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MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone, and welcome to The Boeing Company's First Quarter 2018 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation plus the analyst and media question-and-answer sessions are being broadcast live over the internet.

At this time, for opening remarks and introductions, I am turning the call over to Ms. Maurita Sutedja, Vice President of Investor Relations for The Boeing Co. Please go ahead.

Maurita B. Sutedja

Vice President, Investor Relations, The Boeing Co.

Thank you and good morning. Welcome to Boeing's First Quarter 2018 Earnings Call. I am Maurita Sutedja, and with me today is Dennis Muilenburg, Boeing's Chairman, President and Chief Executive Officer and Greg Smith, Boeing's Chief Financial Officer and Executive Vice President of Enterprise Performance and Strategy.

After management comments we will take your questions. In fairness to others on the call, we ask that you limit yourself to one question. We have provided detailed financial information in today's press release and you can follow the broadcast and presentation through our website at boeing.com.

Before we begin, I need to remind you that any projections and goals in our discussion today are likely to involve risks which is detailed in our news release, various SEC filings and the forward looking statement disclaimer in the presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of non-GAAP measures that we use when discussing our results and outlook.

Now I will turn the call over to Dennis Muilenburg.

Dennis A. Muilenburg

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

Thank you, Maurita, and good morning. Let me begin today with a brief overview of our first quarter operating performance followed by an update on the business environment and our expectations going forward. After that, Greg will walk you through the details of our financial results and outlook.

Now let's move to slide 2. Thanks to the dedicated efforts of employees throughout our company, Boeing delivered strong first quarter 2018 financial results that included higher revenue, earnings and operating cash flow, driven by solid execution on production programs and services. During the quarter, we generated $3.1 billion of operating cash and repurchased $3 billion of Boeing stock. We also paid $1 billion in dividends, reflecting a 20% increase in dividends per share from last year.

We continued to deliver on our commitments of returning cash to shareholders while investing in our people, innovation and future growth. Revenue in the first quarter was $23.4 billion on higher volume of commercial deliveries and mix, along with services and defense contract volume. Core earnings per share of $3.64 was driven by strong performance across the businesses, volume and mix and lower tax rate. Based on our strong first quarter 2018 performance, we are raising full year guidance for operating cash flow, earnings per share, and Commercial Airplane's operating margins. Greg will discuss these in more detail shortly.

Now let's look at the first quarter operating performance of our businesses. For the quarter, Commercial Airplanes generated revenue of $13.7 billion, reflecting 184 deliveries with operating margins of 11.0%. Continued healthy sales activity contributed to 221 net new airplane orders worth $18 billion during the quarter, adding to our robust backlog that stands at more than 5,800 airplanes and is worth $415 billion.

Key commercial milestones in the quarter included the delivery of the first 787-10 Dreamliner to Singapore Airlines and the first 737 MAX 9 to Lion Air group. We achieved first flight of the 737 MAX 7, completed firm configuration on the 737 MAX 10 and hit the 10,000th production milestone for the 737 program. The smooth introduction of the 737 MAX into our production and delivery stream continued with 36 737 MAXs delivered in the quarter.

On the 767 program, after carefully assessing market conditions and customer demand, we plan to increase the rate of production from 2.5 to three per month beginning in 2020. Today's 767 freighters are the best they've ever been and the demand for the 767 continues to grow from both freight and military customers around the world.

In the quarter, we started building the first 777X fuselage for structural testing as this exciting development program remains on track. Additionally, our partner, GE, achieved the first flight test of the GE9X engine.

Now over to Defense, Space & Security. BDS reported first quarter revenue of $5.8 billion, reflecting international fighters and weapons volumes and the final C-17 sale with operating margins of 11.3%. The $12 billion of new orders booked by BDS during the quarter demonstrates the value we bring to our customers across our Defense, Space & Security portfolio. These orders included the Missile Defense Agency's sole source contract extension to Boeing for the Ground-based Midcourse Defense program, an initial contract for 28 F-18 Super Hornets for Kuwait, a contract for the final C-17 for India and a Joint Direct Attack Munition kits contract for the U.S. Air Force. Key milestones for BDS included the second commercial cruise spacecraft achieving power-on and delivery of the space launch system's intertank hardware to NASA for testing and integration.

In the quarter, the KC-46 Tanker program achieved a successful refueling flight between two KC-46 tankers, which completed the required supplemental type certificate fuel onload testing. Additionally, earlier this month, we completed all planned supplemental type certificate flight tests for the Tanker program, a very significant milestone that we've been aiming towards since we took first flight three years ago. We are making steady progress, closing out technical risk on the path to final certification and to delivering the first 18 tankers this year. We remain confident in the long-term value of this franchise.

Turning to Global Services, BGS reported revenue of $3.9 billion with operating margins of 16.3%, reflecting higher commercial volume along with product and services mix. During the quarter, BGS won new business totaling approximately $5 billion that demonstrates the value that we bring to our broad range of commercial and government customers. These included an F-15 Saudi support contract award, a follow-on contract to support the Royal Canadian Air Force's Chinook fleet and the landing gear exchange contract for Aeromexico. These orders highlight the strength of our One Boeing offerings. Also in the quarter, BGS completed flight testing for the 737 Boeing Converted Freighter Program and signed a new distribution agreement with GE for T700 engines.

In summary, we delivered another quarter of strong operating performance, captured noteworthy additions to our large and diverse backlog and returned significant cash to shareholders.

With that, let's turn to the business environment on slide 3. We continue to see healthy global demand in our commercial, defense, space and services markets. These markets are growing and sizable at $7.6 trillion over the next 10 years. In the commercial airplanes market, airlines continue to report robust profits and strong passenger traffic, outpacing global GDP. Passenger traffic in 2018 grew nearly 6% through February. Meanwhile, cargo traffic maintained its strong momentum, growing by 7.7% in 2018 through February, as we see trade and industrial production growing in all regions.

