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The Boeing Co. (BA)

Q4 2021 Earnings Call

CORPORATE PARTICIPANTS

Matt Welch

Vice President-Investor Relations, The Boeing Co.

David L. Calhoun

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

Brian J. West

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

OTHER PARTICIPANTS

Sheila Kahyaoglu

Analyst, Jefferies LLC

Cai von Rumohr

Analyst, Cowen and Company

Myles Walton

Analyst, UBS Securities LLC

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

David Strauss

Analyst, Barclays Capital, Inc.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Robert Spingarn

Analyst, Melius Research

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Ken Herbert

Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. Good day, everyone, and welcome to the Boeing Company's Fourth 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'll turn the call over to Mr. Matt Welch, Vice President of Investor Relations for the Boeing Company. Mr. Welch, please go ahead.

Matt Welch

Vice President-Investor Relations, The Boeing Co.

Thank you, Jon, and good morning, everyone. Welcome to Boeing's Fourth Quarter 2021 Earnings Call. I am Matt Welch, and with me today are Dave Calhoun, Boeing's President and Chief Executive Officer; and Brian West, Boeing's Executive Vice President and 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 discussions 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.

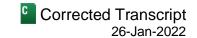
Yeah. Thanks, Matt. Just upfront, we are changing this format just a bit so that I can limit my remarks upfront to some observations and thoughts with respect to where we are in this rebuilding process, and then Brian will take you into more detail on the financial side.

With respect to the environment, there's no doubt Omicron has paused the industry recovery, but it has not changed the outlook for the industry recovery, such that while it might be delayed a few more months, the bookings and the customer discussions with respect to fleet plans, medium and long term, are still quite robust. And we are quite confident in that outlook.

2021 I would characterize for Boeing as a rebuilding year. We came from recovery to rebuilding, and I give our team a lot of credit for frankly making a lot of progress on that front. Number one, on the orders front and demand, particularly led by the MAX and the freighter market. I feel very good about where things are and the competitiveness of our product line with respect to that market.

Supply constraints to date have not constrained us. On the other hand, I think in the medium to long-term future, it's something we all have to plan for. I've always viewed the unfortunate means by which we got here and the buildup of finished goods inventory, both with respect to the MAX and the 787, as sort of a double-edged sword. I

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hate that we have a lot of inventory. On the other hand, it will probably serve us well in what is likely to be a robust recovery.

With respect to fleet rebuilding, I would also just like to highlight the efficiency gains and maybe even more importantly, the emissions gains that our customers enjoy when they replace their current fleet with these new aircraft are significant, and the pressures are severe. So I think that creates some additive pressure with respect to fleet renewals as we move forward, and I don't think either of those will let up.

The MAX return to service, I'm quite proud of where we are on that. We have regulatory approval now in almost every jurisdiction in the world. You know that China, Indonesia, and Ethiopia, all delivered prior to the end of the year. We delivered 245 airplanes in 2021. We've flown safely over 800,000 flight hours, 99.3% service reliability, and we've now flown more post the MAX grounding than we did pre-MAX grounding.

China is preparing for their MAX return to service and for delivery, and we have set up a plan that allows for that in the first quarter. But of course, they'll take them as the government returns the current fleet to service. Our customers are moving methodically and very well with respect to that return to service.

On 87, very unfortunate charge that we took here in the fourth quarter. It reflects everything we've learned about the rework process itself, the data required to restart deliveries and obtain ticketing, and then customer expectations regarding concessions as we move forward. With all that said, I still feel fantastic about the future of the 787 airplane for the Boeing Company.

And anyway, as I think I point out every time we get together, these 87s today, the fleet and service that is flying, is more utilized than any other wide-body airplane. 99% of it is in service today with respect to the pre-pandemic levels, and it's the most utilized wide-body out there, 98.99% reliability. So this is a great product line and a competitive product, and as soon as we begin delivery, we feel very good about the ultimate recovery.

On BDS, we did hit a bunch of really important milestones. On the MQ-25, we experienced our first refueling, and we began carrier tests. The T-7A production line, which is based on significantly improved development process and engineering modeling capabilities, is off to a very good start, and the efficiency associated with that development process is being realized.

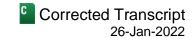
And then the tanker. The tanker today, despite the charge, again, which we don't feel great about by any respect, but the tanker today is an incredible asset for our customer and now serves 70% of the missions that were intended in the development of the tanker. And our job is to continue to deliver the tanker and to do it more expeditiously as we move forward. The good news is our customer likes the performance of the airplane, and again, we intend to serve that need.

Global Services. It is recovering like all the service businesses that surround aviation. It's on a great path. The team is doing a terrific job. We had a small write-off with respect to materials that ultimately would not be utilized in this recovery, but BGS is doing quite well, and is experiencing the recovery.

And then I feel very good about the free cash flow that we generated in the fourth quarter. As everybody knows, we have been focused relentlessly on improving our free cash flow situation. It has been our number one metric and to be able to achieve that, I think, is terrific news.

Sustainability. It is the one issue every customer wants to talk to us about, not with respect to 2050 or 2035, but they want to make sure that we have a program in place that will support them over that timeframe. And it is very

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important to the every next order that we achieve. So believe it or not, the competition for today's airplanes is often built around the future plans that we have with respect to sustainability, and I love where we're going on that and the story that we have for our customers.

Innovation is strong in every way. I mentioned the MQ-25, the T-7A, future capabilities with respect to the next development program. We've invested a lot. We continue to invest a lot. It's more important to me that we get our development tools where they need to be, demonstrate manufacturing capability and capacity where we need to be, before we call out the SPAC on the next new commercial airplane. So I remain focused on that as a priority, and so far so good.

