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MANAGEMENT DISCUSSION SECTION

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Thanks, everyone, for being here. I'm Jon Raviv, Citigroup's aerospace and defense analyst, and we have the distinct honor and pleasure of having Dennis Muilenburg, the Chairman and CEO of Boeing, a small company based in Chicago. And we're going to hear a little bit about what's going on. So thank you very much for being here, Dennis.

Dennis A. Muilenburg

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

Thank you, Jon. I appreciate it, and good to see all of you.

QUESTION AND ANSWER SECTION

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

So just to give some context for how Citi have been thinking about Boeing, we called 2012 the Year of Boeing. At the end of 2012 we thought, I think we're a little bit early. 2013, we felt pretty good. But apparently it's 2017, which was really good.

Dennis A. Muilenburg

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

A

It's a pretty good year.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

Pretty decent year. So my long way of asking, so where do you feel like the business stands now? What happened in 2017 and what are you looking forward to in 2018?

Dennis A. Muilenburg

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

A

Well, Jon, thanks. I appreciate the chance to join you here. Certainly, 2017 was a strong year for us. So I'm really proud of our team and our supply chain, and all we accomplished for our customers. We had record earnings year, record cash, record commercial airplane deliveries, and we continue to return value to our shareholders. So about \$40 billion of shareholder returns over the last 5 years, and we continue to see that year-over-year cash growth. So a very strong year for us. It's also on the orders front, new orders, 912 new commercial airplane orders. All three of our business segments increased their backlog during the year. So future growth look solid as well.

As we turn our attention to 2018, we got a few big things ahead of us, certainly the continuing ramp-up of our 737 MAX production line. So we moved to 47 a month. We're going to be moving to 52 a month this year, and then 57 a month next year. 777X, big focus for us this year as we make the transition from 777 to 777X wide-body, getting into the flight test program. We had delivered tanker this year, U.S. Air Force tanker, first 18 airplanes. And our commercial crew space vehicle just down the road here at Kennedy, it will have first launch this year. So those are a few things that have our attention. And then just this relentless focus on all the work we're doing on driving cash performance and productivity, which is our fuel for the future, and also what we're using to return value to our shareholders, and that will be our clear focus for this year.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

Approaching all of those things, you have a pretty long list of stuff to do in 2018.

Dennis A. Muilenburg

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

A

It's big company.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

Yeah. I was underselling it when I talked about the small company in Chicago. On the global market though, as you approach all these opportunities what do you consider some of the key opportunities and risks in the U.S. and also worldwide? And also can you just give us some perspective on the ease of doing business abroad as well?

Dennis A. Muilenburg

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

A

Yeah. Certainly, the overall market is attractive. I continue to argue that aerospace and defense is the strongest industrial sector worldwide in terms of fundamental market. \$7.5 trillion marketplace over the next 10 years, a growing market segment that's clearly outpacing GDP. Passenger traffic growth is growing at about 7% a year. This past year, we saw cargo returning to strength, about 9% growth. All of that is an indicator of continuing economic growth around the world. But the passenger fundamentals go beyond economies. They go to populations. And we had this past year about 100 million new passengers in Asia, people that flew for the first time, and year-over-year that's happening. More than 80% of the world's population has never taken a single commercial airplane flight, which is hard for a lot of people to believe. But you think about the amount of rising middle class that's going to fuel future growth, that's a strong part of the market.

We're seeing the defense market strengthen as well. U.S. defense budget, recent actions to put a longer term budget plan in place, break the sequester caps is a really smart move, one that's going to add growth there. We see the services segment is also a strong growth opportunity. And now more and more, it's a very global business too. So to your point of ease of doing business, we have a great global footprint and a Boeing International team

that does a great job of engaging around the world, and being seen as a local citizen around the world. Our global supply chain, I'd argue, is stronger than any other companies. And our ability to do both commercial and defense, and to provide complementary services to customers, I think, is a unique value proposition. So our ease of doing business around the globe, I think, we're advantaged. We're keeping a close eye on policy and trade matters as potential headwinds there. But more and more I feel bullish about our ability to grow globally.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

You brought it up. Can I ask about some of the potential risks, or should I say watch items for you on that worldwide, as you approach the worldwide, the global market?

