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MANAGEMENT DISCUSSION SECTION

Troy J. Lahr
Vice President-Investor Relations

Good morning. And welcome to Boeing's 2016 Investor Conference. I'm Troy Lahr and it is our pleasure to be with you in Seattle this year. As you can see from the agenda on the next slide, Dennis Muilenburg will kick off our session today. Then you'll hear from Greg Smith, Ray Conner and Leanne Caret.

Please hold your questions until we have finished the presentations, then we'll bring everybody back up on stage after the break for Q&A. I also need to remind you that throughout the presentation today there maybe information that is forward looking. This is subject to risk and uncertainty as detailed in our SEC Filings. Now it's my pleasure to welcome Boeing's Chairman President and Chief Executive Officer, Dennis Muilenburg.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

All right, good morning, and good to see all of you here and thanks for joining us today. And I hope you enjoy that lead in video, a bit of the inspiration behind what we do as a company. And as we approach our centennial, I think a good reminder of the importance of what we do and the importance of doing it with excellence.

What I'd like to do today is give you a few lead in perspectives building on the conversations we've already had. I know, many of you had the chance to visit our Everett factory yesterday and saw some of the progress that we're making there, some exciting advancements as we continue to move forward. Good conversations last night as well at the reception and at breakfast this morning. So we want to build on those and I want to thank you for your engagement and taking time to dig into our business and understand where we're headed.

What I hope to do is outline for you at the strategic level where we're at today. Where we're headed and most importantly how we plan to get there and then that will be followed by Greg. He will come up and talk a little bit about our financial plan and commitments and targets that we've set out and some of the actions we're going to take to make that real and then Ray and Leanne are going to come up and talk about their businesses and what we're doing to drive that strategy forward. And then as Troy mentioned all four us will come back together at the end to answer our questions and do that in a panel format. So, looking forward to that.

With that, let me jump into my material. I wanted to start just with a little bit of perspective on the company because I think the strategic context is important to what we do as a company and we recognize here as we're into our 100th year that we have an important legacy as a company and important role in global advancement and that legacy is not be taken lightly. It's one that we as a team put a lot of stock in and one that drives our sense of excellence and higher expectations for the future.

And we like to think about that mission in the context of connect, protect, explore and inspire, and recognizing that every day, we have about 14,000 commercial airplanes in the air with millions of passengers depending on safe, efficient travel, and people that are connected by satellites for navigation and communication purposes.

The protect mission around the services that we support for uniform men and women around the world and their lives depend on it. Astronauts out at the edge of space exploring, their lives depend on what we do. And we see a role in inspiring the next generation of talent in this great industry and that's an important inspirational element of what we do too.

And I wanted to provide this just as context leading in, because I think it's fundamentally important to our expectations for our business and the results we want to produce for you and our shareholders. We have an important mission, lives depend on it, that demands a sense of integrity, a sense of excellence in how we do our work and it sets the standard for us to continue to raise the bar on how we do our work. And you'll see that raised bar headset in our plans going forward.

If we take a look at Boeing today, at roughly our 100-year point, and I'll say that the decade of restoration and renewal that we've experienced over the last 10 years under Jim Mcnerney's leadership, the company has come a long ways. And many of you have been with us and seen that progress over the last 10 years, arguably a stronger, healthier company today than we've ever been. And some of the numbers on the right-hand side of the chart, you want to measure it in top line and bottom line growth, cash flow generation, a financially healthy strong company today.

That said, we cannot stand still. And what you will see is our competitive headset around expectations continuing to grow, a tough competitive marketplace. Customers who want more capability for less money across every sector that we're working in. And, so, while we're in a strong position today, you will not ever see us standing still. We're going to continue to lean forward to drive competiveness, drive productivity with the idea that it's going to return value to shareholders, and create our capacity to invest in the future. And I want you to understand that, that headset that our team has around our future.

Our strategy is a two-part strategy that I'll roughly outline in subsequent charts, one around building strength-on-strength, this is building on the foundation that we already have today; the backlog that we have in place, the product family that we are developing, but then an additional element of what I call sharpen and accelerate. And these are some of the investments we're making for the second century that we will drive to the next level of performance, and I'll walk you through those. And then, underpinning all of that with the expectation that we will win, and win with integrity. And that is a part of the culture of Boeing, that's important today, and will continue to be very important for us.

So, if we look now forward to where we're headed as a company, our goal is to set a higher bar for ourselves. Our goal is as shown in the top here, is still to be the best in aerospace, that has always been our aspiration, that will continue to be our aspiration, but it needs to be more than that. We also expect to be an enduring global industrial champion, and that's measured in all of the dimensions that you see here on this chart.

And the reason for that is in our future, we will be competing not only in the aerospace sector but we'll be competing for capital, we will be competing for influence, we will be competing for talent with sectors outside of aerospace. And so the bar we need to set for ourselves is a higher bar. You'll see us emphasizing more and more this idea of One Boeing. The idea of integrating across this enterprise where we can play a critical mass in commercial defensive and space like no other company. How we engage with our supply chain with the One Boeing head set, how we can produce superior value for our customers in this more for less world with that approach.

Higher expectations for financial performance and consistent top quartile return for all of you. This gets into our expectations around margin, getting to double-digit margins across the business next year, with that aspirational target that we've talked about towards the end of the decade of getting to mid-teen margins. Year-over-year cash growth expectations and Greg will walk you through the details of that. A higher bar on financial performance expectations because it's the right thing for our shareholders and fuels our future.

That allows us to continue to lead with innovation, and we have won for 100 years because we've led with innovation, we will continue to lead with innovation. Not only in our product launch but also in how we do our business. I think you saw some of that in our Everett factory yesterday on how we're investing in innovation in terms of how we do our advanced manufacturing.

Global scale and depth is another place we'll be emphasizing. Growing our global footprint, our partnerships around the world, leveraging our talent and capital investments globally that also advances our services and support business. And I see services growth as a big opportunity for this company going forward. All of that again underpinned with our team and the investment we're making in our people. You had a chance to see a lot of our people yesterday. We got a good cross-section of our team here today and our future is dependent on having the best team as well, so we're going to continue to invest in talent.

Now more specifically, if you take that long-term strategic view and our expectation to be this global industrial champion, over the next five years we have an opportunity to turn that into reality. And if you take a look at the fundamentals of the marketplace, the aerospace market is a fundamentally strong global market. It continues to outpace global GDP growth consistently. Commercial airplane passenger growth is very strong around the world and we continue to see that growing at 6% to 7% a year. And a lot of that is built by the fact that we have the incredible number of new passengers entering the traveling public.

Every year 100 million new passengers in Asia alone. So the fundamentals of the marketplace are very strong. Combine that with the backlog that we have in place, about $500 billion of backlog, really unprecedented levels of backlog. That combination of strong market, strong backlog with the right product line, that allow us to grow top-line significantly over the next five years. Going from mid-700 commercial airplane production this year to well north of 900 over the five year time period as an example.

That combination will allow us to not only generate top-line growth, but also position our product lines for the future and then augmenting that, complementing that with our productivity machine, then I walk through in a little more detail, the opportunity to generate earnings growth and year-over-year cash growth is very significant.

And our focus on breaking through on double-digit margins and our focus on being the industry leader in cash generation is very clear. And all the fundamentals are in place to do that and this is about execution over the next five years. So, you'll see more about this from Greg, and from Ray and Leanne. But this is the strategic context and the opportunity that is very real, very tangible, right in front of us over the next five years.

Now, how we are going to do that, the two-part strategy: first, building strength on strength. We've shared these strategic imperatives with you before. So, this is the foundation that we built over the last 10-years and we're executing. This includes the fundamentals about growing and scaling up the commercial airplane business and Ray is going to walk you through the details on that. It includes how we're going to position our defense and space business for the future and have that business on a growth trajectory. Leanne is going to walk you through that. That will be complemented by our international growth and services strategies and then continuing to invest in R&D for the future.

So, those strategic imperatives that we talked about before remain in place, are foundational to our execution, that's complemented with our emphasis and investment on functional excellence, things like development program excellence, disciplined innovation. Now, we're going to continue to invest our R&D wisely, but do it in a more stable and feathered approach in terms of our R&D profile and how we invest in new programs in a complementary fashion with time sequencing. So disciplined innovation feeding the strategic imperatives.

This is about executing the plans we already have in place and meeting the commitments that we've shared with you. Now, in addition to this, while this is good and this will drive us to be the aerospace leader, there is more that we need to do to be this global industrial champion. And that's where the second part of the strategy comes in on sharpen and accelerate. And that comes in three categories that I'll cover at this level and then you'll see some more specific examples coming up as well in innovation and growth.

This is an investment we're going to continue to make to create value, wining value for our customers. Think about design and manufacturing advantage, advanced manufacturing, you saw elements of this in the Everett factory yesterday. This has taken an advantage of the manufacturing transformation that's happening around us, automation, robotics, 3D printing, additive manufacturing all things that we're bringing into our production lines, that are going to add value but it's a lot more than that.

And we've launched a second century manufacturing design and manufacturing effort, that's not only going to look at applying advanced manufacturing, but if we assume that's the case, go all the way back to how we design and how we design for manufacturing and supportability, this will give us another fundamental productivity advantage. That is a big investment area for us for the future. Advanced manufacturing but designing for advanced manufacturing.

Expanding globally and taking a look at where we want to strategically invest for the future in growth markets, like China, where we've announced the new finishing center that we're going to stand up, in places like India, where we're growing an engineering workforce. In the Middle East, where we are partnering with customers, where we're building up global supply chains.

And then, the last two items in that category go hand in hand. Scaling our services business and applying data analytics. Today, we're about 6% to 7% market share in services with about half of the installed base, in terms of airplanes out in the world. Our opportunity, just the sheer market space in services is enormous.

Now we're going to be very focused on driving services growth, working that across BCA, and BDS, and Ray and Leanne will talk to you about that. Some of this is leveraging the OEM knowledge that we have, and I'll say traditional parts business, and mods and upgrades businesses. There's also an opportunity here in information base services that will leverage data analytics. And we're investing heavily there in data analytics to both grow services, and to help us to optimize our internal performance.

So, these are a few areas where we're going to invest in innovation to scale up to that global industrial champion. In the middle column on performance and productivity, this is where we're driving higher a higher bar for our financial performance. We talked about margins and cash. You will see the details from Greg. This requires a step function change in productivity and quality. First time quality in everything we do, not just in the manufacturing spaces, but also in the office spaces. Disciplined cash management, and this is the balance of investing in the future, future innovation, returning value to shareholders, both in terms of dividends, and in terms of share repurchase. You've seen how we've been aggressive on that. A 125% dividend increase over the last three years, 150 million shares repurchased, we're going to continue to lean forward on that front.

And then build an enterprise architecture, Ted Colbert and John Tracy leading this effort, that's going to interconnect our systems so that we can unlock value internally, and use data analytics to optimize inventory, to optimize supply chain engagement. These are investments that'll create the next wave of productivity and performance for us.

And then, lastly on the right hand side, best team and talent. It's about investing in our people, unleashing their full potential. Simplifying, rationalizing our organization; you've seen some of the tough steps that we've taken in terms of organization reductions in cost savings and cost reduction, but it's more than that. It's about simplifying the organization, streamlining, increasing our speed to market, helping our people be successful inside the organization and investing in safety in a way that creates an environment where our people can be at maximum productivity.

So, overall employee engagement, what I like to call our people-first strategy, is a very important investment for us and Ray and Leanne are doing the same thing down in their businesses. So, this is a strategic framework, that is an [indiscernible] (16:19) team we've put together, we're rolling out into all the functions and businesses, and this is part of how we're going to scale up from not only the aerospace leader, but also be this global industrial champion for the long run.

Some specific examples and you'll hear more from our team, but just a couple that I wanted to pick up this chart. In the upper left corner One Boeing. I mentioned it upfront. You'll continue to hear me stressing it. I think it is a unique competitive advantage for our company, being able to work across commercial defense and space sectors, how we engage our supply chain, it's our Partnering for Success model. It's our expectation on how we do things like inventory management and cash management. It's how we serve our customers around the world, leveraging our engagement globally and our capacity globally, that is a differentiator for us, and a place where we can win.

Product line is an area include commercial derivatives as a strong example. In the middle of that top-row, the intersection between innovation and second century design and manufacturing. And you'll hear some of the innovation work we're doing on new product lines for the future, but also advanced manufacturing and how those two go hand in hand. And again I want to stress this idea of designing for advanced manufacturing, designing for producibility, it's going to fundamentally advantage us in the marketplace.

And then on the bottom row, those middle three boxes, and I think about our productivity framework and our second wave of implementation on Lean+ capturing the value of quality, that's really about first-time quality everywhere. Partnering for Success; I want to stress that this is not a temporary program. This is a new way of doing business that we will continue for as long as we can see.

