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# The Boeing Co. (BA)

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## 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, I guess we're ready to go here. I'm Doug Harned, Bernstein's Global Aerospace and Defense Analyst. And I'm thrilled to have with us again Kelly Ortberg, Chairman (sic) [President] and CEO of Boeing.

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**Robert Kelly Ortberg**

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

Good to be here, Doug. You're doing well?

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Yeah. I am. I am. It's good to have you here.

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**Robert Kelly Ortberg**

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

Yeah.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Nothing's boring these days.

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**Robert Kelly Ortberg**

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

Time has flown since we were here last year.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

No, I know. A lot has happened.

**Robert Kelly Ortberg**

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

Yeah.

## QUESTION AND ANSWER SECTION

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

I mean, maybe to start. We could start right there, is if you look over the last year, and what you've been able to do with the company in terms of the progress you've made and some of the challenges you may be looking at right now, maybe you could give us an overview.

Q

**Robert Kelly Ortberg**

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

Yeah. So, look, I feel really good about where we are. Looking back in the last year, we've accomplished a whole heck of a lot. Production on our Commercial – in our Commercial business is ramping up, continuing to ramp up. But we've had some really good success. As you know, we finished last year with over a 1,000 new orders. So, the market is super strong for all of our Commercial products. So, really pleased there.

A

We've done really nice work on our Defense portfolio in realigning that portfolio with our customers around successful programs, particularly focused on our – some of our problem development programs, and getting those back in shape. And so, I feel really good about what Steve Parker and his team are doing there. And again, we finished with record backlog in our Defense portfolio. And our Services business has continued to do what it does, keep our airplanes flying and our customers supported with a really good margin performance there, which has been important given the status of the rest of the company. So, really good progress.

The one area I'd guess I'd highlight where I haven't met my goals was getting the certifications complete on the new Commercial Airplanes. And we're – I'm sure we'll talk a little bit about that.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Yeah.

Q

**Robert Kelly Ortberg**

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

But getting through the 737-7, 737-10 certifications and the 777-9 are big goals here for us yet to go in the year. Then we're always managing the day-in/day-out things, whether it's supply chain challenges, things pop up, we manage them. I think that'll be ongoing. Labor agreements - we've got our SPEEA labor agreement with our engineers and Puget Sound coming up at the end of the summer. So, those are all things that are ahead of us that we just got to continue to work.

A

I'm really pleased at the culture work across the company. We did a lot of – a lot of focus on training our people, rolled out our new values and behaviors, aligned our goals and objectives to a single one Boeing set of goals and objectives. So, everybody is focused on success of the company. And I'm seeing major, major turnaround with that. And it's not just me. I'm hearing it from the employees. I'm hearing it from the customers. Our Commercial customers are saying these are the best airplanes they've received from Boeing. So that's a great accolade. The team is really doing a good job.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

You mentioned the orders you've had and on your backlog is huge right now. Can you give us a sense of how far out that backlog extends, if customer wants to come in and place a significant order today for 737, 787, what timeframe are you looking at?

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**Robert Kelly Ortberg**

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

A

Well. It's well into the next decade. So, it somewhat is a little bit different, Doug, depending on the customer. If it's a customer who has options, firm options, then we give them a window and we'll protect the slots, if you will. Production slots for firm, for firm options. But if it's a new customer coming in for new demand, they're going to be in the 2030s before they're going to be able to get either a 787 or a 737 airplane.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And I put that in the context of we just – you just came back from this trip to China with the President and you got an order for 200 airplanes. A lot of us were expecting a 500-airplane order. But does – when you look at China, does that matter in terms of when we'll see deliveries actually?

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**Robert Kelly Ortberg**

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

A

Yeah. The China trip was super successful. My primary objective was to reopen that market, our narrow body airplanes. As you know, we hadn't had an order in nearly a decade. And we accomplished that, which is a major, major accomplishment. And I think people focus a little bit too much on the initial quantity. This is opening the market. They need well over 500 aircraft a year to support their GDP growth. And so, there's a great market opportunity for us, and the initial order – the initial commitment of 200 will turn into an order later on in the year.

