

29-May-2025

# The Boeing Co. (BA)

Bernstein Strategic Decisions Conference

## CORPORATE PARTICIPANTS

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

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## OTHER PARTICIPANTS

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

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## MANAGEMENT DISCUSSION SECTION

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Okay. Good morning. Let's get started. I'm Doug Harned, Bernstein's Senior Global Aerospace and Defense Analyst. And I'm really happy today to have with us Kelly Ortberg, CEO of Boeing.

Kelly, I don't know – you may have a couple of words you want to say and then we'll get into the fireside chat.

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**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

Well, just welcome, everybody. Thanks for joining us here. Doug, I look forward to it. I don't have any opening comments, so we'll get right into Q&A.

## QUESTION AND ANSWER SECTION

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Okay. Great. Well, you've been CEO now for a little over a year.

Q

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

No. August 8. So...

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

August 8. Little less than a year.

Q

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

Yeah. Almost a year.

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

That's – okay. You've done a lot, so it seems longer. But you've known Boeing for a long time. And in that time, as – in the role, what surprised you? What are the hardest challenges you face? And maybe you can give us a few comments just on how you see the progress going now.

Q

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

Yeah. So, I spent most of my career as a supplier to Boeing. So, as you point out, I knew Boeing quite well from the outside. And I would say in the main, not a lot of surprises. I think I knew the situation is pretty well publicized. We had a lot of near-term challenges as I started in August. We went through the strike. Getting through that, getting our balance sheet restored was a critical priority for me. And I think we're making good progress.

A

We put together a recovery plan, first focus is on stabilizing the business. And that includes ramping back up our production lines, which we'll talk about, I'm sure. And so far so good. I'm pretty pleased with the progress we're making. Got a lot of work yet to do, but I think the mantra of getting the company turned around, restoring Boeing back to the iconic brand that we all know and want is underway. And our team is committed to making the necessary changes to continue with the momentum.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Well, you were just on the trip with the president in the Middle East. And perhaps you could comment a little bit about, certainly, you got some very big orders there on the commercial side. But if you think about both commercial and defense opportunities because some very big defense numbers were put out there, but we don't have a lot of detail on it. How do you think about opportunities in the Middle East after that trip?

Q

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Look, the Middle East is a very big market for us, both defense and commercial. You're right. We announced the single largest wide-body order in the history of Boeing with Qatar. And that was a great order to continue to fill our backlog. And I think demonstrates the strength of the product line, particularly the wide-body product line that we have, but also our defense products with tankers going into the region, F-15 fighters and upgrades to the F-15 fighters are also great opportunities for us in the Middle East. So that will continue to be a strong market for us.

Orders in Etihad as well in wide-body. So, feel pretty good about that. As you look at this tariff environment, as people look to try to rebalance trade with the US where there's a trade imbalance, there's no better way to do that than through the purchase of aircraft if you want to do that quickly. So we're excited about the future here. We're excited about the opportunities. Backlog's not our challenge. We have a very, very strong backlog. Our challenge is ramping up production and delivering on that backlog, and making sure that we have slots available for the customers who want the aircraft.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Well, actually, one aspect of that that is a challenge is this point about slots available. When you're getting new orders like this, when you're effectively sold out into the 2030s, how do you manage new orders? Are you actively thinking about higher rates a few years out? How do you manage the skyline?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. So we commit to a planned skyline in terms of our orders and then, essentially, customers get in line as we go do that. And as you point out, we are essentially sold out through the end of the decade. We are going to increase production rates on virtually all of our aircraft. We're in the process of doing that now on the 737 MAX. As you know, we're capped at 38 a month with the FAA, but we're very quickly approaching that rate and we'll be going through a rate increase there.

