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The Boeing Co. (BA)

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CORPORATE PARTICIPANTS

Jesus Malave

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

OTHER PARTICIPANTS

Ronald J. Epstein

Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Ronald J. Epstein

Analyst, BofA Securities, Inc.

...Malave with us today, CFO, Executive Vice President of The Boeing Company. So, Jay, thank you for coming.

Jesus Malave

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

Thank you, Ron. Thanks for having me here, happy to be here.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

It's great having you here.

QUESTION AND ANSWER SECTION

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

So, maybe to quickly start off with sort of a big, broad question, I ask everybody, how's business?

Jesus Malave

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

A

The businesses, I think, is doing quite well. 2025, just a big picture, was a good year for The Boeing Company. It was one, I'd say, foundational while at the same time a year of pretty significant progress in the company's recovery. And you take a step back and maybe you just go around the portfolio for a second. At BCA, coming off of 2024, we had a work stoppage. It was really unclear in terms of what we'd be able to achieve from a delivery standpoint, a production standpoint, and the company delivered – BCA delivered 600 aircrafts last year, which was the highest since 2018.

So, they also had -- besides kind of just putting together a solid framework and production cadence, they actually were increasing rates at the same time last year too. And the company put together a pretty strong, and followed it, a quality and safety plan and was methodical about creating stability and maintaining stability in the production system, which enabled it to then increase the rates which is what we saw, and it really put – created a springboard for where we now are in 2026 and where we're going and beyond.

And so, they had a very good year. They also closed the Spirit acquisition, which was no small feat. As you know, integrations are difficult and we closed that at the end of last year and then they started in on the integration and have done quite well. We've seen defects come down by 40% here early 2026 relative to what we were performing at even in 2025. So, really good performance there at Spirit as well.

We did have to fold in their accounting, which did cause a little bit of pressure on the BCA margins. So, for those that have followed us closely, we were expecting to be at least flat or positive margins at BCA this year. That gets pushed out a year to about until 2027. This year will be negative. And, in fact, in this quarter, we'll be negative around 7.5%, 8%. But even so, the combined business of Spirit and BCA is positioned well to really deliver for the future demand that we have.

When we think about our backlog, we got \$682 billion of backlog across the entire company, over \$560 billion of backlog at BCA. So, it's critical that, that part of the value chain works in a synchronized fashion and they're doing so. So, really good progress at BCA. BDS is same thing. On the whole, BDS really made some good progress against same thing, stability in their development programs and some of the programs that have been challenged.

Yes, in the fourth quarter, we did get nicked up a little bit on the tanker program. But on the whole, they made a lot of progress and, again, positioned themselves to start putting us here in positive margin for 2026 and getting ourselves up that ramp to high-single-digit margins that they should be at. And so, they're in the right path. Steve Parker's done a nice job there of really stabilizing that business, focusing on the fundamentals, really just program management, integrated product teams and incorporating really across the company, not just BDS, but across the company, things like lean and continuous improvement. And so, really seeing good progress there.

And, finally, at BGS, they did – they're just clicking along quite nicely. High-teens margins, ended the year last year at 18%, delivering solid cash flow for us, which is critical given where we are in our recovery. And at the same time they were part of the divestiture of Jeppesen, which is not easy to do, keeping everything going on a day-to-day basis while at the same time executing a divestiture. So, they did a nice job there and that gave a boost to our cash balance, which puts us in a good place in terms of a margin of safety.

And so, all those things taken together, a pretty good – pretty, pretty strong year and sets us up well. The one blemish, if you will, we had last year was on development programs at BCA. We had to reset the schedules on the 737-7 and 737-10. We had to reset the schedule in the third quarter on the 777-X or 777-9 program. But the good thing there is that we put those now on the right schedule. The reset while painful, now puts us on a position that we can execute to and perform to on that schedule and we are performing exactly to those schedules today as we speak. So, 2025 is good set up into 2026, and we're moving forward.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

So, maybe if we, for lack of better expressions, double click on Spirit for a moment. When you guys closed and brought it in, what did you find that was surprising? What had changed in the years when it was not part of Boeing anymore and...?

Jesus Malave

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

A

Yeah. Well, the company had embarked on diversification, so it became a little less – they tried to become a little bit less Boeing focused in that there was an impact on performance there among a number of other issues. The good thing there is that our team, our production team and our supply chain team was able to get in there earlier than the close just as a supplier and a purchaser relationship. And so, we were able to get, I think, an early start on quality performance. I think the team did a really, really good job there of setting it up and that's now resulted in the performance we're seeing today, much, much better.