Dennis A. Muilenburg

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

A

Well, if you take a look at that, trade policy is one that we're keeping a very close eye on. We know the global market is strong, and we're dependent on having access to that market. So commercial airplanes, for example, over the next 20 years we see a world that needs 41,000 new commercial airplanes. Global fleet size is roughly going to double. So it's an incredible growth opportunity. But we have to be able to compete and win in that marketplace. So ensuring that we have a fair playing field is an important part of that. We've been standing on that principle and making sure that we have a balanced approach to trade policy.

And as the U.S. administration is talking about engaging with China for example, having a balanced approach there we think is very important. And we have a seat at the table. We're a big export business. The aerospace sector is about a \$90 billion trade surplus sector for the U.S. this past year. The biggest trade balance, favorable trade balance sector for the U.S. that generates a lot of U.S. manufacturing jobs. So we've made it clear to the administration and to The Hill of the connection between access to global markets and U.S. manufacturing jobs. And we're hopeful that will continue to lead to a balanced approach on trade.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

And thinking about some other policy issues, and tax reform was important I think for not just for you but for the entire U.S. industry. What does the tax reform allow you to do that you perhaps weren't able to do before? Does it help impact on competitiveness? Just give us some perspective on what that tax reform allows.

Dennis A. Muilenburg

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

A

Tax reform is just tremendous. As I've said publicly before, I think it was the most important thing the U.S. Government could do to unleash innovation and unleash economic growth. And with the passage of tax reform, we're already seeing it happen. For Boeing, certainly it plays to our competitive advantage. We see our effective tax rate coming down to about 16% as a result. And that reflects the fact that our primary innovation, R&D investments and manufacturing bases in the U.S. and we export. And the results of tax reform is going to make us more competitive around the world so we can win in the marketplace. It's also freeing up more capacity for us to invest.

And two key things here that we're investing in. We've already announced an additional \$300 million that we're investing in our talent. So this is high-end training for our people, workforce training, investment in the workplace, as well as investments in our communities. In addition to that, innovation investment, so augmenting our R&D, additional product and services development, and we win when we out-innovate. That's how we've won for 100

years, that's how we're going to continue to win. And the result of tax reform is just creating more capacity for us to invest in innovation. And we're going to be very serious about that. It's both products and services to customers as well as innovation in our factories, manufacturing technologies, things like additive manufacturing, digital manufacturing, all of that's going to be accelerated as a result.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

Boeing has a throw it around the term global industrial, or let's say, throw it around, I mean, you mentioned the idea of building a global industrial tempting a lot. Just what does that mean, and what lessons are you learning both internal and external to drive that process?

Dennis A. Muilenburg

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

A

Yes. It's really a term and a strategy that we've adopted over the last couple of years to set a higher bar for our corporation. So we've always aspired to be the best in aerospace and measure ourselves against that competitive set, and we still aspire to do that. But we think a higher bar is needed for the future, and that is to measure ourselves against all global industrials, whether it's in our sector or not, and to compete at that level, because in the future we're competing for talent, we're competing for investment, we're competing for influence with sectors that go well beyond aerospace.

So it's raising the bar in terms of our expectations on how we perform, that consent to our productivity and our margin performance, our delivery of value to our shareholders, competing and winning in the marketplace in terms of products and services. It also gets to the point of competing and winning in the battle for talent and bringing the best talent to our company. So those are all things that play into that strategy. It's also, I'll say, a champion headset inside our operations, and this champion-level performance is something that's really taken hold in our production operations, for example, where we're seeing teams now setting new champion times for flow time and efficiency in our factories, and then setting up, I'll say, friendly competition internally to raise the bar and achieve champion-level performance across the whole Boeing enterprise. And we're seeing that accelerate performance in our commercial and our defense production lines, as well as our services business.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

And that almost leads to question of your productivity, your profitability, the efficiency of what you make of what you do has been quite strong on both sides of the business. Can you talk about some of the things, almost thinking about the past versus the future in terms of what has driven a lot of the performance we've seen thus far, what is going to drive some of the performance we still expect going forward?

Dennis A. Muilenburg

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

A

We are relentlessly focused on driving productivity, cost structure and cash performance. And you've seen some of that showing up in our numbers. And as we've said, we have really turned the corner from this company and its history being more of a cyclical business to being a business that's long-term sustained growth. Some of that is externally driven. The market has changed. Global traffic has changed. Backlogs are much more extensive than they've ever been in history. And that all helps us create a long-term sustained growth business. That allows us to think differently about how we invest in productivity and cash performance as well.