Talent. We were stable over the course of 2021. Turnover was managed, I think, quite well and quite aggressively, and so I feel good about that and our ability to hire as we move forward. But I will also acknowledge that there are shortages out there in critical skills and we have to be very competitive in order to get them.

I'll highlight the priorities we have. I don't think any of them should surprise anybody. They may look boring with respect to words like stability, safety, quality management, but that is still our focus. And we're going to be relentless about it. This is a very important year as we begin the year and then exit the year where we can predict to customers and to all of you the deliveries of our airplanes and ensure the quality is what it needs to be, et cetera. And culturally, our team is getting closer to their work than they've ever been. We feel good about that, and we invest. We're investing heavily in the future capabilities of our company.

So that's it with respect to my upfront comments. I'll turn it over to Brian. We can go through the quarter's performance and then little more time for Q&A.

Brian J. West

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

Thank you, Dave, and good morning, everyone. 2021 was a year of recovery for our business. We're optimistic about how we're positioned entering into 2022 and have high confidence in the long-term strength of the company.

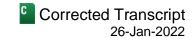
We remain focused on solidifying our business for long-term success. The lessons we've learned and the changes we've implemented in the last two years will help us to do that. We're driving safety, quality, stability into every corner of our operations to enable future growth, and we made solid progress against our goals over the last three months. In particular, as Dave mentioned, we're proceeding to get 737 MAX airplanes ready to deliver in China as early as the first quarter and follow the lead of our customers and regulators on next steps.

On the 787, while we can't predict when deliveries will restart, we've made meaningful strides in addressing many of the non-conformances we identified. We have work remaining to do, and we continue to hold detailed productive discussions with the FAA every step of the way.

Looking to our financials, despite some of the near-term challenges, we generated positive free cash flow in the fourth quarter and believe free cash flow will continue to materially improve this year and into 2023. With this backdrop, we think of 2022 in three parts.

First, we'll focus on reaching key milestones so that we can resume 737 deliveries to Chinese customers and restart 787 deliveries. Then, once we achieve these important milestones, we expect to see improvement in our performance metrics including deliveries, revenue, margin, and cash flow, and we intend to come back to you with detailed plans for the rest of the year and beyond. Finally, as we move through the second half of the year, our

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financial performance should start to accelerate, and we think there is a significant opportunity ahead for our company return to sustainable growth.

Net-net, we're well-positioned at the start of the year and encouraged by the hope of return to normalcy in 2022.

Before I get into the detailed financial results, I want to make a few points on the current environment on slide 4.

Let's start with the demand side. In the commercial market, we continue to see an overall broadening of the recovery starting with domestic traffic which rebounded to around 90% of pre-pandemic levels in countries such as the US and Brazil. In the US, domestic traffic nearly fully recovered at 94% of pre-COVID levels in November. December data suggests resilient traffic despite the rapid spread of the Omicron variant, but early 2022 bookings data indicate a more visible negative impact likely extending through February. Beyond that, we expect the recovery for the spring and summer seasons.

Outside of the US, the recovery continues broadening in Europe and South America. However, further lockdowns have stagnated recovery in China where we've seen traffic decrease considerably. Despite some near-term volatility, we're encouraged by airlines' plans for the spring and summer travel seasons.

On the international front, traffic has improved throughout the year for more than 85% below 2019 levels to 60% as the year-ended with a meaningful benefit from re-opening of borders and lifting of travel restrictions. In particular, the transatlantic corridor showed improvement due to coordinated travel policies between the EU and the US.

The commercial freighter market continues to be robust with 2021 cargo traffic 7% above pre-pandemic levels. We saw record freighter demand last year driven by both e-commerce growth and demand for faster, more reliable transport that air freight can provide, and we're seeing the same steady recovery broadly in our commercial services business as well.

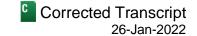
Given this demand recovery, our customers are increasingly focused on their medium-term flight planning and continue to prioritize fleet modernization as an enabler to reduce carbon emissions and increase operating efficiency. New airplanes we deliver will be as much as 25% to 40% more fuel efficient with commensurate reductions in emissions compared to the airplanes they replace, and as oil prices remain high, our customers are keenly aware of these benefits.

Overall, our projections for the three-phase commercial market recovery remain unchanged, and we still assume passenger traffic will return to 2019 levels in the 2023 to 2024 timeframe. We continue to see domestic traffic lead the recovery, followed by intra-regional and then long-haul international routes. Long-term fundamentals that support demand for air traffic remain attacked as we continue to project average traffic growth of mid-single digits over the long term.

In the defense and space markets, we're seeing stable demand. We continue to monitor the federal budget process in the US and see strong bipartisan support for national security including Boeing products and services. While governments around the world remain focused on COVID-19, security spending remains a priority given global threats.

On the supply side, with our production at relatively low rates and higher than normal inventory levels, the supply chain is currently not a constraint. However, as we look forward to the industry recovering and future production rate increases, our supply chain remains a key watch item due to raw material and labor availability as well as

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logistical challenges. We regularly monitor supplier health and have risk mitigation plans in place for critical components. As we prepare for future rate production increases, we will continue to prioritize operational stability across the value stream. Long term, the markets we serve are robust and we remain confident in the fundamentals of our business and the growth of the industry.

With that, let's turn to the financials on slide 5. Fourth quarter revenue of \$14.8 billion declined 3%, and the core operating loss in the quarter was \$4.5 billion resulting in a \$7.69 loss per share. We generated positive operating cash flow of over \$700 million in the fourth quarter driven by 737 deliveries and favorable receipt timing and BDS.

