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The Boeing Co. (BA)

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CORPORATE PARTICIPANTS

Gregory D. Smith

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

OTHER PARTICIPANTS

Peter J. Arment

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

MANAGEMENT DISCUSSION SECTION

Peter J. Arment

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

Okay. Thanks everyone. Thanks everyone for joining us.

Good afternoon. I'm Peter Arment. I'm the Senior Aerospace Defense Analyst here at Baird. We're obviously very excited to have the Boeing Company with us and a returning guest, Greg Smith, who's the Chief Financial Officer, and he's the Executive Vice President of Enterprise Performance & Strategy. Greg, thanks again for joining us.

Gregory D. Smith

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

Peter thanks for having me.

Peter J. Arment

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

I really appreciate your time in being here.

Gregory D. Smith

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

It's great to be here.

Peter J. Arment

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

Just as a reminder, Boeing's forward-looking statement. So you can read that at your leisure. Enjoy.

QUESTION AND ANSWER SECTION

Peter J. Arment

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

Q

Okay. Obviously, let's get right to the topic on the MAX. So, give us, I guess, your latest update and what you can tell us?

Gregory D. Smith

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

A

Sure.

Peter J. Arment

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

Q

And obviously we've been staying close to it with Dennis last week and just go...

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

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

Q

...from there. That'll be great.

Gregory D. Smith

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

A

Yeah. Absolutely. Yeah. I think since the last time we got together, we're making steady progress. It's certainly a day-to-day engagement with our teams and with the regulators around the world. As we look forward from here, we've essentially got a number of milestones. Some of those are within the simulator with regulators, and with the line pilots as well as the JOEB. And then we get to cert flight. And then our final step within that is all the documentation and artifact collection that will take place for all the regulators around the world. And then that will essentially lead to lifting the grounding.

Now, having said all that, as I've said and Dennis has said many times, the regulators pace this. We don't pace it. Our job, make sure we get everything done right on time, answer every question, every document that's needed, every form of software, enhancement that's required, any time in the simulator, test conditions, you name it. Those are engagements that are taking place every day. Our job, be responsive and complete with that and ensuring that everybody has exactly what they need at any given time to complete their work and essentially get to safe return flight for the airplane.

Peter J. Arment

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

Q

Has the relationship then with FAA and then working with EASA, so trying to sync things up, talk about I guess your – because you really had a lot of effort, with a lot of different regulators around the world.

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

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

...kind of to – and then we've talked about a potential phased entry into service. Talk about, I guess, a little bit about the regulatory, and how you see that playing out?

Q

Gregory D. Smith

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

Yeah. Well, look, we've been engaged with all of them...

A

Peter J. Arment

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

Right.

Q

Gregory D. Smith

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

...to your point across the globe and forms of, I'll say, questions and inquiries are different. And so, again, we've got to respond to all of them, and that includes obviously the FAA and the EASA, but all the other regulators around the globe. So again our job, make sure that we're addressing every concern, every need that they have, and we get prepped to get into the simulator for these milestones ensuring that's all pre-planned, well in advance, and that we've done dry runs, as I think...

A

Peter J. Arment

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

Right.

Q

Gregory D. Smith

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

...as I think you may have heard about and doing that alongside the regulators to ensure, when we get into the sim, everything is going to go exactly and test points are going to go exactly as they require, and we're there to support.

A

Peter J. Arment

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

And is it several flights by the regulators here in FAA or is it just one and then they kind of – how do you expect...?

Q

Gregory D. Smith

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

That'll be up to them.

A

Peter J. Arment

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

Q

Okay.

Gregory D. Smith

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

A

They will drive that. Our job, be prepared to have the airplane, have the crew, have our pilots and anybody else that's needed to be on that flight and prepare for that flight or flights, when that will be in place.

Peter J. Arment

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

Q

Okay. So let's talk about on the production side. You've had to drop production down to 42. You've built a lot of planes that are clearly being stored. You're supporting a lot of suppliers and keeping the production line warm because there's obviously a plan to move back.

