

28-Jul-2021

The Boeing Co. (BA)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. Good day, everyone, and welcome to the Boeing Company's Second Quarter 2021 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation plus the analyst question-and-answer session are being broadcast live over the Internet. [Operator Instructions]

At this time, for opening remarks and introductions, I am turning the call over to Ms. Maurita Sutedja, Vice President of Investor Relations for the Boeing Company. Ms. Sutedja, please go ahead.

Maurita B. Sutedja

Vice President-Investor Relations, The Boeing Co.

Thank you, John. Thank you, and good morning. Welcome to Boeing's second quarter 2021 earnings call. I'm Maurita Sutedja, and with me today are Dave Calhoun, Boeing's President and Chief Executive Officer; and Dave Dohnalek, Boeing's Interim Chief Financial Officer. And as a reminder, you can follow today's broadcast and slide presentation through our website at boeing.com.

As always, we have provided detailed financial information in our press release issued earlier today. Projections, estimates, and goals we include in our discussion this morning involve risks including those described in our SEC filings and in the forward-looking statement disclaimer at the end of this web presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of certain non-GAAP measures.

Now I will turn the call over to Dave Calhoun.

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

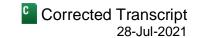
Thank you, Maurita, and good morning, everyone. I hope you're all staying well as we continue through this global pandemic, and please encourage everyone you know to get the vaccine if they haven't already.

With the onset of COVID-19 roughly a year-and-a-half ago, our worlds were turned upside down. As an industry, we faced it head-on and worked together every step of the way. While there is still a ways to go before a full recovery, we're encouraged by the continued progress on vaccine distribution and the uptick in domestic travel. We're also looking forward to further progress on coordinated international travel policies and protocols.

I've said before that we view this year as a critical inflection point, and it's proving to be just that. We are turning a corner, and the recovery is gaining momentum. Throughout all of this, we are continuously learning and adapting how we operate to best serve our customers, our suppliers, our teammates, our communities, and other stakeholders, and I'm proud of how our team has remained focused on our mission.

Before I go through our business update, I'd like to take a moment to recognize and thank Dave for Dohnalek serving as our Interim CFO. Dave is a proven, well respected leader here at Boeing, and I'm grateful for his partnership as we transition. As you know, we have appointed Brian West to serve as Boeing's next CFO. It's effective August 27. Brian's an exceptional leader with significant financial management, and long term strategic planning and experience in complex, global organizations across the aerospace, manufacturing, and services industries. And thanks to Greg Smith's legacy, he's inheriting a world-class finance team here at Boeing. I've

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worked directly with Brian previously in my professional career. He has broad operational expertise and will bring great perspective to our business transformation journey and post-pandemic recovery as he joins the team this month.

With that, let's start with an update on our business on the next chart. Overall, we've made important progress in the quarter as our transformation actions began to get traction and we focused on improving performance and driving stability across all of our operations.

Let's start with the 737 program where we've made significant headway. We resumed 737 MAX deliveries in May and have continued to support our airline customers' efforts to return those fleets to service.

In the second quarter, we delivered 47 737 MAX airplanes including our first 737-8200 delivery to Ryanair. The 737 MAX 10 also completed its first flight in June, marking an important milestone for the largest member of the 737 family.

As you may recall, roughly nine months ago we had approximately 450 airplanes in inventory, and we were awaiting approval from the FAA to begin returning the 737 MAX to service. Fast toward to today, and the progress is noteworthy. One hundred seventy-five countries have now approved the resumption of 737 MAX operations. We've delivered more than 130 airplanes. Our airline customers have returned more than 190 previously grounded airplanes to revenue service. Thirty airlines have returned their fleets to service. And those airlines have safely flown nearly 95,000 commercial flights totaling more than 218,000 flight hours. Importantly, the fleet has an impressive schedule reliability rate of more than 99%.

Airlines are operating over 1,000 revenue flights daily and just last week added nearly 3 million 737 MAX seats into second half 2021 scheduled operations, a testament to the value proposition the airplane family offers.

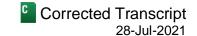
And as domestic traffic recovers, we believe we have started to turn a corner from an overall demand perspective. This was reinforced by five straight months of positive net commercial airplane orders, driven primarily by the 737 MAX. We are honored by the more than 280 additional orders during the quarter including those for United Airlines and Southwest Airlines, and we appreciate the trust our customers are placing in Boeing and the 737 family. These orders underscore our customers' commitment to continued fleet modernization, as well as the accelerating demand for air travel. These new 737 airplanes are designed to improve the customer experience while significantly lowering carbon emissions per seat.

At the end of the quarter, we had over 3,300 aircraft in our 737 backlog. We're currently producing 16 airplanes per month and continue to expect to gradually increase the rate to 31 a month in early 2022, with further gradual increases to correspond with market demand and, importantly, supply chain capacity. We will continue to assess the production rate plan as we monitor the market environment and engage in customer discussions.

As we previously communicated, the timing of remaining regulatory approvals will shape our delivery plans and our production rate ramp. We continue to work with global regulators and still anticipate that the remaining regulatory approvals will occur this year, including China. And, as always, we will follow global regulators' lead in the steps ahead.

Now I'd like to spend a bit of time on our business transformation efforts. As we discussed before, our activities in this area are organized around five pillars: infrastructure, overhead and organization, supply chain health, portfolio and investment, and operational excellence. We put rigor around each pillar and have detailed projects supporting each one. We are implementing these projects to create long-lasting change which will improve our

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competitiveness, help us grow our cash flow, and create a foundation to enable us to return to healthy margins even at lower production rates.

Many of the projects that we're executing have been shared previously and are widely visible, such as consolidating the 787 final assembly in Charleston, optimizing our facility's footprint to reduce nearly 6 million square feet of real estate, and forming strategic partnerships with IT vendors, accelerating our migration to the cloud. Other projects may be less visible externally, but they're improving our productivity, simplifying our operations, reducing bureaucracy, and driving first-time quality.

Through our business transformation efforts over the past year, we've reduced billions of dollars of costs, and our objective is that the majority of these savings is long-lasting, even when volume returns. At the same time, we remain focused on identifying new opportunities to further streamline how we operate. We've started to see the benefits of these efforts in our quarterly financial results which Dave will go through in more detail.

As we've discussed previously, we've been adjusting the size of our workforce to align with the commercial market environment reality and lower production rates. We now plan to keep our overall workforce size roughly consistent with where we are today at approximately 140,000. This will allow us to support the encouraging trends we've seen in the commercial market recovery to growth opportunities in our defense and government services business and increased investments to strengthen engineering and drive quality and stability into our production system where the payback is large. Going forward, the pace of the commercial market recovery, trade relations with China, production rates, and our own performance, our execution will be key factors of our overall employment levels.

