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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 Fourth Quarter 2023 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation plus the analysts' question-and-answer session are being broadcast live over the internet. [Operator Instructions]

At this time, for opening remarks and introductions, I'm turning the call over to Mr. Matt Welch, Vice President of Investor Relations for The Boeing Company. Please go ahead.

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

Thank you, and, good afternoon, everyone. Welcome to Boeing's quarterly 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 filings 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.

Thank you, Matt, and good morning, everybody and thanks for joining us. While we report on our fourth quarter results today, my focus is on Alaska Airlines Flight 1282 and the actions we are taking as a company to strengthen quality and earn the confidence of our customers, the confidence of our regulators and the flying public. Brian will cover the financials. I will keep my comments strictly to the issue at hand. I'll start upfront by apologizing again to Alaska Airlines, to the crew and to their passengers; and more broadly, to all of our customers who were affected by the 737 MAX 9 grounding.

The NTSB's investigation into the accident is ongoing. I have an amazing amount of confidence in the work that they do. They bring experts to the investigation and they take all the time that's necessary to draw accurate conclusions, and we intend to be there with them. As part of that NTSB process, I cannot comment on any specific root cause or speculate a root cause. As a participant in the process, I do believe the investigation will narrow quickly.

Whatever conclusions are reached, Boeing is accountable for what happened. Whatever the specific cause of the accident might turn out to be, an event like this simply must not happen on an airplane that leaves one of our factories. We simply must be better. Our customers deserve better. I want to remind everybody what a great job the pilots and the crew at Alaska Airlines did in responding to a desperate moment. I also want to remind everybody what a terrific job the leadership at Alaska Airlines did, grounding the airplanes and ensuring safety. Alaska Airlines did exactly what companies like Boeing would hope that they do at a moment like that and that is why the airline industry is as safe as it is.

We caused the problem and we understand that. Over these last few weeks, I've had tough conversations with our customers, with our regulators, congressional leaders and more. We understand why they are angry and we will work to earn their confidence. There's no message, no slogan that will accomplish that. It's all about real, demonstrated action and absolute transparency every step of the way. So, let's talk about those steps. Our team has worked diligently to help our customers restore their 737-9 airplanes for service. The FAA approved the detailed inspection protocol last Wednesday and, today, all 737-9 operators are safely returning their airplanes in service.

More broadly, we are taking immediate and comprehensive action to strengthen quality of Boeing and within our supply chain. We instituted additional quality controls and inspections at Boeing and at our supplier. We issued bulletins to suppliers to strengthen the focus on conformance and reducing the risks of quality escapes. We opened our factories to 737 operators for additional direct oversight, and we appointed an expert Quality Advisor to conduct a comprehensive and independent review of our commercial airplane quality management system and they will remain with us for many years.

Most importantly, last week, we paused 737 production for the day as more than 10,000 teammates across Renton, Seattle and Moses Lake stopped to focus on safety and quality, and only, safety and quality. This was a quality stand down at a scale we have never done before, and we're going to keep doing them across our commercial factories.

In addition to our internal actions, the FAA has announced new oversight of our 737 manufacturing. We will cooperate fully and transparently with the FAA at every turn. We respect their role as our regulator and we will follow their direction in every step of production. Today, we're producing 737s at a rate of 38 per month and we will remain at that rate until the FAA and Boeing is satisfied with our quality of manufacturing process.

This increased scrutiny, whether it comes from us or a regulator or from third parties will make us better. It's that simple. Over the last several years, we've taken close care not to push the system too fast, and we have never hesitated to slow down, to halt production, or to stop deliveries to take the time we need to get things right. Nobody knows that better than our investors. As you know, we stopped delivering 787s for over a year to ensure that each conform to our exacting specifications prior to delivery.

And on the 737 line, we have regularly slowed rate breaks to support the stability of the overall production system and to correct non-conformances when identified. But this accident makes it absolutely clear we have more work to do. I know that these moments that impact delivery schedules can frustrate our customers and our investors, but quality and safety must come above all else. And our customers and our investors know that and are in there with us.