This is a different way of engaging with our supply chain. This is finding win-win solutions. This is singular negotiations with our supply chain instead of a 100 different negotiations across programs. These are finding new ways to add value in how we engage and integrate our supply chain. And then development excellence; and we know we still have work to do there to be able to deliver development programs consistently on schedule, on cost, do that in a repeatable way. We are making good progress there. Ray will talk a little bit more about it, but I think 737 MAX and the way it's coming out into the field right now in flight test is a good example showing that we're making progress on development program excellence.

So these are some specific examples augmenting that strategy that I walked though. All of that again will be underpinned with investing in our team and I want to thank our assembled team that's here today to too, and I could tell you as I stepped into this role, it's been a privilege having for worked for this company for about 30 years and understanding the legacy and the importance of what we do. It's been both humbling and energizing to take on this assignment, but I cannot be more proud of this team. Incredible leaders, you'll hear from Ray, Leanne, and Greg, they've been great partners and great business leaders. And then our functional team, best of class across the board.

We have recently made a few changes. So, introductions that hopefully you've been making here over the last couple of days, but Heidi Capozzi on the top-line there, our new HR leader, a world-class leader taking on this talent investment task. Diana Sands that you see on the lower row there has picked up some of the administrative responsibilities for the company including our shared services group where we see a big affordability opportunity.

And Tim Keating has picked up some additional responsibilities around our global corporate citizenship, how we invest in the communities where we operate.

And then most recently you saw our announcement that the good Dr. Tracy, John sitting over here on the edge – John, wave your hand – will be retiring this fall and behind him we're elevating several roles that are now direct reports to me. Scott Fancher on development programs and program management; Ted Colbert, CIO in Data Analytics; Greg Hyslop in the Engineering Test and Technology area, and Pat Shanahan, running Supply Chain and Operations.

What that should convey to you is our investment in functional excellence, our intent to be very direct and very, I'll say, accelerated on our expectations going forward. This will allow us to further our One Boeing fabric and allow us to accelerate in both innovation and competitiveness. This is a great team and a team that I'm proud to work with.

And then lastly you put all of these ingredients together, this is our expectation for the future. We expect to be a leader across the sectors that we work in. We have the opportunity here over the next decade for sustained, top-line and bottom-line growth and to be that leader in particular in cash delivery of anybody in the industry. The opportunity is very clearly there and we are very focused on delivering.

Globally differentiated in terms of depth and scale, is clearly an advantage that we want to accelerate, the investment in the future innovation as I mentioned, and the investment in our team. That is our expectation for the future. And we're setting a higher bar for where we're headed. We'll be accelerating our pace, we've got a great foundation to build on, but you're going to see us moving aggressively to deliver returns to you and to position Boeing for our second century.

Okay. So with that, I'm going to wrap-up and I'm going to hand off to Greg. He's going to walk you through some of the financial plans and Greg come on up. Great partner and it's good to tag team with you today.

Gregory D. Smith

Executive Vice President, Business Development & Strategy, Chief Financial Officer

All right, thank you. Good morning, everybody. How's everybody doing? Quiet crowd. [indiscernible] (22:19). I hope, you had a chance to just to maybe to reiterate some of Dennis' points, do the tours yesterday. I know we got some for this afternoon. But, what we're hoping you'd take away from that is a couple of things. One, focus on productivity, being very focused on productivity, quality, flow time, working capital, and last but not least, risk mitigation. How these things are being implemented into the production system with a keen eye on how to do that in a very methodical way to ensure we keep the engine running. And I think you're going to be equally excited by what you see today in Renton. That team has done a fantastic job for us.

And you're going to talk to the folks that are living it, implementing it every single day. So, ask him questions and don't be shy because they've done a great job and they know that operation better than anybody.

So, what I thought, I would do today is just briefly touch on some recent accomplishments and then jump right into our financial objectives, and really kind to play off of what Dennis said, how do you take this unprecedented backlog and ultimately deliver value, continue to invest in the company going forward. So let's just jump right in.

Next slide. So, look, I won't go through every bullet on here, but I will reiterate what Dennis said, significant progress, I think on the strategic initiatives that were discussed; execution, productivity, striving now to be this global industrial champion. This has gone beyond trying to compare ourselves against the peer group which is important. But how do we go beyond that, and we're going to talk more about that.

I think it goes without saying, the backlog is strong. It's very solid and it really provides some long-term growth opportunities for us here and we'll talk more about that and specifically Ray and Leanne will talk about it in their businesses. When you look at some of this new product introductions 787-10 tracking to the planned schedule beginning major assembly this year, and as you know, we successfully broke 12 per month production rate on the 787. Some of you had the opportunity to see that yesterday.

And that is a new record. Highest wide body rate in aviation history, you've seen it, it's going very well, that is again a very methodical way of how to introduce a rate increase on a production system that is already at a record level. So, more of that to come, more of that approach as we think about production rates going forward.

737 MAX as you know, we took first flight. What you may not know it took first flight on the exact day that we established four years prior. So, I think that goes to what Dennis talked about on the development program efforts, early stages but you're seeing some benefit of that. And we've got all four test aircraft now in the air, on track.

On the defense side, as we've talked about, we are trying to leverage the One Boeing, tanker being a great example of that. And as Dennis indicated, all four airplanes in flight making refueling connections regularly, Leanne will give you more insight into that very important One Boeing program. Obviously for the last number of years, very diligently focused on delivering solid financial results, at the same time investing in the right products and services to ensure that we have that long-term growth trajectory and then ultimately delivering cash back to shareholders. And I know you all know that, but repurchasing 150 million shares, increasing the dividend. I think that clearly illustrates the continued commitment on returning cash to shareholders, and I think the confidence that we have in the long-term outlook for the business and for the company and I'll talk more about capital deployment on the slides to follow.

Let's go next slide, please. When you step back and look at the backlog of nearly $0.5 trillion, that is really the result of a strong marketplace, but I think it also goes to the strength of the products and services, they're bringing value to the customers. So, it's about picking the right product, getting it into the marketplace in the right time and ultimately delivering value for the customer. I think this backlog represents that. It is clearly significantly more than what we've seen in the past, or think about prior cycles, but there are some fundamentals that are also different in this cycle that a number of us have talked about from time to time. Not only is it larger, it's more balanced in our business and more geographically diverse.

On the commercial side, you've seen more replacement of used aircraft and balanced with growth. Again that goes to the economics that these airplanes are bringing to the marketplace. That is driving the higher replacement from what we've seen prior. You're also seeing more balance in the defense business between military aircraft, network, space and services. And while we expect for planned growth, we're also mindful of what's going on in the external environment and stay very close to that. Continuously monitoring market conditions, maintaining consistent and constant dialog with our customers that make sure we're optimizing the production system in the skyline to understand risk and understand opportunities as we deliver on this backlog.

I think, again, the backlog certainly provides a great foundation for us, it gives us some long-term view on what we can do on revenue, earnings and cash, and, again, Ray and Leanne get into more of that on their business, but let met move to the next slide and talk about executing on that backlog.

So, as we continue to see growing production rates through the remainder of the decade, we've successfully achieved 17 rate increases in the last six years and I think if you reflect back on these last six years, those have gone extremely well. That's lessons learned from the past, that is again, very disciplined, methodical approach to how to increase these production rates and keep the system in a productive environment, while we go through these significant increases.

Team has done a great job. Expect the same kind of discipline as we going forward and we'll talk more about that. I think as we look at the future market opportunities and with that backlog, we do see growing revenues through 2020 and beyond. We expect growth in commercial airplanes driven by five more production rate increases that we've talked about, Ray will get into those in more detail around 787, in particular and 737.

In a defense business, we expect modest long-term growth at BDS. It continues to expand and evolve the core portfolio on both products and services and win future franchise program and further expands internationally and as many know, just as little as six years ago, this was a fraction of our revenue, and now it's about 37% of our revenue, and we see more opportunities in that going forward, again, Leanne will talk about more about that.

Dennis talked about services. We do expect services to grow over this time period. We are trying to leverage a One Boeing advantage when it comes to services through GS&S and through our CAS business. Again, we have a very large installed base. How do we continue to take advantage of that base, how do we grow our opportunities in that part of the business, that is a priority for all of us. We see the opportunity and we've got plans in place to capture that.

I think as we look strategically at how we invest in our intellectual property. We are making more investments in key verticals and expanding our aftermarket content, all part of our broader services strategy. And as we look at revenue growth over the next five years, we'll continue to have areas that need focus, additional attention, and are going to require disciplined management, just as they have in the past.

I'd say first and foremost remain focused on profitably filling the 777 production bridge. As you know, we need 40 airplanes to 50 airplanes a year to fill that bridge. We've got 12 so far. We got more work to do in that bridge, and we're staying diligently focused on that and continuing at the seven per month rate, but at the same time, closely monitoring industry trends, customer demands, and we'll continue to keep you up-to-date on that important endeavor.

737 and 777X development programs, again, on track, and in some instances, ahead of plan. We got to continue to execute on these programs along with completing the KC-46 development. Those will remain again key focus areas for us as we move forward here. And it's imperative obviously that we successfully complete that development and that is the plan, as well as smooth introduction into the production system. So, I'll continue to reiterate, what we've done in the past continue to see that approach going forward. So, if you look at revenue growth for remainder of the decade, it really is about delivering on this backlog.

So let's turn to the next slide and we'll talk about margins. We're clearly focused on the objective of increasing productivity through the enterprise, setting forward-leaning targets, holding everybody in the enterprise personally accountable. And it's been, I think, clear to all of you, we're not satisfied with our current segment margins, and we're focused on achieving the double-digit in the near-term and then increasing to mid-teen over the long-term. And we have a path to expand margins, but we will – there will be risks along the way, and we'll need to mitigate those and capture opportunities as we move forward.

I'd say, to achieve the near-term objectives, we must obviously deliver on the backlog as we've described, which will have some favorable mix on pricing and in particular again execute near-term on the development programs that we've discussed and continue to capture efficiencies in the supply chain under the umbrella of Partnering for Success. And as Dennis said, this is not an initiative; this is the way we're going to run the company. And at the same time continue to look for opportunities inside our own structure, near-term and longer-term, everything from travel expenses to the facility cost, all aspects of costs are under review and we are constantly retargeting ourselves to achieve a higher level of productivity and profitability.

And as Dennis said, over the long-term, we do have an aspirational goal of a mid-teen margin. And when you step back and assess the segment margins, we do see an imbalance between risk and reward and we want to fix that. This is about having the right objective in place, which I believe we do to challenge ourselves, to deliver on this aspirational goal and have leaning forward goals.

We certainly have a lot of work to do, many hard decisions in front of us, and we don't have the answers to everything yet. However, I think we got a great foundation to build on these key efforts that, Dennis discussed early on the roadmap to our future, and just to reiterate a few of them: again, executing on the backlog will be fundamental in this and achieving these rate breaks the way we have in the past. Meeting our scheduled 787 deliveries, increasing our production rate, at the same time increasing productivity on that program internally, externally. You saw some of that yesterday. The journey has just begun.

Fundamentally, changing our cost structure, again, this is now more over the long term, how do we optimize our business, as Dennis discussed, and how do we think differently about benchmarking ourselves, not just again against peers, but against world-class industrials, global industrial champions and challenging ourselves about where we are in a cost structure versus them and what would be the path to get there.

I would tell you, the entire team is focused on this endeavor. These are efforts that are understood and the urgency behind them to drive continuous improvement is unwavering. Everyone knows that, again, Ray and Leanne will get into a little bit more in their business. But the objective of these productivity efforts is to allow us to enhance the competitive position, at the same time expand margins.

There is areas of focus, again, they're going to need additional attention and disciplined management as we expand these margins. In fact, in our business, there always has been and there always will be impacts that we must be prepared to work through such as evolving competitive landscape, changing market conditions, but with that said, I think we're in a far better position to address those than we've ever been. And as I look forward to expanding margins, again there is no question we've got work to do. We don't have all the answers, but we are on the right path, and I believe we have the right goal in mind. Let's go next please.

As you go back since 2003, you certainly see a healthy earnings growth, but there is various elements through that time period that caused fluctuation, added volatility to our business. Things like macro events, labor disruptions, increased pension costs, development program execution. And a couple of years ago, it became very clear that we need to take a different look and a different intensity around how do we de-risk the business, and we took that on and we've taken many steps in an attempt to do that and we have reduced risk and volatility. And we'll continue this journey going forward.

First and foremost was a disciplined and conservative approach to production rate increases. And again, that's what's taken place. Expect more of that going forward. To further reduce risk on development programs, coring those up in BCA and BDS and implementing a disciplined [ph] gated (36:35) process. Again early, but I think you're seeing early – good signs of that on the 737 MAX. And that first air plane rolling out to the factory again on schedule, but in the air within a month of rolling out of the factory. And again work ahead of us, but I think it really is a testament to some of the stuff really taking hold on the development effort.

