Corrected Transcript

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# The Boeing Co. (BA)

## TD Cowen Aerospace & Defense Conference

# CORPORATE PARTICIPANTS

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

# OTHER PARTICIPANTS

**Cai von Rumohr**
*Analyst, TD Cowen*

# MANAGEMENT DISCUSSION SECTION

## Cai von Rumohr
*Analyst, TD Cowen*

Thank you all for coming. We're delighted to have with us The Boeing Company. And from Boeing, we've got Brian West, the CFO. And Brian, you may want to make some forward-looking comments first or comments about forward-looking comments.

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

It's [on] the screen. But other than that, I would say upfront, once again, on behalf of Boeing, we apologize to Alaska Airlines, its crew, its passengers for the accident on January the 5th and to our customers broadly who were impacted by the disruption. We will continue to cooperate and work transparently with all stakeholders and move forward. Second thing is, we had earnings two weeks ago, so I don't have a lot of new information to report.

## Cai von Rumohr
*Analyst, TD Cowen*

Okay.

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

But certainly provide any color or context that you might find helpful.

# QUESTION AND ANSWER SECTION

**Cai von Rumohr**
*Analyst, TD Cowen*
Q

Well, in that regard, so the FAA has talked of tighter oversight. Obviously, they did oversight before the Alaska incident. So what are you seeing in terms of or what do you think they might do in terms of what does tighter oversight mean? And does it also extend to other planes other than the MAX?

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

So as you point out, we are familiar with the FAA inspectors and auditors being in the factory. Of course, they still ticket the 737. But we take full accountability for what's happened here. And we have a comprehensive view of how we go in and help the factory get to a different spot and strengthen quality. And the FAA has increased oversight, and we welcome it. We believe the scrutiny from ourselves, from the regulator, from our customers is only going to work to make us stronger. We also have to acknowledge that if we go slow and we stay at these cap rates for longer, we respect that. And right now, we have a 38 per month cycle, the supply chain it's cycling to, first half output will be lower than that because we have to acknowledge that we have lots of things to focus on in terms of keeping the airplanes in position longer so that we can incorporate all the learnings that we're finding. And that's just fine.

And then in the second half, I would fully expect us to move toward that 38 per month, but it will be dictated by the regulator. Regarding the oversight itself, there are 26 inspectors. They are focused on the MAX, both in Renton and in Wichita. The audit plan has been outlined. It's clear. We're two weeks into a six week audit. The next milestone will be the conclusion of the audit, and then from there it'll be whatever the FAA decides to do and they'll determine next steps. In the meantime, we'll learn lots of things and we will make sure that we continue to build every next airplane with higher and higher quality. So we are perfectly fine with where we're at and we'll be cooperative.

**Cai von Rumohr**
*Analyst, TD Cowen*
Q

So you said you're cycling at 38. I think Pat Shanahan said we're going at 42, but really we're building at 38. What's the rate at which you're building?

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

Yeah. So right now we're in the position where we have to do things like pause the line.

**Cai von Rumohr**
*Analyst, TD Cowen*
Q

Right.

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

And we are doing that so that we can get the benefit of our audit, we can get the benefit of our own inspection protocols. And that will just slow the line.

**Cai von Rumohr**
*Analyst, TD Cowen*
Q

Right.

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

Slow final assembly and slow output. And again, we are perfectly comfortable to do that so that we get to a point we are even more stable and more predictable.

**Cai von Rumohr**
*Analyst, TD Cowen*
Q

So but, I mean, is that like a 30 to 35? I mean, any sort of range you can give me?

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

Really what I would only say is that the first half will be lower output.

**Cai von Rumohr**
*Analyst, TD Cowen*
Q

Got it.

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

And the back half will be towards cycling into that 38, mostly because it's an uncertain moment.

**Cai von Rumohr**
*Analyst, TD Cowen*
Q

Right.

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

And the last thing I need to do is put the kind of expectations a little too quick.

**Cai von Rumohr**
*Analyst, TD Cowen*
Q

Absolutely. So I guess one of the big issues is you kind of dropped seeking the exemption for the engine anti-icing redesign. I think, Dave talked of nine months to kind of get it done. He said, but we're going to put engineers on to see that you can get it done more quickly. How much more quickly could you get it done? Any rough range?

