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# The Boeing Co. (BA)

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## CORPORATE PARTICIPANTS

Dennis A. Muilenburg  
*Chairman, President & Chief Executive Officer, The Boeing Co.*

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## OTHER PARTICIPANTS

Cai von Rumohr  
*Analyst, Cowen & Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

Cai von Rumohr  
*Analyst, Cowen & Co. LLC*

Okay. Okay. We're going to move on with our next program. And you don't see Dennis Muilenburg here, because he isn't here. He's in Chicago. He was not able to fly in. But I'm under – I'm told, he is connected on the line. So, Dennis, are you with us?

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Dennis A. Muilenburg  
*Chairman, President & Chief Executive Officer, The Boeing Co.*

Yes, Cai, I am right here. Can you hear me, okay?

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Cai von Rumohr  
*Analyst, Cowen & Co. LLC*

We can hear you perfectly. Thank you very much for doing this. Really appreciated.

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Dennis A. Muilenburg  
*Chairman, President & Chief Executive Officer, The Boeing Co.*

Okay. I appreciate the opportunity. And sorry, I couldn't be there with you in person. But I understand you have a bit of snow there, today.

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Cai von Rumohr  
*Analyst, Cowen & Co. LLC*

We have a little bit of snow. So my understanding is, you have a couple of comments...

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Dennis A. Muilenburg  
*Chairman, President & Chief Executive Officer, The Boeing Co.*

Yeah.

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## Cai von Rumohr

*Analyst, Cowen & Co. LLC*

...to make before we have an interview. So why don't you go ahead?

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## Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

Okay. I will do. And I'll keep this brief, I thought it's important to provide a little context before we jump in. I'd say, overall, we continue to look at a aerospace and defense marketplace here that remains very healthy across all of our segments.

We continue to see high demand overall in the commercial airplane sector, as we said before, a demand for about a little over 39,000 aircraft over the next 20 years. And at marketplace it's measured in about \$7.5 trillion over the next 10 years spanning commercial, defense and space and services.

Within that broad market, we're continuing to see solid passenger growth. We finished up 2016 with about 6% passenger growth globally for the year. We expect to see similar 5% to 6% passenger growth this year. Cargo growth has been a bit more muted, although, we saw a bit of recovery at the end of 2016, finished the year just shy of 4% growth. We're continuing to keep an eye on that sector going forward. Certainly, in the commercial marketplace, the narrow-body market has been a bit stronger than the wide-body market. As we've talked before, we've seen some hesitation during the last year in wide-bodies, although, I think, obviously, the Singapore order that we announced this morning with our customer, is some good positive news for us, both in terms of the win itself, but also just as a good signpost for the broader wide-body market.

So, overall, we've got a healthy strong marketplace. Combine that with what remains a very robust backlog, we continue to be at near record levels, little over 5,700 commercial airplanes in backlog, strong defense backlog as well. That combination of a healthy marketplace and strong backlog is really what fuels our prospects for the future. And when we look to that future, we see long-term top-line growth. We've got a lot of production ramp-up ahead of us in the commercial airplane business. You've seen our guide for this year, getting into the – just little over the mid-700s in terms of deliveries for this year, 2017. By the end of the decade, we will be well north of 900 commercial aircraft deliveries per year. That will be one of the big driving functions behind our continuing top line growth.

We also expect to see growth in our services business with the launch of Boeing Global Services. And within that timeframe, we'll also be introducing a number of new products, so not only growing production rates, but refresh product lines, including the MAX, The Boeing 787-10 and The Boeing 777X. Along with top line growth, we are very, very focused on continuing to drive competitiveness and bottom line growth. And that's really what fuels our future and our ability to invest in future innovation. We're going to be relentless on driving that bottom line performance, increasing profitability. We've talked about our long-term objective to get to double-digit margins and we are very intent on accomplishing that.

That will as well continue to generate robust cash flow, cash flows of about \$39 billion since the end of 2012. And as we've guided, we expect to see cash growth again this year, 2017, compared to last year. We anticipate further cash growth in 2018. And as we look out longer term through the end of the decade, we expect this to be a very solid year-over-year cash growth business. And we're very serious about returning cash to our shareholders. We remain committed to our roughly 100% free cash flow return to shareholders. And I think you see that reflected in our recently announced dividend increase and in our healthy share repurchase program.

