

13-Sep-2024

# The Boeing Co. (BA)

Morgan Stanley Laguna Conference

## CORPORATE PARTICIPANTS

**Brian J. West**

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

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## OTHER PARTICIPANTS

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Great. Good morning, everyone. Thank you for being with us for Day 3 of the Morgan Stanley's 12th Annual Laguna Conference. I'm Kristine Liwag, Morgan Stanley's Aerospace and Defense Analyst, and thank you for joining our session with Boeing. Welcome, Brian. Thank you for being here.

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**Brian J. West**

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

Thank you.

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**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Great. So, before we begin, I'll read disclosures, and I think Brian has disclosures as well, and we'll kick off the fireside chat.

So, for important disclosures, please see the Morgan Stanley Research Disclosure website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures). If you have any questions, please reach out to your Morgan Stanley representative.

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**Brian J. West**

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

Thanks. I'd just like to point everyone to the forward-looking statement disclosure that's on our IR website.

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**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Great. So, we'll kick off, Brian. Thanks again for being here.

## QUESTION AND ANSWER SECTION

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

Last night, we had the IAM union vote, and we had a 96% rejection of the contract. I guess, the first question is, are you surprised and where do we go from here?

**Brian J. West**

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

A

Yeah. Thank you. So, we were disappointed. Initially, we were pretty pleased. We had an unprecedented temporary agreement that was unanimously endorsed by union leadership. And over the last few days, it became very clear – loud and clear with our union members that that offer didn't meet the mark and it was not acceptable. So, there was a disconnect. And our CEO went right to the factory floor, and he's been out there all week, listening firsthand to the feedback of our employees and he's digesting, and Kelly is already at work to get an agreement that meets and addresses their concerns. In the meantime, it's our responsibility to ensure continuity as best we can. So, we'll communicate with our customers, our suppliers, and our government regulators and constituents as we move through the next period of time.

From a financial perspective, any impact is going to be dictated by the duration of the work stoppage, which I won't address today. But strike will impact production and deliveries and operations and will jeopardize our recovery. So, our immediate focus is to be laser-like focused on actions to conserve cash and we will. So, we've got a very complex situation that we're solving. Kelly is personally engaged and focused on restoring our trust with our people and the union, and that's a priority, resetting that relationship. And we want to get back to table and we want to reach an agreement that's good for our people, their families, our community, and our intent is to do just that.

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

Well, thank you, Brian. Thank you for that color. So, maybe moving to our – I mean, Kelly Ortberg joined as CEO starting at the end of July. You mentioned his priorities, the first one, but can you talk about other priorities he has in this new seat? And what are the biggest changes that you anticipate in the company's approach in tackling the issues facing Boeing today?

**Brian J. West**

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

A

Well, the priorities for the company broadly are very clear. First, we've got to recover our commercial business. Secondly, we've got to bring stability and de-risk our defense business. And third, our capital structure has to reflect the investment-grade credit rating. Those are three priorities that we're focused on.

In terms of approach, new CEO is bringing different perspectives, and being from the industry and knowing the company, his instincts are spot on and he's digging in deep for sure. In terms of what's changed or what's an adjustment, I point to one thing, he has bought a house in Seattle. He is focused on getting close to that factory floor and that started from day one. So, he is expecting that from all of us, and I think that will be a new and welcome approach.

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. And moving to the 737 MAX, can you help us better understand how the FAA is affecting operations today? What's the path for the FAA to remove the 38 per month cap on production?

**Brian J. West**

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

A

Of course, I'll speak prior to the strike, we have been making good progress on stabilizing production and preparing for that 38 per month by the end of the year. Now, obviously, that's going to take longer. As far as the FAA, we put into our plan, our safety and quality plan, was laid out early in the year, and we are measuring ourselves to those key process indicators, including the control limits around that to reflect stability of the factory. We look at those measures all the time, every day, and our regulator has access to the same information and we've been making improvements up till now. But the framework and the metrics are in place, and that will ultimately determine how we move up in rate directed by the FAA. So, we have been making good progress.

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

And great, thank you for providing that color regarding what it was like prestrike. And looking at the deliveries prestrike for the 737 MAX, we saw improved deliveries in June, July, August was also fairly stable. I mean, at this point, how do you expect production to progress through the year? Is it still feasible to get to 38 per month by yearend?

**Brian J. West**

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

A

Yeah. I can't comment on 38 per month. That rate is so dependent upon the duration of the strike. So, I won't touch on that. But I will tell you that, if you remember back in March, we were in the high-single-digits for deliveries. And then, in June and July, we moved into the 25 range. We also had begun to start up that third line, which we've talked about as being very important, moving towards that more complete rate. We had it fully resourced. We were demonstrating proficiency.