Turning to our efforts to drive stability, with every action we are driving toward engineering excellence, production system stability, and first-time quality and delivery predictability while holding ourselves accountable to the highest standards. We're implementing comprehensive quality and productivity initiatives in our factories and strengthening our quality reviews within our supply chain. We conduct regular audits internally with suppliers to ensure adherence to approved processes and practices, ranging from production methods to documentation standards. And as part of our process, we proactively and transparently keep the FAA fully aware of our efforts.

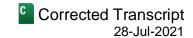
This enhanced rigor has helped identify areas that we can improve. And by identifying and correcting any issue at the source, while our rates are still relatively low, we can strengthen first-time quality, eliminate traveled work, and drive stability and predictability as demand returns. These efforts have played a key role in supporting a healthy and stable rate ramp on the 737 MAX, and we're applying this same approach to the 787.

Now, specifically on the 787 program, I understand the difficulties we have caused by the inconsistency in both our production rate and our delivery cadence. Impacts are felt by our suppliers and by our customers. I also recognize these uncertainties create challenges to the investment community to forecast our performance. We are determined to address these issues and will work tirelessly to do so, just like we have and continue to do on the 737 MAX.

We're fully committed to this methodical approach to driving first-time quality and stability in our operations. The issues that our engineering teams have identified, and we are now addressing are part of this purposeful process, and we have transparently communicated with our regulators and customers every step of the way.

We're progressing through these inspections and rework, including the additional work we shared earlier this month. We continue to engage in detailed discussions with the FAA on verification methodologies for the 787, and

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based on our assessment of the time required, we're reprioritizing production resources for a few weeks to support the inspection and rework.

As that work is performed, the 787 production rate is now lower than 5 per month and will gradually return to that rate. The exact timing of returning to a rate of 5 per month will depend upon our progress on production stability and delivering airplanes from inventory. Of the approximately 100 787s currently in inventory, we expect to deliver fewer than half of them this year. While this has a near term impact to our operations, I'm confident it's the right course of action, and we will continue to take the time necessary to ensure the highest levels of quality. Although it's been a long journey, we believe we're closer to the end than the beginning.

Let me touch on the 777/777X program before I move to other segments. The combined 777/777X production rate is two per month. We continue to see strong freighter demand, as evidenced by orders for 13 777 freighters in the quarter, providing a solid bridge to the 777X. On the 777X program, we are subjecting the airplane to a comprehensive test program, designed to demonstrate its safety and reliability as well as meet all applicable requirements.

We continue to communicate transparently with the FAA and other global regulators about certification, and like any development program, we learn every step of the way. We incorporate feedback from our regulators, and we mature and advance our product with every conversation, every engagement, every test, every review. We continue to make progress to the previously shared schedule, including certification work with regulators and conducting Boeing flight tests.

The performance data we've collected to date suggests the airplane is performing as we expected and to our customers' commitments. We will be validating these results in the near future, along with continuing to work with the FAA to ensure we meet their requirements prior to beginning certification flight tests. We continue to expect that we will deliver the first 777X in late 2023, as we shared previously.

Meanwhile, we continue delivering for our defense, space, and services customers. Dave will go through the financials in more detail in his remarks, but as you can see from the results, both our defense and services businesses had strong financial performance in the quarter. Let me highlight a few accomplishments.

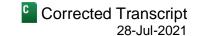
Our Defense, Space & Security team made history as our MQ-25 test asset completed the first ever unmanned aerial refueling of another aircraft, the F-18. We also joined the front fuselage of the first production T-7A with its aft section in less than 30 minutes, a testament to the digital advancements of the US Air Force first E-series aircraft and a demonstration of our model-based engineering and 3D design benefits.

Earlier this month, the US Air Force approved the KC-46A tanker for Joint Forces operational use of the center line hose and drogue refueling system which provides more daily operational capabilities. KC-46A tanker is of critical importance to our customer.

Moving to space, we began stacking the core stage of NASA's Space Launch System rocket with other Artemis I elements at Kennedy Space Center, and of course we're looking forward to the uncrewed orbital flight test of our Commercial Crew Starliner vehicle later this week.

Additionally, in our Global Services business, we announced that we will be opening two new Boeing converted freighter lines in 2022. We also signed a parts agreement with Turkish Technic and received a key contract to support C-17 training from the UK Royal Air Force.

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In addition to program milestones, we made key progress on our sustainability, innovation, and technology efforts. Just this week, we published Boeing's first Integrated Sustainability Report, which is an important step in our continued efforts to reinforce our environmental, social, and governance principles.

Also, we recently announced that we're collaborating with Alaska Airlines to fly an Alaska 737-9 aircraft in our ecoDemonstrator program. In fact, today, our ecoDemonstrator aircraft is at Reagan National Airport demonstrating to key leaders many of the new technologies and improvements we're making to enhance safety and support a more sustainable future.

Earlier this month, we also announced a partnership with SkyNRG focused on advancing the availability and use of sustainable aviation fuels, or SAF, globally. As part of this commitment, we will invest in SkyNRG Americas' first dedicated US production facility for SAF to help establish SAF supply for airports and airline customers largely on the West Coast.

Now let's turn to the next slide to discuss the industry environment. Our government services, defense, and space businesses remain significant and relatively stable. While increased government spending on COVID-19 response is adding pressure to defense budgets in some countries, others are increasing spending on their security. Overall, the global defense market remains strong, and we continue to see solid global demand for our major programs. The diversity of our portfolio will continue to help provide critical stability for us as we move forward.

Congress has kicked off the annual authorization and appropriations cycle for fiscal year 2022. The President's budget proposal called for strategic investments in Boeing products and services from across the BDS and our BGS portfolios. The budget proposal demonstrates confidence in the capabilities of Boeing's F-15EX and Apache, as well as key commercial derivative programs such as the KC-46 tanker and space programs like the Space Launch System, SLS, among other platforms.

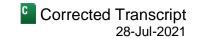
The FA-18 and the Chinook Block II remain critical capabilities for the war fighter both domestically and for non-US customers. We will continue to work with the administration and work with Congress to ensure the necessary support for these key programs are in place.

In the commercial market, while near term pressure due to COVID-19 remains, the recovery is accelerating, and many of the key long term fundamentals remain intact. In June, we saw global departures approach 70% of 2019 levels, up from less than 60% in the first quarter. We've seen encouraging signs in some markets, although the recovery continues to be uneven. In the near term, we expect the environment will remain very challenged for many of our airline customers and the industry as a whole as they adapt to this rapidly evolving travel demand. While vaccine dissemination is broadening and some travel restrictions are loosening, others are still in place, and some even tightening, which keeps significant pressure on passenger traffic.

Continuing the positive momentum we saw in the first quarter; domestic traffic is leading the recovery. May domestic traffic was 24% below 2019 levels compared to 50% the quarter before. Since then, it continues to pick up in regions like the US and Europe, and we anticipate continued improvement this summer. The US domestic market is showing remarkable recovery with summer bookings consistent with 2019 levels according to several airlines. TSA average daily throughput has already reached over 2 million passengers, around 80% of 2019 levels.

