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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to The Boeing Company Second Quarter 2020 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation plus the analyst question and answer session are being broadcast live over the Internet. [Operator Instructions]

At this time for opening remarks and introductions, I'm turning the call over to Ms. Maurita Sutedja, Vice President of Investor Relations for The Boeing Company. Ms. Sutedja, please go ahead.

Maurita B. Sutedja

Vice President-Investor Relations, The Boeing Co.

Thank you and good morning. Welcome to Boeing's Second Quarter 2020 Earnings Call. I'm Maurita Sutedja, and with me today are David Calhoun, Boeing's President and Chief Executive Officer; and Greg Smith, Boeing's Executive Vice President of Enterprise Operations, Chief Financial Officer, and Interim Leader of Communications.

After management comments, we will conduct a question and answer session. In fairness to others on the call, we ask that you please limit yourself to one question.

As always, we have provided detailed financial information in our press release issued earlier today. And as a reminder, you can follow today's broadcast and slide presentation through our website at boeing.com.

Before we begin, I need to remind you that any projections, estimates, and goals we include in our discussions this morning are likely to involve risks, which are detailed in our news release, in our various SEC filings, and in the forward looking statement disclaimer at the end of this web presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of certain non-GAAP measures.

Now I will turn the call over to Dave Calhoun.

David L. Calhoun

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

Thank you, Maurita. Good morning, everyone. I hope you are all continuing to stay safe and healthy during this crazy global pandemic that we're all living through.

Before getting started, I want to recognize all of the health care professionals, the public servants, the front line workers who are dedicated to keeping us safe and healthy day in and day out. On behalf of all of our Boeing associates, thank you.

I also want to thank my Boeing teammates around the globe for everything they are doing to support each other, our business, our communities, and our customers during these intensely challenging times.

With that, let's turn to business and slide 2, please. The current challenges we have are of unprecedented proportion. I think we all know that. This is true for our company, true for our industry, and our society at large. In times of uncertainty, it is important we focus first on our people. And that is where I'll start today.

We're working hard to strengthen our culture, support our workforce, and to help our communities. The racial equity and social justice movement reminds us that we must do more to confront racism head-on. I'm proud of our Boeing team's commitment to this, and the progress we have made over the years.

But I recognize, we recognize, we have more work to do. We're raising the bar on our key measures of equity, diversity, and inclusion. And over the next four years, we will double the \$25 million we have invested in partnerships and organizations that support marginalized communities. Our commitments in this area will be an even more permanent and visible aspect of our engagement going forward.

Turning to the COVID-19 pandemic. As cases rise in certain areas, we are focused on keeping our people and our communities safe. As you know, during March and April, we temporarily suspended some of our operations due to COVID-19. We resumed operations and brought our teams back to work, only after implementing objective and rigorous steps aligned with federal and state guidance to ensure the health and safety of our workforce.

We are taking all responsible measures across our facilities, including requiring face coverings, enhancing facility cleaning, adding visual indicators. We are modifying work areas and adjusting work patterns to allow for physical distancing, providing access to medical information around the clock, quarantining anyone potentially exposed to the virus, and conducting contact tracing and much more.

For all of our employees whose jobs can be done effectively from home, we continue to implement virtual working arrangements. We believe we've put effective processes in place that enable our facilities to be as safe or safer than their respective communities. Nevertheless, we will remain vigilant and follow the advice of our health care professionals and adhere to the government guidelines as we monitor the virus.

As our employees focus on their own health, they are also stepping up to help their communities through the crisis. I couldn't be more proud of their efforts. And I'll highlight just a few of their contributions.

To date, we've printed more than 40,000 face shields and completed 12 airlift missions, delivering 4 million units of personal protective equipment to health care workers in need. And combined with our Gift Matching Program, our employees have donated \$1.5 million to support COVID-19 response efforts in their local communities.

COVID has also dealt a heavy blow to the commercial aerospace sector and our business. Airlines have cut back operations dramatically. As they assess their business, they are making difficult decisions that result in grounding fleets, deferring airplane orders, postponing acceptance of completing orders, and slowing down or stopping payments. They are also accelerating aircraft retirements, deferring elective maintenance, and requiring fewer services. That is why we are working closely with our customers and suppliers to navigate through this uncertainty.

We continue to monitor the commercial marketplace by staying very engaged with our customers around the globe to fully understand their short term, medium term, and long-term requirements. We have and we will continue to work with our customers on specific timing and adjustments to their deliveries. We'll discuss this further in the business environment part of this discussion.

As air travel resumes and restrictions ease around the globe, aircraft crew and passenger health and safety are always our top priority. Through our Confident Travel Initiative, Boeing is supporting our customers and working with industry stakeholders to support multiple layers of protection aimed at minimizing health risks for passengers and crew throughout the travel journey.

Layered protection is a system wide approach with customers, airports, regulatory authorities, and industry associations all having a role to play. First layer is having measures in place to prevent anyone with the virus from boarding the airplane. The second layer is assisting airlines on cleaning and disinfecting practices. The third layer is to minimize contaminants from spreading in the cabin itself through the design of cabin airflow, the use of HEPA filters, and encouraging passengers, if not requiring passengers, to wear face coverings.

In-cabin technology, enhanced cleanliness standards, airflow systems, and other preventative measures are helping protect the health and safety of every person who steps on board Boeing airplanes. These have to be combined with personal responsibility of passengers and crews, including wearing face masks and taking other precautions, which is a critical part of creating a safe travel experience.

Another important aspect of bridging to recovery is ensuring the health of our supply chain. We're doing everything we can to support our global suppliers and their stability remains a key watch item for us as our aerospace industry weathers these unprecedented challenges. We're monitoring our suppliers' status around the world to assess risks and to address any potential disruption. We've been continuing payments to our more than 12,000 suppliers, supporting about 1.5 million jobs.

As we discussed last quarter, given the severe nature of this virus and the shock, to preserve the long-term competitiveness of our industry as well as our company, we're intensely focused on ensuring liquidity through the intermediate crisis. We've taken aggressive liquidity steps over the past few months, including raising \$25 billion in the capital markets in May.