So, the team had done a very nice job of deliberately ramping production, while at the same time, incorporating significant improvements into our quality and production system. So, there was very good momentum. Unfortunately, there's now strike. So, the health of production system was going in the right direction. And my expectation is, we'll pick right back up where we left off, but I don't know when.

Deliveries in August were similar to July, and I will tell – yes, I think it was – I think that's the third consecutive month of having deliveries in the 30s, another indication of momentum. And that shadow factory, we've always described, we had 15 airplanes delivered from inventory in August. That was a big accomplishment for the team. There's around 70 left, but again, all this is disappointing because of this work stoppage, because things were starting to move in the right direction.

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks, Brian. Moving to the 777X thrust links, we saw news of what happened there. Can you discuss the impact of entering to service and the free cash flow impact it would have on 2024, 2025, and 2026 for the program?

**Brian J. West**

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

A

So, if you don't mind, if we can talk about the cert programs broadly, and then I'll get into the thrust link. On the cert process, the one thing that's going pretty well is on the 737-7, 737-10, if you remember, there's an anti-icing solution that we are working on. The good news is, it's been identified, it's been designed, and we are undergoing testing. So, that's a positive, and those timelines and what we've expected have been unchanged. So, hats off to the team for working their way through what was a complicated item and constantly working through that. So, feel good about those two on the certification front.

On the 777X that you mentioned, as reported, we discovered damage on one of the thrust links on the flight test aircraft, and immediately paused the flight test program. So, right now, the team is working to understand root cause corrective action, and once that is determined, they'll be able to understand the path forward and any impact to schedule. Last week, you might have seen that the original airplane flew back safely from Kona to Seattle, and the team is well underway to work out those next steps. So, there's nothing to report. We have to give the team time to assess the situation and then a path forward.

In terms of your questions on cash flow, like any development program, the cash flows tend to be negative and then they go positive. So, we're seeing the impact this year of inventory build on the 777X program. In the first two quarters of the year, it was in the \$800 million per month (sic) [quarter] inventory build level and that will continue as we move through entry into service.

Now, what happens is, is once you get out of entry into service, the model, like any development program, will turn positive and the profile will change. And as you get deliveries and production ramp, all of that will unwind, and that's the nature of the program, and we fully expect the 777X to represent that kind of profile. So, more work in front of us. We still think it's a terrific airplane, the customer thinks it's a terrific airplane, got to get through this flight-test item that I discussed, but we still feel confident in that airplane.

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

Shifting gears to the supply chain and also working capital. Can you talk about what issues you're facing with the supply chain prior to the strike? And also, even before the strike, you had – you are procuring suppliers at a higher rate in which you were producing and you're building up physical inventory. At some point, that was expected to unwind and it could be a tailwind to cash. So, first, can you give us context in terms of when that would have occurred? And number two, with the uncertainty regarding the strike right now, how should we think about this cadence of working capital?

**Brian J. West**

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

A

So, broadly speaking, our working capital type has largely been inventory build, and that is timing, because that will all unwind as you begin to deliver airplanes. There's no doubt about it. It's a matter about when you start delivering airplanes, and right now, given the strike that has created more uncertainty. I would say that more broadly, there are real supply chain constraints in the industry and they are particularly impacting our wide-body deliveries. On the 777, we expect lower deliveries than last year, driven to a large extent by engine availability. That has been a constraint.

On the 787, we've got production going pretty well at the four per month, expecting it to five per month by yearend. But deliveries have been acutely impacted by seats, both on availability from the fabricators as well as

working through certification activities. That has been unfortunate delay and we'll deliver fewer 787s out of inventory, because that work was done in Everett, as we head into this work stoppage. So, we expect on the 787 to basically be below five per month, and it's driven by seats and we won't quite be able to get as many airplanes out of inventory that we otherwise expected, because of the strike.

I would say on the strike itself, remember, 787, there will be no change in the part of supply chain expectations, right, as this is going to keep going. If there is a non-787 part that is behind, we're going to allow suppliers catch up. If there are non-787 parts that are not behind and there is a safety stock, they are in stop, and we're working with our supply chain partners on that as we speak, so that we can make sure we do everything we can, given the strike and our responsibility to conserve cash. So, all that is very fluid, but we are going to have to take certain actions to make sure that we do the appropriate financial tradeoff.

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**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. And maybe taking a step back, the past few years for Boeing had seen a lot of production disruption. You had COVID, the 737 MAX issues, 787 quality issues, inflation, supply chain, I can list more, but you know...

