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CORPORATE PARTICIPANTS

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Myles Walton  
Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Myles Walton  
Analyst, Wolfe Research LLC
Great. I think we're good to get started. So welcome back. It's a pleasure to have with us from the Boeing Company, Brian West, the company's Chief Financial Officer. I'm Myles Walton, the airspace defense analyst here at Wolfe Research. So welcome to day 3, the final day.

And with that, I think, Brian, you have some opening remarks or an opening comment perhaps?

Brian J. West  
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.
Probably just to reference the forward-looking statements disclosure thing – I think that's about all I had in my opening remarks. Otherwise, it's great to be here.

Myles Walton  
Analyst, Wolfe Research LLC
All right. Awesome. That's a good opening remark. The lawyers will be happy.
QUESTION AND ANSWER SECTION

Myles Walton
Analyst, Wolfe Research LLC

So let's kick it off with this year, look to the present, we'll look at the medium term and then we'll go and dive into the each of the businesses. So the present, this year, you look forward to a $3 billion to $5 billion free cash flow target. Some things have gone your way, some things haven't. I know front and center, in a lot of people's mind, it's the fitting issue on the 737. So maybe update us on that. As well as other moving pieces to the current year free cash flow outlook.

Brian J. West
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

Sure. So $3 billion to $5 billion is the number for this year. And when you put – and you plan together, there are going to be some things that are pressures and opportunities in – let's talk about a couple of the pressures. First one is the 737 fuselage notice of escape that we talked about last month. It is on track with everything we talked through the recovery.

In fact, we have begun to deliver airplanes – reworked airplanes out of inventory. So it's a very important proof point and we will proceed. Lots of resources focused on this, incredibly constructive with our supplier partner. The times that we have thought would take on the front end to the back end, very different cycle times. It's holding firm. So good progress. More work to do, but there is a level of confidence with the team.

And in terms of the cost, just as a reminder, the cost of this rework was immaterial and it was booked in the first quarter in our closing position. And by the way, we still had margins on the 737 that were up – program margin. So that's all behind us. Want to make sure that it's very clear.

And as we think about deliveries on the 737, we still believe – so April was 18. That was pretty much expected, given when this NOE hit. We still expect the first half of the year to be about 30 per month and the back half to be about 40 per month. And that puts us right within the range of our 400, 450 deliveries for this calendar year on the 737. Now, that range will be dictated by the performance of this recovery on the 737 fuselage. But so far so good.

Another pressure, defense being a little bit more pressure than we'd originally thought. And it will take time to work through a few programs that we just have to get stability around. But we will get there. And it will just take us some time. And then, on the opportunity side, order front feels really good. We've had some very nice wins with Air India, Saudi, Riyadh, which we've talked about before. Very proud to be the continued partner of Ryanair as they think about their growth plans across Europe. That was a very important one for us. We're proud to help and support them.

So when you shake that all out, high conviction on the low end of that range, of the $3 billion. Is the upper end a bit pressured? Sure, but we have more time to go in the year. And we are committed to delivering that range.

Myles Walton
Analyst, Wolfe Research LLC
Okay. Good. And I think the implied 737 deliveries within the high 60s, it sounds like you could even be trending slightly above that level, given what we're seeing in May. And if that holds for June, it sounds like it's about the right assumption?

Brian J. West  
*Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.*

So far, so good.

Myles Walton  
*Analyst, Wolfe Research LLC*

Okay. All right. And one of the other things that you've talked about will move and evolve to the medium-term outlook is the 737 margins and their opportunity to get back to close to where they were, but probably, a little bit below where they were pre-crisis. Can you talk about why can't they get back to where they were? Is it a pricing issue? Is it a cost issue? And is it more of a time to get there than anything...

Brian J. West  
*Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.*

Starting with cash margins?

Myles Walton  
*Analyst, Wolfe Research LLC*

Yeah, let's start with cash margins.

Brian J. West  
*Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.*

Sure. It's all about cash...

Myles Walton  
*Analyst, Wolfe Research LLC*

Which is what...

[indiscernible] (04:56)

Brian J. West  
*Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.*

I prefer that. So with the 737, the underlying cost of the airplane hasn't changed. Of course, you've got some concessionary tail impacts that will create some noise – on the 737, the things that are going for it, broadly speaking, is lots of productivity. Over time, you get a little bit of price advantage; but the margins for that program are pretty solid as we look forward, mostly because on the pricing side, I'm sold firm through, on the 737, 2026. So for the numbers, we're talking about – and our guide, it's pretty much baked in. And then, it's all about making sure we execute and can deliver these airplanes to our customers with a stable supply chain.