We're in the process of increasing 787 production from five a month to seven a month, and then the 777X is getting through the certification process and then we'll be ramping that up. But we would expect to have continued ramp-up in all those programs here over the next several years to support the market demand.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Well, one of the topics that we talked about in the last earnings call was tariffs because you, I know, have been actively engaged with the administration on this topic. I'm guessing it came up on your Middle East trip. You had said that for Boeing this year, the impact should be less than \$500 million. But a lot's happened and continues to happen. We've had new news in the last 24 hours with respect to technology exports to China, a legal opinion against the tariffs this morning. How do you think about that now and what has the dialogue been like over the last several weeks?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. So I'll just say it's been very dynamic. It's a dynamic environment. I think we're going to be in a dynamic environment for a while here until some of these unilateral – or bilateral agreements are put in place. Having said

that, as you point out, we identified, from an input tariff perspective, about less than \$500 million of impact. And it's primarily in product we're importing from Japan and from Italy and also primarily on the 787.

We are paying duties today – tariff duties on those imports. But, in many cases, those airplanes get re-exported and there's a duty drawback process. So we're able to recover the duties we pay. The only duties that we would have to cover would be the duties for a delivery, say, to a US airline.

So we're going to manage through that. I personally don't think these will be there in the permanent, in the long term. If you look at the agreement that was reached with the UK, that doesn't include tariff on our aircraft, and so – or the components we would buy there. So, we're going to just have to manage through the input tariff side.

The more impactful thing we watch more closely is any retaliatory tariffs. We saw that in China where there was an increase in tariff. And sure enough, the Chinese airlines immediately said, I can't take delivery of the airplanes. And that's way more impactful to us.

Now that's been reversed. China has now indicated the – the airlines have indicated they're going to take deliveries. The first deliveries will be next month. So, we're yet to accomplish that task. But they're planning and telling us they're going to take delivery.

So, we have to watch that and make sure we don't have other regions of the world where we get retaliatory tariffs and we're unable to deliver aircraft that we have produced for those areas. I would say, in the main though, since we talked at the earnings call, it's not a lot different. It is a dynamic environment, but I don't see the impact a lot differently than what we saw then.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

An important topic clearly is the 737 MAX ramp. You talked about getting up to 38 a month in production fairly soon, but perhaps you can give us some more insight onto where you stand right now.

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**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. So, we're ramping up to the 38 a month as you point out, and that's happening as we speak. We're very close – getting very close to achieving that 38 per month rate, which is what we've been planning. We will produce at that rate for a period of time to make sure our production system is stable and that stability is measured with key performance indicators that have been agreed to with the FAA. And then once we get through that stability and the performance indicators look good, which they do right now, then we'll go have a review with the FAA and move to 42 a month from that production.

An important milestone we had in this last month is we completed our milestone review with the FAA on the 787 to move from five to seven a month. So the good news with that is that was successful. It's the exact same process we're going to use for the 737 MAX increase. So I feel pretty good. And we've talked with the FAA extensively to make sure we're aligned on what are going to be the criteria that we need to demonstrate to move to the next rate.

The performance indicators look good, supply chain's stable. So I feel pretty good here in the next period of time, we'll be through that first rate increase, which is critically important because the – if you think about the overall cash flow performance of the company, moving from a negative to positive cash flow, as we've said in the second half of this year, it's important that we get to a higher production rate on the 737 MAX.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And you've talked about getting to 38, stable, meet all the KPIs, work with the FAA, and then you could go to 42. How should we think about the size of that interval going from 38 to 42 once you're comfortable that you can go to the FAA and say we're producing repeatedly at 38 a month?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Well, I think this first rate increase, we actually go pulse parts of our production line at a higher rate to ensure that, when we do move to the 42 a month rate, that we can actually achieve the stability. So we're pretty confident in our ability to move from 38 to 42. Now, after that, we do have subsequent rate increases in our plan. And they will typically be in that five per month rate. So that feels like a good increment. So the next one would be to 47. I would not expect those to be any earlier than six months apart. And we'll – so that could get us to where we'd like to get to 47 [sic; 42] here by the end of the calendar year. But we're not going to move to...

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

47 by the end of the next...

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

By the end of the – no, by the end of this calendar year.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

47?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

If we could do the 42 [sic; 38] here mid-year, then by the end of the calendar year, six months later, we'd be doing the next...