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

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

Q

So maybe you can talk a little bit about that?

Gregory D. Smith

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

A

Yeah, absolutely. Well, maybe I'll just step back a little bit. We've got a daily operating rhythm that either myself or Dennis or both, most times it's both of us engage every morning and we go through every, what I would call swim lane with regards to the MAX, regulatory process, software updates, communication, customer engagement, services...

Peter J. Arment

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

Q

Right

Gregory D. Smith

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

A

...and so on. And then offline, we go through – I go through liquidity analysis with the team, supplier status, where we need to help suppliers, where they are with inventory rates, where we're storing inventory, how we're storing inventory, and working hand in glove with each one of them through this process, and then kind of where you started with the factory...

Peter J. Arment

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

Q

Right.

Gregory D. Smith

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

A

...getting stability in the factory which we have done at the 42 a month. And then storing of the airplanes and putting them into preservation, and keeping them in that preserved state and operating them – there's a defined process how we do that, of running the engines, running the environmental systems, and so on and overseeing those airplanes in three locations. So...

Peter J. Arment

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

Q

Right.

Gregory D. Smith

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

A

...Seattle, Moses Lake and San Antonio. And we're doing that also with assisting the customers in their parked fleet as well. So that's a full-time process in place with dedicated resources. So, when it comes time to return to service, priority one, help our customers get the airplanes back in the air safely and be there 24/7 for them as they enter them back into service. Post that..

Peter J. Arment

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

Q

Yeah.

Gregory D. Smith

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

A

...we'll be starting to clear the ramp, or to clear those locations. We'll only deliver out of one location, out of Seattle as we do today with a very defined process as we have on delivering MAX airplanes. So those airplanes will start to cycle in from Moses Lake and from San Antonio, when we'll start that delivery stream. But again, priority one will be help the customers get their fleet back up.

Peter J. Arment

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

Q

And so on that front, on the kind of liquidating the stored aircraft, I think you've mentioned already publicly kind of the commentary to try to work through that as much as you can...

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

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

Q

...as soon as we can get the return to service.

Gregory D. Smith

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

A

Absolutely.

Peter J. Arment

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

Q

So what's the plan in terms of – is there the regulators get the phased in recovery and then start moving those back to cycle?

Gregory D. Smith

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

A

Yeah. And so obviously it's working hand-in-hand with the customers today even to look at sequencing of deliveries potentially, quantity of deliveries...

Peter J. Arment

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

Q

Right.

Gregory D. Smith

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

A

...what their ability to take versus what our ability is to deliver. And then under our ability to deliver, making sure that we're getting resourced today and capitalized today to be able to meet that higher delivery rate off of that ramp. But as we get close to return to service, we'll start to get, I'll say, more definition around in particular by customer and how that sequence will go. And then of course, the process of getting them out of the preservation and ensuring that we've got the MAX standards that we would expect and then bring the customer in and go through the normal delivery process.

Peter J. Arment

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

Q

Got it. And what's your evaluation of the supply chain, and how they're kind of holding up through this. I mean, you've absorbed a lot to pay to suppliers...

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

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

Q

...to keep them warm. And what's the plan there on that front...?

Gregory D. Smith

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

A

Yeah. I think in general, I think the supply chain has done a great job. I think the overall engagement back and forth with us around what rate to be at during this period, how did – in some cases, as you know they weren't all on master schedule...

Peter J. Arment

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

Q

Right.

Gregory D. Smith

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

A

...before the grounding. How do we get them back? And then kind of who's at, what rate, and what level of inventory, and really using this time within our own factory but also in the supply chain to look for opportunities to drive stability. And stability is going to be a real key, I'll say, enabler, as we move up in rate, maintaining stability and predictability within the supply chain and within our own factories and then ultimately to our customer, that will be a key watch item as we're moving our way back up in rate. If we're not stable, we're not going up.

Peter J. Arment

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

Q

Got it.