So they won't quite get back to where they were, but pretty close. And the more important thing is that longer term, the things that could help us expand and enhance margins further are things that we can control. Mostly execution, maybe a little bit around price and performance.
Myles Walton  
**Analyst, Wolfe Research LLC**

Okay. Okay. So I'm going to leap to the medium-term outlook, you provided the $10 billion of free cash flow and we'll sort of come back in closer focus. But on that $10 billion guide, obviously, $6 billion of implied growth from the midpoint of this year. Give us a sense as to you're feeling better or worse than maybe six months ago, as well as under the covers, which are the more challenging elements of the walk to get there?

Brian J. West  
**Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.**

Sure. The $10 billion is still our number. And as you know, the $6 billion path are things that are pretty clear. We know how to execute what is underwriting that delta, the production ramp, right. We have our sights set on for the 737 getting to 50 per month from today's 31. And the 787, it's 10 per month, which today is in the 3s headed to 5. So just that natural volume ramp is going to be very powerful. At the same time, as we get through the next two years and we unwind the big inventory balances on the 737 and the 787, remember, there's essentially two small factories that are doing that work.

Once we liquidate that, that will all go away and that will be a natural productivity lift. So those are two very important compelling parts of that delta. I also think the BDS business will look a lot more normal once we work through some specific programs with cash flows and cash conversions are ones that you will be more familiar.

We also have some things that we expect to go the other way. We expect R&D to get a little bit higher as we invest in the business as a priority. We expect based on the profit growth, there will be a cash tax implication, which is normal and natural. And we also know that on the 777X, we're in that zone of 2025/2026. There will be a natural use of cash as that airplane will successfully, as my expectation, go into service. So all of that nets into that $6 billion delta and that ultimate $10 billion outcome. And we're just as confident today as we were before, mostly because it was underwritten by execution that we feel we have good line of sight to.

Myles Walton  
**Analyst, Wolfe Research LLC**

And in terms of the elements you mentioned, sort of the ones that are at the top of the list that keep you up at night, what would you ascribe those to?

Brian J. West  
**Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.**

I would say what does not keep me up at night is the demand outlook. Every time we look at it, it is very robust and we can talk more about that. What you're seeing and what we have to get through in the next year or two is the supply chain fully recovering. And we had never counted on it fully recovering this year or even next year. But we expected by the time we get to that 2025, 2026 and the $10 billion, we always characterize that as normal.

What you all would recognize from Boeing and getting the supply chain from where we're at, which is better, but not healed to that point in time where it's normalized that will always be something that we're going to be very focused on, trying to make sure that we can do all we can to help that supply base heal.

Myles Walton  
**Analyst, Wolfe Research LLC**

I think one of the questions I get is, is $10 billion the end is 50 per month the end, what's after that? And I know it's something you don't want to necessarily entertain, but in the sense of why $10 billion is normal if it's actually
absorbing a couple of billion dollars for 777X, if it's actually 50 a month, which the industry probably wants something higher than that.

Brian J. West  
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

Look, there's no doubt that when you get out of our planning period, there is a robust backlog. And that robust backlog underwrites all of our confidence. And as we think about the recent orders that we're very proud that I mentioned, that's a good moment, because you keep on building out a skyline. We're not sold out. We just keep on selling in the future. And that's something that we have a lot of confidence in, and our customers are putting the confidence in the product plan.

So will that go up over time? Sure. But, right now, it's important for us to focus on near-term execution, get through this year, deliver that 3 to 5; get through the 2023, 2024 liquidation of all those airplanes on the 787 and 737, take small steps forward and then get to a point where we feel really confident. And we will get there. And then, what goes beyond that, we'll talk about when we can. But right now, we've got more than enough to work on that's right in front of us.

Myles Walton  
Analyst, Wolfe Research LLC

That's fair enough. And you mentioned the 737 sold out through 2026. I think Airbus has talked about something closer to 2028 — I mean, 2029 at times. Does that normalize price at this point? Are we at a point where customers should not be expecting sweetheart deals we're well through that phase? And now we're in a price — maybe not a price giver mode but pretty close?

Brian J. West  
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

Well, what I would say, on that question, more broadly is that the environment that we're in right now, current environment, it's pretty good for price realization. And why is that? Because you see the skyline, the deliveries keep moving to the right, which is a good dynamic.

