Goldman Sachs Industrials and Materials Conference

Company Participants

- Brian West, Executive VP of Finance & CFO
- Noah Poponak, Equity Analyst

Other Participants

- Unidentified Participant, Analyst

Presentation

Noah Poponak  {BIO 16071528 <GO>}

All right. It sounds like we’re on. Good morning, everybody.

I am Noah Poponak. I’m the Aerospace and Defense equity research analyst here at Goldman.

Very happy to be starting our next aerospace presentation with Boeing. Very happy to have with us from the company the Chief Financial Officer, Brian West.

Brian, thanks so much for being with us.

Brian West  {BIO 15231805 <GO>}

Thanks for having me.

Questions And Answers

A - Noah Poponak  {BIO 16071528 <GO>}

Awesome.

So it’s clearly been a challenging time for the company. Multiple headlines on multiple programs. Stock’s been tough. The bigger picture question that we’re fielding most frequently from investors is some version of a sanity check on the culture of Boeing.

Is it actually still great and we just can’t see it through the headlines? Or has it been substantially pierced?
And you’ve been in your seat now for a few quarters, kind of a fresh set of eyes on the situation. Even Dave, who’s on the board, but he’s been in his seat for a relatively short period of time for a CEO.

So what is it like at Boeing right now, morale and otherwise?

And how insurmountable versus manageable is it to get back to normal course of great airplanes, good cash flows, long-term growth at Boeing?

**A - Brian West**  
(BIO 15231805 <GO>)

Your opening acknowledged that it’s been a tough couple of years for the company, and it has not been easy for customers or shareholders. Some of the issues we control, some of the issues we don't control.

But I will tell you, we are on the verge of turning the corner. We’re on the verge of turning the corner and once we do, Boeing is going to do what Boeing does best, which is deliver great airplanes and defense products for our customers.

And you look at -- a sign of that confidence and that faith is Lufthansa. This week, wonderful order as just evidenced. I was in St. Louis yesterday with our top 100 engineers in person. They’ve got faith and the things they were taking me through blew me away the things they were working on.

So look, this company has been around for a very, very long time. They've gotten through difficult periods. We’re going to get through this period, and I believe come out better and stronger.

And if I zoom out and take the long view, which you have to, in this industry, the opportunity is big and the opportunity is compelling.

So while we know we’ve got more work to do, I would say that the feeling is confident. Recognize confidence with the confidence in the fundamentals of this business are just what they’ve always been, and we’re trying to make them better every day.

**A - Noah Poponak**  
(BIO 16071528 <GO>)

Okay. Great. I look forward to that. What’s that notion of turning the corner, and maybe sooner than later?

What’s maybe sort of the order of the major events?

I mean what can get better first?

What’s your biggest focus?
What starts the turning of that corner?

**A - Brian West**  [BIO 15231805 <GO>]

So it’s very straightforward. It is delivering 87s. It is delivering more 37s, including ones in China, and sustainably generating cash flow. Those three things are the most important elements that we think about day in and day out.

I believe that as we move through the course of the year, we’re going to start knocking down these milestones.

**A - Noah Poponak**  [BIO 16071528 <GO>]

Okay. Let’s maybe jump into each of them.

So 87 on -- with the earnings update, you talked about submitting this data package to the FAA.

So maybe just sort of update us on 787. What is the conversation with the FAA now that you’ve done that?

What are the long poles in the tent to get deliveries going?

**A - Brian West**  [BIO 15231805 <GO>]

This certification plan submission was an important milestone, and it reflects a very thorough comprehensive set of documents that verifies that we are in conformance.

There’s been an enormous amount of work into that, working side by side with the FAA along the way.

I’ll remind you that we haven’t really seen anything new in a while.

So we’re working hard on making sure that, that submission is thorough, and now the FAA has it, and we are standing by ready and willing to enter any discussion, answer any question and help them do their work as they move through their certain protocols.

So the conversations with FAA have always been constructive. They’re important. Everybody is working their tails off.

And now we just got to allow them to do their work and declare it finished and then get that green light. I can’t give you a date. FAA decides, but there continues to be good momentum and people are hard at work. If it was a resource issue, we would have put it on a long time ago.

We just have to move through this process.
A - Noah Poponak  [BIO 16071528 <GO>]
Has there been any initial response from the FAA since the submission took place, I guess a few weeks ago?