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Okay.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

...increment to go to 47 [sic; 42] a month. So we'll continue that process. Having said that, if we're not ready, we won't do it. So the production system has to be stable. The key performance indicators have to be there for us to move to the next rate. And you don't know where you are until you move there. So we'll see how things progress. What I will say is moving from essentially a stop production post-strike up through 38 a month, the improvements we've made to our safety and quality plan to our production processes have really paid big dividends. And we are seeing the improvement. In fact, we're producing a little higher than I even expected. So, in some cases, going slow and deliberate has allowed us to actually go faster.

So we're going to keep disciplined here and we'll move to the next rate when the indicators say we're ready to go there. We're in pretty good shape from a supply chain too. I'll say that supply chain stability has improved. And we're, of course, sitting on a tremendous amount of inventory with a – particularly on the 737 MAX. So that's helping us also with the buffer any supply chain issues with the rate increase that were upon us.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah. As we've kind of looked at this, you've got a lot of engines, a lot of fuselages. 38 to 42, our expectation was there's not a lot of supply chain issues there. When you start to go to 47 and then 52, that's when I would expect you may have another set of challenges. How do you look at that?

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**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

So you're right. I think, as we move up and as the buffer inventory comes down, then the supply chain performance gets much more important that they're right on schedule. But we're – many of our suppliers are also producing at a higher production rate. And they've been there before. So, I think we'll be able to ramp this up.

Having said that, we're always working with the supply chain. We have the Precision Castparts fire here in the last quarter and we're managing through supply of those parts. We'll always have those kind of challenges. When you've got over a million parts in some of these aircraft, we need all of them. So supply chain management continues to be a focus item for us, but we don't have anything right now that I would point out as chronic concerns relative to the rate increases. Once we get to those higher rates, we'll see.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And when I think about that, if you were to look at six-month intervals, if you look historically at Boeing sort of pre-grounding of the MAX, we didn't see a six-month cadence of rate increases. And in fact, 52 was a very problematic one, particularly with Spirit. Do you feel when you look at the system today that you're in a much better place than the company was even sort of pre-COVID on the ability to make these rate breaks?

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**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah, there's no question, the production system's way more stable. So that's one thing. And the other thing I'd just point out is remember that we're returning to rates we've been at before. So, in some of the cases and historically, we're achieving a rate that we've never achieved before. So, all the way through the supply chain, we're doing things at higher rates than have ever been achieved. That's not the case here. We're kind of recovering. So, in many cases, our supply chain has the capacity, has the capital in place. They're ready to go at a much higher rate. We're what's holding them back.

So, I do think we have a more stable production system. We've made massive changes in our safety and quality plan in – and how we're building the airplanes. I think that's going to pay dividends for us as well. But I'll just say again, if we aren't ready to move to the rate, and I think this is the big learning, is we're not going to go to a 50 a month rate and have an unstable production system. We're just not going to do it. We'll stay at the lower production rate until we demonstrate the performance and then we'll move to the next rate. And that performance includes the supply chain.

So, several of the six KPIs that we have are clearly flowing through the supply chain. So, if we're being shorted of a supply chain or we've got a lot of escapes coming out of the supply chain, then we're going to have to stabilize that before we move to a higher rate.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, if you look at this now after all of the scrutiny that's gone on over the last sort of 18 months with respect to the 737, you had issues like the junction box problem last year, things like that. Are you more comfortable now that escapes – those types of escapes are less likely to occur?

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**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. Notice of escapes is one of the six KPIs and that KPI is green right now. So we have made significant improvements. Now, I would also say, we were stopped with production during the strike. I do think that we and our supply chain worked hard during that period to improve where we had supply chain constraints. We're further away from the COVID recovery that everybody's had to manage with the workforce. And so I think we are seeing a much more stable supply chain and production system.

We're not seeing the level of quality defects that we've seen before. I think our quality defects are down over in approximately 30% on the 737 MAX line. So we are seeing significant improvement in the quality of the fuselages, I'll point out specifically from Spirit. The quality of fuselages is much, much better than what we were seeing beforehand.