Our global customers continue to recognize the compelling value proposition that our new more fuel-efficient product family brings to the market, as reflected in the healthy new order intake we've seen year-to-date. We continue to see the trend of diverse and balanced demand from a geographical perspective, as well as across the spectrum of airline business models. There also is more balanced demand between fleet growth and replacement of older aircraft, and we are seeing more consistent and stable customer purchasing patterns.

We believe the evolution in key market dynamics in the aggregate are driving greater stability and far less cyclicality for our industry. Over the long term, we remain highly confident in our commercial market outlook which forecasts demand for approximately 41,000 new airplanes over the next 20 years, comprised of more than 29,500 aircraft in the narrow-body market and approximately 9,100 aircraft in the wide-body market. This long-term demand, combined with healthy market conditions and a robust backlog, provides a solid foundation for our planned production rates.

Turning to our product segments. Starting with the narrow-body, our planned production rate for the 737 going to 52 per month this year and 57 in 2019 is based on our backlog of more than 4,600 aircraft and a production skyline that is sold out into early next decade. We continue to assess the upward market pressure on the 737 production rate.

In the wide-body segment, we have seen steady orders for the 787 and 777 airplanes and have high confidence in a meaningful increase in wide-body replacement demand early next decade. For the current generation 777, we received five net new orders in the quarter, bringing the backlog to 90 aircraft. We continue to make progress on the 777 bridge as highlighted by these orders and the recent letter of intent from Qatar Airways for five 777 freighters. As we transition production to the 777X, we expect 777 deliveries of approximately 3.5 per month in 2018 and 2019, as previously announced.

While we still have more work to do to fill the remaining 777 production slots, based on our progress of maturing commitments into firm orders, managing the skyline and working new campaigns, we continue to believe the rate plan we put in place establishes a floor for the program and supports our production bridge from the current 777 to the 777X. As we look forward to the 777X, we have a strong foundation of 340 orders and commitments that support our plan for ramping up production and delivery of this new aircraft.

We also captured 24 orders for the 787 Dreamliner family in the quarter, a solid platform for long-term production. With more than 630 firm orders in our backlog, our plan to increase Dreamliner production to 14 airplanes a month in 2019 is well supported. We continue to see repeat orders for the 787 Dreamliner, as demonstrated by the order from American Airlines earlier this month for an additional 47 787s. And the recent Hawaiian Airlines decision to select the 787 as its flagship airplane for medium to long haul flights highlights the strong market preference for the 787 and its superior value.

Turning to our 747 and 767 programs. With our unmatched freighter product lines, we are well positioned to capture the increased cargo demand. During the quarter, UPS ordered 18 incremental freighters including 14 787-8s and 4 767s. We remain focused on our long-term strategy to capitalize on the strength of the aerospace industry fundamentals. It is important to have this in perspective as we navigate through global trade discussions.

Boeing is a global company with operations around the world supporting commercial and government customers in more than 150 countries. We are continually working in a range of geopolitical and business environments. We maintain strong relationships with our customers, suppliers and other stakeholders around the world and continue in our own efforts to proactively engage the different governments. A strong and vibrant aerospace industry is important to global economic prosperity.

Turning to Defense, Space & Security. We continue to see solid demand for our major platforms and programs. The final appropriation bill for fiscal year 2018 U.S. federal budget funds our key programs across our fixed wing, rotorcraft and commercial derivative aircraft and also missile, space and satellite products. With our portfolio of reliable, proven and affordable products, we continued to see strong support for our key products in the fiscal year 2019 President's budget. The highlights include increased funding for the Ground-based Midcourse Defense program and various programs in our weapons portfolio. Additionally, there continues to be support for increased procurement of the F-18 Super Hornet across the future year's defense plan.

International demand for our defense and space offerings remains high as well, in particular for rotorcraft, commercial derivatives, fighters and satellites. As I mentioned earlier, we received an initial contract for 28 F-18 Super Hornets to Kuwait and a contract for the final C-17 to India. And we are making progress towards completing other previously announced international sales including additional Chinook helicopters for Spain and Saudi Arabia.

Our investment in future growth and new sales continues in areas that are priorities for our customers such as commercial derivatives, rotorcrafts, satellites, services, human space exploration and autonomous systems. Much of that investment supports the priority we have placed on capturing future franchise programs where we are leveraging capabilities and technologies from across the enterprise for the T-X trainer, ground-based strategic deterrent, unmanned carrier-based MQ-25A and JSTARS recapitalization along with several other important opportunities.

Turning to the services sector. We see the $2.6 trillion services market over the next 10 years as a significant growth opportunity for our company. In this market, both our commercial and defense customers remain focused on improving aircraft readiness and availability while driving improved operational efficiencies. BGS provides agile, cost competitive services to our customers worldwide. We aim to grow faster than the average services market growth of 3.5% as we further expand our broad portfolio of services offerings and continue to gain market share.

Strong orders of $5 billion in the quarter along with other agreements announced earlier this year demonstrate the progress we are making in this key area. They reflect our customers' recognition of our value proposition in helping them optimize the performance of their fleets and reduce operational cost through the lifecycle. These activities stretch across BGS's four capability areas including parts, engineering modifications and maintenance, digital aviation and analytics and training and professional services.

Earlier this month we announced a number of new products and services across the BGS portfolio including tools powered by Boeing AnalytX, such as self-service analytics and the Service Bulletin Value Tool. We also added new features to Aviator, an all-in-one app that provides centralized access to a seamless integrated suite of tools.

These new service capabilities are driving lifecycle innovation in the form of faster flow times, lower operational costs and enhanced end-to-end reliability. As these tools are introduced to fleets, aircraft will become more efficient and less expensive to operate.