On that note, as you will see, we're not issuing financial outlook for 2024 today. Now is not the time for that. We won't predict timing. We won't get ahead of our regulator. We will go slow to go fast and we will encourage and reward employees for speaking up to slow things down if that's what's needed. We will simply focus on every next airplane and ensuring we meet all the standards that we have, all the standards that our regulator has and that our customers demand.

As we go about that work, we remain confident in our recovery. Since day one, we've been focused squarely on inculcating safety and quality to everything that we do, and getting back to our legacy of having engineering excellence at the center of our business. That focus and commitment is unwavering and we will continue to strengthen our processes and our execution every step of the way. Most importantly, we will be transparent every step of the way.

And with our 170,000 employees in mind, I'd like to close with a message directly to our team. We have confidence in you and we have confidence in Boeing. We have confidence in our airplanes. I know how seriously you take your work. Our men and women on the manufacturing floor and in our engineering offices know exactly what we must do. You know your work better than anyone else on the planet. Use your voice, speak up, focus on every next detail. We will seek out and act on your feedback. We're in a challenging moment. We will earn trust back through demonstrated action and our commitment to total transparency. I'm confident in you, I'm confident in our company and that, together, we will do just that.

Brian, over to you.

Brian J. West

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

Thanks, Dave, and good morning, everyone. Let's start off with the total company financial performance for the quarter. Revenue was $22 billion. That's up 10% year-over-year. Growth was driven by higher commercial volume and favorable mix. The core loss per share was $0.47, better than last year, primarily on improved commercial volume, better mix and lower abnormal costs. They were offset by lower Defense margins and higher period expenses including R&D which we expected.

Free cash flow was $3 billion in the quarter, in line with prior year and up sequentially from the third quarter, primarily due to improved commercial deliveries and strong order activity, which drove favorable advance payment timing, some of which was anticipated in the first quarter 2024.

Turn to the next page, I'll cover Boeing Commercial Airplanes. BCA booked 611 net orders in the quarter with 411 737s, including an order with Akasa; 98 777Xs, largely in Emirates order; and 83 787s. We have over 5,600 airplanes in backlog valued at $441 billion. BCA delivered 157 airplanes in the quarter and revenue was $10.5 billion. That's up 13%, driven by higher wide-body deliveries and favorable mix. Operating margin was just positive at 0.4%, driven by returning to normal 737 delivery levels in the quarter, improved mix, as well as lower abnormal costs associated with getting to five per month on the 787 and resuming production on 777X.

Now, I'll give more color on the key programs. On 737, we delivered 110 airplanes in the quarter and 45 in December. The program also began FAA certification flight testing on the 737-10 in December. For the year, we delivered 396 airplanes, on the upper-end of the revised guidance range we provided in October. Per the FAA announcement, we'll maintain production at 38 per month, and we're transparently with the FAA to complete all requirements for future increases.

At the same time, we'll continue to prioritize the master schedule to avoid disruption in our supply chain. On the 737-9, we're actively supporting our customers' return-to-service activities, and as of today, the majority are back flying. In our factory, we have 10 737-9s in production, all of which will undergo the FAA-approved inspection process prior to delivery. Spirit has also adopted this inspection routine at its factory.

The quarter ended with about 200 MAX airplanes in inventory. It's important to think about this inventory in three buckets. First, there are 140 737-8s built prior to 2023. The vast majority are for customers in China and India. We still expect to deliver most of these airplanes by year-end, as we work towards shutting down the shadow factory. In the second bucket, there are around 25 airplanes produced in 2023 that are still in WIP, given the disruptions in the second half of last year, and we expect these to deliver in 2024. And lastly, there are approximately 35 737-7s and 737-10s that we will deliver once those airplanes are certified, the timing of which will be determined by the FAA.

Moving on to the 787, we delivered 23 airplanes in the quarter, including 11 in December. For the year, we delivered 73 airplanes within the guidance range we originally outlined for 2023. The program successfully transitioned production to five per month in the quarter and still plan to steadily work our way to 10 per month in the 2025/2026 timeframe. We ended the quarter with approximately 60 airplanes in inventory, about 50 of which require rework which continues to progress steadily. We still expect to deliver most of these airplanes by year-end, as we finish the rework and shut down the shadow factory. We booked $77 million of abnormal costs in the quarter and have approximately $300 million left to go that will wind down by year-end, in line with our expectations.