A - Brian West  [BIO 15231805 <GO>]
I know -- since they've been along the process, there's not really a big surprise that they've been right in the middle of it.

So no, they just got to do the work, digest it, do their own discussions. Like I said, we are in constant conversations with them and are on the ready to help.

A - Noah Poponak  [BIO 16071528 <GO>]
What you've submitted was built along with the FAA, not just by Boeing. They were heavily involved in the process. Is that correct?

A - Brian West  [BIO 15231805 <GO>]
Yes. Yes.

A - Noah Poponak  [BIO 16071528 <GO>]
Okay. There are constituents within your supply chain that have talked about delivery resumption before the middle of the year, fairly soon. Are you communicating with the supply chain what happens next on 787?

Or do you not have that kind of visibility yet and they're just making their best guess?

A - Brian West  [BIO 15231805 <GO>]
We are always talking with our clients on fleet planning scenarios and they've got to make certain assumptions, but they're assumptions until the first airplane is delivered.

That will always be a bit fluid. What I will tell you is that we have begun the rework efforts on the first several airplanes. So we're getting them in position to be ready.

That includes doing what we call the Boeing flight check, which is just evidence that we're priming the pump, and we continue to be very focused on making sure that we continue to get the rework done on the airplanes inventory as well as producing, albeit at a low rate, clean airplanes that are coming off the line. So there's just some nice momentum.

When we get the green light, we are going to be ready and we are going to move through this. And as I've said before, in terms of expectations, we've always said that the rework will take until mostly through 2023, and our work will be to liquidate those 100-plus airplanes that will largely follow that time line and then get this behind us.
But there is more work to do in front of us, confident the team knows how to do it, and we are in ready mode.

**A - Noah Poponak** {BIO 16071528 <GO>}

Okay. That’s a good update. To move over to the MAX. The -- you had a delivery number out yesterday for April, down sequentially from the March number, which would seem to be improving and starting to maybe drive some momentum in that process.

It’s been a little confusing from the outside why the delivery number has kind of been stuck in the high 20s when production rate sounds like it’s kind of almost at 31, and then there’s inventory online on top of that.

So why was April down?

And what does it take to get that sustainably higher?

**A - Brian West** {BIO 15231805 <GO>}

Yes.

So two parts to your question. First piece is the 31. The production system is set for 31. The factory labor is scheduled and staffed that way. The supply chain is working on a master schedule to that.

So that is out there. Now you got to go build and deliver, right?

And what happened, so we had 37 in March, it was 29 in April, and we have one particular wiring connector that has us slowing things down. And it’s a reflection of a crazy supply chain world that we live in right now.

But I will tell you that we slowed it down deliberately. And as you would have heard from Dave, since he got in the CEO job, we have to be committed to take a page from the automotive playbook and be willing to slow things down, or in some cases, just pause if all the parts aren’t there. Because we can’t go back to a world where we are traveling lots of work.

We have to stay disciplined, and we have to drive stability.

Yes, that will mean from month-to-month, a delivery number, which is that’s the number that matters to the customer. The delivery number can be some variability.

But this was a wire connector, which is coming from all around the world, trying to get it here and it was disrupted.

We will, and we’re all over it, and we, from time to time, may have those.
But our whole focus is how do we stabilize on good, disciplined, high-quality production so that we get those deliveries.

It will bounce around, but we look forward to getting -- stabilizing around those numbers.

**A - Noah Poponak**  [BIO 16071528 <GO>]
What's the status of that component?

**A - Brian West**  [BIO 15231805 <GO>]
What's that?

**A - Noah Poponak**  [BIO 16071528 <GO>]
What's the status of that component?

**A - Brian West**  [BIO 15231805 <GO>]
On the wiring component?

**A - Noah Poponak**  [BIO 16071528 <GO>]
Yes.

**A - Brian West**  [BIO 15231805 <GO>]
We are doing everything we can, and it happens to be in jurisdictions around the world, of getting them here pronto.

There's been supply chain folks working on it nonstop.

**A - Noah Poponak**  [BIO 16071528 <GO>]
There’s multiple suppliers of that?

**A - Brian West**  [BIO 15231805 <GO>]
Yes. I mean it’s fairly localized and isolated, but we have options and we're working them hard.

We’ll get through it, but these tend to happen, and we have a big airplane with lots of parts. It needs every part, and we just have to make sure we stay disciplined and methodical around lean principles.

