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The Boeing Co. (BA)

Barclays Industrial Select Conference

CORPORATE PARTICIPANTS

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

OTHER PARTICIPANTS

Carter Copeland

Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Carter Copeland

Analyst, Barclays Capital, Inc.

Let's get started. Next to join us, my good friend from The Boeing Company, Executive Vice President and Chief Financial Officer and Head of Corporate Development and Strategy, Greg Smith. Someone I think – many of you have known for a long time. And it's been a couple years since he's been here with us in Miami. But we are delighted to have him with us to talk about a stock that just wants to go up every day this year. So maybe you could tell us, if it's going to go up some more and why.

I want to kick us off by identifying who we have in the room here. First, we'll ask our first two audience response questions.

Number one, do you currently own this stock?

[Voting] (0:47 – 0:50)

I won't try to – yeah. I know you own it. We'll get you a clicker if you want. Okay. So lots of non-owners. And then the second question, number two, what's your general bias on this stock right now?

[Voting] (1:09 – 1:21)

All right. So equal negatives and positives and a bigger crowd in neutral. That isn't a great set up for a stock that's already up 13% year-to-date.

QUESTION AND ANSWER SECTION

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

So clearly some I think hotly debated topics for your company.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Maybe give us from a starting point, a high level sense of management focus, where you are? 2016 was a year – I guess my words, a year with a lot of challenges and some problems that needed to be worked through, whether it was on the tanker, decisions on rate.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Markets. Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah. Absolutely. You've been dealing with those. What's the focus for 2017? And what...

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

In your mind what do you need to deliver? What do you want to deliver?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. Well, I mean first and foremost, the backdrop of the marketplace is it's a solid marketplace. There's certainly pockets that are not as robust as others. But when you step back, the fundamentals of this market, the commercial airplane market in particular, are very good.

And as you and I talked earlier, I mean traffic at 6%. And as you look forward over the next 20 years, 39,000 airplanes are going to get needed. And the fundamentals within that are different than the past. I mean if you look at how much of that will be replacement versus growth in prior cycles, it's north of 40% will be replacement. I think that really plays into the technology, therefore the efficiency, the airplanes they're bringing into the market. They're making it more attractive to replace.

And when I say efficiency, it's not just fuel burn. It is cargo handling systems. It's overhaul on maintenance. It is overall airplane health monitoring capabilities that we have now in the digital world, that make it overall a very good value equation for our customer.

So those fundamentals are – continue to be strong. But obviously we stay laser focused on those, because those are the foundation of the business. Right? And then defense environment, I know you're all familiar as far as the DOD environment. And then but there's still a lot of opportunities within the international markets as well. And I think there's more demand – we're going to see more demand on the domestic side over time.

So with that 5,700 airplanes in backlog. So you asked what the focus is? Delivering on our backlog. This is very much an execution story. The fundamentals are in place. We stayed very focused on this backlog and understand the robustness of it. We understand where there may be soft spots in that backlog. And we try to get ahead of them and how do you navigate through them?

But fundamentally, this is something that we just continuously poke at. Because again it's the foundation of our production rate assumptions, our efficiency, our investments in automation, and so on. And that continues to be very robust.

Where there is any softness, we're able to make adjustments. And that's the difference. I mean last cycle, two years, three years type backlog. 25% being replacement, very heavily concentrated in certain regions of the world. You look today, 5,700 airplanes, 40% plus on replacement back to that efficiency. And then you look at the diversity of the backlog geographically, much more diverse. You look at the health of the airlines, far better. Far better financial condition or position than they've ever been.

And so those fundamentals we – by customer continue. And we make adjustments if needed. But it remains strong. I mean it doesn't mean we don't stay focused on it, it remains strong.

So that therefore gets you to the production rates. Making the right production rate decisions at the right time, doing that efficiently, doing that to try to manage risk at the same time and balancing the – obviously the risk and reward. And that's what we've been doing. 25 almost rate breaks or close to over the last several years. Done extremely well to the teams' credit, executed really flawlessly in comparison. Now that, those rate breaks going forward, there's not as many of those. But boy, we've got a great track record of a discipline in order to do that. So it's executing on that backlog fundamentally.

