Embraer (EMBJ3)

Building a Higher-Return Mix

Updating Our Estimates and Reiterating Buy Rating

We are updating our estimates for Embraer, reiterating our Buy rating and introducing a YE2027 target price of US$90.00/ADS *(R$116.00/share)*. Despite EMBJ's strong performance *(+30% since our upgrade in Mar'26)*, we continue to see an attractive risk-reward, supported by a visible growth path through 2030E that does not require a new capex cycle. **Our base case combines** (i) gradually higher deliveries across the portfolio, (ii) stronger pricing and structurally healthier margins, particularly in Executive Aviation and Defense, (iii) rising Services contribution alongside the expanding installed fleet and (iv) ROIC expansion as current platforms mature. While the stock has re-rated alongside the stronger equity story, now trading at a 19.3x 2027E P/E, we see further support from a potential aerospace sector re-rating once fuel prices and airline economics normalize, **as well as an increasingly de-risked cash-flow trajectory,** with real FCF yield approaching ~9% by 2030E in our estimates.

A stronger base case from the existing portfolio. We see a visible growth path through 2030E without requiring a new investment cycle, suggesting increasing returns in the upcoming years. Our base case assumes (i) Commercial deliveries gradually moving toward ~110 aircraft/year, (ii) Executive deliveries normalizing at ~200 aircraft/year, (iii) KC-390 deliveries reaching 10 aircraft/year by 2030E and (iv) Services growing alongside the installed fleet. Combined, these assumptions support revenues increasing from US$8.5 billion in 2026E to ~US$13.4 billion by 2030E (or ~US$12 billion in real terms).

Structurally healthier margins. Higher deliveries remain an important part of Embraer's earnings trajectory, but stronger unit economics should also support profitability. We expect EBIT margins to normalize around ~13% by 2030E (from ~9% in 2025), with supportive pricing in Executive Aviation and the KC-390 platform, while Commercial should benefit from operating leverage and the gradual roll-off of legacy contracts.

Returns reflecting the harvesting phase. In this report we bring a food-for-thought analysis of divisional ROIC, illustrating the room for returns to move higher as Embraer monetizes capital deployed over previous development cycles. The underlying drivers differ across divisions, with (i) Commercial still earning (lower) returns from the E2 investment cycle, (ii) Executive benefiting from pricing, operating leverage and PDPs, (iii) Defense operating with a lighter capital base given FAB's participation in the KC-390 development and (iv) Services providing less volatile returns supported by recurring revenues. Overall, we expect consolidated ROIC to increase from ~12% in 2025 to ~22% in 2028E, all while the earnings mix becomes less dependent on any single aerospace cycle.

No longer cheap, but still compelling. We recognize that Embraer's valuation is no longer as undemanding as it was earlier this year, after recovering part of the relative de-rating against peers (2027E P/E of 19.3x). Still, we continue to like the stock given our increased confidence in earnings growth ahead, real FCF yield approaching ~9% by 2030E, though not accounting for several other FCF-optionalities as upside risks to our base-case (India, U.S., Eve etc.).

Embraer	EMBJ3
Rating	**Buy**
Target Price (R$/sh.)	**116.00**
Current Price (R$/sh.)	99.33
Upside (%)	*17%*
Market Cap (R$ million)	74,553
# of shares (million)	751
Free Float (%)	89%
ADTV (R$ million)	459

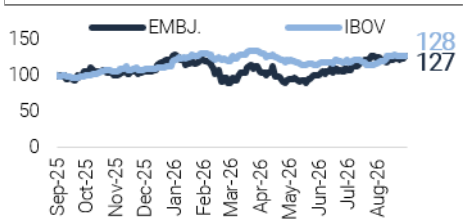
Embraer	ERJ
Rating	**Buy**
Target Price (US$/ADS)	**90.00**
Current Price (US$/ADS)	76.32
Upside (%)	*18%*

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Stock vs. IBOV



A Stronger Base Case (…)

(…) Without Requiring a New Capex Cycle

A stronger base case built on the existing portfolio. Our estimates through 2030E assume Embraer gradually reaches a more normalized production level across its current platforms, without requiring a new capex cycle. In Commercial Aviation, we see deliveries moving toward ~110 aircraft/year as supply-chain constraints ease, supported by backlog coverage through the end of the decade and a more balanced competitive environment across narrowbody and regional aircraft. In Executive Aviation, following last year's capacity expansion, we see deliveries normalizing at 200 aircraft/year, materially above the ~100 aircraft/year embedded in our estimates a few years ago. Combined with pricing tailwinds, this supports consolidated revenues increasing from US$8.5 billion in 2026E to ~US$13.4 billion by 2030E.

Defense and Services add a second growth layer. In Defense, our base case assumes KC-390 deliveries gradually ramping from 6 aircraft in 2026E to 10 per year by 2030E, alongside better pricing in recent campaigns. Services should grow with the installed fleet across Commercial, Executive and Defense, supported by higher fleet utilization, aging aircraft and the expansion of agnostic aftermarket activities. We now expect Services revenues to reach US$3.8 billion by 2030E (vs. ~US$2.0 billion in our estimates a few years ago), making the division one of the main contributors to growth through the end of the decade.