**A - Noah Poponak**  [BIO 16071528 <GO>]
Do you expect that to impact what the delivery number would have otherwise been for some number of additional months?
Or is it pretty close to resolved?

**A - Brian West** [BIO 15231805 <GO>]
No. These things usually get resolved in a short time, and then we catch up and get moving.

So I'm not worried about the overall plan for the year is disrupted.

But these things will happen month in, month out.

We do have people that are all over it.

**A - Noah Poponak** [BIO 16071528 <GO>]
Okay.

Is the correct interpretation on the production rate that the system, the supply chain are at 31, final assembly is not at 31, but it will be there soon?

**A - Brian West** [BIO 15231805 <GO>]
Yes.

**A - Noah Poponak** [BIO 16071528 <GO>]
Okay. A lot of focus on China. China issued the airworthiness directive several months ago but hasn't resumed taking deliveries again. You've gone to 31 without China. It sounded like in the earnings update that you've had a decent amount of skyline movement related to China. I'm curious what you're doing there.

And over the last, call it, decade on average, China is maybe 20% or so of Boeing deliveries.

We don't know exactly what they are in the backlog because it seems like they're not in significant portion of the unidentified.

But the MAX, depending on how you count the ASC 606, it's somewhere in the zone of 4,000 units in the backlog.

Even if China is 20% of that, which it seems like they might be a little bit less, but even if it's 20%, the backlog ex China on a 31-a-month production rate is flirting with 10 years of production in the backlog.

So can you sustainably be at 31 a month without China?

Could you actually take another rate break without China?
Or are they just too scattered about the skyline to be able to do that?

**A - Brian West** [BIO 15231805 <GO>]

There’s a lot in there. Let’s start with the last piece. The benefit we’ve always talked about with the 37 is that there is robust demand. China -- with China, without China, there’s robust demand. And China is an incredibly important market with incredibly important customers for sure.

What you’re asking in the end of your question is about when is it you can take rate up, and obviously the math says you don’t necessarily need that China book to do that.

We still want to make sure we’re very sensitive to that part of the world.

But when we take rate up, it will be a function of our confidence in our supply chain, not the demand signals that you’re pointing to.

Because they’re there. What we are thoughtful about is this point around stability, and stability through the supply chain so that we all feel like as we move the rate up that we’re confident that we will be able to consistently deliver it.

We will make that decision in time. We’re not making it now because we have to get stability.

But there’s plenty of demand that will drive that discussion.

But it’s mostly a supply lens that we will look at that through, not demand.

**A - Noah Poponak** [BIO 16071528 <GO>]

Okay. Yes.

So the market’s very interested in what Boeing is planning for production rate and deliveries beyond this 31. I think there’s been an assumption that you want to wait to have China to lay out that plan.

But it sounds like you’re saying it’s really more supply chain.

**A - Brian West** [BIO 15231805 <GO>]

Well of course it’s a little bit of both.

But right now, it’s definitely our thought is around this stability of the supply chain, right?

It’s never one thing or the other, but I will tell you that we want to make sure that we are consistent on our being able to deliver end to end of the supply chain.
**A - Noah Poponak**  {BIO 16071528 <GO>}
How will the industry go to a combined 110 to 120 narrowbodies a month if there are supply chain challenges at 31 for 1 provider?

**A - Brian West**  {BIO 15231805 <GO>}
Well our supply chain problems aren’t here forever. I gave an example of wiring connector, and we’ll get through it.

So we just want to make sure that we get better and better at taking those deliveries up and up and up.

When we feel that confidence, we’ll take the rate up.

But we don’t want to do it too quickly. I think historically, we might have done that before, and it didn’t pan out so well.

So we just want to make sure stability and discipline are our calling cards and the rate will go up and the demand is there. That’s the good news.

**A - Noah Poponak**  {BIO 16071528 <GO>}
Right. Yes. When will China start taking deliveries again?

And how -- is there any visibility whatsoever for the executives of Boeing?

**A - Brian West**  {BIO 15231805 <GO>}
There was great progress with the local team, the Chinese customers, the Chinese regulators. They were clicking along, checking all the boxes and then Covid hit with different protocols and restrictions.

They had to go do what they had to do.

We assume that when they can get back and focused on this, they will pick right up where we left off.

And they will begin to -- I mean some airlines were already at the operational flight readiness point, which is right towards the end, they were training up all their pilots.