From a surprise standpoint, you don't get access to all the information until you actually close. And so, there was cost that was – their cost was higher than the price that they were getting from us. And so, we had to reset the margins at BCA as a result. But, again, that's a short-term headwind. I think they will be able to work through that. When you think about longer-term cash flows, that really won't get in the way of us being able to generate the types of cash flows we've talked about in the past with both -- with you as well as with investors.

And so, I think those are the two primary things, really focused on execution there for all of our customers, not just the Boeing commercial programs, but our defense customers as well as our aftermarket customers [indiscernible]. We're seeing some good trends there.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

That's great. And then in 4Q, there was a lot of progress made throughout the year. As outsiders looking in, what should we be looking for to kind of give us confidence? What gives you confidence that, that performance is going to continue into this upcoming year?

Jesus Malave

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

A

Yeah. Look, for us, it's – I'll take it maybe into different pieces, just in general, you're saying, right?

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Yeah.

Q

Jesus Malave

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

On the production side, it's really following our production rollouts as well as our deliveries from time to time in how things shake out. And when you look at our production cadence, the deliveries may vary from month to month, but our production rollouts have been pretty steady and that's the important aspect of the production particularly in the factory. And so, we're seeing good performance there.

A

As we said, we're not going to increase rates before we're ready. And so, we're going to stick to the safety and quality plan that we put in place. We need to see stability. We need to see the metrics perform. We have those six KPIs. They haven't changed. We'll follow those KPIs and let the data follow our decision-making there. So, I think that's one area, just how we are performing against the KPIs and how are we performing and the production system in general.

On the development programs, it's really completing where we are on the three programs is just various levels of flight testing and where do we stand on those. Are we completing the flight testing on the timeline that we had laid out? Are we in a position to be able to submit the information that the FAA requires so they can perform their analysis and provide the necessary approvals for that? So, those are ongoing as well. Those, I think, are going pretty well. We can talk about that in more detail.

But it's really monitoring those progress. I think, quarter to quarter, as we report results, we have been and we will continue to do, just give you the color on where production is and where we are in our development programs, where we are on the programs in BDS from a recovery standpoint. And you'll get to see the BGS financials every quarter to see how they're going – tracking from a growth standpoint.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Got you. How's the Everett 737 line going?

Q

Jesus Malave

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

It's going well actually, Kelly and I were there last week. We did a tour of the line, the tooling and equipment's in place. We're going through training. Our employees are being trained in the Renton factory and that's ongoing. That's been happening for a few months now. So, we expect that we'll start our first aircraft build here in the summer. And – so, everything's right on track there. The stands are in place. The line is ready to go. It's going to be an exact replica of Renton lines. So, there'll be no change for those employees, and we have some employees who are going to be coming in from Renton. We have some employees who'll be coming in from our Moses Lake factory and some new employees that we're training up today.

A

So, it will be a mix of experienced employees that will work and work in tandem with all the employees. And so, we're excited about that. It provides not only just the ability to increase our rate, but also provides resiliency in the production system because now we'll have two sites producing and delivering our 737s. We're very excited about that.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

And as outsiders, when would we expect that line to be sort of at a normalized cadence, right?

Jesus Malave

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

A

Well, it'll take us a few years. We'll start this year on our first build. It'll take us a number of months because it will be kind of the first aircraft and we'll induct the second aircraft. So, sometime next year, we'll bump up to a rate two and it'll go from there. But, again, it's going to be no different than any other our factories of follow the metrics, make sure the performance is following the safety and quality plan. And whenever we're ready to increase rates in Everett, we will. So, the way it's set up is Renton will be rate 47 capable and anything above 47 will be in Everett. So, it'll be a great enabler to these increase in rates.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Got you. Got you. And then I think about the MAX 7 and MAX 10 certification targets and things seem to be in line. What remaining test items have to happen and, again, what should we be monitoring to kind of feel good that, yeah, right, things are going the right way?

Jesus Malave

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

A

Yeah. I mean, well, the good news on that program is that we have all of the flight testing envelope has been approved by the FAA. So, it's a matter of completing the flight testing. The remaining things, things like autopilot with the engine anti-ice solution that we implemented last year has to go through the flight testing program as well, advanced angle of attack. There's a number of aircraft systems and capabilities and functions that will have to be tested, but we expect to be complete with that sometime this summer. We'll be in a position. We'll be able to provide the appropriate documents and paperwork for the FAA for them to do their analysis upon.