So, Cai, back to you. That's really a summary of where we are at and our plans going forward.

## QUESTION AND ANSWER SECTION

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

That is terrific. Dennis, thank you so much. So I think, as you are pretty well aware, the bears are worried about demand, demand, demand. I think you said requests for deferrals are only running 2% of your backlog; the 15 year average is 6%. Can you give us some color; have the requests for deferrals picked up? When you look at the deferrals, any kind of color you can give by product, by geography, anything would be very helpful?

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah, Cai, we remain very confident in the quality and strength of our backlog. And as you said, deferrals are running around 2%. That's, as you noted, much lower than the traditional or the historical average of around 6%. We haven't really seen any change in behavior there recently. No particular regional trends or particular areas of concern. Very, very steady on that front. And the fact that deferrals remain very low in that we have the right kind of skyline flexibility to – in some cases, advanced customers and in some cases move customers back when it meets their fleet needs, we continue to do that and do that very effectively. But the overall cancellation and deferral traffic here is very steady, and frankly remains very low compared to historical standards.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

Great.

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

But that again just reinforces our confidence in the backlog.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

And maybe if you could give us some color on aircraft demand by geography and, I mean, I think we sort of know, but any comment you might have by individual models?

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah. Well, I guess, first of all, on geography, when we look at the longer-term demand, as I mentioned, our 20 year current market outlook with more than 39,000 aircraft, those are spread around the world. About 15,000 of those are in the Asia Pacific region. Within that, about 6,800 of them are in China. So, obviously, that's a concentrated growth area. We continue to see global traffic patterns – as I said, traffic growth of around 5% to 6%, although higher traffic levels in places like China and India where we're seeing annual growth rates that are 12%, 13% or more, continuing to outpace GDP.

So, the encouraging thing there is that global traffic trends continue to outpace GDP, and it truly is global in nature. In terms of that future market, we're seeing a lot of that future market being driven by growth in the Middle

East and the Asia Pacific regions, more replacement demand in the U.S. and Europe, but a good overall balance of replacement versus growth that adds to our confidence as well. And then, when you take a look at our backlog again, about little more than two-thirds of that is outside of the U.S. and Europe. And so that distribution of our backlog geographically is very healthy.

Now, if I look at it through model type, as you noted, we continue to see very strong demand in the narrow-body area. And the MAX is doing exceptionally well. We're looking forward to going into service here in the second quarter of the year. Our four flight test aircraft are finishing up the flight test program smartly with more than 1,800 hours of flight test already completed. The MAX is looking great. And the development program's been very strong, and as I noted, going – entry-into-service here before mid-year is a little ahead of schedule per the original plan.

So demand – narrow-body demand, and the way the MAX is selling around the globe, lot of confidence there. We continue to see, I'd say, more moderate demand signals in wide-body, so we're paying close attention to that. Cargo, as I said before, remains a bit more muted in terms of market signals, although some recovery, but we're just going to keep an eye on that. That just reminds us we're going to have to continue to be very focused on taking cost out and driving productivity in our wide-body lines that will help us sell our planes and allow us to invest for the future.

Boeing 787 demand looks strong. I think, again, you see that with The Boeing 787-10 announced by Singapore earlier today. But The Boeing 787 line more broadly looking very strong with more than 700 aircraft in backlog. When I take a look at risk areas, filling out The Boeing 777 bridge is an area that we're focused on. And while we've made some decisions to take production rate down on Boeing 777 through the transition bridge, we still have work to do to finish filling out that bridge. Again, the Singapore decision on The Boeing 777-9X is a very positive one and a good one for the longer term in terms of a market signal.

More broadly, when I look at wide-bodies, important to note as well that we still see a very strong overall global replacement demand coming out in the start of the 2020s. And of that 39,000 airplanes I mentioned earlier, about 9,000 of those are wide-bodies. So we still see that as a very attractive long-term marketplace. Our job really in the near term here is to finish filling out The Boeing 777 bridge.