The way the process works is once the government decides a batch of narrow body aircraft, they then allocate them to the Chinese airlines. And then we go work with the airlines to actually get a firm order. And that's you'll see us book those orders on an individual airline-by-airline basis. So, look, I never had a plan to go to China and return with a packet full of 500 orders. Having said that, 200 is a huge number of airplanes. So, it's a good start. And I'm very confident that keeping that market open, that's an initial tranche of aircraft and there will be more to come.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

With the large backlog you have being sold out for a long time, we're currently in this situation with very high fuel prices, that's putting a lot of pressure on many airlines around the world.

**Robert Kelly Ortberg**

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

Yeah.

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Our assumption would be, as we saw during the global financial crisis, you're going to have some movement in slots, some airlines could find it difficult to take deliveries at certain times. How do you approach that process of managing your skyline with some airlines who may have had a more difficult time than in the past?

Q

**Robert Kelly Ortberg**

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

Yeah. So, just to be clear, so far, just like I said in the earnings call, we have not seen anybody request a movement or a delay of the deliveries. Now, I think everybody, because of the high fuel prices, will want to take the more fuel efficient new airplanes and if they have to park an airplane, it's probably an older, inefficient until they get cash strapped. And then they get to a point where I can't take the airplanes. We'll work with the customer if that happens. We've done that before. I've had more customers call me saying, if you have that situation, I'll take the airplanes. Then I have had customers saying I want to give up any slots.

A

Generally, Doug, if it's a 737, as long as we have about 12 months of advance notice, we can re-fire that to a different airline, probably 18 months from a 787 perspective or even a wide – a larger wide body. It's a little longer. So, we just have to get in front of that and talk to the customers, make sure we know in advance that, if they're thinking about it, we try to get ahead of that, so it doesn't become an issue where we've got an airplane, we can't make a delivery.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Yeah. On the 737, so you've gotten production up to 42. I think you're still looking at 47 rate in the summer. Can you take us through how that process is going and maybe update us on your expectations for 47?

Q

**Robert Kelly Ortberg**

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

Yeah. So, we went to 42 last fall, and the good news is we've continued to roll out at 42 a month and all of our key performance indicators have been very positive. They've stayed green through that. So that production ramp has gone very, very well. We just recently had our capstone review with the FAA new news here. We've passed the capstone review for rate 47. So, we are now in the process of running the line at the 47 a month rate. It'll probably take us a few months of stabilization there. But I'll say when we went from 38 to 42, that stabilization didn't take too long. My guess is we continue to go up in rate. It may take a little bit longer, but we're often rolling now for the 47 a month rate, and we should be there in the next couple of months.

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

And so, how do you think about that is you start working at 47, you'll have blanks on the line, and then you start to fill that in if the rate gets stabilized?

Q

**Robert Kelly Ortberg**

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

A

Yeah, what we do is before we go to the capstone review with the FAA, we want to make sure that we're ready to actually go to that rate. So, what we do is we actually bump the rate up to 47 a month before we go actually to the capstone review. And then we put some blanks, as you point out, in the production system so that if we go to 47 and one of our commodities gets too many jobs behind schedule, we use that blank month to catch them up, and then we go figure out what is it we needed to do to get to 47. And we try to get that all done before we actually make the rate increase. So, we're highly confident that we pulse the system to make sure we're ready to go to that rate.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And when you look at 737, what we've heard from some suppliers is that that the inventories that you had built up during the periods of low production rates, that those have been worked through pretty far from at least that's anecdotally. Where do you stand on kind of bringing down the inventory levels?

**Robert Kelly Ortberg**

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

A

Yes. So, it is a little bit of a commodity-by-commodity answer. But I would tell you, we're still at high inventory levels higher than we want for sustained production. And I think we won't get to that more balance or equilibrium until we're at 52 a month rate.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Okay.

**Robert Kelly Ortberg**

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

A

So 47, we're still going to benefit by higher levels of inventory. And at 52, we'll see that balance out. That's why I've said that the rate increase at 52, we'll have to watch that because I think that's more – going to be more of a strain than going to 47 because of the inventory. The other thing I'll point out is that rate 52, we're bringing on a fourth production line for the 737 in our Everett facility, which is North of our Renton facility.

That production line is in place, we will be firing an airplane through that to qualify the production system. It is the lift and stick of the Renton production line. And we're hiring people. We're going to flow them through Renton, and then move them up to the Everett line. We need the Everett line active to move 52 and beyond, not for 47, but while we're at 47 stabilizing at 47, we'll be bringing the North, we call it the North Line, the North Line on at low rate production.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

At one time, I mean for a very short amount of time, you were at 57 a month back in the kind of pre-grounding period, and now it's all being done in the Renton facility. Can you talk about what's changed? I think it has to do some with the FAA processes, but can you still do 57 in Renton?