Additionally, some regions such as Europe, India, Latin America are recently seeing double digit monthly improvements in operations as vaccine rates improve and travel restrictions begin to loosen. While a recovery in

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China has wavered at times due to case rates, it remains robust with operations above 80% of pre-pandemic levels. However, passenger traffic in other parts of the world such as Southeast Asia remains significantly lower due to travel restriction uncertainty and new strains of the virus.

International operations remain extremely low, and May traffic still 85% of 2019. And concerns about virus variants and limited coordination on of cross-border entry protocols are still significantly hindering recovery in the international segment.

Nevertheless, on average roughly 100 aircraft per week have returned to service over the past four months, making the active fleet now approximately 80% of its previous size with single aisle activity levels slightly above twin aisle. And although utilization rates and load factors are increasing in some areas, they are still below historic levels, which means airlines are flying around 70% of their normal capacity at the global level.

With the toughest impacts appearing to be in the rearview mirror, airlines are shifting their focus to medium term fleet planning. The number of aircraft being retired from the active fleet is significant with around 1,500 airplanes and growing retired or announced to be removed since the onset of the pandemic. We anticipate this trend will continue as our customers focus on replacing the oldest, least efficient airplanes with new airplanes that will be as much as 25% to 40% more fuel efficient with commensurate reductions in emission.

The freighter market continues to be strong with cargo traffic year-to-date through May at 8% higher than 2019. Limited belly cargo capacity from passenger airplanes has resulted in more freighters flying with high load factors. In fact, 72% of air cargo is now being carried on dedicated freighters. That compares to 48% pre-pandemic. This demand is evidenced by orders in the quarter for 31 additional freighter airplanes and strong demand for Boeing converted freighters. Longer term cargo demand will continue to be driven by global trade and GDP growth, both of which experienced improvement in the second quarter.

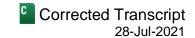
And we've shared previously, and consistent with IATA and other industry groups, we expect passenger traffic to return to 2019 levels in 2023 to 2024 and a few years beyond that to return to long term trend growth. We still see recovery in three phases. First, domestic, then regional markets such as intra-Asia, intra-Europe, intra-Americas, and finally long haul, international routes. Therefore, we expect demand for narrow-body aircraft to recover faster, as evidenced by our year-to-date orders for 737 MAX airplanes, and demand for wide-body aircraft to remain challenged for a longer period.

On the global trade environment, we welcome the agreement between European Union and United States that all future government support for the development or production of commercial aircraft must be provided on market terms. We will fully support the US government's efforts to enforce this agreement. We are also monitoring US-China trade relations given the importance of the China market to our economy and our industry's recovery, as well as our near term delivery profile and future orders, all of which influence future production rates. We remain in active discussions with our Chinese customers on their fleet planning needs and will continue to engage with leaders in both countries to urge a productive dialogue, reiterating the mutual economic benefits of a strong and prosperous aerospace industry.

Ultimately, America's leadership in aerospace as well as the health and stability of millions of commercial aerospace jobs rely on free and fair trade, and we're confident our leaders understand the importance of this area not just for our business but for the overall health of our economy and competitiveness.

Turning to the commercial services market, we saw improved demand in the second quarter as we are rebounding from the trough and as airlines prepare for the summer season. We expect this trend to continue near

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term slightly ahead of our expectations. That said, we still anticipate a multiyear recovery that may be uneven. Overall, industry liquidity, which remains critical for our industry and our industry's bridge to full recovery, it's been improving. Product differentiation and versatility will also be key as airlines adapt to the evolving market realities. I'm confident our product lineup is well positioned, and we're focused on executing to meet our customers' needs.

The impact of COVID-19 has been significant, and a number of challenges remain. But we are seeing signs of recovery. More broadly across the economy, we're now seeing positive indicators for economic growth. And we believe bipartisan agreements on infrastructure investment can further support growth across the economy, not just for airports and highways but also for the tens of thousands of small businesses and suppliers that contribute to industries like ours all across the country.

With economic activities picking up, labor availability within our supply chain is a watch item. As we position for a market recovery, we're taking the right actions to manage liquidity and drive long-lasting change to make our business leaner, sharper, more sustainable. We remain committed to safety, quality, transparency, and I'm confident in our path forward.

And with that, let me turn it over to Dave Dohnalek.

David A. Dohnalek

Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.

Great. Thanks, Dave, and good morning, everyone. It's good to be reconnecting with many of you that I know from my time in Investor Relations and throughout my career at Boeing. I'm honored to be in the role of Interim CFO and to help facilitate a smooth transition for Brian.

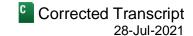
Now let's turn to slide 4, please. Second quarter revenue increased to \$17 billion, primarily due to higher commercial deliveries and commercial services volume. Positive earnings in the quarter also benefited from lower period costs. Additionally, several nonrecurring items favorably contributed to the quarter. Income tax in the quarter primarily reflects benefits from a lower valuation allowance.

Now let's turn to commercial airplanes on slide 5. Revenue was \$6 billion, reflecting higher commercial airplane deliveries. The improvement from the prior year was also due to a \$551 million 737 MAX customer consideration impact in the second quarter of last year. Although commercial airplanes operating margin continued to be under pressure, it improved in the quarter due to higher commercial airplane deliveries and lower period costs.

We delivered 47 MAX airplanes in the second quarter. We currently have approximately 390 MAX aircraft built and stored in inventory. We have made significant progress in our efforts to remarket some of our inventory airplanes and have now largely addressed that issue and put it behind us.

Just prior to the 737 MAX return to service in the US, we estimated that around half of the approximately 450 aircraft we had in storage would be delivered by the end of 2021 and the majority of the remaining aircraft by the end of 2022. That expectation has not changed. We expect delivery timing and the production rate ramp profile to remain dynamic given the market environment, customer discussions, and the remaining global regulatory approvals. There is no material change in our assumption for 737 abnormal costs or our assessment of the liability for estimated 737 MAX potential concessions and other considerations to customers.

Turning to 787, second quarter deliveries were light as we worked through the activities that Dave just mentioned. Our latest assessment of the financial impact of the inspections, rework, temporary production rate adjustment, and delivery delays has been included in our second quarter closing position. The 787 program margin remains



near breakeven. On a cash basis, these additional costs will create a headwind in the near term. However, we still expect overall unit margins to hold up relatively well.

Moving now to 777X, as Dave mentioned, we still expect first delivery of the 777X to occur in late 2023. We are making progress on our flight test activities. We still expect that the peak use of cash for the 777X program occurred in 2020 and that cash flow will improve as we get closer to EIS and begin deliveries in late 2023. We anticipate the program will turn cash flow positive approximately one to two years after first delivery.

We are starting to see improvements in commercial airplanes financial performance due to increasing 737 MAX deliveries and great efforts by the BCA team to manage costs through our business transformation activities. We also captured strong orders in the quarter, which is a testament to the value of our products and our customers' focus shifting now to fleet planning. Although the Commercial recovery will take time and we still have work to do, we're on a positive path, and we will remain focused on driving stability on the 787 program and across the business.