Let's now look to Commercial Airplanes on slide 6. Commercial order activity picked up significantly in 2021 as airlines are positioning for their recovery, particularly in the narrow-body and freighter markets. In total, for the year, we booked 909 gross commercial airplane orders including 749 orders for the 737 MAX. We also booked a record number of orders on our freighter airplanes, and we ended the year with 11 straight months of positive net orders.

We appreciate every order from our broad customer base including United, Southwest, Alaska, UPS, and FedEx. We're also honored that Akasa, Allegiant, and 777 Partners recently selected Boeing to support their future fleets. We had over 4,200 airplanes in backlog at the end of 2021 valued at \$297 billion.

Fourth quarter revenue was \$4.8 billion, essentially flat, primarily driven by higher 737 deliveries, partially offset by lower wide-body deliveries and less favorable mix. Operating losses of \$4.5 billion were primarily driven by charges on the 787 program resulting in a negative margin rate. 787 deliveries remain paused, and we had 110 airplanes in inventory at the end of the quarter.

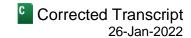
As you know, last year, we set out on a comprehensive program to ensure every 787 airplane in our production system conforms to our exacting specifications. We resolved many of the non-conformances and were finalizing our work on the remaining items. We also continue to focus on fulfilling requirements and expectations of the FAA and will follow their lead on the timing of resuming deliveries.

While this effort has inevitably impacted our deliveries to customers and our near-term financial performance, we are fully confident it's the right thing to do for our future. In the fourth quarter, we determined that the activities required to resume deliveries and the rework that will be needed on each airplane in inventory will take longer than previously expected, resulting in further delays in customer delivery dates. We regret the impact these delays have had on our customers and are working closely with each of them to support their fleet planning needs. Consequently, we're producing at very low rates and will continue to do so until deliveries resume, gradually returning to five airplanes per month over time.

From a financial impact standpoint, we now anticipate 787 abnormal costs will be approximately \$2 billion with most being incurred by the end of 2023. This estimate increased by approximately \$1 billion from last quarter due to the additional rework requirements and lower production rates continuing longer than previously expected. We recorded \$285 million of these abnormal costs in the fourth quarter.

Additionally, we recorded a \$3.5 billion non-cash charge in the quarter to write down unamortized deferred production costs primarily due to estimated customer compensation for the longer delivery delays. It is important to keep in mind that from an economic standpoint, cash margins on the 787 remain positive. While the additional costs and customer considerations will put some downward pressure on cash margins in the near term, cash margins are expected to remain positive and significantly improve over time. We remain very confident in the future success of the 787, and it remains one of our most compelling programs.

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Importantly, none of the issues we were addressing have raised immediate safety of flight concerns or impacted the capabilities of the in-service fleet. We received gross orders for 21 airplanes last year, and we see a long runway ahead. We're working diligently to ensure that we're well-positioned as demand recovers and accelerates in the future.

Moving on to the 737 MAX program. The MAX is now approved to fly in over 185 countries. As mentioned, we continue to prepare airplanes for deliveries as early as the first quarter, subject to customer and regulatory approvals in China. We also delivered 245 737 MAX airplanes last year, and we steadily ramped up production. And we are now producing 27 airplanes per month on our way to 31 per month early this year.

As we look to ramp both our production rate and delivery cadence this year, we will continue to monitor the impact of Omicron on resource availability. We currently have 335 737 MAX airplanes in inventory and still anticipate delivering most of these airplanes by the end of 2023. Timing and pace of deliveries to Chinese customers are also critical assumptions to our delivery outlook.

737 abnormal costs and the liability for 737 MAX customer considerations are largely behind us. We expect the majority of the remaining \$2.9 billion liability to be liquidated this year with less than 10% of the total estimate left to be negotiated.

On the 777X, we continue to progress through our rigorous and comprehensive test program. We have flown over 1,800 flight hours through the end of 2021. We also completed engine and airplane performance testing, and the airplane continues to perform in line with our customer commitments. Our customers recognize the compelling economics and sustainability benefits this airplane offers. We remain engaged with the FAA and other global regulators throughout this process. We're working towards reaching Type Inspection Authorization, or TIA, which is a pacing item for us to begin FAA certification flight testing. We are still anticipating delivery of the first airplane in late 2023.

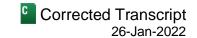
Also, we are currently offering the freighter version of our 777X airplane to customers and will keep you updated as we progress on sales campaigns and conclude our launch timing evaluation. As a result of increasing freighter demand, we plan to increase the combined 777/777X production rate from two to three per month this year and expect 2022 deliveries to be relatively in line with last year.

Let's now move to Defense, Space & Security on slide 7. Fourth quarter revenue was \$5.9 billion, down 14%, and operating margin was negative 4.4%. These results were primarily driven by lower volume and less favorable performance across the portfolio including a \$402 million pre-tax charge on the KC-46 Tanker program. The charge is primarily driven by evolving customer requirements for a remote vision system as well as factory and supply chain disruptions including the impact of COVID.

On the Commercial Crew Program, as previously shared, we and NASA anticipate the second uncrewed orbital flight test to occur in May. We received \$7 billion in orders during the quarter including an award for modernization of Airborne Warning and Control System to Royal Saudi Air Force. The BDS backlog increased to \$60 billion. During the quarter, BDS also delivered on critical customer milestones. Overall, we remain optimistic about our defense business.