We worked closely with Spirit to drive some of those quality defect issues back into their build process. So they're eliminating those defects and the fuselages are flowing through the factory much faster than what they were. Prior, we were bringing in fuselages that had known defects on them, and then we were fixing the defects while we're building the airplane. And that was just kind of a recipe for quality issues, delays, inefficiency. So I think we've got that significantly improved and that will help us here going forward.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, when you look longer term and talked about it before being sold out into the 2030s, there's clearly more demand. And I know that you once got to like maybe for a very short period of time to 57 a month with the three lines in Renton. You've got a fourth line now for the 737 in Everett. If you look longer term, do you – can you envision this program going above 60 a month because you would have at least internally the capacity to do it if you wanted to?

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**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Well, look, we are gearing up so that we both have the capacity and the agility in our production system. As you point out, we were producing at a pretty high rate with just the Renton line. So we've added a fourth line – or we're adding a fourth line in Everett. What we're going to do with that fourth line is primarily focus it on the Dash 10 variant of the 737. It's the most different from the other. It has the most complexity, meaning it'll probably flow through the factory at a slower rate.



And that'll allow us to keep the Renton – the three lines in Renton flowing much more efficiently. So, yeah, we have plans to increase rates. We'll see how the production system and the supply chain performs as we get to those much higher rates that's a ways ahead of us. Right now, our focus...

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

That could a good problem [indiscernible] (00:27:41).

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. That would be a good problem. Maybe next year, we'll talk a little bit about that problem. But, right now, our focus is getting the production system through the first rate increase. I will also say, which I think is important, virtually every one of our customers is reporting a higher quality of airplane at delivery. So we're doing this and we're not sacrificing the quality of the airplane, and we're going to continue to do that. I think the financial performance will follow the production performance of the company, and I think we need to think about it that way.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah. So you mentioned the Dash 10. Where do you stand now on the MAX 7 and the 10 with respect to certification, given that you're working through, I know, and the inlet design, it's been the biggest issue here?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. So both the 737-7 and 737-10 are slated to complete the certification this year. And the critical path right now for us is the anti-icing design for the inlet. And we're in the process of finalizing that design. We've got some testing underway, critical path testing, that should complete in the June-July timeframe to move forward with that.

So that's important that we get through that de-icing. It has taken a little longer than what I expected, but the team's working through. We've got multiple solutions that we're working and trying to select the right and best solution going forward.

Having said that, if there are any delays in getting through the certification, which we're not anticipating right now, we will just continue to build the Dash 8. So I don't think it's like a production output concern, but many customers are waiting on the Dash 10 and Dash 7. So we want to get those through the certification process. The Dash 7 is essentially there except for the de-icing work that we have to do.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, switching over to the 787. As you said, you've got the okay to go to seven a month now. There's the heat exchanger supply problem is, I guess, largely resolved to be at seven.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. Yeah. So we made great progress there. That's an example of where the supply chain has stabilized. That problem was a result of the Russian invasion situation and having to move the production line. It took them a

while to get back on plan. But, right now, the heat exchanger production output is meeting our demand and allowing us to go to seven.

If it wouldn't have been, we wouldn't have moved. It was quite impactful to build a 787 and put this air-conditioning pack in out of cycle. So, getting that back to where we've got the product so that that's not traveled work is really important for us.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, when you look at the rates now, can you give us a sense of when you think you'll actually be at seven in production? And then...

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Soon.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

I know 10 is – soon on seven?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. Soon on 787. So the way these work is we have a capstone review, which is think of it as a readiness review with the FAA. And we're – at that review, we're – basically have everything laid in place to be at that rate. So, provided we go and get approval on that rate then we start cycling most of the components right away at that seven a month rate. So, you should think that on 787, we're cycling at that rate right now, which will lead to deliveries in the coming months at that rate. So production goes pretty quick to the new rate.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

One of the issues though in deliveries has been interiors. So you've had a lot of airplanes that are essentially produced, but not ready to deliver. How do you see your ability to close that gap with your interior suppliers and certification?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. It's primarily the seating interiors where we've had problems and it's specifically focused where we have a new configuration of seating that we have to go through a new certification. That's still a problem for us. We're still working through that with all the seating manufacturers. Where we have a customer who's taking a new seat that's not certified, that's where we're seeing the delays.