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

So we are adding and applying resources and engineering at this problem to solve it. We are not doing anything other than applying the appropriate levels. And in terms of the timeline, I would go back to what we said in earnings, which will be inside of a year. Keep in mind that we have to get a robust design. We have to do all sorts of analytical and test protocols, both with the team in Renton, as well as the engine manufacturer. And that just takes time and we'll take the time. It's intense and it will be robust and we have to just allow them to do the work.

Just applying resources is only part of the answer. We've allowed them to do their work at pace and then ultimately provide to the FAA all of the things that they require for them to make the determination on certification. And we will do that diligently. But I wouldn't try to suggest that it's any sooner than 9 months. I think it's between that 9 to 12 month range that we talked about in earnings.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

So is that the long pole in the tent, like if you get it done in 9 to 12 months, it will just be a couple of weeks till you certify because I assume all the other activities with certification are kind of moving forward.

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

A

So with regards to certification broadly, maybe we'll talk about the big ones in front of us. On the 737-7 and the 737-10, things are progressing pretty well. On the 737-7 specifically, very close to finishing the analysis and the documentation that we're required to provide. And now we focus on this anti-icing. On the 737-10, the 737-10 is progressing well as with the flight test plan that commenced in December of last year. Keep in mind that the airplanes been flying for two-and-a-half years ahead of when the FAA started its flight test program. So there's lots of experience.

And on the 737-10, we will finish the flight test certification. We will do the anti-icing solution from the 737-7s common. And then we will do all of the analysis and documentation that will be required and take lots of lessons learned from the 737-7 process that we just hopefully will finish at some point soon and then the FAA will make a decision.

The good part is that across the 737-7, the 737-10 and the anti-icing, those are three different teams working on that importantly. And those teams will move forward as long as we keep applying the resources and the regulator keeps applying the resources we see that these will get certified. Trying to call it timing relative to the 737-7 anti-icing too hard right now.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Right.

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

A

But the resources are there and it's very collaborative with the regulator.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

So you said, you mentioned earlier, you're going to be held to 38 a month in order to get there in the second half. What does that mean for the supply chain? Because some guys are going a little bit faster, some guys are still catching up. What does it mean for your inventory?

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

A

So holding the rate is a chance for us to double down on stability. So supply chain issues, we can continue to work them. The factory stability, we can continue to make operational improvements. We will strengthen quality and all of that we think is goodness. We will keep the master schedule ahead of final assembly. And while we will still supplier by supplier maintain flexibility, our overall approach will be that we can avoid instability and broad movements in the supply chain by holding supplier build rates pretty steady.

And that's important because that's what they've asked us to do. And yes, if that means we have to hold more inventory, we'll do that, because our view is that if we could keep everyone focused on stabilizing at these levels, then we can make sure that we do rate breaks that will be in a much more stable position to be able to not have some of the issues that have been hampering us historically. So it's an investment that we'll make and we think it's a good investment. And if inventory spikes as it will this year, we feel like we can handle it from a cash flow perspective.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it. So obviously less out of station work is better productivity. When you stand back, if you think about what's going to be in the second half, is this a blessing in disguise? Because my recollection is whenever you try to move up more quickly and work gets done, it's traveled here, there. But basically the numbers don't do what you want the numbers to do.

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

A

That's true. Moving work out of station or traveled work has been a long journey for the company. And I view it, yes, as a productivity benefit, but is dwarfed by the quality benefit. By having less traveled work, it's more predictable, it's more steady, it's more repeatable, it's higher quality. And that is our focus. Yes. Will some productivity come out of it? Sure. But that has to be rooted in a effort around quality.

And if we reduce the traveled work, quality will certainly get better. And for us, what that means is that you have to get the supply chain, who is a very big part of eliminating traveled work, to a spot of stability, reinforcing what I just said a minute ago, because ultimately getting the right part and the right tool at the right time for the mechanic so they can go apply to the airplane is job one. And we have made improvements in that area. We'll make even bigger improvements. And yes, it is a bit of a silver lining because we're going to be able to go a little slower so we can get it right and then be able to do rate breaks in a much more predictable manner. So we will take advantage of this window we have and do our very best to get it right.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

So what about labor availability and attrition rate? Is that getting better, about the same, a struggle?