It gets into production rate discipline, how we drive our R&D programs, feather our R&D investments, how we engage with our workforce, and see those actions are beginning to hit the bottom line. But we've just begun to tap into that, in my view. And we're attacking every element of our cost structure today internally, but also working with our supply chain, and how can we find additional efficiencies throughout our entire supply chain globally. And then our working capital initiatives, you really see it driving cash performance. Op cash this past year, \$13.3 billion. We guided to \$15 billion of op cash this coming year as a result of those actions, very focused. And we see this as a year-over-year cash growth business going forward.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

On the technology side of things, what are you most excited about? I know you don't want to take this one. But when you see something out there, is it material, a design approach, where do you see that taking us, and what does it enable in terms of products, programs, business models?

Dennis A. Muilenburg

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

A

Well, we see more innovation going into our business today than we ever have. Some of that is in the form of new products. The 787 Dreamliner was a major technology innovation, challenging to bring to the market that you can see it's really winning in the market now. And you see that product innovation happening in new airplanes like the 777X, new defense products. So there's an element of product innovation that's on the leading edge. We're seeing a lot more innovation in our services business, so digital services, value-added services, that can really scale quickly for our customers. And so as we're digitizing our entire enterprise, that's really adding innovation to how we service and provide lifecycle value.

And I'd say internally, the manufacturing transformation, the manufacturing technology transformation is incredible what's happening, automation, robotics in our factory systems, data analytics, how that's driving efficiency, additive manufacturing, 3D printing. It's going to fundamentally change how we build to reduce cycle times. And I would argue that over the next 10 years, the biggest transformation you're going to see as a result is in our design and manufacturing systems, and what that's going to drive to the bottom line. That innovation is moving very quickly, and we're leveraging investments outside of the aerospace sector to build that into how we do business.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

And does that approach almost enable some of the new efforts that you're making, or maybe as a separate question is, go over some of the new initiatives that you've been involving yourselves in.

Dennis A. Muilenburg

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

A

Well, it does. And so as I said, design and production system transformation is as important as product transformation. And as we think about future product lines, as we're contemplating a potential middle of the market airplane or other future products, looking at them through the lens of lifecycle value-generation, or production system transformation, that creates significantly more value for our customers and for our shareholders. We're looking at investing in things like autonomous systems, and our recent acquisition of Aurora, I think is a good example of that. We're bringing more autonomy to our products, and that autonomous technology can also flow into our factories, artificial intelligence investments.

We're also building out targeted vertical capabilities that leverage that. We've announced growth in avionics, so we launched Boeing Avionics this past year, Boeing Analytics and it's all helping us digitize our business, capture the brains of our airplanes and create lifecycle value. We're ramping up capabilities in actuation at our Portland and Sheffield facilities. We see that as a value-added vertical that also creates lifecycle value. Interiors is another area of interest. We announced a joint venture just recently with Adient to bring a new seat supplier to the marketplace, but 3D printing additive manufacturing is a place to leverage interiors as a way to do rapid customization for our customers and add value. So you see a lot of synergy between these verticals that we're building and the manufacturing revolution.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

And as you approach all of these different things that you can choose or not choose to get involved in, what are some of the guiding principles and criteria for these targeted vertical or business investments?

Dennis A. Muilenburg

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

A

Yeah. Again, we always look at this through a customer value proposition, and then through our cash deployment strategy, how are we going to generate the most value for our customers and our shareholders. And these targeted verticals that we're investing in are areas that allow us to manage our intellectual property for the future, create value both in terms of instantaneous products for our customers but also lifecycle value. And all of that is balanced against our cash deployment strategy on where we want to invest. And we still see ourselves as primarily an organic growth machine with a tremendous marketplace, and our organic investment capacity is strong. That's complemented then with our return of value to shareholders, and we remain committed to our plan of 100% free cash flow going back to our shareholders.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

A lot of talk right now about closing the business case, whether it's around the Middle of the Market, or really anything that you do. Can you give us some idea of how this approach to the business case is different or has changed or improved or whatever it is, whatever word you want to use from past business cases? And I just bring the example of the 787. Obviously, I mean, the market is smoking, very popular product, good business case, but not without its troubles. So something within there to make you go forward with 787, still had its troubles, great product. How do we avoid that middle part?