So, that's tracking really well. Those will be some reviews related to what I call as engineering process reviews to validate that your validation program ties all the way back to your original requirements and that will take place this year as well. So, we're still on track to have these aircrafts certified towards the second half of this year and we'll start delivering next year.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

That's great. And then how's the 777-X going? What milestones should we be looking for and how should we think about longer-term demand and build rates for that airplane?

Jesus Malave

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

A

Yeah. It's a similar case. It's not as far along as 737, but it's still on the right pace. We discussed and disclosed in the fourth quarter call in January that we had approval for the TIA 3, which was the next big phase of flight testing. There are two more that we need to get approval for and we're waiting for the next one very shortly here. Flight testing is ongoing, so it's not like we're paused in any way. We have a number of flight test assets that can handle and are configured for the different flight test program approvals that the FAA gives us so that we can run all of these big programs concurrently.

So, like I said, this is a little bit behind from a certification standpoint than 737-7 and 737-10, but we're on the right path. And as we mentioned, when we reset the program in the third quarter of 2025, we expected to get certified and start delivering aircraft in 2027. We're still on that framework. So, again, it's similar milestones to the 737, where are you in your approvals for flight test program and where are you actually on the flight test program? And, again, we're pretty much on track there.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

And then when we think about it, if you can, longer-term potential build rates for the program?

Jesus Malave

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

A

Yeah. Longer term, we'll be running up to about five per month. There's discussion about potentially taking it higher. But for the time being, we're right around five and that's something that we've been able to demonstrate before on the legacy 777 program. So, there's a fair amount of demand. We've got over 500 aircraft in the backlog. There continues to be demand. We took a lot of significant orders last year. And it's an excellent aircraft, so there still continues to be a lot of interest there. We expect there to be more orders.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Got you. Got you. And then, in 2026, how should we think about aircraft coming out of inventory versus aircraft coming off the line?

Jesus Malave

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

A

Right.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

And just from an outsider looking in, when will there be a tighter correlation between actual rollouts off the line to deliveries versus things coming out of the second factory?

Jesus Malave

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

A

Yeah. This year it gets a lot closer. When you think about last year and maybe take a step back last year and I'll compare it to this year. Last year, on the 737, we delivered 447 aircraft. About 50 of those came from aircraft that had been built prior to 2023, so it was a fair amount they had to do some completion work, but it really bolstered the delivery framework because we weren't producing at that level. On the 787, we delivered 88 aircraft and in a similar type of story, about 15 or net ballpark of aircraft that delivered out of inventory.

So, what was coming out of production wasn't at the rate of delivery. This year, for the most part, it does catch up. When you look at 737, we expect around 500 aircraft this year and that's supported by the 42 rate as well as we're expecting to go to 47 sometime mid-year on that program. In addition, we're building another 30 737-10s for delivery in 2027 once that gets certified. So, actually, build will exceed deliveries this year on the 737 program.

Let me just stop here on that program for the moment because last week, I think it was reported that we had paused delivery on 737 due to an internal Notice of Escape related to wiring in one of our facilities. Since that time, our team went through the investigation to that analysis. They also presented that and worked with the FAA. And what's come out of that is we've got about -- a population of about 25 aircraft that are impacted by that. They'll have to undergo some level of rework, but you're talking around three days of rework, so not a significant amount of rework on those aircraft. We have resumed deliveries as of last week. So, towards end of last week, we're able to resume deliveries of aircraft.

And so, the impact here is really one of timing. We'll see about 10 aircraft. We were expecting about to deliver around 120 737s in the first quarter, so we'll slip about 10 of those deliveries into the second quarter. So, fairly limited in the grand scheme of things. That'll put a little bit of pressure on cash flow in the quarter. I talked about cash flow being similar to what it was last year, maybe a couple hundred million dollars worse than last year as a result.

But at the end of the day, we'll get those aircraft back and delivered here in the second quarter, really no change to our factory production, really didn't change. It continued. It was not a safety of flight issue at all. And, again, we worked out with the FAA and we fully expect that we'll change rate to 47, like I said, around midyear. The team is actually working to an earlier date than that, but for purposes of conservatism, I'm around midyear.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Okay.