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**Brian J. West**

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

A

The whole defense portfolio.

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**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

...the defense portfolio. There have been a lot of changes with the company. So, can we just take a step back and think about unit economics? Once, at some point, you do get to over 50 per month for the 737 MAX, how should we think about the unit cash for the program? And then, for the 787s, once you do get to 10 per month, what should that look like? And ultimately, do you anticipate that the unit cash profit for these programs would be greater than where they were pre-COVID when you get there?

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**Brian J. West**

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

A

Yeah. So, the long-term fundamentals of the business that we've discussed and I discussed over time, that hasn't changed. What's changed is, it's moved to the right quite a bit, and that's because of everything you mentioned, production delays, we haven't ramped up quite as we have expected, and now we've got further pressure from a work stoppage.

In near-term, the 737 and the 787 cash margins are positive, but they're lower than where they were in 2018 from a variety of drivers, including lower production rates. We've got two shadow factories that we're working on winding down. We've got customer delay considerations that we're unwinding. We've had unfavorable mix, and then we've got higher costs from supply chain instability. All that's been different, but they're positive. And as we think about moving forward, first of all, demand continues to be the bright spot, right. We have seven to eight years of work to do based on our backlog. That's a big backlog and we've got to get after it. We have to get stability. But the environment on the demand side for several years been pretty good.

Once we get recovered and predictable, we will have those shadow factories gone. We'll have all this fixed cost absorption that's going to be a positive tailwind, and we're going to begin to have a favorable model mix and customer mix as we move forward. So, long and short of it, on the 737 cash margins, when we get to a point

where we're more stable and hitting the rates you described, we are going to be approaching what those cash margins look like in the 2018 timeframe.

On the 787 program, similarly, as we move forward towards those rates we've described, we're going to be better than 2018 and there's no magic here. We just have to execute. We now have a bit of a step back from last night, but long-term, given a big backlog and demand for products our customers love and we know how to build airplanes and unit economics that largely are unchanged, and I still feel good about the long-term outlook, but I acknowledge, we have quite a bit of work to do between here and there.

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**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

Brian, you mentioned defense, so no surprise, but let's have a defense question here. Defense has continued to face challenges. Can you provide an update on the watch programs like the Tanker, the T-7 Trainer, Starliner, Air Force One, these programs that are headwinds to cash? And what are the key milestones of the BDS portfolio that we should monitor, and what's really the visible path to a positive free cash flow?

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**Brian J. West**

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

A

So, our BDS team and business is still very much in recovery mode, and they're working hard to stabilize, but it's taking longer and it is, obviously, uneven. This third quarter, we expect to be another challenging quarter. In fact, margins are going to be negative and they're going to be similar to the second quarter margin rate, and that's a disappointment. And this is driven by cost pressures in two areas.

When we talked about our 25% of the portfolio comprising of fighters and satellites that we've been working on getting back to normal, we're seeing higher disruption across the fighter programs, and it's as we ramp the F-15 up and as we wind the F-18 down, it's more challenging than we expected and it's creating cost pressures.

The second area is on the 15% fixed-price devolvement programs that we've talked a lot about. We are still experiencing development hurdles, namely on the T-7 and the MQ-25 that's driving higher costs. They are moving through. We are working in the test phase of the T-7 and approaching build phase in the MQ-25, but these are development programs and we are dealing with challenges.

The other area in this segment is the Tanker program. The Tanker program is going to be impacted by the BCA factory disruption and now work stoppage. So, that is going to flow through the Tanker rates, which is going to be more cost pressure. And then, finally on the Starliner, we have added cost, obviously, from the recent performance of that test. And now that the flight test is back, we've got more work to do to understand exactly that cost position, but it's going to go up. But more broadly, there is important work to determine any next steps for the Starliner program, and we'll evaluate that.

Lastly, we've always talked about the 60% of the portfolio that's stable. It's still stable and demand is pretty good. In fact, given the global threat environment around the world, that piece is steady. It's the other two pieces, they continue to be persistently unexpected things that we're dealing with. So, quite a bit of work to do long-term.

Long-term, there's no reason why we should not continue to de-risk and get these fixed-price development programs behind us, get the fighter business and satellite business much more stable and reflective of what you would recognize in terms of those margin profiles, particularly as we have a new book of business that we'll underwrite with better underwriting disciplines. So, that's all in the future. So, we do expect this business to get to



high-single-digit margin levels and to deliver cash flow, but it's going to take us longer, and clearly, there is quite a bit of work to do from here to there.