We will be disciplined on this topic. We know that the demand environment right now is favorable. As long as we stay disciplined, we think that the environment will be normal. But I also remind you that every campaign we compete head-to-head, and that's the nature of our business. And the good news is, if you look at our track record recently, feel really good about the wins. So that is something that over time, I think will be just fine, not anything we really worry a lot about.

Myles Walton  
Analyst, Wolfe Research LLC

Supply chains have been talked about for a while since we've sort of shut down everything and restarted it. And David Calhoun had some comments earlier in the week in Qatar regarding supply chain normalization end of 2024. There was nothing incremental to that, I don't think. But maybe give you an opportunity to clarify if there was.

Brian J. West  
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

No. Exactly. And we have been consistent. He's been consistent just to set expectations that our planning always assumed that it was going to take time to recover. And that's just an important reminder. Parts of the supply chain
have gotten better. Parts of the supply chain aren't quite where they need to be. And we need to work with key Tier 1 suppliers to get them to a better spot and we help them. We've got resources that are forward-deployed to help the entire supply chain stay more coordinated, so that we can all deliver to the customer with reliability and predictability. But there's always going to be some part right now that is not quite where it needs to be. And that's not anything that is going to, all of a sudden, be a flip of switch.

It'll take us into this year. It'll take us into next year. That was always contemplated and we put out our view of the future. And then, when we get out of 2024 and into the 2025/2026 timeframe, "normal", meaning the supply chain is back to something that we all recognize is more consistent. We're just not there yet, but that's not new news.

Myles Walton  
Analyst, Wolfe Research LLC

Okay. And it would appear, at least, on the surface, that maybe the 787 ramp could be conceptually more challenging than the 737 ramp, just in pure numbers. But at the same time, you were well above your targets, just a few years ago. So maybe lay out those two in particular, maybe which is the more gating?

Brian J. West  
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

Well, they're different. They're both incredibly important to our cash flows as we think about that $10 billion. I would say, on the 737, we're at the moment where we had a lot of confidence to break rate up and then we get a little hiccup. Rest assured that last month we, for the first time, said we're going to move to 38 this year. Don't know exactly when, but that is in our game plan. And that just gives you a signal of our confidence that the supply chain, while not completely recovered, it's getting better and we'll be able to meet those ramps.

And then, of course, the master schedule has us going at rate increases all the way up to 50. And that is just making sure the supply chain stays coordinated and confident, coordinated and confident. On the 787, similarly, we're at three per month now. We expect to get to five per month as we exit this year. Of course, very important Tier 1 fuselage supplier, that is going to be important to deliver on that and our expectations that they will and then they have a similar ramp in terms of going from five up to 10.

The Charleston site, high confidence in that team. The consolidation is complete. They know how to do the pieces, not just the final assembly, but the other sections they're responsible for. So it's all come together pretty nicely. But I guess, if I were to think of broadly the things that would be quote "concerning", it still goes back to the confidence in supply chain. It's getting better, but we still need to make sure we're laser like focused on that to make sure that no one is second guess the demand signal, because the demand signal is real.

Myles Walton  
Analyst, Wolfe Research LLC

Yeah. One of the things that you mentioned at the top was the 737, you started delivering reworked planes. Could you maybe put a finer point on it — are those reworked fuselages that went through the system? Are they reworked, previously finished planes that you've got out the door?

Brian J. West  
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

Those are the ones that had this Spirit NOE. So when we talked about the effort that it would take, we acknowledge that because of where that sit and what was required, it was going to take longer measured in weeks. And what I'm saying is that we've begun delivering ones that we've corrected that fully. Complicated, but
known set of work scope, and we’re through it and we’re beginning to deliver. And that’s an important point, because we talked about that was that it was an issue that was identified very quickly – escalated very quickly.

We evaluated it, talked to our stakeholders, customers and regulators, bounded it, got the work scoped and then began to move forward. And at time, it was very speedy, but also very transparently. And now we’re at the point where we’ve gone through that original set of procedures on airplanes and they’re being delivered, and that’s important, it gives confidence.

Myles Walton
Analyst, Wolfe Research LLC

Yeah. And it’s holding to whatever your initial assessment was for the cost and profile.

Brian J. West
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

Yes. Yes. Cost and schedule is on track.

Myles Walton
Analyst, Wolfe Research LLC

Okay. Okay. China is the other topic took us 18 minutes to get to – it wouldn’t in normal times. But it seems like the breadcrumbs are there in place for a resumption of deliveries at some point this year. And Dave has spoken more optimistically in recent months than not. What’s the current view both of maybe the timing, the appetite and also the ability of Boeing to deliver planes to a customer hasn’t taken them in a while.