And then beyond that, competing to win. And so competing to win falls right into productivity. And I'll say the ongoing relentless focus on all aspects of productivity and how do we capture those and deliver those? As far as delivering them in the marketplace to win and value back to the shareholders. That goes to partnering for success, market-based affordability, functional costs, overhead, you name it, we're benchmarking that against what we would consider best in class. So we have our own internal objectives.

But as you know we're doubling down as far as resetting the target, resetting our objectives, resetting the culture on what it's going to take to win in the marketplace. When I say market, I mean Wall Street, and I mean in our communities, and I mean in – from a customers' perspective. What do we need to do to do that and be top quartile on all aspects of our business. So that's a continued focus this year.

And I put that productivity around again those elements I talked about, but also in development programs, how do we execute on these programs flawlessly? We've got some great success. We've had some challenges. We got

things like MAX [737 MAX], that are going very well, 777X going well, still some work to do. Some other programs, been challenged.

So a lot of focus with a dedicated leader on how do we take these best practices, get them on these programs? How do we minimize the risk? How do we have a gated process in that we don't push risk and push requirements? Things like that. So, Carter, I'd say it's a full-court press on doing all of that. And then ultimately again winning in the marketplace.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Are you confident that – I mean you've kind of re-baselined some stuff on tanker, which was clearly a big piece of last year.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

You've reset the rates and the outlook on the 777.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

You've got your development stable, sort of defined. Are you confident that those sorts of adjustments are behind you? And your rates are set, your EACs are appropriately baseline?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

And you're set up to go get it?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Well, look, if you kind of just start with the market to the production rates, the commercial market. I think the answer is yes there, as we see it today. But what are we focused on? Filling the bridge on 777. And we've made great progress there. And at the same time modify that rate down. But we got work to do. And we'll continue to keep everybody up to date on that. But that risk is definitely not at a – it's at a different risk profile than it once was, because of those elements.

We're about 90% sold out in 2018 and 2019. And so we're focused on filling. At the same time focused on keeping those folks in the skyline through that period. So getting through that, because as you go past this, there is a big replacement cycle in wide bodies coming. So we need to get through this transition in this, these areas of softness on the wide body.

And then of course 87 [787], we have – making the final decisions on going to 14 a month. And so as that sits today, that looks good, but we're monitoring.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

When do you have to make that decision?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

This year, later this year.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Okay.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. And then as far as development program execution, again I think everything is well understood and baseline. But it is something very focused by all of the management team and their development programs.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

And some of those programs don't have a lot of margin.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

But the business case on those programs over the long term is very strong. And tankers are a great example. I mean that's about a 400 airplane marketplace plus probably over time.

So we got to work through these upfront challenges. But I would tell you the risk profile on tanker is very different than what it was. It's now in the factory, getting the airplane conformed to the standards. And it's just work.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

It's factory work. And can we do it as efficiently as possible?

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

And that – and when you're in a development phase and you're certainly past the development risk, you're more now into getting 18 airplanes done in this timeframe.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

And doing that in an efficient manner. And there's not a lot – there's certainly not a lot of room for error on that.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

So it's a big focus for all of us. Not just Leanne [Caret], the functional leaders and so on about how do we stay disciplined to get to that next gate.

We've got flight tests left to do and stuff. But a lot of that again from a risk perspective, I'd say development is behind us. Airplane's flying great. The test points coming off it are all what you would expect. It's going to be a fantastic machine. You just got to get through this.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

This incorporation in the production system complete. So it'll be a watch item till it's done.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

I want to ask another question to the audience. Question number six, what do you see as the most significant investment issue for Boeing? Core growth, margin performance, capital deployment, execution?

[Voting] (11:30 – 11:37)

All right, so execution clearly popping out. So that aligns what we're talking about here. But second on that list is margin performance. You clearly have laid out some big goals for margin...