Dennis A. Muilenburg

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

A

Yeah. Exactly. And that's, again, goes into our innovation machine and how we manage innovation. So as we think about things like Middle of the Market airplane, and we're still evaluating. We haven't made a launch decision yet. If we go with that airplane, we still see it as a 2024, 2025 entry into service airplanes. We have time to do our business case work. What we want to think about is, when we bring innovation to the market, doing it in a risk-managed way, 787 ended up being a great product, but it was a huge concurrent technology innovation investment. New material system, composite airplane, new all-electric internal systems, new production system in our factories, new global supply chain system all at once. As we think about the next airplane, Middle of the Market, or other paths for the future, we think about disciplined innovation where we take steps for the future, and we re-use technology.

787-10 that we're just bringing to the market now is 95% common with the 787-9 because of smart re-use. That's a different approach. We don't see the next new airplane if we do Middle of the Market as being a technology push airplane. There's a lot of technology re-use on things like composites manufacturing, but maybe more focus on manufacturing transformation. So as we think about business case, we think about disciplined roll-out of innovation, and now, more and more looking at a business case through a lifecycle lens. That is our biggest growth opportunity as a company. The services sector, it's about a \$2.5 trillion marketplace over the next 10 years. And even though we're about half of the installed fleet base in terms of platforms, we're only about 7% to 8% of the services market. So we have tremendous headroom to grow by leveraging our OEM knowledge and our organic capacity. And so when we think about future business cases, we're really looking through that lifecycle value lens beyond the traditional product lens.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

You sort of got me thinking in that world. So I mean, you're mentioning that the new products are going – there, I think at one point you wrote it, or maybe Boeing said it, we're not going to do two moonshots in the way; we have a derisked progress. So in that way, what do you think the aircraft of the future looks like, or are we not – on outside looking in, we're just like, it's a nice airplane but it's really – it's that inside Boeing, like wait til you see how this thing is built, and how we're thinking about the long-term value or that's really the change somewhat like this?

Dennis A. Muilenburg

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

A

Yeah, you're going to see more change on the latter. So revolution on how we design and manufacture, thinking through these airplanes in terms of lifecycle value. But we're also innovating on the leading edge of new products for the future. So while you'll see future commercial airplanes that may look similar till today, we're also investing in future generations, high-speed travel, supersonic, hypersonic airplanes, space travel for the future. And those are all things that keep our innovation engine running while we create near-term products as well.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

And those new products, how do you feel they're going to reflect some of the revolutions that we've had or I'd say, revolutions in in-design, in manufacturing [indiscernible] (00:20:55)?

Dennis A. Muilenburg

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

A

Well, this is where digitization of our designs, how we design and build is going to fundamentally change. And it's going to drive efficiency in the connection between our design and manufacturing systems and how we wrap that with data analytics. We have a series of prototype projects underway that are bringing these second century design and manufacturing capabilities to our current production lines. And you're going to see some of those showing up in the 777X as we make that transition.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

Moving on to M&A strategy. How do you weigh outright acquisitions versus JVs versus partnerships? There seems to be a lot of movement in the industry right now. But just from a Boeing internal perspective, how do you think about those, I mean other options? How do you think about [ph] these (00:21:41)?

Dennis A. Muilenburg

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

A

So again, we look at that through a customer value lens, and how are we going to generate shareholder value. So it's not one size fits all. And we're open to joint ventures where they make sense. The recent announcement with Adient in the seating area, good example. We saw that as the best way to take advantage of their capability from the auto industry. Our knowledge of airplanes bring it together in a co-managed joint venture. The Aurora acquisition we just recently made is one that's in a targeted vertical where we can gain the most value by a full-up acquisition. So on a case-by-case basis, we look at those. And then we also put that in a broader, again, cash deployment strategy. Our cash deployment priorities are very clear.