**Robert Kelly Ortberg**

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

A

No, we don't think we can. We don't think we can sustainably with our current safety and quality processes, we don't think we can sustainably do that in Renton. And that's why we brought the additional line on. It'll give us obviously the capacity of an additional line, but also gives us flexibility. If we have one line that has a problem, we can use the other lines to help offset what that – the problem line is dealing with.

I wasn't there back when we were doing that. I would just say that we are ensuring that this is a stable production, not a unstable production. We're not going to push airplanes down the production line and end up with traveled work. And some of the challenges we've had in the past. And so that's why we've invested in the North Line to make sure we've got sufficient capacity here. Now, it's not just a 52. We'd like to get some day to 63 a month rate. And so, we're looking forward to that. The market will support those higher rates. We just got to get ourselves and our supply chain in a position to do that.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah. So, when you look at going to 52, what's the timeframe you're thinking about now? Assuming that 47 happens this summer, July, August?

**Robert Kelly Ortberg**

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

A

Yeah, historically I've said no earlier than six months. And if you look at the maybe the 42 to 47 is probably close to that six months out if you look at it exactly. But it'll be close to that. I think it'll be a little longer. I actually don't know, we're going to move when the system is ready and when the supply chain is ready, knowing that we're going to stabilize this inventory a little bit, I just think we should assume it might take us a little bit longer. But we'll see. We'll see how everybody performs. Each rate is a new rate to deal with. And we'll get good feedback once we get to 47, if that's going smoothly, like it did at 42, then we'll move at 52 – move to the next 52 as soon as we can.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Are there certain parts of the supply chain that are more of a concern for you to make sure they come through smoothly?

**Robert Kelly Ortberg**

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

A

Not – for 737, not really. Not right now. I think for 47 a month and 52 a month, there's no particular commodity that I'd point out to you and say, we need that one to double or we're going to be in trouble. Part of that's our inventory. We always are dealing with the day-in/day-out of supply chain challenges. And we address those, burn them down and keep going. But there's nothing I'd point out to you that I'm overly concerned about with these next rate increases.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

If I go back to the previous time when Boeing went from 47 to 52, and one of the big problems was at Spirit.

**Robert Kelly Ortberg**

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

Yeah.

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Spirit did a great job going 42 to 47, but things sort of broke down for a while there. Now that you have ownership of Spirit, how have you looked at that kind of a challenge?

Q

**Robert Kelly Ortberg**

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

Yeah, well, first of all, they've made great progress in streamlining their production process and building a higher quality with less defects. So, they're not repairing and doing a lot of rework, which is allowing them to flow fuselages better. I was just in at a big event in Wichita about a week ago. We announced a \$1 billion investment over the next three years, which is in our plan, but we announced it publicly where we're going to invest in the facilities as well as people and training to make sure that our team in Wichita is ready for the next production rate.

A

So, look, we – now that we've – now that we own them, they're under our control. We know there's pockets of either capital equipment or training that have not been invested in to the level they need to be, particularly focusing on our safety and quality plan that we've worked with the FAA, put in place in Renton, we really want to replicate that and get that solidified down in our Wichita facility. So yeah, I think – I do think that that having control of it, we can make sure that we're making the investments needed to make the rate increases.

I will say that Spirit is one of those – the former Spirit is one of those areas where we have a lot of inventory on 737 fuselages. So again, for the next – these next rate increases, the Wichita performance is not a big concern right now.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

That's good. At least I look back when they on the same footprint they went from 28 to 47 which was pretty amazing. Now, there have been changes there over that time. But my assumption would be if they have to go up to a 63 level, eventually, you're probably looking at some expansion of those facilities, is that correct?

Q

**Robert Kelly Ortberg**

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

Yeah. I would say across – I've been talking about 47 and 52. I think across the supply chain to go to 63, we've got work to do. I think many commodities, we've got work to do yet to get to that. But we're not there right now. We've got to get through these near-term rate increases. We are doing the advanced planning to make sure that everybody's doing the advanced planning around these future rates. I think the whole world is watching to make sure we make 47 and 52.

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

And when you get back up to those rates, so let's say 52. Given the process changes that have happened, the fact that you're going to be using the North Line, how do you think about margins for those programs compared to where they were the previous time around?

