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The Boeing Co. (BA)

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. Good day, everyone, and welcome to The Boeing Company's First Quarter 2023 Earnings Conference Call. Today's call is being recorded. The management discussion and a 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 introduction, I'm turning the call over to Mr. Matt Welch, Vice President of Investor Relations for Boeing. Mr. Welch, please go ahead.

Matt Welch

Vice President-Investor Relations, The Boeing Co.

Thank you and good morning. Welcome to Boeing's first quarter 2023 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.

As a reminder, you can follow today's broadcast and slide presentation at boeing.com. As always, detailed financial information is included in today's press release. Furthermore, projections, estimates and goals included in today's discussion involve risks, including those described in our SEC filing and in the forward-looking statement disclaimer at the end of the 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.

Thanks, Matt. Good morning, everyone, and thank you for joining us. We had a solid first quarter and we continue to make real progress, steady progress in our recovery. Challenges remain. There's more to do, but overall we feel good about the operational and financial outlook shared last November, including cash flow and delivery ranges set for 2023 as well as for the 2025/2026 timeframe where we can see $10 billion in annual free cash flow.

Let's start with an update on our 737. Our team's been working hard over the last week. We've been progressing in our early inspection of affected airplanes. The issue is understood. It's isolated to two specific fittings and we know what we have to do. The work will impact the timing of our deliveries over the next several months. However, we still expect to deliver 450 737 airplanes this year. Unfortunately, the timing of these delivery shortfalls will impact summer capacities for many of our customers, but we feel terrible about that.

Deliveries and production will be lower near-term, but will recover over the coming months, and we plan to increase our rate to 38 per month later this year. As mentioned last week, we're also not changing the supplier master schedule to ensure that they can keep pace, and we're comfortable adding parts inventory.

Stepping back, we appreciate that Spirit promptly notified us of this issue. They are an important partner. We're working closely on the recovery plan and we are working in a very constructive way. We will continue to work transparently with the FAA as always. As well, we will work transparently with our customers to support their fleet planning and scheduling requirements.

As we mentioned last week, there's no immediate safety of flight issue and the fleet can continue to operate safely. We will work diligently through this process together. We will prioritize safety. We will prioritize quality and transparency every step of the way.

Taking a wider view, I couldn't be more proud of the MAX team and the progress that we have made. We now have over 1,000 737 MAX airplanes flying in the fleet. And since our return to service, the fleet has safely flown more than 4 million flight hours with exceptional reliability.

And with respect to China, our focus has been and is on supporting our customers and their return to service. All MAX operators have returned to flying airplanes in-service and 45 of their 95 airplanes are back in the sky. In addition, the CAAC released their 737 aircraft evaluation report. It's an important step toward the delivery of aircraft that are currently in Boeing's possession. We will follow the lead of our customers.

Moving to BCA, I'll start with orders. Demand remains very strong across all of our product lines. We booked 107 net airplane orders in the first quarter. And on top of this, we were proud to announce major customer commitments earlier this year: Air India, 190 737 MAX, 20 787s, and 10 777Xs; and Riyadh Air, the newly established airline in Saudi Arabia and SAUDIA ordering up to 121 787 airplanes.

On the subject of deliveries, with strong demand, we're working to meet our customer commitments. We delivered 130 commercial airplanes in the quarter, including a strong month in March with 64 deliveries. However, variation in monthly deliveries remains high, and we still have work to improve stability. Of course, that starts with the 737 as I mentioned earlier.

On the subject of production, we are also steadily increasing rates across key programs to meet the robust demand. And we'll prioritize our stability and not push the system too fast and, yes, we will pause when we are notified of defects. On development, we're progressing across all of our key development programs and certification timelines have not changed on the 737-7, 737-10 or the 777X.

Now let me switch to BDS, Boeing Defense. In defense and space, we still have more work to do to improve our operating performance, but our portfolio is well-positioned and our products are performing well in the field. First quarter results were impacted by the added cost on the KC-46A Tanker program driven by a supplier quality issue that we previously shared last month. The good news is we understand it and we're progressing through that rework.

On the operational side, the Tanker is continuing to perform its mission well. Customers' decision on the KC-Y is a great opportunity for us, and it reflects the capabilities the Tanker is delivering for the United States Air Force. On the demand side, we're continuing to see solid order activity. In the quarter we booked key orders on the Tanker, the Apache and the E-7. In addition, we are accelerating the delivery of missiles and weapons in response to our customers' needs.