Figure 1: Top-Line Drivers per Division (XPe Base Case)

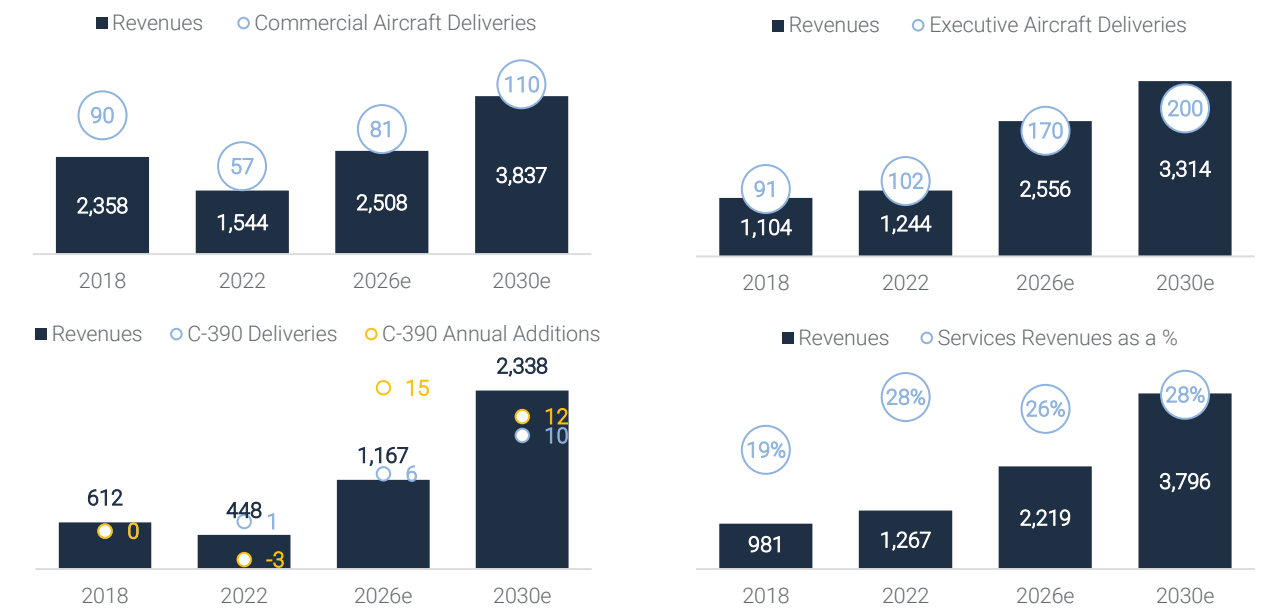
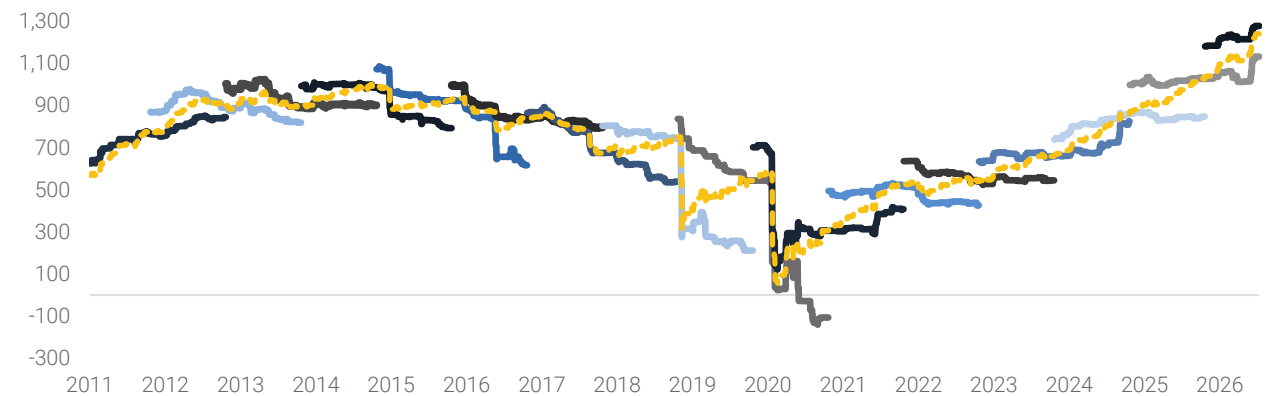


Figure 2: Yearly Consensus EBITDA Revisions (More Details Here)

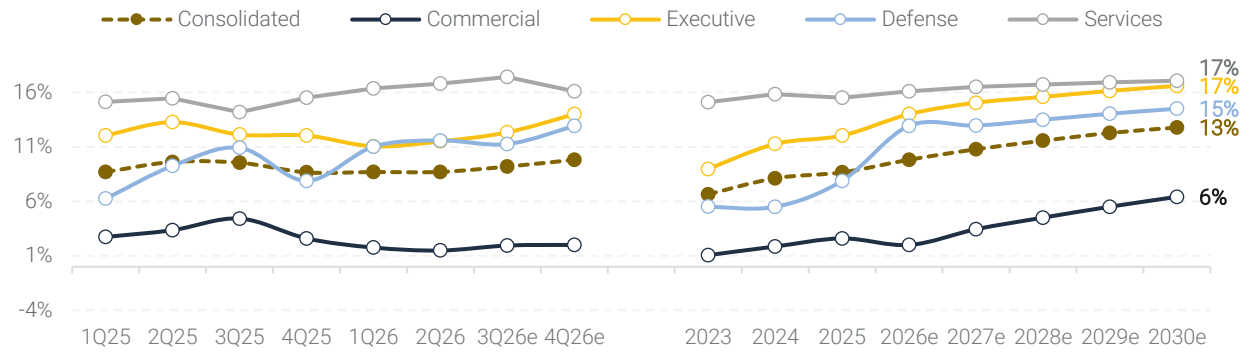


A Healthier Profitability Base

Bearing Fruit From a More Diversified Earnings Profile

A healthier profitability base. As we discussed in our insight What Has Changed in Embraer's Equity Story?, one of the most relevant changes in Embraer's equity story has been the upward revision of profitability assumptions across virtually all divisions, reflecting stronger pricing, healthier backlogs and the maturation of key programs. Looking to 2030E, we expect EBIT margins to normalize around ~6% for Commercial Aviation, ~16-17% in Executive Aviation, ~14-15% in Defense and ~17% in Services & Support.