If a customer who's taking an existing seat configuration that is certified, there's no delay. So, it's more of a certification than it is a production output problem for us. And we're working through that. My guess is that that's going to be with us through the end of the year as I look. And it's with all the seating manufacturers. It's just taking us a lot longer to get through certification. And it's primarily these new larger, first class, business class configurations with doors.

And so the whole certification process has gone much slower than anybody anticipated with that. But we're working it. We do have some airplanes on ground that are done for certain aircrafts that we're waiting on the cert of the seats. And once we get certs of the seats, we'll be able to deliver.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And is there any parallel issue? I know there – I know some airlines have some fairly exotic configurations on the MAX 10, too. Is there any – do you foresee any issues with certification?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Well, we're watching it real...

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Interior certification.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

...yeah. We're watching that real closely to make sure that we aren't overcommitting in terms of how many different seat configurations we can get certified in a certain period of time and the complexity. So it will – it's something that we've got to watch on – as you point out, on these – particularly the Dash 10s that have these types of complex seat configurations. It's going to be with us also on the 777-9 as we bring that into service, making sure we incorporate lessons learned here so that we don't have seating delays on those aircraft because those aircraft will have the most complex configurations in the front of the airplane.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And when you look at production going to seven soon on the 787 in Charleston, my understanding is that without a lot of capital investment, you could get to 10 there. And – but now with the demand, particularly with these new orders, it looks like there is potentially demand pressure to go higher. Can you give us a sense of perhaps when you might end up going to 10 and then what has to happen should you later want to invest to go higher?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. I haven't put a specific date on the move to 10. We'll move there as soon as we can. The demand is – to your point, the demand is there. So, once we get to seven, we can get to that 10 within the existing production – generally, within the existing production footprint. I think to go beyond that, it's going to require some additional investment in our facilities there.

We've authorized that. So we are investing in expansion so that we can go to rates beyond 10 a month rate. And the beauty is, as you point out, there's tremendous demand for the airplane. So I have no concern about our ability to sell into a higher production rate there. It's an execution performance challenge for us.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, jumping over to the 777X, how does that look? Can you update us now on what you're seeing as the entry into service timeline and the production [indiscernible] (00:35:38)?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. So we want to get most of the certification work done by the end of the year on the 777-9. We have four flight test aircraft now, all in flight test. So the flight test program is progressing and it's progressing well. We don't have major any major technical issues coming out of the flight test program. So I'm hopeful that we'll get through the certification flight test by the end of the year. We may still be doing some ETOPS testing going into next year, but no real change to our forecast of getting that certification done so that we can start deliveries next year.

Obviously, again, a part of the Middle East order that we just talked about included 777-9s due to strong demand for that aircraft. It'll be the largest twin in the market. And there's a lot of folks who really are looking forward to bringing that airplane along. I will also say it's an airplane that has had the most flight testing done of any other aircraft we've ever done in terms of hours. So we feel pretty good about the stability and our entry into service for the airplane that we've done enough flight testing on that it's going to be a great airplane.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Another airplane there's still very good demand for is the current 777 freighter. But 2027 that's supposed to stop delivering.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. That's our current plan.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Is that...

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. Yeah. We'll wrap the 777 – we call it the metal wings, the existing configuration. We'll wrap up that freighter configuration, expecting a Dash 9 freighter configuration the year after that.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Okay.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

So we'll be transitioning from the existing 777 freighter to a 777X freighter configuration.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

When you look farther out, how are you thinking about a next-generation airplane? We had both GE and RTX here yesterday talking about thoughts on next-gen engines. From a Boeing standpoint, what are you looking at here?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. I look at that really kind of in three work streams. One is when is the market ready. And two, when are we ready both financially and from a capacity perspective. And third is, when is the technology ready. And I would say the answer is not now on all three of those work streams.

As you point out, engine technology is going to be an important element of that. If you talk to our airline customers today, I think universally, they would say we still have work to do in the durability of the existing newer engines that are there. And we'd like to make sure that we don't see the type of durability issues in the future, so I think ensuring we get through that step.

And I want to be ready when the time is right. So we're working all three of those work streams, but that time is not here today. We've got time to get ourselves prepared and do that right. I'll also say that the backlog is fantastic for our current product line and getting the Dash 10 into the market, I think, is going to be an important step for us as well. So there's no hurry here. We will do a new airplane when the market and the technology and we're ready. And I don't know when that's going to be right now.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah. [audio gap due to live audience question].