On the 777X, we resumed production in the quarter and continue to progress along the program timeline, which remains unchanged. During the quarter, the Emirates order for 90 777Xs brought the program backlog to more than 400 airplanes and also extended the accounting quantity. We continue to follow the lead of the FAA as we progress through the certification process, including working to obtain approval from the FAA to begin certification flight testing. We've booked $71 million of abnormal costs in the quarter, which is now fully behind us after resuming production, in line with our expectations.

Moving to the next page, Boeing Defense and Space. BDS booked $8 billion in orders during the quarter, including the Lot 10 award from the U.S. Air Force for 15 KC-46A tankers. The backlog is now at $59 billion. Revenue was $6.7 billion, up 9% on the tanker award and improved volume, and BDS delivered 52 aircraft and two satellites in the quarter. Operating margin was minus 1.5% in the quarter, a sequential improvement from 3Q, but still, we have more work to do.

4Q results were impacted by cost true-ups on three fixed-price development programs totaling $139 million, as well as unfavorable performance and mix on other programs. Our game plan to get BDS back to high-single digit margins by the 2025/2026 timeframe remains unchanged. Our core business remains solid, representing 60% of our revenue and performing in the mid- to high-single digit margin range. The demand for these products is very strong, and we need to execute, compete and grow these offerings.

On the 25% of the portfolio, primarily comprised of fighter and satellite programs, operational performance stabilized as we exited the year. And as a result, the fourth quarter saw improved margin trends, although still negative. We still expect to return to the strong historical performance levels as we roll in new contracts with tighter underwriting disciplines and we move into the 2025/2026 timeframe.

Lastly, we have our fixed-price development programs that represent the remaining 15% of revenue. Despite the relatively modest cost true-ups in the quarter, we continue to focus on maturing these programs and retiring risks quarter in and quarter out, and we made some good progress in the fourth quarter. In addition to capturing the tanker reward from the U.S. Air Force, the program delivered nine aircraft in the fourth quarter, continuing to build positive momentum, in spite of the supply-related disruptions in the factory that we faced earlier last year.

And on the T-7A, the first Red Hawk arrived at Edwards Air Force Base in November, formally starting the Air Force development flight test campaign for the aircraft. Overall, the Defense portfolio is poised to improve. The strong demand across the customer base, the products that perform in this field, and we're confident that our efforts to drive execution and stability will return this business to performance levels that our investors recognize.

Moving on to the next page, Boeing Global Services. BGS had another strong quarter. They received $6 billion in orders and the backlog is now at $20 billion. Revenue was $4.8 billion, up 6%, primarily on favorable commercial volume and mix. Operating margins were very strong, 17.4%, an expansion of 350 basis points versus last year as both our commercial and government businesses were delivering double-digit margins. In the quarter, BGS opened a parts distribution center in India and received a follow-on contract to provide sustainment for the C-17.

Turning now to the next page, I'll cover cash and debt. On cash and marketable securities, we ended the quarter at $16 billion. On debt, balance remained flat at $52.3 billion. And over the next few days, we'll pay down $4 billion of the $5 billion of maturities coming due this year from our available cash on hand. We continue to maintain access to $10 billion of revolving credit facilities, all of which remain undrawn. Our liquidity position remains strong. Our investment-grade credit rating continues to be a priority, and we're deploying capital in line with the priorities we shared previously, invest in the business and pay down debt.

Turn to the next page, I'll cover full-year financials. Full-year revenue was $77.8 billion, up 17% year-over-year. Growth was driven by improved commercial volume, primarily on higher 787 deliveries. The core loss per share was $5.81, better than prior year, primarily on improved commercial volume and mix, as well as lower fixed-price development charges in Defense. Free cash flow was $4.4 billion for the year, up versus prior year, primarily on higher 787 deliveries and favorable receipt timing that is partially offset by higher expenditures, as we increase production rates and invest in the business.

While we're postponing issuing 2024 guidance today, given our current focus, we're committed to sharing timely and transparent updates moving forward. I would like to provide some additional context on our path forward. We always knew 2024 was going to be an important year in our recovery. Based on what we know today, we expect another steady year of free cash flow, driven by the 737 production at 38 per month, ongoing execution of the 787 toward our long-term objectives, continued liquidation of our 737 and 787 inventory, and continued focus to wind down both shadow factories.