We're also encouraged by the initial Presidential budget request recently released. It's in line with our expectations, and our portfolio and capabilities are well-positioned to support the needs of the nation and our allies, both in the short and the long term. Our defense business is well-positioned, and we'll continue to improve operational performance to more normalized levels.

And Boeing Global Services, another very strong quarter. Solid, steady performance has enabled both commercial and military customers to keep fleets flying through a very dynamic time. The services business is now fully returned to pre-pandemic levels. I'm very proud of the team and the progress that they have made.

All things considered, across the businesses, we remain on the right path. We'll work through the most recent MAX issue transparently and in partnership with our customers and our suppliers. We're focused on the long term and we'll continue to drive stability across the business and the supply chain. In our November guidance, we did not predict significant supply chain improvement until well into 2024. We remain in the same place today and share that same view.

That said, we've seen improvement and our line of sight is getting better every day. Demand is strong and our portfolio is well-positioned. We have a robust pipeline of development programs and we're innovating in new capabilities to prepare for the next generation of products. Lots of work to do, but we're on track to restore our operational and our financial strength and we still feel good about the outlook that we shared both for this year and for our longer term.

With that, I'll turn it over to Brian.

Brian J. West

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

Great. Thanks, Dave, and good morning, everyone. Let's go to the next page and cover the total company results.

First quarter revenue was $17.9 billion. That's up 28% year-over-year, primarily driven by higher volume in both commercial and defense. Core operating margin was minus 2.5% and the core loss per share was $1.27. Both big improvements versus last year due to higher commercial volume and improved operating performance. Margins and EPS were negative driven by expected abnormal costs and period expenses as well as a charge on the KC-46 Tanker program that I noted last month.

Free cash flow was a usage of $786 million in the quarter, significantly better versus last year, driven by the higher commercial deliveries as well as an advanced payment tied to Lot 9 on the Tanker program, another important award for the KC-46 franchise. As we noted in our last earnings call, cash was lower this quarter than the fourth quarter due to lower wide-body deliveries and expected seasonality.

Turning to the next page, I'll cover Commercial Airplanes. Let's start with orders. BCA booked 107 net orders in the quarter including JAL and Lufthansa, and we have a backlog of over 4,500 airplanes valued at $334 billion.

Moving to the figures on the left. Revenue was $6.7 billion, up 60% year-over-year, driven by 130 airplane deliveries with increases on both the 787 and the 737 programs, partially offset by 787 customer considerations. Operating margin was minus 9.2%, which was significantly better than last year, but margins are impacted by expected abnormal costs and period expenses, including higher R&D spending.

Let's take a minute on the 737 program. The 737 had 113 deliveries in the first quarter, up 31% year-over-year, including 53 deliveries in the month of March. Picking up where Dave left off regarding the supplier fuselage item. We bounded the issue. We booked a non-material financial impact in the quarter. We understand the rework steps required, and we started repairs on several airplanes. And although near-term deliveries will be impacted, we still expect to deliver between 400 and 450 737s this year.

April and 2Q deliveries will be lower, but the first half monthly average will be about 30 airplanes per month, in line with what we said previously. The second half deliveries are expected to be around 40 per month with sequential quarterly improvement in the back half. While the high-end of the delivery range is pressured, ultimate performance will be dictated by the pace of the fuselage recovery.

Regarding inventory, we ended the quarter with approximately 225 MAX airplanes in inventory, including 138 that were built for customers in China and roughly 30 -7s and -10s. Within these 225 inventoried airplanes, roughly 75% will require the fuselage rework and the number of inventoried airplanes will likely increase in 2Q, and we still expect most to be delivered by the end of 2024.

On production, we're completing airplanes in final assembly and expect to recover in the coming months, paced by fuselage availability. We're supporting Spirit through this recovery, including manufacturing and engineering resources as well as a cash advance.

To support overall supply chain stability, we're not changing the master schedule, including anticipated production rate increases and we've contemplated any near-term parts inventory builds into our forward-look. Within final assembly, as Dave mentioned, we expect to increase our rate to 38 per month later this year, and 50 per month in the 2025/2026 timeframe.