And as Dennis said, under this now new umbrella in leadership, Scott Fancher leading it for the enterprise. A One Boeing advantage collectively leveraging the development expertise, best practices, lessons learned across the company, that is the task of Scott.

Over the past several years, we've taken some tough actions on labor and establishing long-term labor agreements, that's good for our employee base, good for all of our stakeholders and we have stability now through 2022. And at the same time, converting nearly all of our employees to a defined contribution plan. That makes us more competitive and more agile in the marketplace and more affordable and provides a better path for our ability to win.

And at the same time, there is going to be challenges going forward from time to time as I discussed. But I think you'll find those more infrequent. But at the same time, as we look forward, we're continuously going to go through this mindset of finding ways to de-risk the business. And at the same time, as I said, grow earnings over this period. But as you've heard me talk before, I think at the end of the day, the underlying performance of the company is really best reflected in the overall cash flows. Let's go next slide please.

So, while we expect earnings to grow over the remainder of the decade, we expect cash flow to grow even at a faster pace, largely driven by the improvements and the production increases, 787 cash, and just overall disciplined cash management efforts. We're covering 787 deferred production over the remainder of the decade, will be a driver of cash flows going forward. And our confidence in that recovery really comes from four major areas.

So, first, the largest benefit comes from shifting the delivery mix from more -9s and -10s and remember we designed these airplanes to be more producible and there's significant commonality between these models. So, our overall expectations around mix in the cost base going forward, is already sold. And second point is improving pricing, on the remaining 900 aircrafts in the accounting block, which is another key driver.

We've previously had – again, think about early on in the program, early pricing disruption, customer settlements clearly impacting on profitability and cash all in that deferred production, that will not be the case going forward. And again our expectations around pricing are essentially already sold within that cost base. These two elements of mix and pricing will account for approximately 70% of the 787 deferred production recovery.

The third point, we've also benefited from supply chain step down, remaining 900 airplanes compared to the initial 400 delivered. Once again, this is largely based on existing firm supplier contracts and this will account for approximately 25% of the recovery of the initial $29 billion of deferred.

And last, but not least, internal productivity is expected based on similar learning curves, we've captured on other programs, as well as projects in work that you've seen some of them yesterday for step-down function and efficiencies. But with that said, this is the smallest piece of the equation around deferred. So, the path to recover 787 deferred production balance of the $29 billion is clearly grounded on existing contracts with customers and suppliers.

Another driver of cash flow is a higher production rates I discussed. We do plan to increase rate on 787, 737 and 767 and have modest growth in the Defense business. Specifically for 2016, we continue to expect operating cash would be approximately $10 billion. With the continued expected further growth in operating cash flow in 2017, we expect backlog growing deliveries and capture additional productivity as well as the 787 cash improvements I talked about all helping us in 2017.

There will be some headwinds in 2017, despite the growth that is taken into account. Obviously, we'll have lower 777 production rate, getting down to the seven per month. And at the same time, we'll begin the transition to 787-10. And again in order to have smooth transitions at 787-10 in the production system, think of that implementation very similar to how we introduced the 787-9 or the 737 MAX. Longer initial flow times on those airplanes, building test airplanes in 2017, delivering those in 2018, and as a result our delivery expectations for 787 in 2017 will be about similar to 2016. And with all that said, again we continue to expect cash flow to increase in 2017.

As we look forward over the remainder of the decade, wide-body sales campaigns will be the focus, again selling 777s and maintaining the seven per rate production, selling the remaining 36 unsold 747s in the accounting block and recovering the $880 million of deferred production and then lastly selling the additional 787s which will solidify the 14 per month production rate.

So, we believe the wide-body market demand is sufficient to support our planned production rates. However, we will continue to maintain our intensity around ongoing future campaigns, while aggressively driving productivity and further enhancing our competitive position. These production rate increases are currently key elements in a cash flow growth going forward. We believe the strong cash flow that we anticipate over the remaining decade does uniquely position us and allows us to return cash to shareholders and at the same time invest in future products and services.

Let's go next, please. If you look at between 2013 and 2016, we've invested about $22 billion – excuse me, in research and development and capital. This spending supports the next-generation products we've talked about, expands our position in verticals and control points allows for those higher production rates, at the same time driving utilization in automation and Lean manufacturing. These investments help shape our future, key enablers, again to driving future revenue earnings and cash. And our investments in the 787, 737 MAX, 777X will provide significant returns in the years to come.

Also, our ongoing investments in the Defense business, leveraging technology across the company, providing a competitive advantage that will support our efforts to win key future franchise programs. We've got prudent capital investments to support 17 commercial airplane rate increases we've completed over the past six years and the five that we have in the years to come.

We will continue to make investments in automation and Lean as you saw yesterday and you'll see today, including the 777 fuselage you saw, 787 aft automation in Charleston and again the wing panel assembly you saw today. Again, all of these efforts, improving product quality, support, allowing to go to higher production rates, working capital and lower cost.

And lastly, as I mentioned, we continue to invest in the services segment, again, executing that strategy, expanding our vertical content, creating new opportunities, growing our aftermarket revenues.

Move to capital deployment on next slide, please. So, I believe our actions over the last couple of years clearly demonstrate our intent to not only invest in growth, but also return cash to shareholders. We are and have been uniquely positioned to do both. And I think over the next three years, based on our expected cash flows and confidence in our long-term outlook of the business, we're committed to continue share repurchase at similar levels going forward.

Given our unprecedented growth in cash flow, dividend expectations around steady share repurchase, we now expect to return approximately 100% of our free cash to shareholders. Again, we're committed to investing in the business, while also returning cash to shareholders.

Go to next slide, please. So, I'd just wrap it up to say I think we're well-positioned, the markets we serve are strong and growing, I think we got the right portfolio in place. The backlog I think represents that, but at the same time the diversity of that backlog and our focus on driving core performance. Dennis said it earlier, you're going to hear it from Ray and Leanne, driving growth and productivity, investing in the right products and services, and capturing new business profitably and driving working capital, ultimately again driving cash flow to the bottom line, investing in the future, so we're established going forward, beyond the 100 years, and returning cash back to shareholders. At the same time resetting the bar around global industrial champion and how do we develop a path to get there. I believe that's the right objective, that's the right focus for us and stretching ourselves and determining the art of the possible and how do we get there, and how do we again ultimately drive value back to all of our stakeholders.

So with that, I'll introduce Ray Conner and talk about Commercial Airplanes.

Raymond L. Conner

Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

Well, Greg gave my presentation. So, I'm just going to stand up here and wing it with this arm. Anybody had shoulder surgery? You don't realize how debilitating, if you're a right-handed person, it is to lose your right hand, I mean the smallest things become very difficult, if you know what I mean. But I just want to echo first what Greg and Dennis said about the responsibility that we have been given and it's tremendous in terms of having this national legacy left to us by the Boeing founders.

I'm confident that the decisions that we're making today, sometimes they're very difficult, they're hard, but they're the right ones, they're the ones that are going to really put us in a position for our next 100 years and they're really – they're not always easy and sometimes they affect people, but they really are the right ones and we've got to do that if we're going to be around for the next 100 years.

From where we sit today with the 20-year Commercial Airplane forecast, double the amount of today's airplanes in conjunction with equally valued services market, there is a tremendous opportunity here for BCA to capture not only narrow-body, wide-body, but also services share while increasing our profitability in the long-term.

Commercial Airplanes, their priorities have remained very similar to what we have said last year with the concentrated plan around delivering on our backlog, executing the development programs, and growing our position in the airplane services and support sector. These objectives are supported by really aggressive drives in terms of quality, safety, and productivity throughout the external and internal value stream.

We compete every day with aggressive competitors and we want to meet those expectations of our customers now and in the future, and so that's what we're focused on. That's the work we are going to do. That's what's going to allow us to go, compete, and win. I'm going to provide a little bit of more color about what we are doing and the progress that we're making in those areas. But, I think the business in general remains very healthy. Now, having said that, we're going to watch the marketplace very closely to ensure that we've got the right products and services to match the requirements and that the production is balanced with demand. And that we capitalize on any of these new opportunities to provide value to our customers as we look down the road.

Now, looking at the marketplace, if we go to the next chart, I can't really do the clicker here so, I'll have to ask somebody to do that. I would say that our customers are operating in an incredibly dynamic and sometimes challenging global environment, mainly driven by lately the drop in the global commodities trade. And in some cases, these lower oil prices, and in turn then what's happening with the exchange rates. Clearly, this has contributed to cargo demand, not yet recovering to what we'd typically be historical levels, which is impacting programs like 747. But in contrast to that, though, we've been experiencing incredible passenger traffic growth this year of 7%. And this has been a pretty strong sustained uptick in demand, driven a little bit by lower fuel prices that's stimulating some more travel. But the operators themselves have been very disciplined about managing capacity, and those two things combined have really led to I think increased profitability across the board on a global basis.

And all the indicators that we see is that, although, moderate growth, it's going to be overall, it's going to be healthy demand in both narrow-body, wide-body aircraft as well as the services opportunities that we see that go with that. Obviously, we constantly monitor the market, and if necessary, we're going to make the appropriate adjustments. In the meantime, as Dennis says, we're proactively shaping how our company responds and operates in an increasingly competitive and dynamic marketplace and [ph] both with (51:34) the focus on efficiently delivering on that current backlog.

So, let's look at the backlog real quick. Continues to grow and Greg showed this chart as well, but more than 5,700 airplanes, seven years basically of production at today's rate. The thing I really want to point out here is that the backlog, if you go back in time prior to 9/11 that Americas, so you can see it here, the Americas piece was so heavily – that's why we were so impacted after 9/11, was because we were so heavy into the Americas here.

Now, we're much more geographically diverse. And I would also say that the airline customers that we have in there are really of high quality with great financial strength and great operating strength. I think that's one thing when you – when you take the time and really analyze our backlog, that's one of the things you've got to look at and that's the strength of that backlog.

When we look at deferrals, cancellations, rescheduling of any kind, we're way, way below our historical averages, which is I think another reflection of the quality of our backlog. Over the past year, we're down to about 1% level of our backlog in terms of these deferrals and cancellations. Typically, we run around 6%, so I think it's another indication of the quality that we have there. We've been very good about our rate increases over the last several years and we feel really confident that we're going to be able to deliver on this backlog, which is a significant part of our basic overall BCA strategy.

Now, if you move to the strategy, thank you. It's been pretty consistent over the last few years. Delivering the most efficient and comprehensive set of world-class products and services to our customers, while maintaining our pursuit of narrow-body and wide-body market share. Over the last three years, I think we've taken a very purposeful approach to improving how we managed our development programs. We've made significant headway, driving efficiencies through commonality, disciplined resource management, while incorporating the lessons learned and these were hard lessons learned and replicating those best practices across not only within our own camp, but looking at what other people are doing as well and putting those best practices into what we're doing too. And I think we've reached a nice equilibrium here between innovation, for innovation sake and then innovation that's really customer-driven and that's a big change here.

I think we've developed a production system. I think you saw a little bit of that yesterday and you'll certainly see that again today, that's very flexible. It's responsive to our customer configuration and customer-driven changes, automation, the Lean activities that we're doing, the work we're doing on modularization, the supply chain optimization through partnering for success, these are all part of transforming our production system, in order to increase first-time quality, enhanced safety and accelerate our productivity, really about accelerating our productivity.

The services business, that completes the lifecycle opportunity, not only for our customers, but for Boeing as well. It creates another avenue essentially to capture more revenue and recoup that R&D investment that we make in these development programs. Ultimately though, I think we've got the right business strategy, we've got the right product lineup to win in the marketplace and really grow profitably.

If you look at our product lineup, again I've said this many times, I do believe we have the most comprehensive and the most efficient product portfolio in the marketplace. Each product complements one another, 15% increments, high degree of commonality across each family, in the wide-body market, I think we've maintained our lead and we're well-positioned with the 787 and the 777X, and each airplane provides a significant value in terms of technology and operational efficiency, route options and overall return to our customer.

In terms of freighters, we anticipate a pretty large replacement market in the 2019, starting in the 2019 timeframe, and that demand is going to be pretty easily met by both the 777F Freighter and the 747-8, and clearly the 747-8 is the most efficient freighter in the world today. So, that's a very important piece of our product lineup. And while the wide-body strategy is largely set, we continue to listen to our customers to ensure that we've got the right products, we continue to meet their expectation, so there's some things that we could possibly do in some of those areas as well.

Now, when it comes to the narrow-body market, I know there's been a lot of talk and we've had a lot of talk about that over the course of last night and then today, particularly around the middle of the market and the 737 MAX. Naturally, we're in continuous discussions with our customers about the market, where do they see their future requirements. Our priority right now is really on the 737 MAX, completing the development on the 737 MAX, completing the development and production of the 787-10 and then development of the 777. We're looking at a number of options on each of these, but no decisions have been made at this particular point in time. We're gathering a lot of data. We're talking with a lot of customers and we're going to make the right decision at the right time, but we're very mindful of providing the right kind of value to our shareholders as well.