Our Defense business will continue to improve as we mature fixed-price programs and transition recently challenged programs with better underwriting disciplines that we've already started to see, and BGS will continue to generate strong free cash flow. Longer term, we're focused on quality and stability which will ultimately drive free cash flow. Nothing has changed on the demand front, and the backlog is strong and growing.

Remember, our 2025/2026 guidance was based on achieving stability, and we have to earn that by applying resources to fix our issues and demonstrate predictability one airplane at a time, side-by-side with our regulator. This team is up to the challenge and will apply any and all resources to get back to deliveries that satisfy our customers and underwrite the long term demand profile. We're still confident in the goals we laid out for 2025/2026, although it may take longer in that window than originally anticipated, and we won't rush the system.

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

David L. Calhoun

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

Yeah. Thanks, Brian. We're addressing you from Renton, home of 737 MAX family. We're living in the here and now, and we're working with all of our people, and I couldn't be more impressed with their commitment, dedication and the comprehensive nature around which they will look at this. Boeing will get better. I am confident in that. We will address everything that needs to be learned from the accident and we'll move forward. So, thanks.

Happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question is from the line of Peter Arment. Please go ahead.

Peter J. Arment Q

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

Yeah. Good morning, Dave and Brian.

David L. Calhoun A

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

Hi, Peter.

Peter J. Arment Q

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

Dave, thanks for the initial opening color on the MAX situation and the steps being taken. So, I guess, this is just a follow on that, Dave, I wanted to ask you about where you assess you are in kind of the recovery of the MAX program when we think about what has been a successful transition to rate 38 in some of the progress in stabilizing the supply chain? And you've commenced deliveries to China. And I know we're not talking about

2025/2026 targets. But directionally, there's been a lot of improvements since last fall and since your Investor Day when you laid out this long-term outlook. Thanks.

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

Yeah, Peter. I appreciate that. By the way, one stat which I was just handed, which I track all the time, is the number of our 737-9s that have been returned into service. We're at 129. And that is progressing at a very quick rate based on the inspection protocols that our FAA and we all agreed with. I am very proud of the progress that we've made and I feel great about it. Of course, with one exception, and it's too big an exception, which is the escape.

I also know that, as the NTSB investigation narrows and concludes, and I do believe that will happen in relatively short order, all the learning that can be extracted from it and all the learning that can be extracted from all those inspections, of all those airplanes flying day-in and day-out, that will inform us on what improvements we can make on our quality systems. First and foremost, we will run the door plug literally, from the second a door is received at Wichita through their lines, all 12 positions through our 11 positions here, inspections will be added at every turn, it is on lockdown. And we've had help from our FAA. We've had help from our customers, et cetera. So that's sort of step two.

The next one is, how do you take all of that learning and apply it through all the supply chain lines? And we have medium- and long-term efforts just beginning to make sure that we do that. My confidence comes from, quality systems always can get better. And when you have a moment like this, you take everything, you literally look at everything, and we're all keenly aware of everything. So, we're going to run that play as hard as we can, and we're going to take the time to do it. The FAA – I'm sort of glad they called out a pause, because that's a good excuse to just take our time, do it right, and I wish I had called that out on the first day, and maybe I would have.

We've been good at taking pauses. I have probably taken more pauses in the last three years, and I'll apologize to all our investors now than had been taken in the 10 years before it. But this is what we do and it's how we get better. And I also say, Peter, as you know, one of the nagging issues that we've been facing have been shortages here and there where we have to pause our line, buffer inventories not quite as robust as we'd like them to be based on supply chain weaknesses.

We will run our master schedule in accordance with the plans that preceded this. And each and every part we receive and all the buffer inventories that we get, we'll stabilize production here on out. Less traveled work in our line, all things good come from that. So, I feel really good about it. And I also have confidence in our airplanes that will be certified. I like the respect that the FAA and Boeing are showing one another. Again, maybe too long a diatribe, but there are lots of sound reasons for why I'm feeling good and, in some ways, this moment will accelerate recovery, not delay it.