While we've addressed the immediate liquidity issue, we still must continue taking action to improve our performance and transform our business for the future.

In the second quarter, we completed the realignment of our engineering organization and the integration of our new Enterprise Operations Finance and Strategy Group. These moves are foundational steps in our effort to strengthen engineering, to elevate the company's focus on safety and quality, improve operational, factory, and supply chain performance, and streamline our processes.

And lastly, despite the challenges we face, we've not lost sight of our commitment and our need to deliver on our priorities, which have not changed.

We're continuing to make steady progress towards the safe return of the 737 to service, working closely with the FAA and other global regulators. While we still have a lot of work in front of us, we're encouraged with the completion of the FAA certification flight test earlier this month and the FAA's announcement to move forward with the notice of proposed rulemaking to safely return the 737 to service. Both are important milestones in the certification process, as we collectively focus on ensuring transparency at all stages.

We're working now on completing the remaining key tasks, coordinating with and following the lead of our global regulators. As you would expect, the pandemic has required some changes to how we do things, including working remotely and virtual meetings with our regulators.

For activities that cannot be completed remotely, we're making appropriate and safe arrangements to enable effective cross-border collaboration with the global regulators. But the overall environment presents real logistical challenges for the necessary international travel and the in-person meetings which are required and that we are working through.

Based on our latest assessment, we now expect the necessary regulatory approvals will be obtained in time to support resumption of deliveries during the fourth quarter. Of course, the actual timing will ultimately be determined by the global regulators.

After an approximately four-month suspension of production operations, in May we resumed early stages of our 737 production line. During the suspension, we implemented more than a dozen initiatives, focused on workplace safety, product quality. And they have strengthened the production system and helped optimize the build environment, allowing for more predictability and stability for future rate increases.

In addition to the 737, we're focused on meeting our commitments to our commercial Defense and Space customers. In fact, within Defense, we delivered 44 aircraft in the quarter, completed the critical design review for the T-7A advanced trainer, and achieved our first flight of both the F-15 Qatar Advanced and the F/A-18 Block III Super Hornet for the US Navy.

Now let's turn to the next slide to discuss the business environment for our industry. At Defense, Space, and Security, we continue to see a healthy market with solid demand for our major platforms and programs, both domestically and internationally. Our portfolio of programs and technologies remains well aligned to our customers' missions.

We are also well positioned with proven world class platforms to address current needs and innovative, capable, and affordable new franchise programs for the future.

The \$7 billion of orders that BDS booked in the quarter and some recent awards, including the historic contract for the F-15EX from the US Air Force, combined with a contract extension from NASA to support the International Space Station, underscore the strength of our offerings.

The demand outlook for our Government Services business remains stable. The strength of Government Services provides a strong foundation for our overall services business. We see growth in a number of Government Services areas, including ramp-ups to support international customers with training, logistics, and supply chain offerings, as well as growth on key US programs.

Our Government Services, Defense, and Space programs continues to provide critical stability for us as we move forward.

On the Commercial side, our industry and our company are weathering challenges like none we have ever experienced in our lifetimes. And many of those challenges are still unfolding. IATA projects passenger traffic will drop by more than half this year compared to 2019, as global economic activity slows down due to COVID and governments severely restrict travel to contain the spread of the virus.

After a sharp 94% drop in passenger traffic in April, we've seen tangible signs of recoveries in key markets such as China and Europe, with operations increasing into July. The US has also improved from the April lowest point. However, the recent uptick in COVID cases has slowed its recovery. So while we were encouraged by the early signs of recovery, the past few weeks demonstrate the trajectory may be uneven.

But on the cargo side, the reduction of belly cargo capacity has led operators to utilize essentially all available freighters. Significant use of passenger aircraft as freighters continue, though yields are starting to return to normal, as more belly cargo capacity comes back online.

We've also seen improvement in global fleet utilization. Around 65% of the fleet is now back in service, with hundreds of aircraft reactivated weekly. Utilization metrics are improving as airlines resume more of their network and schedules.

June passenger operations reached approximately 30% of last year's level, with acceleration in July bringing them to nearly 50% at last year's level.

Passenger load factor has improved from the April levels but remains low. In June, the load factor was 58% versus 84% a year ago. As I alluded to earlier, we're seeing different paces of recovery for different regions. In some countries, reopened, their air travel improved along with it. This is the case in Europe, with many airlines resuming operations as borders open.

The US recovery has sustained weekly 20% traffic growth momentum until about the Fourth of July. And since then, with rising cases in key leisure markets, we've seen signs of flattening or slight declines as the airlines have noted.

Continued growth in cases and corresponding travel restrictions or quarantine policies may dampen the near term recovery. The way forward will depend on the development with respect to the pandemic and the scope of government travel restrictions. We continue to see volatility on the recovery path ahead.

Given the amount of uncertainty that is still in front of us, managing liquidity continues to be vital to our industry's ability to bridge to recovery and to navigate the challenges.

As we previously discussed, we continue to believe that the fundamentals that have driven air travel for the past five decades and doubled air traffic over the past two decades remain intact. And we believe this industry will in fact recover.

But we currently estimate it will take around three years for travel to return to 2019 levels. And it will be a few years beyond that for the industry to return to long term growth trends.

The picture is obviously dynamic and subject to many unknowns. As we see it today, narrow body airplanes will lead the way to recovery, as airlines bring their networks back online, focusing first on domestic routes. Meanwhile, border closures and travel restrictions significantly dampen international travel demand, which in turn impacts the utilization of wide body passenger fleets in the near term.

A key driver in both segments will be the rate of retirements of older fleets. We expect our customers to look at their fleet planning strategies differently in light of these dynamics. More than 2,500 aircraft with 20-plus years of service were in active service prior to the crisis. So far, we have tracked retirements of close to 1,000 of these aircraft across the global fleet.

Replacements will not be uniform, as airlines will focus on the oldest and least efficient airplanes to retire. Some airlines have already made announcements to this effect. Thousands of more fuel efficient airplanes that we and our competitors have in backlog will make future flying even more environmentally sustainable and help us reach our industry's emission reduction targets. Airplanes that we plan to deliver this year will be 25% to 40% more fuel efficient than the airplanes they're replacing.