Now, I think it's important that we take a look at the narrow-body market since we launched the 737 MAX. If we can go to that chart, please, you can see that since we launched, we're roughly 50/50 with Airbus on this. And we look at every opportunity to take as much market share as is reasonable and I stress reasonable. Today we've more than 250 737 customers, kind of the majority of the installed fleet. About 200 of those customers have yet to make a decision about what they're going to do long-term, and I think that provides us a very unique opportunity to compete for the follow-on business and to grow our long-term 737 MAX customer base. Now, I stress that we're going to have to compete and we're going to have to win that business, but certainly a big opportunity for us.

Now, when you take that even a step further down, and you do the analysis of the top five 737 customers, now these are the biggest narrow-body customers in the world. You're talking about Southwest, 700 airplanes, Ryanair, 500 airplanes. Just clip them off, top five. Those guys have been pretty conservative about what they've done with respect to their 737 MAX orders in relationship to their installed fleet. They make up about less than 50% of our backlog. So, obviously, when you go forward, if we can win that follow-on business, that's another great opportunity for us to grow, as we move forward. And, again, I stress, we're going to have to go out and win the business and we're going to intend to do that in terms of how we perform, how we compete, how we deliver on the commitments that we've made already. But, it's a great opportunity for us as we move forward.

Now, when you do a similar analysis of our competitor in terms of orders to installed fleet, they've taken a much different approach in terms of being more aggressive with respect to growth than with growth and replacement.

So, I think that's something that it would do everything, everybody [indiscernible] (60:53) good service to go out and really analyze those backlogs. But, at the end of the day, though, guys, it's all about deliveries, it's about delivering on the backlog and generating that revenue and we feel very good about the quality of our backlog and are very focused on meeting our current production commitments.

Now, when you look at productions on the production slide, we've made incredible – Greg talked about, 17 rate increases over the last six years, our teams have done a fabulous job. A lot of them are in the back of the room there and I want to tip my hat to them, because they've done unbelievable. We've been to hell and back a couple of times. And each time, we don't like it, it's not a great place to be, but we have really done a nice job with this and we've maintained the stability throughout the rate increases. And we're in the process of kind of breaking industry records both on the narrow-body and on the wide-bodies which we just broke another record with 12 a month on the 787.

I think when you were here the last time, did you think we could get to 10? Now? Now, we're at 12. The question then we, is the next step will be 14 a month. And I think it's important to keep in mind that, we've not only been able to make these rate increases, we've also introduced into that same production system, [indiscernible] (62:27) derivatives and a tanker, all of which have been pretty big deals. And then on top of that, the customer introductions and customer configurations that we put into the production system has been mammoth, hundreds of millions – millions of hours, four million hours last year of engineering, four million hours of engineering the year before. And those are the kinds of things that can really disrupt a production system and we've gone through those without much of a hiccup. A great job, by not only our engineering team, our supply base, but also the operations side of the house [indiscernible] (63:09), terrific work.

On the development side, we're moving right along with respect to the 737 MAX, the 787-10, the 777X, all progressing very, very smoothly with an overarching objective to reduce not only the recurring cost, but the non-recurring cost as well. And the development programs have successfully been meeting not only the cost side of the things, the schedule and the performance objectives. In conjunction with the manufacturing team, they're working very closely in terms of how do we minimize the risk in the plans of these rate increases as we bring these new programs on. Greg talked about the 737 MAX flight test program.

We've surpassed 400 hours of flight by our three flight test programs. The fourth 737 MAX test airplane completed its first flight on Saturday. So, now we've got all the test airplanes up there. The testing is on track, the airplanes are performing well, we've completed flutter, we've completed stability and control, high altitude testing and with the CFM achieving the FAA and EASA Part 33 certification last week, the LEAP-1B is in a very good state with respect to that program too.

So, overall the 737 MAX is progressing really well and now it's about integrating the 737 MAX into the production system. When you go out there, you'll see how that's going, but the 737 MAX fifth airplane, which is the first airplane to deliver, is in paint and then airplane number six has rolled out as well. So, really moving along in the right way, we're going to deliver in the first half of next year and we're still on track for that. Major assembly's begun on the 787-10, within the supply chain and we are on track to start final assembly down there in South Carolina on the 787-10. We've reached 95% commonality now between the 787-9 and the 787-10 and that has done a tremendous job in terms of reducing complexity and cost and risk across the entire production system, while still providing that operational efficiency to our customers. And that would be a very good benefit to them too in terms of the commonality.

777X, we're progressing to the final systems design, we reached that earlier this year and commencement in February with the final round of wind tunnel testing and to close out here, I think the development team, they're just progressing well. Now, we've moved Mike Delaney, who is the Chief Engineer for BCA to lead that effort, in combination with the product development and I think Mike will just pick up right where Scott left off and continue to drive the performance of that entire group and integrate very well with our program managers on how we bring those programs into the production system.

On the productivity side, we continue to drive and manage all elements of cost and that's really at the forefront of our minds here, in order to win new business and expand our margins going forward in the future.

Every step improvement in process enhancements throughout the business, the production system and within the supply chain, are strategically designed to accelerate productivity, mitigate risk, reduce recurring and non-recurring costs. And while most of the costs are outside of Boeing, we've been working really hard on our internal costs as well.

Now, a lot has been said about our employment reductions. We're in a unique situation with respect to our demographics. We've a lot of people that can retire in the next five years. And so, we're using the voluntary layoffs, not backfilling attrition to make those kinds of reductions. It's good for our people and it's very good in terms of reducing risk in the production system, because when you start to move people, because of our seniority base, in terms of the manufacturing side, there is awful lot of disruption that occurs, because there's bumping then that happens throughout the production system.

By doing this, we're able to really manage this in a much different way than we have in the past. And all that is just our efforts to kind of flatten the organization, we're taking management layers out, we're reducing executives and everything about this is to drive more organizational efficiency and operational efficiency.

What we're doing in the supply chain? All this is underpinning the ability to provide more affordable products and services, and compete more effectively in the marketplace and to grow profitability at the same time, so we can invest in our future. On the services side, Dennis talked on this, this has been I think a real highlight that sometimes we don't talk about a lot, but we see a significant growth opportunity here. The 20-year market forecast, $2.8 trillion, that's as large as the wide-body market and the narrow-body market when you break it out.

And by differentiating ourselves with world-class customer support, which I think we'd still be viewed as the number one player in the support side, and when you combine that with the knowledge of the fleet, and our utilization of data analytics, I think we've got a great opportunity here to grow our aftermarket business.

Our strategy is to deliver high-value parts, low-cost modification and upgrades to existing fleets that leverages the deep OEM knowledge that we have and more broadly utilizes technology in terms of our data analytics.

Last year, at the Investor Conference, we were just kind of moving down this path. Let me just talk a little bit about what we've done in that year. We've successfully transitioned our customer support organization from the Puget Sound here in Seattle to Southern California.

We've gone through, we've analyzed parts demand with the fleet needs on their maintenance cycles. And as a result of that, we've adjusted our inventories. We've looked at our pricing to be more competitive going forward, so we can capture more of that parts business. We've changed our GoldCare offering instead of just providing nose to tail maintenance. We've been more flexible now, we're giving tailored packages for each individual customer. And as a result of that, 60 airlines are now enrolled in subscription contracts for Boeing Maintenance and Engineering on 2,200 airplanes.

We're seeing a rapid increase in subscriptions to our data analytics services. Last year, we saw a 25% jump in the number of airplanes subscribing to Airplane Health Management, going from 2,500 units to 3,200 units. And we've augmented in this now with more of a wide range of offerings that help our airlines concerning fuel, operate more efficiently and save a lot of money in the long-term.

And we continue to harvest the synergies with Leanne's team to generate significant savings by bringing a lot of these things together, doing more of the back office work together. And that's been able to generate about $400 million of savings over an annual basis as we look into 2019. The result of this, though, I think is kind of interesting. We established a new record in 2015 for sales, and we expect we're going to top that this year. And with that, winning in the market share, we're now the industry's second largest provider of aviation services which is a big deal, we're just behind GE now, so something to think about as you look forward.

Ultimately, we're looking to provide lower cost solutions, improve the fleet management and greater insight to our customers, and where possible we're cross leveraging with Leanne's team to see what we can do on a broader One Boeing basis.

On the margins side, Dennis and Greg talked about this. At BCA, we're also very focused on the near-term objective of double-digit margins and the long-term aspirational goal of mid-teens. To achieve these goals, it's still all about the same things I talked about, execute on the production rate changes, meet the schedule and cost objectives of our development programs and drive the internal and external productivity by transforming the production system and growing the services by expanding our offerings there.

You saw in the tours yesterday and you'll see it again today, we're really focused on our Lean manufacturing and driving step function efficiencies throughout the production system. Automation is just one piece of this, but we're doing everything we can to be more competitive and also to support the long-term margin expansion, so we can invest in the future. Still at the early stages here, guys, but a lot more work to do, but long-term we see a significant opportunity. We clearly don't have all the answers, but I think we're focused on the right things in order to do this. And we're taking a very disciplined approach in terms of how we manage this going forward.

In summary here, guys, I'd just say that we're pretty well-positioned to capture significant opportunity over the next 20 years by executing on this strategy. We've very solid product lineup and we've a plan to – in terms of executing on these development programs and leveraging our position in the marketplace to grow our services, but I think the biggest thing that you got to count on is this team. The team of people that we have, particularly the management team, they've all been through a lot of tough times. We know how to balance risk now in a much better way, and we're not going to let things get out of hand one way or the other, and I think that that's something that you can count on, you can count on me, you can count on the entire team that's back there and the team that's over here. This is not easy to do, but we have a clear vision on how we're going to go do that.

And so with that, I'll turn it over to Leanne Caret who's going to talk about the Defense side. Leanne?

Leanne Caret

Executive Vice President, and President and Chief Executive Officer, Defense, Space & Security, The Boeing Company

Thank you, Ray. Good morning, everyone. It is an honor to be representing the Boeing Defense, Space & Security team and so many of our key leaders are here with us today. And I know you've had an opportunity to meet them. We're so excited about our 100-year anniversary and the impact that our Defense legacy has brought as we look to the future.

Our intent is to grow this business as well as deliver on our commitments both to our customers as well as our stakeholders and I'd like to spend a little time talking about that. Everyone in this room recognizes the cyclical nature of our Defense business, and there aren't any surprises here. When you look at the U.S. side, what you'll find is modestly increasing budgets over the next five years and a continued strong pull for some of our – from across the range of our products, from our aircraft to our satellites, to our services business.

When you look outside the U.S., you see very much the same thing. Our focus across this environment is to create not only the adequate funding that allows us to deliver those products and services our customer needs, but create the stability in order to do it in the most efficient way.

Similar to Ray, when we talk about diversification, you'll see that we've made great strides over the last decade. You'll see that we're very focused on our aircraft sales portion of our business and we've modulated between our services and our networks and space. You'll also see that we were predominantly centered in the Americas similar to Ray's business, and with our focus on being a true global partner, you see we have increased our strength across the world, specifically in the United Kingdom, Australia, India, and Saudi Arabia. There's one item I'd like to draw your attention to when you look at our backlog. As our commercial derivative business has continued to expand, the airframes associated with those, the 737s, the 767s, they actually show up in Ray's backlog versus in ours. It's truly another sign of how Ray and I, and our teams are working together as One Boeing.

As we look at this market, it's $3 trillion over the next 10 years. And it offers a lot of opportunity from evolving our core business and the products and services we deliver today, to winning new franchises, to continuing our global expansion. We all get captivated by those new franchises, and a several of them that we're focused on, that you see here, include the U.S. Air Force T-X trainer, the recapitalization of JSTARS, as well as the recapitalization of Minuteman, and then ultimately in the future the Army's Future Vertical Lift.

But what's also important to note is that we're making steady progress on capturing elements of this business every day, and just this past quarter, we've seen four significant wins I wanted to talk about. First off is a $2.5 billion contract for 20 additional P-8s for the U.S. Navy and the Royal Australian Air Force, a $1.5 billion contract for additional Apaches for the U.S. Army, a $144 million contract to provide services and support to a police force in the United Kingdom, and a $71 million contract to the Defense Logistics Agency to provide them parts and services on stabilizers.

Now, you may wonder why I bring up stabilizers, vertical stabilizers. And such a small value, but if you look at 2014, you'd find that we have $1 billion worth of contracts with the Defense Logistics Agency, made up of products and services of that size and scale. It's an opportunity for us to bring competitive pricing, taking advantage of the supply chain, Ray's and my team work on together, and then allowing them to have the availability that they need in support of their aircraft. It's a win-win.