Q

**Robert Kelly Ortberg**

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

A

Well, certainly margins will be improving as we go forward at the higher rates. Now, there's a lot of dynamics in that. And I think Jay has laid these out in the earnings call. We have headwinds associated with late penalties, with current deliveries that will burn off over the next couple of years. We have larger, more 737-10s in the mix going forward. Those are higher priced airplanes. We have generally higher pricing or improved pricing that will help us. But the North Line initially will be at low rate. So, the North Line will actually be a drag on us initially here. Once we get it up to the same rate performance as Renton then it will be a contributor to the margins.

So yeah, whether we get back to the exact level of margin on the program, we'll see. But there definitely will be improving the margin here over the next three years on the 737 program.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And do you still think of that North Line as focusing more in the MAX 10?

**Robert Kelly Ortberg**

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

A

Yeah. So, the North Line because it's in Everett, and if you've been to Everett, it's a huge facility. We can actually do a 737-10's nose to tail in the facility. In Renton, we actually have to space, the 737-8s and 737-7s and 737-10s because it's not long enough to actually fill the factory with all 737-10s. So, we do think that that provides us the ability to get to a point where we can do primarily 737-10s. Having said that, we've put the facility in place to do everything except for 737-7s, so we won't do a 737-7 in the North Line, but it'll be capable of doing every other one because we want the flexibility. Like I said before, if we have issues with one or another, we can use these multiple lines to help us reduce risk.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, I know a lot of people really want their 737-10s delivered now.

**Robert Kelly Ortberg**

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

A

Yeah.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, how does the certification process look at this stage?

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah. The 737-10 and 737-7 cert programs, we're clearly getting to the final stages. So, there is clearly light at the end of the tunnel here, and we're going to get these certification programs done. We're roughly 80%, a little better than 80% done with the certification flight test program. So, the certification flights are done, scored for both – for both the 737-7 and the 737-10. And we have authority from the FAA for the entire test regime now, flight test regime. So, we don't need any more TIA approvals from the FAA.

So, it's just a matter of getting through that flight test program. And we're clicking them off as we speak. So, I got a note from our team that we were flying three 777s and two 737s simultaneously for certification score. So, we're really banging this down, and that it'll get to the end of the year where we'll get the certification, so we can really support next year's deliveries. You know we're building 737-10s, so we need to get that cert done, so that we can start those deliveries.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, when you look at this, is there a major difference? What I'm trying to think through here is that, I mean, the inlet design has been – was a big issue here to get this through...

**Robert Kelly Ortberg**

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

A

The anti-ice design...

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

...the anti-icing. But is the testing you're doing now primarily that or is it broader? So, the MAX 10 is...

**Robert Kelly Ortberg**

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

A

No, the engine is – yeah. Good question. So, the engine anti-ice, while it was being done as a part of the certification program, it'll actually be cut into the 737-8 program first. And so, we've made – we're through all the testing of the engine anti-ice and that's all kind of behind us. So, we feel really good about that. And then the remainder are just – I'll just say just the normal. These are the things you do at the end of the flight test program. We've dry run everything. We're pretty confident that we're not going to see any hiccups here in the remaining regime of flight testing.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And there's no added complexity in the MAX 10. I mean, you have a different landing gear. You have – I mean, there's some different aspects to that airplane.

**Robert Kelly Ortberg**

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

A

No. There's – the 737-10 work is much higher than the 737-7 work. But we're doing those concurrently. We'll probably get type cert for the 737-7 before we get type cert for the 737-10. But it kind of doesn't matter. They'll be in pretty close proximity. But there's no question the 737-10 cert work is a bigger package than 737-7.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah. So, on the on the 787 you're eight a month, you want to be at 10 a month production by the end of the year. Can you talk about what has to happen to get there?

**Robert Kelly Ortberg**

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

A

Yeah, the 787, we've done a pretty good job as we've moved to rate 8 rolling at rate 8. But we've got some instability still that we're still working through. I'd point out that the – and we've talked about this, the seating configurations have been very complex and getting the certifications done on the seats have actually – they've not impacted production as much as they've impacted deliveries. And you've seen our deliveries a little bit lumpier than what I'd like to see because we've got airplanes done, ready to be shipped that we don't have the cert paperwork.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, these are sitting in Charleston...