Our focus remains on optimizing the businesses and expanding our portfolio offerings through organic growth investments such as vertical capabilities, complemented by strategic acquisitions to position BGS for sustained long-term and profitable growth. Our services expertise, the global reach of our business and our strong customer partnerships have us well positioned to compete and win in this important sector.

Highlighting again the value we bring as One Boeing is the recently announced memorandum of agreement for a joint venture between Boeing and Saudi Arabian Military Industries to provide sustainment services for the Kingdom of Saudi Arabia fleet of fixed and rotary wing military aircraft, demonstrating the strength of our comprehensive defense platform and services offerings.

In summary, with growing markets and opportunities ahead, our team remains intensely focused on growth, innovation and accelerating productivity improvements to fuel our investments in the future.

With that, Greg, over to you for our financial results.

Gregory D. Smith

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

Thanks, Dennis, and good morning everyone. Let's turn to slide 4 and we'll discuss our first quarter results. Revenue for the quarter was strong at $23.4 billion reflecting higher volume of commercial deliveries, favorable mix, along with improved service and defense volume. Core earnings per share of $3.64 reflect strong performance across the business, again driven by higher volume and improved mix along with a lower tax rate. All of these more than offset the additional tanker cost growth in the quarter of $81 million.

Before we go into the business performance, I should also note that with the adoption of the new accounting standards including revenue recognition, as of the beginning of this year, we have adjusted our financial statements to comply with these new standards.

Let's now discuss Commercial Airplanes on slide 5. Our Commercial Airplane business revenue increased to $13.7 billion during the quarter, reflecting higher deliveries and improved mix. BCA operating margins increased to 11% driven by strong operating performance on production programs, reflecting the volume and mix and also timing of some period expense. BCA captured $18 billion in net orders during the first quarter and backlog remains very strong at $415 billion and more than 5,800 aircraft, equating to approximately seven years of production.

On the 787 program, we delivered 34 aircraft and booked 24 net orders in the quarter and our team remains focused on improving 787 profitability and cash generation, driven by favorable delivery mix, additional supplier step-down pricing and a relentless effort to further drive internal and supply chain productivity.

Let's now turn to Defense, Space & Security results on slide 6. First quarter revenue increased to $5.8 billion reflecting the sale of the final C-17 and higher international fighters and weapons volume. Our continued focus on productivity and execution resulted in margins growing to 11.3%.

During the quarter, BDS won key contract awards worth $12 billion and our backlog stands at $50 billion with 36% of that from international customers.

Let's turn now to Boeing Global Services results on slide 7. In the first quarter, Global Services revenue increased to $3.9 billion, reflecting higher commercial services volume. Year-over-year growth of 8% for the quarter meets our objective to outpace the average annual services market growth of 3.5%.

BGS operating margins were strong at 16.3%, reflecting ongoing productivity efforts as well as mix of products and services. During the quarter, BGS won key contract awards worth approximately $5 billion and our service backlog now stands at $20 billion. BGS results were a testament to the teams and the enterprise focus on achieving top-line growth while maintaining disciplined execution. The key wins during the quarter underscore the strength of our One Boeing offerings to our customers.

Let's turn now to cash flow on slide 8. Operating cash flow for the quarter was strong at $3.1 billion, driven by planned higher commercial production rates, strong operating performance across the business and favorable timing of receipts and expenditures. We remain focused and on track with our balanced cash deployment strategy, and in the first quarter we repurchased $3 billion of Boeing stock and paid $1 billion in dividends, reflecting a 20% increase in dividend per share from last year.

We continue to anticipate completing the remaining $15 billion repurchase authorization over approximately the next two years. Since the end of 2012, we've returned $45 billion to shareholders through dividend and share repurchase at the same time we've invested in key strategic areas to ensure long-term sustainable growth for Boeing. We remain committed to returning approximately 100% of our free cash flow to investors, while continuing to invest in future growth opportunities.

Let's move now to cash and debt balances on slide 9. We ended the quarter with nearly $10 billion of cash and marketable securities, and our cash position continues to provide us with flexibility to invest in innovation and profitable growth opportunities while again returning value back to our shareholders.

Let's turn now to slide 10, and we'll discuss our outlook for 2018. As Dennis indicated earlier, due to our strong Q1 performance and our outlook for the year, we're raising 2018 earnings per share, BCA margin and cash flow guidance. We increased 2018 core earnings per share guidance by $0.50 to now be between $14.30 and $14.50. BCA margin guidance is increasing to approximately 11.5% from our prior guidance of greater than 11%, and operating cash flow guidance is increased to be between $15 billion and $15.5 billion from our prior guidance of approximately $15 billion.

As we look towards the remainder of the year, we remain focused on strong execution and risk mitigation within our company and through without our supply chain. So in summary, our core operating engine continues to deliver strong results. We will continue to use a three business unit strategy as a key differentiator in the marketplace, make prudent investments, leverage the talent and innovation across the company. At the same time, we will continue to set challenging goals and objectives around elements of operations and support functions tied to profitability and efficiency to generate cash and improving working capital while delivering value to our customers. All of these will help us achieve our goal to grow year-over-year revenue, cash flow and margins.

So with that, I'll turn it back over to Dennis for closing comments.

Dennis A. Muilenburg

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

Thank you, Greg. With a strong first quarter on which to build continued momentum for the year, our team remains focused on further driving both growth and productivity. We would not have been able to achieve these strong results without the hard work and dedication of our employees and the great partnership with our customers and suppliers.

In addition to the strong commercial airplane market dynamics I mentioned earlier in my remarks, we've taken our own actions to reduce cyclicality in our business. This includes remaining disciplined in our production rate decisions, de-risking our pension liabilities, strategically phasing our research and development spending, creating labor stability with long-term contracts and expanding our services business, which is also less cyclical.