Organic investment is number one and will continue to be. Then, we return value to our shareholders, and we are committed to 100% free cash flow return to shareholders, and then M&A. And while you'll see us talking about actions, M&A actions, either full-up acquisitions or joint ventures, none of those will distract from the other two priorities, and none of those will compromise our organic investment plans, or our plan to deliver 100% free cash flow back to our shareholders in terms of dividends and share repurchase. You've seen us acting on that strategy over the last five years. We're going to continue to act on that strategy. So this is one that I really wanted to emphasize, again, our commitment to 100% free cash flow return to shareholders is unwavering, and we have the horsepower to do what we need to do on the acquisition side without taking away from that priority.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

So I'll follow up a little bit on horsepower on the acquisition side. Can we put a concept to how much horsepower we're talking about here?

Dennis A. Muilenburg

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

A

Yeah. It will be the third element of our cash deployment strategy, so you should expect it to be outweighed by our organic investment and our return of value to shareholders. They're going to be targeted acquisitions, and they're going to be things that align with our strategy. So the ongoing discussions with Embraer, I think, is a good example of where we see a complementary product line. They bring selected vertical capabilities that fit our strategy, and they give us an opportunity to grow services. Where we can find targeted acquisitions that build out those targeted verticals or add lifecycle value, grow services business and ideally companies that do both, those are areas where we would focus. Beyond that, our primary growth engine again is organic investment where we know exactly how we're going to invest and grow in the business.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

On Embraer, I think we understand some of the benefits of what Boeing sees. Curious on your perspective on why now, and it's thoroughly a question of why not two weeks ago, why not three years ago. But conceptually why is now the time to go forward with Embraer?

Dennis A. Muilenburg

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

A

This is actually something we've been working on for many years. So we've got a decade's long relationship with Embraer. And despite recent moves by some of our competitors and perceptions in the media, this is something we've been working on for some time. And when you look at product line development and where we're at in our

product cycles and how our product lines fit together, now seems to be a good time to combine forces. We already been working together in a number of various like flight depth commonality, vertical integration. Our teams are working together on R&D, and this is just the right time to take the next step. So we're going to continue to work through that agreement. We're making progress. We still have work to do. And the way I characterize that one is, it's a great strategic fit, but it's not a must do. If we can get to a good deal and one that adds value for our customers and our companies, we'll do it. If we can't get to the finish line, it doesn't change our strategy. This is a great complement to our strategy but not a must-do.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

And thinking about – just staying on this potential opportunity for a moment, why would you pursue one structure versus another? I don't want to get into details of financial structures per se, but you already have some, as you mentioned, you already worked with them a deal on cockpit on KC-390. What's the difference between deepening that side of things and something that's more direct?

Dennis A. Muilenburg

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

A

Yeah. Again, this is where we think we can generate more value for our customers. So as we've looked through the business case and how we can add value, where we can gain competitiveness in the marketplace, places where we could gain additional supply chain leverage, options for providing customers with broader fleet solutions. We see through that customer value lens additional opportunities. That's why we're pursuing the additional step.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

And then, throw your picture on consolidation, not just your side of fence but across the aerospace, and defense to a certain extent, industry. What's your perspective of what's going on today in aerospace? It's a market that you've been involved in seriously.

Dennis A. Muilenburg

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

A

It's a healthy marketplace where we're seeing some consolidation actions. Those are things that we keep a very close eye on. The recent announcement of the pending deal between UTC and Rockwell. It's obviously something that would have our attention. We're still scrutinizing that one. Until proven otherwise, we haven't seen the value that that combination would provide in terms of cost reduction. So those are expectations that we still have. And any consolidation actions in our supply chain need to be things that add value for our customers or for the OEMs. And those are things we keep a close eye on. But I think, overall, the supply chain is healthy. We're investing with our supply chain. We've got great relationships there and continuing to grow together. And again, when you're working in the market that we're in, the opportunity to grow together with our supply chain is just very clear. So I'm pleased with our supply chain relationships, and I'll say, the mutual growth that we're achieving.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

Well, we're almost three quarters through our time, and I haven't mentioned the word, I don't think I mentioned defense yet. So I'll go ahead. You're familiar with the defense market. Boeing used to talk about maybe flat to moderate growth in defense. But if you look at your guidance at least for 2018, that's your fastest growing business, right? I think so. I don't mean to start big. What's going on there?