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

And just initial progress on China? Thanks.

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

Yeah. So, Peter, as we've talked many, many, many times, we have stood by our customers in China day-in, day-out. They have been flying MAXs now for the better part of a year. They are performing extremely well and we've always hoped and expected they would begin to take deliveries, and I think everybody has noticed that those deliveries have started. So, we are just going to stay diligent and stay with each and every one of them and make sure our Chinese customers get what they've ordered and paid for.

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

Q

Thanks so much, Dave.

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

A

Yeah.

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. Maybe if you could update us on how you're thinking about the MAX 10 and the MAX 7 certification timing, just given the MAX 7 exemption being withdrawn? What does that mean for the 10, and how does that phase-in as you think about ramping production to 50 a month and the profit profile of the MAX line, if there's no MAX 7 or MAX 10?

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

A

Sheila, thanks for that question. I'm going to just give a little bit of a moment on why we made that decision. On the time limit exemption, I'll let Brian help quantify it. I visited Capitol Hill for a lot of reasons. My biggest one is to own the problem, be transparent and convey that to all of our workforce, so that they know we're willing to do that and then we can all be honest, clear with each other every step of the way in this process. And so, I'm glad I made the visit.

I was not expecting, when I met with Senator Duckworth, the conversation that we had. You know she's a pilot and a decorated pilot. She listened to everything I had to say. We didn't have a debate about the safety of the MAX 7, and the MAX 7 in its certification work was moving along at a pretty steady pace. She had a way different argument for me and it was right. She said you want to introduce this new airplane, a derivative, yes, but a new airplane, and nine months from now, you'll have an engineered solution to it, to this issue, and why is that the right call?

And in my view, it was a sound principled position to take. I went home for the weekend. I talked to our customer. You know who that is. Unbelievably constructive. And this is the right thing to do for aviation. So that is really how it happened and it was that simple. But the passion and the argument that Senator Duckworth presented to me, I'm so glad I heard. Anyway, that's what happened. The MAX 7 will have to move until we get that engineered fix in place.

And then I'll let Brian sort of quantify that. Okay, now what?

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

A

Yeah. And on the MAX 7, the work at hand, we will design an engineering solution. We're applying the resources. Our view that that could be within a year. But on the MAX 7, remember, while it's a very, very important customer, the number of deliveries we're talking about is relatively small. As I mentioned, we've got 35 of 737-7 and 737-10s in inventory at the end of the quarter. There's a handful of 737-10s. They're mostly 737-7s. But we'll sort that out as the process works and that airplane per the FAA gets certified. On your question on the 737-10, I prefer not to get into what-ifs. It is a great airplane. Customers love it and there's great demand for it, and it will get certified at some point when the FAA decides.

Sheila Kahyaoglu
Analyst, Jefferies LLC
Q

Okay. Thank you.

Operator: Thank you. Our next question is from Myles Walton from Wolfe Research. Please go ahead.

Myles Walton
Analyst, Wolfe Research LLC
Q

Thanks. Brian, you alluded to 2024 being another, I think the words were steady year of free cash flow. I think in sort of follow-on descriptions, you gave a lot of uppers to what's going to happen year-on-year. So is steady meaning growth in free cash flow, and/or can you give some of the offsets to the uppers? Thanks.

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

Yeah. Thanks, Myles. So, I did describe some of the key ones. Obviously; BCA, volume up; BDS, less of a drag; BGS, steady. It was a big investment in there that I probably should have called out. Now that you're asking, there's the 777X investment. That's important and that's big. And also, we've got to plan for making sure that we stay laser-like, our supply based on the master schedule. We don't want them to take their foot off what they're doing, and if that means we've got to hold more inventory, so be it.

It's important because, at this moment, it will allow us to have any of our suppliers that might have been at the line, may have been short of the line, they get a chance to catch up. So all of that in the mix, are levers that we've got to deal with as we move into the year. And in terms of what steady means, our belief with standard today, the bottom-end will look a lot like it did last year and maybe a little bit of growth. And once we know more, we will put more specificity around it, and we'll give normal guidance when adequate and when appropriate.

Myles Walton
Analyst, Wolfe Research LLC
Q

Okay. Thank you.