Moving onto the 787 program. We had 11 deliveries in the first quarter and still expect 70 to 80 deliveries this year. We're producing at three per month and still plan to reach five per month by year-end. We ended the quarter with 95 airplanes in inventory, most of which will be delivered by the end of 2024. We booked [ph] $379 million (14:56) of abnormal costs in the quarter, in line with expectations, and there's no change to the total estimate of $2.8 billion. We still expect abnormal to be largely done by the end of this year.

Finally, on the 777X program, efforts are ongoing, both the program timeline and the abnormal estimate of $1.5 billion are unchanged. We booked $126 million of abnormal costs in the quarter, in line with expectations.

With that, let's turn to the next page and go through defense and space. BDS booked $10 billion in orders during the quarter, including awards from the US Air Force for 15 KC-46 Tankers and an E-7 development contract as well as 184 Apaches for the US Army. The BDS backlog is $58 billion.

Moving to the figures on the left, revenue was $6.5 billion, up 19% year-over-year driven by the KC-46 Tanker award, program milestone completions and underlying volume. We delivered 39 aircraft and three satellites in the quarter and also began production of the MH-139 Grey Wolf. Operating margin was minus 3.2%, significantly higher than last year but still negative, driven by $245 million pre-tax charge on the Tanker program which I noted last month.

Let me give you a little bit of context on the overall BDS portfolio. Remember, 15% of the revenues in the quarter are the firm fixed-price development contracts. These contracts get a lot of attention and there is a commitment to de-risk these programs as much as we can as we move through the development cycles and into full scale stable production.

Next and importantly, over 60% of revenues in the quarter collectively delivered double-digit margins. We have many important programs that are performing to historical performance levels. The balance of the 1Q revenue is made up of a small number of established programs that are experiencing negative margins on certain contracts due to specific near-term supply chain and factory stability pressures that we've highlighted previously. It'll take time to work through these issues and we fully expect that these programs will improve through the course of this year and return normal margin levels over time.

The BDS team is fully committed delivering the development programs to our customers. We've implemented new contracting disciplines, accelerated efforts around lean manufacturing, and we're investing in innovation and in our people, all of which underpin our plans going forward. Overall, the defense portfolio is well-positioned. There's strong demand across the customer base. The products are performing in the field, and we're confident that our efforts to drive execution and stability will return this business to performance levels that our investors would recognize.

Turning to the next page, I'll cover Global Services. As Dave mentioned, BGS had another very strong quarter. We received $4 billion in orders during the quarter and the backlog is $19 billion. Looking at the figures on the left, revenue was $4.7 billion, up 9% year-over-year primarily driven by our commercial parts and distribution business. Operating margin was 17.9%, an expansion of 330 basis points versus last year with both our commercial and government businesses delivering double-digit margins.

Operating margins in the quarter were higher-than-expected due to favorable mix and we don't assume that will repeat. In the quarter, BGS announced the first Boeing Converted Freighter line in India, delivered AerCap's 50th 737-800 Boeing Converted Freighter, and broke ground on a new component operations facility in Jacksonville, Florida.

Turning to the next page, I'll cover cash and debt. We ended the quarter with $14.8 billion of cash and marketable securities and our debt balance decreased to $55.4 billion. We paid down $1.7 billion of debt maturities in the quarter and absorbed the expected cash flow usage driven by seasonality. We also had $12 billion of revolving credit facilities at the end of the quarter, all of which remain undrawn.

Our liquidity position is very strong. The investment grade credit rating is a priority and we're deploying capital in line with the priorities we've shared; generate strong cash flow, invest the business and pay down debt.

Flipping to the last page, on our outlook. The 2023 financial outlook is unchanged from what we've previously shared, including $3 billion to $5 billion of free cash flow generation. Commercial demand remains strong across our key programs and services. Passenger traffic in February increased over 55% year-over-year and is at 85% of pre-pandemic levels comprised of 97% domestic and 78% international.

Defense demand is robust and the initial FY 2024 Presidential budget is in line with expectations. As Dave mentioned, our portfolio capabilities are well-positioned to support the needs of the nation and of our allies.

On the supply chain front, as you'll recall, when we set out our 2023 framework last November, we predicted the supply chain instability would likely continue. The good news is that we planned for it within our financial and delivery guidance. There's progress in many areas of the supply base, but we will likely face pockets of variability through the rest of this year. We continue to make key investments, including higher inventory buffers and forward deployment of resources as we take appropriate actions to mitigate impacts and improve predictability.