Brian J. West
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

Sure. So we, like all of you, look at the demand signals of traffic in China, and they continue to be very, very strong and on their way back to pre-COVID levels. So it’s been very consistently growing. And for us with that has meant in terms of the signals we watch, first and foremost, is returning the full fleet to service in China. So of the 97 airplanes that were on the ground, 61 are back flying and that continues to be good progress as our customers return those airplanes to revenue-generating following the traffic growth. So nice signal.

Second signal is the AER report that came out, important milestone that we got through. Again, another important point that will enable us to move towards eventually delivery. I don’t know when that will happen. We stand ready to support our customers in China when they make that decision. And it’ll likely happen over time. I just can’t give you a call and remind you that we’ve completely de-risked our financial profile for that event. And even if it were to happen, it’s not going to be incremental. There’s no upper there. We are more interested in making sure we get our customers in China assets they need to meet the traffic needs that they’re seeing. And we will be patient and we will follow their lead.

Myles Walton
Analyst, Wolfe Research LLC

When you say there’s no upper there, but that’s more of the 2025/2026, you’re supply side limited. Not that obviously China is not an important customer beyond that timeframe. Clearly it would be...
Look, broadly speaking, outside of what we’re calling our forecast period of 2025/2026, that’s arbitrary in our part. Longer term, it’s a big important market. We’ve been there for 50 years. We’ve got great customers and we want to serve them.

Myles Walton
Analyst, Wolfe Research LLC

Yeah. Yeah. Okay. Switching to defense for just a second. So you layed out in the last call 15% are sort of the red programs with the 5 we all know about, then you’ve got 25% that are legacy, that are sort of under-earning. You got 60% of the portfolio that’s doing exactly what it should be doing. Maybe talk about the steps to get from where we are today to that high-single-digit margin you’re targeting?

Brian J. West
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

So the part of the portfolio that isn’t performing as we would expect are programs – and there’s only a few, we know how to make these assets. We just happen to be at a moment where some of the supply chain shortages, labor instability, both in our four walls and with our suppliers, it is creating problems, right? It’s up and down and it’s frustrating. My confidence is that we will figure this out. Same way that we talk about the supply chain healing on the commercial side, the exact same dynamics play out in this space.

So while it is frustrating and we are not expecting much in the way of profitability in the second quarter from BDS, because it’s going to take time. But as we move through this year and into next year and that supply chain heals and our labor stability gets better and better and we get more productive on labor and we get the benefit of things like lean manufacturing, we could see the point where in 2025, 2026 that those programs that are a few will get back to margin levels that you recognize. And that’s on us and we are going to execute on that. I just – it’s not going to be as fast as you might think. It’ll take us some time.

Myles Walton
Analyst, Wolfe Research LLC

And you had mentioned the second quarter from an EPS perspective, it would look similar to the first quarter, excluding the charge. So just when you think about the businesses, I think you’ve said that services might be down on margin because you can’t replicate what was a very high-teens. Within commercial, you’ve got a slightly worse mix, because fewer MAXs – are the BCA margins going to actually get better on a worse mix?

Brian J. West
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

Yeah. So BCA margins last quarter were negative 9.2%. And even with lower volume on the narrow-body, two things are going to get that sequentially better. One, the wide-body mix. So if you remember in the first quarter, 787 was paused for a period of time. We’ll be able to pick that up – the 767 because of the Daher quality escape that’ll get a little bit better. And there is some 777 timing that will benefit us in the quarter. Plus, we will have the benefit of lower abnormal. So those dynamics, despite the fact that we’re going to have a little bit lower volume of 737, net-net, we’ll get sequentially better.

Myles Walton
Analyst, Wolfe Research LLC

Okay. Does that paint the picture of exiting the year with positive BCA margins?
Brian J. West  
*Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.*

What I’ll tell you is that long term, when we think about the 2025/2026 timeframe, when we think about BCA being low-double-digit margins, lot of confidence, because we will work our way through these persistent things we’re dealing with. We’ll have retired those two factories, production will ramp, and we’ll get to these margins that you’re very familiar with. It's just going to take us some time.

And the thing about a recovery, nothing’s linear, things are lumpy. And we'll go through it, the teams are focused on it, and we’re well-positioned as we go through the year to be able to fulfill that demand on behalf of the customers and the margins over time will get better.

Myles Walton  
*Analyst, Wolfe Research LLC*

Okay. Okay. And what is the right capital structure for Boeing? A number of years ago, you'd run a neutral balance sheet, net cash almost. Is that where you need to get to? Or is leverage – a modest amount of leverage okay for a sustainable business like Boeing?