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

Seth M. Seifman
Analyst, JPMorgan Securities LLC
Q

Hey. Thanks very much and good morning.

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

Good morning, Seth.

Seth M. Seifman
Analyst, JPMorgan Securities LLC
Q

Brian, you talked a couple of times about the shadow factories and the path toward winding them down over the next year and change. Is there any way to quantify how you think about what the cost of those shadow factories was in 2023, or what you expect it to be in 2024?

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

Yeah. So, thanks. I would – the impact, you're not going to see in 2024, just because we still have to move that work through the system. But as we exit, it will largely be behind us. As we think about our expectations on BCA profitability over time, we've always talked to it getting back to normal. A lot of that productivity will be not only what volume might look like. Can't say a lot about that now but, also, we don't have this resource with the shadow factories. So, we won't quantify it specifically, but it is an important component, as we think about going from what our profitability has looked like at BCA historically and where we think we can get to.

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

And maybe I'll just add and refresh everybody's memory because we've talked about it a couple of times. In our shadow factories, we put more hours into those airplanes than we do to produce it in the first place. Anyway, that's a metric I know everybody understands.

Seth M. Seifman
Analyst, JPMorgan Securities LLC
Q

Great. And if I can sneak in one more, too. The advances. It was a nice tailwind in 2023. How do you think about that in 2024?

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

Right now, we plan for, obviously, not to be quite what it was in 2023. That's factored into my comments. The good news is, is that we still have a pretty robust demand environment, and our commercial teams are working hard to chase every next order. So, we're not counting on a big one, but we know that our teams can go win campaigns.

Seth M. Seifman
Analyst, JPMorgan Securities LLC
Q

Thanks very much.

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

Jason Gursky
Analyst, Citigroup Global Markets, Inc.
Q

Hey. Good morning, everybody. Brian, just maybe a quick clarification, or maybe Dave, and then a question on Defense. The clarification on the rate 38 a month. Are you guys still firing some blanks so that the number that you're actually producing is a little bit less than that? Just kind of curious what rate 38 means.

And then on Defense, Brian, you've historically broken things down into that 60%, 25%, 15% bucket. You talked a little bit about the 25% bucket and the 15% bucket in your remarks. I was wondering if you'd just comment on the 60%, the remaining part of the portfolio, and how that's performing and where maybe margins are in that slug of business at this point? Thanks.

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

A

Sure. I'll take the first one. Yes, we've cycled 38 per month. We said that. Keep in mind, it always takes time for that to equate into deliveries. But we're not firing blanks. On your question on the 60% of the portfolio on BDS, look, they've consistently quarter-in, quarter-out, have still been able to deliver some very good performance on some products that the customers need. And you know the laundry list that we talked about. Things like Apache and all that sort of stuff, missiles and weapons, things that are needed right now in this environment that we live in. And they're performing well and they're in that mid- to high-single digit margin rate.

And when we step back, if we think about going from where BDS is with margins, two things have to happen. That 25% that's wrapped around fighters and satellites, that has to get better. We fully expect it to get better and look a lot like it used to. So then you've got 85% of your portfolio clicking at stable, consistent, mid- to high-single digit rates. And we know we can get there. And then you've got this 15% of the portfolio on fixed-price development programs that we expect to be less of a drag as we retire risk over time, and we expect that to play out.

Jason Gursky
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks.

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

Douglas S. Harned
Analyst, Bernstein

Q

Good morning. Thank you.

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

A

Yeah. Hi, Doug.

Douglas S. Harned
Analyst, Bernstein

Q

Hi. I want to go back to the MAX 7 and the MAX 10 certification. And the question I have is, when you look forward, and given there's uncertainty on the timing of the certification of each one of those, and you look at both the mix in your customer demand, and certainly, you've had more demand than you can respond to given supply chain issues; first, let's say, that mix changes because of the timing of certification on those two variants, do you still see your line as full, because it could be moved around between 737-7s, 737-8s, 737-9s, 737-10s?

And then, second, what kind of operational challenges, if any, do you have when you have to have some flexibility about what variant you're producing?