From a quarterly perspective, we continue to expect financials to improve throughout the year. On 2Q specifically, we expect core EPS will be roughly in line with 1Q 2023 performance absent the Tanker charge, as the 737 delivery impacts would be largely offset by higher wide-body deliveries. We expect free cash flow to be breakeven to slightly negative as we work through the 737 recovery. All things considered, we feel good about what's in front of us and we remain on track to achieve our long-term guidance including $10 billion of free cash flow in the 2025/2026 timeframe.

With that, I'll turn it over to Dave for any closing comments.

David L. Calhoun

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

Yeah, not much to add. Just a reminder that, November, when we did finally set out guidance for all of our investors, we described an environment that would continue to be strained through 2023 and through most of 2024. We still see the world exactly that way. Demand is as robust if not more than what we had thought back in November, and so we remain confident.

So thank you for your time and let's take some questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will come from the line of Myles Walton from Wolfe Research. Please go ahead.

Myles Walton

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Dave, the quality slip or escape at Spirit sounds like it's been going on for several years actually. So I think the natural question we've been getting is, why did it take so long to discover and how should we be comfortable that things like this won't continue to pop-up, particularly with the FAA's sort of renewed zero tolerance for non-compliant deliveries? Thanks.

David L. Calhoun

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

A

Yeah, Myles. I appreciate the question. This particular defect – I happened to take a look at it, by the way, along with the rest of my board. We happened to have our shareholder meeting shortly after the issue came to our attention. It's a gnarly defect. It's in that aft section of our airplane and very difficult to visibly assess.

In fact, it's impossible to visibly assess once the process to do it is complete, so without witnessing firsthand that process in action, you're not likely to find it from that point forward. Its process was not standard. And importantly, there was a sealant that was applied on top of the fitting that made it impossible to notice any cracks. So it's just one of those.

Again, no safety implications. The margins in our designs provide for significantly greater safety protection. So, anyway, I don't ever accept and I hope you don't think we might ever accept that these things go on, but this one in particular, very, very difficult no matter how many people you put in the field or Spirit puts out there to see.

Anyway, the good news is we've now been through the unveiling of the issue. We've been through the rework procedures both on the captured fuselages in our factory that have not yet gone through the subsequent stages, and we've already looked at finished good airplanes where we have to remove the fin in order to get at it, and these are all now defined work scopes. And now we just get more efficient in the process of doing that reworking.

That's why we're confident in our guidance, but, again, we don't accept them. They are, without a doubt, over time, becoming more manageable, and things like this, I will celebrate the fact that an employee witnessed the procedure and raised his hand and said that doesn't look right. That is the only way that we would have ultimately found out about it and I'm encouraging everybody in our supply chain if they see something of that sort to raise their hand.

Myles Walton
Analyst, Wolfe Research LLC
Q

Thank you.

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

Yes.

Operator: Thank you. The next question is from the line of Sheila Kahyaoglu from Jefferies. Please go ahead.

Sheila Kahyaoglu
Analyst, Jefferies LLC
Q

Good morning, Dave and Brian, and thank you. Maybe how do we think about BCA margins going forward? How do we think about the production trajectory, rework impact, concessions historically, and aircraft and inventory impacting BCA margins?

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

Yeah, thanks, Sheila, for the question. Broadly speaking, as we said, margins will be a bit volatile this year and into next as we do a couple big things. First, we've got to liquidate the 737, the 787 inventory levels as well as shutting down those shadow factories. We also have to move through the abnormal expenses on the 787, the 777, and then prepare to ramp rates. So it will be a little up and down as we move through and get out and get out of next year.

In terms of the near term, I did indicate last month that the first quarter BCA margins would be lower than fourth quarter and that's for things like the abnormal and things like the lower volume. 2Q will also be negative, but as we move into the back half of the year, the margins will improve. Of course, as Dave mentioned, by the time we get to 2025/2026, we still see a path to get BCA back to the double-digit margins that you all recognize. So we've got to work through what's in front of us. It's clearly defined, and we just got to execute.

Sheila Kahyaoglu
Analyst, Jefferies LLC
Q

Great. Thank you.

Operator: Thank you. The next question is from Doug Harned from Bernstein. Please go ahead.

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

Thanks. Good morning.

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

A

Hi, Doug.