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

A

So we have been and we continue to invest in our workforce. I would say that attrition is low and our ability to do offer acceptance rates is pretty high. Just to get some numbers out there, in 2019 – since 2019, our engineering is up 10%. Our manufacturing is up 11%. Both are higher than they were pre-pandemic on an absolute basis. So there's more resources coming in. Attrition is 3%, which is better than it's been in the last couple of years. Our offer acceptance rate is over 80%. That's better than it was last year. So just a few data points. But what we take away from that is people still want to come work at Boeing, and that's important. And secondly, we have the opportunity to give our people very fulfilling careers and they want to stay. So pretty good on that front. We spend a lot of time investing in it.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Yeah. So you talked about the shadow factories in order to deal with all the 737s and 787s that are there. It looked like you're able to deliver 50 MAXs in the fourth quarter from the shadow factory. What does that pretend for the delivery rates in 2024? How should we think about because now we have the FAA in there, what should we think about a range of how many you can do from the shadow factories?

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

A

So on the 737, it's a rate of probably about 10 per month is usually something that's fairly predictable. What you point out is a little bit of a spike that was driven by the Spirit...

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Right, right, right.

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

A

aft pressure bulkhead in August. So at the end of September we had about 30 airplanes higher in inventory. That balance actually grew if you remember...

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Right, right, I do.

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

A

...by 30. So we were able to catch that up a bit in the fourth quarter, which is why it seemed like we're moving through them a bit quicker. We were just able to rectify that issue. And as we think about going forward, there are 140 airplanes in inventory that were built before 2023. We fully expect to have that largely behind us as we exit this year because we want to shut down that shadow factory and liquidate that inventory and get airplanes to our customers. That's incredibly important. So we're able to work through the issue in the fourth quarter. That part of the business continues to be steady.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

So you think 10 a month, even with the FAA there, that sort of near that rate is feasible?

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

A

Right now, because this is a contained factory and Moses Lake on the 737-8, we believe that we will just continue to be able to run that production line consistently. If there's FAA involvement, we welcome it, but I don't think that's going to take us off track. We just have to make sure that our two big end customers, China and India, continue to want to take those airplanes.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it.

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

A

And we expect they will.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Yeah, I think you mentioned, what, there were 25 737s in inventory that still have some work in process. What needs to be done with those?

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

A

Yeah, those are airplanes that got caught up in whip, given lots of disruption in the course of the last 12 months. In many cases, that's just – they need, they're subject to part shortages. We'll expect to deliver those this year. That's not anything that's a concern.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it. Okay. And how about the shadow factory on the 787?

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

A

So on the 787, we had at the end of last year 50 airplanes that required rework and those 50 airplanes we expect to move through the rework this year and gives us the ability to shut down that shadow factory. Not every one of those 50 will fly away by the end of the year. There's some customer fleet planning things that will not make that one for one. But the important point is that the rework will be complete. It'll allow us to shut down the shadow factory and move labor from reworking airplanes to working on new production.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it. So how many MAX 737-7s and 737-10s were in the delivery schedule for like 2024 and early 2025? And does the fact that you're moving the certification out in time, does that disrupt the total number of deliveries you can do or how does it impact it?

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

A

So just some context. At the end of 2023, we had 35 737-10s in inventory. And then certainly those will get some level delay and we would expect to build on the 737-10, 10 to 15 on the line. So those aren't significant numbers.

I think the heart of the question really is the 737-10. And for us, we just think that the 737-10 is a great airplane. It's got high customer interest. And we're in a position where the skyline is flexible with the MAX family, where we can take manufacturing production plans matched up against customer fleet requirements and be able to satisfy the demand with our production profile that won't have a lot of disruption and that's just the flexibility of the skyline. So we're working hard at that. Don't see a major disruption and we'll continue to watch those certification milestones in front of us. That's job one.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

So I seem to remember from the Investor Day that someone you, I don't know who said that, basically it takes 25% more man hours to do a plane out of inventory for the 787. And it's somewhat higher for the 737. So it's more man hours than if you're just we're going through final assembly. What do those numbers look like today, roughly the relatives – relative to final assembly?