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**Cai von Rumohr**

*Analyst, Cowen & Co. LLC*

Q

So I think one of the concerns folks have – and you mentioned The Boeing 777 bridge, you've got – I guess, the sale to Iran has 15 Boeing 777s. Can you tell us, with Trump's initiatives with Iran, what is the status of that order right now?

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**Dennis A. Muilenburg**

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah, Cai, let me give you just a little more on Boeing 777 first and then I'll dive into that. When we take a look at Boeing 777, we've already stepped down to the seven-a-month production rate here at the start of this year. And as previously announced, we're going to further step down to five-a-month in August of this year. And as we get into next year, as we're preparing the line for The Boeing 777X and beginning to build flight test aircraft and so on, we'll ultimately be delivering at about 3.5 airplanes a month through that transition period in the bridge.

Now, against that profile – when we step down to the five-a-month production rate later this year, against that profile, we're essentially sold out this year. We've got a couple of slots we're still working, but we're essentially sold out. And then if you look at 2018 and 2019, we're about 90% sold out against that production profile. Now

that does include the Iran deal. And those Iranian deliveries, as currently planned, would start in 2018 and spread out over several years. So, they are not concentrated in any one year. And I think that's an important part of how we calibrate the risk around that order.

Now, I'll say, the Iran order itself, total of 80 airplanes, 15 of which are the 700 – or excuse me, Boeing 777-300ERs. We've continued to progress that deal. We have a couple of final contingencies to clear before we book the sale. Again, all of this is continuing to proceed under the government licensing process, and we're continuing to make progress. It's also important and as the administration is well aware, these are airplanes that support American manufacturing jobs to the tune of about 100,000 jobs associated with building those airplanes. So the economic value to the U.S. is clear as well, and a balanced approach to finalizing this deal and delivering those aircraft is important.

So we think the risk around this is well managed. We understand what needs to be done yet to book the order and then move forward. And we're going to continue to work very closely with the administration to make sure that we've done that well.

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**Cai von Rumohr**

*Analyst, Cowen & Co. LLC*

Q

So I think investors also worry, I don't understand quite why, but about The Boeing 787 going below 12 a month. You just got the order for Singapore, maybe give us some color, which you did on The Boeing 777, if you can in terms of, as we look after 2018 and 2019, how you look on The Boeing 787, the 12?

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**Dennis A. Muilenburg**

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah. Yeah, Cai, on The Boeing 787, we feel very confident. Again, we've got about 700 aircraft in backlog. We're running efficiently now at our 12-a-month production rate. And really what we're looking at is – there our decision on stepping up to 14 a month. And we're going to be very mindful about that and we're going through our normal process right now and we'll be very deliberate about timing of that [ph] rate up (14:09) decision. We said before that's something we've been assuming base-lining as part of our plan to ramp up to 14 a month towards the end of the decade.

And we have a number of campaigns underway, success on the Singapore campaign certainly supports our objective to step up to that higher production rate. I will tell you, we don't see any scenarios that would bring us below the current 12-a-month production rate. We are very, very solid against a 12 per month production rate skyline.

And we're now working slots that are out in that late 2019, 2020, 2021 kind of timeframe. So, a lot of confidence in the basic Boeing 787 production line, which you said, the Singapore deal just further reemphasized that confidence. This is really now about the next step of taking it up to 14 a month and doing our due diligence on that. And then in parallel continuing to drive productivity on The Boeing 787 line. We see that as one of our keys to cash generation growth here over the next many years.

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**Cai von Rumohr**

*Analyst, Cowen & Co. LLC*

Q

Terrific. Another key issue for inventors is the Middle of the Market plane, where are you on your deliberations of the Middle of the Market plane?

**Dennis A. Muilenburg**

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah, Cai, we've continued to have a number of very productive discussions with our customers around the world. And as I mentioned previously, we've been looking at a couple of options in that market space; one is the option of in essence using the current MAX family and The Boeing 787 family to address that space; another has been to look at a stretched – additional stretch version of the MAX or so-called MAX-10, and we're having a number of productive conversations with customers who are interested in that airplane. We haven't made an official decision yet, but we're well prepared to move down that path when and if our customers are ready.