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

Q

Hi. On the 787, you're on the path to reach five a month in Q4 and then go to 10 a month in 2025/2026. And you've also had some discussions that the rate could potentially go higher longer term. This is all being done in Charleston. And if we go back a few years, the maximum capacity at Charleston was seven a month. So, as you go to 10 per month there or higher, what do you need to do in terms of investment and how would you expect margins for the 787 out of the single facility then compared to what they were before the downturn when you were operating out of both Everett and Charleston.

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

A

So let me start from the back-end and work my way toward the front-end. As you might imagine, when you go from two to one, and you optimize that one and you don't transport from one to another, you expect higher margins, and we do. And I'm confident we will achieve that.

With respect to investment, this has a lot less to do with physical investment in equipment, more to do with how we route things through that factory. Today, our factory is pretty constrained because we have this join verification effort that is taking up lots of space both inside the factory, and we continue to do that work up in Everett. So we have got to work our way through that.

We have a team that works full-time planning the new routings in the factories and we're confident we can get to 10. I don't think – not only don't think, we don't see a big demand on investment to get us from what you noted as 7 to 10, so it's just going to take us time, and we've got to remove that join verification effort from our business.

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

A

And, Doug, as it turns to margin, on the program margin side, we fully expect by the 2025/2026 timeframe to have 787 margins that are higher than they were back in 2018, and it will be because of things like this consolidation to Charleston. And also on the cash front on the unit margin perspective, 787 margins will get better on the improved -10 content as well as the benefits that Dave described of consolidating in Charleston, so we think we've got a good plan in front of us and we are very focused on 10. 10 is the number and there's a lot of execution that's underwriting that.

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

Q

Very good. Thank you.

Operator: Thank you. The next question is from Noah Poponak from Goldman Sachs. Please go ahead.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning, everybody.

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

A

Hi, Noah.

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

A

Hey, Noah.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Wanted to try to ask about the 737 pace in the near-term and then also in the medium-term between now and the plan you've outlined for 2025. So, I guess how many units are somewhere in process, somewhere in a factory? It seems like those need to be reworked before you could then restart the sort of clean off the line units.

Brian, it sounds like the averaging 30 for the first six months, you kind of have implies second half of April is disrupted, May is maybe heavily disrupted, June starts to look normal again. Is that all correct? And then, in the medium-term in terms of the ramp, there is some reputable press talking about this 38 being close to the middle of the year, wanting to be at 42 early in 2024 and wanting to be at 52 early in 2025. I guess we know the demands there. In a scenario where the supply chain is relatively consistent, is that at least what you're working towards?

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

A

Yeah, let's start with that back-end. So we will have a plan to get to 38. In terms of subsequent ramps to higher numbers, let's let that take care of itself. Let's focus on getting to 38. And we still believe that 50 is the number in 2025/2026.

And in terms of the near-term, so in terms of what's in front of us, we know barrel-by-barrel in Spirit's factory and, obviously, know every one in our factory in terms of what's got to get done. If the unit is not too far into the our production cycle, the time to take to repair one of these, it's days.

As you have the vertical fin on an airplane, obviously, it's more complicated and it takes more time. But we will sort our way out. In the near term, getting back to production levels that are normal, will be months. In terms of the inventory that we've described, the 225 finished goods inventory, 75% of those are going to have to have this fix.

The good news is, is that this will not take us off our path to liquidate that inventory in the 737 of 225 largely by the time we get out of 2025. It's going to cost a little bit more. We provided for that. 2024 rather – liquidated by 2024. It'll take a little bit more cost, but we factored that into our closing position in the first quarter.

So, all-in-all, we think we know what's in front of us and work closely with Spirit. And as we move our way out of the short-term recovery, then we get back to an area we can start to get to the 38. And I think that, for us, the biggest thing is that, one, we're calling it out; and two, we have not changed the master schedule, and that's a big deal. We want to make sure the supply chain keeps pace as we move our way through the rest of the year.

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

A

Noah, on the finished goods, by the way, it's two things to keep in mind. One, we are largely through a couple of them already. And we are defining the scope of that work and, again, measured in a few weeks, not measured in months. And so we're confident in that, but the other thing to keep in mind in the finished goods is, you know we have a big conformance work scope now even without that defect. A lot of that work can get done concurrently, so it's not a pure add.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Right. The finished goods, it would just seem like, as long as you can rework faster than you deliver, that doesn't change your pace and the deliveries were – the percentage of deliveries from that wasn't enormous. So that makes sense. That's what I was sort of trying to get at what's in the factory, but I think I better understand it now, so appreciate all that color.