Let's now move to Defense, Space & Security on slide 6. Second quarter revenue increased to \$6.9 billion primarily due to higher volume on the KC-46A tanker program and the P-8A program. We posted a strong operating margin of 13.9% in the second quarter. The margin increase was driven by lack of a charge on the tanker program as compared to second quarter of 2020, as well as a favorable adjustment on a non-US contract. We received \$4 billion in orders during the quarter including an award for 14 Chinook helicopters for the UK Royal Air Force. We also reached an agreement with Germany for 5 P-8A aircraft. BDS backlog is currently valued at \$59 billion.

Now let's turn to Global Services on slide 7. In the second quarter, Global Services revenue increased to \$4.1 billion, and operating margin grew to 13.1% driven by higher commercial services as the market continues recovering from the impact of COVID-19. Operating margin was also helped by lower asset impairments, lower severance costs, and a favorable mix of products and services. During the quarter, BGS won key contracts worth approximately \$3 billion resulting in a total backlog now of \$19 billion.

We saw incremental improvement in commercial services during the second quarter, and we expect the quarterly revenue trend to improve as we support increasing airline flight operations. That said, given the dynamic environment, we can expect to see variability in the revenue and margin trajectory from quarter to quarter at BGS.

Now let's take a look at cash flow on slide 8. Operating cash flow for the quarter improved significantly to negative \$0.5 billion, reflecting higher commercial deliveries, higher order receipts, reduced expenditures on lower wide-body production rates, and benefits from our business transformation efforts. While we saw a cash flow benefit from order activity in the second quarter, keep in mind that we continue to expect advanced payment burn-down to be a headwind for the rest of this year and into next.

Now let's move to slide 9 and discuss our liquidity position. We ended the second quarter with strong liquidity including \$21.3 billion of cash and marketable securities on our balance sheet and access to \$14.8 billion from our bank credit facilities which remain undrawn. Our debt balance remains stable at \$63.6 billion at the end of the quarter. We expect to have lower total debt at the end of the year due to the pay-down of maturing bonds and potential early pay-down of our delayed draw term loan.

Given the dynamic environment, we maintain vigilance in managing our cash. Thanks to actions taken throughout the business to enhance our cash balance, we believe we currently have sufficient liquidity. We remain focused on reducing our debt levels and actively managing our balance sheet. Our investment-grade credit rating is

important to us, and we will continue to consider all aspects of our capital structure to strengthen our balance sheet.

Moving to the next slide, in summary, we operate in a dynamic business environment. We are seeing the commercial market recovery accelerating. However, it continues to be uneven across different regions, and the near term path remains challenging. Given this backdrop, we will continue to diligently cultivate opportunities and monitor risks. Our key enablers include vaccine distribution and travel protocols, US-China trade relations, remaining 737 MAX regulatory approvals, and resumption of 787 deliveries. Our financial performance in the second half of this year will largely be driven by these key enablers.

On cash flow, we still expect full year 2021 to be a use of cash. Despite additional pressure from the updated 787 delivery schedule, our expectations for cash flow this year have not deteriorated due to timing of advanced payment burn-down and favorable order activity. With respect to the quarterly trajectory for the remainder of this year, we expect continued variability in cash flow quarter-over-quarter due to timing of deliveries, as well as receipts and expenditures such as expected cash tax benefits and MAX customer settlement payments.

We still expect to turn cash flow positive in 2022. The key drivers of cash flow in 2022 as compared to this year include continued improvement on the 737 program due to lower customer considerations and higher delivery payments, as well as recovery in commercial services. However, advanced payments will still be a headwind in 2022. While our delivery expectations are now higher next year due to some 787 deliveries moving from this year into 2022, the related additional cash flow will be largely offset by the burn-down of advanced payments next year.

To close, while focusing on safety, quality, and operational excellence, our team continues to closely examine all aspects of our business, simplify and streamline everything we do, drive stability in our operations, and make long-lasting change. I'm honored to be a part of such a strong team and look forward to our bright future.

With that, I'll turn it back to Dave Calhoun for closing comments.

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Thanks, Dave. I appreciate it.

As we continue to transform our business, we remain committed to quality, safety, integrity, and transparency in everything that we do and every action we take. I'm extremely proud of the resiliency and dedication of our team, and I remain confident in our future.

With that, Dave and I are happy to take your questions. Thanks.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Hi. Good morning, everyone.

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Hi, Noah.

David A. Dohnalek

Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

I wanted to ask about margins given the performance in the quarter, and you talked a lot about the business transformation. Is there any way to quantify what you're gaining in the aircraft business, whether it's a structural cost-out or where the MAX and 87 production rates need to be to achieve the margins they had last cycle? Or anything along those lines? And then, can we expect BDS and services margins to continue to march higher from the levels they achieved this quarter? Thanks.

David A. Dohnalek Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.

Yes. Noah, thanks for that question. So, let's start with maybe BDS and BGS. As you know, BGS before the pandemic was sort of a mid-teen margin business, and I think you saw some significant progress towards that this quarter to 13.1%. So, I think that will depend from quarter-to-quarter on mix. There's variability in many, many programs in BGS, but I think we're seeing positive trajectory there. And we see a path to getting back towards those mid-teen margins over time.

In BDS, strong quarter on margins with 13.9%. Now, some of that was due to, as we mentioned, higher or a benefit from a non-US program adjustment that benefited the quarter. Even if you sort of strip that out, BDS performed well and in kind of the low-double digit margin territory that they've been in good times when we're not taking charges. So clearly the fact that we didn't take any significant charges in the quarter and performed well across the programs, that turned out very well.

And so then back to BCA. Clearly, we're still in negative margin territory, although much better than we've been certainly in recent quarters and compared to the same quarter last year. I think a lot there will be driven by rate. We are ramping up in the 737 MAX program. It's 16 per month now, moving to 31 per month at the beginning of next year, and we intend to go higher obviously driven by what we see in the market beyond early next year. And some of that, the key enablers that we just talked about, China being one, are important in that in addition to just overall traffic trends.

So, I think for BCA, it's going to be production rate driven in addition to getting additional traction on the business transformation efforts we've had cutting costs, and then of course, as Dave mentioned, achieving stability especially in the 787 program as we work through our final issues there.