And then we're also taking a look at potential an all-new airplane in that Middle of Market segment. And that is one that – again, we're having productive discussions with our customers to understand their needs. That is an airplane that technologically is very doable for us. And if we were to proceed down that path, that would be likely a 2024, 2025 entry-into-service kind of airplane.

And our decisions around Middle of the Market, whether it's a MAX-10 or a all-new-airplane or both, and if we needed to, we could certainly do both. We don't see either one of those – any of those scenarios significantly changing our R&D profile here over the next five years. We can do one or both of those alternatives within our existing five-year R&D plan. And if do an all-new airplane, it would feather in very nicely on the back of our Boeing 777X development program, which would be winding up in that timeframe.

**Cai von Rumohr**

*Analyst, Cowen & Co. LLC*

Q

Great. I mean, having followed the industry for a couple of years, I mean, a simple Boeing 737 stretch/update looks like a no-brainer. You get to market soon, the cost is reasonable, the technology risk is reasonable, should have a good reception. I look at in all new Middle of the Market plane and it kind of looks to me like Boeing 757, Boeing 767 all over. I mean, you go single-aisle, it's so large, you don't have any growth potential. And if you go all-twin, you're really right under The Boeing 787, where you already have a strong path. So I mean, is there something wrong with that logic, because the simple one looks like it's pretty much of a no-brainer?

**Dennis A. Muilenburg**

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah, Cai, to your first point there, we do see this additional stretch of the MAX – the MAX-10 as a straightforward thing for us to do, not a technology stretch at all, something that we could bring to the market quickly and effectively. And as I said, we're having some very productive conversations with customers and when and if they're ready, we're very prepared to move out on that. And that's not one that requires a lot of R&D expenditure or one that will take a lot of time to get to the marketplace. But the longer-term play on Middle of the Market – while I don't want to reveal too many details what we're looking at, we have a number of innovative ideas underway that we think could make it a real value-add for our customers in that market space.

But again, it's going to depend on our customer requirements and really where they want to go with their fleets for the future. So right now, I would consider that to be more in the customer-discussion stage. You can count on the fact that if we do decide to launch a new airplane there, it's going to be one that will generate a lot of value for our customers. And it will fit nicely with our overall family of airplanes. We don't see doing anything here that would somehow step on our Boeing 787 family, which is in a very strong position for the long run.

**Cai von Rumohr**

*Analyst, Cowen & Co. LLC*

Q

Great. So I mean, you seem to be doing really well on the 737 MAX. How about the 777X? There are some rumors that you're ahead of schedule there, you might start deliveries in the second half of 2019. Maybe update us on that, if you could.

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**Dennis A. Muilenburg**

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah, 777X development is going very well, Cai. And one of the things we've been doing is taking time to modernize our production system and prepare for the 777X in parallel with completing the development program, and the pull ahead of the technology there is benefiting the current Boeing 777 program as well. So, things like our new Fuselage Upright Build, which has been challenging to implement, but is really starting to come into its own now. We're encouraged by the maturation of that system. Other things on driving efficiency and wing-body joint and just pretty significant steps in our production system that are allowing us to drive efficiency that will prepare the path for the 777X.

So the investments there are going well. The 777X development itself, we're in the meat of the detailed design phase right now. We've actually began preproduction on some of the wing components and spares. Our Composite Wing Center up in Everett which will be the site at which we build the 777X wings, it's open and being ramped up. So, the development program is going well. We'll be getting into the flight test program here over the next couple of years. We'll load into the production system in that 2018 timeframe and then we still expect entry-into-service in 2020. And that matches our customer needs. But of course, anything we can do to drive the development program and complete milestones ahead of schedule, when we have opportunities to do that, we will. But right now, I see that as a very healthy development program for us, and it's on track and we're going to certainly drive to the finish line and make sure we get that airplane fielded on schedule.