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. 38 to 42 will be the milestone review.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So not the 40. Yeah. Okay. Yeah. That's what I – okay.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. We would – let me just clarify.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

So we'll go through the milestone review from 38 to 42, then we'll move to 42. What I was meant to say is, at the end of the year, I would expect we'd be doing the milestone review from 42 to 47 so that we can move into that.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Okay. Okay. That...

Q

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

But we won't be outputting at 47 till next year.

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Okay. Good. Good. Okay. That's...

Q

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

Just to be clear

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Yeah. So go over to BDS. So this was the first quarter in quite some time that you had no charges. How are you thinking about BDS today, some of the programs, KC-46, T-7A, Air Force One, you've got a number of these fixed price programs that have been problematic. Do you think that risk is behind you now?

Q

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

Oh, not totally. On a fixed price development program, the risk is not behind you until you're done. And we still have a lot of work to do. Having said that, I think we're making good progress on how we're managing those contracts. In some cases, it's better baseline management, better program management, working with our customers on the requirements to make sure that we have an achievable path forward.

A

But we've done some things differently. Like on the T7 program, we worked with the Air Force to restructure that program kind of in a win-win way that they get things that they needed. But we also de-risk some of the risks that we had in the program. And I think that's kind of the methodology that we have to use for working together with our customers going forward.

So, we got a lot of work yet to do, but I do believe we're managing those risks better, and we're working with our customers better. And we just got to get the programs through the development phase. We still have flight testing on several of these platforms, which is always a risky phase to go through and make sure that that the aircraft meets the performance. So, we'll continue to manage those. I don't think one quarter's a good quarter. I think we're doing a better job of baseline management. But, again, we're not done until we're done on these projects.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And one of the other issues that we've seen in BDS is that even on the mature programs, they hadn't really been delivering at the margins that one might have – had hoped for, because I think back in kind of the pre-COVID times, this used to be just a great free cash flow generator.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

Yeah.

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

And so you had a lot of mature programs, which you still have a good number of those that throw off cash. How are you thinking about – aside from these fixed price development programs, the rest of BDS and what it needs to meet the goals you have?

Q

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

Yeah. Look, I think we get those back to the historic margin performance. You're right in some of the legacy programs have been underperforming as we've made changes to the EX, for example, on the F-15. We've been slow in the ramp-up in production. But I don't see anything that keeps us from restoring that business back to the historical performance margins.

A

So, we did have a lot of post-COVID challenges there. We also had supply chain challenges in our – in those legacy defense programs. All that's getting a lot better. So I feel pretty confident that we'll be able to restore those programs back to legacy margins. The defense program – or the fixed price development programs, it's important that we stabilize and just keep those from being a headwind here for the portfolio going forward.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Yeah. A big win was the F-47. Can you comment at all about what you think led to that win?

Q

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

Well, first of all, it is a huge win for us and very important for our St. Louis operations. As you know, we do the F-15 and F-18 there. And to be a part of the next generation – the first sixth-generation fighter really sets the stage for decades to come for our St. Louis operation. We did a very, very good – the team did a very good job on pursuing that program.

A

We invested in this area more than any investment we've ever made in our defense business. And that investment paid off. We have a superior product, very mature in where we are in terms of the design of the product. Can't talk a lot more about it, but we're excited to have that program. And again, I think it puts a boost to energy in our defense portfolio and our team to go win such an important program and prove that we still have the technology capability to go do that.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q



Well, as you look at this investment profile, knowing that you did invest a fair amount, how does that look still? Is there still significant investment from your standpoint?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Less investment on the R&D, but more investment in the CapEx.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Okay.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

So there will be a step-up in some CapEx investment associated with that. And there's another big program out there as well. So we'll see where that plays out.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

The F/A-XX?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. Right. And if that program moves forward and we're lucky enough to be selected there, then that will also require some additional CapEx investment.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And we had expected an announcement on that about a month ago. And it seems like the headlines we've seen sort of put on hold by the Navy. Do you have any insight into...?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

I do not.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

...how this is proceeding?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

I do not. So, I'm hopeful that this goes forward. But I'll just say the F-47 kind of went through the same phase as well. That wasn't sure when the decisions were going to be made. But once they were made, they went pretty quickly to source selections. So I think we're in the same boat here and we'll see.