**Robert Kelly Ortberg**

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

A

We have airplanes sitting for customers completely done waiting for seat certifications. So, we're working to get that process done. But every new type, airline new type goes through a new certification process. And we just have quite a few of those yet to go through here this year. So, I think from a delivery perspective, we'll be fighting seats throughout the year, just getting through the seat certification. We're working with the FAA and EASA and the seat manufacturers to try to improve that. But we've got a lot of work yet to do on that. So that's an important stability item for us to go to 10 a month rate. And then we've fallen behind in delivery on engines here in the first quarter. So, we've got a recovery plan that we're working with GE on. And so, we'll need to see the engine recovery plan come to fruition before we can get to rate 10. And that'll be late in the year.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And on the seats, so how – I mean, how many airplanes can you have parked out? In other words, if you have a mismatch between production and deliveries, when do you hit the wall there where you can't?

**Robert Kelly Ortberg**

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

A

So, we can fly the airplanes to other locations, and we have. So, it's not just storage location at our Charleston facility.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, you'll continue to produce. You won't...

**Robert Kelly Ortberg**

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

A

Yeah.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

...slow down because of seat delay.

**Robert Kelly Ortberg**

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

A

No. So, for us to slow down, it would cause us way more than pushing through. And quite frankly, in some of these cases, we thought we were going to have the seat design done a lot earlier than what we've been able to accomplish. So, we just got to get that stabilized. But I don't think we're going to do anything to slow production down. But we may not go to the rate 10 as early as we could have had we not had the challenges.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And the problem here, I guess, is more about the certification than it is about supply chain overlaps or something like that?

**Robert Kelly Ortberg**

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

A

That's right. It's not – it's typically not supply of seats. The seats are in the airplane.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah.

**Robert Kelly Ortberg**

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

A

They're built. The airplanes are built. We just don't have the paperwork allowing us to make the delivery. And this isn't every airplane. This is when an airline has selected a new configuration that they're rolling out. Typically, they have doors. These are very complex. It's typically the – it's the business class configuration that are just more complex than we've had before. And the certification is taking more time than we thought or they thought. So...

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Well, you have – I mean you have some MAX 10s that like also like United has some really exotic interior, and that you – could you run into some interior delays there too?

**Robert Kelly Ortberg**

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

A

Yeah. So, we're taking our lessons learned and applying it across. It's not just MAX 10s, but it's also beyond 777X in a big way, because they'll have a bigger cabin. So, we've done some things like pushed back some of our new entries, seat entries. We're also putting constraints on the system to make sure that we're not flowing an airplane into the production line with an uncertified seat configuration. So, we're becoming more disciplined, which I think will help us. And we're going to apply that, particularly on the MAX 10 line. Because you're right, some of those seats are pretty close to the same kind of challenges here.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And on – can you just – I don't know if anything is new here on 777X in the timeline?

**Robert Kelly Ortberg**

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

A

So 777X, we continue the flight test program that'll go through the end of the year. So, we'll be done with the MAX, well before we're done with the 777 flight test program. Our flight test organization is common, so it's the same team who supports all the airplanes. So, once we get done with the 737-7 and the 737-10 flight test program, we will be able to apply more resources to the 777-9. But you should expect that will hopefully be done with our flight test program by the end of the year with the exception of ETOPS. ETOPS is the final test that you go through with the twin engine aircraft, wide body aircraft, and that will, ETOPS is going to extend into next year. But we're building the airplanes and getting ready to start the deliveries next year.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

You can deliver it before – you can't operate it fully, but you can deliver it before you can operate it?

**Robert Kelly Ortberg**

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

A

Yeah, but the – it depends. It depends on what the [indiscernible]. It depends on the customer.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah.

**Robert Kelly Ortberg**

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

A

I would say for the most part, the customers are going to want our ETOPS testing done.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah. Then when will the Freighter follow?

**Robert Kelly Ortberg**

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

A

So, we just built, you've probably seen that in the press. We've just built our first 777-8F Freighter, and then it'll be about two years behind the PAX version.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And switching over to BDS. So, if you look at kind of the historical programs here and KC-46, the T-7, I mean you've had a lot of issues on these. Some from just the contract structures.

**Robert Kelly Ortberg**

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

A

Yeah.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Where do you stand on getting past all of the cash impacts from these charges that you've had to take?