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

...in the next couple years and beyond to get to, I think you call more world-class type of industrial company levels.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Maybe help us bridge, how much of that comes from on the BCA side, 787 block extensions versus 737 mix?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Versus maybe R&D and period costs? How much should we think – not each one can give you, but relative orders of magnitude...

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

...of what's important?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yes. They're all important, and they're all enablers to do that. I think we think obviously setting the bar at that level within the company, we think is appropriate, when we look at the competitive landscape, when we look at the supply chain, when we look at what we would consider global industrial champion levels. Look at the risk we take. We think that's an appropriate objective for us to set internally.

Now certainly is there a lot of hard work to get there? Absolutely. Is it laid out as far as all the elements that need – A, need to happen per plan? And then what do we need to achieve above plan? Yes. Is there owners to each one of those? Yes. Are all the plans I'll say completely understood and have high confidence? No.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

But they're identified. They're identified with a leader. So this is going to be one of those situations where we're just going to keep going at this and chipping away at it. Some of it's going to work, just like in any initiative. And other, we're going to realize we're going to get into it. And we may not be able to capture as much as we want. And market dynamics are going to come into play...

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

...as well. So again I think it's the right objective. And we're on – we got all the right foundation in place to know what to go after.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

And all joking aside, it is really everything from...

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

We're looking at everything. And we're looking at it from a market perspective. So we're really trying to rally the team around understanding what is the market? What's happening within our own marketplace? What's happening within our own facilities? Where we've got programs that are frankly at the level that we've prescribed internal targets for the company, whether it's margin and/or working capital, they're actually in a top quartile. So how do we take that program...

Carter Copeland

Analyst, Barclays Capital, Inc.

Yeah.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

...whether it's a rotorcraft or a fighter or whatever it may be. And how do you take that and take those best practices and pull them across the company? And take those fundamentals. Because some of our teams have just done a terrific job in getting to these levels. And they're not done. So let's learn from it.

We don't have to go too far outside our walls to learn from that. But there's others where we are going outside our own four walls. We're doing a lot more benchmarking and really trying to understand where their bar is set. How did they get there? Was it automation? How do they manage risk? What kind of support ratios do they have in heavy manufacturing versus us? How did you get there?

Centers of excellence. As you remember a couple years ago, we cored up things like flight test.

Carter Copeland

Analyst, Barclays Capital, Inc.

Yeah.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

We've got somebody that manages flight tests across the company, every platform. That was an efficiency play. But at the same time it was one where how do you manage the best of Boeing? How do you have best practices on Chinook? And how do you get them over to F-18? Well, one way is you put it under one person.

Carter Copeland

Analyst, Barclays Capital, Inc.

Yeah.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

And resource deployment. They're not constrained. We can move people around. And fortunately we have phenomenal talent in that area in particular, where we can move those.

So we're really trying to take multiple, I'll say, approaches into this. But what the overall objective is, we want to drive towards delivering more value to the customer, more value to our stakeholders, be more efficient, operate at speed and pace. Agility is a big discussion in our board rooms now.

A

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

And speed. And a very, I'll say, clear understanding of the competitive landscape and no dismissal of it. We're assuming people are going to be successful.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

And they want share.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

And we're obviously going to do everything we can to not only maintain share, we want more share. And we want to be able to deliver better value to the customer, ultimately to all of our stakeholders and shareholders.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Do you think in terms of the margin progression, how – when do we begin to see some of the progress? I think I mean clearly this year...

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

...if you look at the cadence of the year, I think you've guided to Q1 being...

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

...one of the lower points. Right?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

Yeah.

A

Carter Copeland

Analyst, Barclays Capital, Inc.

And I assume that's on the margin line as well.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

Yeah. Yeah.

A

Carter Copeland

Analyst, Barclays Capital, Inc.

But do we see improvement that...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

Yeah.

A

Carter Copeland

Analyst, Barclays Capital, Inc.

...carries into 2018? Or how long do we have to wait [ph] before we get this stuff (16:57)?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

Excuse me. Well, I think some of it you've seen in the last couple years. Some of that has made its way to the bottom line. Some of that's made its way into pricing and so on.

