

07-Nov-2018

The Boeing Co. (BA)

Robert W. Baird Industrial Conference

CORPORATE PARTICIPANTS

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Gregory D. Smith

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

MANAGEMENT DISCUSSION SECTION

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Okay. Thanks everyone for joining us this afternoon. I'm very excited. My name is Peter Arment, Senior Aerospace and Defense analyst here at Baird. We are delighted to have The Boeing Company here with us. And with us up on stage, we have Greg Smith, who's the Chief Financial Officer, Executive Vice President of Enterprise Performance and Strategy at The Boeing Company, a long-time executive. And I really appreciate his time, and we're just going to jump right into a chat. So, thank you.

Also as a reminder, we do have an iPad up here. If you do want to send in a question, it is session1@rwbaird.com. I'll try to squeeze them in.

With that, Greg, thank you for coming.

Gregory D. Smith

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

Yeah. Thanks for having me.

QUESTION AND ANSWER SECTION

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

So why don't we first, I guess, jump in with an odd spot to jump into is Defense.

Gregory D. Smith

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

A

Okay.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Because...

Gregory D. Smith

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

A

No, I like it.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. So, last quarter, we saw you've had a couple of nice big wins.

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

But you also took an investment in those wins a lot. I think it shook up the industry a little bit that this was Boeing's new way of going into the after programs, maybe you could start from there?

Gregory D. Smith

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

A

Yeah, sure. Yeah, you're absolutely right. I mean, those are two significant wins within the industry and for the company. Look, I think the approach that we took in each of those campaigns was very similar to the way you'd look at any, I'll say, commercial deal starting with what's the size of that market, not just the contract but the broader market and T-X is an example. As you know, 2,600 trainers in light attack aircrafts out there over a period of time, and we see an opportunity to play there. We're looking at that broader market, and really kind of – again, looking at that lens and really pressure testing that market size and what do we need to do to win in that marketplace. So what do we need to develop today and produce today to win in that light attack and in that small trainer marketplace.

So we've been spending some money over the last number of years, developing aircraft and we have two aircrafts flying today, 71 test flights. First flight in 2016, that is purposely designed for light attack and training. So

we brought a purpose-built product to the marketplace. But in this industry, obviously, development programs are a big focus area and there's been a risk for a lot of companies. So, how do we derisk? What do we do to derisk?

So we made investments. We made investments in technology, in manufacturing but ultimately to get to two products – flying and running test flights before we even put the bid in. So certainly, was there was the risk in that. If we would have lost, we would have had two small...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Sure.

Gregory D. Smith

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

A

...fighter aircraft. But the fact is we really tried to position ourselves and make that investment upfront. But again looking over that broader marketplace and bringing the best of Boeing. So bringing the best to Boeing in manufacturing techniques, bringing the best of Boeing on production techniques, what do we need to do to compete to win as Boeing, not as BDS, not as the T-X program, as Boeing and so that's how we approached it.

And as you know, there's contract accounting...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

...that requires to address your cost and price over that period but we looked beyond that. So it's about competing to win globally for a long-standing – I think successful franchise for the warfighter and for our shareholders and for our company.

MQ-25, very similar approach. Again, looking at the broader marketplace, looking at autonomy, where do you think autonomy is going. It is a key area we have been making investments because we believe there's a future in autonomy. Not only in Defense, but also longer-term in Commercial, so strategically checks the box. When we look at the market size, it's significant again.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

You look at the capability not only today but what capability do you build in that platform now that addresses the potential needs for the future and beyond a carrier deck. And as you know, we own the carrier deck...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

...with F/A-18. We know how that operates and we know all the elements of operating on a carrier deck. So that again strategically checks a box and we bring a capability there that we've proven with F/A-18.

And then derisking again, building a platform, doing engine runs, doing taxi tests, doing simulations. If you go out to St. Louis, you will actually see that we're doing simulations on a simulated carrier deck.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

And really again trying to derisk the program. So when we're ready to go into production, we've really taken the risk out. Now – look, there is not to say there isn't risk in any of these programs but we really work hard to minimize that. And just to give you an idea, we'll fly next year.

So there's not too many development programs in this business where you've won today and you will fly in a very short period from that...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

...or have a T-X program where you've won and you have platforms doing test points literally during the campaign. So a little bit – you're right. A different approach, bringing the best of Boeing, look at derisking, looking on a broader market and a valuable franchise to the company, but it's selective.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right. Okay.