Now, let's turn to Global Services results on slide 8. Fourth quarter Global Services revenue was \$4.3 billion, up 15%, and operating margin was 9.3%. Results were driven by higher commercial services volume and favorable mix. Earnings were impacted by a \$220 million inventory impairment in the fourth quarter. We received \$6 billion

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in orders during the quarter, taking the BGS backlog to \$20 billion. We also delivered the 50th 767-300 converted freighter and announced plans to add 10 new converted freighter lines. Our services business has shown great resilience in part due to the balance of both defense and commercial offerings.

Let's move to slide 9 and cover the full year financials. Full year revenue of \$62.3 billion improved 7% versus prior year. The core operating loss was negative \$4.1 billion, an improvement of \$10.1 billion. The resulting core loss per share was \$9.44 primarily driven by the charge on the 787. Operating cash flow was negative \$3.4 billion, an improvement of \$15 billion. The in-year cash usage was driven by 787 inventory build, 737 customer considerations and interest statements, partially offset by commercial deliveries, order activity, favorable timing of cash receipts at BDS, and tax refunds related to the CARES Act.

Now let's turn to slide 10 to cover cash and debt. We ended the fourth quarter with strong liquidity comprised of \$16.2 billion of cash and marketable securities on the balance sheet and access to \$14.7 billion across our bank credit facilities, which remain undrawn. Our debt balance decreased by \$4.3 billion from the end of the third quarter to \$58.1 billion driven by the early paydown of the delayed draw of term loan. We remain committed to reducing debt levels, and our investment-grade credit rating is a priority.

Please turn to the next slide for a look at 2022 and key drivers of the business. As you look ahead, 2022 performance will be driven by the commercial market recovery, return to delivery for the 787 and 737 MAX in China, production system and delivery stability, and US-China trade relations. Our effort to stabilize our production system including the supply chain and improve our delivery predictability remain top priorities. These activities will be paramount to our success.

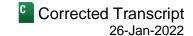
Looking broadly across our enterprise, we're maintaining and in some cases expanding key investments in our people, technology, manufacturing capabilities, and strategic partnerships. We're advancing our development of the MAX 7, MAX 10, and 777X programs, all while continuing to invest in digital capabilities to support our next commercial airplane program. In BDS, we're progressing on the MQ-25, T-7A, commercial crew, and several other key development programs. As we invest, we continue to be laser-focused on our business transformation efforts to drive quality, productivity, and cash flow.

Now, let's take a look at the key drivers of 2022 revenue and cash. We anticipate revenue increase primarily driven by higher commercial airplane deliveries on the 737 and 787 programs. That said, revenue will be impacted by 787 customer considerations and delivering 737 airplanes that were previously remarketed. We are forecasting stable revenue in our defense business and solid growth in our services business as the commercial market continues to improve.

Moving to cash, we still expect to generate positive free cash flow in the year. The key driver remains higher 737 and 787 delivery volume. Keep in mind the working capital benefit from delivering airplanes from inventory will be partially offset by lower advances in progress payments balance. We still anticipate a significant burn-down of our advances balance this year which we expect to be more front-end loaded in line with customer discussions. Additionally, cash flow will remain impacted by timing of receipts and expenditures. As you may recall, we booked orders last year that filled near-term skyline positions, and those unique receipts may not continue at the same levels this year.

From a phasing standpoint, we anticipate the first quarter to be our lowest quarter of the year for deliveries, revenue, earnings, and cash flow. First quarter cash flow could look similar to the usage we saw in 1Q 2021 driven by unfavorable receipt timing, excess advance payment burn-down, resource availability due to the Omicron variant and normal seasonality. We remain confident that our free cash flow will improve in the second

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quarter and will meaningfully accelerate in the back half of the year as we achieve the key delivery milestones as I previously outlined. As we look to the future, we expect 2023 cash flow will be materially higher than 2022. We look forward to sharing more details on our plan as soon as we can.

In closing, the business environment remains dynamic, but we've made important progress. We are confident that we're on the right path. We're taking the right steps to drive stability and making the right investments to ensure the business is well-positioned for future growth.

With that, closing comments?

David L. Calhoun

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

Yeah. No further comments. I'd like to turn it over to questions and give all our time to that. Thanks.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Sheila Kahyaoglu with Jefferies. Please go ahead.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Good morning, Dave and Brian. Thank you. So maybe can you help us understand the \$3.5 billion of charges tied to the 787. In addition to the abnormal cost of \$2 billion through 2023, that's up \$1 billion from Q3, as you mentioned, Brian. What does this imply for the future profit and cash tied to the 787 program? How do we think about those deliveries going back up to five and then timing of those deliveries restarting because some of your customers have talked about an April timeframe?

Brian J. West

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

Yeah. Thanks, Sheila. So on the 787 \$3.5 billion, we previously described a pretty labor-intensive rework solution on the door surrounds, and in the quarter, we determined that this rework was going to be needed to be formed on all of the airplanes in inventory. So the abnormal is \$1 billion higher and will mostly go through 2023 because of this higher rework cost and the production rates being lower for longer. This in turn has our deliveries slide to the right, so more airplanes will be impacted, not just the ones in inventory. And we provided for estimated customer concessions because of these delays, which drove the \$3.5 billion charge. While this hurts in the near term, we still believe it's the right thing to do because long term, we're going to sell a lot of these 787s for decades. So we've just got to work our way through this.

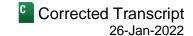
In terms of getting back to five, we've got to first get cleared to deliver, and then we're going to gradually work our way to a point – we're going to get back up to five. We don't have the timeframe, but we think the first step is getting the first one out the door. On the April timeframe, Dave, maybe you could comment on the customer implications on that one.