A

But you think about transition of the 737, going from the NG to the MAX. From a bottom line perspective you didn't see any disruption there. And that was an objective put in mind. So some of that again. But how do you build on that momentum? Just like any, you're just because of the, I'll say, the cycles of the business throughout the year and the timing. Q1 will be our lowest quarter, be about 20% of our year on the low end – mid-to-low end of our guidance. And that's not against...

Carter Copeland

Analyst, Barclays Capital, Inc.

And it will be at the low end of the margin as well? Is that...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. And I think it'll be one of the lower margin. Again just the way the period expense and the mix, our delivery mix is not as favorable. So you'll see momentum, again very similar to what you've seen in prior years. Now we're trying to address as much of that as we can. But reality is Q1 is always our lowest quarter and will continue to be.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

But you should exit the year with more 7-3s [777-300s] and 777s.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Potentially will exit the year having done a 787 block extension.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

That's the idea.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

So theoretically as we progress through the year...

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

...we should learn something more about, at least the BCA, what the margin profile will set up for beyond that.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. Yeah. Absolutely. And I think kind of key drivers in there obviously, making our deliveries first and foremost. 37 MAX [737 MAX] transition into the line.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Which is going well, but that's obviously a key enabler. You talked about 777, 787 block extension, those are some of the – and then development program execution. Those are the big, I'd say, pieces within BCA that are going to differentiate on the margin front.

Like I said MAX is going very well. Team has done a great job there. 777X, still early, but we are manufacturing. So it's happening fast.

Carter Copeland

Analyst, Barclays Capital, Inc.

Yeah.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

And they are a little bit ahead of schedule and within the cost envelopes that they've had. So good job there.

87 [787] execution as you've seen has really picked up. We still got a lot of work to do. But you probably saw last week introducing that Dash 10 [787-10] into the marketplace, it is a – the whole family there are game changers. 130 cities now, 87 [787] cumulatively have flown to that didn't – those routes didn't exist before. That airplane has enabled.

I think the Dash 10 is just going to be a phenomenal add to that family of aircraft. And I think the Singapore order demonstrates that. But doing that smooth introduction like the Dash 9 [787-9], same thing with the Dash 10 and minimizing that risk profile and capturing the value, whether value back to the customer getting it to them on – in a timely manner. At the same time efficiency in the factory, that's the big focus on 87. So again more work to do, but they're making great progress.

Carter Copeland

Analyst, Barclays Capital, Inc.

I want to ask another one to the audience before switching over to cash. But as we talk about margin and revenue growth here, number three. In your opinion through cycle EPS growth for Boeing will be above, in line, or below peers?

[Voting] (20:25 – 20:35)

Okay. So actually reasonably close to a more normal distribution there. But clearly several in the below peer category. A big portion of that EPS growth is going to be related to cash generation. When you look at the big muscle movers in the cash profile over the next couple of years, is it correct to assume that the 37 and 87 are you big uppers, the 777 and maybe some things like pension and cash taxes, those are your big downers?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

Yeah. Yeah. I think that's fair. Certainly making the 37 [737] rate increases as we have, so going 42 up to 57 – or 52 to 57 those. And that skyline is very healthy. And...

Carter Copeland

Analyst, Barclays Capital, Inc.

When do you have to decide on 57? When is the point of no return on it?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

Yeah. We've got a lot of time.

A

Carter Copeland

Analyst, Barclays Capital, Inc.

Okay.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

I mean this is not something we need to make near term. But as you look at 57, and look at percentage sold at 57, you look at options that we think are a high probability of being exercised, looks really good.

A

Carter Copeland

Analyst, Barclays Capital, Inc.

Yeah. Okay.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

So at least currently 37 skyline is not a worry or a concern. Something we stay focused on though, but not a concern.

A

It's taken those over 3,000 MAX airplanes that we sold before we even flowed the plane and delivering on time, efficiently, and focusing on that rate ramp and the productivity.