Figure 3: Adj. EBIT Margin per Segment (Actual and XPe)



Pricing tailwinds as deliveries start reflecting a better demand environment. We continue to expect higher deliveries across the portfolio, but a meaningful portion of margin expansion should come from stronger unit economics, and this is particularly evident in Executive Aviation and the KC-390 platform, where pricing has improved materially over time. As illustrated by Figures 4-5 below, looking into Executive Aviation, we see Phenom/Praetor pricing up on average by +30% in the past decade, reflecting a better demand and tighter supply environment, while more than making up for the increase in costs during the period, in our view. In Defense & Security, we can also see a better commercial environment when comparing KC-390's latest backlog additions (~US$199 million in implied unit prices in 2Q26, up from US$180 million in 4Q23, though such estimate is not an exact figure).

Figure 4: Executive List Prices (US$ mn/unit)

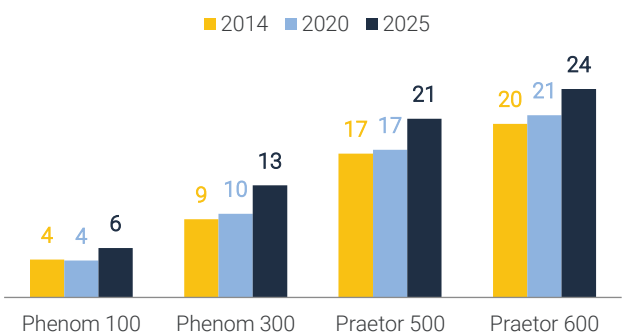


Figure 5: KC-390 Price Evolution (US$ mn/aircraft)

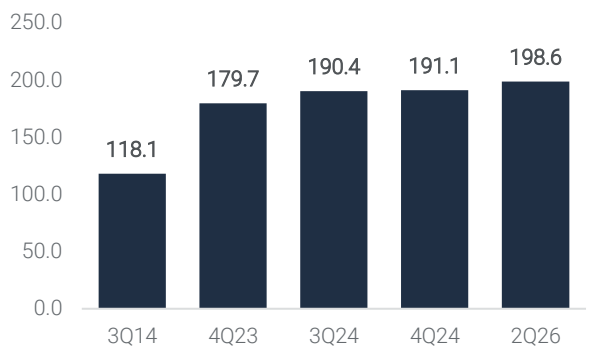
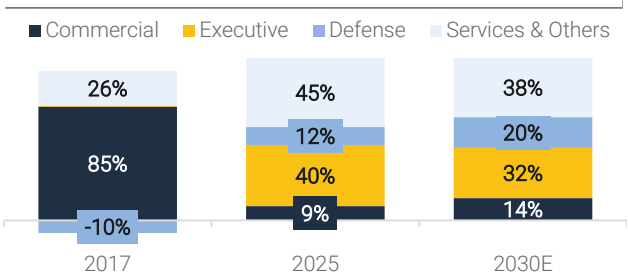


Figure 6: EBIT Breakdown 2017-25-30E (%)



A more balanced source of earnings growth. By 2030E, we expect Executive Aviation, Defense and Services to account for the majority of group EBIT. In this context, unlike previous cycles, future earnings growth should no longer be primarily tied to commercial aircraft deliveries but increasingly supported by businesses exposed to different competitive dynamics, customer bases and capital allocation cycles.

A Food-for-Thought View of Divisional ROICs

Executive and Defense Contributing to Consolidated Returns

A diversified, higher-return business mix. Looking at Embraer's ROIC over the past five years, we believe the improvement reflects more than a cyclical recovery. Our ROIC estimates for Commercial Aviation remain below WACC, but the division continues to harvest returns from the E2 platform, while a growing share of earnings is now generated by Executive Aviation, Defense and Services. Given the long investment cycles in aerospace, we believe it is more informative to analyze earnings and invested capital separately before looking at consolidated returns.

- **Executive Aviation has driven most of the improvement.** Executive Aviation has been Embraer's largest source of incremental value creation since 2021. Divisional NOPLAT increased by 10x from 2020 to 2027E, while invested capital is expected to remain low (expansion capex already deployed). We attribute this to **(i)** pricing tailwinds, **(ii)** increased operating leverage and **(iii)** a business model that currently requires limited incremental capital to support growth. Importantly, future investments appear increasingly concentrated in capacity debottlenecking and industrial expansion rather than new platform development (as discussed in our Thematic piece here), supporting strong marginal returns.
- **Defense benefits from a unique capital structure.** Defense follows a different dynamic. Unlike Commercial Aviation, where OEMs typically bear most development costs upfront, a significant portion of the KC-390 development was supported by the Brazilian Air Force (FAB). As a result, the program operates on a considerably lighter capital base than a traditional aerospace platform. At the same time, earnings are only beginning to reflect increasing deliveries, backlog growth and the maturation of the program. We view this as one of the key reasons behind Defense's strong return profile today.