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**Cai von Rumohr**

*Analyst, Cowen & Co. LLC*

Q

Terrific. And so, I think you've kind of said commercial productivity doing well on The Boeing 787. How should we think about the profile over the next couple of years of deferred production cost amortization, assuming no block accounting changes obviously? If you change the accounting blocks, that all gets pushed out. But I mean, right now, it looks like the accounting block would go sometime into or through 2022, that's a relatively short period over which to amortize, close to \$27 billion, how does that profile look?

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**Dennis A. Muilenburg**

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah. The key thing here, Cai, is, this is one of the reasons The Boeing 787 program is going to be a great cash generation machine for us over the next several years, as we convert that to production inventory and to cash. You've seen over the last couple of quarters, we came over the top of the deferred production inventory profile. So, we said, we would right on schedule and now we're going down the backside of that profile, little over \$200 million in reduction [indiscernible] (22:34) during the last quarter as you saw. And we're not really targeting a specific reduction number quarter-by-quarter. This is more about how can we most efficiently now drive productivity on The Boeing 787 program and generate cash, and you'll see that very clearly happening.

And as – couple of the big needle movers behind that deferred production inventory downslope are things like a more favorable model mix and pricing. That's the biggest driver, about 70% of it. About 25% of it is supply chain, cost reductions, and step-down pricing; that's already built into our – in large part, already built into our Partnering for Success agreements. We have some more deals to do, but a majority of those are built into the supplier pricing plant. And then continued work on our own internal productivity makes up the remainder. So we have very

clear line of sight to the plan. We know exactly what we need to do, and quarter-by-quarter you can see that deferred production inventory coming down, but most importantly, you'll see growing cash generation on the program. And we see that as one of our big cash fuelers over the next many years.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

So, one of your initiatives, Dennis, is kind of to grow your service, support business.

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

Yeah. To do that, why did you combine commercial and military support operations?

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah, Cai, this is a strategy that for some time we've mentioned, our intent to grow the services business. And again, I always like to start with the market here. We see services as about a \$2.5 trillion marketplace over the next 10 years, and in terms of market share, commercial and defense today we're 7% to 9% market share. So we have plenty of headroom to grow, and we believe with our deep OEM presence, experience, and installed fleet that we should be able to gain market share and do that in a market that in itself is growing. So it's a very attractive marketplace for us.

Now when we look at how we would maximize our growth and add value for customers, we came to the conclusion that one of our key steps was to create a standalone, dedicated services business whose focus is, every day, provide maximum value to our customers and help us efficiently grow our services business. And that focused effort full time leadership team we think is really one of the keys to being successful here. And we have a lot of synergy in doing that across our defense and commercial units, well beyond what I think any other company can achieve. And that unique synergy on a global scale with a global supply chain, we think is one of our key enablers. And all of that will now allow us to concentrate on a few of these key services growth investments; things around our proprietary parts business, low cost mods and upgrades, again, where we can do those with joint infrastructure, things like information-rich data solutions for our customers, new analytics solutions, and the idea that we'll be able to invest once and leverage that across our commercial and defense spaces. And then this entire services business, as we ramp it up, we'll have the right kind of cost structure, the right kind of global presence and the right people in place to maximize our growth opportunity and services with a day-to-day, very dedicated focus on providing value for our customers.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

Great. And so – and then you just hired Kevin McAllister from GE. Why hire a GE services guy to head up BCA? You've never hired an outsider. And then you bring him in and you move away – move the aftermarket business, which he ran at GE out from that organization.

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Well, couple of things. First of all, when we take a look at our team and we think about always looking to build our leadership team for the future, we've always looked at both our internal development and finding talent from the outside. And that diverse mix of internal and external talent makes us the best company for the future. We have the opportunity to bring Kevin onboard. We're very excited about that and really happy to have him on the team. I wouldn't say he was as much of an outsider as one might portray. I mean, he's somebody who's been a partner for a decade, somebody that knows Boeing well, somebody that we knew really well who would bring the culture and the leadership style to the table as well that would fit well with our team. So it's really about, again, bringing on world-class talent and building an overall world-class team for the future. Now, Kevin's services background I think is just an additional bonus. And you might note that we're continuing to build leaders and business leaders who have services background as part of their portfolio: Leanne Caret, who is running our BDS business previously ran our defense services business; Stan Deal, who is running our new Boeing Global Services business is steeped in services. And Kevin also brings that services background to the party with his commercial airplanes job. And so having three business leaders, all of whom have deep services experience I think will only make us better. And understanding how we can gain, I'll say added value by how we cross-leverage platform and services business is a unique thing that this team brings to the table.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

Got it. So, turning to your defense business, you still got a couple of watch list programs; the Tanker, the CCV. When do you think you are going to be clearly out of the woods on these? What are the things we should be looking for there...