Q

Jesus Malave

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

And we're still expecting to deliver over 500 aircraft, so really not much change at all. It's something that the team worked through. And, frankly, I'm proud in terms of how they approached it, really using the Lean and continuous improvement tools, go down, root cause, corrective action, understand the population affected. Besides getting to the corrective action, determining what you can do to -- using continuous improvement parlance, mistake-proof, so how can you prevent something like this happening? Do a read across another types of systems and machines so that you don't see a reoccurrence of this? So, I think that the BCA did all the right things around this and the impact is fairly limited.

A

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Can you speak to how that was just noticed in the first place, like what in the quality system said, hey, you know what, we have an issue here?

Q

Jesus Malave

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

Well, they observed some nicks in some of the wiring and that traced back to a machine that just didn't have the right calibration settings and so had to go back and trace back the root cause of the setting changes.

A

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Yeah.

Q

Jesus Malave

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

So – but in the meantime, what they've done is really taken those machines offline and you're able to manually do this. And so, they've been doing it manually.

A

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Got it. And then maybe just as what we're talking about production, in South Carolina, how are things going with 787 and the work?

Q

Jesus Malave

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

Yeah, good. Thank you for asking the question. 787, again, the rollouts have been pretty good actually for January and February. The deliveries have been a little bit lighter. We've delivered about eight aircraft quarter to-date, which is lighter. We were expecting to deliver anywhere about 20 aircraft in the quarter. So, we expect that to be close to maybe 15, maybe one or two better or worse in that ballpark. And that's mostly related to seating certifications. Kelly talked about that in the fourth quarter call in January, and we're still paced by some of these certifications that we're working through.

A

Again, the build is happening. So, we're really not changing the production cadence. The factories have been really for the most part unaffected there. And so, we continue to expect that we'll deliver 90 to 100 aircraft this year as well there. So, for that program, it's a timing issue as well.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Got it.

Q

Jesus Malave

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

And a little bit lighter in the first quarter, but we'll catch that up.

A

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Got it. And like what we've heard is just the front-end interior seats cert issue...

Q

Jesus Malave

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

Yeah, the premium seating has been challenging. Those are very strict rigorous types of certifications and you wouldn't ordinarily think so, but they are. They're difficult to get through and airlines like to have their specific unique configuration, which they view as a differentiating selling point to their customers. And so, we have to work through those.

A

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Yeah, maybe changing gears a little bit to the defense business. We're going to see potentially another large uplift in US defense spending in fiscal 2027. How does that look for you guys? I mean, what kind of opportunities are you looking for there?

Jesus Malave

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

A

Well, the business, coming into this year was very strong. As I mentioned, we had record backlogs. We had a record backlog of \$85 billion. You're coming across a business that's generating about \$27 billion of revenue. So, you got multiple years already in the backlog and you're looking at potentially more upside, the team recently announced that they had reached an agreement with the Department of War related to a PAC-3 interceptor or seeker there. And I think the team is committed and they got ahead of it. They made some investments on the production system on that program earlier. So, that enables them to ramp up a little quicker than they otherwise would have on that program.

So, they're doing quite well and the demand is pretty much robust. We're having a lot of dialogue with customers on our – mainly the US DoW customer on the platforms as well, things like the tanker program. And, yes, we have to kind of work through these lots in prior contracts, but we're in a position where we'll have much better contracts and much better demand on that tanker program as well.

And so, there's just quite a bit happening. There's demand on the helicopters and as you know, Ron, a significant amount of activity in space and our team has a very good business there. And so, we're positioned quite well to participate in these higher budgets.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Got it.

Jesus Malave

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

A

[indiscernible]

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Are you...

Jesus Malave

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

A

For us, it's execution. We got – we've got a backlog now, execute on that backlog and make sure we earn the right to bring in additional business.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Any thoughts on F/A-XX, what could happen there?

Jesus Malave

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

A

I would be speculating, Ron. But, we're waiting. That's been on and off, on and off. You hear different things on that program. We have to follow the customer's lead on that. And, look, we feel that we've submitted a fabulous, compelling proposal to the customer, both technically, commercially while at the same time, protecting The Boeing shareholder. But that's ultimately a decision they got to make on a timeline, their timeline. And that's not something that we necessarily have much of a say on.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Got you. Got you. And then one question, that kind of comes up all the time. How should investors be thinking about potential incremental charges in the defense business?