So they were showing every indication that they want to get these back in the air. When it becomes more clear on what’s happening with Covid protocols and restrictions, we expect that to just continue and then get the return to service and then we’ll get -- allowed to deliver.
I can't call those shots because they're right in the middle of something that's very unique over there, and we are standing by and ready. Again we are making sure we’re prepared and can't wait for that day when we get back to checking the boxes and getting those planes flying and delivering.

**A - Noah Poponak** {BIO 16071528 <GO>}
So they were quite close before the current.

**A - Brian West** {BIO 15231805 <GO>}
Yes.

**A - Noah Poponak** {BIO 16071528 <GO>}
To the extent that there was any political tradeship injected into that process, that has -- we've sort of had moved past that and they were ready to take --

**A - Brian West** {BIO 15231805 <GO>}
I didn't see any. I saw regulators, customers, local team trying to just get airplanes back in service and ready to deliver.

I believe that when they get -- their mind share can be on the normal work, I believe we'll get -- pick right back up where we left off.

**A - Noah Poponak** {BIO 16071528 <GO>}
There was a press yesterday of an airline in China with a capital raise that specified that part of the reason for the capital raise was to buy Boeing aircraft.

It, I believe, specified for deliveries in 2022 and 2023. Should we -- is it reasonable to read into that, that they have plans to take airplanes this year?

**A - Brian West** {BIO 15231805 <GO>}
Look, I can't wait to get allowed to return to service and return to delivery.

When that happens, there's lots of discussions about what the possibilities are. I don't want to jump the gun.

**A - Noah Poponak** {BIO 16071528 <GO>}
Okay. Maybe spend a moment on the seven and the 10 variants and what needs to happen with those to get the sort of full across the variant board certification?

And how much flexibility are customers that have multiple variants on order?
Or I guess even if they don’t, expressing about moving into the certified versus not certified variants and toggling those options?

**A - Brian West** *(BIO 15231805 <GO>)*

I’d start with reminding you that the whole idea around the Dash 7 and the Dash 10 really was about safety. Because if you have a common operating system, it’s safer. It’s almost a bit of a best practice.

So that’s why the legislation was never intended to get in the middle of the Dash 7, Dash 10 derivative because the family is more safe and more common.

That’s important for our customers and ultimately consumers.

So we are working very hard with our government stakeholders on options, on how we can make sure that we can certify and deliver the -7 this year and the -10 next year.

We got to have visibility to how that plan is going to work out as we head in the second half. Don’t control some of that, that is what it is.

But I do believe that we have a discussion options where, hopefully, we will all do the right thing, which is get a safe family of airplanes with the right derivatives to customers flying the skies.

In terms of what options clients might have, I don't want to speculate because I really don't expect us to get to that point.

But they will make fleet planning decisions if they have to, and there’s other opportunities that they would have.

But right now, we just want to focus and concentrate on the -7 and the -10.

**A - Noah Poponak** *(BIO 16071528 <GO>)*

Okay.

So maybe touch on 777 to round out the BCA discussion. Maybe just sort of give us an update on what are the toughest things left to do in development?

Then given what’s happening in the freighter market and what’s happened with the 300 ER, how much visibility do you have?

And I guess maybe at what supply level to bridge with that airplane to 777X?

**A - Brian West** *(BIO 15231805 <GO>)*
Yes. The 777 is a wonderful story overall.

Yet, the X, we have to work through the certification time line that has pushed out.

That is a reflection of the time it’s going to take given our recent experience on the -7 and the -10 on the 87 that things take longer, right?

There’s a high volume of resources.

These regulators, they are working hard to get all this work done, not just our certification but others.

So it’s very high volume, a lot of resources, a lot of new questions, different sequences of timing.

So all of that goes into the decision to say look, it's going to take longer.

But let's also remember that, that 777X, which is going to be a replacement for the 47 and the 380, is going to be around for decades, and it’s a wonderful, wonderful airplane.

It’s going to do amazing things.

So we have to get this development piece done right. I know that it has some short-term uneasiness, but it’s the right decision because that’s going to be on for decades.

And by the way while we make that move, we get to continue to retire type of risk of the airplane. It’s performing great. Customer loves the operational efficiencies, the economics behind the airplane.

So the 777’s strong. And by the way again Lufthansa just voted with its feet and very privileged to have that opportunity.