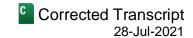
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co. I'm optimistic to get to or meet the margins you were accustomed to with respect to BCA, the biggest part being transformation and the leverage we can get by reducing our sort of breakeven rates. And that's what we're working on. It's been quite effective. The key will be to keep it when the market turns back. So anyway, I'm looking forward to that. **Noah Poponak** Analyst, Goldman Sachs & Co. LLC So, David, it sounds like you believe you can have the margins you used to have in BCA even before you're all the way back to the production rates you had. David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co. Well, yes. I mean, our initiatives are definitely intending to do that. We'll see when the measures come. But if you think about the dynamics with respect to that, it's all about that underlying infrastructure cost and the consolidation of a couple of plants and a few things like that. That has to give us benefit at similar rates from where we were before. So, yes. The leverage is in the rates, but when we get to those similar rates, I feel good about where we're going to be. Noah Poponak Analyst, Goldman Sachs & Co. LLC Can you just quickly give us the millions of dollars of the contract adjustment in BDS? David A. Dohnalek Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co. We don't have that specific number that we're disclosing. But, again, it would be, even if you strip that out, above 11% margins of BDS, which is – we're happy about the progress there. Noah Poponak Analyst, Goldman Sachs & Co. LLC Got it. Thank you. **Operator:** Our next question is from the line of Myles Walton with UBS. Please go ahead.

Myles Walton

Analyst, UBS Securities LLC

Thanks. Good morning.

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David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Hi, Myles.

Myles Walton

Analyst, UBS Securities LLC

Good morning, Dave and Maurita. Dave Calhoun, some of the order activity in the last six months, it seemed to be opportunistic as you're back-filling some of the guidelines from the 37 and repositioning some of those. And so, a lot of questions we get is, is this more just a surge of opportunism? Or is this really significant demand that's turning to the positive? Maybe you can frame it for what you expect over the next six to 12 months from an order activity.

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Yeah, I don't view this as opportunistic either on my side or on the customers' side. When you make decisions to order 270 airplanes, expand your capacity, and get aggressive in the marketplace, that is as fundamental a decision as it gets, and there's very little with respect to opportunism.

The good news when I just evaluate the United order is they have to consider all of their routes, all of their operations and then, as you know, solve for the lowest cost, most efficient delivery of a passenger and route of a passenger. And then they make choices around the airplanes. The good news is they have history with both manufacturers. So, I like the way our product line competed with our competitor. I mean, it was straight up. Out of the 270, we got 200. The models and the routes that they're intended to satisfy, they're optimal for United. Anyway, so I'm quite pleased with how that went, and it was quite in my view strategic and long term.

And in the case of Southwest, it's the same. Southwest, we benefit from it being an all-Boeing fleet, and they benefit from it being all-Boeing. But on the other hand, they're doing the same thing as United. These are two very strong airlines who are staking out the future and making big strategic decisions to do so. They're extending their reach. They're improving their route structures, et cetera.

So, I can't see these in any way as being opportunistic. I do think and expect as domestic markets return, recovery is robust, the retirements stay retired, and I believe most of them will, that we're going to end up in the same real estate play going forward. Meaning, airlines who get aggressive and have balance sheets that are strong, who want to improve their route structures and grow into the market, they'll be the first one to play. I can't predict exactly when that happens, just like I couldn't predict when United would step forward, or Southwest. I think these two are as strategic as it gets, and we held our ground and posture. And we let the airplanes perform and sell itself. That's really the way it happened.

Myles Walton

Analyst, UBS Securities LLC

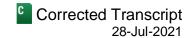
So, you would expect the backlog on the 37 MAX to continue to build even with the stronger deliveries in the second half of the year?

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Yeah. I do. I do. Again, I can't predict timing, and I certainly can't predict the scale of each and every order. But I like the way these were let, and I like the way we competed.

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Myles Walton Analyst, UBS Securities LLC	C
Thanks.	
Operator: Next question is from Kristine Tan Liwag with Morgan Stanley. Please go ahea	ad.
Kristine Tan Liwag Analyst, Morgan Stanley & Co. LLC	C
Hi. Good morning, Dave and Dave.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	Α
Hi, Kristine.	
David A. Dohnalek Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.	Д
Morning, Kristine.	

Can you help us understand the drivers of free cash flow through the rest of 2021 and how we should think about the run rate of 737 MAX concession payments? I mean, ultimately, is there a path to positive free cash flow for any of the remaining quarters of the year?

David A. Dohnalek

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.

Yes. So, Kristine, I think, number one, the burn-down of advanced payments, as I mentioned, is going to be lumpy, obviously dependent on delivery schedule. And we're going to see that affect second half of this year and also 2022. So that is a headwind. Certainly, the tailwinds you see are expected higher airplane deliveries, certainly 737 MAXs, and as we work through 787, higher deliveries there too once we complete the work and are able to deliver again.

I think while we're not predicting which quarter this year might be cash flow positive, I think it will be variable. We certainly made a lot of progress from Q1 with the Q2 cash flow performance. I think the rest of the year will be a balance of higher deliveries and some headwinds from advanced payments but also benefits from, as Dave mentioned, continued work on the business transformation efforts and also on the expectation that we should be receiving cash tax benefit sometime in the second half. Could be in Q3. Could be in Q4. So that would be a benefit to the year as well on cash.

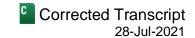
But we're not predicting, Kristine, not giving guidance on a quarter for cash flow level, but we do see some tailwinds for the rest of the year.

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.



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The underlying trajectory is good, and we're making really solid ground on that basis. So, I feel good. We always have our quarterly lumps, but, anyway, I do think this quarter's indicative of the underlying trend.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Thanks. And if I could squeeze one more on the 737, earlier this month we saw news on China's willingness to conduct flight tests. Has there been any feedback on what you need to do to get the aircraft certified?

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Oh. Yeah. Let's just say the dialogue with the CAAC – first of all, let's remember they have 100 airplanes on the ground in China that the airlines want to get into the air. They've got the Olympics coming, and they want to move down that path. So, they have a lot of natural incentive to want to do it.

We've been working closely with them from the beginning. It's constructive. Technical issues are being resolved. In fact, for the most part I think they're all behind us. And yes, I anticipate there will be test flights conducted and certification. As we said, we expect that we will get that before the end of this year.

So, anyway, I'm very encouraged about the constructive nature of how that's going. And anyway, hopefully bigger trade issues don't get in the way, and I don't believe they will. Both sides are incented for this industry to move forward.

Operator: Our next question is from Doug Harned with Bernstein. Please go ahead.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Thank you. Good morning.

David A. Dohnalek

Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.

Good morning, Doug.

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

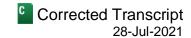
Morning, Doug.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

On the 787, the new issue that you're addressing, it appears to be the same type of structural nonconformity problem you've been addressing elsewhere in the airplane since last August. Now, how do you get comfortable to know there's not a next place where this issue could come up? And because it appears to be occurring across multiple suppliers, how do you resolve that for the long term? Is it a production process problem? A quality control problem? Or maybe even an over-specification of tolerances? I mean, can you describe a little bit of what's going on here?

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David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Yeah. Doug, I really appreciate the question because it outlines the heart of what we're trying to accomplish here. So let me start by saying this is not the FAA getting tough on Boeing. This is Boeing getting tough on Boeing. We launched a program to inspect because we did find some issues by way of notice of escape out of the supply chain.