David L. Calhoun

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

A

Doug, I'll just start by saying, I think it's manageable. If there's a delay in any way, we're not going to know it the last second. We're going to know with a considerable timeframe, in my view. And by the way, right now, the status on the MAX 7 and the MAX 10 was progressing reasonably well. I don't believe the FAA has taken anybody off the course, and we haven't taken anybody off the course. And so, they are making real progress, and I think we were almost close to the finish line had we not pulled the time limit exemption.

So, again, I'm never going to suggest a date or anything like that for the FAA. But they're working diligently on it and they know how to separate the issue we're wrestling within our factory from the cert effort. And I believe we're going to have plenty of time and we'll be able to manage our product mix reasonably well. There won't be anything dramatic by way of change. If there are some subtle changes from quarter to quarter, first or second, you'll know it pretty early and so will we, and I think it's quite manageable.

Douglas S. Harned

Analyst, Bernstein

Q

So is it fair to say that the supply chain ramp is probably still the governing constraint on your production ramp, not things like mix here?

David L. Calhoun

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

A

Yes. Although I will say, if this pause goes on for a little while, I don't want to pause my customers. But the pause is going to be helpful for us in so many ways in the sense that that supply chain, they're going to keep running according to that master schedule. It's good for us if some buffers get developed and some of the more stressed suppliers get ahead of the game. So there is important progress that will get made, despite this momentary pause.

Douglas S. Harned

Analyst, Bernstein

Q

Very good. Thank you.

David L. Calhoun

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

A

Yeah. Thanks, Doug.

Operator: The next question is from the line of Ron Epstein from Bank of America. Please go ahead.

David L. Calhoun

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

A

Hey, Ron.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Hey. Good morning. How are you? But if I may, I have like a two-part question, if that's okay. The first one, if you guys could talk through 787 a little bit? You mentioned the rate. What's going on in that line and that sort of thing. We get questions about that. And then I'll come back with the second part in a sec.

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

A

Yeah. So, on the 787, there's nothing new on the 787. Our team's doing a very nice job. We'll produce at five per month rate, like we described. We expect to steadily increase those rates over time and liquidate a lot of inventory, a lot of inventory. And we'll give more dimensions around the specifics in line with normal guidance. But the program's doing just fine and the backlog's big.

Ronald J. Epstein
Analyst, BofA Securities, Inc.

Q

It's been doing great. And then maybe a second question. This one's maybe a little more difficult. I'm still trying to get my head around, how we got here? Meaning, if you go back to the beginning of the MAX issue, wasn't the 737 line like the most scrutinized production line in the world? So what happened to get to where we got today? I understand that revamping the quality, testing and all that is all great news. It's a positive move forward. But why did that have to happen now? I just don't understand that.

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

A

Well, Ron, it should never happen. So the question about now is not so relevant. It should never and can never happen. I am incredibly proud of the work that our people do on the 737 line. I think it has steadily progressed. Quality numbers have gotten better. But when you have an escape, and then when everybody concludes exactly what happened in that escape, that lights another fire. So, you take another step forward with respect to all things, quality. And you make certain that whatever it was that created that opportunity for failure in the sky or in-flight can never happen again. And that has already happened, and then we'll learn from everything. So, yeah, I think I understand your underlying context for the question, but we take exception to that premise.

Ronald J. Epstein
Analyst, BofA Securities, Inc.

Q

Okay.

Operator: The next question is from the line of Cai von Rumohr from TD Cowen. Please go ahead.

Cai von Rumohr
Analyst, TD Cowen

Q

Yes. Thanks so much. So, now that you've waived the exemption on the engine anti-icing and you're designing the new system, you said it would take about a year. Have you accelerated that at all? And could you accelerate it more, because my assumption is, that is going to be the long pole in the tent in terms of when the FAA can certify the MAX 7 and MAX 10?

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

A

I think that is a accurate statement that you just made. Given the fact that we made this decision just a couple of days ago, needless to say, we will throw more engineers at it, we're going to put more work into it and probably we can accelerate it. And the nine months that I discussed with Senator Duckworth was based on my understanding of that project before I made this decision. So, the answer is yes, we'll step up resources, we'll step up whatever testing is required. We will do everything we can to inform the FAA about that particular part of that program, so. And that's where we stand today. And you are correct, that is the pole in the tent all of us should be watching.