**Robert Kelly Ortberg**

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

A

Yeah. So, the cash impacts depending on the contracts, some of these contracts have firm fixed price production options. So, let me use the KC-46 as an example. That's been a loss program. It's been a challenging program for us. We have one more lot of the existing firm fixed priced KC-46 production that'll happen at the end of this year. Then the follow-on quantity will all be repriced. So, in that case, we have no ability to improve margins with the existing contract.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yeah.

**Robert Kelly Ortberg**

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

A

We just need to manage the risks, so there's no further non-recurring write-downs. And then where we improve the margin is in the new option opportunity. T-7 is a similar program where we've got a significant amount of the production under contract, so that'll take a while to turn that to profitability. MQ-25, we just have LRIP under contract. So, production will be a new contract option. So, I would just say in general, the road to profitability on those programs is get them behind us and go to the next phase, either another contract option, in some cases just be done. VC-25B, the President's airplanes, we just – we'll celebrate the day we hand the keys to the President.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yes.

**Robert Kelly Ortberg**

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

A

And that's done.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And so, we don't know where the \$1.5 trillion budget is actually going to end up. However, there's more money in there for T-7s, for MQ-25s. Presumably those will be under new contracts. They're going to be...

**Robert Kelly Ortberg**

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

A

Some of that will be existing just funding for existing contracts. Some of it will be new contract. It really is a contract-by-contract case. But there's no question the budget is bigger than we expected, it was going to be last year. Irrespective of where it finally settles, I'm pretty confident that it's going to be a pretty robust budget. The other thing is our programs are really, really well-protected in that budget. So, I feel really good things like F-15EX additional quantities there.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Wedgetail.

**Robert Kelly Ortberg**

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

A

Wedgetails. We've got the E-7 of variant brought back into the budget environment. So, look, we're – we've got good opportunities. I do think that as I sat here last year, I think the outlook for growth in our military business is stronger this year than what I would have said it was last year.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And F-47 is a huge part of that, right? Yeah, I mean...

**Robert Kelly Ortberg**

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

A

Yeah. Big part. We're off to a really good start. The program's well-staffed. Our customer is super-pleased, and we're going to keep them that way. And so, we're really focused on doing things differently and having a successful development program. As you know, that's – the contracting type is appropriate for the work we're doing. One of the things that we've done that the team has done a really good job is focusing on making sure that we underwrite all these new contracts with the right baseline, whether that's contract type or the right pricing structure. We've got a lot more discipline. In fact, we've walked away from some jobs that we historically would have taken on and said we can probably get this done. And we've looked at and said there's too much risk for the fixed price contract type, so we're not going to do it.

Having said that, we've got a record backlog in our Defense businesses last year. So, we're able to still win and be disciplined in the market. And one of the things that's really key as we return that Defense business to this high-single digit profitability is we don't enter into new loser contracts. And so, we're really focused on making sure the team is disciplined around that.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And on the F-47, I don't know how much you can say about it, but is there a way to describe what that growth path would look like?

**Robert Kelly Ortberg**

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

A

You know what? I can't really say.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

That's what I expected. But one thing it does still was maybe you can say is I've spent a fair amount of time in the St. Louis facility. This does build a base there that I would expect should be good both for your cost structure and for new work.

**Robert Kelly Ortberg**

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

A

Yeah. I mean, it sets the future of our St. Louis operation for decades to come. As you know, we're investing heavily in new facilities to support the production of the airplane and potential future opportunities as well. But

having not been the prime for either the prior generation fighters still having the F-15, but the F-18 is essentially are ramping production. This was super-important for us to secure that what I call a transformational win for us.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Can you talk about space Starliner? Clearly, it's had challenges, but what are you looking at now in terms of opportunities? Maybe with Golden Dome?

**Robert Kelly Ortberg**

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

A

Yeah. So, when I think of space, I kind of break it into two. There's human space exploration. This is the NASA work Starliner falls in that category. And then there's national security space where we're doing of all strategic Satcom satellites, a lot of classified work, our X plane space plane is in that category. That business is – many aspects of that business have application to the Golden Dome, but broadly have good support, a good budget support and it's good business. We're performing well on that side. Where we've struggled have been again where we've signed up to fixed price contracts on the space exploration. So, the Starliner is a good example of that.

We have – with the Starliner, we have two launches. NASA has just determined that they're probably going to push the second launch out of the year. So, we'll only have one more launch this year and then one next year on that program. And so, we're working with NASA to fix the deficiencies that came out of the prior program, get the aircraft certified, and then we'll see where the NASA – the NASA budget is an interesting one. We'll see where that budget lands going forward. That's a little bit up and down.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

On Golden Dome, and we've struggled a little bit with getting a tight definition on what the actual programs will be in there. And I know and Congress has had some questions as well.

