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MANAGEMENT DISCUSSION SECTION

Sheila Kahyaoglu

Analyst, Jefferies LLC

Good morning, everyone. My name is Sheila Kahyaoglu with Jefferies Aerospace and Defense Equity Research Team. We have Boeing here with us, Brian West, who is CFO. Thank you so much for supporting our conference once again. And Matt Welch, who is Investor Relations in the audience somewhere and I don't see him. But Brian, thank you.

QUESTION AND ANSWER SECTION

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

You came out of the second quarter looking pretty awesome. Great trajectory. Since then it's been a mixed bag. So no summer holidays for you guys. We've heard about the 737 aft pressure bulkhead. So talk to us about the status of that issue and the trajectory of the recovery from here?

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

Yeah. Thanks for having us. We are squarely in the middle of a recovery. And keep in mind that recoveries tend to be lumpy, not linear, which is what you just expressed. But we know what we have to execute on. And it starts with delivering \$3 billion to \$5 billion of free cash flow this year, which we expect to do. And when we contemplated that range, we knew there would be some level of unpredictability. And guess what? We're seeing it. We're moving through it. We're looking forward. And as we look forward, even over a longer period of time, we still are committed to the long-term financial targets that we set out in November of last year at our Investor Day. \$10 billion of free cash flow, 50 737 deliveries per month, 10 787 deliveries per month in the 2025-2026 timeframe. So that remains unchanged. And what gives us confidence and underwriting that is the demand environment. The demand environment continues to be quite strong and very proud of our order performance as of the – where we are in the year and it's – it'll keep going.

Our job and the job of the supply chain is to drive stability and drive stability and predictability so that we can increase our rate ramps and we can deliver this backlog on behalf of our customers. The [ph] item (00:02:18) you're referring to in the fuselage was a step back from that stability goal. It is the aft pressure bulkhead section of the airplane. We know how to fix it, but it's early in the rework process and the rework hours will likely be higher and the cycle time longer than the vertical fin NOE, we had earlier in the summer. This is different. It's a bit more complicated, it's more involved. There's hundreds of holes that get inspected. There's an X-ray inspection process step that's required, and it's a very critical part of the airplane. So we have to make sure we do this right and we will.

It will impact about 75% of the 220 airplanes that were inventory – at inventory as the – as of the end of the second quarter. So it's large. In the near-term, it will impact deliveries, but we have no intention of changing the master schedule. As I mentioned, the demand signal is strong and we have to make sure everyone is coordinated on the longer term stability in that master schedule is very important. So we're not changing it.

In terms of our focus with our supplier, it is a 100% the most important thing we're working on right now. We've got literally armies of people from Boeing and the supplier working on this issue and to drive stability in their factory. And these are frustrating moments for our customers, for our investors and for our teams. If I think about it on one hand, it does reflect the transparent culture we're driving. Someone raised their hand, whether it's Boeing or in supply chain, and said something doesn't look right, and that's important. And that's we try to build every day going forward and we'll be stronger for that.

I would also have everyone think about fast forwarding to this 2025-2026 timeframe, we're Post-recovery and we have an NOE pop-up. We're not going to have over 200 airplanes finished goods inventory that we have to worry about. That'll be gone. So if we find something fast, we'll fix it fast and it will be much less disruptive and I think, we'll be stronger overall for it. But a new development not ideal, but we believe it works through it.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

And clearly doesn't change the long-term and it's a short-term hiccup. How do we think about expectations for the third quarter, whether it's from a cash or delivery standpoint and production on the MAX?

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

Let's start with BCA deliveries on the 737. August, 737 deliveries were 22. The third quarter will be about 70, obviously both lower and impacted by this latest fuselage item. In terms of the full year, we have a range of 400 to 450 for the 737 deliveries. We're not changing that range, but I expect it to be at the low-end of that range and there will be puts and takes as we learn more and we will. Again, we are a bit in the early stage of this, but the team is very focused.