We have executed on our long-term strategy of robust and continuing organic growth investment and returning value to shareholders, complemented by strategic acquisitions that enhance and accelerate our growth plans. As the world's largest commercial airplane maker, our nation's second largest defense contractor, a global leader in space flight and a growing force in lifecycle services, we are as optimistic about our future and the future of our industry as we have ever been.

Being a global company, we are continually working in a range of geopolitical and business environments. We maintain strong relationships with our customers, suppliers and other stakeholders around the world, and we will continue to engage in our own efforts to proactively work with different governments.

Our priorities going forward are to leverage our unique One Boeing advantages, continue building strength on strength to deliver and improve on our commitments and to stretch beyond those plans and sharpen and accelerate our pace of progress on key enterprise growth and productivity efforts.

Achieving these objectives will require a clear and consistent focus on the profitable ramp-up in Commercial Airplane production, continuing to strengthen our defense and space business, growing our integrated services business and leveraging the power of our three business unit strategy, delivering on our development programs, driving world-class levels of productivity and performance throughout the enterprise to fund our investments in innovation and growth, disciplined leading-edge investments and balanced value-creating cash deployment and continuing to develop and maintain the best team and talent in the industry, all of which position Boeing for continued market leadership, sustained top and bottom-line growth, and increasing value for our customers, shareholders, employees and other stakeholders.

With that, we'd be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Doug Harned with Bernstein. Please go ahead.

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

Thank you. Good morning.

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

Good morning, Doug.

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

Could you describe in more detail where you stand on your two most current new programs? And I guess specifically, on the MAX, are you comfortable with your ability to insulate the delivery ramp from supplier delays, such as the LEAP engine and Spirit fuselage? And then on the 777X, where do you see the greatest challenges in getting that airplane into service on schedule in 2020? And could there be any risk to free cash flow from that program other than early inventory build?

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

Hey, Doug. Let me take a cut at that and then, Greg, feel free to add anything in.

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.
A

Sure. Yeah.

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

Hey first of all, on the MAX, again we're feeling very bullish about that program. The MAX introduction has gone well. The customer intros operationally have been effective. The airplane is performing well in the field. Reliability for the fleet in the field is very high, so we're pleased with the performance of the program.

On the production systems side, feathering that into the mainline of the 737 factory overall has gone well. We're continuing to hit all of our customer delivery commitments. You notice that we delivered 36 MAXs in the first quarter. We expect about 40% to 45% of our 737 deliveries this year will be MAXs. That's right on plan.

Now to your point, we're continuously keeping a very close eye on our supply chain. And while there's been some challenges in the LEAP engines, there's been some noted challenges in fuselages with Spirit, those are all issues that we're on top of. We're working very closely with our partners. They are responding well, and we're continuing to meet all of our customer delivery commitments. And we're going to keep a close eye on that. We're ever vigilant on our supply chain. We know there will be pressure points as we ramp up, but we're confident that we'll continue to ramp up and hit our delivery marks.

On the 777X, just had a chance again to visit the team last week, and we're marching through the development program. We're now building the first static airplane. We're going to be building, or we're underway, on production on the first flight test airplane as well so you see real hardware coming together in the factory. The associated production system transformation for the 777X is being implemented. That includes some of the automation that we're building into the core 777 line to de-risk it for 777X. So we're marching right through the factory step-up as we implement 777X. We're going to be building those airplanes, getting into the flight test program and the program remains on track for 2020 delivery.

Now again, any time we've got a big development program, Doug, as you point out, it's one that we keep a very close eye on. So daily the team is working 777X with great focus, great intensity, but the development program remains on track and the R&D profile that we committed to, the spend profile remains on track, getting to your point on cash management. So we're confident but again ever vigilant on our development program. Greg, you got anything you want to add?

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.

A

No. I think you captured it well. Having the mid-body in the factory right now and watching the components coming into the factory and the team knocking down any risk that they have in place real-time. And I think some of the upfront work we did on de-risking is you're seeing that paying off but we're watching it closely.

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

Q

Are there any points when you're seeing higher risk step in this process whether it's related to the wing, wing joined, final assembly, any timing that we should be cognizant of as you look at the next year or so?

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

A

I think, Doug, the key wait points will be once the first static airplane is fully assembled and we get into test of that airplane, getting into the flight test program on schedule as we get into next year will be important. So that'll be a key milestone for us and that's the point at which we hand off the airplane if you will from the ground laboratories, the simulation facilities where we've wrung out the risk and we get into the flight test program and then just executing on the flight test program. So those wait points will be visible as we head into next year and then of course getting to first delivery in 2020.

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

Q

Okay. Great. Thank you.

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

A

You bet.

Operator: Our next question is from Rob Spingarn with Credit Suisse. Please go ahead.

Robert M. Spingarn
Analyst, Credit Suisse Securities (USA) LLC

Q

Good morning.

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.

A

Morning.

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

A

Good morning, Rob.

Robert M. Spingarn
Analyst, Credit Suisse Securities (USA) LLC

Q

So wanted to ask you on the reconfiguration of the aft section of the 787-8 for better production commonality and also these new orders that you've taken. It puts a little bit more life into that variant. Does that impact the configuration of a future NMA perhaps at the high end? And what's the latest status on timing for some kind of authority to offer on NMA?

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

A

Hey Rob, on your first question, we're very pleased with the progress we're making on the 787 production line overall and commonality between variants in the production system is a key part of that productivity plan. As you well know, we have very high commonality between the Dash 9 and 10 which is borne out in the early production costs on the 787-10 and so we're pleased with that progress. And then as you noted on the 787-8, there have been some opportunities to drive additional commonality in particular in the aft body between the Dash 8 and Dash 9. And that has shown up as flow time reductions in the factory, additional efficiency and cost reductions. And you're right, that has given us some additional life and strength in the 787-8 variant.

That said, going forward, we still see more of the future mix being Dash 9s and 10s but fundamental strength in the Dash 8 as well. And we're going to continue to look for opportunities for production system commonality between the variants.