Figure 7: NOPLAT Breakdown (US$ million)

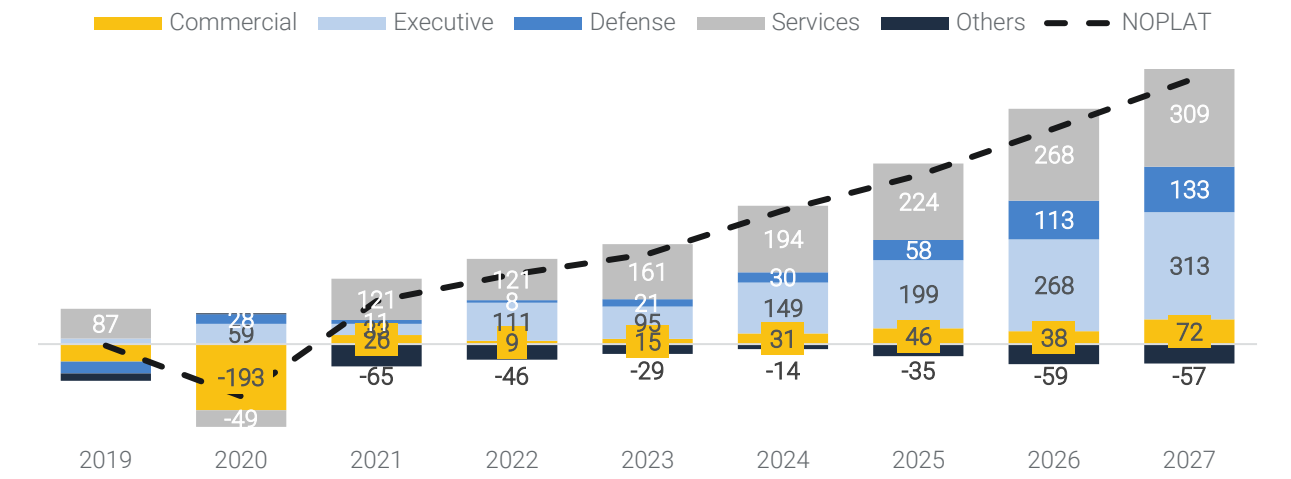
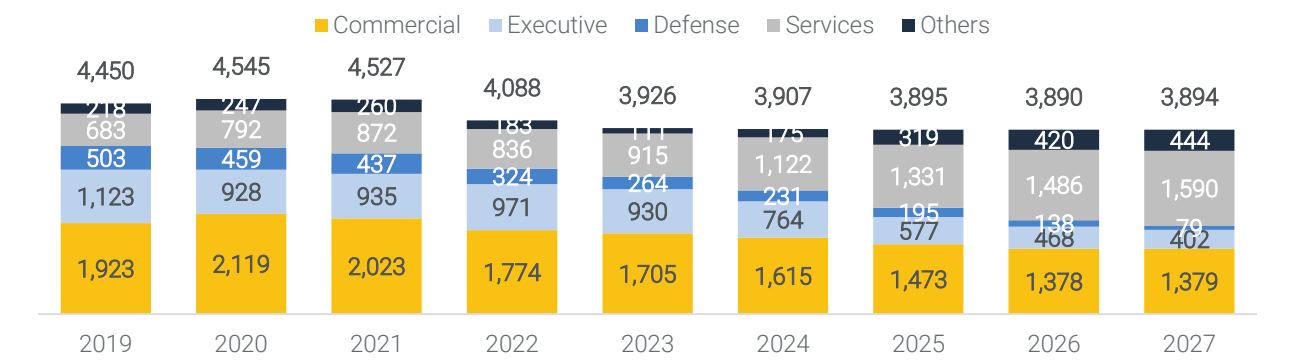


Figure 8: Invested Capital Breakdown (US$ million)



Services As the Most Accurate Returns vs. Underlying Economics

- **Services remains underappreciated.** While we do not see the division generating the highest returns in the portfolio, invested capital is arguably a more accurate representation of the underlying economics. Inventory, pool programs and working capital requirements are largely reflected on the balance sheet, reducing some of the distortions typically created by long aerospace development cycles. More importantly, the business combines recurring revenues, lower cyclicality and growth linked to an expanding installed base rather than annual aircraft sales, resulting in a strong business model on a risk x return standpoint.

Returns should continue to increase. We see room for consolidated ROIC to move materially higher over the coming years as Embraer monetizes investments made over prior development cycles. While the magnitude of returns varies across divisions, the common denominator is that incremental earnings are increasingly concentrated in businesses with more attractive economics. We expect: **Executive Aviation** to continue benefitting from a favorable combination of pricing, operating leverage and customer pre-delivery payments (suggesting increasing earnings at a lighter invested capital base); **Defense** to continue operating on structurally light invested capital; and **Services** to offer a less volatile return profile (recurring revenues and an expanding installed base). As a result, we believe the company's future earnings breakdown should support returns structurally above historical levels. Moreover, as Embraer's invested capital base continues to be amortized, pricing conditions remain favorable and earnings improve further (as currently platforms continue to mature), the company should keep generating excess returns, until either supply-demand conditions significantly change for its product-portfolio, or a new investment cycle begins (which would naturally compress returns and postpone again the "harvest cycle" Embraer is currently in).