Early on we decided we would do a nose-to-tail inspection of all of it, tier one, tier two, and we did exactly all the things you're describing. Are specs too tight? Are the process controls at our suppliers where they need to be? Is the rework operations that we've now put into our operations in Charleston, are they necessary? And are they getting the job done? And in every case, we look for even the smaller, smallest exception to the tolerances that we have designed. And in every case, we then take a step to, one, identify it. We immediately talk to the FAA about it. Two, we fix it. Three, we make sure it won't happen again.

How do you do it? Well, you have teams inside our suppliers working on process control development, understanding exactly why that spec is necessary and where it is. And then on our side, we start putting disciplines in place that make it clear to the supply chain that we're not going to keep our line running if we get one that isn't right. That's a little bit of what's going on here.

Here's the good news. If we ever had a window to get this behind us once and for all, it's now. We're producing at the lowest rate ever. Customers are not knocking down our door to get their airplanes in light of the COVID impact on international traffic. And so, we're very determined to see our way through this.

Good news, the inspections are done, right, toe to tail. So those inspections are done. Doesn't mean somewhere along the way a supplier's not going to raise their hand and tell us there's an escape somewhere along the way but it's not going to be as a result of this big effort that we put forward here. And each and every one of these issues that we find, we always have a decision to make with respect to compliance which is that each and every part and every airplane is built precisely to the drawings that we've created. And it's our job to rework the issue, and that is what we're going through.

I view this as a courageous moment for Boeing. My hat's off to our team, believe it or not. All of these conditions were preexistent, my leadership team. So, the work they're taking on and the readiness that we're getting in place for what I think is the second half recovery in the wide-body world of next year, that's when I believe that border protocols are going to get understood and predictability will return to the market. When that happens and orders come, we will have to be able to respond to rate increases in a very stable form and fashion. And I think the actions we're taking right now are the most important part of that puzzle.

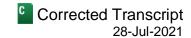
So, I really do apologize to investors, and I apologize for guessing that the last issue was our last. But we're getting close. And most importantly, the underlying causes are getting understood and resolved.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Then is this latest issue, which seemed to be somewhat of a surprise – was that the result of just the completion of inspections which are now done, and this one was turned up? Or is there more to go here so that there's still some risk that remains? I mean, I know there's always a tiny bit of risk, but how would you characterize that?

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David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

The former. It was part of our inspection process. This one happened to be a tier two issue. So, you go through your suppliers, and then you go through your supplier's supplier to find that process control that needs to be implemented clearly and correctly. And the rework work that needs to be done is largely done on their premise.

So, again, we don't have like a big inspection program from here forward. This one is for the most part complete, and I expect things to change dramatically. But most importantly, the amount of rework we'll eliminate in our factory and the predictability of our supply chain on all these fronts is that much better off.

You know, Doug, one other comment I want to make, just to make sure everyone knows how important the 787 is. During this COVID period, no wide-body passenger airplane has been flown more aggressively than the 787. It's everywhere. Ninety percent of that fleet is up and active and being worked as hard as it can be worked. So, despite the low numbers with respect to all this international traffic, et cetera, the 787 is the prized asset that's getting worked hard.

Douglas S. Harne	d
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Analyst, Sanford C. Bernstein & Co. LLC

Okay. Thank you.

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

A

Yep.

Operator: Our next question is from Seth Seifman with JPMorgan. Please go ahead.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Q

Thanks very much, and good morning, everyone. Dave Dohnalek, I was wondering if you could talk a little about the advanced balance. You mentioned that as a headwind to free cash flow in the second half and through 2022. Almost \$51 billion right now. Hasn't really come down very much at all since the pandemic started. Is there kind of a back-of-the-envelope way that you can help us think about how much that liability balance needs to come down?

David A. Dohnalek

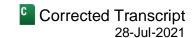
Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.



Yeah. Thanks, Seth. So that's going to be lumpy from quarter to quarter and obviously depending on the delivery schedule which we've talked about is going to vary from quarter to quarter. We also saw orders come in, right. So, you've got deliveries happening. You've got orders coming in. So, you've got adding and subtracting at the same time.

So, the bottom line for you to think about is that we still do see these PDPs or advances as a headwind through the second half of this year and into next year. It's a headwind we think we will more than overcome because you know we're predicting or expecting cash flow to be positive in 2022.

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But just so it's not off your radar screen, this will be with us for the next number of quarters as we work through these deliveries out of inventory and apply advanced payments case by case, customer by customer. So, it's really hard to predict or give guidance there, but net-net, again, 2022 we expect to be positive cash flow. And we would have tailwinds more than offsetting that headwind.

Seth M. Seifman Analyst, JPMorgan Securities LLC	Q
Okay. Thanks very much. I'll stick to one.	
David A. Dohnalek Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.	A
Thank you.	
Operator: And next, we go to Rob Spingarn with Credit Suisse. Please go ah	ead.
Robert Spingarn Analyst, Credit Suisse Securities (USA) LLC	Q
Hi. Good morning.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Morning, Rob.	
Robert Spingarn Analyst, Credit Suisse Securities (USA) LLC	Q

Just a clarification first, Dave Calhoun, for you, and then a question on R&D. But do you need to do any re-work on delivered 787s? That's the first question.

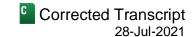
The second question on R&D is I think it's down at least for BCA at about half the second quarter 2019 level. So, when does that trough? And when might you expect to start investing in R&D again, growing head count there? And what would be the focus of that incremental investment?

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Yeah, I'll start just with the underlying premise on R&D. I mean, my view is we are fully funded on the important R&D efforts that will support BCA broadly. I want to separate that from development funding, which is the ongoing certification work associated with the MAX-10, the 730, the 777X, and I hope in the relatively near term a freighter version of that airplane. So, we are going to be very busy and have been very busy on the development front and spending a fair amount of money on it. I don't expect that number to go up significantly at any point in time, even in relatively near term, not because we're not going to take on new stuff, but because.

And the next comment I would make on just the research front and what is the likely technologies that will surround that next airplane, it's not going to be dramatically different with one exception, and that is everything sustainability. That next airplane will have to meet some serious sustainability tests. I do think that sustainable aviation fuel is going to be a big part of that and our propulsion suppliers with respect to the packages that they're now promoting. You may have seen the CFM package most recently with the fan.



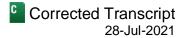
Anyway, I think it's going to be a fight between sustainability, propulsion packages, and meeting that spec, and then for Boeing it's to make this the most efficient airplane it can possibly be.

And you may have heard me say our investments in the underlying modeling technologies that have to be deployed, applying the digital thread that we have in our defense programs to the commercial programs, that is critically important to this next development. It'll shorten the cycle on development. It will improve the productivity on the program itself, and that's critical. And then finally just our production system will be quite different as we think about it, and we have very active programs on both the modeling and production system to be ready for that moment.

So that's a lot, but I'm actually quite confident that our R&D budgets are what they ought to be and quite robust relative to the needs of our BCA business.