To your second question on NMA, we continue to make progress on our studies there. Again, we have not made a launch decision at this point, but we're having very good discussions with our customers, continuing to hone details of not only the airplane but perhaps even more importantly the associated production system, taking a hard look at the business case. Timing of that decision is still to be determined as we work our way through the details. We have time to do our homework and do it well, but I will say we're making progress and clearly advancing our analysis.

We still see that airplane, if we decide to launch, is a 2025 timeframe airplane in terms of entry into service, so we have time to do our homework. And the R&D profile for that airplane if we proceed would feather in very nicely on the backside of 777X. So from an overall cash deployment, cash management standpoint, we feel confident as well. So.

Robert M. Spingarn
Analyst, Credit Suisse Securities (USA) LLC
Q

Dennis.

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

We feel confident as well. So we'll do our homework and continue to stay very close to our customers and make sure we're meeting their future needs.

Robert M. Spingarn
Analyst, Credit Suisse Securities (USA) LLC
Q

Dennis, what's the outer limit on when you'd have to make an announcement to launch to make that 2025 timeframe?

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

We're not going to pin that down too tightly, Rob, because really this is about having the business case discipline and making sure we have crystal clarity on the future production system, which is part of our broader enterprise transformation. But this is something that we'll be getting to over the next year, if you want to put a rough bounding on it.

Again, the idea is an airplane that would enter into service in the 2025 timeframe. So if you back off from that timeframe with our standard milestones, you'd be looking at a decision in that timeframe. But to me, this I not one where we're going to be making a decision just based on a schedule that we have to meet. This is about having a disciplined business case, a future production system and making sure that we're meeting our customers' future needs. This is really about providing value to our customers.

Robert M. Spingarn
Analyst, Credit Suisse Securities (USA) LLC
Q

Thank you.

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

David Strauss
Analyst, Barclays Capital, Inc.
Q

Thanks. Good morning.

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

Morning, David.

David Strauss
Analyst, Barclays Capital, Inc.
Q

Wanted to follow up on 777X. So within your forecast that cash flow's going to continue to grow from here, what exactly are you assuming for 777X in terms of the inventory build over the next couple of years? And then following on that, how key is the reversal on Tanker, getting that delivered and that flowing from a big cash burn, I assume closer to cash breakeven to cash flow positive. How key is that to allowing for your forecast for free cash flow continuing to grow? Thank you.

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.
A

Yeah, I mean, I'll start with Tanker, David. As you know, we're going to start delivering here this year. So it is important from a cash perspective when you look at the year-over-year from 2017 into 2018. And then beyond that, it's modest growth really from there. So this is kind of the transitional year on the program but also obviously from a cash perspective.

I think when you look at the 777X, a lot of what you talked about is what's been taken into account in our forecast. So obviously, building the static aircraft and having those in inventory as well as the blanks that we're firing, the risk mitigation efforts that we're putting into the line is also taken into account combined with the production rate. I'll say kind of slow on ramp-up from there. So all of that is kind of taken into consideration as we talk about continued growing cash flow.

Now other moving pieces around there are obviously significant. 87 going up in rate, 737 going up in rate as well, Dennis just talked about the 67 up slightly. So you got to kind of take all those into consideration, combined with some of the headwind we'll have on 777X. But we've bounded that in our forecast, and like I said, taken that into consideration around our commentary around growing cash flow.

David Strauss
Analyst, Barclays Capital, Inc.
Q

Greg, in terms of 777X actual inventory, are you thinking the equivalent of like 15 to 20 production aircraft in flow by the time you get the first delivery in 2020?

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.
A

I think it's a little bit less than that, David. I mean again, you got the static aircraft and then you got the flight test aircraft that will be out operating and getting test points. So obviously those won't be delivered in the near term. So you've got that kind of built-up inventory along with the production rate ramp-up and the advances coming in on the 777X. So taking all that into consideration within that kind of that 2020, 2021 timeframe.

David Strauss
Analyst, Barclays Capital, Inc.
Q

Thanks.

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.
A

Okay.

Operator: Next we'll go to Sam Pearlstein with Wells Fargo. Please go ahead.

Samuel J. Pearlstein
Analyst, Wells Fargo Securities LLC
Q

Good morning.

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.

A

Good morning.

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

A

Hey, Sam.

Samuel J. Pearlstein
Analyst, Wells Fargo Securities LLC

Q

Can you talk a little bit about the tariffs and the sanctions environment and really how that's impacting any customer discussions and then also how you're thinking about the impact on the supply chain? And how you do things, whether it's aluminum, titanium, et cetera?

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

A

You bet. Yeah, Sam, as you might guess, this is something we're keeping a very close eye on. This is daily actions and daily vigilance on this topic. We're engaged with governments around the world. Obviously one of the hot topics right now is the U.S.-China trade relationship. We know aerospace is very important to both countries, and while some initial statements have been made about potential tariffs, none of those severe actions have been implemented. And we're frankly encouraged by the continuing dialogue. And we've heard from leadership in both countries that both are seeking to find negotiated positions that will be productive for both countries.

The fact that the administration just announced a senior-level trip to China next week to have negotiations and continue the engaging dialogue I think is another positive indicator. So we're staying very engaged on that front. We know trade policy is very important. But this is not a surprise to us. We operate in a global environment. We have to deal with these kind of issues continuously, and we're going to stay very close to our customers and the governments as we proceed. But we're hopeful for a positive outcome from the discussions between the U.S. and China.

More broadly on some of the other matters you mentioned, material costs, titanium supply chain, aluminum and so on, again we're not seeing anything there that's material effect right now. We're very engaged with our suppliers, as you might guess. Over many years we've been continuing to build alternative sources, and daily we're testing our supply chain for any pressure points. And that is a continuous process and one where we remain ever vigilant.