Figure 9: ROIC Breakdown (vs. WACC)

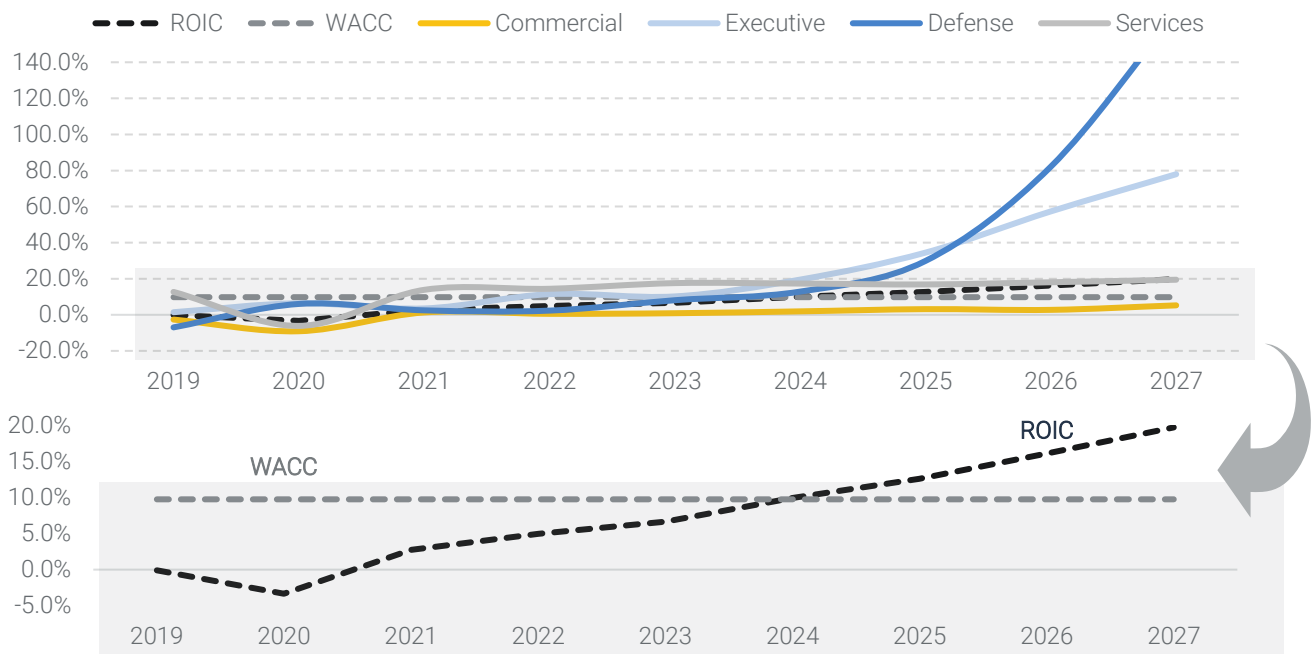


Figure 10: ROIC Breakdown (By Division)

ROIC Breakdown	2019	2020	2021	2022	2023	2024	2025	2026E	2027E
ROIC	**-0.1%**	**-3.4%**	**2.8%**	**5.0%**	**6.7%**	**10.0%**	**12.6%**	**16.2%**	**19.8%**
WACC	*9.8%*	*9.8%*	*9.8%*	*9.8%*	*9.8%*	*9.8%*	*9.8%*	*9.8%*	*9.8%*
Commercial	-2.7%	-9.1%	1.3%	0.5%	0.9%	1.9%	3.1%	2.7%	5.2%
Executive	1.4%	6.4%	3.5%	11.4%	10.2%	19.5%	34.5%	57.3%	77.9%
Defense	-7.0%	6.0%	2.5%	2.3%	8.1%	12.9%	29.9%	82.1%	167.5%
Services	12.7%	-6.2%	13.8%	14.4%	17.6%	17.3%	16.8%	18.0%	19.4%
Others	-9.6%	1.1%	-25.2%	-25.1%	-26.1%	-8.2%	-11.0%	-13.9%	-12.8%

Valuation Not As Cheap, But Still Compelling

Upward FCF Generation Through 2030E

A compelling equity story despite richer valuation levels. We recognize that Embraer is no longer as discounted as it was a few months ago, particularly after recovering part of the peer discount that emerged earlier this year, as illustrated in Figure 12 below. Still, we continue to like EMBJ's equity story, supported by solid execution, potential new orders and further earnings growth from the existing portfolio.

More broadly, aerospace multiples have been pressured by an unusually volatile global backdrop, with higher fuel and financing costs raising concerns over client's economics, particularly commercial airlines, despite resilient travel demand and continued aircraft shortages. While this uncertainty could persist in the near term, we do not expect current conditions to remain indefinitely and see room for a broader sector re-rating as fuel prices, financing conditions and airline economics normalize (i.e.: a positive sector-asymmetry, in our view).