As it pertains to the metal wing legacy products, because there is such robust demand, the uniqueness of being able to move around capacity with the push out of the 777X gives us the opportunity to fulfill that very hot demand earlier. And as we think about the skyline for that 777 legacy metal wing freighter, the next couple of years are pretty strong delivery demand.

We’re going to produce at pretty good rates, and we’re going to take that rate up.

So what’s going to happen is that we’re going to have this wonderful bridge between that legacy product and then the 777X.
So I don’t like the fact that we had to take the extra time of certification, but in a big sense, not really that too concerned.

But it allows us to line things up in a very logical natural way so that we could optimize cash flow, get the certification done correctly and bridge to the next family of aircraft.

So I -- and it's all underpinned by a great freighter market.

So on this one, I'm actually feeling pretty bullish.

A - Noah Poponak
Yes. It’s just the reality of what’s happening with certification processes and you have the freighter market to bridge.

A - Brian West
Yes, exactly.

A - Noah Poponak
I'm going to shift into defense. Just maybe, simply put, what does it take for Boeing to deliver clean defense numbers to stop having charges in the defense business?

A - Brian West
The last two quarters, we've dealt with issues and we're moving forward, right?

Our defense business is a big, important business, and we've got wonderful products there. We have moved forward though.

The lessons that we learned on the development programs will be ones that we think about how to get better on the bidding process.

I will say that our defense programs, the 85% of the revenues that have nothing to do with development programs are very good products, very strong products, get the F-15EX in there, weapons, missiles, autonomous, great products that right now, we've got a field force out there knocking on doors of the government as they think about increasing defense budgets to protect their safety and security concerns.

So it's an important part of the business. Where we need it to start growing, it will start growing. The margins, if you really normalize them, they're not negative 16 really that you normalize it out, it gets closer to the mid- to high single digits.

We expect that, over time, that it will look a lot like it has historically in that close to low double-digit margin numbers. And we can't wait to get back there. We had issues, took the medicine, move on.
In terms of the top line growth, I think that our products line up pretty darn well.

The T-7A Red Hawk had its intro a couple of weeks ago with the Tuskegee Airmen, with our customer, and they loved it.

**A - Noah Poponak**  {BIO 16071528 <GO>}
Okay. Is it reasonable to assume that it’s a year with many different transition points by program in the financials?

You’re taking a fresh look at the business and the financials.

Obviously in any -- whether it’s program accounting or a percentage of completion accounting or assumption-based accounting, you’re always going to make your best assumptions.

But I would think in environments like you’re in right now and the year that Boeing is having this year, you would sort of really make sure that you are as conservative as possible with the new assumptions on these programs.

**A - Brian West**  {BIO 15231805 <GO>}
I feel very comfortable with where we closed these quarters, and we’re moving forward.

**A - Noah Poponak**  {BIO 16071528 <GO>}
Okay. That adjusted margin that you referred to, it’s one quarter, but if I strip out all the charges, that margin is still a decent amount below 10% when, as you alluded to, historically, it’s been more in that kind of 10% to 12% range.

**A - Brian West**  {BIO 15231805 <GO>}
I think it’s six-ish.

**A - Noah Poponak**  {BIO 16071528 <GO>}
Yes. How do we bridge that result versus the notion of being in that low double-digit range over time?

**A - Brian West**  {BIO 15231805 <GO>}
Because I think we’re going to be able to have the benefit of this 85% of the portfolio. That is going to have a little bit of extra growth in it because there is demand for these products out there around the world, particularly as defense budgets rise, and there’s margin accretive in those parts of the portfolio.

Unfortunately, those are the ones we don’t talk a lot about because we talk about the ones that aren’t doing so well. We’ve got to flip that dialogue, and I can’t wait to flip the dialogue.
Okay.

So it’s really just what the mix of the business is.

Exactly.

You talked about beyond this year, getting top line in defense back in the zone of stable. Defense authorization right now is better than stable.

Outlays are funky because there’s messiness in the system at the moment, but the outlays will follow the authorization.

There are geopolitical events that are making it look like the authorization maybe has more upside risk than downside risk.

So the end market growth rate looks definitively better than stable on a kind of three-year to five-year basis.

So why would Boeing defense be stable if the end markets are better than stable?

Yes, stable or just solid. I mean these are just words, right?

We will unfortunately be a little bit down in our defense business and the top line this year, right?