Brian J. West  
*Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.*

Important questions that we’re just not ready to answer yet, mostly because our focus is what’s in front of us more near term. And what we're focused on right now is the strength of the balance sheet as we move through the next two years. And what gives me confidence is, first of all, a little under $15 billion of cash as we closed the first quarter, $12 billion of untapped credit lines. So liquidity solid. Very solid.

And then, you think about the maturities that are in front of us. This year it's a little over $5 billion in maturities. They're already substantially taken care of. So confidence. And then you think about the investment grade rating, which is very important to us. And as we execute with the liquidity position I just described, as we execute on delivering and then generating free cash flow, we expect that rating will get better and better and better. And then, when we get a few more points on the board, there'll be a moment to stop and look and say, okay, what's the future look like? In order to answer that question, but we want to get a few things done before we start to engage in that discussion.

Myles Walton  
*Analyst, Wolfe Research LLC*

One of the big picture questions I get a lot is does Boeing have the systems engineering controls expertise it needs to manage the complexity of the programs that it signs up to. And it’s hard for me to dispute some of the data points that would say there’s a lot of work that needs to be done. So what kind of trust can you rebuild for launching a new program, which I understand it doesn't happen immediately, or competing on a new defense program. What's changed such that we're not going to step into bad business cases, we're not going to make assumptions that we shouldn't have made?

Brian J. West  
*Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.*

Broadly speaking, I am very enthusiastic about our ability to attract the best engineers in the world. We hired 10,000 last year, and the brand sells, the mission sells. And I'm very proud that we have the technical knowhow across the board and confidently can say that we can deal with complicated things and deliver innovative products for the customers. There's no doubt about that.
As we think about your question on BDS specifically, we've got lessons learned like anybody does—it's behind us. We've been through that many times. I would say that right now, we are committed to disciplined underwriting on bidding proposals that happen every day or programs that probably aren't quite as big that would get to anyone's level in this room. But we know how to do this. And as for every next program, we'll get better and better and better. And we will not make the same decisions or mistakes that we might have made in the past. Because what our objective is, is to get innovative, differentiated technology to the customer and the warfighter as a win and also have a win for the business. And I'm convinced you can do both.

Myles Walton  
Analyst, Wolfe Research LLC

Services, obviously, pretty bright point in the portfolio, great returns, really good trajectory of growth ahead of it. Maybe talk about how you can grow it, expand the margins, maybe even above what you're targeting for the target period, given you're almost what you are above them today.

Brian J. West  
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

I love our service business. It's just a franchise that is there for a very long period of time. And we have made certain decisions. Our leadership is making certain decisions to make sure that we are not chasing big, unrealistic targets, but we're trying to have steady, stable growth in ways that can be capital-efficient and margin-accrative, and that is the game plan that they're running to.

In terms of the things they get excited about, we get excited about, intellectual property—I mean, any IP that we can go out there, love that. Anything that is around digital assets in and around the cockpit, we want to make sure we're feeding that business to grow responsibly. And for us, if we have a steady grower in the mid-single-digit top line, it can continue to reliably deliver mid Teen margins and have very high cash flow conversions. Love that business. You'll love it. And if it can, from time to time, get a little bit better, great. But having that as a foundation over a service franchise that goes over decades, I think you're going to like what we have. We do.

Myles Walton  
Analyst, Wolfe Research LLC

Okay. Okay. And then, maybe just final one. So the tanker has a service component at some point, a long tail to it. Is it going to be—the kind of service business you have in the C-17 is amazing. Is there a future for the tanker to actually have an annuity stream that is compelling?

Brian J. West  
Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.

We've always thought about the tanker, despite what the past has been as a very important airplane. It is delivering its mission 100%. The customer is giving it high marks. And as we continue to deliver those airplanes and it continues to do the job it's intended to do, it's going to have a very, very long tail and we're going to enjoy our piece of that, there's no doubt about it. And we have to take the long view. I also think recent decisions on how they've chosen to think about their path going forward on the tanker program gives us opportunity. And in those opportunities, we're going to look to make sure that we're priced competitively and that we are thinking about that long term. But yes, we feel very good about what that could be over a very long period of time. And it's a great airplane and it's meeting its mission.
Myles Walton  
*Analyst, Wolfe Research LLC*

All right. Well, we’re exactly at time. So. Thanks so much, Brian. Really appreciate it.

Brian J. West  
*Chief Financial Officer & Executive Vice President-Finance, The Boeing Co.*

Thank you.