Cai von Rumohr
Analyst, TD Cowen

Q

Terrific. Thank you. And then another quick one. With the supply chain running at the master schedule, but you're delivering not quite as many, should we think about a fairly large build in the inventory account here in the next couple of quarters until you get beyond that?

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

A

Yeah. There's two things, Cai, that are going to be – things we have to deal within cash flow. One is going to be the 777X investment I discussed, as well as what you just described, and that's contemplated in my description what we thought the bottom look like. And then we just got to go run the play and work through what's in front of us. But more work ahead, and we'll describe it more specifically as we move through the year.

Cai von Rumohr
Analyst, TD Cowen

Q

Thank you.

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

A

Hey, Louise, we have time for one more question.

Operator: Thank you. And that question will come from Noah Poponak from Goldman Sachs. Please go ahead.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning, everyone.

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

A

Hey, Noah.

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

A

Hi, Noah.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

I might go overlong if I'm last. But, Brian, recognizing that there's some limitation here in how we can discuss it, but maybe just trying to talk out MAX units this year with assumptions of not breaking to higher rates, you made it a point to say you're at 38. I know that rate, final assembly. Where the entire supply chain is, is always a different number. But if I just simply said 31 for six months and 38 for six months, that's in the low 400s. And then you unwind 5 to 10 of inventory a month, I can kind of get somewhere near 500 or just decent growth from 2023. Is that just a reasonable starting point, as we wait to learn more from the FAA?

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

Noah, I completely understand the question. Those are the inputs I described. But out of respect for the process that we need to go through the FAA, I just got to steer away from specificity. It's just not the right time. We've got work in front of us. And I promise, when appropriate, we are going to be more specific. But anyway, it's probably going to be on the specificity of those numbers. Wait and see. It's just not appropriate.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. Fair enough, fair enough. Are you willing and able to speak to just updating what the cap is these days on the monthly inventory unwind and how China plays into that?

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

I don't know we think about a cap. We've got the shadow factories that they've been working for quite a while, and they know the routines and they've been pretty steadily on both 737 and the 787, consistently meeting month-in, month-out liquidation targets and expectations for customers. So, I don't think there's any kind of cap. We're just focused on we know exactly the pile of inventory. It's 140 on the 737 that I described. It's 50 on the 787. Happy with the rework and we're just going to move through this year with real focus in order to be at a position where we start shutting these shadow factories down. And then we're just going to run that play as hard as we can.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC
Q

Okay. And is China officially fully 100% taking deliveries? We see it in the press. We see the reading of the tail number websites. But can you just declare that that's just fully officially on at this point?

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

One at a time, and yes.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC
Q

Okay. And then, Brian, just one more, Defense. The margin is still not where you want it, but better sequentially. Any framework you can provide around how that progresses through 2024? And what was the final Defense cash burn in the 2023 cash, so we can think about what to work off of as we go into 2024?

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

Yeah. So, the cash burn, we put out some numbers a year ago and we thought the operating cash flows by division. BDS, the worst-case end for them in that range, they were much worse than that. And it's all what we've described last year and we expect it to be better this year. And that's behind us. But yes, they did a lot worse, obviously, offset by BGS and BCA doing better, but it was worse.

And then the first part of your question on margins, we expect margin trajectories to get better over time, particularly as we focus on this 25% of the portfolio that is very specific and there's a lot of actions – or activity around it. But we will get better. They will eventually get to the point where we're putting positives on the board. What I'm most interested is the team that's got to execute over the next between now and 2025/2026 in order to get these margins back in the high-single digit range.

And I will remind you that that's how we describe our Defense margins. You really got to put 2 points on top of that, which is what we account for in our Global Services division for the Defense side. So it's really looking more like a double-digit Defense external view that we are aiming to get towards, because we think that's a pretty decent business.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Right. Okay.

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

A

And you squeezed in three.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

We got them all in. We got the rest of them. Thanks so much for the time. I appreciate it.

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

A

Thanks, Noah.

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

Thanks, everyone.

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

Thanks, everybody.

Operator: That completes The Boeing Company's Fourth Quarter 2023 Earnings Conference Call. Thank you for joining. You may now disconnect.