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

A

So you're spot on. For both programs the way I would think about it is that the amount of hours it takes in the shadow factory is pretty much the same if not a little bit more on the production line. And that just tells you the opportunity that sits there. Once we liquidate the inventory, shut down the shadow factories, and then be able to take that highly experienced labor and point it towards new production.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

And I think, what, your head count, I think in Seattle was up like 10% last year. Is that more or less right? But I mean if that happens, I mean, so the shadow factories are shutting down. All these people are freed up, they move to the line. What does that imply for your overall hiring needs over the next year or so?

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

A

I think that's one of the best gifts we have is that we will be able to steadily have a labor environment that can handle; one, being able to get the factory stabilized again. And then two, at the point where we're allowed to increase our rates, it will be ready for it.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Yeah.

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

A

Keep in mind, we've had since November of 2022, we've been staffed at 38 per month for the 737. And what that has allowed us to do is, yes, work on shadow factory but also create an environment where we're doing more and more training of our people so that when they get on the airplane, they have relatively more experience. That's very, very important. So that's an investment in our workforce so that when we do get in a position where volume goes up, they're better positioned. And that's something that is going to, I believe, give us – make us, had us in a much better spot as we think about the future and where we're willing to go.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it. So how should we think about cash margins on the 787 and the 737 going forward?

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

A

So long term, structurally, the cash margins for both programs are intact from what we talked about before. On the pricing front, we're sold firm on the 787 and the 737 through 2027 and 2028, respectively. So that is more or less set. When you think about the near term margins for both of the programs, they'll certainly be volatile as we work our way through the recovery. But when you get out to our timeframe of 2025, 2026, you have a 737 cash margin profile that gets back pretty close to what it was in the 2018 timeframe. You have a 787 cash margin profile that will be better than what it was in the 2018 timeframe, largely driven by the 737-10 model mix.

So we still believe that once we get through what's in front of us, we get to a point where we have stability. You have a 737 and 787 that look different and better than what they're at today, pretty close to what we'd expect from the last time we spoke about this. So, all in all, I still feel good about it. A lot of work to do because don't – I think I keep coming back to this. The leverage that we're going to get by shutting down two shadow factories and then ultimately volume, those are important levers and they're right in front of us and we just have to be able to execute in a stable way for that to manifest itself.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Terrific. So the IAM labor contract at BCA, it's up in September. Give us like what percent of the cost of a plane is covered by that contract by those folks and sort of how do you approach negotiating for a new contract?

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

A

So broadly speaking, the cost of an airplane is 60% to 70% of parts. On the labor side, it's less than 15%. And that's touch labor, that's support labor and that's engineering resources. So there's a lot of pieces on that.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Those aren't all IMM?

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

A

No, exactly. The IAM will be smaller than that. And our view is that it's incredibly important. We kick off negotiations with the IAM in March. The contract expires in September and we fully expect to get to a point where we have an agreement and work constructively with our partners in the IAM.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

So what's the impact been of, I mean, Dave has basically been on the factory floor. You're soliciting inputs from them. Has that had any impact just in terms of the relationship, how they feel about things, how you feel about things?

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

A

Everybody at Boeing, all 170,000 people because of the recent events has a sense of ownership and accountability and a sense of confidence that we're going to fix this and get it better. Everybody, our IAM constituents and everyone else across the company. Times like these might bring a lot closer together, and I believe that as long as we stay constructive and collaborative and think about our customers who are long-standing customers, who need airplanes and believe in our product and believe in our people and have confidence in Boeing despite what we're going through, I think it's a big deal and hopefully we can work together to get something that's fair and reasonable and then move forward.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it. So, BDS, another loss in the fourth quarter. Where are you? You've talked about the recovery. When do the loss contract on the 25% of revenues that are from fighters and satellites and in profitable contracts begin? And when do you expect the problem fixed price contracts to end?

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

A

Broadly speaking on the BDS profile on margins, we still expect them to get to the high single digit level as we think about our long-term 2025, 2026 timeframe. And I'd make the point that what that means, high single digits, if you add in the benefit of the margins that sit over in our service business, that's Defense at 200 basis points. So you're getting closer to the, call it, just double digits. And that's what the team is aiming at.