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

A

Great. Thanks.

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

A

Thanks, Noah.

Operator: Thank you. The next question is from Rob Spingarn from Melius Research. Please go ahead.

Robert Spingarn
Analyst, Melius Research LLC

Q

Hey. Good morning. Just a quick clarification and then a question. The clarification, the production rates you're talking about, the 38, etcetera, is that Renton only or does that include deliveries out of inventory from Moses – or rather production out of Moses Lake on the mods?

And then the question is, on the pricing environment, just with the other guys sold out on narrow-bodies and the 787 really being the strongest airplane out there on the wide-body side at least from a demand perspective, how has the pricing been on these big recent orders, and how do you [audio gap] (35:39) as we go-forward here.

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

A

You broke up a little bit at the end of your question on pricing. Can you just...

Robert Spingarn
Analyst, Melius Research LLC

Q

Sure. Just basically asking you, with the sold out conditions on the narrow-body side at Airbus, how is pricing on the MAX. And then on the wide-body side, 787 is arguably the strongest offering, so how's pricing there just given the demand situation?

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

Let me comment on pricing, particularly on the wide-body world. Nobody's sold out. We're just all selling further out. So we still compete and then the deliveries themselves are important competitive factor in everything that we go for, and then pricing follows.

So the implication that the pricing environment is firming is probably a solid point of view, and we don't discuss pricing on these calls other than to suggest that as tight as the market is, it's both the prospect of when you get your airplane and the price itself in each and every competition. We all do what we got to do. I will say I'm very happy and pleased with the orders that we have won and I'm sure Airbus says the same.

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

And then your clarification question, the first part. That 38 is a final assembly number, so right now it's 31, moving to 38 sometime later in the year.

Robert Spingarn
Analyst, Melius Research LLC
Q

So it's a Renton number?

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

Yeah.

Robert Spingarn
Analyst, Melius Research LLC
Q

Thank you.

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

David Strauss
Analyst, Barclays Capital, Inc.
Q

Thanks. Good morning. Just following up on the MAX issue, has Spirit fixed the manufacturing issue from their end? In other words, are fuselages coming off their line clean now and when would you actually start to expect to see those come to you?

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

Yeah, they know – they fixed their – they know the scope, and they're going to start delivering clean ones imminently. So we feel good about what they've got to go do. Of course, the harder work is on our end for something [ph] that's in (37:54) finished goods inventory.

David Strauss
Analyst, Barclays Capital, Inc.
Q

Okay. Quick follow-up. I think, from the Investor Day, I recall the pacing item on going to 38 a month being activating the third line in Renton. Have you actually activated the third line at this point?

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

You bet.

David Strauss
Analyst, Barclays Capital, Inc.
Q

Great. Thank you.

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

And we're still moving forward on the fourth.

David Strauss
Analyst, Barclays Capital, Inc.
Q

Got it. Thank you.

Operator: Thank you. The next question is from Jason Gursky from Citi. Please go ahead.

Jason Gursky
Analyst, Citi
Q

Yeah. Good morning, everybody. Just a quick question on the outlook for orders in the commercial business. Was wondering if you can kind of provide a little bit of color on your expectations from a book-to-bill perspective for the year given the pipeline that you're seeing. And I don't want to get too far ahead of ourselves here, getting the MAX back up in the air in China is great, deliveries are next, but I'd also be interested to get your thoughts on the future for deliveries in China specifically.

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

Yeah. Let me start and I want to make sure – I want to speak out of both sides of my mouth here if you don't mind. Number one, all of our guidance, all of our expectations are predicated on no China. So everything that we've discussed by way of production rate, supply constraints and demand in the marketplace does not factor that in, and I want to be clear about that.

On the other hand, we are working very hard to regain China, and if and when we're able to do that, it takes risk out of the delivery of the finished goods inventory simply because there's less work to do in getting the airplanes to their originally-intended customer, but it doesn't change much by way of production rates or anything along those lines because we're already – our rates all the way out to 2050 and beyond are constrained by supply. These are not demand rates.