And I don’t like that. I want to get back to where we’re growing again right?

And whether that’s stable or solid, we are going to run the operating teams, commercial teams to run after all the good business, accretive business they can all around the world with a pretty good product lineup. We’re not going to hold them back one bit.

And if that puts out a number that’s better than stable or solid, awesome. I’m just sitting here with a business that had a bit of a down year. We’re trying to get it back towards more normal.

I can’t wait to sit here and say yes, it was stable plus or solid. Those are just words.

But we want to grow again that’s the most important thing.
There’s nothing that we’re going to do to hold back those teams, particularly in the international front from going after great books of business.

**A - Noah Poponak**  [BIO 16071528 <GO>]

Okay. Services business looks like it’s on track to recover approximately prepandemic revenue margin this year. That’s faster than your average commercial aerospace services business. Now there’s not insignificant chunk of yours that’s defense services.

But are you outperforming the market there?

And where can we take the margin in that business over time?

**A - Brian West**  [BIO 15231805 <GO>]

By the way it’s reminded me, remember, and I got to remember too, when we talk about our defense BDS growth rate, you got to add in that service lift.

So when I say stable, it actually is probably more like stable plus or solid because when you look at my competitors, they have both of them in there, and we just artificially strip them out.

So just to remind actually it could be a little bit growth year.

Because that service business is strong, and I come from the service world. I know the benefit of having airplanes and aircraft out there for decades and the benefit that comes to a great service business, and I think we’re well positioned.

So I think it was 90% of prepandemic levels in the First Quarter.

So we’re tracking our way up to get back to "recovery." We’ve got great line up of products, great customer relations.

I love the fact that the business puts its eye around return on total capital, so it resist the temptation to go after heavy asset-intensive opportunities, and they’re trying to make that balance a little bit more asset-light and still drive growth.

So in terms of what the margins can look like, look, it’s been in the mid-teens last year. It’s been in the mid-teens last quarter, and there’s nothing to suggest it’s going to come off that mid-teen range.

And remember, the earnings to cash flow conversion is super high, and there’s nothing that’s going to stop that as we continue to have the right return on total capital lens on that business.

So very proud of that services team, and the growth opportunities continue to be there.
We’re going to make sure that we invest in it thoughtfully.

**A - Noah Poponak**  {BIO 16071528 <GO>}
Okay. I want to talk a little bit more about margins and cash flow and how that flows into capital structure.

But given the timing here, I’m just going to take a pause and see if there are any questions in the audience. Mr. Hokenson [ph]?

I think there’s a microphone if you want to just wait for that for one second.

**Q - Unidentified Participant**
Thanks, Brian. A little gusto on the conference call, similar to that here today. Still very early in your recovery, yet you want to do an Investor Day to pitch the thesis.

So kind of give us an idea of what you want to talk about at the Investor Day?

Why you want to do the Investor Day so early in kind of the recovery story?

And what do you think that your market is just completely missing here?

**A - Brian West**  {BIO 15231805 <GO>}
The last part of your --

**Q - Unidentified Participant**
What the market is completely missing.

**A - Brian West**  {BIO 15231805 <GO>}
I still didn’t hear the last part.

**A - Noah Poponak**  {BIO 16071528 <GO>}
The question is, how have you decided on timing of an Investor Day?

What do you want to talk about at Investor Day relative to where you are in the recovery?

Then the last piece of the question is what is the market completely missing?

**A - Brian West**  {BIO 15231805 <GO>}
Yes. Look, when I think about the long-term opportunity across aerospace and Boeing, it can’t be anything but confident, right?
Yes. We’ve had some moments right now we’re trying to get better on, but it’s that long-term view that makes you super confident that we’ve got a great product lineup and really strong customers.

We can’t wait to tell that story, right?

And as we get through the milestones that I mentioned, it will be time to start to tell our important stakeholders about more specifically where we’re headed, including some financial expressions around that. It’s been a long time where we haven’t been able to do that for various reasons.

But as we think about turning that corner, and we’re on the verge of turning that corner, I think it’s our responsibility to have that kind of conversation.

I think it will be ones where we talk about our future and going forward, because that is what is most important and that is what I think is going to drive the enthusiasm for where we’re headed over the long term.

In terms of what do I think is missed in the story, is that the last piece?

Look, I don’t think anything is missed. I think that we have consistently given the market some rough news to digest. It’s been tough. It was tough this past quarter.