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

I think, Brian, now as of 2Q 2024, you had given a free cash flow guide of negative \$5 billion to \$10 billion. I think people were asking you, where you would end up between negative \$5 billion or negative \$10 billion. You declined to give a more specific number, but here we are, we're in September and you also mentioned with the strike there are efforts to have cash conservation. How much visibility do you have on that free cash flow number and any initial thoughts for 2025?

**Brian J. West**

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

A

The strike injects so much uncertainty. That is a very difficult question to answer, and I'm not going to do that today. Given yesterday's vote, the calendar year 2024 and moving into 2025 is so dependent on the duration of that work stoppage. So, again, I won't try to predict it either for this year or next. It's too soon. It's just too soon. I will tell you that we're working every responsible lever to do what's right to conserve cash, and our expectation – of the timetable, our expectation, as noted from some of the message from the company, is to want to get back to the table and to hammer out a deal, and that's our expectation and more to come.

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

Brian, on the balance sheet, debt remains elevated and free cash flow continues to shift to the right. Is there a possibility that the company may need to raise debt or equity by yearend or early 2025?

**Brian J. West**

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

A

So, we remain committed to manage the balance sheet prudently. We've got two objectives. First of all, we want to prioritize the investment-grade credit rating, and secondly, we're going to allow the factory and the supply chain to stabilize. Now, that last objective just got harder based on last night. So, we are perfectly comfortable to supplement our liquidity position to support these two objectives, and we're constantly evaluating our capital structure and liquidity levels to ensure that we could satisfy our debt maturities over the next 18 months while keeping confidence in our credit rating as investment-grade.

So, over time, I'm confident that the business performance is going to catch up with the capital structure and it's going to reflect an investment-grade credit profile, right. And we will take any necessary actions between now and then to make sure we accomplish those two objectives.

**Kristine Tan Liwag**

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Looking at the time, it seems like we have time for one or two questions from the audience. Raise your hand and we'll bring a mic to you.

Q

What is the next step with the union?



**Brian J. West**

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

So, as you saw last night at just after 9:00 local time, they announced the results. Strike began at midnight and it's been carried on throughout the day. As I mentioned, Kelly has been in Seattle all week, getting firsthand information about situation on the ground, and his priorities are to reset, reengage, and rebuild. So, how that plays out in terms of timetable, that will be up to the union and the bargaining table participants to decide upon. But our intent is to get back to table and try to get an agreement.

A

Q

If you give everything they're asking for, how much is that incrementally on an annual basis?

**Brian J. West**

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

So, I'm not going to touch that one. What I'll tell you is that, working with union leadership for quite a period of time, we thought we had what was an unprecedented offer to hit the things that we knew or understood our members care about, was around wage increases, around supplements to healthcare, supplements to retirement and job security, and we put our best foot forward, and that's what was unanimously endorsed until it wasn't, because endorsement by the union leadership versus the members was quite a disconnect, and now we just got to work forward, right, listen to our members, we have to hear what's on their mind and we have to be responsive.

A

Q

Could you talk about the supply chain philosophy around you've been – you've kept the supply chain going at an elevated rate. How long can you do that for? What's the philosophy around keeping the supply chain intact before saying...?

**Brian J. West**

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

Yeah.

A

Q

...hey, guys, we got to cut, we have too much inventory?

**Brian J. West**

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

Well, through the course of this year, particularly as we're moving from the spring to the summer, we were case by case managing that versus broad statement. So, broadly, we like to keep the supply chain ahead of final assembly, so that we can preserve stability and minimize travel to work. And that is an investment in our long-term prospect.

A

Of course, as things started to get a little bit more challenging in summer deliveries, we started to modify that supplier by supplier. And now, based on where we are with the work stoppage, specifically for the non-787

programs, it will be very specific that if you're not behind and we have safety stock, don't deliver anymore. And this is messaging that's happening overnight and as we speak.

There are still some suppliers that have to catch up and you'll monitor that very, very closely, and it's a very fluid situation, but it's not one-size-fits-all. It's very much case by case and we've got a terrific supply chain team at BCA that's working on it. I will remind you that 787 program and supply chain is not impacted. So, our job there is to keep that moving forward and to continue to move toward getting to five per month by the end of the year on the production side and working on these supply chain constraints, specifically on the seat issues.

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## Kristine Tan Liwag

*Analyst, Morgan Stanley & Co. LLC*

Well, great. Thank you very much, everyone. That's all the time that we have today. This concludes our presentation with Boeing. Brian, thank you very much for joining us today.

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## Brian J. West

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

Thank you. Appreciate it. Thank you.

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