I think we could add plenty if I thought the supply could meet it. And with respect to how I think we should think about future orders. All I know is that every next order, and they're sizable and there are plenty in play as we speak, deliveries are further and further out, so now we're out, believe it or not, in the 30s. So I think that's the best way to just think about it and what does the backlog support in terms of deliveries over what period of time. And right now, we're out competing in years far out, five, six, seven years.

Jason Gursky
Analyst, Citi

Q

Okay. Great. Thanks.

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

A

Yeah.

Operator: Thank you. The next question is from Cai von Rumohr from Cowen. Please go ahead.

Cai von Rumohr
Analyst, TD Cowen

Q

Thank you very much. So, at the November Investor Day, you laid out a forecast of cash flow of $3 billion to $5 billion this year. And since that time, you've take taken a couple of shelves, obviously, the 737 you discussed, the 767, and you mentioned because of supply chain having to build to higher inventories. So there were a lot of bad guys in that revised number.

What are the good guys that get you home to stay in that number? I know you had the $1 billion Tanker advance, but are the advances from airline customers substantially better? What are the good things in that forecast that allow you to maintain it?

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

A

Yeah, Cai. Let me start with a reminder and then I'll let Brian mention one or two good guys. Sort of the Tanker advance, we had always counted on, so it may have come a little earlier because of their need to get tankers in the field, but that was always counted on, but what we did when we gave you that guidance is we did not, like I said, expect the supply chain to come ripping back and we never have any problems, so there was some judgment applied when we gave the range that we would have to live through some of these things.

Now, I would suggest that one or two of these might have been a little tougher than things we were thinking about, but not much. And so, anyway, that was factored into our guidance, and that'll continue. That factor continues all the way into 2024.

So, Brian, you might want to comment on a couple of individual things.

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

A

Yeah, just a couple things. Thanks for the question, Cai. On the first quarter, 787 deliveries were a little light. We'll make that back up in the rest of the year. You mentioned the Tanker benefit. That's something that we always planned for later in the year. The customer just wanted to get it done a bit sooner, which we think is good. So that's the first quarter.

And then in the second quarter, as I mentioned, we'll be in more of a break-even position largely because of the 737s that are going to push-out. But, again, it's going to be back half benefit. And the second half as I think about the acceleration, it's going to be the 737 recovery, the 737 rate ramp, and there's going to be wide-bodies that are going to accelerate across the board, 777, 787, 767. So all that's contemplated and we've still got high conviction in the low-end of that range. High-end might be a little pressured, but we're committed to delivering that commitment of $3 billion to $5 billion.

Cai von Rumohr
Analyst, TD Cowen

Q

Thank you very much.

Operator: Peter Arment from R.W. Baird, please go ahead.

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Thank you. Good morning, Dave and Brian. Hey, Dave, I appreciate your comments on China. And I know you've de-risked the skyline out through 2026 on sort of deliveries. But seems like it's important steps the regulator made and just wondering whether you see this as this next steps to delivery, is it customer-driven or still regulator-driven? How do you interpret that? Thanks.

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

A

Yeah. Again, I don't want anything to get misinterpreted here. The China market, which in my view has always been the issue with respect to taking deliveries of airplanes, has come back as robustly as anyone might have imagined, and domestic travel now is at the pre-pandemic level, and will continue to grow. So they need airplanes, and so I'll just sort of state as a fact that our customers, in my view, are going to need more airplanes in the relatively near to medium term and this is a pretty easy way for them to satisfy that need.

So rather than get involved in any geopolitical discussion because no geopolitical discussion is actually required here. We have orders on the books. We have airplanes on the tarmac, and so this is just a nod from the Chinese government that they would like to take delivery of their airplanes.

So that is the situation as it exists and I'm going to stick with sort of my posture, if you don't mind, that all of our guidance and all of our activities are going to assume that the best things don't happen. And if they do, then we will welcome that news and get back to all of you.

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Appreciate it. Thanks, Dave.

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

A

Yeah.

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

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Yeah. Hi. Thanks very much and good morning, everyone. Dave, I wonder if we could just talk for a second about Spirit in a broader context. I think the current issue might even pre-date the grounding, but they've been struggling there on a couple of different fronts lately. And the idea of moving to 38 and then to 50 is, you can only go as fast as they can go.

And it's pretty understandable because I don't think anybody's had a more challenging three or four years than Spirit other than maybe you guys. But how are you going to make sure that they're there to support that rate increase for you maybe more broadly and then with a specific reference to the big labor contract that they have coming up in June?