But I will tell you that we’re going to turn that corner.

And we’re going to deliver 787s eventually. We’re going to get the 37 moving in China.

I know people have been patient, and maybe it’s -- patience a little bit longer, but I don’t think anybody’s missing who looks at the long-term opportunity and the long, long history of how great this company has been.

A - Noah Poponak {BIO 16071528 <GO>}

Question over here?

Q - Unidentified Participant

Thank you.

Sorry, I’m in the worst place for a microphone. Not to drill down on the sort of month-over-month minutia because you just told us to take a long-term view, but given the length of this saga, it’s hard not to do that.

So looking at sort of the deliveries being down in April for the MAX and you’re pointing to the supply chain issue with that one part, can you help us square what the holdup has been on the parked fleet of MAXs?
Because theoretically, that could be something that would be scaled up to maybe push the delivery cadence ever higher, right, especially as you’re thinking about increasing production on the MAX.

So theoretically, those planes ought to have all the parts they need.

So maybe you could just help tie a bow on that for me?

**A - Brian West**  {BIO 15231805 <GO>}

You’re not incorrect. I just -- the backdrop that we’re all operating in is a globally supply-constrained world, and there’s disruptions everywhere you look all the time.

We hate it.

Sometimes you can’t prepare 100% for it. You identify it and you deal with it. What I am most proud is that the company stays disciplined and doesn’t try to get ahead of itself to create what could likely be pushing problems upstream.

So I get your point. I don’t think this is a trend, but I do think that the supply chain constraints are ones that are going to create some variability in the short term and we just got to keep laser focused on it, which is why I go back to my comments around we want to stabilize where we’re at with confidence.

So that with that confidence, we can take it up, not just what we see in our four factory walls, but how we think about the broader supply chain that we’re sort of aligned upon.

**A - Noah Poponak**  {BIO 16071528 <GO>}

Question here?

**Q - Unidentified Participant**

Thanks. I’d just like to ask what’s the right level of CapEx and R&D for this business?

Once -- as it where you’re through to the other side?

**A - Brian West**  {BIO 15231805 <GO>}

I don’t think when you go back historically, all we contemplate having a similar type CapEx levels in the $1 billion, $1.5 billion range, I think it’s what it’s been historically.

We feel comfortable that we can get all the investments done in that zone.

I think R&D is the same.

We have lots of calls on our R&D capital because we are opportunity rich with ideas.
What our job is to make sure that we focus in narrowing on the right ones.

I remind you that right now, we've got 3 major development programs underway just in BCA: -7, -10, 777X.

Oh, by the way we've got two big ones in the military side with the MQ and the T-7A.

So I feel good about our investment profile, our R&D and our CapEx.

So we feel like we can get everything done.

A - Noah Poponak {BIO 16071528 <GO>}
Just following the question of what's being missed. Stock's at -- I haven't looked at the market today. Stock's at $140. Prepandemic, pre-MAX grounding, there were a few years in the zone of $20 a share in free cash flow.

So either something is missed or the market does not believe that prepandemic, pregrounding free cash flow is achievable or really close to achievable. Is prepandemic, pregrounding Boeing free cash flow achievable again in the future?

A - Brian West {BIO 15231805 <GO>}
If we get back to those rates, yes.

A - Noah Poponak {BIO 16071528 <GO>}
Okay. Now in that period of time, 787 is at a much higher rate and a really good cash margin. That -- with the widebody market where it is, that looks unlikely anytime soon.

But defense, if it has growth and a reasonable margin would be higher, services is going to be higher. MAX, I would -- it seems reasonable to assume prepandemic production rates at some point. A lot of people think that MAX margins are going to be much lower. You guys have said you haven't really changed price. You talked about cost out.

Are those -- there's a lot of moving pieces right now in working capital on outside of the business segments, if I'm just thinking, excluding that on a normalized basis, are those other -- is sort of MAX in the zone of prepandemic rate and margin?

777, same; defense and services may be a little better, but then 87, obviously just a different widebody market. Are those the right markers for building that free cash flow?

A - Brian West {BIO 15231805 <GO>}
There's nothing structurally changed in terms of the cost of these products, right, or generally the pricing environment.
So those fundamentals are still there.

The mix can more or less shift with the way you described it. The question is going to be 87 rate.

