

Boeing taking over Embraer's commercial jets in joint venture deal

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Embraer was founded as a state company in 1969 before being privatized in 1994

Boeing will take control of the commercial business of Brazil's Embraer, the companies announced Thursday, better positioning the US aerospace

giant to compete with rival Airbus in the market for smaller jets.

The announcement follows months of talks to allay concerns of the Brazilian government, which had veto power over the transaction and initially resisted ceding control to the US company.

Under the terms of the deal, Boeing will hold an 80 percent stake in the commercial part of Brazil's Embraer which is valued at \$4.75 billion, the companies said.

The deal would allow Boeing to offer planes with capacity up to 150 seats, a market it does not currently compete in.

It follows a similar strategic partnership by European arch-rival Airbus with Canada's Bombardier last October.

The American firm will have operational and management control over the new venture, which will be led by a Brazil-based chief who will report to Boeing chief executive Dennis Muilenburg, the statement said.

"By forging this strategic partnership, we will be ideally positioned to generate significant value for both companies' customers, employees and shareholders -- and for Brazil and the United States," Muilenburg said.

The companies are creating another joint venture to promote their defense products and services, especially Embraer's KC 390, a military transport aircraft vehicle.

Embraer's CEO and president Paulo Cesar de Souza e Silva said the tie-up would create a "virtuous cycle" for Brazilian aerospace, increasing sales potential and production and consequently adding value for shareholders and employees.

The companies said financial and operational details were still being finalized, a process which would continue over several months, after which the deal would be subject to shareholder and regulatory approval, including by the government of Brazil.

Embraer shares dive

Executives of the two companies have been in negotiations since news of the talks was reported in December. Shares of Embraer have risen more than 60 percent since that time.

However, the Brazilian company's share price fell hard after the partnership was formally announced. Just after 11:00 am, Embraer shares were trading at 24.85 reals (\$6.33), down 7.8 percent on the previous day.

Jason Vieira, a consultant at investment management specialists Infinity Asset Management, said the drop could be explained by investors "cashing in" on the previously share price.

He also said the market could be displaying surprise at the "somewhat less than expected" value of the new partnership.

Shares of Dow-member Boeing fell 1.1 percent to \$329.45.

Brazil government leaders initially opposed giving up control of Embraer to a foreign entity. However, the parties appear to have gotten around this concern by limiting Boeing's control to the civilian part of the business.

Embraer, the third largest aircraft manufacturer in the world, was founded as a state group in 1969 before being privatized in 1994, although the Brazilian government retained the right to make strategic

decisions for the company.

Boeing executives have for months expressed interest in the deal, while making clear they did not view it as a must-do transaction.

Muilenburg told a financial conference in late May that the Brazilian company's assets included strong engineering talent and new opportunities in the airplane services business.

A note from 24-7 Wall Street Thursday also cited Embraer's engineering capacities, in addition to the appeal of the smaller planes to compete with Bombardier.

"The company has figured out how to build two different airplanes on the same automated assembly line," said 24-7 Wall Street. "The E1 and E2 both have a mostly common fuselage, but a variety of engines, wings and landing gear. Having the ability to build both planes on the same line is a huge advantage."

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