Jesus Malave

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

A

Yeah, it's been, I think, the running I don't know if it's a joke or running fear. Jay Malave is going to come in and do a bunch of EAC reviews and we're going to have a whole bunch of charges pop out left and right, what I could say is that, starting in January, I was able to get access to the defense businesses and many of the programs and I've had a number of reviews. And it's not just financials. It's strategy. It's capability. How is that capability relevant today? How will that capability be relevant tomorrow? How can you enhance it? What type of modifications and what's the investments necessary for that?

So, it's as much strategic as it is financial. But just on the financial, right, because I think that's really where your question is, is, I've had a chance to review a number of the EACs. And while we do have improvement in those EACs, they're very achievable. I'm very comfortable the team has the right assumptions in there. They've got the right performance baselines, their sound reasoning for the assumptions that they have in those EACs. And so, like Kelly said, you can never say never charges, but I don't see anything imminent.

I think the team has done a good job of estimating and they're doing a good job of staying on track to the estimates, the improvement plans that they have in those EACs. So, I don't see anything imminent. We'll continue. Look, I do ongoing reviews on the commercial side. I'll be doing ongoing reviews on the defense side just to see how we're doing. But there's nothing that comes to mind that worries me.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

That's great. How is supply chain? I mean, are there pinch points and how are you managing that? And can the supply chain currently support the ramp that you have in front of you?

Jesus Malave

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

A

Yeah. I think in the short term, the answer to that is yes, we're going from – let's just start with BCA and the 737. We're going from 42 and our next rate change will be going to 47. I think that the supply chain is very well positioned to support that change. Pretty much across the board, we have an ample number of fuselages. We have an ample number of engines to support that. As you start going beyond 47 into 52, it starts getting a little bit tighter and, there's areas that we have – we're watching.

I mean, engines is an obvious area where there's that tension between aftermarket and original equipment demand that – with a limited supply. And, ultimately, that's something that we watch. And we have a very good relationship with our engine provider and they do a good job of keeping us informed. And so, I think that's a – they

continue to make progress and we'll just continue to monitor that, and so I think that's the primary one, probably on narrowbody, and the widebody, as you know and we've talked about some of these seating certifications that we're dealing with in 787.

There's also been some issues here and there on just on some interiors and from a quality standpoint, so quality needs to get better so that we can improve the delivery and when we're going to go from 8 to 10 on the 787 this year. That'll be probably in the back half of the year, is our expectation there. And, again, I think when we from, say, 10 to 12 in future years, that'll be something that we'll have to keep an eye on. Same thing, I think that we'll have to keep an eye on the interiors and probably engines as well.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

And maybe back on 78, should we be thinking about a 78 freighter as a potential replacement for the 67?

Jesus Malave

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

A

It's possible. It's under consideration. The team considers it. I mean, right now, we've got enough on our plate to deal with. And then the investment there is not insignificant and it's not easy. So, it's not something you can just do on the side. And – but yeah, it's under consideration.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Yeah. Interesting. What's the aircraft pricing environment look like?

Jesus Malave

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

A

The pricing environment, it – I'm going to take that question back to the question that you asked Kelly in the fourth quarter call and you asked the question more in the context of, just profitability pools and things like that in the industry and would you change that in a future program? And, I agree the way Kelly answered, and I think it's equally applicable to the pricing environment now. And what he said was is that a lot of it comes down to contracting, the risk that you take in your contracting, the terms that you agree to.

And you think about – you take a step back and you think about The Boeing Company and what we are is we're an aircraft system integrator and we take a lot of risk associated with being an aircraft system integrator. And so, the contracting, the pricing, as well as the terms that we agree to should be commensurate with the risk of that. And so, we need to protect ourself probably better than we have from a risk perspective on the term side. And the pricing should be reflective of the risk that we're taking as the integrator.

And so, I think we are seeing a better pricing environment and it's reflective, I think, of a move towards that. It's not just being kind of opportunistic because there's minimal slots available. Yes, that's a factor. But I think that we need to be just more prudent in the way we price. And, again, like I said, it's got to be more connected to – I think correlated to the risk that we take as an integrator.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

I mean, just maybe double clicking on that, that was a question that I asked. Do you see the industry move in that direction? Because I would argue that I think most investors think that Boeing and your primary competitor don't price enough on the aircraft that you provide.