In terms of BCA margins, BCA margins will be negative in the quarter and they will be similar to the first quarter margins of this year impacted by this lower volume of deliveries in BCA, as well as some higher period costs, including R&D. Moving on to BDS, BDS margins will be negative in the quarter and also similar to what they were last quarter. We have persistent supply chain and labor stability issues that we continue to work through and it's in two areas. It's in the 25% of the revenue that I recently described as a few legacy programs that we know how to make, that we just got to get back on track. That's proving to take longer. We also have 15% of the revenue base, which is fixed price development contracts that has new pressure and we need to address it, account for it in our closing position and we will.

If I move on to taxes, full-year tax expense is going to be \$250 million approximately, which will take the full year – which will result in a full year negative tax rate. And what will happen is as we close the third quarter, there will be a cum-catch that we've got a true up on. And in terms of free cash flow for the third quarter, we expect free cash flow for the total company to be slightly negative, but we still expect us to hit our free cash flow range for the year of \$3 billion to \$5 billion.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Makes sense. Thanks for that. Let's talk maybe some positive news on China, given remarketing we saw, you're down from 140 before down to 85 and I've had the luxury of calling some FAA control towers to see if there's movement on these Chinese aircraft in inventory. So talk to us about what's going on with China? You've de-risked it. How do we think about a potential restart and the outlook there?

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

Very important market. And we've been serving our customers in China for 50 plus years. And the demand signals that we see both in China and globally are pretty strong and we see that firsthand with our progress on returning the MAXs to service. Right now, 97% of the MAX fleet is now back in service, which is pretty much bringing that phase of the program to completion, which we're very happy on behalf of our customers to be able to get through this.

Now, in terms of the next stage on deliveries, we will always follow the lead of our customers. And as they partner with their regulators to determine what the timing and the pacing are of deliveries, it'll be up to them, but we stand ready. A very important to us. And in terms of our impact on outlooks, near-term, there won't be any impact. And longer-term, as we've said before and we think about that long range financial framework that we put together in the 2025-2026 timeframe, we always did that ex-China and largely because we're sold out on both programs through that planning cycle. So we're talking something that's more end of decade impact.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

That makes sense. Let's talk 787. How do you think about the rework versus production coming off the line? We're tracking about 40 deliveries year-to-date. Your target is 70 to 80, I believe. What are the gating factors to get to 5 a month of production by year end and 10 per month over the next couple of years? And how do you think about the rate breaks to get there?

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

So 787, as you mentioned, we're producing at 4 per month, fully expect to get to the 5 per month by the end of the year. And the work on the joint verification or the inventory to airplanes is progressing as expected, which gives us confidence that we will be within that 70 to 80 airplane deliveries this year. The gating items to be at 5 where we expect to exit this year and then getting to the 10, which we expect in the 2025-2026 timeframe, it's very common theme. It'll be supply chain health, stability, and quality. And we have lots of resources both in Boeing and the supply chain that are looking at where the pressure points are and where the readiness is as we move from the end of this year into the future periods. Of course, there are rate breaks in between 5 and 10. It'll be similar to what they've been historical and it's all contemplated in the master schedule that's with our suppliers. So there should be no surprise and our collective job is this theme of stability and making sure we're ready to be able to fill the demand to the customers. And, we're making progress.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Let's talk 737 and 787 cash margins. What are expected cash returns of that program today versus pre-pandemic levels? And I have my estimates for 2026 that double on a cash margin basis. So maybe if you could talk about those and the opportunities there?

Brian J. West
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

Sure. First thing to consider is that on the cash margins, these both 737 and 787 are sold out through our planning window. So this 2025-2026, I continue to refer to, which means pricing is firm and it's in the forward look. Now margins today on both programs are positive, but lower than they were in 2018 as you point out and that's driven by a few things. First of all, production rates are lower now than they were. We have two dual factories that we've had to stand up to support the inventory of airplanes on both the 787 and the 737. We have 787 customer delay concessionary impacts. We've got some unfavorable mix.