Gregory D. Smith

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

A

So we've got a very defined, rate-readiness process and oversight in that supply chain that will continue to enhance at each of these rate breaks. But between now and then, really helping them again with liquidity and inventory or bringing in any third-party essentially to help with liquidity. We need everybody to be healthy. We want everybody to be as healthy as possible. And we've got to find opportunities where they need help. We got to help. Or get them help. And just work hand in glove on production rates and storage and so on.

Peter J. Arment

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

Q

On the delivery part with – to your customers, it is a Herculean task to get all the pilots to get that to...

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

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

Q

...when you're pulling resources from all over the company. Maybe just talk about how that has come together at least from a plan, because it's an enormous amount of planes that you want to obviously get back into the...?

Gregory D. Smith

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

A

Yeah. It is. And to your point, a lot of detailed planning going on in advance, well in advance with that team and cycling of resources to your point, pilots, crews, mechanics, how is that going to work recognizing we've got weather during certain parts of the year...

Peter J. Arment

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

Q

Right.

Gregory D. Smith

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

A

...that we're going to have to account for. So we're not putting a plan together for perfection, more one of reality. And how do we leverage the enterprise to your point? So, how can we leverage the enterprise on techs and pilots and this is where certainly an advantage of having a cored up flight test crew that has qualifications and certifications across many platforms. Bringing them over for a period of time and helping with that delivery process.

So we're really trying to get ahead of it. We're really trying to make sure we get, if people aren't trained, get them trained now. And get the teams ready to go at the same time, get that in sequence with what our customer's desires are and the sequence of their delivery. So it's going to be dynamic. There's no question about it and it's going to have its share of challenges through that period. But we're not going to deliver the airplane to the customer until it's ready and we got it fully out of preservation and we've done all of our checks in all of our flights and then we'll start the delivery process.

Peter J. Arment

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

Q

And just – further on this, it's just the – still the plan is to try to achieve that 57 a month...

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

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

Q

...towards exiting 2020?

Gregory D. Smith

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

A

That's the plan.

Peter J. Arment

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

Q

Yeah.

Gregory D. Smith

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

A

That's the plan. But again we'll make these rate increments and we'll look at stability...

Peter J. Arment

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

Q

Right.

Gregory D. Smith

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

A

...and health not just in our factory, but that whole integrated supply chain. So, that could vary.

Peter J. Arment

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

Yeah.

Q

Gregory D. Smith

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

We've got it to your point. We've got a planned assumption in place today to get to that rate in that time period. But we're going to monitor that as we go up in rate. So we'll move up from 42. We'll hold for a period of time. We'll monitor the health across the board. And then we'll move up. But also we'll be looking out on the ramp and how well the job are we doing...

A

Peter J. Arment

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

Right.

Q

Gregory D. Smith

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

...with clearing that ramp and then engaging with the customers back to how many [indiscernible] (00:11:38) airplanes can they take. So there's a lot to be taken into account during that period. But I think the big message here is, we're not going to go up in rate until we're ready.

A

Peter J. Arment

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

Got it.

Q

Gregory D. Smith

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

Yeah. During this period of grounding, those that weren't healthy to your point have gotten healthy.

A

Peter J. Arment

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

Yeah, the suppliers have caught up.

Q

Gregory D. Smith

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

Right. Suppliers have caught up.

A

Peter J. Arment

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

Right.

Q

Gregory D. Smith

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

They've got inventory in place. So our confidence level certainly in overall health going into a rate increase is frankly better than it's ever been.

A

Peter J. Arment

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

Yeah. So let's move over to another problem, 777X...

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

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

Update us your thoughts there. Obviously we've got a little slip in schedule...

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

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

...tied to a supplier of engine...

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

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

...so give us the latest thoughts on that.

Q

Gregory D. Smith

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

Sure. Yeah the pacing item on 777X has been the engine, we now have the first test engine on our premises, and we're going through that engine build up. Right now, we've got four test aircraft on the ramp, and so we'll go through that engine integration process and get that in place and then start to go into the pre-testing and still kind of looking at a window of early next year where we'll have our first flight. But lot of effort going on there to ensure that we're getting all the test and certification on our side, all complete preflight and again getting this engine, all kind of built up and ready to go.