On A7 again unit-by-unit improvement as well as maintaining – certainly maintaining a 12-month rate. which the team has done a great job. Highest rate of a wide body program in aviation history at the fastest rate. And then going to the 14. So that's another enabler.

But just even as you work through each of those units, again we talked about mix, we talked about supplier step down, those are going to be enablers on the cash front as well as on the advances. So those are kind of some of the bigger moving pieces. 777, 777X we'll build inventory obviously.

Carter Copeland

Analyst, Barclays Capital, Inc.

Yeah.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

As we work through building test planes and static fatigue articles. But that's all taken into consideration as we talk about cash flow growing.

A

At the same time we'll start to get 777X advances in that'll help offset some of that inventory build. And I'm not sure everybody is kind of taking into consideration. So those are the big ones.

You're right, pension is always going to be a watch item...

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

A wild card.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

...within that. As you know we've capped that pension. So at least we've got the liability cap. So now it's just funding that. And interest rates obviously will drive that. Development program, execution on plan, and then – your last item was – sorry.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Cash taxes.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Cash taxes. So...

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Can't hide from those.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. So as we improve on the 787 on a unit basis, we'll pay more cash tax. So all of those moving pieces are taken into consideration when we say, we see cash flow continuing to grow over time.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

And did I miss any? Is there any other one of significance, tanker presumably?

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. Tanker, obviously inventory today...

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

...as we start delivering those. And that'll start late this year, early next year.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Are there any upside, downside risks to the cash outlook to highlight?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Well, I mean execution.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Okay.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Kind of back to the slide, it's execution.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Okay.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

If we don't execute on the rate breaks and so on, then it's a different....

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

There's nothing particular in the working capital or...

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

No, not really.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

...international defense orders or if we were to see commercial orders tick-up to something different than they are.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Not at least in the near term. I mean it certainly will help more on the long term, but not in the near term. I think again if you just – what's going dip other than a shock to the economic environment, other than that, it's the execution of what we have.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Okay.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

And doing that flawlessly. Is there a lot of moving pieces? Absolutely. Like you said tanker inventory build, tanker now generating cash, 787, the 777 transition, Dash 10 inventory building.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

As we bring the Dash 10 into the production system, test aircraft coming down, but 9s are going up.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Okay.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

And so, yes, there's a lot of – but if you step back and you ask, how would you – what umbrella would you put it under? It's executing on what we said we're going to do.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah. I just want to try to get it...

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. No, that's great.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

...in simple terms for everyone. Want to ask the question on capital deployment, clearly it's a big part of the story here. Question number four, In your opinion, what should Boeing do with excess cash? Realize we're running low on time here.

[Voting] (25:28 – 25:33)

And clearly you've reduced the share count a lot...

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yes.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

...in the last couple years. 60% there, nobody wants you to do bolt-on M&A apparently. Larger M&A is something that comes up. I wonder if you'd take just a brief aside to address that?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

You talked about setting up a third business unit effectively...

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

...in Boeing Global Services. Maybe talk briefly on the value proposition behind that? And whether or not to make that what you dream it can be someday.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Does that require some M&A? Or would it benefit from seeing some M&A?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. Look I think it's a significant opportunity for us as a company. And when I say that, it's a \$2.5 trillion market over the next 10 years. Between commercial and defense we've got about 7% to 9% share in that market. So that was certainly the foundation of bringing together Boeing Global Services organization.

And when you kind of look at where the – what value opportunities are, my point would be, we know these products better than anybody. And so a 7% to 9% share, I don't think you'll find anybody that – in the company that will say, that looks right in a \$2.5 trillion market where you know the moving pieces inside and out.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

You make things that fly.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah, exactly. So how do we help the customer? How do we get them more value? And we think in doing that, is bringing these organizations together. And...

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

But do you think that combination reveals holes that need to be filled, I guess is the key question?

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. I think there is. There's going to be some areas in there. First and foremost is organic investments, which we are making that are focused on vertical. But at the same time, very focused on lifecycle.