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

... to feel really comfortable?

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah, Cai, on Tanker in particular, given the significance of that program and the size of the development program, we're very focused on getting that to the finish line. So I mentioned on our recent earnings call, I was disappointed by the charge we took in the fourth quarter, but the nature of that charge is much different and conveys how the risk profile in that program is changing in a positive way. We're really – we're not discovering any new technical issues in the development program. What we're doing now is really incurring some additional costs as we move into the initial production ramp-up and we elected to make some additional investments to help us smooth out that initial production ramp-up. And we have some concurrency in those initial production airplanes that really drove some of the change traffic and just the cost of getting those airplanes all up to a certification standard. The development program itself is going very well. We got five airplanes in flight test, more than 1,500 hours flight test completed on Tanker. We cleared the new refueling boom. So operationally speaking, the airplane is looking very good.

And now it's really about finishing up the flight test program. And we do have a fair amount of flight testing to go. So I don't want to dismiss that but that's work that we'll largely accomplish over the next couple of quarters, and then we'll begin delivering airplanes. And we start delivering on those initial 18 operational airplanes this fall and we complete the first 18 by next spring and then we'll move into the next production line.

And as you saw, the Air Force just awarded us a contract for the next low rate initial production lot, an additional 15 aircraft which is another sign of confidence in the program. So while we still have some development work to do there, we're really now getting very focused on wrapping that up and moving into the production program. And stepping back from it, I still see Tanker as a very valuable long-term franchise. The marketplace here is, it's 400 plus aircraft globally, and we are going to be well-positioned to support that marketplace.

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**Dennis A. Muilenburg**

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

On commercial crew, a smaller scale development program hasn't been as smooth as we'd like, but we're continuing to march through the detailed design and really now into the certification part of the program; component level testing and completing all of that detailed testing before we get into the flight test program. And again, confident that we got the right processes in place and we'll get that to the finish line.

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**Cai von Rumohr**

*Analyst, Cowen & Co. LLC*

Q

Terrific. So your T-X bid, as you know a couple of guys have decided to no-bid that program. You have an all new plane. Your major competitor has an in-production plane. What kind of risk do you see in that to Boeing?

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**Dennis A. Muilenburg**

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah. Cai, on that when we've – we've got the risk well managed is – as you've seen, we've invested in a clean-sheet design that's been tuned specifically for the customer's requirements here. And so that we feel is a very good match between the airplane and the requirements, because we've been designed for that purpose from the start.

And we rolled out airplane number one in December. It's been flying ever since and flying very well. So the flight testing we've done so far further adds to our confidence in our offering.

Now, that all said, of course as we come upon the final bid here, we're going to be very disciplined in our bid as well, as we always are, and we'll make sure we do the right thing there. But I think we've got the risk – risk is well understood, well defined. We're very focused on affordability for the customer and we're going to be responsible in how we bid.

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**Cai von Rumohr**

*Analyst, Cowen & Co. LLC*

Q

Terrific. So in the fourth quarter you had some \$40 billion in proposed FMF sales of your military aircraft. Where can you take your foreign sales as a percent of total defense revenues?

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**Dennis A. Muilenburg**

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Well, we continue to see international defense as being 30% to 40% of our defense business. We've been hovering in that sort of mid-30 percentile range for some time, both in terms of backlog and deliveries. We

continue to see strong demand for our platforms and services around the world. We see strength in commercial derivatives, products like P-8 and Tanker. We see strength in rotorcraft across the board; Apaches, Chinooks, B22s. We see strength in our satellite market, both domestic and international. So we think we're well-positioned to continue to grow our business around the globe. We continue to see interest in our fighter aircraft as well. Just a quarter or so ago was we get the approvals for the fighter sales in Kuwait and Qatar. I think just another good sign on the longevity of those lines as well.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

Right. So I mean, I think you're down in revenues this year. But as we look forward kind of 2018, 2019, 2020, how should we think about the profile as to where that business can go?