Gregory D. Smith

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

A

It's not going to be the approach to everything. But in those particular cases we felt that was the right thing to do, and it lined right up also to our capital deployment strategy and priorities, and that is organic investment.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

And all that work is being done in St. Louis?

Gregory D. Smith

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

Yes. Yes.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

And revenues for those programs, how does that ramp? I mean does it begin to materially ramp? Will we get farther out in 2020 or beyond or...

Q

Gregory D. Smith

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

Yeah. I mean, T-X, 2022; MQ-25, 2024 timeframe.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Okay. Yeah. All right. I don't want to dwell too much on that...

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

...because – but let's move on to the, really, the Commercial business. The demand continues to be really impressive, both on narrow-body and obviously you're doing really well in the wide-body platforms.

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Maybe you want to talk a little bit about still the demand signals you're seeing, the cyclical that hasn't shown up as much and...

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Yeah. Maybe you want to...

Q

Q

Speak more into the microphone.

Gregory D. Smith

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

Oh, I'm sorry. Yes. I apologize. Is that better?

A

Q

Yeah, yeah.

Gregory D. Smith

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

Sorry. Yeah. Look, the fundamentals of the market are very strong, and you've seen that in the backlog. But you're also seeing that with our operators and our customers with the traffic. You look at the yields and the load factors associated with that. So the demand for airplanes and again underlying fundamentals around traffic has been very, very strong, outpacing GDP and will continue to do that this year and going forward as we project 43,000 airplanes over the next 20 years.

Over 40% of that is replacement, and that's a fundamental difference in what we're doing today and what we've seen to prior cycles and that really goes to the technology you're bringing into the marketplace. Things like the 737, things like the 777X, the 787-8, 787-9 and 787-10, delivering very significant operating efficiency over current fleets. So that's pulling on a lot of that demand.

But again, as we look forward, it's really about ensuring that we're investing the right product to position ourselves to continue to win in a marketplace that we see pretty strong across the globe. But certainly, Peter, it's something we wake up every day...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Right.

Q

Gregory D. Smith

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

Ensure that those 5,800 airplanes that are in the backlog are solid and if they're not, we understand where there's points of vulnerability and we have flexibility to move around. But again, looking at those fundamentals, what's really driving that sale of the airplane – is it growth, is it replacement, is it a new route structure like something like the 787 that's opened up more than 150 new routes, what's fundamentally driving the demand? And that gives us confidence in not only our backlog but our market opportunities from there. So, like I've said, as we look forward, we see strong demand. That's in our production rates.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Sure.

Q

Gregory D. Smith

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

A

By looking – going up to 57 a month in the 737 and 14 a month in the 787, and that's delivering on the backlog that we see today, but it's also in the market opportunities we see beyond our backlog.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

So, let's talk about the 737 production because there's a transition here and it had some challenges early in supply chains...

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

...still have some work to get done on the engine side. But talk about I think as we get into 2019, it feels like it sets up as a cleaner year in terms of more of the mix being MAX and how comfortable you are around the supply chain, and how...

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

...should we think about that?

Gregory D. Smith

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

A

Yeah. No, you're right. I mean, we've had challenges. They have improved and we see continued improvement certainly on the fuselage side with Spirit back on schedule. We're seeing very predictable delivery schedule associated with our load dates. GE is on a path on the recovery. We're still not fully recovered and don't expect to till the end of the year and that's certainly where a lot of the focus is taking place today is on GE and GE supply chain, getting them back on the recovery plan, allowing us to meet our deliveries for year-end but, to your point, really setting us up for 2019 which will predominantly be MAX aircraft.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

So that's where a lot of the focus is taking place today. But like I said it's improved but not fully recovered. I think I mentioned on the call the deliveries for the balance of the year will be back-loaded.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Right.

Q

Gregory D. Smith

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

So you'll see a lighter October than you would typically, and you'll see higher than production rate delivery profile for November and December.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Got it.

Q

Gregory D. Smith

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

So, that's kind of the profile that you'll see which is really tied to that debt recovery plan in place around that.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

And when we think about, because you and I have spoken a lot about the demand, you're oversold at the rates that you have announced.

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

You're still – I think you've only sold maybe 60% on MAX of what the potential installed base on NGs, and so there's still a lot of orders out there...