David L. Calhoun

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



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Well, the April timeframe is – all I'll say is the customers know everything that we do. We share the same regulator. They are in our factories looking at the airplanes every day. So they know exactly what's going on and where it is. I don't want to get ahead of anybody with respect to speculating the day we ticket. That's up to the FAA, and we're going to let them do what they have to do. Otherwise, I think Brian described this charge exactly the way it is.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Okay. Great. Thanks.

David L. Calhoun

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

Yeah.

Operator: Next we'll go to Cai Von Rumohr with Cowen. Please go ahead.

Cai von Rumohr

Analyst, Cowen and Company

Yes. Thanks so much. So maybe to follow up on Sheila's question, of the \$3.5 billion you mentioned, that non-cash, how much of it turns into cash; how much of it is the abnormal, the \$1 billion increase; and how much of it is customer considerations? And when do you expect those to be paid out?

Brian J. West

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

Yeah. Sure, Cai. So the \$1 billion increase on the abnormal is separate from the \$3.5 billion. And in terms of the \$3.5 billion, that'll play out over longer period of time, particularly as we have discussions with customers. Some of that might be accelerated in the near term, but overall, it's going to take us time for that cash flow to go out. It'll take years. In terms of how much is customer concessions, we're not going to talk about all of the pieces. Trust that as we closed the quarter, we took all the estimates in terms of what we think was going to happen both for contractual and non-contractual concessions, and it's embedded into our closing position. And we feel good about that. And now we just have to work through with our customers to – and then start delivering.

In terms of the abnormal, again, that cash flow will likely go out over the next two years as most of that will be behind us as we get out of 2023.

David L. Calhoun

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

The only other context is that unlike in the case of the MAX, we do have an experience, unfortunately, that we can draw from in setting these estimates and most importantly, the management of the concessions with our customers over time. So what we've posted and the way we think about it is largely based on that historical

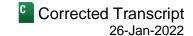
experience, of course, with the MAX. So I feel like we probably bounded it pretty reasonably.

Cai von Rumohr

Analyst, Cowen and Company

Thank you.

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Operator: Our next question is from Myles Walton with UBS. Please go ahead.

Myles Walton

Analyst, UBS Securities LLC

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Thanks. Good morning. On the 737 MAX, given the lead times and the supply chain, I know that you're evaluating the timing of further increases, but can you get much above 31 a month before the end of the year if you haven't made that decision yet? And obviously, suppliers are thinking that they're looking to the 40 level as you leave 2022. Maybe a little clarification there.

Brian J. West

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

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I'll leave the supplier and the increase to Dave. I want to take the near term production delivery MAX question head-on because it's largely unchanged from where we were last quarter, as what we expect to happen in 2022. We've got 335 units in inventory, and that will liquidate through the year at a quarterly rate that is pretty similar to what we did last quarter. And then the production ramp, as you know, Myles, is going to go from 26 to 31 fairly soon. So we all think that's going to play out, and again, it's similar to what we had thought last quarter.

The one watch item that we have in the first quarter is any disruption on Omicron that might have a bit of a slower start, but we'll work our way through that. The total profile is largely unchanged. And we're quite confident in the demand. And maybe in terms of further rate increase in supply chain, I'll let Dave comment on that.

David L. Calhoun

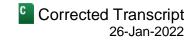
President, Chief Executive Officer & Director, The Boeing Co.



Well, just the prognosis that we can move it up and based on what everybody seems to want to believe, we are going to be very aggressive with our supply chain to get buffers at every corner, so that we can do it. And then the question is do we do it?. So right now, we have fewer supply constraints probably than the industry simply because we've got this big finished goods inventory that's going to carry us for the better part of the calendar year and then even a little bit in the next year. So we'll take advantage of that, and then we'll ask the supply chain to build buffer both on our premise and in theirs to protect upside. That's the way we're thinking about it.

Myles Walton Analyst, UBS Securities LLC	Q
Could you talk about that next release, the next uptick this quarter?	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Can I talk about the next	
Brian J. West	Δ
Chief Financial Officer & Executive Vice President, The Boeing Co. So going to 31?	/ \
Myles Walton	

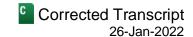
Analyst, UBS Securities LLC



Above 31. You announced – is that a 1Q decision basically? I know the company is evaluating further increases...

David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A	
Yeah. No. I would say, no. It's not a 1Q decision for us. As I said, well, we will work our supply chain – work with our supply chain transparently to protect upside on rate as we get to the second half of the year, et cetera. And the minute we are ready to do it, we'll do it. But I don't want to get ahead of myself on that front. It's certainly not now.		
Myles Walton Analyst, UBS Securities LLC	Q	
Okay. Thank you.		
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A	
Yes.		
Operator: Our next question is from Noah Poponak with Goldman Sachs. Ple	ease go ahead.	
Noah Poponak Analyst, Goldman Sachs & Co. LLC	Q	
Hi. Good morning, everyone.		
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A	
Good morning.		
Brian J. West Chief Financial Officer & Executive Vice President, The Boeing Co.	A	
Good morning.		
Noah Poponak Analyst, Goldman Sachs & Co. LLC	Q	
Just going back to 787 timing, so to make sure I have this correct. So America estimate, but their estimate isn't missing an update from you that they said las them in the last few months. So today's updates from you are marking to mark concessions as you've determined them over the last few months, as opposed restart.	t week there's been nothing new for set additional rework, future	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A	
Yeah. I agree with what you just said.		