Jesus Malave

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

A

Well, I can't speak for others. I can only speak about what we're doing. And I really – I believe – I'm really, again, impressed with what BCA – what Stephanie and her team and our sales team are doing in terms of just being more prudent with sales campaigns being more disciplined, being just using sound reasoning for – to the extent that we're incorporating changes that customers may or may not have seen in the past. And so, it just be – it's just logic based. And so, I think that there's just room for that. And so, whether or not others are doing, I can't really say. All I can tell you is what we're doing, and I think discipline is an important part of our recovery plan.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Yes, that makes a ton of sense. I mean, what are the key building blocks to bridge 2025 cash flow to 2026 targets when you think about how to do deliveries, inventory drawdown, working capital.

Jesus Malave

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

A

Yeah. I mean, you look at it big picture. You go from 2025 to 2026 and, BCA deliveries is just a big component. We are increasing deliveries across – pretty much across the board on the two major programs 737, 787. So, that provides a cash flow boost. We're also getting a benefit from some excess inventory burn down in 2026 relative to where we were in 2025. And then, with timing, I mean, this year, we see some timing benefits in terms of new orders. That varies from year to year. But we're expecting some benefits there, which will give us a little bit of a boost as well. And so, some pretty solid contribution out of BCA.

And then you've got BDS with the profitability improvement. We'll continue to see a contribution from them as well. So, they're shifting from a business that over the past few years have been pretty much negative cash flow to a business that will be breakeven to positive cash flow fairly quickly here. And so, they're on the right path, just the cash flow will follow the profitability path for them as well. And then BGS, just kind of clicking along, just continue to grow and drive some cash flow. So, those are all the positives that we'll see in cash flow.

Some of the kind of – the kind of headwinds or offsets that will see negatives, we do have negative cash flow or higher negative cash flow on a 777X program this year, we still are going through a certification program and we're building aircraft start delivering next year. So, that does have a pretty decent sized cash burn to it. We've got higher CapEx, this year, about \$4 billion of CapEx versus around \$3 billion or a little bit \$2.9-ish billion last year. And so, we'll see that for this year and next year around those levels, around \$4 billion.

And so – and then, we have this kind of one-time payment that this DOJ payment that dealt from our settlement and some additional corporate cost that we're dealing with, too. So, those are all kind of things that are dragging it back down into this range of \$1B to \$3B. But I still feel comfortable in that range, given all those moving pieces. So, yeah, I mean, there's a number of items there that are moving around.

When you look at – and we talked about this on the fourth quarter call in January, when you put aside and I know, look, the actuals are actuals, so you can't necessarily ignore it. But when you put aside some of these temporary issues that we have that are impacting our cash flow, whether it be some of the pricing penalties that we've had,

some of these excess advances that we got to work through, and where we're going in terms of the aircraft build on 777, once we get ourselves fully delivered and get ourselves on the increasing rates, it's all temporary. That'll all burn off and the types of cash flow that investors had come to expect from The Boeing Company, it's in front of us. It's right there. It's not tomorrow. It's not today, but it's there. And so, I'm very confident that's going to happen as long as we execute.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Yeah. How's it going with hiring and retaining employees and is that stabilized? Is it...

Jesus Malave

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

A

Absolutely, you think about that, Ron, maybe two to three years ago, there was just so much pressure on retaining talent and it really was all types of skills. It wasn't just technical skills. It was technical. It was factory workers. It was other professionals. It was just difficult to retain talent. Our retention rates are very high this year – last year and this year. Part of it is, I think, I came into the company in August and I just saw a change, really a level of enthusiasm, because employees started to believe that we could recover. And I think that has just grown the momentum there. And I think that as a result, the retention has just been fantastic.

We've got like a 4% acceptance rate for applicants in the company, which you may ask well then how did I get in. Yeah, it's a good question which we've been working on that, but I did get in. But I think big picture, we're doing a good job of retaining our employees, particularly our technical employees on the engineering side. As well as on the factory side, we've been able to increase the head count. We pretty much have the employment levels that we need to deliver at these rate increases. Now, it's a matter of training for those that are new employees. And I think we're doing a very good job there as well. And so, turnover – high turnover really hasn't been an issue for us for a little while now.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Thanks, Jay. And how is the relationship with the union kind of now that we're past the strike?

Jesus Malave

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

A

Yeah look, everyone moves past that and we move on and we're all one team. And a lot of our incentive structures and bonus structures across the company are tied to one company scores. And just we've – just everyone's moved past that and it's all about making The Boeing Company a better company each and every day and delivering to our customers' requirements.