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

A

Well, I'll be optimistic about the labor contract. I think, as you might guess, I suspect their workers know the situation they're in. They know that they've got to deliver for Boeing and my guess is they'll all get to a palatable answer. It's not in my control, so you'll have to ask Tom about that.

I am confident in their ability to ramp with us. We were on a steady course to keep them ahead of us in this ramp rate and they were on a reasonable course there. This last defect will slow them down in measures in weeks and months, not in years, and it will not impede their ability to get to our rate increases.

We're going to stay present with Spirit. We're in their factories. We're talking to their people. As I said, there's a couple of ways you can look at this issue that came up. Like I said, it's gnarly, it was difficult to find, but an employee raised their hand and noticed a bad procedure, and everybody jumped on it. Within a week, we had this resolved with the FAA. We had a clear picture of the airplanes that were impacted, and we were all at work on the rework. That is a signal of a healthy supply chain, not a weak one.

And so we're going to maintain that attitude. We're going to continue to work constructively with Spirit. Brian mentioned to you our willingness to advance them cash during this moment, while they go through their recovery stages. So, yeah, we're going to stay constructive. I have confidence that Tom and the team at Spirit can get ahead of this. And we have been on the rate increase request and supply chain request with them for quite some time, and we are confident they can get there.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Great. Thank you very much.

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

A

Yeah.

Operator: The next question is from Kristine Liwag from Morgan Stanley.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning, everyone. Following up on the supplier master schedule for the 737 MAX, how long will the supply chain be at a higher production rate than your final production rate, and how much is that inventory build going to cost?

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

A

Yeah, it's a matter of months, Kristine. Thanks for the question. It's a matter of months, and the inventory is all contemplated in our forward look. It's not anything we're worried too much about. In fact, again, another indication of how we're thinking about this, we're perfectly comfortable, keeping everyone at pace and holding little buffer. We think that's a better alternative than keeping it a little bit too close to the wire, and we're going to keep having that posture and that's going to help us get to 38 and then beyond.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC

Q

Great. And a follow up on the first question on the labor agreement with Spirit. Should we see a production disruption at Spirit? What are mitigating actions you could take and are there things that you could do to make it easier for you to meet your targets if, again, there is a production disruption at Spirit?

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

A

Yeah, I'm not going to speculate on that. I'm going to assume that our supplier and the workforce at our supplier are good enough, smart enough, and can plan far enough ahead to not worry about that.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

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

A

Yeah. Thank you.

Matt Welch
Vice President-Investor Relations, The Boeing Co.

A

And Louise, we have time for one final question.

Operator: Thank you and that will come from Matt Akers from Wells Fargo. Please go ahead.

Matthew Akers
Analyst, Wells Fargo Securities LLC

Q

Yeah. Hey. Good morning, guys. Thanks for the question. Can you touch on BGS margins in the quarter? I think this was like the highest you've printed since you broke that out. I know you mentioned the mix was positive, but can you state how much of that benefit was? I think this was kind of like a mid-teens margin pre-COVID. Should we expect it to kind of gravitate back to that level or could it be a little bit higher here?

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

A

Yeah. Thanks for the question. We love the service business, right? It's a franchise, it goes on for years and years and years, and the good news is that, as Dave mentioned, on the commercial side, we're back to pre-pandemic levels. That's a healthy sign. And the team is very focused on profitable capital efficient growth and that's important in the services business.

So I think we're set up very well. The quarter, a little bit of mix benefit, but overall, we're set up very well to deliver a mid-single-digit revenue growth business with mid-teens margins and a high cash flow conversion just like we set out in November and we get more and more confident about that business and the team that's running this, so I think it's going to accrue to our benefit over the next several years.

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

A

And if I just stick to my short three years or maybe it feels long, we made a lot of changes to services and we tightened up the capital disciplines in a pretty significant way. They all leaned in favor of higher margin, more intellectual property content in our work that we do. And of course, we now have a supply constrained market around that. So I'm not surprised these margins have expanded and I'm not expecting them to go down. I think the team's doing a great job.

Matthew Akers
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you, both.

Matt Welch
Vice President-Investor Relations, The Boeing Co.

All right. And that concludes our first quarter earnings call. Thank you, everybody.

Operator: Thank you. And ladies and gentlemen, that does conclude the Boeing first quarter 2023 earnings conference call. Thank you for joining.