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

...that can happen. How do we think about going up further in rate and when do you feel comfortable that the supply chain can make that decision?

Q

Gregory D. Smith

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

Yeah. I think you're absolutely right. I mean, the market itself is strong, in particular on narrow-body. So, we see a lot of demand across the board on narrow-body and putting upward pressure on production rates. That's one element, obviously, that we balance with our ability and our investment to go up in rate, combined with the supply

A

chain. So, we got a good supply chain on all elements, fully healthy at 52, producing at a reliable, I'll say, consistency at 52. That will give us our confidence to continue that rate up to 57. And then, we'll look at opportunities beyond that.

But there's no question, there's market pressure to go up. But you've got to have everything in place to work before you'll make that commitment to go up. And as you know, we make a rate increase. It's something that we look at all elements, like I said the capital investment and the sustainability, and what's fundamentally driving the demand, kind of back to the fundamentals. If it's pure replacement on an older fleet, if it's a new route or growth, where is the growth? What region of the world? What airline?

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah.

Gregory D. Smith

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

A

What's their financial condition? How much of those do we think will be paid in cash? What's the status around financing? And really try to get into that granularity like we have for the last 20 rate breaks...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

...that we've done successfully. So there's a lot of rigor as there should be and a lot of discipline around these rate breaks. And so we'll apply that discipline as we move forward. And if the market demand continues to be there, which we think it will be, those other elements also got to be there and then we'll make a decision.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

So just in the past, the rate breaks because you have had a lot of rate breaks, you've kind of given the supply chain notice, maybe 24 months' notice...

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

...when you need to do that.

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Is that still the case here or if any – is there opportunities to shorten it?

Gregory D. Smith

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

A

Yeah. There's opportunities to shorten it. And we're working every day to try to shorten that lead time as best we can, because that gives us more flexibility obviously in the marketplace. So it varies by program. It varies by part or commodity or raw material. But we're always looking at opportunities to shorten it. We have been pretty successful the last, let's say, five years of bringing that down and we'll continue to do that.

But, look, it's a – it's as great marketplace that we're operating in. The fundamentals are strong. But having said that, we keep a really, really close eye on...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

...again what's driving that demand and, I'll say this, how solid our backlog is and our ability to adjust accordingly. As you said, we are in an oversold position because of the way we make those rate increases and we assume that we will have movement...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

...in there and try to find that, I'll say, kind of optimum place and production meeting, meeting market demands...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

So the Boeing 737, the Boeing 787, the tanker, these are all improving cash flow stories as we get into 2019?

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

But the Boeing 777 actually obviously you have to build a little inventory. Maybe walk us through – give us an update on how to think about the 777X going forward?

Gregory D. Smith

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

A

Yeah. You're right. I mean, as you look into 2019, certainly 737 rate going up, 787 rate going up, but also productivity on a unit basis cash on 787 will also improve into 2019. 777X will be a more use of cash because, you're right, we're building a static aircraft. We're building those early test aircraft and we're going through that phase getting ready for 2020 entry into service.

So we're building that inventory. So you'll see more of that in 2019. You'll see more cash taxes associated with just purely the productivity, in particular improvements on 787. But those are, I'd say, some of the big moving pieces as we look into 2019. So, again, this is really executing on the backlog, executing flawlessly on these rate increases, continuing to work productivity, working capital and taking all that into consideration, over, I'll say kind of overshooting on the headwind as well.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

That's right. That we see.

Gregory D. Smith

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

A

And so that's the profile you should expect going into 2019.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

And then, there's still been obviously a lot of talk out there on the NMA and at some point, you got to make a decision. And Dennis has talked a lot about still protecting, entering the service in 2025. How should we think about the timeline for that? It sounds like it's a 2019 decision.

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

What's the best way for everyone to kind of understand?

Gregory D. Smith

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

A

Yeah. I know I think that's right. I mean, when you look at a 2025 EIS, you're in that 2019 timeframe where we would have to make a decision. I would tell you that we're going through all the right gates with all the right people we've put on the program. And really, we're working some real rigor – additional rigor in all aspects of the business case. We got – leading that effort is a gentleman by the name of Mark Jenks that a lot of you know that ran the 787, and we brought the best of Boeing, I'd say, to the program to really make sure that we're working all elements of this; whether it's pricing – non-recurring, recurring, the whole life cycle as you know, we want to play more in the lifecycle so looking through that lifecycle lens. So, people like Stan Deal who runs services is also part of NMA.