Before I move on, I'd also like to spend a moment talking about our fighter business. I know in our conversations last evening, and again this morning, it continues to dominate the conversation. We're strongly encouraged by the support that we're seeing in the U.S. from both the Navy and Congress for our Super Hornets. We're strongly encouraged by the demand we're seeing for both the 15s and the 18s around the globe. And it is my estimation that we'll be building fighters into the 2020s. What I'd also like to emphasize is that we'll be modernizing and supporting that global fleet of fighters for decades to come, and the combination of bringing that together is what prepares us for the next global fighter opportunity.

Another opportunity I wanted to share about is how Ray and my team are working together on commercial derivatives. Many don't realize, but every commercial 7-series aircraft, with the exception of the 787 and the 777, have been modified for military use. That's pretty impressive. And I wouldn't be so bold as to say, that the 787 and the 777 will be happening in the very near future, but I do believe it will be happening before my career with The Boeing Company is over. We've brought that expertise to the Navy's P-8 program, with the 737 line that you're going to see later this afternoon in written.

And what the Navy will tell you is that, we've spent approximately $2 billion less than what's originally budgeted for by capturing production efficiencies and different production efficiencies to make that a more affordable product. In addition, they would go so far as to say, we saved $700 million in acquisition costs, by incorporating Navy unique desirements into the production line, rather than doing it post-production.

Nobody else in the world delivers that kind of value. And I'd be so bold as to say that U.S. Air Force will recognize that same value, if they select the Boeing team and our 737 for JSTARS recapitalization and other special mission aircraft.

Our path to growth starts with the four objectives you see on the left. The team that's with me in the room today are relentlessly focusing on delivering a cost competitive business that differentiates us in the market space and truly expands our global reach. For us, that's going to result in a more industry-leading position in six specific markets; commercial derivative, rotorcraft, satellites, services, human space exploration and autonomous.

A great place where we're seeing a strategy come home is in Australia. Between 2013 and 2015, Boeing Defence Australia won 14 out of 14 competitions across these markets. They did that by operating as a local company, with a local presence, with a local understanding of their customers, customs and needs versus overlaying a U.S.-centric approach.

They did that by driving competitiveness and everything they've done taking advantage of our Partnering for Success efforts, taking advantage of optimizing their own rate structures, so that not only do we win business but that we can invest in the future.

And most importantly, they did it by delivering on their commitments, because there's nothing that does more for us than to meet our customers' needs and establish trust and confidence in us. This is the roadmap we plan to use not only for our global businesses, but for all of our businesses in Boeing Defense & Space.

The 51-foot Echo Voyager was unveiled two months ago. It's our most advanced unmanned underwater vehicle and it allows customers to have continuous presence without long-term human involvement. It's a game changer, but it's also an example of how we're targeting investments to specific markets to meet customers' needs. And it's going to position us to grow in these markets and capture part of that $3 trillion market that I just showed you.

One of the other markets you saw us – that I shared, that we're going to be industry-leading on and you heard Ray talk about it as well is our services business. And this is something very near and dear to my heart. It'd have been really easy for me to put Ray's chart appear on the screen, because we talk the same language when it comes to this. And this is one of our unspoken heroes; around the clock global support, broadening reach and the use of data analytics to differentiate not only how we do business, but how our customers operate and do business. And Boeing Defense & Space were succeeding because of three things, our global reach, having a local presence, and providing uncompromising service. Our vast installed base of commercial and military aircrafts give us an entrée point into markets no one else has, and helps us build on relationships that already exist. That is global reach.

I mentioned our successes in Australia, and similarly I referenced our work in India and Saudi Arabia, and the United Kingdom. Those teams there are local, with local decision-making and empowerment to make the decisions that they need to, to not only grow but execute their business. That is local presence. And we're taking advantage of those ideas we learned from those parts of the business, and we're bringing them back home to the U.S. as well as to other parts of around the world. For instance, the UK Chinook team has higher availability and lower total ownership costs than any other Chinook fleet in the world. That is because they partnered with us on a collaborative sustainment model.

It's so intrigued the U.S. we're having conversations with them, as well as other customers who operate the aircraft. Here is another example, data analytics. You hear a lot of talk about it today, Boeing has been doing it for years, doing it better and helping our customers take data and make it into information to make decisions about their fleets is what differentiates us from our customers.

And while Ray's customers and mine are different, there's one thing that we all align against. When it's time to take off, we need to go, no questions, no surprises, and whether you're a war fighter, or you're a commercial airline, you need to have to be able to depend on the aircraft to go and called upon. Predictive data analytics make a step forward improvement in readiness. Components can be ordered when needed, shelves can be stocked as needed, repair intervals can occur when it's convenient for the customer, and aircrafts will go when called upon, no-fail missions. That is real value, and that's uncompromising service.

As we go to the future, we're investing nearly $1 billion in the business this year. We're evolving our core products that you all are familiar with, but we'll be refocusing our investments towards those six specific markets I shared with you earlier.

We're investing to stay on the cutting-edge of advanced manufacturing as well as data analytics. And, we're going to continue to invest in our global business that will help us continue to diversify and expand our products and services.

Dennis talked about how Boeing connects, protects, explores, and inspires. No other company does what we do. And if you look at the Boeing Defense & Space portfolio, what you'll find is not only is it diversified, but it allows us to interplay among these four aspects, and provide value propositions for our customers to help them achieve their missions around the world. That is going to allow us to build a better Boeing for the next 100 years.

Boeing demonstrates its commitments to its customers every day with every decision we make. Let's start with the KC-46. That is the Air Force's top priority and it is my top priority. We've four aircrafts in flight test, we've achieved more than 630 hours of flight, we've refueled three classes of aircraft and our tankers have been refueled themselves.

When you flew into Sea-Tac or happened to land at Signature, you might've seen some of them sitting on the runway. These are combat tankers that are differentiated from any other tanker in the market space, point, stop, no questions asked.

Our focus is achieving Milestone C and production approval decision. Our plan is to have that at the end of the second quarter. We're on track subject to normal government process. The next major milestone is delivering 18 aircrafts in 2017, and our entire team is focused on that. This is a development program. We do have significant flight test time left in front of us, but I can say with confidence that we've not uncovered any major technical issues that we've not been able to overcome.

We now have an eighth aircraft in our production line and we have 19 aircrafts in the build cycle to our supply base. The market for the KC-46 is approximately 400 aircraft and this is going to be an enduring profitable franchise for decades to come. I'd like to move on to our other – another development program, the CST-100, also known as Commercial Crew.

Boeing is the leading human space exploration company and is our intent that we'll remain that. It is our vision that the CST-100 will be the first of the new American capsules to take astronauts to space. Our team is located in Houston and at Kennedy Space Center, working closely with NASA. We're working towards our first unmanned flight in 2017, followed by a manned astronaut flight in 2018. The program is progressing well. We had astronauts just last month in St. Louis looking at our training system. We're soon sending our structural test article to Huntington Beach for testing and then we'll be starting the final build of the vehicle that will actually go to the space station. We're making strong progress on a program that will benefit not only NASA, but has opportunities in the commercial sector alike and that's pretty exciting.

And finally, I'd like to talk about Space Launch System, which is the rocket that will take us to Mars. We're building the flight hardware, which will allow NASA's heavy lift rocket to go there, and at the same time, we're designing the next evolution of this rocket to go faster and further. Mars is the next great step in human space exploration. It's not a matter of if, it's a matter of when, and Boeing is proud to be on the team to help make it happen.

You've heard Dennis, Ray, Greg and now myself talk about margin expansion. And you'll see our charts are very similar, because not only is our near-term focus the same, but our aspirational goal is the same. Boeing Defense & Space has made great progress. In 2013, our margin was 9.8% and 2015, we'd grown to 10.8%. We've taken more than $6 billion out of our cost structure, becoming more affordable and contributing to add expansion, but we're not done yet.

We continue to focus on Partnering for Success. As you heard, it's not an initiative, is a way of life and we do believe there's win-win opportunities for us in our supply base. We're driving first-time quality and all that we do from our designs to the production floor to how we deliver and prepare for launch. And I've challenged our team with even more aggressive internal challenges as we look to further optimize our business.

Dennis spoke about Boeing's place as a global industrial champion. We innovate at scale and that inspires all of us as a team to do more. Our culture of continuous improvement is driving real benefit and you see it in our bottom line and we continue to attract the best people, who want to make a mark on this world. I've seen what the men and women of Boeing can do, and since my parents both worked at Boeing, you could say I've lived it every day of my life. I wake up inspired not only by our customers, but by our team, and as I look to the future, while I have a healthy dose of pragmatism at how I look at the world, I'm fairly confident that our next century is going to be even more amazing than our first.

Thank you for your time this morning, and I'm going to turn it back over to Troy.

Troy J. Lahr
Vice President-Investor Relations

Hey, thank you, Leanne. Just want to mention a couple of items before we go to break. Prior to returning from the break, please make sure you've checked out of your room and you bring all your luggage back to roped off area outside of the ballroom. There'll be designated backdrop areas that correspond to a bus number on the back of your badge. After the Q&A session, please feel free to grab a boxed lunch, get your luggage and then promptly head to the buses.

Now, we'll take a break and we'll start back up at 11.05 a.m. Great, thank you.

[Break] (93:45 – 111:02)

Troy J. Lahr
Vice President-Investor Relations

Okay, if everybody could take a seat, we're going to go ahead and get started. Just as a reminder, during the session, if you'd like to ask a question, please raise your hand. When you're recognized, just push the button on your microphone closest to you, ask your question just make sure you turn off the microphone. And in the interest of time, we ask that you please limit yourself to one question.

And with that, we'll go ahead and get started with questions. Yes, Noah?

QUESTION AND ANSWER SECTION

Noah Poponak
Goldman Sachs & Co.

Q

Thanks. Dennis or Ray. A decade or so ago, yeah – if I look back to the middle of the last decade, the strategy seemed to be to sort of – on the commercial side, not intentionally, but intentionally, if you will, under-supply the market, not quite increase production relative to what demand suggested, build a big backlog. Financial crisis happens, you have that backlog protecting you, you don't really have to change production. But since then, you've increased production quite a bit, you basically doubled production from that period of time. Backlog to sales has come down a little bit, it's still pretty high, but it's come down a little bit.

If I go forward with your production plans, even if I assume book-to-bill is about 1 the next three years to five years, while you are increasing production, backlog to sales keeps coming down. If I assume book-to-bill is below 1, which could happen given the much higher delivery rate, you can kind of get to the end of the decade and have backlog to sales be something in the 4 to 5 range.

And so, you'd be steering out to the next decade without near the conservatism and supply/demand and the backlog protection you had. I guess, I just wonder how you think about that, is that do you have to chase Airbus for market share, and so you can't be as conservative? Am I missing something in the math? Is there a reason bookings would be much higher? How do you think about that conservatism and supply/demand dynamic?

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Let me take a first cut, and then I'll ask Ray to add on to it. You take a look at our approach and it is a measured approach. And when I look at our production rate plans going ahead over the next five years, we think we've done pretty good job of balancing demand and supply, talk to our customers, looking at the projected plans, and managing our backlog. We are not going to chase market share for market share's sake. Right? We want to do good, profitable ramp-up of our production business. Now, market share is an important consideration, but it's not the only consideration. And the production rate increases that we put in place to go from 42 up to 57 a month by 2019 on the 737 is one that accounts for all of those factors. So, I think it's a measured, conservative approach.

As Ray will tell you, we've been oversold in general to that profile. Right? And so, we're not chasing rate as fast as we could, if we wanted to. So, that measured approach is important. Now you look further out, 20 years, we're seeing sustained growth, as Ray said, 38,000 new airplanes around the world. And we'll see what happens on an annual basis book-to-bill, but we're not getting ahead of our skis here on production rate for the future. We want to build a long-term sustained growth business. That's our headset, not a cyclical business. We have the opportunity now uniquely to have a long-term sustained growing business, and that's our design.

Noah Poponak
Goldman Sachs & Co.

Q

I guess, just a little more directly. If you got to 2020, and you had four year or four and a half years of production in backlog and you were building 900 airplanes, is that a position in which you'd feel comfortable for the next five years? Or is that something you just don't see happening?

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Hey, if we had – if we were at five years of backlog at that point, that's not a bad position to be in. Right? You can have backlog that's too extensive as well, right, in terms of having slots available for customers. So, being in that range, depending on mix, is not necessarily an issue at all. The key is a sustained long-term business. Ray, do you want to add to that?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Yeah. I'll go back a little bit on, when we were very fortunate, we had to take the rates, if you recall, in 2008, on the 777, we had to go down to five, okay. On the 737, we were still burning off a backlog that had been built up because of a strike. And we did not take the rate up, because we were less confident at that point, and we didn't have the over-bookings to feel very confident, so we didn't take rate [ph] up (115:49). And you know what? It worked out for us because of that strike.