The urgency and value of fleet versatility is accelerated by this crisis. And our position is helped by the value proposition of our family of airplanes and the diversity of our backlog. This includes our market leading 787, our unmatched cargo lineup, the world's largest and most efficient twin engine jet, the 777X, and of course the versatile 737 family.

On the services side, we are seeing a direct impact on our commercial supply chain business, as fewer flights result in a decreased demand for our parts and logistics offerings. Our commercial customers are curtailing discretionary spend, such as modifications and upgrades, and focusing on required maintenance only. We anticipate accelerated retirement of older aircraft, which will result in a newer fleet when air travel resumes to previous levels. This will prolong the period of decreased demand for our commercial services offerings.

Similar to commercial airplanes, we expect a multiyear recovery period for the Commercial Services business. You'll see the significant impact of COVID is reflected in our Commercial Services financial results this quarter, which Greg will go through a little bit later.

We closely monitor the commercial marketplace by staying very engaged with our customers all around the world to fully understand short and long term requirements. We regularly incorporate additional insight to inform current and future production rates. Based on our latest assessment, we have decided to refine our commercial airplane production rates to better calibrate near to medium term supply and demand balance.

Let's turn to slide 4. In the narrow body segment, we expect to continue to produce the 737 at low rates for the remainder of 2020 and gradually increase the rate to 31 by the beginning of 2022, with further gradual increases that correspond with market demand.

The production ramp profile is also affected by the pace of delivery of our stored aircraft. We have moderated the production rate ramp-up from our prior assumption to reflect commercial airline industry uncertainty due to the impact of COVID.

We continue to see our 737 family of airplanes creating capacity for growth and providing required replacements for older, less efficient airplanes. We have and will continue to work closely with our customers to review their fleet plans and make adjustments where appropriate to adapt to lower than planned 737 production in the near term, provide more flexibility to deliver our backlog, and protect the value of the 737 family.

Moving to the wide body segment, we previously planned to reduce the 787 production rate to 10 per month in 2020 and gradually reduce to 7 per month by 2022. In light of the ongoing challenges presented by the pandemic and the impact on our airline customers, we now plan to reduce the 787 production rate from the current 10 per month to 6 per month in 2021 to further de-risk our skyline, taking into account the financial condition of our customers and the geopolitical environment.

Given the lower growth – the lower rate profile, we will prudently evaluate the most efficient way to produce the 787 to include the – studying the feasibility of consolidating our 787 production into one location. We will continue to evaluate the rate beyond 2021 to balance supply and demand.

Our 787 family has a compelling value proposition, offering unparalleled fuel efficiency and range flexibility, enabling carriers to optimize fleet and network performance as well as profitably expanding into new markets.

Turning to the 777X, we continue to execute the flight testing phase of our rigorous test program. As we look toward entry into service, we have adjusted the timing of the first 777-9 delivery to 2022 versus our prior forecast of 2021. This reflects our assessment of the development and test timeline, feedback from our customers, and projected impacts from COVID-19.

We are also incorporating lessons learned from the 737 certification process. We will continue to manage the risks inherent in any development program.

We continue to expect to deliver 777s at an average rate of approximately 2.5 per month in 2020. We will take a measured approach to the 777X rate ramp as we look to minimize the amount of change incorporation work by managing the number of aircraft produced prior to entry into service. Due to market uncertainties, driven primarily by the impacts of COVID-19 and moving the 777X cert/delivery to 2022, we now plan to reduce the combined 777/777X production rate to 2 per month in 2021 versus our previous plan of 3 per month in 2021.

Finally, we'll make no change to the 767 and 747 production rates at this time. These programs are targeted for the cargo market, and approximately half the 767 production is dedicated for the tanker program.

On the 747, we will continue building 747s at the current rate as we deliver on our commitments to key customers. In light of the current market dynamics and the outlook, we anticipate completing production of the iconic 747 in 2022.

Our commitment to our customers does not end at delivery. These airplanes will be flying for decades to come. And we'll continue to support the 747 franchise, its operations, and sustainment well into the future.

These rate decisions are based on our current assessment of the demand environment, taking into account a host of risks and opportunities. We will closely monitor the key factors that affect our skyline, including the wide

body replacement cycle and the cargo market. We will maintain a disciplined rate management process and maintain – and make adjustments as appropriate into the future.

As I mentioned last quarter, the sharp reductions in demand for our airplanes and services that we see over the next several years won't support the size of the workforce that we had prior to the start of the pandemic.

As previously announced, we've started implementing a reduction of our global staffing by approximately 10% by end of this year from where we ended the year last year through the combination of voluntary layoffs, attrition, and where necessary, involuntary layoffs. These are difficult actions we're taking along with infrastructure and spending reductions to better position us for the future.

We're taking a thoughtful, a methodical approach, carefully managing required skills and talent. In some areas, in most notably Defense, we continue hiring to meet our customer commitments and to fill critical skill positions.

We are implementing these reductions as fairly, respectfully, and transparently as possible and providing as much support for our employees as we can through the duration of the global health emergency that we're facing.

Unfortunately, the prolonged impact of COVID-19, the further reductions in our production rate, and the lower demand for Commercial Services means we'll have to further assess the size of our workforce and ensure we're aligning with the smaller market. More hard decisions are likely ahead of us, as we try to limit the impact on our people as much as we possibly can. We will be communicating with our teammates openly, honestly, and transparently.

The assessment will be aligned with our ongoing efforts to simplify and improve how we do our work, driving agility, and positioning us for when the industry recovers.

In summary, our industry is changing, our customers' needs are shifting, and we're adapting. We believe over the next several years, air travel demand will gradually recover to the growth trend. Protecting long-term flexibility while adjusting capacity in the interim to balance near to medium term supply and demand will be critical to preserve our long-term prospects.

There's no question that this is a historically dynamic and challenging time for our industry. We'll work closely and transparently with our customers, our suppliers, and our employees as we navigate through and rebuild stronger on the other side. We'll take decisive action to transform the business, focused investments, preserve liquidity, streamline and size our operations to become a better, more sustainable Boeing.