And I think just the fact that you can see our production system continues to run well, we're continuing to meet our customer deliveries, it tells you that we're effectively managing that risk. And we're just going to stay very close to it, and our team is on a daily basis, hourly basis, engaged with our supply chain.

Samuel J. Pearlstein
Analyst, Wells Fargo Securities LLC

Q

I feel like a few years ago there were some issues with regard to titanium, and you ended up carrying a little bit more than usual. Is there anything in terms of the inventory levels we should think about where you might do the same in terms of getting some additional buffer?

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

No, Sam, we really don't see any changes there. Those actions that we took a few years ago, those were long-term actions. So we're still frankly benefiting from some of those actions. And that's allowed us to diversify our supply chain, maintain the right inventory levels, balance that around the world. And we're going to continue to actively manage that portfolio. Greg, you have anything to add?

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.
A

No. You're absolutely right. You won't see any impact on the inventory, Sam.

Samuel J. Pearlstein
Analyst, Wells Fargo Securities LLC
Q

Thank you.

Operator: Our next question is from Ron Epstein with Bank of America Merrill Lynch. Please go ahead.

Ronald J. Epstein
Analyst, Bank of America Merrill Lynch
Q

Hey. Good morning, guys.

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

Hi, Ron.

Ronald J. Epstein
Analyst, Bank of America Merrill Lynch
Q

It's really encouraging that the 767 rate's gone up on the heels of improving health in the air freight market. Can we look at that? Or do you guys see any other indicators that the large aircraft markets have stuff bigger than 787s? That, that segment of the market, 777, 777X, 74, we're starting to see at least the early stages of recovery there? Because it seems like that market really kind of got hit hard. And are we finally starting to see some pick-up there or not? I mean what's your sense on that?

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

Yeah, Ron, as you know, the freight cargo market had been down for a couple of years. We saw some re-strengthening last year, and we see further strengthening year-to-date. So I think as I mentioned in my comments, we see freight traffic growth at 7.7% so far this year through February. That's another encouraging sign. We do see long-term strength in that market. We're seeing it grow across all regions around the world. We're seeing general increases in trade levels and transport levels. E-commerce, the growth of e-commerce, is also fueling some of that.

So we see this as a longer-term growth trend. That's part of what's factored into our decision to increase the 767 production rate from 2.5 to three per month in 2020. But as you noticed, we're also seeing increased orders for 777-Fs, 777 freighters, including the letter of intent from Qatar just this past quarter, as well as two additional birds for ANA. So we're seeing strength in those larger freighters. And the UPS order on 747s I think is another good indicator.

So again, we're going to be, maintain a very balanced approach on our production delivery schedules and our production rates. But the fundamental strength in the freighter market is encouraging. And I would say our product lineup to support that demand is a really good lineup. So we're pleased with the fact we've got a portfolio with different airplane scales that can satisfy that growing need.

Ronald J. Epstein
Analyst, Bank of America Merrill Lynch

Q

But do you see that as a leading indicator for potential pick-up in passenger demand, for passenger jets I mean in that segment?

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

A

I don't know that I see that as a indicator that would ripple into passengers. Those two marketplaces have some common catalysts. I'd say world GDP growth, trade growth, is something that can support passenger growth. But in many cases we've seen passenger growth be somewhat independent of GDP growth based more on just the fact that we see a rising population of travelers that are entering the market for the first time.

So while an increased freighter market I'll say can be helpful to the passenger market, we see the passenger market growth being independently strong based on other factors. And that's why we continued to see sustained passenger growth of almost 6% so far this year and that is a long-term trend and we're seeing more and more new city pairs being connected. We're seeing global network traffic grow. We're seeing 100 million new passengers per year in Asia alone. And by our estimates, less than 20% of the world's population has even taken a single flight in their life. So you can see that passenger growth has a lot of headroom beyond what might be driven by cargo growth.

Ronald J. Epstein
Analyst, Bank of America Merrill Lynch

Q

Yes, great. Thank you guys.

Operator: Our next question is from Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning everyone.

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

A

Hi, Noah.

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.

A

Good morning.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Greg, what can you share with us about the change in the 787 cash unit accounting margin through the year, end of 2017 to end of 2018, that you're embedding in your cash flow outlook?

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.

A

Well, I mean you've got the obviously the improvement in mix that we've talked a lot about and you've seen how smooth the Dash 9 has entered into the production system as we planned and you've seen the ramp-up in deliveries there year-over-year. As well as the Dash 10, you've seen us hit significant milestones there, making our first deliveries, so again that mix will start to pick up some pace here throughout the year and into next year. You got the supplier step-down as we've talked about and then the including the additional productivity in the factory.

But those are really the big elements, certainly mix being the biggest one. And the team's done a fantastic job of getting these airplanes not only certified but getting them into the production system on time and doing that smoothly. And that obviously is impacting the cash flow and improving the cash flow overall and of course improving the deferred production.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Sequentially you had a faster pace of deferred decline but on fewer units. So the sequential cash margin jump just looks pretty good compared to what it was the last few quarters. But you also have your seasonality of cash flow, total cash flow guidance quarter to quarter implies the first quarter is a little higher than normal. So I'm trying to figure out if you're assuming that the nice, looks like several hundred basis points of sequential change that you had in the quarter keeps going or if that slows down as you move through the year.

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.

A

No, I mean we expect continued increase in productivity and overall cash profile will improve on the 87 through the balance of the year. I mean like I said to you, the difference I think you saw here was primarily due to some mix and some step-down pricing. But I think because of the elements of you got three different variants in the production system and so on and that's why I keep kind of bringing you back to cash flow.

Look at the overall cash flow of the program and that ties directly to the productivity, ties directly to the mix and the step-down in the supply chain that we've talked about a lot as we move through these blocks and you're seeing that improving. So I think the team is executing extremely well, not only in our factories but reaching back into the supply chain and improving the productivity there that's helping on the nonrecurring side, like things like the Dash 10 but also helping overall on the recurring side. You're going to continue to see improvement on the 787 going forward.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you.