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Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Okay. And then, Dave, can you maybe just get a little more specific in what is left to do? It sounds like you were kind of iterating back and forth on inspection and rework but that you've agreed to that. So what's actually left to do to resume deliveries?

David L. Calhoun

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

Well – so we'll have to complete the rework on a large fleet of airplanes, so that in and of itself takes time to do. But then we have to update every analytic that we provide to our regulator based on every next rework, so to just again corroborate the case that we have with respect to conformance. So you have a lag in that. You collect that data. You include it in the analytic, and then when it gets to be sufficient, you provide it to the FAA. And then you work through it with them. But that is sort of the process that we have to go through, and there's no way to short cut it.

And I can't collect data on the airplanes I haven't reworked yet. I have to get through it. I have to simply work my way through that. I have confidence in the rework programs. We have no new discoveries with respect to how we do the rework, and they're getting perfected just like in the case of standard work and building an airplane the first time. We have to do sort of the same thing with rework processes, and that's what we're doing. So I wish it could go faster, and I can't accelerate it. I need them all to take their time and go through their learning curves and post the data to the analysis.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Why can't you deliver a new one, clean off the line that doesn't have any of the historical errors as opposed to waiting to rework what's already built?

David L. Calhoun

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

Yeah. Well, theirs is – again, I'm not going to speak for my regulator because that's up to them on how we do it, and maybe that's how things end up working. On the other hand, they're going to ticket that airplane, and they're going to want to know everything there is to know about everything. And we're still posting data with respect to what we find in our fleet. So I don't know what more to say. I wish it was perfectly predictable. It's just not.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Okay. Thank you.

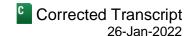
David L. Calhoun

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

Yes.

Operator: Our next question is from David Strauss with Barclays. Please go ahead.

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David Strauss Analyst, Barclays Capital, Inc.	Q
Thanks. Good morning.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Good morning.	
Brian J. West Chief Financial Officer & Executive Vice President, The Boeing Co.	A
Good morning.	
David Strauss Analyst, Barclays Capital, Inc.	Q

Dave, in terms of MAX deliveries, can you give us kind of an estimate of what we should think about for actual deliveries in 2022 given the rate and given the inventory liquidation you're talking about?

And then, Brian, a follow-up on free cash flow just given what you're implying for the Q1 burn at like \$4 billion to \$5 billion, seems like a long putt to get to free cash flow positive for the full year. I mean are we talking about closer to low single-digit billions than mid single-digit billions in terms of positive free cash flow? Thanks.

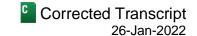
Brian J. West
Chief Financial Officer & Executive Vice President, The Boeing Co.

Yeah. So in terms of the free cash flow, it's really going to be driven by three specific things. There is seasonality like every first quarter, there's going to be BDS favorability that doesn't repeat, and there's going to be some assumption around excess burn-down. But I think that we have a handle around all that, and we do think it is in and out of the first quarter and the second quarter does get favorable. In terms of – I don't think it's going to be quite as high as the number you were throwing around, but it is going to be in the small billions.

In terms of your question on MAX deliveries, so I go back to where we were last quarter and we kind of had a ballpark what that would look like. That hasn't changed. And again, if we continue to liquidate the inventory at about the rate that we did last quarter and you then have the production ramp go from 26 to 31, it kind of gets us to a spot where we have a pretty good profile of what that's going to look like through the year, with a one caveat is that first quarter is probably going to be a little slow, one, because it usually is and, two, because we like others are wrestling with this Omicron.

David Strauss Analyst, Barclays Capital, Inc.	Q
Somewhere around 500 deliveries, is that what we're looking at?	
Brian J. West	Λ
Chief Financial Officer & Executive Vice President, The Boeing Co.	\vdash
Ballpark, seems pretty good.	

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David Strauss

Analyst, Barclays Capital, Inc.

Thank you.

Operator: Next we go to the line of Seth Seifman with JPMorgan. Please go ahead.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Hey. Thanks very much, and good morning. I don't know, it just seems a little bit of a shame to ask the question about the next aircraft because there's – I know there's a lot of more imminent stuff for the company, but you did discuss it, Dave. And so when you think about that, just maybe your updated thoughts because you did mention the work that you're doing there. And I'd also ask the question in light of the success that Airbus had this past quarter with some 737 customers. Any evolution in your thinking, number one, about market share and, number two, about where the value comes from in the aircraft because I think you've said in the past that it's going to come from Boeing and not the propulsion systems? And that suggests a pretty big investment for Boeing. And so maybe, Brian can also chime in on thinking about how the balance sheet plays into that.

David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.

Yeah, Seth. I appreciate the question. We are, as you know - have a reasonably full pipeline with respect to airplane developments with the MAX derivatives and the 777X which, again, I will highlight as a true differentiator in the marketplace as it displaces not just the 47 but also a 380 over time and – anyway, so I feel good about that. And if we're fortunate and we get customers interested in a freighter version of it, we will move aggressively along those lines. So we have a pretty good product family and development pipeline ahead of us. I just don't think that should be lost on anyone.

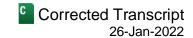
And then secondly, the much longer term and much bigger program for me is the one we refer to as our IPT, Integrated Product Team, where we're going to revamp the development process itself. And anyone who's been around our industry for a long period of time knows that the big variables in our financial performance over time usually relate to shortfalls in the development process.

My intent and my hope in light of all of the new tools that are available to us, both in terms of digital modeling on the original design but then also being able to use that same modeling to perfect manufacturing processes at scale and ultimately, serviceability, that is where the action is. That is where the next airplane is going to differentiate itself more than any other in my opinion.