And with that, let me turn it over to Greg for an update on our financial performance. Greg?

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Great. Thanks, Dave, and good morning, everyone. Let's turn to slide 5 for our second quarter results. Our financial results continue to be significantly impacted by COVID and the 737 MAX grounding. Second quarter revenue of \$11.8 billion reflects lower commercial airplane deliveries and commercial service volume and an additional 737 MAX customer consideration charge of \$551 million in the quarter.

Earnings in the quarter were also impacted by over \$2 billion of charges comprised of the BCA abnormal costs, BGS charges as a result of the COVID-19 market environment, and severance costs for approximately 19,000 employees leaving the company, of which around 6,000 have left as of June 30. These reductions combined with

additional hiring that continues in key areas like BDS and critical skill areas will result in approximately 10% net workforce reduction this year.

These charges were partially offset by income tax benefit related to the NOL carryback provision in the CARES Act as well as the impact of pre-tax losses. I'll cover these charges in more detail on the subsequent slides.

Let's now move to Commercial Airplanes on slide 6. Revenue was \$1.6 billion, reflecting lower commercial airplane deliveries due to the significant impact of COVID-19 pandemic on our customers and on our operations, including the shutdown of our commercial airplane production for several weeks in April and May.

Also impacting revenue in the quarter was the \$551 million increase in estimated 737 MAX customer considerations. This is compared to a \$5.6 billion charge we booked in the second quarter last year to establish the customer consideration liability.

BCA's second quarter operating margins declined due to the following, lower delivery volume, \$712 million of abnormal production costs related to the 737 MAX program, \$468 million of severance expense, and \$131 million of abnormal production costs for the temporary suspension of our Puget Sound and Charleston production sites due to COVID-19 through again the April and early May timeframe.

Similar to prior period, in preparation for our second quarter financial statements, we made certain assumptions on the 737 MAX, including delivery and production rate ramp-up profiles. As Dave mentioned, we've moderated the production rate ramp-up from our prior assumption to reflect detailed ongoing discussions with our customers, as they assess the environment and their fleet requirements.

We've also revised our assumptions on timing and the profile deliveries from storage. Delivery from storage will continue to be priority one after assisting our customers with their return to service. We currently have approximately 450 737 MAX aircraft built and stored in inventory.

We expect to continue to produce the 737 at very low rates for the remainder of 2020 and gradually increase the rate to 31 by the end of 2022 and expect further gradual rate increases to correspond with market demand.

We've assumed that the timing of regulatory approvals will enable the 737 MAX deliveries to resume during the fourth quarter of 2020. We have also assumed that the majority of the 737 MAX aircraft in storage will be delivered during the first year after resumption of deliveries.

There is no material change in our estimate total abnormal costs of \$5 billion. We expect these costs will be expensed and incurred over this year and the next year.

During the second quarter, we expensed \$712 million of abnormal production costs, which brought the cumulative abnormal cost expense to date to \$1.5 billion. As reflected in the second quarter revenue, we've updated our assessment of the liability for estimated potential concessions and other consideration to customers for disruptions related to the 737 MAX grounding and associated delivery delays.

This reassessment includes updated estimates to reflect revisions to return to service, delivery and production rate assumptions driven by timing of regulatory approvals, as well as latest information based on engagement with our customers.

Cumulatively, we have accrued a \$9.6 billion liability for the estimated potential concessions and other considerations. To date, we've made \$2.6 billion of payments to customers in cash and other forms of compensation, including \$600 million we paid this quarter. We have settlement agreements covering approximately \$3 billion of the remaining liability balance of \$6.7 billion.

We continue to address the impact individually, customer by customer, including assessing the effects a MAX disruption is having on their operations in light of the COVID pandemic. We also continue to expect any concessions or other considerations to be provided over a number of years with the cash impact to be more front loaded in the first few years. Any changes to these assumptions could require us to recognize additional financial impacts.

Commercial Airplanes backlog includes more than 4,500 aircraft valued at \$326 billion. The decline in backlog in the second quarter reflected aircraft order cancellations and removal of aircraft orders from our backlog due to ASC 606 accounting standard. The ASC 606 imposes additional criteria for recognizing the aircraft order in Boeing's backlog. Even though the customers continue to have binding contracts with our company, when an order is deemed to not meet the criteria, then we adjust the backlog accordingly.

The ASC 606 adjustment removes aircraft from backlog if the customer has a contractual right to cancel and incorporates our assessment of a customer's liquidity position and commitment to take the delivery.

As Dave mentioned earlier, we are taking action to adjust our production rates and our infrastructure to adapt to the COVID-19 pandemic impact on aircraft demand. These rate decisions are based on our current assessment of our demand environment and we will continue to closely monitor these factors that affect our skyline and make rate adjustments as appropriate in the future.

We strive to adjust our production rates as timely as possible. In some cases, we would have liked to bring production rate down sooner to match near-term demand. However, there's a number of key factors that need to take into consideration, including orderly supply chain transition and production system stability. Therefore, we expect production to continue to outpace delivery rate in the near term, resulting in higher finished good inventory.

Let's now move to Defense, Space & Security on slide 7. Second quarter revenue was stable at \$6.6 billion, reflecting COVID-19 impact on derivative aircraft programs, partially offset by higher volume across the remainder of the portfolio. Second quarter operating margin decreased to 9.1%, largely due to \$151 million KC-46A Tanker charge, primarily driven by additional fixed cost allocation resulting from lower commercial airplane production volume due to COVID-19.

BDS operating margin in the second quarter of 2019 benefited from a gain, the sale of property.

During the quarter, BDS won key contract awards worth \$7 billion. And our backlog stands at \$64 billion, with 31% from outside the United States.

Let's now turn to Global – Boeing Global Services results on slide 8. In the second quarter, Global Services revenue declined to \$3.5 billion due to lower Commercial Services volume due to COVID-19, partially offset by higher Government Service volume.

Operating margin in the quarter reflected lower Commercial Service volume, less favorable mix of products and services, and \$923 million of an earnings charge. The charges are due to significant impacts COVID has had on

our customers' liquidity and demand for certain products, as customers' fleet plans adapt to sharp reductions in air travel.