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.
A

You're welcome.

Operator: Our next question is from Cai von Rumohr with Cowen and Company. Please go ahead.

Cai von Rumohr
Analyst, Cowen and Company, LLC
Q

Yes. Thank you very much. So your commercial profitability looked really good even if one excludes the lower R&D, certainly than we expected. Could you give us some color on that in terms of were there any increases in program accrual rates? Were there any increases in the block sizes? And lastly, given your R&D was so low in that quarter, it looks like it has to ramp very sharply to get to your full year bogey. Is that number perhaps a little bit conservative?

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.
A

Yeah, Cai, it's expected to ramp and that again is tied primarily to the profile that Dennis articulated earlier on the 777X. So that's what we plan, and look, if we see more opportunities with regards to R&D spending, we'll certainly capture them and we're as focused on that level of spending as we are of any level of spending in the company. So we do have challenging targets out there for the team but they're achievable.

But there's some timing elements that come in from quarter-to-quarter. So we do expect the back half to be a little richer in R&D. As far as block extensions, we extended the 737 by 200 units and then the 767. And then as far as booking rate changes, we saw an increase really kind of very slightly but across the board on all programs.

So good core performance, and again, I think the productivity focus we've had for the last number of years and continuing on that path and sharing of best practices across the entire company and leveraging that, at the same time getting out into the supply chain and taking these best practices out and allowing them to be more efficient and sharing the benefit of that on our overall program performances continues to be the objective. But there's a lot of focus and energy around it. Team's doing a great job but plenty more for us to do here.

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

Yeah, Cai, just to reinforce Greg's last point there, that fundamental productivity machine, that's a relentless effort that we have the whole enterprise just focused on. And the longer-term goal we set to drive our business to mid teen margins and what you see in this quarter is another step of progress towards that longer-term goal and we expect to make sustained progress on margin expansion across all of our businesses.

Cai von Rumohr
Analyst, Cowen and Company, LLC
Q

Thank you very much.

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

You're welcome.

Maurita B. Sutedja
Vice President, Investor Relations, The Boeing Co.

A

Operator, we have time for one more analyst's question.

Operator: And that will be from Carter Copeland with Melius Research. Please go ahead.

Carter Copeland
Analyst, Melius Research LLC

Q

Hey. Good morning guys. Nice quarter.

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

A

Good morning. Thanks, Carter.

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.

A

Thanks, Carter.

Carter Copeland
Analyst, Melius Research LLC

Q

Just a couple quick points of clarification if I can, Greg. On the unit profitability versus program, was that good 787 offsetting? Anything material in the other programs or did you have a contribution from any of the others in a positive sense? And then on BGS, I think you commented around favorable mix. Can you just help us, since BGS is new to all of us, understand what that means and what we should expect in mix terms?

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.

A

Yeah, well maybe I'll start there. I mean as you know, this is a breadth of a portfolio and a lot of contracts, so you're going to see variability quarter-over-quarter, but like as Dennis just articulated, we've set objectives for ourselves to drive not only a top line but bottom line and margin overall productivity. So the team's getting their arms around. We've talked some of the backroom opportunities as we brought these two businesses together and really leveraging again some of the, I'll say kind of core operational aspects of the business at the same time grow the top line.

So you're going to see some variability in there, but net-net the objective is to continue to grow those margins and we think there's good opportunity to do that, at the same time deliver better value to our customers. So just kind of like I said watch quarter-over-quarter. You're going to see some variance and really that's just contract mix in there. But overall, expect margin expansion for that business.

On the program versus unit, obviously the biggest difference here from what we've talked prior quarters is we have no more 787 early builds. So it's a lot cleaner I'll say comparison when you look at unit versus program, and again you're seeing the fundamentals on the unit basis of improvement productivity taking place unit after unit and looking for further opportunity. And you saw that in the quarter. So a lot of the productivity initiatives that we've had in place, teams continuing to focus on them and chip away at them and obviously, they're impacting unit and therefore they're impacting the cash profile.

Carter Copeland
Analyst, Melius Research LLC
Q

Is there anything material outside of the 787 program in either direction?

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.
A

No, not really, Carter.

Carter Copeland
Analyst, Melius Research LLC
Q

Okay. Thanks a lot.

Gregory D. Smith
Chief Financial Officer & Executive Vice President, Enterprise Performance & Strategy, The Boeing Co.
A

You're welcome.

Operator: And ladies and gentlemen, that completes the analysts' question-and-answer session. [Operator Instructions] I will now return you to The Boeing Company for introductory remarks by Mr. Phil Musser, Senior Vice President of Communications. Please go ahead

Phil Musser
Chief Communications Officer & Senior Vice President, Communications, The Boeing Co.
A

Thank you. We'll continue now with media questions for Dennis and Greg. If you have questions following this part of the session, please contact the Media Relations team here in Chicago. Operator, we're ready for the first question. And in the interest of time, we'd ask you please that you limit your questions to just one. Thank you.

Operator: And first go to Doug Cameron with The Wall Street Journal. Please go ahead.

Doug Cameron
Deputy Bureau Chief, Chicago Region, The Wall Street Journal, Inc.
Q

Oh, great. Dennis, I'm a youngest child. I well remember my sister. She used to push me to the front in front of my parents to ask for something or break some bad news, so here we go. It's about 20 years since you announced plans for the China Completion Center, maybe not quite 20 years, but can you just give us an update on that? I mean, how long does it take to build a big shed? And when do you actually expect to start putting aircraft through there?