**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah. That's a good point. Like six months ago, NGAD looked like it may be dead.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. Nobody knew NGAD and then – yeah, right. So, again, I think the proposals are in. They have all the information they need to make a source selection. This is more of when do we want to launch the program. Are we going to launch the program decision? And so we're waiting on that.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So this work will be similarly centered in St. Louis. And that's a facility I haven't been in a little while, but I would imagine pretty underutilized heading into this program.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Well, I think you'd be surprised if you came to Saint Louis. We'll have to bring you to St. Louis. There's a dramatic change in our facilities there. We've just recently torn down the legacy McDonnell Douglas headquarters building, and we're building new facilities to support the production of the new aircraft. So, the airplanes actually won't be built in the existing facility for security and other reasons, but a pretty big transformation in the overall footprint in St. Louis. We have the land and the facilities and the people to do the job. But we're investing heavily in the infrastructure.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Well, my assumption would be, also as you put F-47 work in there, this should be helpful on margin. That's a – and it's a cost plus, but helpful on margin overall from an operational standpoint. Is that...

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Well, from an overall absorption perspective, obviously, any big contract is beneficial to the overall absorption. The margin rate on the program like any new program – or development program will be lower than the overall production margins.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And something that I know you have done in the past, certainly was true with the 787 development is there has been some transfer sort of things like virtual tooling, things like that that have come across defense to commercial. Do you expect to see any benefits from sort of the engineering talent you get and the things you're doing on F-47 more broadly for the company?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah, not directly. They're different widgets, but I think indirectly for sure, we've – that's one – been one of the big advantages between the commercial and government portfolio is our ability to take technology from one to the

other and move that across, particularly how we build the manufacturing processes, material science areas. So, yeah, I would expect that we'll get significant benefit from that across our entire portfolio.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Now, just stemming over to BGS, this has been a great performing business for some time and you've been getting at least 17% margins there even though it seems like every year, it's guided to lower. Can you talk about, what that profile looks like now? You're divesting Jeppesen. I don't know if that changes much in your outlook.

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Well, the divestiture of Jeppesen would happen probably towards the end of the year. And initially, there may be some slight deterioration in the overall BGS margins as we divest of that. But as we incrementally grow the services business, I think we'll be able to cover that deterioration. Look, I think everybody in the industry has seen stronger demand in the aftermarket than anticipated. And that's the result of I don't think we're sandbagging. I think the market performance has been a little bit better in the aftermarket.

The BGS business is critical and critically core to the company. So, selling the proprietary critical parts to support our customers and the demand just looks very good going forward demand signals. So I think our BGS business is set very well to continue to deliver the profitability we need.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So when you look at BGS today, you've certainly got things like Aviall and KLX in there, is the portfolio you have really core at this point? How do you think of core and non-core in that business?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah. Look, the BGS, the core – parts business into our core, either it's defense or – and all the services that go around that either defense or commercial is super core to us. It's what allows our customers to operate our platforms and we'll always keep that. Now, Jeppesen was in our BGS portfolio and we determined that that was something that wasn't core to us. But if you look at a portfolio level, certainly, BGS is very important to our future.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Now when you take all this together, you're guiding to be cash flow positive H2. Can you describe what goes into that and what gives you confidence in that side?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

It's all around production rates. Moving the MAX production up is really the story. Obviously, there are other things that impact it. But if we get through the production increase, get through the rate readiness review, that's what will allow us to drive higher levels of cash flow. And I think you've seen that in our performance to-date that the cash performance for the company is very much driven by the MAX production rates.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And so when you go forward, knowing that it's quite difficult because the movement of advances and inventories are hard to project, but can you give us any sense into how you see that free cash flow profile going beyond 2025?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Not yet. Let me get through the first production rate increase. Let's get to a positive cash flow and then we can start looking at how does the cadence look going forward. I'll just tell you, it's going to follow the performance of the production. As I said before, the financials will follow our production performance. So the faster we ramp up, the better our cash performance will be.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Something that a lot of investors have been concerned about, given a lot of the missteps over the last several years, is how can I be comfortable investing now? I have more confidence that those aren't going to happen again. And I'd say both on the BCA and on the BDS side. How do you get confident that – we've talked about that a little bit, but just...