The charges include the following, reserve for higher expected credit losses primarily due to customer liquidity issues, inventory write downs and impairments of distribution rights primarily driven by airlines' decision to retire certain aircraft, and contract termination and facilities impairment charges, and finally, severance costs.

BGS backlog declined to \$18 billion, primarily due to the reduction for commercial orders that, in our assessment, no longer meet the accounting requirements of ASC 606 for inclusion in our backlog. Our remaining backlog is primarily made up of government contracts, which continue to be stable.

To respond to the challenging market dynamics, we have taken significant action and proactive steps to right size and ultimately better position our Services business for these new market realities. These include employment actions as well as proactively taking steps to right size our inventory and tailor our portfolio to ensure that we are positioned to serve our customer both through this challenging time and when the industry begins to recover.

Let's now turn to cash flow on slide 9. The historic market downturn caused by the impact of COVID-19 on our airlines and the global economy continues to put significant pressure on our cash receipts. Operating cash flow for the second quarter was negative \$5.3 billion, driven by lower commercial airplane delivery volume, advanced payment timing, commercial service volume, and as discussed, COVID-19 caused delivery and production disruption in the quarter.

In the quarter, we also saw increased cash receipts from the release of withholds on tanker deliveries and the Department of Defense initiative to increase progress payment rates. We appreciate the Pentagon's leadership in supporting the national security industry base. And we continue to do our part to keeping cash flow to our supply chain.

We continue to expect cash flow generation on the government side of the business to be solid and in line with earnings.

Clearly, the additional reductions in our commercial production rates as well as the updated 777X schedule have made our cash profile even more challenging. However, based on what we know today and our actions, we still see a path to positive cash flow in 2021. We'll continue to work opportunities diligently and monitor risk factors, given the dynamic nature of the current environment.

Let's move now to slide 10, and we'll discuss our liquidity position. As discussed last quarter, given the significant impact of COVID-19 on our operating cash, we've been proactively managing our cash position and assessing additional liquidity. In May, we completed a \$25 billion bond issuance. And the strong investor response on the bond validates the confidence we have in our future.

Also in the quarter, we paid down \$2.4 billion of commercial paper, bringing our total debt to \$61.4 billion. We appreciate the administration, Congress, the Federal Reserve, and the Treasury departments for their swift actions in stabilizing the market at the onset of this crisis, which helped the credit markets function again and paved the way for our successful bond offering.

We ended the second quarter with \$32.4 billion of cash and marketable securities. We also continue to have access to our \$9.6 billion revolving credit facility, which to date has not been drawn upon. We expect our current – we expect our use of cash due to COVID-19 to continue for the remainder of the year and into part of 2021.

Given the dynamic environment, we continue to carefully monitor our cash flow position and perform scenario planning to understand the range of outcome and assess what future actions we may need to take to ensure that we continue to have sufficient liquidity. Managing our liquidity and balance sheet leverage are top priorities as we navigate this challenging environment. Reduce our debt levels once cash flow generation returns to normal levels will continue to be a top priority.

Let's now turn to slide 11. Clearly, COVID-19 pandemic is continuing to present significant challenges for our industry and for our company. We're managing these challenges daily and taking swift action to bridge the recovery and emerge stronger on the other side.

To bolster our near term liquidity, we've taken a number of actions since early this year. We suspended our dividend and terminated our prior share repurchase authorization. We've proactively drawn down on our \$13.8 billion term loan in mid-March and raised \$25 billion of new debt, cut discretionary spending, and reduced or deferred R&D and capital expenditures.

As discussed, to align to the new commercial aerospace realities, we're also lowering commercial production rates and taking difficult workforce actions.

As we look to the future, we're focused not just on adapting and recovering, but on emerging stronger and more resilient for the long term. That includes prudently and proactively reviewing every aspect of our company to identify opportunities to improve performance on our – and our focus on safety, position for new market realities, and ensure we're sharper, leaner, and more competitive for the long term.

This is a true business transformation effort and addressing holistically five key areas. We're reassessing all aspects of our infrastructure, facilities, sites, and enterprise footprint in light of the reduced demand and also taking into account new remote working opportunities.

We're looking critically at our organizational cost structure and how we operate. We're reevaluating our portfolio and investments to ensure we're focusing our spend on where we see market opportunities and areas more critical to our future, like safety, quality, and innovation.

We're managing our supply chain stability carefully while calibrating to lower demand. And we're driving operational excellence into every corner of our company, so we can improve performance, enhance quality, workplace safety, and reduce rework.

As we transform our enterprise across these five pillars, we will continuously assess the size of our workforce to ensure we're adapting to market realities, while limiting the impact on our people as much as possible.

The goal is to improve cash flow profile, restore our balance sheet strength as quickly as possible. And these actions will help get us there. The financial objectives we've established are measured in billions of dollars and will be executed over a multiyear period. Again, this effort is about ensuring we're well positioned for the future.

Even as we reduce our spend, we will continue investing in areas critical to our future, including safety, quality, operational excellence, and innovation in key technologies and products. We are also working with our supply chain partners to carefully manage liquidity and do all we can to maintain stability through this demand shock, so that we can protect for the long term health of the US aerospace industry.

Again, approximately \$0.70 on every dollar we spend goes to the supply chain. And we are focused on the best ways to keep liquidity flowing through our business and to our supply chain through this period.

We are also staying and fully engaged with our customers, assessing the challenging environment to ensure we are right minded about near term and long term demand, so that we can always be prepared to meet our customers' needs.

We worked hard to de-risk the past decade by addressing a number of different scenarios, including pension funding risk, labor stability, product development sequencing, and raising the bar on productivity, safety, and cash management discipline. Our teams know how to do this. And I'm confident that we're taking the right actions to ensure long term sustainable future.

So with that, I'll turn it back over to Dave for closing comments.

David L. Calhoun

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

Thanks, Greg. We're definitely in an unprecedented period. A tough moment for the industry and the world.