Noah Poponak
Goldman Sachs & Co.

Q

Right. But, I guess, had you done that, you then would've had to lower it?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Yeah. That's right.

Noah Poponak
Goldman Sachs & Co.

Q

And now you're producing much higher than you were then?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

But we are in a significantly – particularly on the single-aisles, we're in a significantly different spot with respect to what we're seeing in the marketplace, how far out we've sold, how good we feel about the backlog, and how much we have on an over-commit basis? We didn't have that back then. And twin-aisle is a little bit different story, and we'll really monitor that. But we're not going to – the whole thing here is not to over-produce and we'll make the adjustments necessary. But we got to have a production system. I think the biggest thing is making sure and that's what we're working on today being – so, having that production system that can kind of move – kind of up and down and not get hit with these big swings in margins as a result of us going up and down.

But, as Dennis said, this long-term outlook, and it will fluctuate but it's typically pretty strong unless – there will always be – potentially be some exogenous effects that could change things, and we'll deal with that. But, I feel pretty good about where we are. Now we've got to be very diligent about watching the marketplace, but particularly in the single-aisles where we've taken the rates really high, we're feeling pretty strong about that.

Troy J. Lahr
Vice President-Investor Relations

A

Next question.

Noah Poponak
Goldman Sachs & Co.

Q

Thanks.

Troy J. Lahr
Vice President-Investor Relations

A

Peter?

Peter J. Arment
Sterne Agee CRT

Q

Ray, right here. Over here.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

I'm sorry about that.

Peter J. Arment
Sterne Agee CRT

Q

I'm sorry. You gave us a lot of information on the 737 MAX, the 200 customers that have yet to kind of order and you've got a lot of runway there. Can you give us kind of a similar analysis how you feel about the 777, the kind of the bridge, you've got some active campaigns, how you feel about the opportunity? I guess the installed base that's out there and what the replacement wins that potentially are available to you?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Yeah. I mean, the replacement in – particularly if you're looking at when would the 777X airplanes come in, the 777X and those, I think, they'll be able to pull the earlier deliveries of those. They're still going to need that lift and that would then be the later airplanes that they pull out. I think the great commonality between the two airplanes gives us an advantage on that. And there's a couple of markets where we haven't even stepped into yet, that looks like there could be good growth. I think Asia's continuing to grow. If you look at what's happened in China with respect to the traffic there, it's pretty phenomenal, the Chinese carried more passengers across the Pacific than the U.S. guys did this year for the first time. And that's a big 777 opportunity for us, and there's still a lot of replacement demand that's out there for the 777s.

Now, the competing factors will be used airplanes or somebody wanting to extend the lease and some of that we saw a little bit of that in a couple of places. But I think, overall, when you marry either 787s or 777s putting in new 777 in that would be the last airplane that you take out on the stream of the 777X coming in, and that's kind of where our opportunities lie.

Peter J. Arment
Sterne Agee CRT

Q

Great. Just to follow-on, is the – can you describe that, where's the risk is though? Is it mainly Middle East? Is that just given the reset in the price deck?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

There is risk. I think South America is a little bit of an issue right now, particularly Brazil. You look at – I mean we're not as exposed there, particularly on the wide-bodies, as some other people. But Brazil's in kind of a tough spot. I mean Russia obviously, because of sanctions and those kinds of things. If oil prices come back, the Middle East will be okay. They've got a great model there, all three carriers, Qatar seems to be doing quite well. Emirates has got a pretty good business model going, too. Abu Dhabi is a little more susceptible to oil than the other guys. And they'll just manage it as a whole, but I think, hopefully, we can get through this, oil prices will start to come up. But there's other opportunities in the Middle East that haven't exposed themselves totally to us yet.

Troy J. Lahr
Vice President-Investor Relations

A

Yeah. Doug?

Doug Stuart Harned
Sanford C. Bernstein & Co. LLC

Q

I want to get into cost reduction, because obviously this has been a big emphasis this year, and right now you're at 9% guidance for margins, you're talking a lot about being about to expand those over the next few years, but we've seen over the past decade a number of initiatives on costs before, and they may have delivered something, but we haven't seen and delivered the kind of margin expansion that you're talking about. Can you discuss why this will be different this time when you attack costs, and how we should start to see indicators or progress?

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Yeah. Let me start there and then, Greg, you may want to jump in and Ray and Leanne can jump in with some examples. But part of this is taking into productivity framework foundation that we've built over the last decade and you could argue that while those programs have been implemented not all of it is rolled to the bottom line, but now building on that productivity framework and then combining that with the leadership commitment and focus as an emphasis point. So I take Development Program Excellence, for example. Over the last decade, we put that in place, we had to stabilize our development profiles. Now going forward, we have a stable sequenced R&D profile. We're starting to hit the marks on delivering development programs on cost and on schedule as witnessed by the 737 MAX. But our opportunity over the next five years is to reap the benefits of putting that Development Program Excellence framework in place.

Partnering for Success, another key element of it. We've built that framework over the last five years. You're going to see the outcome of that begin to hit the bottom-line over the next five years. Greg talked about how that's a key part of recovering 787 deferred production inventory, as an example.

What we're doing on Lean+/CVQ, first-time quality? Again, the framework's been implemented and hopefully what you've seen in the factory now is it's not just a framework, it's part of the leadership culture. I think we had a discussion during the break with a couple of folks on, as you're talking to the people now, it's ingrained in how we do business. That's going to be augmented with some of the work we're doing on advanced manufacturing and automation. As I talked about earlier today, now how do we design for automation? That's going to unleash another wave of productivity.

So, part of this is taken the framework that we've built over the last five years and are reaping the benefit of it and part of it is a leadership commitment to doing this and an aspirational goal. We're not talking about double-digits next year and mid-teens towards the end of the decade as a slogan, it is a commitment that we set as a team because we want to compete at a higher level as this global industrial champion.

And getting the whole team aligned on that and committed to it is another part of it, and that's different than what we've done in the past. Now, how you're going to measure it, you're going to see it in the results and you ought to see it in our margin performance next year, you ought to see it in our cash performance. And the growth we've talked about on both margin accretion and cash delivery, right, it's going to be the key point of measurement here. Greg, do you want to add?

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

I think you hit the really big levers or differentiators from the past, certainly R&D, one, and the PFS effort. It didn't exist five years ago, and that's 65% of our cost structure. So we got to go capture. There's no question about that. And we got to execute on the development programs as we talked about in order to achieve that and then combine with that the internal, I mean, yeah, you could argue that that it's a similar approach. I would tell you, we've raised the benchmark and starting to question functional cost, just as an example, and looking at how much functional cost do we have, meaning people that aren't touching the airplane and how does that compare against the peer group, how does that compare against the global, we would consider, industrial champion, and challenging ourselves at why are we, pick a number, 20% higher and how are they doing it versus how we're doing it? And I, frankly, not be an arrogant in a way to approach that, that we're willing to – we're going outside and meet with some of these companies and say how did you get here and you're delivering these kind of results and can we learn from that?

Now does that happen overnight? No. But everybody is focused on it and we're going through that effort. And as we're reaching some of these milestones or targets, we're retargeting ourselves. And, again, we realized you're not going to get all of that, it may not all be in the timeframe we want, but I think the focus and the effort in those major categories along with the automation that didn't exist five years ago. Is that a huge needle mover right now? No. But I think, again, you'll see today on the 737, that's what has helped go through the NG to the MAX profitably. Go back in time and look at transitions on these programs.

You know because you are the one that has asked me about it. You go through these transitions and you see the margin dip and then come back. It didn't happen. Well, it didn't happen because of things like that, and that just wasn't there. So we got to stay focused on it, Doug, but it's those, I'd say, major components and the approach to those. And again, we're trying to capture as much of that as we can. Is that going to happen overnight, all of it? No, it isn't. But it's the right focus.

Doug Stuart Harned
Sanford C. Bernstein & Co. LLC

Q

But if I can follow-on that, are you at a stage today, as you push this through the organization where it's already down, accepted and being driven by really the rank and file? If you went to individual department, are they all onboard pushing this now or...?

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

It is. It is. And hopefully you saw that when you are in the Everett factory yesterday, you talked to people on the floor who are doing the work. I think when you get to Renton today, ask the people on the floor what they are working on. You'll see it in the culture, right.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

I've been around a long time. And we never talked like this to our teams. This is – we have changed and we are changing, it's not all there, but the competitive mindset that you have to have to go do this is really critical, that means you have to share things that you maybe wouldn't have shared before. You have to bring the reality of the marketplace to people sometimes that you're somewhat afraid to do or you're reluctant to do. And let me tell you, when this place gets their head around what it takes to win, it's an amazing thing that happens. I think you can see it in – across the board and if you provide the people the right kind of data that compares them or where they need to be, particularly early on in a program when you're making the design, and you're saying, we got to do this for this much money, this is what it needs to cost on a recurring basis and this is what we can [ph] spend or not (127:35), it's amazing what they'll do. Left open, they'll just go create the coolest thing ever and it may cost way too much money, but this competitive mindset that's being driven throughout this – at least at the BCA, I know it's being driven at BDS as well, but it's across the whole company, its much different than what it's been in the past. And I think a lot of it is about – well, it's a reality. We see what's happening in the new players, we see what's happening with our primary competitor, we see what we've got to do and nobody – let me tell you, nobody wants to be number two in this company, nobody.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Leanne, anything you wanted to add on the costs?

Leanne Caret
Executive Vice President, and President and Chief Executive Officer, Defense, Space & Security, The Boeing Company

A

Well, BDS has been at it for a number of years now and I've shared how much we've already taken out and you haven't seen a slowdown. What our focus is on really attacking that first-time quality and eliminating the bureaucracy. It can sometimes be a warm blanket we wrap ourselves in, in terms of how we make decisions, how long it takes, and how it builds in actual delays and allows us to be a little bit be less efficient. Folks recognize where we want to be and they want to be there and they want to own it and own the decisions. And so that you're seeing not only the top down guidance that we're providing, but you're seeing a groundswell from the folks across the companies who want to own this and make a difference and it's all about focusing and finishing and I really see – you'd see the results in the numbers.

Troy J. Lahr
Vice President-Investor Relations

A

Jason?

Jason M. Gursky
Citigroup Global Markets, Inc. (Broker)

Q

Yeah. Thanks. This one is for both Ray and Greg.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Ray.

Jason M. Gursky
Citigroup Global Markets, Inc. (Broker)

Q

It seems like you're kind of circling on the middle of the market for a development program that get started in the 2020 timeframe and has entry into service in the 2024, 2025 timeframe at least in the conversations we've had with you over the past several months. The question is can you confirm that that's the case? And then secondly, what are your customers telling you at this point? Is that conversations with them aligning with that time? It seems like it's the optimal time for you to do it, but is that when your customers want it?

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Go ahead, Ray.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Right. I'm always hesitant to, you know. We've had a lot of conversations with the customers, and this is not a market that's addressed by either any of the single-aisles or what the twin-aisles are today. So it's a very unique marketplace. We have – and we have number – we're still in the conversation stage about what's the optimum size airplane, optimum capability of the airplane and then obviously kind of where's that price range need to be. They're the ones that have kind of indicated a timeframe for us and it works kind of nice in terms of where we are too. But it's really – we're just receiving at this particular point in time, and then generating ideas off that, and then it's a kind of catch ball at this particular point in time.

Troy J. Lahr
Vice President-Investor Relations

A

[indiscernible] (130:49). Howard? Howard over there?

Howard Alan Rubel
Jefferies LLC

Q

That works. Thank you. Until I had heard Leanne, I didn't think anybody was more intense than Ray. Now, I see that he has some competition. But I want to compare and contrast.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Where are you, Howard?

Howard Alan Rubel
Jefferies LLC

Q

I was far away for you as possible.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Okay, there you are.

Howard Alan Rubel
Jefferies LLC

Q

So I want to compare and contrast the MAX and the KC-46 for a moment. I mean they're both sort of development programs you want to win with and some – you have now some flight test data on the MAX. So, maybe you could share with us sort of what kind of fuel burn and what kind of performance you're getting out of that aircraft versus the specs you promised the customer?

And then on the KC-46, you've missed a bunch of development milestones and took another charge again in the quarter and you still have some airplanes you haven't tested yet properly. So, can you kind of give us each a path of how the customers reacted to your experiences?

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Ray and Leanne, why don't you guys take this?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Yeah. We're kind of right on the money, Howard, with what we anticipated. When we were in the marketplace early, we're going to give people a better airplane than what they initially purchased. Too bad I can't go back and get more money for it. But we are, we're going to give them a better airplane. I think we're going to be right on the money with what we thought we would be ultimately.