So we've got a regular update, the team does with Dennis and I once a month where we go through NMA, and NMA business case and stress test the business case, and really listen to what our customers are saying about the airplane. And, ultimately, what value that brings to them and what value we can bring back to our stakeholders. So, we're in that I'll say, kind of phase of our business case and development of the airplane. And I think putting – we're going to get it right.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Right.

Q

Gregory D. Smith

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

And so we're spending the time to get it right and then we'll make a decision next year.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Okay. You mentioned the lifecycles that leads us into the discussion around services a little bit. 12% organic growth in Q3. I mean, we don't expect that every quarter but it certainly was nice...

Q

Gregory D. Smith

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

It's good.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Yeah, that was pretty good. So, you're one year into BGS, I think, ...

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

... standing up as organization...

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

So where have some of the successes been and how do you see that playing out?

Q

Gregory D. Smith

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

A

Yeah. And look, it's an exciting opportunity. You and I have talked a lot about this in the past, but bringing both of the services business together, and again, leveraging the best of Boeing and in really having a team waking up day-in and day-out, thinking, living and breathing services.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

And that being at the forefront of their mind, how do you serve our customer better and how do you deliver more value back to Boeing and the combination of both and we're seeing some exciting things taking place that brought these two businesses together about go-to market, in different ways to go-to market, getting a lot more, I'll say, kind of feedback from our customers about where we can bring value. And look, again, you and I have talked about this a lot. These are products that we designed.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

We built. We have intimate knowledge of. And really taking all of that, I believe we can offer a service level that should be unparalleled to others. And what do we need to do to go do that and really listening to the customer about where can we bring value to them as Boeing – as Boeing. And like I said, the team has done a great job. They're outpacing markets 3.5% CAGR. You're seeing the objectives that we put in place and they've put in place for themselves and the team to not only grow top line but to grow bottom line.

We're making investments there that you'll continue to see in vertical capability as well as M&A, buying KLX, so broadening our service offering. But I would tell you, Peter, there's opportunity across the platforms. It's not just sitting in one place. We see market opportunity and really leaning into that and really thinking about what integrated services can we bring to play, what digital capabilities can we bring?

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

What kind of training can we bring that really differentiates us in the marketplace, and then ultimately differentiates the customer. And so, it's an exciting opportunity for us. It's a big market. It's a \$2.8 trillion market over the next 10 years. We currently have single-digit share in each of Defense and Commercial, so it is the – one of the biggest growth opportunities we have as a company, and we've got dedicated resources. So, it's been a very successful year for BGS and for Boeing on services. But I think it's just the beginning of something that will continue to grow and provide a lot of value across all the stakeholders.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

So I'm going to circle back to margins on BCA, but first on margins on BGS. I mean, it's already highest margins in the company. How do you think about the margin profile there because there are so many moving parts to that business?

Gregory D. Smith

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

A

Yeah. Yeah.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Is it something that we can still see a margin progression story or is it just volume and then margins...

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

...are more stable and just...

Gregory D. Smith

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

A

No, I mean just like the other businesses and for the total company, we've got a margin objective in place that's higher than the current margin that you're seeing at BGS. You're right. Because of the size and the breadth and depth of the portfolio, quarter-to-quarter, you're going to see variability. You're dealing with thousands and thousands of different contracts...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

...some starting, some just finishing, so that profile. But on a year-over-year basis, you should expect to see continued margin expansion. Bringing the two together, just thinking about all the non-customer facing capability and infrastructure in place and how do you lean that out?

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

And how do you bring the best to Boeing, whether it's in training, warehousing, logistics, you name it. We're now doing it as an integrated company versus two separate services businesses – repair overhaul and maintenance. So it's utilizing of facilities, of people and capabilities and bringing them together as one. So, there's some, below the line...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Right.

Q

Gregory D. Smith

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

That we're also spending a lot of time on and capturing and you're going to expect to see more of that going forward.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

So let's look briefly in the remaining minutes that we have on BCA margins.

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

So, we thought this was a big audacious goal of getting to mid-teens and we're zeroing in on it and it seems like it keeps coming to the left, the margin performance there, maybe give your thoughts around the progression?

Q

Gregory D. Smith

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

Yeah. Easier to say, hard to do, right?