Every day I'm inspired by the resilience and the hard work of our Boeing associates, our customers, and our business partners. We are and we will continue taking the right actions to navigate through this together, while maintaining focus on our priorities, living our values, and driving safety, quality, operational excellence into everything we do.

We're focused not just on adopting and recovering, but on emerging stronger and more resilient than ever before. We believe the long term industry fundamentals remain strong, and air travel will recover. Our portfolio of products and technology is well positioned for that recovery.

Much hard work remains ahead of us. But what I've seen the Boeing team do gives me great confidence that we will adapt, we will lead, and we will thrive as our industry recovers.

With that, Greg and I will be happy to take your questions. And I'll turn it back to Maurita. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question will come from the line of Myles Walton with UBS. Your line is open. Myles Walton with UBS, your line is open.

And our next question comes from the line of Hunter Key with Wolfe Research. Your line is open. Please go ahead.

Hunter Key

Analyst, Wolfe Research LLC

Thank you. Good morning.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Morning. This is Greg.

A

Hunter Key

Analyst, Wolfe Research LLC

Hey, good morning, Greg. Can you please give us some color on that path to positive free cash flow in 2021? Kind of curious to know. Obviously I know your assumptions on rate. But beyond that, what are the primary drivers you need to achieve it? Thank you.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Yeah. Yeah, absolutely. Well, look, I'd say first and foremost, 737 return to service and driving the production and then the delivery ramp as we deliver those aircraft out of inventory, that is the primary driver. Outside of that, 777X getting closer to EIS and the financials associated with that.

A

The 737 – or 787, I'm sorry, cash profile does improve due to inventory unwind. And really the deliveries are outpacing production, so we'll see the benefit of that.

And then just continue to take actions on liquidity and right sizing the company and productivity. But essentially those are really the four biggest buckets to get you to 2021. But the single biggest driver being the 737 MAX profile.

Hunter Key

Analyst, Wolfe Research LLC

Thank you.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

You're welcome.

A

Operator: And our next question comes from the line of Carter Copeland. One moment. And our next question comes from the line of Carter Copeland with Melius Research. Your line is open. Please go ahead.

Carter Copeland

Analyst, Melius Research LLC

Hey, guys. Good morning.

Q

David L. Calhoun

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

Morning, Carter.

A

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Hi, Carter.

A

Carter Copeland

Analyst, Melius Research LLC

Hey, just a quick clarification and question. Greg, because of the rate changes, did you have material program margin revisions downward on the 787 and the 737? And how comfortable are you about staying away from a forward loss on the 787?

Q

And then just on the 606 revisions and what you're seeing there, what's – can you give us a better sense of the backlog change? And how much of that is related to the liquidity assessments you outlined and some of these [indiscernible 53:11] planes returnable at this point?

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Yeah. Yeah. Well, let me start with on the margin front. Yeah, we obviously, we had adjustments on margins, program margins, across the board with the rate reductions and the revised delivery profile.

A

Look, when you step back and look at 787 in particular at these lower rates and look at it on a unit basis, the margins obviously don't increase the way we had in prior with the higher rates. But they maintain to be pretty strong on a unit basis. And I would say that continues to be the fundamentals we've talked about. Again, even with the lower rate, the improvement of mix, and the step down by block.

So and then of course the continued productivity. And as Dave mentioned, we're initiating the study on the multiple sites. So more to come on that.

But we'll continue to work obviously on all areas of productivity on the program, particularly with these lower rates. But again, on a cash basis, on a unit basis, margins are actually hanging in there pretty well, even at these low rates. And that's really I think a credit to a lot of the work that – behind us that got done to get the program more efficient. And so we're certainly seeing the benefits of that, even at these low rates.

On the 606 in the second quarter, so I think if you look at it, there was about 480-odd cancellations that were noted. About 300 of those were associated with 606. So there's a disciplined process that is outlined that we go through every quarter and assess the entire backlog by customer that the team goes through and makes that assessment. And we do that, like I said, every quarter. And we'll continue to do that.

And I suspect with time, at least in the near term, we'll have more adjustments on – related to 606. But again that doesn't mean that they may not take the airplane over time. It just has to get through that criteria, even though there's contracts in place.

But again there's steps that we take in a thorough assessment, and we adjust the backlog accordingly at that time. But it could change. Quarter over quarter, some folks could move into the 606 and move out of it. But again we'll true it up every quarter.

Carter Copeland

Analyst, Melius Research LLC

Okay. Thanks, Greg.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

You're very welcome.

A

Operator: And our next question will come from the line of Myles Walton with UBS. Your line is open. Please go ahead.

Myles Walton

Analyst, UBS Securities LLC

Thanks. Good morning. Hey, Greg.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Morning.

A

Myles Walton

Analyst, UBS Securities LLC

In the second half of 2020, should we expect the cash flow burn to be materially improved from the first half? Or is that excess inventory build going to be a continued headwind?

Q

And then just considering everything else, you obviously solved the liquidity problem with the debt offering. But do you think about accelerating the balancing of capital structure here to ensuring investment-grade ratings?

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Yeah, I think as you look at the second half right now, Myles, it's a little bit better. That's at least what we got in the forecast. As you can imagine, it's dynamic and will remain dynamic through the balance of the year.

A

But as we look at it right now in our latest forecast, we see it being slightly better. And we'll continue to be burning cash into early 2021. And like I said, as with the production rates that we laid out and the assumptions we made around those and our actions that we'll take, we can see a path to positive cash flow in 2021 and we'll continue to keep you up to date on that. But you should continue to expect to see negative cash flow through the balance of the year and into early 2021.

On the liquidity front, I think again getting the \$25 billion was critical. And I think the fact that the markets got opened up and allowed us to get in there at the right time. And as you know, we were well oversubscribed, which I think just goes to the confidence that the market has in the long-term fundamentals of the marketplace.

We don't see a need to raise any additional capital at this time but we'll continue to monitor it and keep all of our options open.

But as I said in my opening remarks on deployment, if we see opportunities to pay down that debt sooner or restructure that in any way, we will absolutely be doing that. And we'll be laser focused on bringing that debt down and getting the balance sheet back in order.