All of that is pressuring those margins. If I look forward to when we get post-recovery, just about all of that's behind us. Just about all of that's behind us. And we'll see a 737 cash margin rate that'll look a lot like it did in line with 2018 and 787 cash margin rate that will be higher than 2018, largely because of the Dash 10 model mixes, as well as the Charleston consolidation. So feel good about where that's headed, work to do from now through then as we move through the next year plus.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Let's roll it all together in terms of BCA margins, how do we get back to double-digit margins? How much of that is rate going up, concessions going away and abnormal costs going away?

Brian J. West
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

Yeah. So GAAP margins today impacted by the abnormal expenses that you highlight as well as these two dual factories. As we get abnormal behind us exiting this year, we expect BCA margins to be positive next year. And when we think about getting from where we are to double-digit, there is a massive amount of productivity that we will harvest by taking rates up and shutting down these dual factories. And we'll have this opportunity to take highly skilled labor that's been working on the inventory to airplanes and pointing them towards new production airplanes. And we expect that to be significant.

We also expect us to have a drag from the 777X entering to service around 2025 as normal. When they start off, there's a bit of a drag. Net-net, all of that's factored into a game plan with BCA that we have confidence in. The roadmap is clear. It's all about execution and it's all in our control.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Let's talk defense a little bit. It's been volatile to say the least. What are the biggest goalposts for reaching stability in that business? You've highlighted 15% of the business that's fixed price, a 25% of the portfolio that's seeing, contract issue, handful of program issues, what are the markers and timelines for defense to reach a positive contribution?

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

We still expect BDS margins to be in the high-single digits by the 2025-2026 timeframe. Now, how do we get from where we are to that moment? I'll accentuate the positive. 60% of the BDS portfolio are products that have strong demand to performing well in the field, and there's good margin behind it and we can't take our eye off that ball to big one. The 25% that I referred to, like a few legacy programs that we know how to make, that the goalpost will be over the next several quarters, we have to start to see progress. It won't be flip of a switch, it can't come fast enough, but it's going to take us a little bit of time. But the goalposts are such that by the time we exit 2024 and we start to get close to the 2025-2026 timeframe, they will be in a dramatically different position and they'll look a lot like they normally did. Again, that's 25% of the revenues.

On the fixed price development programs, I can tell you how frustrating these can be at times. I will tell you that we continue to put milestones on these programs in the rearview mirror and we can't get to the finish line fast enough. The roadmaps are clear. I appreciate the performance can be volatile, but we have to get through them and put them behind us and we will.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

What's next on defense in terms of a milestone we should look forward to?

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

I would say as we exit next year and we go through the back half, this 25% that we keep referring to has to show indications of improvement. And the fixed price development contracts, there are known milestones that are out there. We just have to, very deliberately check them off the box and we intend to.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Let's talk about your service business. It's a really positive bright spot either eclipse pre-pandemic levels on the commercial side of the business, what's next there and how has the business changed over the last few years?

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

Yeah. We love our service business. It's a franchise that is built for decades. They did a very good job in the pandemic to be quite disciplined. At the same time, they thought about forward deploying the right inventory they thought would move quickly and they are benefiting from a robust commercial recovery. The team is also focused on profitable, capital efficient top line growth, and they're not chasing market share. They go after high margin IP heavy content that's got digital capability around it because that'll be the future of any service franchise future and they've got plenty of ideas and for them it's making sure that we allow them to invest appropriately to keep the business growing in a very attractive way and we will.

They are incredibly important to the stability of our near-term and long-term financial targets, and they keep performing at a very high level.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Can you talk about the strong margins there? Or how do we think about the outlook for profitability and what's the cash conversion of that business? Should we think about EBIT contributing 100% of cash flows?