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Well, look, we put together a plan on what we need to do and we're tracking to the plan and measuring to the plan. There's still risk that we have to manage. I don't want to imply that we're done here. Restoring the company and stabilizing the company is our first step. We're not through that yet. I'll maybe claim victory on that when we get to a positive cash flow when we're through our first rate increase and we've got the certifications complete. We still have a lot of work to do.

The only thing I will say is we're tracking to our plan. I feel good about our plan. Our team is focused on this plan. It's achievable. And we're committed to bringing this home. We haven't done it yet. So we've got to still focus on being humble and let our performance do the talking. And that's what we're going to try to do.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Well, one of the things that you've stressed has been culture and thinking about the culture back at Rockwell Collins. From my standpoint, having been pretty deeply involved in Boeing, 20 years ago or so, as I was constantly told in Boeing, everything is about configuration control, making sure everything is absolutely perfect on timing and quality.

And that at the time did a lot of that, but it had a lot of financial cost at the same time with people kind of checking checkers. Today, it seems like the company has sort of swung back and forth in there. When you think about the company going forward, how do you balance ensuring that you do have all of these details related to quality and performance and, at the same time, do that in a way that's financially successful?

**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Look, I think you've just got to focus on the performance first. We have to deliver. It's fundamental to us to deliver safe, high-quality products, whether that's a product going into our government customer or our commercial customer, it doesn't matter. We've got to focus on ensuring that we've got a great product going to the market.

So I don't know what it was like 20 years ago. I can't speak to when you're referencing, but the fact that people were focused on safety and quality sounds good to me. That's what we want to get back to. Then we do need to focus on efficiency. I think there's areas where we can be more efficient. We just got to be extremely careful as we do these efficiency initiatives that we don't take away value, particularly if it's value to the safety or quality of the products. So, we'll take that on. But I think just keeping that focus.

And look, we've been through trying times here. I think we know cutting corners can't be an answer for our recovery. We've got to do this right and we keep saying we got to do this right. Focus on the right things and good things will come from it. And that's what we're doing as an organization. We're making large changes to the culture in the company, to make sure everybody in the company is focused on doing the right thing and delivering a high-quality product to our customer.

Good news is, I'm hearing good feedback so far. We're early innings, I will say. So, there's more work to be done. But we have a plan. We're making progress against that plan. Customers are feeling better about the products that we're getting. The metrics are showing the quality of the airplanes are better. So we're just going to keep marching on that.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Well, just to finish, got a lot going on. What are you going to be focused on the next 12 months?

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**Robert Kelly Ortberg**

*President, Chief Executive Officer & Director, The Boeing Co.*

A

Yeah, well, like I said, the stability of the company is kind of the first thing. And so we got to – we're still not in a positive cash generating situation and we definitely have to get through all the milestones to achieve that. I think my energy in the next year is going to be focused on probably less on the production ramp-up and more on getting through the certification and the development programs and getting those things behind us.

So we're going to spend a lot of energy in that. Also, a lot of energy in the culture change within the company. Because I think the culture change is important not only to enable the improvements, but to ensure the stability and sustainability of the improvements. We need to make sure we don't – we never digress as we go forward. So those are the areas of focus. And, obviously, managing the supply chain here as we ramp up is going to continually be a focus area for the company.

And the team's doing a great job. I'm really pleased with the performance to-date. We're focused on the right things. We've got the right people in the right places to make to make this happen. So we just got to stay focused, stay disciplined and good things will come.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Very good. Well, Kelly, thank you very much for joining us.

## Robert Kelly Ortberg

*President, Chief Executive Officer & Director, The Boeing Co.*

Okay. Thank you.

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## Douglas S. Harned

*Analyst, Bernstein Institutional Services LLC*

Thank you.

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