So we're having a lot more conversations today about our decisions and how we benefit through the lifecycle versus just the platform. And having an organization that that's all they're going to do, I think there's huge benefit in doing that. Taking the best practices like we talked about in the productivity. We've got some product offerings within these portfolios that I think we can leverage. We all think we can leverage amongst the team. And Stan Deal, who has run services, is leading that for us. We have the advantage certainly of Dennis [Muilenburg] ran military services; Leanne [Caret] ran military services, Stan ran commercial services, Kevin McAllister came out of services, just to name a few.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

So we've got a lot of experience in the room of figuring out how to go capture this. And there's definitely top line. There's going to be organic. And there was going to be some M&A that I think were going to be required in there, bolt-on. And then there's the back room.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

The back room efficiencies and just looking at how do we manage that back room in a more efficient way? Team has done a good job up to now even as separate businesses. But bringing them together with a clear objective of logistics. How do you bring parts, move parts? How do you store them, inventory, returns on those parts, face to the customer, digital?

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

How do we take advantage of data analytics and apply that across? Help our customers be more efficient, more effective? We'd capture more value. And we're pretty excited about the opportunity.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

So lots of opportunity. I think we have time for one more.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

And I want to ask because of the company's position in the U.S. economy.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

Clearly you've had a lot more, let me say, engagement with the administration. I wonder if you could tell us what you – is that beneficial? How do you think it impacts the company? And what are your feelings on...

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah.

Carter Copeland

Analyst, Barclays Capital, Inc.

Q

...the things like tax reform? There's a lot that you're probably discussing with the administration.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. Well, look, I think it's always good to have the opportunity to have a dialogue. And have a dialogue and talk about how you grow, how you create jobs, how you create value. The investments you're making in people, in our people, the investments – the brick and motor investments, the impacts on our community. I think having the opportunity to have the dialogue like that is great.

There's certainly areas of opportunity that I think ultimately could help our economy, help us grow, help us compete on a global scale. And certainly tax reform is one of them. We're not competitive globally. We're certainly

not competitive therefore directly with our competitors on the commercial side, day-in and day-out. And I think there's an opportunity here to change that. To not only simplify the tax code, but at the same time put us all in a position to compete to win on a global scale. And tax reform is...

Carter Copeland

Analyst, Barclays Capital, Inc.

One.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

...right in the middle of that objective and an enabler. So if we have an opportunity to talk to people about our business and the potential impact or the impacts we're faced today...

A

Carter Copeland

Analyst, Barclays Capital, Inc.

Yeah.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

...with the tax system or the tax rate, we're – definitely want to have that conversation, because ultimately that's going to drive growth. It's going to drive U.S. – our U.S. economy, it's going to create jobs, it's going to allow us to make more investments in our people...

A

Carter Copeland

Analyst, Barclays Capital, Inc.

Yeah.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

...in our factory, in our products. And we're not competitive today. So we want to compete on a global scale. And that's a key enabler to do that. And we're thankful to have the opportunity to have the podium and talk about it. And hopefully help the administration think that through as they're deciding on where they want to go with this.

A

Carter Copeland

Analyst, Barclays Capital, Inc.

That's great. I do want to ask the last question in the interest of having complete data. Question number six – question number five. In your opinion, on what multiple of 2017 earnings should Boeing trade?

Q

[Voting] (31:52 – 31:54)

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

I can't – I still can't....

A

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

You can't answer number six. No.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Okay. Okay. Okay.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

Although I remember that happening once before.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Got a lesson learned.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

All right. Here you go. I think that tells us there's some opportunity here.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Yeah. Terrific.

Carter Copeland
Analyst, Barclays Capital, Inc.

Q

If you execute.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

A

Hey, thanks.

Carter Copeland
Analyst, Barclays Capital, Inc.

All right. Thank you all.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

Thank you. Thanks, everybody.

Carter Copeland
Analyst, Barclays Capital, Inc.

Thanks, Greg.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

Carter, thanks. I appreciate it.

Carter Copeland

Analyst, Barclays Capital, Inc.

Always.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy, The Boeing Co.

Yeah.

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