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah. We expect to see the top-line of that business grow, but grow modestly. It's not growing as fast as the commercial airplane business, just – the defense marketplace is a little flatter. We expect top-line growth to be flat to moderately up. We have been down a bit over the last year or two years as you noted as we ramped down C-17. But going forward, as we ramp up Tanker, that's going to create some lift. And then, international sales as you noted, continues to be very strong, so we expect to see growth more broadly in areas like rotorcraft and spacecraft. Our human spaceflight business is continuing to grow as well with a couple of key NASA programs. Commercial derivatives have a lot of strength.

So we expect to see some modest top-line growth opportunities. We also are very focused on these few new key franchise programs. You mentioned T-X earlier, but the JSTARS, our capitalization, the Minuteman III replacement, GBST, MQ-25, the Autonomous Vehicle program. There are a couple other key franchise opportunities that if we're successful will also give us some modest growth opportunities.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

That's great. So as you are transitioning to the MAX, do you think you can hold cash profit accrual rates on the Boeing 737, because I guess you got the plus that the overall rate is going up, so...

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

If you think about cash profits, do they hold relatively stable or do they have to take a dip?

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah, they do. There are some puts and takes on that Cai as you noted, but we feel very confident that one of the things is, obviously with the volume of the line going up to 47 a month later this year then stepping up to 52 a month and then 57 a month as we get out to 2019, we remain very confident in that profile. Even at 57 a month we're sold out against that skyline. And that added volume is certainly going to be something that we'll leverage to

continue to grow cash and hold cash margins. We will be going through the Boeing 737 introduction, but that introduction is going very smoothly. The production line is ramping up nicely. This year's Boeing 737 deliveries, about 10% to 15% of those will be MAXs. And so that's coming online very well. We see the transition as being very smooth. And on top of that the ongoing productivity investments in the Boeing 737 line, those are non-stop, relentless investments and those will also continue to enhance our cash profile. So with all the puts and takes, ramping up of the line, rolling out the MAX, we feel very good about the cash profile of that program. And again, if we look at longer-term year-over-year cash growth, a ramp-up to the Boeing 737 line is another key contributor along with the 787 Dreamliner as I mentioned earlier.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

So turning to 2017, I think you said on the fourth quarter call you expect Q1 to be the weakest of the year, core ops – excuse me, core EPS about 20% of the full year, near breakeven cash flow. Give us some color as to why this first quarter is as weak as it is?

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah, Cai, and I think it's important to note that as we head into the year and – this is consistent with our profile from previous years, so as you noted, core EPS in the first quarter, it's going to be about 20% of the full year earnings. That's primarily just driven by delivery, volume, and profile. We expect first quarter revenue to be the lowest of the year as well based on seasonality of the business. And historically the first quarters has been our lowest revenue quarter of the year. I think it's also important to remember that we're in the process of building ahead on the MAXs. Airplanes that are being built right now that will get through final certification and – flight test program and certification prior to them getting booked into revenue. So just recognize that in the early part of the year, we have some of those build-aheads. And the Tanker production profile factors into that as well.

So, I would say, it's quarter-by-quarter phasing of delivery volume that will make first quarter the most lightly loaded in terms of revenue, and as a result it will be about 20% of the EPS for the year as well. Also important from a cash profile standpoint – and this is very consistent again year-over-year – we've guided you to \$10.75 billion of cash for the year, again year-over-year cash growth which we remain confident in, but first quarter will be the light cash quarter of the year and we anticipate that being roughly a breakeven quarter. Again, very consistent with our normal profile for cash during the year. But I do think it's important context for how we see first quarter performance in terms of the overall guidance for the year.

Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

That's very helpful. So I think you've been talking about free cash flow increasing as we look out through 2019. The bears always point to, gee, they make so much money on the Boeing 777; it's going down, and then the Boeing 777X inventory is there, that's going to consume cash. What's your answer? What are the key drivers to get you to the stronger cash flow if in fact you have those headwinds?

Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

Yeah. As you said Cai, the primary headwind we are looking at there is the Boeing 777 profile. Now, we'll say we've proactively made the right decisions on the Boeing 777 production line and that includes stepping down to the five a month later this year. It gets us well aligned on supply versus demand in wide-bodies. And against that

profile – we do see that as the floor for the Boeing 777 program, but obviously that lower delivery volume on Boeing 777s and getting through the transition bridge to the Boeing 777X, that's a cash headwind.

Now, in terms of tailwinds, I mentioned earlier the overall production volume ramp-up in commercial airplanes is a key tailwind for us as we ramp from mid-700s to north of 900 deliveries a year over the next several years. The improving 787 Dreamliner cash profile – is a very strong cash generator for us. You mentioned earlier converting that previous deferred production inventory profile into cash; is something that we're very focused on and know exactly what we need to do to accomplish that, and we're seeing steady progress on that front. And then just more broadly, our continuous, relentless focus on productivity in every dimension of our business and being very focused on running a good business, our working capital initiatives and things that will drive cash performance. So I – when I take a look at tailwinds versus headwinds, we feel very strong about our long-term cash generation capacity and our commitment to doing it. And I think you see that confidence reflected in our 30% dividend increase announcement; that's a long-term confidence signal, and the fact that our board is once again replenished our share repurchase portfolio to \$14 billion and as I mentioned earlier, our commitment to overall returning 100% free cash flow to our shareholders, hopefully that conveys some of our confidence in the future. So we have a strong opportunity to deliver cash – year-over-year growth over the next many years and we're very focused on doing that.

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Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

So, Dennis, one of the things you didn't mention was your defense business, and yet you've written off \$3.3 billion on the Tanker, and I guess you guys have said that that basically kind of turns into cash use mostly this year and in 2016 and starts to turn in 2018. I would think that would be a pretty significant positive cash flow driver over the next couple of years. Am I missing something there?

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Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

No. you're exactly right. Cai, I probably should have mentioned that as well. And certainly, moving that to a positive cash flow position as we get into 2018 is our clear expectation. As we ramp-up production on Tanker, that's going to turn into a very strong cash generating program for us. And while I didn't mention it specifically, just our core defense business has been a very strong cash generation business. You see the kind of margins that that team is producing in that low-double-digit area here over the last several quarters, the fundamental productivity investments that we're making in our defense business and what they are doing to generate margins. And cash has been very solid. And we expect that to continue to be a big contributor to our cash profile going forward. And Tanker will be an additive piece of that.

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Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

That's terrific. So I think we're almost out of time. The last question we ask everybody is, kind of as you look at the next 12 months to 18 months, what are the key risks, what are the key opportunities, what are one or two things you think you really need to get done?

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Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

We take a look at the opportunities ahead of us. Cai, I mentioned earlier, the commercial airplane production ramp-up is key to us; the transition on the MAX, risk areas, we need to finish filling out the Boeing 777 bridge and then continue to work on our 787 Dreamliner sales to support that 14 a month production rate ramp-up. But very

clear with the opportunity and risk areas are in our commercial business. In the defense business, we're seeing some, I'll say remerging strength on defense budget prospects, and so we're encouraged by that. And over the next many months we'll be directly engaged in that process as well to position the defense and space business for the future. And then, we'll also be focused on getting our new Boeing Global Services business up and fully operational in the third quarter of this year, and that represents another big opportunity for us.

And I would just say, stepping back, looking at the overall marketplace and the aerospace market more broadly, it is a strong marketplace and one that's generally going to outpace global GDP. And we are well positioned in that market, and we expect to see both top-line and bottom line growth and strong cash generation as a result.

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Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

That is terrific. Thank you so much for your time. We really appreciate it.

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Dennis A. Muilenburg

*Chairman, President & Chief Executive Officer, The Boeing Co.*

A

You're welcome, Cai, and appreciate the opportunity and thanks to you and the audience there. I appreciate the chance to talk with you today.

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Cai von Rumohr

*Analyst, Cowen & Co. LLC*

Q

Right.

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