But I do think that as all those pieces come together, if the rate hits, then we will get and enjoy those prepandemic, pregrounding cash flows.

A - Noah Poponak {BIO 16071528 <GO>}
Okay.

In answering the question at the Investor Day that you’ve discussed, you alluded to financial markers. It sounds like the -- you all are planning at that event to have a discussion, a more refined discussion on this category of the inputs to longer-term cash flows.

A - Brian West {BIO 15231805 <GO>}
We’re going to give you a view that everyone’s been dying for is try to give a little bit more color on what the future is, strategy, product, financials.

We understand that we have that responsibility, and we look forward to having it.

A - Noah Poponak {BIO 16071528 <GO>}
Balance sheet, capital structure, how you get there. There’s been a lot of speculation about the possibility of an equity raise over the last few years.

On the earnings call, that seemed to be ruled out. Is the plan that there’s so much inventory to unwind and there’s going to be a better cash flow environment that you can just deleverage with the natural cash flow generation of the business?

A - Brian West {BIO 15231805 <GO>}
So I said we did not need to.

We don’t need to tap into our credit lines, which are fully open.

We don’t need to take on more debt.

We don’t need to issue more equity. What we need to is hit those delivery milestones, generate stable cash flow.

Then once we do that and post those outcomes, then we have an opportunity for a discussion around how do we think about the balance sheet longer term?
How are we thinking about de-risking it?

And in that discussion, there will be various alternatives and options that will be on the table, right?

But right now, I have to kind of get all those execution points that we started with, including making sure that, that investment grade, which is important to us, stays there.

So I just can’t wait for us to be at the point where the milestones have been hit and then we can talk about that next chapter (inaudible).

**A - Noah Poponak** {BIO 16071528 <GO>}
Working from a position of strength.

**A - Brian West** {BIO 15231805 <GO>}
Yes.

**A - Noah Poponak** {BIO 16071528 <GO>}
And so you hit the milestones, the critical things that need to happen, happened. The cash flow is better. We’re not going to get into the specific prices, but you’re not issuing equity presumably anywhere near the current price, but things get a lot better.

The market stabilizes in a scenario where the stock price is much higher and you had an opportunity with some reasonable amount of dilution to immediately solve your balance sheet, then it wouldn’t, in that scenario, you wouldn’t be totally rolling it out.

**A - Brian West** {BIO 15231805 <GO>}
All options are on the table.

**A - Noah Poponak** {BIO 16071528 <GO>}
Okay. Okay.

We probably have time for maybe one, maybe two more questions, if there are any in the audience?

Yes?

**Q - Unidentified Participant**
You’ve cut a lot of costs in the last few years.

Is this a business where cost cuts flow through to the bottom line and generate higher margins than would otherwise have been the case?
Because I think at times, in conference calls, you've said yes.

But I'm not entirely clear that your answers to these questions do imply that.

**A - Brian West** [BIO 15231805 <GO>]
Well when we talk about -- I think the questions were around cash flows, will cash flows return to their levels. Embedded in that is that because of the structural cost that we have taken out, from a margin rate standpoint, operating margin rate standpoint, when we hit those rates, then we should have accretion because we’re not adding back that structural cost.

That's implied in there.

But the more discussion I was having is around general cash flows because, for us, given where we're at and probably for a long time, that's the number one metric that we’re all focused on, and that is through the lens of all of our decision-making.

So I think that will accrue over time.

**A - Noah Poponak** [BIO 16071528 <GO>]
The company has a structural cost out from the pandemic?

**A - Brian West** [BIO 15231805 <GO>]
Yes.

**A - Noah Poponak** [BIO 16071528 <GO>]
Okay. And have you quantified that?

**A - Brian West** [BIO 15231805 <GO>]
No. Well there’s a program in there.

We haven't. But I will tell you that one of the things that Dave has done as he’s come in is trying to move all of the decision-making accountability out to the business units and have a much smaller center.

That's -- having been with him for a long time, that's never ending.

So you’re always looking for where you can drive structural cost out and those benefits will accrue.

Or we will repurpose and reinvest them into other places that where we differentiate, software engineers, quality engineers, industrial engineers, not in structure and overhead.
Okay. All right. We’re a little bit over time.

So I’m going to wrap it up there.

But Brian, thanks so much for being with us today.

We really appreciate it.

A - Brian West  {BIO 15231805 <GO>}
Thank you. Thank you.

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