A

Peter J. Arment

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

So inventory peak kind of build for 2020?

Q

Gregory D. Smith

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

Yeah, yeah. If you think about kind of the cash profile of the program, that shifted with that schedule to your point. So as that's moved out, that peak now will go out into next year. So that'll be the biggest use of cash year. And

A

then from there, as we start going into first delivery and continuing, we'll see that cash profile improve, obviously progress payments as well.

Peter J. Arment

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

Q

Regarding progress payments, how is that working with – on the MAX, so just back to that? And that you've had to slow those down?

Gregory D. Smith

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

A

Yeah, yeah. I mean, there's progress payments still coming in.

Peter J. Arment

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

Q

Yeah.

Gregory D. Smith

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

A

There's some that have stopped and there's some that have, I'll say, paused through until we have clarity – they have clarity on return to service. So, if you think about the cash profile of the 737 – excuse me – it'll be assuming, again, the baseline and the return to service. What you're going to see over that period of time is not as much progress payment because we were receiving progress payments at 52, 57 a month. So, those will have to burn off even though we're at a higher delivery rate.

Peter J. Arment

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

Q

Right.

Gregory D. Smith

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

A

And then we'll have the delivery payments associated with the higher deliveries through that period and then the combination of increased production rate. So, when you look at kind of 20-21, that's going to be an unusual year, I'll say, from a cash perspective primarily driven by MAX, but also, as we said, the 777X. That's moving out and then the lower production rate on the 787 and the progress payments associated with that. Those, I'd say, are the biggest moving pieces in cash flow and biggest watch items in cash flow over the next couple of years. Outside of that, when you look at the defense, space, and security business and services, I'd say those are pretty much intact to how we've talked about cash flow generation and growth in prior periods. So, important that we stay focused on that – that profile as well.

Peter J. Arment

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

Q

Yeah. And you mentioned 787, so, first time – I mean, tremendous production run since it's been introduced and coming up in the efficiencies and productivity of those two final assembly lines is really impressive, and it's driving the unit cost down and it's very profitable. But talk to us a little bit about that decision to go down in

rate and having to hold to that rate. If we do get a China deal, is that something that you could move back, or does it just that you want to hold at a lower rate?

Gregory D. Smith

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

It will depend on timing.

A

Peter J. Arment

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

Okay.

Q

Gregory D. Smith

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

Right? It will really depend on timing and lead time. So, what's caused us to bring this rate down is we've got rate readiness reviews with all the programs and looking at the skylines of current backlog plus potential orders and not having a China order in a couple of years, certainly now we're at that point of lead time away, where we'd have to implement that airplane, made a decision to bring the rate down for a couple of years, and we'll see how it plays out.

A

Peter J. Arment

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

Right.

Q

Gregory D. Smith

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

And we'll see how it plays out. Kind of further out in horizon around that whole replacement market of wide-body. We still see it. Those airplanes are aging out. 87-8, -9, -10 are great assets in that period. But, we got to kind of watch that time period and ensure that that still remains intact. If it does, then that supports a 14 a month and this trade deal is certainly a big driver, but, ultimately, we want to make sure we get to the right rate and maintain that rate and not overproduce. So we're going to be extremely disciplined in this as we get through the 12 a month and now we start looking at that rate increase coming back up.

A

We've got milestone decisions and those elements are obviously big drivers of whether we go back to 14 or we continue at 12 for a period of time.

Peter J. Arment

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

Understood.

Q

Gregory D. Smith

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

So we'll see.

A

Peter J. Arment

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

Q

Before moving on for commercial, I just want to ask you just because it's been in the press a lot, you don't sacrifice quality or...

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

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

...safety for a cost or schedule, things of that nature. I know given your own – as enterprise performance and strategy...

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

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

It's a big part of what you look at.

Q

Gregory D. Smith

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

Oh, yeah.