So we are invested and continue to stay invested. We've allocated much of our top talent across the company to that effort. Can't wait to update everybody on, again, that progress. It won't be as exciting because it doesn't fly away, but it is in my opinion the most important thing that we can do. And we remain totally focused on that.

With respect to the competitiveness of our product portfolio, I still feel very good about it. I never will look at any last deal and suggest that we're losing to somebody or not. You have to take the totality of the last couple of years. They have airplanes that absolutely outperform us in certain applications, and we have some that outperform them in applications. And our customers are really good at discerning the differences and making their choices.

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So I apologize. I'm sure I sound like a broken record, but we think we have our priorities right here. There will be a next airplane. As I did say and I will acknowledge, I don't think the propulsion system is going to add as much value to that next airplane, either ours or theirs, as it has historically, which means that the airframer has to add more value to it in order to make it a compelling sale to our customers.

I look forward to that moment anyway. So, we're doing our very best to get ready for it.

Brian J. West

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

And on the balance sheet side of it, for us, over time one priority is to take leverage down, but also a priority is to make sure we're going to be ready to invest in that next airplane at the right moment. And we do various scenario plannings, and we think we've got options and things to make all that happen. But again, that's a little bit of a longer look, but nothing would suggest we wouldn't want to be investors for the right airplane.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Great. Thank you very much.

David L. Calhoun

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

Yeah. Thanks, Seth.

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Operator: Next, we'll go to Ron Epstein with Bank of America. Please go ahead.

Ronald J. Epstein

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Analyst, BofA Securities, Inc.

Yeah. Hey, good morning, guys. Just maybe following up on that previous question. When you look at the market share dynamic in the narrow-body market and the charges that have been taken on 787, 737, Tanker, and MQ-25, why was this the right time to put a \$0.5 billion into Wisk?

David L. Calhoun

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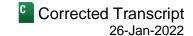
President, Chief Executive Officer & Director, The Boeing Co.

Ron, I appreciate the question. This is definitely the right time to put \$0.5 billion into Wisk. Number one, it's a very innovative product and a very innovative product team. I didn't create it. Our partners did at Kitty Hawk. I couldn't be prouder of the work they're doing. But the world wants autonomy, and the world wants electric. And this is going to be our application of those two technologies and to put it into real service by way of certification.

So everything about this program we like, technically innovative, and it will serve a niche we don't serve today. And that's really not necessarily why you do it if you don't think there's a long term avenue for both autonomy and electric and a lot to learn in the process. So, again, I view this as a high priority.

It does not compete for the discussion we just had with respect to the next large commercial airplane by way of financial resources. We'll have plenty of financial resources and wherewithal to be able to do both and then some, but I am enthusiastic about our Wisk investment in the airplane and the experience to date. It's incredibly innovative.

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Brian J. West

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

And, Ron, one thing to note. So we've made this commitment to be investors, but that cash is going to happen over time. And it's capped at any given quarter, so we're not really going to see it disrupt anything in the near term.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Got it. Got it. And, Dave, do you see the autonomous technology that's being developed there potentially with an application on one of your larger products?

David L. Calhoun

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

There's a lot to be learned and applied. Yes.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Okay. Thank you.

David L. Calhoun

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

Yeah.

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

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Good morning. Thank you. Dave, you talked a lot about China and how important it is from the demand side. But if you look at the other side of this, you've got a lot of content in China, like the Tianjin Composites center, structures from SAMC. Given the heavy border restrictions and lockdowns there, aside from the political things that keep getting talked about, how are you managing that part of your supply chain and any potential risks there?

David L. Calhoun

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

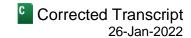
Yeah. I don't – we don't – our team doesn't see any near-term or even medium-term risks there, and performance has been outstanding. I'm never going to say never that big disruptions can occur. I don't – if those kinds of disruptions occur, we got a lot of other issues we're going to have to contend with. So, honestly, it's not the highest thing on our list. It performs quite well. We do have options. Admittedly, they take time to put into gear. But no, I think we're in an okay place there.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Can you highlight then where you do see the biggest constraints as you try and ramp up from a supply chain point of view?

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David L. Calhoun

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

You know, today it's going to go back to the old engine questions and castings and forgings. That has already constrained our outlook. And I think, as I mentioned the last time we were all together, I wish we could have done increased rates even faster than we had acknowledged, but it has always been a supply constraint, that has done. And it's mostly forgings and castings and mostly through our engine suppliers. So that is what it is. I do think they are under control and being managed very effectively and that the supply side of this is that everybody has put their cushions in place to be able to take care of it.

And then the only other medium term, I haven't been asked, maybe I will. I won't call it short term but medium-term question, of course, is titanium. And as long as the geopolitical situation stays tame, no problem. If it doesn't, we're protected for quite a while but not forever.

Douglas S	S. Harned
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Analyst, Sanford C. Bernstein & Co. LLC

Okay. Great. Thank you.

David L. Calhoun

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

Yeah. Thanks.

Operator: Next, we'll go to Rob Spingarn with Melius Research. Please go ahead.

Robert Spingarn

Analyst, Melius Research

Hi. Good morning. Dave, I wanted to go with a high-level question here now that you've been in the seat for a while, recognizing that you've spent most of this time putting out fires. But when we discuss the Boeing investment thesis after a decade of fairly extreme swings in performance, we're often asked, particularly, by investors that are returning to the story after an absence, how the culture is changing at Boeing. So how should investors think of you and your team as agents of change? And in what ways are you improving the culture at Boeing?