**Robert Kelly Ortberg**

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

A

Right.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

I mean, for you, are there some well-defined things or still you're working through what the opportunity set would be?

**Robert Kelly Ortberg**

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

A

I think we're still working through as the customer is still working through a little bit of the architecture and the opportunity set. I think there's some areas where we know what our contribution will be and then there's areas where it's still some trade studies being there. But from a Boeing perspective, I think you should look at Golden Dome probably as more of a capability of our assets as opposed to a program we're going to go win a big specific Golden Dome program.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Okay. So I think back several years ago when BDS was a really good, reliable source of free cash flow, that clearly disappeared for a while.

**Robert Kelly Ortberg**

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

A

Yeah.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

When you look at 2027, do you think can we expect positive cash coming out of BDS at that point?

**Robert Kelly Ortberg**

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

A

Yeah, yeah, but not to the level it should be. So, I think we'll get to where we're generating some cash flow. But as we just talked about, we've got to get through these programs that we're underwater on and get those behind us. There's no reason this business doesn't deserve to perform at a high-single digit margin business and return back to those classic cash flow rates that we've seen in the past. And we have a nice mix of domestic and international, and international generally has more upfront payments and higher cash – better cash terms than the DoD contracts or DoW contracts. So, we just have to – again, I think we have to get these programs and challenged programs executed and behind us. And you'll see better performance of that business.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Can you update us on kind of what that mix is in the backlog of US versus international?

**Robert Kelly Ortberg**

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

A

I don't think I know exactly what the backlog. I'd have to follow-up with you on that. I don't want to quote a number that's not right.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Okay. The last one I remember was pretty sizable. I mean, pretty significant percentage.

**Robert Kelly Ortberg**

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

A

Yeah.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So, if we go over to BGS, this business has performed really well for quite a while. And 17% plus margins, which always seem to be higher than what you guys are guiding to.

**Robert Kelly Ortberg**

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

Yeah.

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Now, we're in this situation with two things going on with the war in Iran. One is an increased OPTEMPO, which I would think could add to your performance on the Defense side, and then risk potentially on the Commercial aftermarket. How do you look at that?

Q

**Robert Kelly Ortberg**

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

Yeah. So, the risk to the – let's start with the Commercial aftermarket. The risk to the Commercial aftermarket will first be on the transactional, the in and out kind of business. We're looking at it on a weekly basis. We have seen some of that transactional business decline from carriers in the Middle East, but in fact, we've seen higher level of transactional business in elsewhere, which is totally offset. So, from a main perspective, we haven't seen any impact right now in our business.

A

Now, we don't have a lot of flight hour service business. Other companies probably do, and that's going to be impacted just by the number of flight hours and flight hours are coming down in the region. So – but we don't have a lot of that. So, it's not really material to us. So, so far, I'm just – I don't see any significant or material impact. We are seeing uptick from the DLA, from the in and out business associated with OPTEMPO and Defense. And I think that will continue both, both just in parts. But our platforms are very much in the [indiscernible], the OPTEMPO is very high. And so, there's either going to be replacement, replenishment.

We're working the big PAC-3 production contract to replace all the Patriot seekers that have been shot. But even our aircraft platforms that have been either damaged or used in excessive amounts, we'll see some maintenance cycles which will, over the next – that won't all happen at once. But over the next year or so, we're expecting to see some upside.

I think back to the Commercial depends on how long this last.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Yeah.

Q

**Robert Kelly Ortberg**

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

If this lasts – the longer it lasts obviously the more strain is going to be on the system. And the only thing I can say is we're monitoring it weekly just to see what's going on and we're talking to the customers.

A

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Well, and I didn't mention [indiscernible] back into BDS, but you've also got sort of JDAM, Small Diameter Bomb that...

Q

**Robert Kelly Ortberg**

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

A

Yeah. Our weapons businesses is – the demand is through the roof. So that's another area where we're going to quickly be talking about how many can we build, not how many can we get under order. So, we're working on expanding our production there. I was just at the Pentagon meeting with the Department of War yesterday on things like it, ramping up production and that's important all the way up to POTUS. So, we've met with him on – the CEOs of all met with POTUS on the need to ramp-up our capability in the weapons market.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

So this year you're guiding to \$1 billion to \$3 billion in free cash flow. And what will determine where you end up in that range?