And all the flight test data would indicate that. I think we're – at least that piece of it's going really well. And nothing has given us any indication that we're not going to be there. I will say this about the tanker. I had an international customer with me yesterday, who is also – would be a buyer of potential tankers. And we went out on that thing. And let me tell you, that is an amazing, an amazing machine. Yeah, we've had some issues with it, but it is so far more capable than anything else out there, it is phenomenal. And the U.S. Government is going to get a far better aircraft I think than what they even know.

And the international side is going be so compatible with what we want to do. I think when we finish this thing up, it's going to be off the charts. Now we've got to get there and got to finish, but now it's all about finishing on that, just like it is about finishing on any development program. Extending them, it's the worst thing that can happen is when those things start to slide. So, we got to be really disciplined about getting hitting the mark and making those things go. We're – I think the MAX is clipping off all the milestones right on time – right on time. And, if we can keep that up, then we'll be in really good shape in terms of when we're ready to deliver the airplane.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Leanne, you want to add on tanker there?

Leanne Caret
Executive Vice President, and President and Chief Executive Officer, Defense, Space & Security, The Boeing Company

A

Well. First, I want to thank Howard for complementing me with Ray. Actually I'm probably – I'm going to make that a note and that's nice. Obviously, tanker, our customers standing right next to us. Boeing has made a commitment. We stand proudly behind that commitment. We have continued to invest as we need to, to make certain we meet that customers' needs. Their teams are ingrained with ours. They're partnering with us as we go through the flight test program. They've had total insight into the issues, even though it's been fixed price where many, let's say, folks in industry may have put the hands up and said, it's on us and/or we're not going to give you the insight instead. We have partnerships from the top of the Air Force all the way down, so that there is total insight into where we are on the program.

We have a fix for the boom software axial load that you all have seen and heard about in the press. We'll be up in the air here in the next couple of weeks proving that out. We'll finish up the last three aircraft with the C-17, F-16, and A-10, and then we will move into our change in corp. That charge we took in first quarter was really about understanding the configuration of the aircraft for RAA, and I'm real proud, Jim O'Neill is in the back of the room. He leads the development program organization for us in Boeing Defense. He and that team are just rock solid.

And to Ray's earlier point, we had Secretary of Defense and the Secretary of the Air Force here in the last 60 days, we toured them through. And once they got on the aircraft, they truly understood the capability that they're getting as a combat tanker versus simply a tanker that pumps gas. This aircraft has so much versatility and is really going to work out well not only for the U.S., but for its allied nations.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer
A

Yeah. And, Howard, just to add just one final comment on that, and Ray and Leanne complements to both of them on how we're working the tanker as a One Boeing enterprise and best teams together working in an integrated fashion, I think that's a unique advantage of the company. And on tanker in particular is, I've also been very close to this from the start, and we take these charges personally. Right? These are the things we're very serious about. And while that the last charge we took was difficult, it's a very different nature of charge than the earlier parts of the program where we had technical discoveries.

Now we're into concurrency between finishing up development and ramping up production. And as Leanne said, we've got beyond 18-aircraft already in our supply chain. We've got eight airplanes in our final assembly, eight tankers in final assembly in Everett. So delivering 18 airplanes by the next August is clearly on target. We've got to finish up certification and the government process associated with that, but it's important to keep this all in context. We are focused as a company on delivering that capability on schedule and while those charges have been painful, it's keeping the program on schedule and we're eager to get it into production, because this – we're going to build at least 179. We think the market is more or like 400. And as you know, tankers stay around for decades. The KC-135s that are in the fleet today have been around for 50 years, 60 years. This is a 50 year, 60-year wide-body franchise. And that's the way we think about it in terms of our company strategy.

Howard Alan Rubel
Jefferies LLC
Q

Thank you.

Troy J. Lahr
Vice President-Investor Relations
A

Ron?

Ronald Jay Epstein
Bank of America Merrill Lynch
Q

Thanks. A question for Ray, right here. So when you look at the 737 MAX, kind of a last count, there is the 9, there is the 8, there is the 7, there has been talk about 7.5 maybe a 10. How is that strategy play out? And how do you think with the success Airbus has had with the A321 at the top of the market and then you've got this kind of wily competitor up in Canada who's getting a lot of government money with them at the bottom of the market? I mean, just trying to sort that out.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Well, okay. So Airbus is – we have basically the same advantage with the MAX 8 versus the 320 [ph] , okay, (138:42) about 12 seats. They've got a seat advantage on us at the 9, but we still believe the heart of the market still sits in the 8 size. We are in conversations with our customers. We have the ability potentially – we're thinking through how do we – we want to address the very top of that market with the MAX. At the lower end, the airplanes that have been purchased have been CS100s, okay. We aren't competing with those with the MAX. We competed at Delta with used 717s and used Embraers. And then they came in and had to do amazing things and then take an immediate $500 million write-down. We can – we're in a position at the lower end to make an adjustment to the -7 if we choose to because we haven't really – we're not very far in the design. So those are all decisions that we're in the process of making along with the conversations that we're having on the middle of the market. Again, the middle market is a different segment as far as we're concerned. So again, no decision has been made, but a lot of analysis, a lot of discussions about that. If we want to do some with MAX 7, though, that's it – that's something we could do very easily.

Ronald Jay Epstein
Bank of America Merrill Lynch
Q

Just how stretchable is the MAX 9? Is the MAX 10 a reasonable stretch or...?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Technically, we could do that. I think we're still working our way through some of the thought processes around that, how big and whatever it could be. But we could – if we needed to, we could do that. But we haven't decided what we want to do there.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer
A

And as we're thinking through those options, it's all enveloped in that broader R&D plan that we talked about. If we wanted to go the route of [indiscernible] (140:44) we could do it within our envelope.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Yeah. Any decision – again, the 7, because we haven't really started that one, we could that really pretty easy.

Ronald Jay Epstein
Bank of America Merrill Lynch
Q

Thank you.

Troy J. Lahr
Vice President-Investor Relations
A

Myles?

Myles Alexander Walton
Deutsche Bank Securities, Inc.
Q

Greg, you started...

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer
A

Right here.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

Yeah.

Myles Alexander Walton
Deutsche Bank Securities, Inc.
Q

You started to give us some color on the buckets of deferred and the drivers of the improvement there.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

Yeah.

Myles Alexander Walton
Deutsche Bank Securities, Inc.
Q

And the 70% sounds like it's tied to variance and the backlog. So you've got a couple hundred left to sell in the blocks, so that's an uncertainty. But the variant mix and the pricing of what you have is kind of – you should know it.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

Correct.

Myles Alexander Walton
Deutsche Bank Securities, Inc.
Q

So the 25% in the supply chain, how much of that is actually contractually in place today versus your assumption of what you'll be able to recoup?

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

There's about 80% to 85% that's under contract.

Myles Alexander Walton
Deutsche Bank Securities, Inc.
Q

Okay.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

The balance that's outstanding there is [indiscernible] (141:43) late -9 negotiations and -10. But again, when you look at the cost associated with that, because of the commonality, I mean we have a pretty good idea what those parts or components will cost, but they're not all completed under contract.

I think when you look at the 70%, again, you've got to keep in mind what took place to build up to the deferred. Right? The delays, the payments made to customers on settlements and suppliers, and then if you kind of snap the chalk line now going forward, you don't have that. And so, that's why it's such a big piece of the mix of, I'll say, the burn down or the improved cash performance.

And then, as you've indicated, mix of -9s and -10s predominantly, as you said, sold out, we know the price. And those that aren't sold, they're at default pricing similar to what we've sold the current airplanes at. So, that's why that – I'll say, that 70% is so weighted on that front end.

Myles Alexander Walton
Deutsche Bank Securities, Inc.

Q

Okay.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

And, as I indicated, obviously internal productivity is going to – we want to do better overall on margin and cash, but that is the smallest piece of that overall recovery.

Myles Alexander Walton
Deutsche Bank Securities, Inc.

Q

And then, the slide you put up....

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

Yes.

Myles Alexander Walton
Deutsche Bank Securities, Inc.

Q

How much did you actually want us to literally read into your cash flow for 2020?

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

I'm not a graphic artist, but just listen to what I said, and I think I go based on that. I think the fact is that when we look at the production rates, as I discussed, and execute on those five production rates, burning down the deferred as we talked about, we have the opportunity to have cash flow growing at a higher rate than earnings.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

That bar is directionally correct.

Myles Alexander Walton
Deutsche Bank Securities, Inc.

Q

Okay. It looks like $15 billion, so,

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

That's why I'm not a graphic artist.

Troy J. Lahr
Vice President-Investor Relations

A

Yeah.

Q

Thanks for the opportunity. With respect to R&D that you had it going up to – I think $3.8 billion this year, should we think conceptually that it should continue to go up in 2017 or does it level off at this amount till presumably the next development program?

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

Yeah. It won't be that high this year. It will be about $3 billion, $3.6 billion this year, and we see similar level next year. Now the mix of the R&D is different next year because we got the MAX kind of more ramping down in the 787-10, so next year is really all about 777X.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

And then you'll see CapEx coming down a bit as well as we head into next year, so really hit the peak on CapEx with 777X this year.

Q

And on the free cash flow going 100% back to shareholders versus the previous 80%, is that pre-supposed that your Services growth is targeted to be exclusively organic and that you're not looking to add something and use up the free cash flow there inorganically?

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

Currently, it's organic.

Q

Thank you.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

You're welcome.

Troy J. Lahr
Vice President-Investor Relations

A

Cai?

Cai von Rumohr
Cowen & Co. LLC

Q

Yes. I think you've made a comment that you expect commercial book-to-bill to be relatively close to 1.0, is that units or dollars and maybe give us some color if you could where those orders might come from both geographically and by market, by model?

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Okay. It's by units, right.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

Yeah.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

This is book-to-bill of roughly 1 units. It's going to be weighted to the narrow-body side. But, Ray, you want to comment on where you see opportunities?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Yeah, I mean, we still see tremendous opportunity in Asia. We continue to do very well there. Again, on the narrow-body side, particularly around the U.S. guys, some of the, just in general, North American guys. Europe, we've done some big things there. And again, I want to back to my comment about the big five. Well, that's still a big opportunity for us as we move forward on the single-aisles. Wide-bodies, that's going to come from all over. I mean, it's – we're not going to be – again, Asia is typically a big wide-body player, but also – we've also see some good replacement market opportunities in some of the big U.S. guys too. But we've been all over the place on those and this is going to be – that's probably, narrow-bodies will be a predominant of the sales and the wide-bodies, we'll be working hard on those.

Troy J. Lahr
Vice President-Investor Relations

A

[ph] Rob (146:19)?

Q

Thanks very much. Ray, over here.

Troy J. Lahr
Vice President-Investor Relations

A

Over here.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Hey, [ph] Rob (146:26).

Q

You're reported to say some pretty negative things about pricing recently. So I was wondering if you could clarify what you're seeing out there and also whether foreign exchange is playing a part in this situation.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Yeah. I don't know, if it is or not. The competition has been very tough. I mean, that's there is no question about that. Sometimes don't confused motivation with – totally with the facts I guess, but I will say that the competition has been really – it has been tough in certain campaigns. They've deemed some things as must wins, we've deemed some things as must wins and we always balance those with other places where maybe it's not as critical. But we use – I use particular campaigns just to give people a real sense, bring it to life for them, so we can get this competitive mindset that we need to have a cultural change all the way down to the factory floor.

The one thing that people do relate to around here, and that's winning, and they know how important winning is to the long-term of not only The Boeing Company, but to them personally. And if they know they've got to be – they've got to work more efficiently and more – and create more productivity to win, they're going to go do that. And so that's where I use a lot of those things. But I will say, particularly in the wide-body, it's been more competitive than what we've seen, but that's just – that's a normal course of business, that's why we're very intense about what we're doing on the cost side, because we want to offset that competitive piece of that, and we also want to be able to grow our margins at the same time so we can reinvest in our product lines.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

Hey, I want to reinforce Ray and the actions here and I've – like you have read what's been reported in the news and certainly as Ray said, we work in a competitive marketplace, we always have, and these campaigns are important to us, and we are driving cost competitiveness. And we intend to play offense on cost competitiveness. And the points Ray's making about the competitive headset, our expectations as a team, how we want to compete and win, that's very clear that we're all aligned on doing that.

And you ought to see that as a good thing. We're not taking cost competitive actions, because we're somehow playing defense and we need to catch up, we see productivity and investing in cost competitiveness is playing offense for the future. We need it so we can generate pricing flexibility, if we required in the marketplace. We also needed to return cash to you, and we needed to invest for the future. All three of those are imperatives for us. And our headset around cost competitiveness and playing offence on productivity is very clear. And so, I just want to buttress [indiscernible] (149:34).