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Right. Yeah.

Q

Gregory D. Smith

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

But you're right. I mean, look, we saw a path – when we started this dialogue, we saw a path. And, look, we reset what we expect from ourselves across the company. And part of that was the margin objective, but also around cash and working capital, same thing. So kind of resetting what we should expect for ourselves and laying out a path to get there. You're starting to see some of that make it to the bottom line today.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Right.

Q

Gregory D. Smith

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

A

But as I've said before, really benchmarking ourselves against best-in-class or a global industrial champion, leveraging the capability across the company. I mean I just sat through a review the other day taking thousands of hours out of an F-15 from a practice that was developed on the 787. So doing more of that and leveraging the enterprise, leveraging the expertise, the best practices, and that's a big part of my role...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

...is to try to enable that and spending a lot of time. That is a significant – continues to be a significant opportunity for the company. Same thing with partnering for success. All the goals and objectives in the company aligned to our compensation that it's very transparent around cash...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah.

Gregory D. Smith

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

A

...revenue, earnings, same thing on the long-term but adding in the TSR element. We're all on one score. So if F-15 is successful, everybody in Boeing is successful. If 787 is successful, everybody in Boeing. So it's really driving that mindset and just – like I said, just capturing the best of Boeing and bringing that.

And so you're seeing it in margin, you're seeing that in working capital. We've got some incredible capability on some of our programs or I'd say global industrial champion level...

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Right.

Gregory D. Smith

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

A

...of performance in rotorcraft as an example. So Commercial team out into rotorcraft figuring out how are they having this kind of inventory turn and what are they doing different than we are doing and incentivizing them to take those best practices back to BCA. You're seeing more and more of that in the company, but I would tell you I think we're at the early stages. I think there's a lot more of that opportunity.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Let's finish on cash. So the cash generation continues to be incredibly impressive. You've had this mantra that you're going to continue to see year-over-year improvement in cash generation. I certainly look at the outlook on

where production rates are, where things are going. It should be quite comfortable to be able to show that in 2019. Maybe your thoughts on just cash generation? I think it's obviously...

Gregory D. Smith

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

Yeah. I talked to you a little bit about the moving pieces...

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Yeah.

Q

Gregory D. Smith

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

...in 2019 in particular. But beyond 2019, you're right. I mean, you're coming out of 777, 777X development into production. So that's a big swing in cash over that period and getting up to rate. Getting up to rate on the 737 and maintaining 787 – same thing.

But if you look at the rate increases ahead of us versus what's behind us, significantly different, right?

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Right.

Q

Gregory D. Smith

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

We've got a couple of rate increases. The overall profitability on some of the program is kind of back to the margin but also the working capital initiatives in place. So there's a lot of that that's obviously tied into that year-over-year cash growth that we see. And, again, it's on everybody's scorecard. It's half of everybody's compensation. So we got a lot of focus and you're seeing that in the results today.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Right.

Q

Gregory D. Smith

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

You're seeing that in the guidance and again, you should expect to see that going forward.

So it's a big part of our operating rhythm across all the businesses' functions as well as just every aspect of working capital, where are we not best-in-class, what's it going to take to get to best-in-class, where are you leveraged in best practices. And again, not only just to Boeing, but outside of Boeing.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Yeah. And where are you and just lastly on still the capital deployment...

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

...and returning that back. Just – I'll put it there.

Q

Gregory D. Smith

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

Yeah, yeah. Well, look, I mean, since 2012, I think we've taken a share countdown by over 200 million shares and the dividend up close to 250%. So, we've been very committed on our cash deployment and very consistent to what we said. First and foremost, again, organic investments, so think T-X, MQ, but think also 777X, 787-10; productivity, automation, things like that in the organic side, but also again, very committed to returning cash to shareholders. So, we've said approximately 100% of our free cash going back through dividend and repurchase. And again, that's what you should expect from us.

A

And again, we see opportunity continue to grow on the cash flow front and a lot of initiatives in place in order to do that. That should give you confidence in our ability to deploy that and deploy it very efficiently. And so, back to kind of track record of consistency, doing what we said we're going to do and that's going to apply going forward.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Terrific. Well, we're going to leave it at that. Thank you everyone for coming. Greg, thank you very much. We appreciate that.

Next in this room is JELD-WEN Holding Company, and with that, thank you very much.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2018 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.