I was in Renton maybe about three weeks ago, just talking to the team who's going through the training and the executive was going to manage the Everett line, the North Line. And the way she explained is like, look, I'm not your boss, this aircraft is your boss, and we need to do what it takes to make sure that we take care of that aircraft. It's a great way of articulating what we're trying to accomplish and the employee – Boeing employees bought into that. And so, we're seeing some really good progress and, like I said, better performance.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Yeah. Maybe switching gears a little bit. You guys have massaged the portfolio some. Would we expect any more portfolio management in terms of the assets you guys have?

Jesus Malave

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

A

Well, I think its good corporate hygiene to always look at the portfolio and we will do that. We will continue to look at the portfolio and determine whether or not there's things that should be pruned or things that should be added. And so, I think that'll be an ongoing review. There's nothing imminent, Ron, that we're looking at. But I think, the board expects management to give them portfolio reviews and we do that. So – but I can't say there's anything to – specifically to speak of at the moment.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

And then kind of I always wonder about this, as you know, and I think this is a question in the back of people's minds. How are you thinking about new airplane development and previous regimes that ran the company said, well, we're not doing that. How would you frame it now?

Jesus Malave

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

A

I would say that, there will be a day where we have to enter into a new program. That day is not today and it's not any time near. But we do think about the technology that's going to be required on a new program. We have dialogues with suppliers in terms of technology. Propulsion technologies is a great example on how something like that will look like, looking at things like new and different types of material properties that you can apply to aircraft and what type of structures are you going to be looking at. So, there's – what type of systems?

There's so much to look at. You just can't wake up one day and say, hey, we're going to develop a new aircraft and, now, all of a sudden, we're just going to turn the engineering lights on for that. You have to think about the technology beforehand. You have to start technology development, but that in no way means that anything is imminent. So, it's unrealistic to say that we'll never develop a new program. We will, at the right time.

But as Kelly has repeated saying, I wholeheartedly agree with him. There's three conditions that need to take place. Number one, the market has to be ready. Number two, the technology has to be ready. And number three, The Boeing Company has to be ready. And none of those three are in a place that we believe that would come anywhere close to supporting a launch of a new aircraft. You look at the market, we've got overdue aircraft. The customers just give us what you – what we've already – what you sold to us. We've got a \$560-plus billion backlog. We just have to deliver on that. As I mentioned, that technology, there's still just a lot of things, trade studies that have to take place, and there's just a lot – a fair amount of time that's got to pass before our engineers feel anywhere comfortable settling on any type of configuration around that. So, it's very, very kind of just really early.

And then The Boeing Company, I think we spent the last half hour-plus talking about what we're doing today in the here and now. We have to complete our certification programs, that 737-7, -10, the 777-X program or 777X program, we have to complete as well. And we have to get ourselves to these rates that we've talked about, and none of those conditions are anywhere near ready. We're still going up the recovery path here. So, like I said, that day will come, but it's not anytime soon.

Ronald J. Epstein

Analyst, BofA Securities, Inc.



And then the one business in the couple of minutes we have left that we just didn't really talk about is the services business. How should we be thinking about that, the growth profile there and how you broadly think about that business?

Jesus Malave

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



Yeah, it's a good business, has various aspects to it. It has commercial aftermarket to it and a parts business. It has a defensive statement to it, both kind of modification work, parts work, some level of even – some level of MRO to it there. And there's also distribution businesses where we're providing parts to our suppliers who are then turning those and putting those into a subsystem or system they supply to us. So, it's a pretty diverse business. It's – in the commercial world, it's not MRO heavy.

And I'm not sure – I think we've dipped our toe in that and didn't really like it. So, I'm not sure that that's something that we would pursue significantly. But it's got a very good place in the marketplace. It even sells third-party proprietary parts and makes a margin on that as well because it's kind of a one-stop shop. It's easy to come to The Boeing Company and get a bunch of things for – to fulfill your needs and if you're a commercial airline or an MRO shop.

So, we look at it. They're on a great growth trajectory. They've got – enjoying the commercial, supporting OE commercial aftermarket, a lot happening in military sustainment on a lot of our platforms. And as you know, Ron, these military platforms, they get modernized a lot often and they have to continue to do work on those. So, it's a good business and, you see it reflected in the growth rates and in the margins.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

I think, with that, that's pretty much everything I had, Jay.

Jesus Malave

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

Well, thank you for your time, Ron. I really appreciate being up here.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Great. All right. Pleasure.

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