You mentioned that we were negative 1.5 point in the fourth quarter. So we have a trajectory that we have to improve upon. There are three really important things we're working on. You mentioned the 25%. It's fighters and satellites. We know how to make fighters and satellites. They've been knocked around by a variety of supply chain and labor issues that we have to sort our way out, the contracts that were written in a different economic environment. And we're moving in the right direction. The good news is, is that we will lapse those contracts in this period and we'll be able to underwrite it with tighter underwriting disciplines reflective of the market environment, and we'll be able to make sure that we get the appropriate price points.

We'll have to prove that out quarter in, quarter out as we move through this year. But the team is focused on it. On the 15% that's fixed price development, again, we're working hard to de-risk the programs over time. Couple of the programs, we'll just have naturally fulfilled the customer requirements and we'll move on. Program like the Tanker is one that it's getting more stable and we've got opportunities long term to have that be a little more relatively accretive. And then of course the T-7, MQ-25, those two are the most true development parts of the portfolio and those are ones that we're excited to fulfill the requirements to deliver perfect products to the customers. And while they might go a little bump in the night from time to time, there's nothing that concerns us because the customer needs both of those platforms and we're going to deliver them. So there will be much more stability, meaning our fixed price development programs will settle down from what we've experienced over the last several quarters, and we'll move forward to de-risk and deliver.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

And what about the...

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

A

And the last piece is the underlying 60%, which is pretty good products with good demand in the marketplace.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Right. I was going to ask about the two bad guys, the Commercial Crew and the presidential aircraft. I think the presidential aircraft, 2027 so, I mean, those guys are going to be with you for a while.

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

A

So there's big milestones that will continue to de-risk that program. And we're quite confident with the team we have, the plan going forward and the work that's got to get done. We are applying even more engineering resources to help bring the whole enterprise to bear on that program. And we'll make progress. We're making progress every day. And yes, until it's delivered, we still have to think about ways to de-risk.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Right.

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

A

On the Commercial Crew, we expect to have a crew flight sometime this year. And then there are certain requirements that we have with the customer that we'll fulfill. But again, those are both fairly narrow, fairly bounded products and deliverables that we will fulfill, and then we'll move on and they'll be behind us.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it. So on the opportunity side, foreign sales were 20% of BDS last year. They should ramp like really nicely. I think when you were up 30%, 35%, historically, that's good profitable business. Talk to us about what should we think about potential international orders this year and where do you expect them to be as a percent of sales when we get out to 2025, 2026?

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

A

So as you know, 20% of sales is historically on the lower mix side. And if you look at the backlog for BDS, the backlog would suggest 30%. So that tells you over time we'll be able to move toward those historical levels. And we feel pretty good about some of the pockets of demand that we're seeing in our Defense portfolio. And the P-8, we had the wins in Canada, in Germany. In Australia, we've seen the Australian Government increase its investment levels on the MQ-28. The recent far news sets the Apache and Chinook up pretty nicely. And then, don't forget, T-7 and Tanker. We still think about international opportunities for those platforms as well.

And as you point out, all of that creates a nice accretive margin benefit for that part of the portfolio. So there's a few things to feel pretty good about in the Defense side of our business.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it. So you haven't provided a guide for 2024, but I mean, when I've listened to you before, you usually have provided some useful color in terms of the upcoming quarter or things that people should be aware of. Anything – give us a little color about how you've mentioned the second half stronger than about the first quarter we should think about?

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

A

It's a good question. The first quarter will be a cash usage. There's no doubt about it. Couple of things going on there. Normal seasonality, it's always the lowest cash of any quarter in the year. We're also going to have lower volume versus what we expected because of the impact from trying to drive stability at BCA with lower volumes. So volume will be down versus otherwise we expected because of we're trying to focus on the factory. We will also have the impact from customer considerations from the grounding. So all of those are going to be material headwinds to the quarter.

I will say that the first quarter of this year will look a lot like the first quarter of last year, but you have to normalize for two things. One, you have to normalize for the Tanker award we got last year, which was goodness. And then you also have to normalize for the customer considerations related to the 737-9 grounding this quarter. So when you factor in those two puts and takes, you get kind of a baseline that [to] 1Q 2023.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

And what about inventory? You mentioned kind of – and this inventory kind of go up a whole lot as a result?

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

A

So that is the impact of us focusing on BCA and having lower volume because we're going to drive the stability as well as the impact of being able to hold higher inventory.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it.