**Robert Kelly Ortberg**

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

A

How many airplanes we deliver probably will be the – in the end that'll be the determining factor. So, we will see there is some risk and opportunity around airplane deliveries. We'll just see how we do here.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Well – and one of the things I know – and you had said previously that the assumption of pre-delivery payment from China on an order would be included in that cash flow. Is that material one way or another?

**Robert Kelly Ortberg**

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

A

First of all, we do have some PDPs from China. I don't think if, for example, that China orders wouldn't happen by the end of the year, we probably would fill that with other PDPs. Those slots would go to someone else. So, I don't see the China situation really having a major impact on our – where we end up on cash flow. Now, it's not going to swing us over or under, I don't think.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Now, you and Jay have talked about heading toward a goal of at least \$10 billion in free cash flow.

**Robert Kelly Ortberg**

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

A

Yeah.

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Is there any sense you can give us on timing and the trajectory for that now?

**Robert Kelly Ortberg**

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

A

Well, I don't have anything new. I think Jay did a good job at – during our earnings call of kind of laying out the puts and takes associated with that. And in general, we've got a – we've got to get through these headwinds that we've got where we've got consideration in the price of the airplanes because we're late, those will abate as we ramp-up in production. So, we've got the 737-10 coming in, which is a higher-priced airplane.

So, the mix helps us well, better pricing in general will help us. We've got headwinds associated with supply chain costs that we're managing. So, all those in a bucket, we're expecting to see kind of a continued cadence towards that \$10 billion and beyond cash flow. But we're not going to put a specific timeline yet on that. We just got to focus on these activities that will yield improved cash flow.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Well, going into 2027 at least I mean, you should have some work down on that. The cash flow, penalties on the 777X, I would assume because that's like \$2 billion or so this year, I think.

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**Robert Kelly Ortberg**

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

A

So, is your question, do...

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Yes. It is that – what's the trajectory, I guess, on the 777X cash-out?

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**Robert Kelly Ortberg**

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

A

So, 777X cash-out is big this year, it will be big next year. And then you'll start to see that kind of turn in the 2028 timeframe.

---

**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Okay. So, you've been on a pretty positive trajectory here for the last 18 months or so. But I have to say that many investors I talked to still have concerns of the problems of the past.

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**Robert Kelly Ortberg**

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

A

Yeah.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

And how can you give us more confidence that those risks are much lower today, and you can look forward at these progressions in rate and that looks very small.

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**Robert Kelly Ortberg**

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

A

What I've told the team, and the only way Doug I see to do that is execute, execute, execute, execute and build confidence back. We've done a lot of work on the culture in the company to restore trust and we're getting very

good feedback from all of our stakeholders about how Boeing is showing up more transparent, working collaboratively with the customers, delivering on commitments. That's also allowing us to be in an environment where we can find win-wins with the customers and work through some of these challenged programs. But look, the development programs, until they're done, they're not done. And so, we just – I just need to keep focus in the team on every day, execute – every day is an opportunity to meet our commitments.

And I would just say so far it's working. I feel confident that we've got the right team. We're focused on the right things. Yeah, we'll have risks that we'll have to deal with along the way. But we're getting in front of those now and managing them and burning them down and I think that will lead to great success. The thing that The Boeing Company has is a huge backlog. I mean, we don't have to think about what airplanes do we want to build tomorrow. We know what airplanes we want to build. This is an execution story. So, just focus on execution.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Q

Any milestones you'd highlight we should be looking for over the next...

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**Robert Kelly Ortberg**

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

A

Well, the cert programs are big. Those are big for me personally. So, getting through the certification, the MAX certification, watching the production ramp back from up here to 47 and how does that look. And then probably the other one to watch is the North Line. How are we doing on the North Line? Is that maturing the way we want? Because that'll be an important decision point for when we do the rate 52. So, those are the, I'll say the near-term proof points that you can look to. The government looks like they're going to make a decision on the F/A-XX program yet this year. And so, we're in the foray there. So, if we were successful there, that would be another a big milestone for us. So, we'll see how that all plays out.

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**Douglas S. Harned**

*Analyst, Bernstein Institutional Services LLC*

Okay. Well, great. Well, Kelly, thank you very much.

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**Robert Kelly Ortberg**

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

Thank you. Good seeing you, Doug.

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