Robert Spingarn Analyst, Credit Suisse Securities (USA) LLC	Q
Okay. And then just on that 787, any retrofit needed?	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Oh. Yeah. I'm sorry. Look, that's a determination that has to be made we fact that the safety margins on the structural elements of our airplanes is of analyses to go through, and our teams have taken their shot at it. The detail. And so, I don't really know the answer to that, but the ideal for all maintenance schedules of the airlines. So that's our hope and desire.	s huge. So, it's not the world's easiest set ey go through the FAA with it in great
Anyway, I'm going to leave it to the FAA and our ultimate conclusions be happens on that front.	etween those two teams as to just what
Robert Spingarn Analyst, Credit Suisse Securities (USA) LLC	Q
Okay. Thank you, Dave.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co. Yep.	A
Operator: And next we'll go to Robert Stallard with Vertical Research.	Please go ahead.
Robert Stallard Analyst, Vertical Research Partners LLC	Q
Thanks so much, and good morning.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Morning, Rob.	

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David A. Dohnalek Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co. Morning, Rob.	A
Robert Stallard Analyst, Vertical Research Partners LLC	C
I can't keep track of the number of times you mentioned China on the call, but this is cle issue. Dave Calhoun, you said you expected certification by the end of this year. Is that date that if we're sitting here on the 31 of December and you haven't got certification, the then to cut to say the 737 ramp, for example, and maybe further push out the recovery earlier date because you need to give notice to your suppliers?	effectively the drop dead nen you would have to
David L. Calhoun	Δ
President, Chief Executive Officer & Director, The Boeing Co. Yeah, I know. It's a great question, yeah. If we get to the end of the year, I often use the year, but I'll start thinking about it very hard by the end of the year. If we get to that morn not within a minute of getting certification in some way. We do have to consider real action the future rate ramp looks like. And so, yes, that your premise is right.	nent and importantly, we're
Robert Stallard Analyst, Vertical Research Partners LLC	C
So that still gives suppliers enough notice to effectively double production in that timefra	me?
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	Д
Yeah. I mean, we put some margin into that. In other words, we may have to take some respect to their readiness and their production rates and inventory that we might accumunderstand that. But yes. The answer is yes. We'll have to give them notice, and I think largely because of the risks we take.	ulate. That's on us. We
Robert Stallard Analyst, Vertical Research Partners LLC	C
That's great. Thank you very much.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Yep.	
Operator: Our next question is from Sheila Kahyaoglu with Jefferies. Please go ahead	

Thank you. Good morning, guys. So just a follow-up on Rob's point actually since we're on the map, can you talk about the ramps? The 31 a month production in the beginning of 2022 from 16 today and burning down half of the inventoried aircraft at the beginning of the year implies 165 deliveries, and assuming 16 per month production rate

Sheila Kahyaoglu Analyst, Jefferies LLC

Corrected Transcript 28-Jul-2021

through year-end, that implies our delivery rate of 44. So how do we kind of think about that visibility on a regional basis? What kind of assumptions did you make on China and other regions?

And then also just on that last point you made, Dave, on profitability, what does that kind of mean for BCA profitability and when you hit breakeven?

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Well, I can't throw a dart and be that precise with respect to the day we're at profitability, but we have a real rate ramp scheduled for the remainder of our year on the subject of deliveries. Not so much production. I think we get as high as 50 as we exit the year, and then that begins to make a big dent. And I'm pretty confident we can do that.

We have de-risked our year largely for China. So, they become next year's risk with respect to delivery. So, we'll run that play and that ramp as hard as we can. We will have signals with respect to where China is well before that, and if we have to make adjustments, we will. But I do think we are prepared for that delivery rate, and I think we're close to have already demonstrated it.

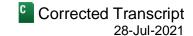
I think we delivered over 30. I don't think. I know. Over 30 in the month of June. We've got big teams. They know how to do it. The FAA has granted us our authorities, and we're running full speed. And as I said, the performance of the airplane has been fantastic.

So, again, your premise is right. China is mostly de-risked for this year but will definitely be part of next year's risk, as we talked earlier. Again, I remain confident on that prospect, but we'll know when we know.

Sheila Kahyaoglu Analyst, Jefferies LLC	Q
Thank you.	
David L. Calhoun	А
President, Chief Executive Officer & Director, The Boeing Co. Yep.	, ,
Operator: And our next question is from Ron Epstein from Bank of America. Please go ah	ead.
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Hi, Ron.	
Ronald J. Epstein Analyst, BofA Securities, Inc.	Q
Hi, Dave. How are you?	
David A. Dohnalek Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.	A

Hi Ron.

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David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Good.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Just maybe a question on the engineering front. There's been some press that we've seen some engineering ranks thinned out at Boeing. How do you think about that, particularly at the more senior level, some of the more senior technical fellows taking off? Are you worried about a bit of a brain drain in the engineering ranks in Boeing? And how are you addressing that?

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

With every – first of all, as you well know, I've been in engineering businesses most of my life. With every retirement of a seasoned veteran in Boeing in engineering, there's always an, oh my gosh, what's going to happen, because they carry an awful lot of knowledge. So, I accept that as a norm. On the other hand, those very same people worked as hard as they could to train the best engineers that the aerospace industry would ever see behind them.

And when moments like this happen where we've had a few more, and mostly just out of natural voluntary actions on their part, all good for them, all in good relation to us, these folks that they've trained all these years step up, and they step up big. And they're impressive, and they're good. And so, in many ways there are always two sides to that coin, and I love the side I'm seeing, which is an incredibly qualified, highly motivated group of younger engineers who studied under these folks. And I promise you these folks who left will never not return those kids' phone calls.

Life goes on, and we continue to improve. I have been traveling the engineering function across the Boeing Company in some of the highest profile projects, some of the most amazing technologies I've ever seen. I don't ever come away unimpressed. The folks are great. I really don't worry about it. I do worry about input, meaning we are now in a ruthless competition with everybody, not just our aerospace industry, which is getting bigger, but also all of the folks in the cyber and Silicon Valley world. But I like our chances.

We've got a great mission. Most engineers start their career and start their jobs based on the mission of the company. We've got a pretty good one. And, anyway, look. I read it. I've seen it. I understand the concern from the outside in, but from the inside out, I'm quite confident in our technical team.

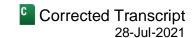
Ronald J. Epstein
Analyst, BofA Securities, Inc.

So, just as a logical follow-on, what are you doing to recruit the best? I mean, there's a lot of choices out there, like you highlighted, and in fact there's even a lot of start-ups now in aerospace which is an interesting time. How are you getting the best folks to come to Boeing?

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Big internships. We've got a lot of them. Active internships. We never slowed them down during COVID. I personally participate in the discussions with many of the interns. This virtual world allows you to do that. So that's something we will continue.



It's the mission. It's really the mission. Most of these engineers and these highly qualified data analysts and software engineers, they like what we do. They want to go to deep space, right. They want to help protect the country. These are meaningful things. So, we try to attach them to our mission, our vision, and then we try to give them the best set of assignments they can get, move them around, do the things that Boeing can do because of our big footprint.