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

A

That will also be in there.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

So I think you didn't change the ultimate target, $10 billion. We're not sure whether it's 2025, 2026 later, but if you think about when you get to that number, how is the cash flow mix going to be different, if at all, from what you laid out in Investor Day?

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

A

So as we talked about on the call, we still have out there 2025, 2026 $10 billion, although timing is further to the right. And when we contemplated that, we knew that a large quantum was going to come from BCA and it was going to come from the benefit of unwinding two shadow factories and having the benefit of higher volume. The shadow factories will get shutdown, volume we still expect to be higher, although a little bit less ramp than we otherwise would have expected, but still pretty much intact generally speaking.

You then have BDS which, looking a year plus back got a little bit worse. So that'll be a little bit of a pressure. But we still have confidence that by the time we're getting towards the end of that period, the BDS business will look a lot like you recognize. There might be a little bit of pressure from what I otherwise expected, but I can make it up in other places.

BGS is better. BGS continues to grow, perform very well. Nice growth, accretive margins, high cash flow conversion. So we still believe that all adds up to something around $10 billion and it goes back to recover BDS and stabilize and grow BCA. The pieces aren't too different and it all comes down to our ability to execute which the underwriting case of that $10 billion was all about. We believe we know how to do this. It's right in front of us. There's no big stretches and what ifs. It's grounded in execution, and that's what we're focused on.

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**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it. So cash taxes started in 2023, actually the first year I think I can remember ever Boeing disclosing what cash taxes oh, lots of stuff on the taxes, but not with the cash taxes. So you started paying cash taxes in 2023. Where do they go in 2024, 2025? Is that a big change from the Investor Day?

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

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Not at the end, because we always had contemplated that there was an other bucket that was going to be a drag and that was going to be our responsibility to happily be cash taxpayers as we generate profitability. What the profile looks like for 2024, 2025 is going to be bumpy depending on the profitability profile. But what we're aiming at the end is unchanged and it will be a user of cash.

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**Cai von Rumohr**
*Analyst, TD Cowen*

Q

Got it. So as you think about this, what are, I mean – I think what the bigger risks are, but you've got big risks, bigger opportunities. If something goes better than expected, like the numbers are better, what do you think it's going to be? And if you kind of have a shortfall from what you guys are looking at internally, what do you think it's going to be?

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

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Cai, it's all going to be centered around our ability to stabilize the factory and move up in volume. And that is where our focus is on and do it in a way that is of highest quality to satisfy our customers and other stakeholders. So that's really the most important thing that we're focused on. Any puts and takes would be around our ability to stabilize and appropriate pace governed by the FAA. We got to be really careful that we don't get ahead of ourselves on that front. But if I fast forward and I look to the future, I see a wonderful backlog. We have, last year we had 1,576 net orders in our commercial business. We had over 600 in the fourth quarter alone. There's 5,600 airplanes in backlog,in BCA, which just gives you an indication that our customers are voting with their feet in the airplane. And that's important to remember. The demand environment remains pretty good.

There's pent-up demand for fleet replacement. There's good underlying growth fundamentals. So when you consider the resilience of demand and not necessarily having to "worry about that" then you focus all the attention on delivering on the supply side and that's where we're squarely focused. Very fortunate to have the demand profile underwritten by strong products. We just have to get the supply chain and our own factory stable and growing and we have high confidence we will, but we'll do it governed in the current conditions with the FAA. And like I said, hopefully silver lining, as you pointed out at least once, is that the factory and the supply chain can get more predictable. Having been through this and the other side of it, have more confidence with our customers.

**Cai von Rumohr**
*Analyst, TD Cowen*

Q

So you talk about demand being good last year, clearly it was like a whole lot better than I think anybody expected. Do you think that momentum carries into this year or at some point are people going to say, gee, I really don't want to order a plane for 2030?

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

A

Certainly last year was big and I'm not suggesting it repeats, but there still are active campaigns where we're out there trying to help our customers, satisfy their replacement and their fleet renewal plans and their growth plans. So still pretty resilient. Doesn't have to be a repeat of last year for us to still be able to have some pretty good growth in marketplace. So we remain optimistic on that front.

## Cai von Rumohr
*Analyst, TD Cowen*

Terrific. Thank you very much. That was great.

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

Thank you.

## Cai von Rumohr
*Analyst, TD Cowen*

Thank you.