Figure 11: Embraer P/E Multiple vs. Segments

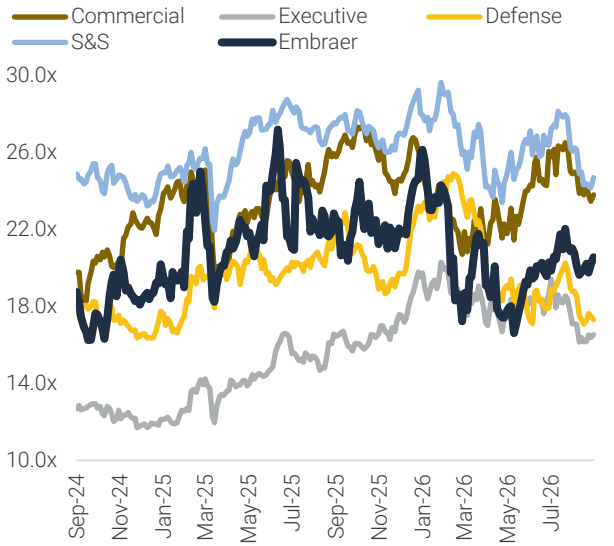
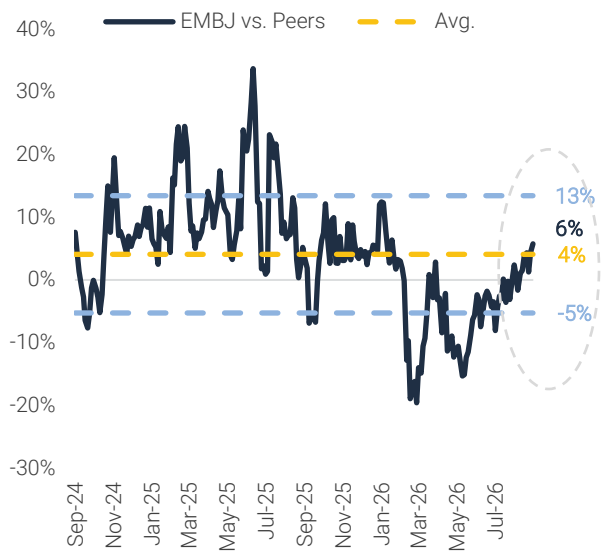
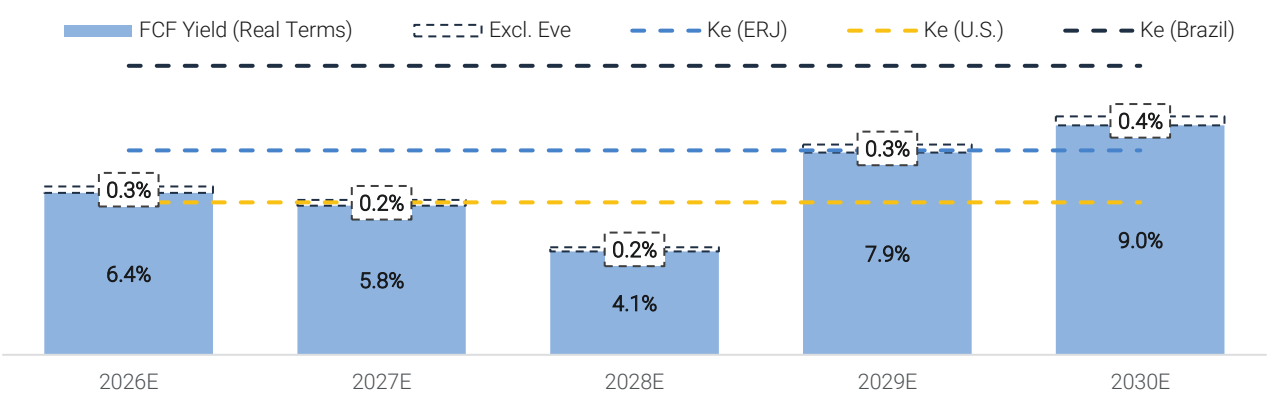


Figure 12: Embraer Historical P/E vs. Global Peers



After a strong 2026E, supported by increasing deliveries as well as customer pre-delivery payments (PDPs), **we expect FCF generation to remain on an upward trajectory over the upcoming years.** On our estimates, real FCF yield should improve from 6.0% in 2027E to ~9% in 2030E, with the expected FCF growth supporting part of Embraer's current premium to historical valuation levels

Figure 13: Embraer's FCF Yields Evolution (Real Terms, %)



Changes to Estimates

Better Profitability Ahead

Raising profitability after 2Q26. We are updating our estimates following 2Q26 results, reiterating our delivery forecasts while slightly increasing profitability assumptions on stronger-than-expected execution. We see the improvement supported by (i) cost efficiencies, including production-levelling initiatives, and (ii) pricing tailwinds across key divisions. Our 2026E EBIT margin now stands at ~10%, while 2027-28E margins increase to ~11%-12%.

Not far from consensus. Our updated estimates remain close to consensus, with our EBITDA estimate for 2027E virtually in-line. We remain close to Embraer's revised guidance as well, as detailed in the Figure 15 below.

Figure 14: Changes to Estimates

Embraer	Old			New			Actual vs. Old		
	2026	2027	2028	2026	2027	2028	2026	2027	2028
Net Operating Revenues	**8,442**	**9,618**	**10,942**	**8,537**	**9,525**	**10,867**	**1%**	**-1%**	**-1%**
YoY % Var	11%	14%	14%	13%	12%	14%	1.3 p.p.	-2.4 p.p.	0.3 p.p.
COGS	-6,875	-7,800	-8,841	-6,921	-7,650	-8,680	1%	-2%	-2%
Gross Profit	**1,567**	**1,819**	**2,100**	**1,617**	**1,875**	**2,187**	**3%**	**3%**	**4%**
Gross Margin	18.6%	18.9%	19.2%	18.9%	19.7%	20.1%	0.4 p.p.	0.8 p.p.	0.9 p.p.
Adj EBITDA	**1,066**	**1,248**	**1,461**	**1,082**	**1,289**	**1,534**	**1%**	**3%**	**5%**
EBITDA Margin	12.6%	13.0%	13.4%	12.7%	13.5%	14.1%	0.0 p.p.	0.6 p.p.	0.8 p.p.
Adj. EBIT	**811**	**968**	**1,162**	**838**	**1,027**	**1,257**	**3%**	**6%**	**8%**
EBIT Margin	9.6%	10.1%	10.6%	9.8%	10.8%	11.6%	0.2 p.p.	0.7 p.p.	0.9 p.p.
Net Financial Results	-107	-69	-41	-73	-59	-18	-31%	-15%	-56%
EBT	**692**	**898**	**1,121**	**810**	**967**	**1,239**	**17%**	**8%**	**11%**
Income Taxes & Contributions	-160	-225	-280	-188	-242	-310	17%	8%	11%
% of EBT	23%	25%	25%	23%	25%	25%	0.1 p.p.	0.0 p.p.	0.0 p.p.
Net Income (Majority)	**519**	**658**	**821**	**610**	**705**	**899**	**18%**	**7%**	**10%**
Net Debt	**-7**	**-5**	**-134**	**-248**	**-515**	**-537**	**n.m.**	**n.m.**	**n.m.**
Net Debt/EBITDA	0.0x	0.0x	-0.1x	-0.2x	-0.4x	-0.3x	-0.2 p.p.	-0.4 p.p.	-0.3 p.p.