Dennis A. Muilenburg

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

A

Well, part of it is you see the fundamental strength in our core product lines, and they're winning around the world. So international defense is growing. 35%, 40% of our defense backlog now is outside of the U.S. That's combined with a resurgence in U.S. defense budget. And I think you saw the recent actions on a longer term budget deal. There's still a lot of work to be done, but beginning to lift the budget caps and alternative to sequestration. We think that's a long-term trend in the U.S. So we see strengthening defense budget. And when you look below the surface of that, a lot of it flows into our core programs.

So our fighter programs are very strong. We see now indications for a multi-year procurement of Super Hornets, 110 airplanes in the 5-year plan, strengthened rotorcraft across Chinooks, Apaches, V-22s, the new tanker. While it's been a challenging development program, we're moving into production. P-8 is ramping up. Satellites, spacecraft, human space exploration is ramping up. So we see growth prospects in our Defense business, and we gain unique value as a company by having a robust Defense and Commercial business, and having talent and technology that can be shared between the two. And as a result, we have high expectations for our Defense business. I think the market is trending in a favorable direction. And within that market, our product lines are winning.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

One thing, the DOD – I could probably describe this word, across your customer base, is affordability. I'll guess we'll start, we'll just stick with defense for a moment. One thing the Department of Defense talks about is the idea of affordability, innovation obviously is important too. What does affordability mean to Boeing? And you can talk about it from a broad Boeing perspective on how you're addressing that.

Dennis A. Muilenburg

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

A

Yeah. Well, it gets into things like unit cost reduction, what matters to our customers, and taking out costs inside our four walls as well as working with our supply chain and being relentless on it. The cost reduction and productivity, affordability is not a one-time action, it's a daily culture. And that's something that we're driving into all of our businesses across Commercial, Defense and Services. And really, our teams exchanging best practices on how we're gaining productivity not only in our factories, which is really important, but also things like first time quality and engineering, and driving efficiency in the front-end of the development process. So those are all things we're getting great cross-feed between the Defense and the Commercial businesses. And we're just going to be relentless on driving productivity. We have to win on affordability.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

In a way, when you speak to your defense customers, what do you think that they're – how has that conversation changed within this context of affordability? It sounds like there is a desire to have more fixed price type of work, but also more mature and therefore more mature products. Do you sense if there's any change in the risk profile that defense industry is being asked to take on with the opportunity for high rewards?

Dennis A. Muilenburg

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

A

I see some pressure there. So there's more tendency to want to do fixed price development, and we've had our share of challenges associated with that. So we've got to manage through the contract structure not just the risk profile of the program and the technology demands of the program. And our defense customer is working hard to drive affordability themselves, they've got to live within a constrained budget. And I would say the operational demands for our defense customer are only going up. So their ability to invest in modernization is driven by overall affordability. It's also our services business where we can help our defense customers be more affordable in terms of service and support, it allows them to free up more money for modernization.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

And on the international side of the defense ledger, there's a lot of activity worldwide. You guys obviously have a lot of robust programs. Where are you seeing the most demand there [indiscernible] (00:32:28)?

Dennis A. Muilenburg

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

A

Well, we see broad growth. So the Middle East market is very strong for us right now across all of our product lines, Asia-Pacific regions. It's not really isolated to one geographic area. We see global growth in our international defense business. And as I said, the backlog there is 35% to 40% of our business, and in many cases, leveraging the U.S. production lines through foreign military sales. I think the administration right now is taking a lot of action on driving efficiency in the foreign military sales process which is helping us to be more competitive around the world. I see that as a big enabler. And then the fact that we can support defense and commercial products with an integrated global support capability is really a big differentiator for us as Boeing, because we are local everywhere around the world between our commercial and defense customers, and in many cases, have common spares, common inventory systems, common structures that allow us to efficiently provide service to this global platform set.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

Keeping with the idea of the FMS process being easier, is there anything else from a policy perspective, not just defense, but again broadly, that's still on your I-would-like-to-see list? I mean tax reform was I think on this.