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

Cash flow conversion is very high and it's historically has been high and we don't expect that to change. In terms of the margins, we will see probably a little bit of an elevated margin levels even through the first half of this year, driven by a very strong market recovery. And we've got two businesses at the same time, both defense and commercial, doing very well. That won't always be the case. So will that come back down a little bit? Sure. But we're committed to be in that middle double-digit range of performance on margins. And as they continue to perform, our expectations might start to get a little bit higher. But I also want to make sure that they have appropriate resources to invest because again, this is a 50-plus-year franchise discussion that we're having and they're doing a really good job at it. But don't think there'll be anything that will change the complexion of this business, and we're happy to invest in it.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Talk to us about the \$10 billion free cash flow target you put out for 2025-2026 timeframe. What are the puts and takes there? It feels like demand across the business could not be better outside of defense.

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

So if we're at \$3 billion, \$5 billion in 2023 and getting to \$10 billion, the biggest mover is going to be BCA productivity without a doubt, and it will come in the form of the higher rate ramps as we go from 38 to that 50 number over time. That's big. The dismantlement of these two dual factories, which are heavily resourced, that will all go away. Those are two very big drivers of how we get from where we are to the \$10 billion of free cash flow. We also expect lower interest payments and on the other side of the equation, we expect – by the way, we also expect the BDS business to be contributing positively out in the 2025-2026 timeframe like they normally should at a reasonable cash conversion rate versus today they're a drag. That'll be a shift.

And then on the other side, we expect the 777X to be a pressure as expected as its early days of that programs, all contemplated in our numbers. And then, of course, we look forward to investing organically in the business. So we'll increase the investment levels and we'll also be paying cash taxes. Those are the big puts and takes. It really is centered around the flip of BDS and the harvesting, the productivity of BCA. And again, these are elements that are under our control. We know how to go execute from here to there and that gives us confidence.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Make sense. Boeing did \$13.6 billion of free cash flow in 2018. A lot of bears say that number had risk to it, given advances and positive order momentum. But it could just be viewed as a normalized cash flow number. So how do you think about the both the risks and opportunities relative to pre-pandemic free cash flow?

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

Yeah. I'm not quite there on the upside, I think the \$10 billion reflects a set of assumptions that we feel very confident in and we think are ones our numbers that we have ability to meet. When we get close to that, perhaps a relook, but right now that's the right number for us. And there'll always be a temptation to look backward. And

there's reasons that you described that of why that might have been higher then. That's not what we're contemplating in our go-forward look. And I think that's a reasonable, pragmatic set of assumptions.

Your other question was....

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Risks and opportunities....

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

....risks and opportunities.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

You're not buying my \$15 billion by 2026.

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

Yeah, I'm not there. We'll stay with the \$10 billion by 2025-2026. Yeah, I think, I pretty much talked about what the puts and takes were. We just have to focus on getting ourselves through this recovery to that moment where we can look forward and have evidence that it's over and we're not there yet. So right now we'll stick to our forward look and we're chasing it hard.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

And then, when all this gets together and, how do we think about capital deployment from there? A minute ago, you mentioned potentially higher investment, just as the business continues to improve, how do we think about normalized cash levels that you keep on the balance sheet? What you deploy, your target leverage levels?

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

A

All of that is an important discussion that we intend to have at the right time. In terms of the cash level to run the business, I think \$10 billion has always been the number that we've been comfortable with, and I don't see big changes in that. But in terms of what capital deployment looks like, once we get out with evidence of that 2025-2026 timeframe, that's all the discussion that we look forward to have with our investors and our board and it's just premature at that time. But we expect it to be robust and we expect to be thoughtful and we can't wait to have it. But we got to get through the near-term in order to have the ability and be in a position to, with credibility, have that conversation.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Great. Well, thank you very much, Brian, for this. And thank you, everyone for listening in.

Brian J. West

Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

Thank you.

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