had around 15 deliveries. This is starting to help, but we need to continue to move through the learning curve of the E2, and that will -- as we continue to move on, that will positively affect margin going forward.

So overall, those were the impacts for this year. As I said, we still need to assess the impact of the COVID-19 to have a better visibility in terms of margins for this year for Commercial.

Joshua Milberg - Morgan Stanley, Research Division - Equity Analyst

And do -- if you -- if we didn't have this COVID effect, I mean, what might have been a reasonable expectation for a mix of deliveries? What percentage of volume could be E2 this year?

Antonio Carlos Garcia - Embraer S.A. - CFO & IR Officer

Excluding the COVID-19 impact, I think this year in terms of deliveries and even mix should not be too different from what we had in the last 2 years to around 90 to 100 [points].

Operator

The next question comes from Joshua Milberg, Goldman Sachs.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

I'd love to attempt to get a little bit more precise on the degree of movement your airline customers in Commercial are asking for. If we're looking at a production skyline that had roughly 90 units in it for several years, are we talking 5 to 10 airlines that want to defer? Are we talking 80 units that want to defer? And are we talking deferring quarters or deferring years?

Antonio Carlos Garcia - Embraer S.A. - CFO & IR Officer

So in general, as I mentioned before, we know the airlines are cutting capacity sharply, we still needed to better understand the impact, but at least they are requesting most of them to defer from 2020 to 2021. And again, the discussion right now is very dynamic, and we have changed every day and let's (inaudible) more between 2020 to 2021 regards to deferrals and low cancellation, that's important to mention.

Francisco Gomes Neto - *Embraer S.A. - President & CEO*

Very important to mention, Antonio, as you said, Noah, we didn't have any cancellation so far. So all the discussions are really regarding delivery schedule, but no cancellations.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And is it the majority of your previously scheduled 2020 deliveries that are discussing deferrals? Or is it something well under half?

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

It's -- as I said, situation is really changing. We need to know for how long the capacity reduction will last, right? It will depend. It will depend how long the COVID-19 will impact capacity to have an assessment if we're talking about part of the deliveries or what percentage of the deliveries, we can't answer that right now.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Understood on that given how dynamic it is. But I'm actually just curious what percentage of those deliveries are even asking the question or even having the conversation. I mean, it's literally every airline that's supposed to take a delivery in 2020 having that conversation with you? Or is it some minority of them that's having that conversation with you?

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

It depends a lot on the region, right, Noah, and also how the COVID-19 is evolving in each one of the regions. We have seen some airlines in Asia, right, returning operation. In the U.S., the situation is changing a lot. So there was a shutdown, but a lot of conversations regarding returning operations. Very difficult to know the impact at this point. And unfortunately, as soon as we have more visibility, we're going to restate our guidance and give the market more clarity on that, okay?

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. And then just on the planned special dividend, are you today reiterating that? Or is that under review, along with the rest of 2020 guidance being under review?

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

Yes. Just it's important to clarify. We need for this time being some prudence with our investors and with you guys. And we sustained the guidance, it's much more related to the operational guidance like sales, EBIT and free cash flow. And the structure of the deals continue to go ahead. And for this perspective, it's hard to say that right now that we are changing also the dividends. We continue to work on it. And again, the strategic partnership, we have the ability to close the terms. It's hard to say right now that we are changing any guidance in regards to investment. But we prefer to suspend all of them and reevaluated the whole scenario.

Operator

(Operator Instructions)



The next question comes from Cai von Rumohr, Cowen.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I think you had planned to sort of report as newco without the Commercial business. But clearly, that's not going to happen. You're basically going to -- basically have Commercial biz jet the same businesses that you've had. Are you going to report in the same format for the first 2 quarters? Because it doesn't sound like the JV is going to get approved before then.

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

Yes.

Francisco Gomes Neto - *Embraer S.A. - President & CEO*

Go ahead. Go ahead.

Antonio Carlos Garcia - *Embraer S.A. - CFO & IR Officer*

Sorry, Francisco. I was just going to mention that we -- since we signed the -- we got the approval from the shareholders, for the deal last year in February, we have been reporting the Commercial Aviation business of -- as a separate business, right, of a discontinued operation. And we're going to continue to report Commercial as a discontinued operation until closing. So (inaudible), but go ahead, Francisco.

Francisco Gomes Neto - *Embraer S.A. - President & CEO*

Just to say that complement you, what we do -- just said, we had implemented governance -- internal governance that we are going to manage the Commercial Aviation as a separate unit, but we think Embraer organization with all the process in places and all the reports and so on.

Operator

Ladies and gentlemen, this concludes today's question-and-answer session. That does conclude Embraer's audio conference for today. Thank you very much for your participation. Have a good day.

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