A

Peter J. Arment

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

So, maybe just give us your thoughts around that, because it's...

Q

Gregory D. Smith

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

Yeah. There's no trades that take place there.

A

Peter J. Arment

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

Right.

Q

Gregory D. Smith

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

And I've never seen a trade take place there between those elements. Safety has always been at the forefront of our business. It's a 103-year-old business that is – in fact the basis of this business and the success of this business is entering into whether you're entering into a spacecraft or an airplane or a fighter or a helicopter, safety is at the forefront of everything we do and it's embedded in the culture. We certainly have reflected a lot on the 737. And you heard Dennis talk a lot about that and you heard our Chairman talk about that yesterday. Those are some hard lessons learned there that we're addressing and are addressing and we own it. And we're putting those fixes in place. And our job is to ensure that nothing like that ever happens again. And that's the priority

A

within the company. And safety again is always been a key element. I've been here a long time. I started in probably one of the lowest levels within the company, and I learned that from day one in my training school as I move up. And then I had the opportunity to work in defense, space, commercial, corporate, shared services, and I can tell you, as I moved up and around, that's just in the DNA of Boeing employees. So, it's hurtful I think to all of us, 150,000, when you hear people say, well there must be a tradeoff there, there's no tradeoffs that take place there. That's the priority. That's always been the priority, and that'll continue to be.

But, having said that, is there opportunities to improve? And you heard Dennis again talk about it and Dave talk about it, we're taking them on, we're embracing them. We have to. That's our priority.

Peter J. Arment

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

Q

Got it. Let's move over to something that is generating a lot of cash, which is defense. BDS, obviously, talk a little bit on how you think about some of the investments in the programs that you have won and made some big investments, endeavors in the last two years really?

Gregory D. Smith

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

A

Yeah. I mean, as I look at the profile of the portfolio today versus five years ago, I think we got a much better, I'll say, product offering, not by mistake, to your point intentional. We made a lot of investments in the business whether it was in space or on the core platforms around Apache, F-18, F-15. We continued to make enhancements and investments in those platforms. But obviously making some key decisions around the T-7A Program and around – or MQ-25 or...

Peter J. Arment

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

Q

Trainer.

Gregory D. Smith

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

A

Trainer. Thank you.

Peter J. Arment

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

Q

Yeah.

Gregory D. Smith

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

A

We keep changing names. T-X trainer program. Those were intentional investments that we made in the portfolio to really strengthen it not just for today, obviously. We're looking much further out in that light attack market, in that training market, and then the unmanned market around the MQ-25. And like I said, also in space, we've made some significant investments there, I'd say, across all elements of space. And you saw recently we just had a pad abort test on the commercial crew program that was successful. So, another good milestone. But, these are good markets, key markets for us. We've got to stay on, I'll say, leading edge of innovation..

Peter J. Arment

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

Right.

Q

Gregory D. Smith

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

...and affordability and ensuring that we're bringing the right products in the marketplace at the right time and make – and again making the right investments, not just for the next year but for the next 20 years. And, we invest roughly about \$1 billion a year in space and defense. And we continue to see some good opportunities there and internationally.

A

Peter J. Arment

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

.Right.

Q

Gregory D. Smith

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

We continue to see opportunities for P-8, for fighters and for rotorcraft in particular. And this is where you really come together as a company. And you really work as one company on these campaigns globally that we can do that as a company much better than we can as a division and we are doing more and more of that.

A

Peter J. Arment

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

So, one of the big things you were focused on as a company to kind of bring the whole enterprise was also on the services side?

Q

Gregory D. Smith

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

Yeah.

A

Peter J. Arment

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

And I know when you appointed Stan there to kind of help stand that up, put a lot of effort into that to kind of go after a lot of services. What's the strategy there now? And I know Stan has obviously moved over to Boeing Commercial.

Q

Gregory D. Smith

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

Yeah. Same strategy, same playbook. So I don't expect any, I'll say, big moves different than what we've talked about there. Frankly, having Stan now over in commercial is a really great enabler on the services side, having lived in services and run services and sees the opportunity to improve. I'll say, our offering to the customer and ultimately help the customer. He now sees -- not that he didn't before, but he's lived both now.