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

Hey, Doug. Good morning. Hey, to your question, yeah, we've been engaged in China for a long time, as you point out. The new delivery and finishing center that we're building in Zhoushan is underway, so site preparation has been initiated. Construction is under way. We're still driving towards a goal of beginning to have operational capability towards the end of this year. We're working very closely with our Chinese partners to drive that to closure. So we're in stride. We're on track to open that capability, and it will be something in the near term.

Operator: Our next question is from Tim Hepher with Reuters. Please go ahead.

Tim Hepher
Reporter, Reuters

Q

Hi, Dennis. Can you hear me?

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

A

Yeah, got you, Tim. Good morning.

Tim Hepher
Reporter, Reuters

Q

Hi. Good morning. Thank you very much. You mentioned where you were talking about some of the various sanctions issues amongst the geopolitical problems. Of course, an important one is Iran, and that we understand is completely out of your hands. You've said very clearly you will follow U.S. policy. But presumably you must be planning what to do. You must have some contingency plans for the 15 777-300ERs that you were supposed to sell them. I believe, if I'm not mistaken, the first one was originally due to be delivered this month.

So have you had a chance to examine whether if that deal does collapse, you would have to cut 777 production further, bearing in mind that when you last adjusted production you said that your target incorporated the Iran order? And could you just tell us roughly how many aircraft would have been involved this year and next year? Thanks.

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

A

Yeah, Tim, we're continuing to manage our overall 777 production skyline very effectively and understand the risks and implications around the Iranian aircraft deal. First and foremost, it's important again to restate that we continue to follow the U.S. government's lead here, and everything is being done per that process. We have no Iranian deliveries that are scheduled or part of the skyline this year, so those have been deferred again in line with the U.S. government process.

And I can tell you with confidence that we've continued to build risk mitigation into our 777 production plan. The plan that we outlined for you, the production rate that we've put in place is not dependent on the Iranian orders. If those orders do come to fruition, if we do ultimately deliver airplanes, those represent opportunities for us. Again, we're going to follow the U.S. government's lead and we've ensured that from a skyline management standpoint and from a production systems standpoint, we are not dependent on those aircraft.

And the good news is that the fundamental strength of the 777 product line and the increased sales volume that we're seeing in the marketplace both for 777-300ERs and for the 777 freighters has only bolstered our confidence in that line. And while we still have some work to do to fill out the remainder of the 777 bridge, we're steadily marching through that, and we think we're well positioned. So as I said earlier, the production system delivery plan, the skyline, the delivery rate that we've already announced we think represents a solid position for that program and we're on track to bridge to the 777X.

Operator: Next question is from Jacqueline Klimas with POLITICO. Please go ahead.

Jacqueline Klimas
National Security Reporter, POLITICO LLC

Q

Hi. Thanks so much for doing this. I'm hoping you guys can talk a little bit about how or whether the administration's focus on space and the proposed budget increase in the space program is impacting Boeing's investment and prioritization of its space business segment.

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

A

Yeah, Jacqueline. Good morning and thank you for the question there. We continue to see the space segment and human space flight in particular as one of our key investment areas going forward. We're encouraged by the administration's support and strong leadership on that topic. That includes funding for NASA programs, among those the Commercial Crew Program where we're marching through the milestones on our CST-100 Starliner, as well as support for the space launch system program and deep space exploration.

We do think strong and continued funding of those NASA programs is really important to our country, and that sustained funding and support that we're seeing from the administration is very encouraging. I also think the reinstitution of the National Space Council under Vice President Pence's leadership and guidance, along with President Trump, has been a very important step. We're encouraged by that as well. And we're continuing to invest in that area. We do see it as an important business segment for our future. And Boeing has had a leadership role in human space exploration since it was invented, and we continue to expect to lead in that field.

Phil Musser
Chief Communications Officer & Senior Vice President, Communications, The Boeing Co.

A

Great. Operator, we have time for one more question from media.

Operator: And that will be from Marcus Weisgerber with Defense One. Please go ahead.

Marcus Weisgerber
Global Business Editor, Defense One, Government Media Executive Group LLC

Q

Good morning, and thanks for taking my question. Dennis, about two years ago the narrative on St. Louis was pretty grim, mostly alluding to the end of fighter production. Now you have the President of the United States actually sitting in a Super Hornet. I was wondering if you can reflect kind of on the turnaround of the defense business in recent years and how politics and the recent budget deal is changing your outlook for the defense business. Thank you.

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

A

Yeah, Marcus, thanks for your question there. I'd say first of all, from a macro standpoint, again we're encouraged by the strength of the U.S. defense budget. And I think after several years of having to endure the damage of sequestration and a challenging defense budget, we're now seeing reemerging strength of that budget supported by both parties, and we're encouraged by the future year plans that we've seen. And that is something that has bolstered our expectations for our defense business going forward.

Now in particular to St. Louis, the support for individual programs there has been strong both domestically and internationally. Our weapons business, which is based there, has been strong and we're continuing to see growth there in a number of programs and our fighter business. And that includes F-15 international sales as well as upgrades to the F-15 fleet domestically. And perhaps most encouragingly is the progress we're seeing on the F-18 Super Hornet line. And I think it's a testament to the quality of the product.

You can hear our customers are very supportive. The U.S. Navy and what that airplane is doing for them every day in the fleet is important. And we have a great program that's producing capability that our customers need. And we're looking forward to continuing to grow that program going forward.

As you noted, a couple years ago, we had some questions about that production line. We can now see both the F-18 and the F-15 production lines extending far into next decade. And one good example of that is in the five-year future defense plan, we see a Navy request now for 110 new Super Hornets as well as the Service Life Extension Program for the existing Super Hornet fleet. So we're bullish about the fighter lines for the future.

Phil Musser

Chief Communications Officer & Senior Vice President, Communications, The Boeing Co.

Thank you, Dennis. That concludes our earnings call for today. Again, for members of the media, if you have further questions, please call our Media Relations team at 312-544-2002 or contact us via e-mail. Thank you very much.