Figure 15: XP vs. Consensus

Embraer	2026			2027		
	XPe	Consensus	Diff. (%)	XPe	Consensus	Diff. (%)
Net Revenues	**8,537**	**8,578**	**0%**	**9,525**	**9,624**	**-1%**
EBITDA	**1,150**	**1,134**	**1%**	**1,289**	**1,280**	**1%**
EBITDA margin	13.2%	13.2%	0.3 p.p.	13.5%	13.3%	0.2 p.p.
EBIT	**906**	**874**	**4%**	**1,027**	**1,017**	**1%**
EBIT margin	10.6%	10.2%	0.4 p.p.	10.8%	10.6%	0.2 p.p.
Net Income	**610**	**592**	**3%**	**705**	**727**	**-3%**
Net Margin	7.1%	6.9%	0.2 p.p.	7.4%	7.5%	-0.1 p.p.

Figure 16: XP vs. Guidance

Embraer's Financial Guidance	Actual	2026 YE						
	2025	Low	High	2026 Mid (a)	Consensus (b)	Diff. (%) (a)/(b)	XPe (c)	Diff. (%) (c)/(a)
Commercial Aviation Deliveries (#)	78	80	85	83	83	-1%	81	-2%
Executive Aviation Deliveries (#)	155	160	170	165	169	-2%	170	3%
Consolidated Revenues (US$ mi)	**7,578**	**8,200**	**8,500**	**8,350**	**8,652**	**-3%**	**8,537**	**2%**
Adj. EBIT	**657**	**820**	**901**	**861**	**890**	**-3%**	**906**	**5%**
Adj. EBIT Margin (%)	8.7%	10.0%	10.6%	10.3%	10.3%	0.0 p.p.	10.6%	0.3 p.p.
Free Cash Flow (US$ mi)	**491**	**400**	**400+**	**400+**	**n.m.**	**n.m.**	**n.m.**	**n.m.**

DCF and Valuation

Our Target Price Implies +18% Upside vs. Current Prices

Our 2027YE DCF-based target price of R$116.00 per share (US$90.00/ADS) presents a +18% upside vs. current prices. We use a FCFF (free cash flow to firm) valuation approach, where our main assumptions include: (i) 2.4% long-term growth rate, (ii) 13% debt to (debt + equity) ratio, (iii) 5.1% risk-free rate and (iv) beta at 1.0, implying 9.8%, 10.6% and 5.5% nominal WACC, cost of equity and cost of debt, respectively.

We incorporate Eve into our 2027YE TP, which adds ~R$4/sh. (US$3.00/ADS) to our target equity value.

Figure 17: Main DCF Assumptions

DCF (US$ million)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	Perp
NOPLAT	**815**	**678**	**770**	**943**	**1,126**	**1,286**	**1,365**	**1,431**	**1,488**	**1,543**	**1,593**	**1,623**	**1,653**	**1,682**	**1,712**	**1,744**	
(+) D&A	232	243	262	277	286	296	309	321	334	348	362	376	391	406	421	436	
(-) Capex	-324	-342	-333	-380	-428	-470	-494	-515	-534	-553	-570	-582	-594	-607	-620	-633	
(+/-) Δ NWC	370	315	166	-248	188	235	-3	6	15	14	24	28	35	40	44	48	
FCFF	**1,093**	**894**	**865**	**592**	**1,172**	**1,347**	**1,177**	**1,243**	**1,303**	**1,353**	**1,409**	**1,445**	**1,483**	**1,521**	**1,558**	**1,595**	**22,166**
PV FCFF				**539**	**972**	**1,018**	**810**	**779**	**745**	**704**	**668**	**624**	**584**	**545**	**509**	**475**	**6,595**
% of Total EV				*3%*	*6%*	*7%*	*5%*	*5%*	*5%*	*5%*	*4%*	*4%*	*4%*	*4%*	*4%*	*3%*	*42%*

Figure 18: CAPM Assumptions

CAPM	
Ke	**10.6%**
Kd (BT)	**5.5%**
T	25%
D/(D+E)	13%
WACC	**9.8%**
g	2.4%
Base Year	2027
Valuation	
Net Debt (Excl. Eve) 2027	-424
EV 2027	15,502
Embraer's Stake on Eve	519
Minorities' Interest	429
Target Market Cap	16,015
Number of Shares	178
Target Price (US$/ADS)	**90.00**
Target Price (R$/sh.)	**116.00**