Myles Walton

Analyst, UBS Securities LLC

Got it. Thank you.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

You're welcome.

A

Operator: And our next question will come from the line of Seth Seifman with JPMorgan. Your line is open.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Thanks very much and good morning.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Morning, Seth.

A

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Good morning. Greg, I wonder if you could give us a little more color on the 737? I mean, the change in the rate from kind of 31 by the end of 2021 to beginning of 2022 seems like a fairly small change. It seemed like your suppliers are experiencing something a little bit bigger. And so, maybe what does that say about the cadence of that ramp during 2021? And how much risk is there still around that number? And maybe finally, what opportunities are there maybe for you to make more deals with some of your top customers to get more planes out of inventory and allow you to raise that rate?

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Yeah, well, look, I mean like Dave mentioned and I think I echoed, the rate profile that we put in and the delivery profile is really based on detailed discussions with each of our customers that certainly have better clarity this quarter than they did last quarter. So we adjusted that accordingly. But we're in discussions with them daily and we'll continue to do that and make adjustments.

A

When you look at the supply chain, as you know, Seth, everybody is in a different state, I'll say, inventory and rate, based on where they were before the pandemic in particular where we had suppliers that were not – did not have appropriate inventory levels or weren't making our master schedule. So some of those have been accelerated.

So I would just tell you that each one of them is at a bit of a different place, depending on how much built inventory they have. So you're going to see variation supplier by supplier. And we're again staying really engaged with them daily on our plans and assumptions and then helping them as they manage through their inventory or their ramp-up. But you're not going to see, I'll say, everybody going to have a similar profile to what we have, really due to the – like I said, the fact that everybody is sitting at a little bit different inventory level.

And, of course, we're going to – as we said, priority one for us, help our customers get their fleet back up. And then it's clearing the ramp. Delivering the inventoried aircraft that are, as you know, built and ready to go. All that taking into consideration again and informing the production rates that will happen in conjunction. But really predominantly follow after we deliver off the ramp.

So lots of moving pieces in there. But I think the most important thing is we got to stay engaged with the supplier and really get them clear line of sight and help them manage through the transition period as we get return to service and get the airplane back in the air.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Thank you very much.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

You're welcome.

A

Operator: Thank you. And our next question comes from the line of Noah Poponak with Goldman Sachs. Your line is open.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Hey. Good morning, everybody.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Morning.

A

David L. Calhoun

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

Morning, Noah.

A

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Q

Greg, maybe just following up on those fluid conversations with your customers, I mean it's a very dynamic situation obviously. But you guys have talked about having spoken to every customer. And you've identified the categories of customers that would want to take deliveries right now. I mean there was an airline this morning actually talking about accelerating, because it's an opportunity to countercyclically invest.

So, I mean, I guess how close are we to the whole ecosystem of you, the supply chain, your customers, being on the same page? What inning are you in of revision until we feel like we aren't going to get production rate cuts anymore moving forward?

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

A

Yeah, well, look, I think we're all on the same page. However, like we said, it's dynamic, especially in the near term. So it's really important that our engagements happen frequently, have a clear line of sight and understanding, so then we can make appropriate changes to delivery profiles, rates, and then into the supply chain.

So what we laid out today is our best estimate based on all that input and feedback from customers again around the globe. And then managing the risk within our factories, combined with the supply chain.

As both Dave and I have articulated several times, we've spent a lot of time and effort stabilizing the 737 production facility and enhancing it. And with a keen eye towards as we move up and move back into higher production rates, it's going to be very smooth and methodical. And we're going to certainly have the advantage of all the hard work we put in place to drive stability and not have traveled work and just ensure that again we have a smooth rate ramp-up. That combined with informed – being informed by our customers.

So all of that has been taken into consideration on the profile that we just laid out. And obviously if we see that changing, we'll adjust accordingly.

I think the one moving piece in there, Noah, that certainly does have flexibility is delivery off the ramp.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

A

Those aircraft are finished, they're ready to go. We've got flexibility. And the team actually has done some great work getting ahead of that and essentially modeling out and really practicing how they're going to deliver those aircraft and recognizing there's going to be some movement from tail to tail and customer to customer.

So we've got that flexibility out there that I suspect that we'll have to utilize as we deliver those finished planes. That will in turn inform the production rate ramp-up. So we'll continue to kind of keep both of those in mind. And like I said, one will inform the other and we'll continue to stay engaged with the customers.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Q

Just as a quick follow-up to that, the discussion around 2021 free cash flow, it looked like you were going to have MAX inventory unwind. And then airplanes you're producing but not delivering this year also unwind next year. And those could be pretty sizable numbers, where even if the aircraft business otherwise was just break even, plus Defense plus Services, you'd actually maybe have nicely positive cash flow.

Is the missing piece there just that – it sounds like from your earlier comments, you might plan to be producing ahead of deliveries the rest of this year and then even into the beginning of next year?

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Yeah, yeah.

A

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Okay.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

I think that's definitely – that is going to be the case. And on the MAX, again, customer by customer, it varies. So it's not kind of a one size fits all when it comes to cash and the delivery profile of those airplanes that are going to come off the ramp. So again lots of moving pieces in there.

A

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Right.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

But as we kind of pull it all together, just again based on what we see today, we can see that path to positive cash flow. And like I said, we'll continue to keep you up to date on that.

A

But I think we've got, between the rates and our game plan around how we're going to execute between now and then, I think we have a good line of sight on that right now.

David L. Calhoun

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

Greg, if I might just add something. Since I've been part of most of these calls with our customers, it's I want to acknowledge what you said is actually a fact. We do have many calls that are on the forward looking want to take a big position kind of discussion. And then we have the others of course who are in the opposite. So that's a true story.

A

I think from Boeing's vantage point and our posture at the moment, we're still trying to de-risk the skyline. That has been our motive. And to emphasize to everyone, including our own people, that we're going to move the finished goods first. That is going to be – that's our intent. If we can move it faster, great. We're still going to hold our production rates as conservative as we can, so that we can get that inventory on the move.