Dennis A. Muilenburg

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

A

Yeah. Well, it's very important. Tax reform passed at the end of the year, but now the rule-making implementation. So very important that that is implemented in an effective way this year. So we're going to be participating in that process. I talked about trade. Ex-Im Bank continues to be an important item for us. Right now, there's plenty of financing available in the marketplace. But in a constrained marketplace, that's an important competitive tool to have. So we're an advocate of getting that back into place. The thing I see right now though is that business has a seat at the table. And when the administration is engaging, they're engaging with an idea what can help business succeed. And we've got a whole wave of policy issues, topics we're working on, but we have a voice at the table, which is encouraging.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

Is there anything – there have been recommendations by parts of the administration and Congress. The administration and Congress are working through spending. One of the things that the administration wants to see is lower spending at civil agencies. Not a huge deal for Boeing specifically. But the FAA is a large agency,

important for your customers in the day. What are some of the, does that really play into the way you think about the policy landscape?

Dennis A. Muilenburg

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

A

FAA reauthorization is an important item to us, and then the certification process. There's a lot of work going on in streamlining certifications that are beneficial frankly both to our Commercial and our Defense business. And we're making some good progress there. But that's an item we want to keep on the leading edge. And as the country thinks about infrastructure investments, investment in the air traffic system infrastructure, next-gen program, we think is that top priority. So there are a few key areas of investment there.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

What has something like next-gen enabled for Boeing, and how does that, I guess, impact the way you're designing products?

Dennis A. Muilenburg

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

A

It creates efficiency in the sky, so much more efficient flight patterns, less interruptions due to storms and other traffic considerations. It allows our airline customers to be more efficient in their operations. And as they take operating cost out, it gives them the opportunity to refresh fleets. So it builds capacity, and it adds, over time, to safety and reduction of emissions. So it's good from an environmental standpoint as well. There's a lot of economic value associated with the next air traffic system.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

And with four minutes left, maybe now is the wrong time to ask this question, but what do you wish more folks in my seat or in all these seats, what do you wish more folks asked you about? And what do we want investors to be asking about that they're not asking now?

Dennis A. Muilenburg

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

A

I think a couple of key things. As we look to the future, I said, we're bullish about the marketplace that we're operating in. We're going to be mindful of how we pursue that marketplace in terms of our future investments. And knowing that we've got to bring these development programs to the finish line, that's something we want to keep a close eye on this year. I also – just as I look at – you laid out overall from a profile standpoint just by the natural seasonality of the business, you're going to see, as usual, first quarter is our light quarter. So when you look at revenue, margins, earnings, and cash, Q1 is going to be about 15% of our EPS for the year. Q1 is going to be about 10% of our cash for the year. So just knowing with the guidance that we set for the year, Q1 is the light quarter as expected.

But longer term, the fact that this business has really changed, whereas in the past, you might have thought of it as a high-cycle business. It's fundamentally structurally different. And this idea that we are now designing, operating a long-term, sustained growth business with much longer backlogs, much more robust production rates, more time phased development, all of which is going to lead to bottom-line and top-line growth, and sustained year-over-year cash growth. And while I think the market has started to appreciate that transition, and certainly some of it is still incumbent on us to demonstrate it to deliver, the fact that we've got a long-term sustained growth

business, year-over-year cash growth business is a big, big shift. And that's where we're headed for the future. And so that's something you should all expect to see over time. As I said we remain committed to 100% free cash flow return to our shareholders.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Q

Right. And then just a thought on that very briefly in your last – I'm sorry, give us still little time, 2 minutes. Is there anything that enabled that reduction in cyclicity, internal blocking and tackling, the market has to be really good, combination of the two?

Dennis A. Muilenburg

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

A

It's a combination. The market has change. Global traffic has fundamentally changed. It used to be U.S., Europe dominated, now it's global. It used to be hub and spoke. It's now point to point. And for the first time in history, there are billions of people who have the economic capacity to travel. These 80% of people who have never flown, they're going to fly. And a big chunk of them for the first time in history are coming to the traveling public. That's the market side. On our side, longer backlogs, diligence in our production rates, so that we manage for the long term, feathered R&D, long-term labor agreements, freezing our pension, whole bunch of actions that we've taken, and then growing services. Services by its nature is a less cyclical business, and as we grow services it makes our business overall less cyclical. So it's a combination of outside and inside factors. But it is a very clear change, and it's something that is going to advantage us competitively speaking for the future.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Well, we look forward to seeing all that continue to unfold, I'll say.

Dennis A. Muilenburg

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

You got it.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Thank you Dennis. Thank you everyone for being here.

Dennis A. Muilenburg

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

All right. Thank you.

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