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

And this is not something that we've – these are not conversations that I just – it seems crazy, but these are not kinds of conversations that we've had with our workforce all the way to the factory floor. This is we're bringing the whole game to them and in understanding, so they can understand exactly how they fit into the entire system, that's a sales thing, no, no, that's a – that's my job thing. I got to do my job better, so I can help this company sell more airplanes.

I got to do my job better, so we can reinvest in the future so my children can work at Boeing and enjoy the benefits that we've – that I've had for these number of years. That's the mindset we're trying to create around this place. And let me tell you, that's not something that has existed here before, it's – we played at such a high level, we were kind of at the very top of the game for a – we've got – I love the competition, it is great, it makes us so much better. But we have the ability to be so much better. When you look at some of the waste that we have in this production system that's not – we have great opportunity. And now, we're getting so many ideas from our teams about how to get it out. The energy level within our team is so much higher now as a result of being really straight forward about what we got to go do.

Troy J. Lahr
Vice President-Investor Relations

A

[ph] Rob (151:09)?

Q

So this is really a related follow-on question on pricing, but – it's for Greg, in your graphic chart there, your graphic art, as you drive forward and those numbers grow – go higher obviously 787 pricing is a tailwind you've talked about that, mix and fewer problems on the forward airplanes. How about the rest of the...

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

Sorry, [ph] Rob (151:35), are you talking margin or are you taking cash – which chart are you referring?

Q

I am talking about your cash flow chart.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

Cash flow. Okay. Yeah.

Q

And the importance of pricing in boosting cash flows over time and getting to those higher cash flows. And 787 is a tailwind, you're going to have better mix, higher prices, it's an important component to driving cash flow on that program.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

Right.

Q

On the other programs at BCA, is pricing a tailwind or a headwind, especially in light of what Ray is talking about in the competitive environment?

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

Well, look, it varies by model, by campaign. So there is just a lot of mix in there, [ph] Rob (152:11). I think the biggest driver is 787 because of what we talked about in that mix and the other elements of that. But on the other programs, I wouldn't say, price is a significant driver upward or downward as we look forward through there, it's really more about the productivity and getting to rate. And that's really what's going to drive the cash flow, the pricing, not as much.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

737 is a cash generator, because of volume increase, right. That...

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Well, it also because the productivity we've been able to drive into this thing. It gives us flexibility, so we can go win.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

And I'd really, I'd tell you, I really encourage you today to ask those guys questions about how they're running that production system in and you'll see the amount of space that they've created to put the MAX down that line, that's all been happening in those four walls with the headset that Ray was just describing. And, obviously, we want to bottle that up and share that with everybody, because it really is a best practice for our company and we know how to do it, so how do you do more of that.

Q

So, in sum, it's rate and it's cost and price is neutral?

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

I think in general, that's probably a fair assessment.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Yeah. Given where we've been.

Gregory D. Smith A
Executive Vice President, Business Development & Strategy, Chief Financial Officer

Yeah.

Raymond L. Conner A
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

Yeah. Yeah. And I would kind of indicate that, of course, that can change over time...

Gregory D. Smith A
Executive Vice President, Business Development & Strategy, Chief Financial Officer

Sure.

Raymond L. Conner A
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

...it depends on what kind of campaign, and which products you're going up against or those kinds of things, but we're not seeing much different than what we've seen before.

Dennis A. Muilenburg A
Chairman, President & Chief Executive Officer

And don't forget our Defense business, not to leave Leanne out here, but that is a solid cash generating, reliable cash generating business where cash and earnings follow pretty closely because of the government contracting structure. And then, the international blend, that Leanne has on the Defense business is also a very good cash generator. So, don't dismiss the cash component of our Defense business as well as part of that growth profile.

Raymond L. Conner A
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

Yeah.

Dennis A. Muilenburg A
Chairman, President & Chief Executive Officer

Leanne, do you want to add to that?

Leanne Caret A
Executive Vice President, and President and Chief Executive Officer, Defense, Space & Security, The Boeing Company

I thought you did a great job.

Dennis A. Muilenburg A
Chairman, President & Chief Executive Officer

All right. Thank you.

Leanne Caret A
Executive Vice President, and President and Chief Executive Officer, Defense, Space & Security, The Boeing Company

[ph] Yeah. See you. (154:18)

Carter Copeland
Barclays Capital, Inc.
Q

Yeah. Just, right here in front. On the, I mean, you're talking about margin, you're talking about cost [ph] competitiveness (154:27), you're talking winning, and I realized these things are all interrelated, right, but there is a sort of blurred line between cost cutting for necessity versus cost cutting to be proactive and how that all fits into margin? I wonder if you might talk about incentives, and whether or not, whether it's the highest level to the organization or all the way on down, if you're really willing to incentivize people on margins to drive that outcome.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Yeah. We have an incentive program, not only for our non-executive team that is driven directly to how we perform against the plan. We have an incentive program for our hourly workforce, that's driven against those things that contribute to lower cost, productivity, quality, and safety. And there's – they have the ability and that's some of the things that we put into these new contracts that we did long-term. There's incentives from the top, all the way to the bottom. So we've incentivized the entire team to perform at a higher level.

Carter Copeland
Barclays Capital, Inc.
Q

When you say the plan, do you mean to an operating profit number, the way the executive comp plan would look like or is [indiscernible] (155:39)...

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Yeah, some of them are like that, but then there some of them are like the hourly because that's more driven by specific productivity levels and we establish those targets at the beginning of the year. So those targets are kind of driven off with the plan [ph] linked to the overall (155:53). Yeah. It all links together, Carter, and kind of drives to the same things. But they are all setup to be putting us in a position kind of building off one to get to the – get to where we want to be longer term.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer
A

And it ties to the economic profits, so it's both earnings and cash performance as well as good use of assets, working capital efficiency, inventory efficiency.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Delivery, which ties to revenue, all that.

Leanne Caret
Executive Vice President, and President and Chief Executive Officer, Defense, Space & Security, The Boeing Company
A

And we do that across the business. We've been – we do that on the Defense side as well and the contracts with – depending on what labor contracts we may have maybe a little different but we have those same elements.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

And we do that in our non-union facilities, too.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

And I think back to Doug's question earlier, that wasn't in place five years ago.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

No. So the right incentive structure...

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

[indiscernible] (156:40).

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

When we went through these – when we went through the labor contract in I think it was 2011, we put some of that in place.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

Yeah.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

And then the last contract we did in 2014 then we put it fully in place.

Troy J. Lahr
Vice President-Investor Relations
A

David?

David E. Strauss
UBS Securities LLC
Q

Thanks. Ray, on 777, can you help level set us as you go through the initial stages of the transition in 2018 and 2019 between 777 and 777X. Can you level set us in terms of how many revenue generating deliveries we'll actually see in 2018 and 2019 when you consider the flight test articles and then the blanks? Thanks.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Yeah, I can. Greg, do you – I don't.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

Yeah, I mean, when you equate for, to your point, the test article and then the additional flow time...

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

And we do additional flow...

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

... like the -9.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

And the -10.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

You get – on the 777, you get to about 5.5 equivalent to about 5.5 versus the 7 [ph] production (157:46) and that...

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

[ph] And the delivery of flow (157:47) kind of taking down of the 777, I think that's what you're asking?

David E. Strauss
UBS Securities LLC
Q

Yeah, yeah, yeah.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

Yeah.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Yeah.

David E. Strauss
UBS Securities LLC
Q

So, Greg, is that 5.5 kind of the equivalent rate that we'll see in 2018 and 2019?

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

Yeah, it'll really be late, I think in late 2018, 2019 timeframe more or so.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

It kind of steps down a bit, because we will be producing those airplanes back in that timeframe.

David E. Strauss
UBS Securities LLC
Q

Then, the expectation then in 2020 we go back up again?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Yeah. Well, with the X.

David E. Strauss
UBS Securities LLC
Q

Right.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

And then obviously those test articles and the static airplanes out – there's two static airplanes that will never deliver, but the test articles that are in there, they'll start to deliver them out in 2020 and beyond.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Yeah.

David E. Strauss
UBS Securities LLC
Q

Okay.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer
A

So, it will be – to your point, it will be a little of that inventory buildup in there, but that's kind of what we've taken into account as we talked about growing cash flow, that's taken into account.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Yeah.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

But, we've got to execute to that plan.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer
A

I think that last point is a key here for context. So what we've just described here at our seven a month production rate, minus test aircraft and flow time extension to do the transition, this is normal, efficient transition to the product line, but our expectations for margin accretion as we lay out and cash growth, that's already baked into our plan. Right?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Yeah.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer

A

So this is not a change to what we've talked about, this is how we have pre-planned this transition and it is baked into our expectation that we will grow cash through the five-year plan.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Similar approach we took with -9. Similar approach we're taking with -10, maybe not the same degree, but with the 777X definitely that approach.

David E. Strauss
UBS Securities LLC

Q

Thank you.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

[ph] George (159:22)?

Q

Yeah. I was wondering if you could update us on the 787 from the standpoint of some of these older planes, because it seems like now you kind of delivering it, Ray, but we haven't heard much about these older planes, the teenagers are all delivered at this point. I think you had a test airplane that you were still trying to sell. So, how many of those you're actually still sitting in inventory to be delivered and how many will you deliver over the next couple of years?

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer

A

Yeah. There will be kind of a handful of those, [ph] George (159:53) that will deliver over the next couple of years. And then we have two unsold 4 and 5.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes

A

Two test airplanes 4 and 5 we have not sold yet, [ph] George (160:03), everything else has been sold either and we'll deliver over the next couple of years. We're in the process of preparing those airplanes now.

Q

So, how many in total are in inventory right now?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes A

I don't know.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer A

I'd say there's probably around 12, I think, in total.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes A

Yeah.

Gregory D. Smith
Executive Vice President, Business Development & Strategy, Chief Financial Officer A

I think that's about right.

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes A

Yeah. I agree that's about right. And those would deliver and we're going to deliver a handful over this year, they are part of the delivery stream and then we'll do another over the course of the next year.

Q

Okay. Thanks.

Troy J. Lahr
Vice President-Investor Relations A

Yeah. We have time for one more question. Go with Ken and then we've got to get you off to the tours.

Ken Herbert
Canaccord Genuity, Inc. Q

Okay, great. Thanks so much. So, I just wanted to follow up on the Services discussion. It's obviously been very prevalent today, both in BCA and of course in BDS. But, Ray, specifically, when do you expect to be sort of number one in the Services market? What kind of organic growth do we think about for this business? And then third, where do you see the specific opportunities to really drive growth, because you've got a pretty broad portfolio of businesses here?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes A

Yeah. I like your mindset there. I appreciate that. [ph] Stan? (161:08) No. GE is – they're number one and that's a little bit tough nut to crack just based on how long they've been in this game. Based on what we have today, I think if we can maintain a solid number two, that's really good. If we wanted to jump into the next tier, there we'd have to be – I think that we would be looking at some type of inorganic growth to do that.

Ken Herbert
Canaccord Genuity, Inc.
Q

And organically, from a growth standpoint, how do you think of this business?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

As far as...

Ken Herbert
Canaccord Genuity, Inc.
Q

I mean, in terms of annual growth, is it better than what you get on other parts of the BCA or how do we think about that?

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

Yeah. Yes. Yeah, particularly from a margin perspective, yeah.

Ken Herbert
Canaccord Genuity, Inc.
Q

Sure.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer
A

And, Leanne, do you want to comment on services at the Defense business also?

Leanne Caret
Executive Vice President, and President and Chief Executive Officer, Defense, Space & Security, The Boeing Company
A

Yeah. And we've continued to see the business grow. It's dominating our plan looking forward. And with Stan's team, Ed Dolanski and Stan are working together and we really, as Ray pointed out, have come up with these integrated strategies to do as much as we came from a back-office perspective and really capture additional value to increase the offerings to the customers. And there's a lot of leverage points between the two of us that no other company can provide because of the commercial aircraft, access to the parts, and then what our customers [indiscernible] (162:30).

Raymond L. Conner
Vice Chairman & President and Chief Executive Officer-Boeing Commercial Airplanes
A

And distribution. I mean, when we start to combine distribution, we can be very strong.

Dennis A. Muilenburg
Chairman, President & Chief Executive Officer
A

Leverage our OEM knowledge and build these new information-based services, those are two big growth plays for us do it across defense and commercial. And the organic growth opportunity here is big and selective acquisitions to help us build that out as part of the game plan, but the organic growth model here just leveraging our OEM base is a big opportunity for us.

Troy J. Lahr
Vice President-Investor Relations

And with that, that completes our executive Q&A session. Just as a reminder, please grab your luggage, grab a box of lunch, and promptly head to the buses. Buses start leaving promptly at about 12:15; depart from the 10th Street side. Buses 1 and 2 will leave first, then we'll load buses 3, 4, and 5. Bus 5 goes to the airport. And again, with that, thank you attending, appreciate your participation.