David L. Calhoun

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

Yeah. I mean, that's the million dollar question, and I appreciate you asking it. And that's what we work on every day, all day. I think investors, those same investors, what frustrates them is the unpredictability of our performance in light of those few instances that caused severe pressure on our company. And I will be the first to admit that they were not events caused by the outside world, but unfortunately, missteps inside.

So we're doing, I think, what they would want us to do. Our culture is focused on getting as close to our work as we possibly can from the very top of the company through the engineering ranks, all the way down through all the support functions that ultimately have to help mechanics on the line stay disciplined, create standard work that's predictable, repeatable, et cetera, safety and quality systems that are re-inculcated in every way I can think of into every nook and cranny of the company. And that is literally what we have been working on.

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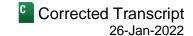


So, I appreciate the question. I think we're getting much better. In fact, we're getting really good at it. And I think someday we'll all point to it as a real advantage for the Boeing Company. But I know where we're coming from, and you do, too. Again, I do appreciate the question. Sometimes our vision and our priorities look boring to people, but when you stop and think of where we came from, I'm proud of this team for rallying around exactly that.

Robert Spingarn Analyst, Melius Research	Q
Thanks, Dave.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Yeah. Thank you.	
Operator: Next, we'll go to Peter Arment with Baird. Please go ahead.	
Peter J. Arment Analyst, Robert W. Baird & Co., Inc.	Q
Yeah. Good morning, Dave and Brian. Hey, Dave, maybe just to put a finer point on China Meresuming. You sound pretty confident that this could be a first quarter event. So what do we see from the Chinese regulators? Sounds like they're doing some test flights over there alreaded be looking for? Thanks	specifically need to
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Yeah. Thank you. Again, I don't think this is necessarily in the geopolitical realm as much as the customers and operations inside of China. What I will say is it has been perfectly predict the way in which they've returned their fleet to service. They went through the cert process. airplane to fly. The airlines are warming up the airplanes they already have. As you said, the in a very methodical, intelligent way, and they are beginning to notify us around when they is revenue service.	table and methodical, They reauthorized the ey're taking test flights
That all has to happen with the airplanes they own. And then deliveries in my view will commethodical, and as effective way as it has been to date. There's nothing that we're involved suggest otherwise. So anyway, I do feel confident only because of every tealeaf I've been and they're following through on, frankly, every commitment they've made.	I in that would
Peter J. Arment Analyst, Robert W. Baird & Co., Inc.	Q
Appreciate those details. Thanks.	
Operator: Next, we'll go to Kristine Liwag with Morgan Stanley. Please go ahead.	
Kristine Tan Liwag	\cap

Analyst, Morgan Stanley & Co. LLC

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Hey. Thanks, guys. Brian, thank you for providing the puts and takes and free cash flow for 2022, but could you quantify some of these pieces for the year and the key variables they depend on? I mean, ultimately the questions I'm getting is, is 2022 free cash flow a smidge over 0 or is it something closer to like \$5 billion?

Brian J. West

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

Yeah. It's not a smidge over 0, I promise you that. And we're not going to be as descriptive as you might want. However, as we begin to deliver on these milestones and we start to be able to have the volume improvement from the 737 and 787, we know we are going to have acceleration cash flows.

As I mentioned, first quarter, we know it's going to be usage, but we do expect that there will be a relatively sharp acceleration in the back half of the year as we begin to liquidate this inventory. And then as we exit the year, we're going to be moving to a much more normalized state and then have a meaningful acceleration of cash flow in 2023. And again, what number of billions, too close to call, but it's more than 0, I promise you.

Matt Welch Vice President-Investor Relations, The Boeing Co.	\triangle
Operator, we have time for one last question.	
Operator: Certainly. And that'll be from Ken Herbert with RBC. Please	go ahead.
Ken Herbert Analyst, RBC Capital Markets LLC	Q
Hi. Good morning, David and Brian.	
David L. Calhoun President, Chief Executive Officer & Director, The Boeing Co.	A
Hi, Ken.	
Ken Herbert	(
Analyst RRC Canital Markets II C	

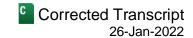
I just wanted to see if we could put a finer point on the 787 and where you are with production today and the inventory drawdown. It looks like you're producing at a lower rate, perhaps one or lower a month than the two you were coming out of the third quarter. And obviously, the uptick to five sounds maybe a little more cautious than before. Can you just comment on build rates on the 87 and then what the free cash guide implies in terms of the inventory reduction this year?

David L. Calhoun

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

Let me just start with the rate. There's not going to be a finer point other than to reemphasize our priorities, which is we don't like carrying a bunch of inventory. That's for sure. We will run our rate as low as we can while we burn our inventory as fast as we can, I think is the way to think about it. And then as the order books fill up and the market gets very active, and I happen to believe it will, then we're going to sort of monitor production rates to make sure we stay ahead of that delivery cycle.

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So, again, I can't give you a finer point on exactly when and how. I will suggest we have a clear priority, which is to burn down that inventory first.

Brian, anything you want to add?

Brian J. West

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

And there is an assumption that we're going to have some liquidation of inventory for sure on the 787. Stay tuned for the specifics.

Ken Herbert

Analyst, RBC Capital Markets LLC

Okay. All right. Thank you very much.

David L. Calhoun

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

Yeah. Thank you.

Matt Welch

Vice President-Investor Relations, The Boeing Co.

And that completes the Boeing Company's Fourth Quarter 2021 Earnings Conference Call. Thank you for joining.

David L. Calhoun

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

Yeah. Appreciate it, everyone.

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