Figure 19: Historical Forward P/E Multiple

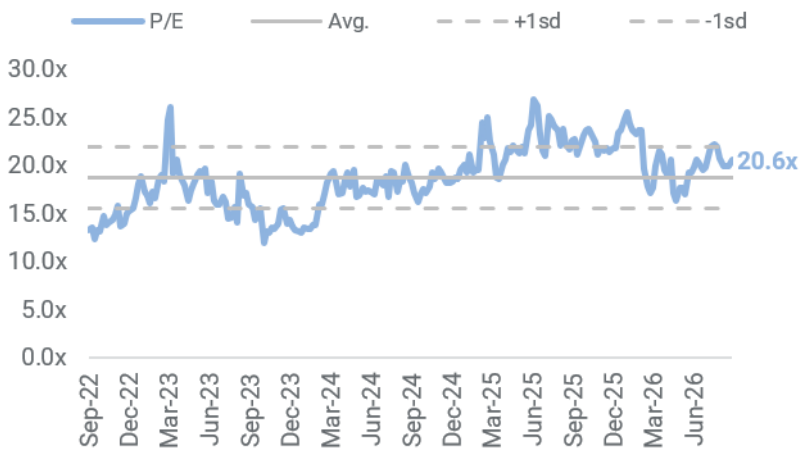
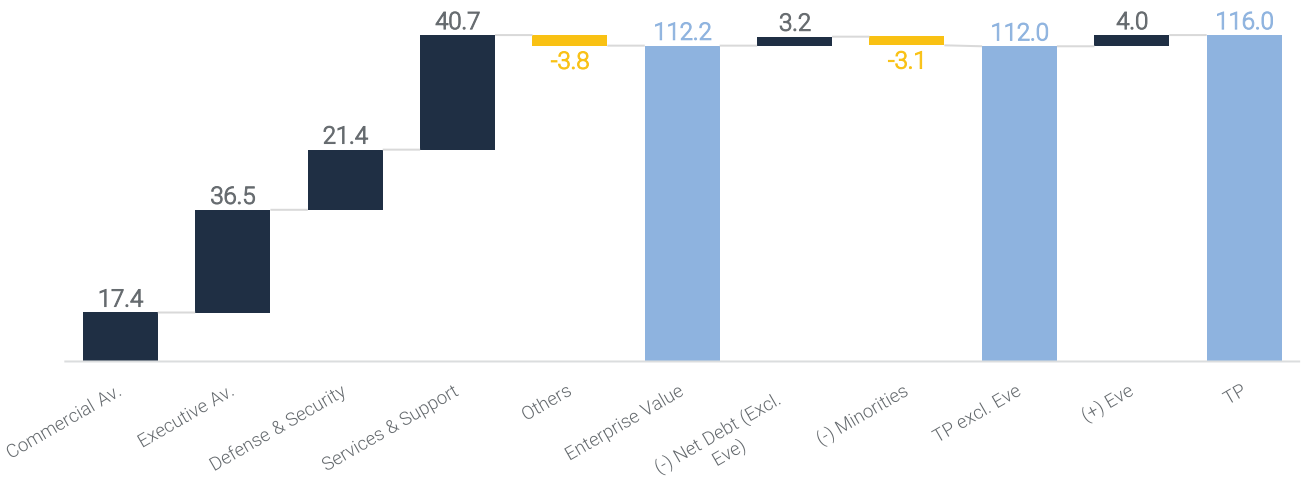


Figure 20: Embraer's Target Price Composition, R$/share (With Eve)



Main Estimates for Embraer

Figure 21: Main Estimates for Embraer (EMBJ3)

Main Estimates	2025A	2026E	2027E	2028E
Income Statement (US$ mn)				
Net Revenues (US$ mn)	7,577	8,537	9,525	10,867
Adj. EBIT (US$ mn)	657	838	1,027	1,257
Adj. EBIT Margin (%)	*8.7%*	*9.8%*	*10.8%*	*11.6%*
Adj. EBITDA (US$ mn)	889	1,082	1,289	1,534
Adj. EBITDA Margin (%)	*11.7%*	*12.7%*	*13.5%*	*14.1%*
Net Financial Results (US$ mn)	-340	-73	-59	-18
Pre-tax income (US$ mn)	317	765	967	1,239
Net Income (US$ mn)	352	610	705	899
Net Margin (%)	*4.6%*	*7.1%*	*7.4%*	*8.3%*
Balance Sheet (US$ mn)				
Total Debt (US$ mn)	2,712	2,757	3,147	3,524
Net Debt (US$ mn, w/o Eve)	298	-157	-424	-446
Net Debt/ EBITDA (x)	0.3x	-0.1x	-0.3x	-0.3x
Equity (US$ mn)	3,445	3,675	4,057	4,464
Assets (US$ mn)	12,920	13,527	14,842	15,925
Net working capital (US$ mn)	370	315	166	-248
Cash Flow (US$ mn)				
D&A (US$ mn)	232	243	262	277
Capex (US$ mn)	324	342	333	380
FCF (US$ mn)	491	863	814	578
Dividendos (US$ mn)	24	224	323	492
Valuation				
P/E (x)	35.1x	22.2x	19.3x	15.1x
EV/EBITDA (x)	10.7x	12.8x	10.5x	8.8x
Dividend Yield (%)	0.3%	1.6%	2.4%	3.6%
ROE (%)	11.1%	15.0%	17.1%	19.9%
ROIC (%)	12.3%	15.7%	19.4%	22.2%
Capex as a % of Sales (%)	4%	4%	4%	4%
Revenue Breakdown				
Commercial Aviation	31%	29%	29%	29%
Executive Aviation	29%	30%	29%	28%
Defense & Security	13%	14%	14%	16%
Services & Support	25%	26%	26%	27%
Others	1%	1%	1%	1%

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