Anyway, some of them just go as deep as they can go because there's a particular technology we might be a world leader on. Those are easy for us to recruit because they just want to go deeper. So anyway, we're active on it. I personally am active on it, and I'm confident in what Boeing brings to them.

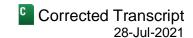
Ronald J. Epstein Analyst, BofA Securities, Inc.	Q
All right. Thank you.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Yep. Thank you.	
Operator: Our next question is from Carter Copeland with Melius Research. Please go ahead.	
Carter Copeland Analyst, Melius Research LLC	Q
Hey. Good morning, gentlemen.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Morning, Carter.	
David A. Dohnalek Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.	A
Morning, Carter.	
Carter Copeland Analyst, Melius Research LLC	Q
Just a question on the 787 for either one of you, actually. I know you had been pretty close based on the previous disclosures to forward loss on the program just given where that stood. And given that you've n taken the delivery rates lower, I was kind of surprised you didn't actually tip that line. Was that related to efficiency that you talked about earlier, Dave, in terms of on the backend you'll be better? Any color you help us on how you guys avoided that despite the lower production would be helpful. Thanks.	ow the

Yeah. Carter, yeah. Thanks for the question. Certainly, there are some additional costs associated with the rework, production rate adjustment, delivery timing, et cetera. But there also are other puts and takes that go into

Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.

David A. Dohnalek

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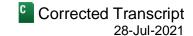
this, as you know, that have enabled us to maintain a positive margin there. And so, it's still near to zero. It's not where we want it to be. We've got work to do to get it to keep moving north and higher.

Obviously, we examine this thing every quarter, a very detailed approach along with our auditors, et cetera, and so we just have some additional benefits on the cost side and that are offsetting enough so that we don't find ourselves in RFL position. And obviously, as Dave said, it's all about achieving stability and starting to march back up that margin.

David L. Calhoun Procident Chief Eventing Officer & Director The Reging Co.	A
President, Chief Executive Officer & Director, The Boeing Co. We have not made any outlandish forward assumptions with respect to productivity that we don't know is there, because we don't do that. So anyway, it's not half baked. This is fully baked.	
Carter Copeland Analyst, Melius Research LLC	Q
Great. Thank you for the color, gentlemen.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Yes.	
David A. Dohnalek Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.	A
Thanks, Carter.	
Operator : And next we'll go to Richard Safran with Seaport Global. Please go al	nead.
Richard Safran Analyst, Seaport Global Securities LLC	Q
Everybody, good morning. How are you?	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Good. Rich, how are you?	
David A. Dohnalek Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.	A
Hi Rich.	
Richard Safran Analyst, Seaport Global Securities LLC	Q

Excellent. So, Dave, I wanted to know if you could expand on your opening remarks about freight and your strategy there. Your comments about current freight demand I would think drive an improvement to your long term outlook and I'm wondering if that's the case.

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Second, am I correct that there are new emissions standards coming that might impact the 767 and 777 freighters? Was wondering if you could comment on how you're going to address and meet those standards.

And finally, Airbus is talking about a A350 freighter. Any plans to address this threat? Dave, I'm just trying to get to your overall product strategy here for freighters.

David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Yeah, I am quite confident in the freighter market. I think some secular things have happened there that are going to continue to make that a very important market. As you know, we are significant in that market and have long-standing customer relationships. And especially in the next couple of years prior to the ICAO standards being implemented, I'm confident it'll drive some additional 767 and additional 777 demands, et cetera.

We need to develop a new ICAO compliant freighter version opportunity. I circle the 777X is the logical place for that and the smart place to do that. So, as I said, without suggesting that we've already launched and/or that we have one planned by the day, we're confident and I'm confident that, that might be the next of our programs. And it will be an incredible freighter with incredible long term advantages for our major customers.

So anyway, that's where we stand, and in the meantime, there are exceptions that exist within the ICAO language that have to be accommodated by our US government in some way, shape, or form that allow for a transition strategy to that new kind of opportunity that is ICAO compliant. Because what you'll recall, or maybe know or don't know, the 767, when it moves into like a FedEx or a UPS opportunity, it displaces airplanes that are 40%-plus less efficient and most importantly 40% less environmentally friendly. So, there is I think some transition strategies that can and should be implemented that will help us in that, but we need to step forward on an airplane itself. And, yeah, so, I don't mind tipping my hand. That's what's got my greatest interest.

Richard Safran Analyst, Seaport Global Securities LLC	Q
Great. Thanks for the color.	
Maurita B. Sutedja Vice President-Investor Relations, The Boeing Co.	A
Operator, we have time, sorry, for one more analyst question.	
Operator: Certainly. That will be from Cai Von Rumohr with Cowen. Please go ahead.	

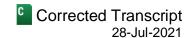
Cai von Rumohr

Analyst, Cowen & Co. LLC

Yes. Thanks so much for squeezing me in. So, Dave, I was a little surprised by your comment on expecting China approval by year-end because, while I get it that the airlines want it and that you're making progress with testing, nothing in China happens without political okay. And everything I read is that situation has been going downhill.

So, the question is, are you seeing any specific signs either from the Chinese government through your contacts or from the US government that would give you confidence to make a prediction that you expect to see the approval by year-end? Thank you.

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David L. Calhoun

President, Chief Executive Officer & Director, The Boeing Co.

Let me just in some ways state the obvious. I don't want to imply that anything's risk-free on this front. It's not. It never will be, especially as it relates to those China relations, which are real. We see all the strains as well. The advantages and the needs on both sides with respect to the needs for the equipment, again, 100 airplanes on the ground, an economy that has been the fastest to recover from COVID, an economy preparing for the Olympics and for a substantial amount of traffic to and from that domestic market. So, all of those needs line up, and the support to airlines to accommodate that traffic is where it needs to be.

There is nothing that prevents this trade from happening. So, there's nothing written that says you can't do it. I mean, so there's nothing that prevents it, and our government fully understands and appreciates the fact that our industry is a leader in the world and that leadership in China is critical to that and the employment that it of course holds. So, without them having to sort of launch this as some big new opening to a structural agreement, we're just going to stay on course and continue to support free trade between these two players, both of whom understand the importance.

And there are plenty of trade partners that exist between China and the United States. And all I have to do is look at all the sort of import numbers in this country and vice versa. It's a big corridor. We just want to be part of that, and we want to do it the right way and support our customers. And things have been constructive. If they weren't, I would tell you. So anyway, that's where we are.

Cai von Rumohr Analyst, Cowen & Co. LLC	Q
Thank you.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Yeah.	
David A. Dohnalek Interim Chief Financial Officer, Treasurer & Senior Vice President, The Boeing Co.	A
Thanks, Cai.	

Maurita B. Sutedja

Vice President-Investor Relations, The Boeing Co.

That completes the Boeing Company's second quarter 2021 earnings conference call. And thank you, all, for joining.

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