A

Peter J. Arment

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

Q

Right.

Gregory D. Smith

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

A

And I think it's a great opportunity for us as a company. Ted Colbert is a terrific leader, very deep technology background. And he's bringing that to the services business. And in that, I'll say, broader services team that's now been well-established to understand. It's a great winning team. But I would not expect to see much different there as far as how we go to market and our strategy and our investments where we still see it as one of the biggest growth opportunities we have for our company. But I also would tell you that we see it as an opportunity to really differentiate ourselves with the customer and ultimately help them operate more efficiently. And I think as we go at this as a company versus a division, that's a competitive differentiator.

Peter J. Arment

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

Q

What's the latest update on Embraer and sort of a rough timeline there?

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

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

Q

Still tied up in the regulatory front?

Gregory D. Smith

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

A

Yeah. We're going through the regulatory approval process. We expect probably, early next year that will be brought to a conclusion. I think, as far as opportunities we see in the marketplace but also opportunities we see within the two organizations. I think the more time that's spent there the more opportunities that are found. We've had people functionally going across each of the companies just to do kind of awareness tours and so on. Our people have been incredibly impressed by some of the things that have been going on at Embraer and see great opportunities to do some reverse integration. At the same time, we see some things within our company that Embraer can really help us with.

We see the more and more I think of the win-win not just in the go-to-market but also within the supply chain, within the engineering function and also within the production system side. We see more opportunities there. First-time quality is a big, big focus for us. And looking at their metrics on first-time quality and some of the things they're doing, there's some great best practices that we'll reverse integrate.

Peter J. Arment

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

Q

Sure.

Gregory D. Smith

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

A

And I think both sides are excited to get going.

Peter J. Arment

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

Q

So, just last thing before I wrap up, just on Commercial backlog in general, it's actually been quite resilient throughout all this?

Gregory D. Smith

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

A

Yeah.

Peter J. Arment

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

Q

What are you seeing on the backlog front conversations with customers? Obviously things are influenced by the 737 grounding, but, how are things holding up from a health perspective just given all the trade tariff, things of that nature?

Gregory D. Smith

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

A

Yeah. No, they're holding up well. I mean, we're obviously, extremely engaged with the customers day-in, day-out on the 737 and staying close with them, but I'd say, overall, the backlog remains very stable. I think it really goes to the broader market. If you look at traffic, and you look at load factors, and yields, and then you look at the projection going out, and then you look at how much replacement aircraft is needed versus even growth plays into the backlog and the stability of the backlog and the fundamentals that are driving the backlog, and then you get into the value proposition of, are those airplanes differentiators for the customer? And I think the backlog represents the fact that they are. So, we've got to continue to keep that edge...

Peter J. Arment

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

Q

Yeah.

Gregory D. Smith

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

A

...and help them frankly be better and bring more efficiency into the marketplace. But I think it really goes to the fact that there are some good decisions made on things like the Dreamliner as far as getting the – it's the right airplane to serve the marketplace. And I think the backlog in the order book show that, same thing with 777x, same thing with 737 and even on the freight side, as we've seen with 777 and 767. And that freight will continue to be a bit of a watch area for us...

Peter J. Arment

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

Q

Right. Sure.

Gregory D. Smith

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

A

...because we have seen some pullback there. But we're kind of anticipating that and applying our production rates accordingly.

Peter J. Arment

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

Q

Terrific. Well, let's wrap up there because we're out of time here.

Gregory D. Smith

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

A

Okay.

Peter J. Arment

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

Thank you, everyone, for joining us, Greg.

Gregory D. Smith

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

Yeah. Thank you.

Peter J. Arment

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

Thank you very much. Appreciate it.

Gregory D. Smith

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

Thanks. Appreciate it.

Peter J. Arment

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

Appreciate it.

Gregory D. Smith

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

No problem, happy to do it.

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