And then when I think this virus ever looks like it's in the rearview mirror, I think all those discussions that of course we do have about the forward upside point of view, I think they'll come faster rather than slower. And I'm – honestly, I think as much about the recovery and the pace up as I do sort of the retrenchment and to deal with today's liquidity, because I think actually that ramp-up is going to be the more important part of this puzzle going forward.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

That's really interesting. Thank you.

Q

Operator: Thank you. And our next question comes from the line of Sheila Kahyaoglu with Jefferies. Your line is open.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Thanks so much. Good morning, everyone.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Morning, Sheila.

A

Sheila Kahyaoglu

Analyst, Jefferies LLC

I wanted to ask about normalized margins in BCA in 2022 at these lower rates. Based on these rates, you will produce about 510 aircraft in 2022. The last time you were around those levels was 2011. Your commercial margins back then were closer to 10%. And granted, that included some service. And free cash flow, if we adjust for 787, was around \$10 billion. So I guess I'm asking, how do we think about normalized margins and free cash flow sometime in 2022?

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Yeah, well, Sheila, as you said, right now it's the path to that point, right? And so the focus that we talked about around rightsizing the company and taking the actions are going to – they're going to feed right into that.

A

When you look at kind of unit margin over that period by program, again, as I mentioned on one of the prior questions, we're certainly under more pressure because of the lower production rates. But as we ramp up, and particularly on the MAX, we'll see that gross margin on a unit basis come up. And then again, we'll just have to continue to manage our spend on all of our discretionary.

But the actions that Dave – and I'll let Dave comment here. But the actions that we're putting in place now are really focused out in that timeframe to make sure we come out of this stronger and healthier in position to compete and get us through this window, this period that we're all faced with the pandemic. And really just not leave a rock unturned as far as our cost structures and our site consolidations and so on to ensure that we preserve cash flow out in that period and then therefore margin.

But I'll let Dave comment as well.

David L. Calhoun

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

A

Well, I'm not sure there's much I can add to that. We're going to have these volume impacts on our program accounting, et cetera, over this near term. Unit margins, cash margins, are going to be, is our focus. We feel good about where they are. We think we can make them better.

And then as volume and orders come along, and we can begin to look out further, I think everything gets – not only gets back to where it was but maybe gets better.

So not much I can add to sort of the dynamics of next year's margins, other than to tell you our focus is on unit cash margins and just continue to manage that as closely as we can for liquidity purposes. And then as order books fill out, we can – you'll see that impact in the accounting side of the puzzle.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Great. Thank you.

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

A

You're welcome.

Operator: And our next question comes from the line of Doug Harned with Bernstein. Your line is open.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Q

Good morning. Thank you.

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

A

Morning.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Q

When – and, Greg, you were talking about the flexibility and basically with the airplanes, the roughly 450 MAXs that you have parked. But given a lot of the pressures that you've had from customers for deferrals and cancellations, as we look at this, it probably does mean that a large number of those airplanes will go to different customers than were originally planned.

So operationally, how will you go about reconfiguration of these airplanes? Particularly you've got a supply chain that would be involved here that's sort of – it's in a very difficult situation. And have you assumed costs associated with reconfiguration and remarketing of these airplanes in the BCA provisions you've taken so far?

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

A

Yeah. The short answer is yes, we have, Doug. So we've assessed all 450 and put a risk assessment against all of those aircraft. And then took a provision for that. We believe we will have to either remarket or reconfigure some of those aircraft. And that's something obviously that we'll continue to monitor and update on.

But we've assumed that that will take place with some of those aircraft, just again by the discussions we've been having with our customers.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Q

But just physically, this could be – I mean this is different than anything that I've ever seen you had to deal with in the past in terms of scale. I mean operationally, how do you think about doing that?

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

A

Yeah, well the team, like I said, we're trying to stay ahead of these things. So anticipating this as a possibility quite frankly some time ago. The team has gone through and got clear understanding about, how would you go about doing this? Systematically, where would we do it? How much configuration would take place?

Obviously with the MAX, as you know, it's fairly limited. You're not dealing with a wide body. So impact on the supply chain quite frankly I don't really see it much. It's going to be more basic reconfiguration. And in some cases, possibly customers take them configured as is, and they reconfigure them. So I think you're going to see a variety in how this plays out.

But again, we're anticipating we're going to do some of it, and we're trying to get ahead of it. And I think getting those plans in place today that if it's better than that, great. If it isn't, we'll be ready and facilitated to be able to do it.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. Thank you.

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

A

You're welcome.

Operator: And our next question comes from the line of Robert Stallard with Vertical Research. Your line is open.

Robert Stallard

Analyst, Vertical Research Partners LLC

Q

Thanks so much and good morning.

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

A

Good morning.

David L. Calhoun

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

Good morning.

A

Robert Stallard

Analyst, Vertical Research Partners LLC

Greg, I was wondering if you could give us some more clarity on what's in your plan with regard to these 737 MAX deliveries? You said you expected to deliver most of them in the first year after recertification or reentry into service. But could you give us some idea of exactly what that number is? And what the sort of cash impact of that would be? Thank you.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Yeah. No, like I think we've been consistent to say, hey, look, we want to get those airplanes delivered. And that's the majority of them in the first year. So there will be airplanes that are outside that first year, but the majority will take place in the first year.

A

Rob, this is just based on discussions we're having with customers in sequencing those airplanes out. And we'll continue to focus on again relieving the inventory off the ramp, which then again that informs the production rate. So we got to focus there first. And then ramp up production and clear the ramp, so we can complete the airplanes coming out of production.

So it moves around certainly month to month, quarter to quarter. But again majority will remain in the first year. And then we'll see some of that trailing off over time, just again based on customer preference.

Robert Stallard

Analyst, Vertical Research Partners LLC

Just a quick follow-up. Because that would seem to imply a very large number of aircraft deliveries in the next almost 12 months, when obviously airline conditions are very weak. Are most of these going to replacement? Is that the best way to look at this?

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Yes, certainly. I mean they've got the fleet plans in place. And so again what informs it is our discussions with them around quantity and around timing and sequencing. So it – all of that's informing kind of how we front load this thing.

A

But look, Rob, could it move here and there from month to month and from quantity of airplane outside this profile? Sure, it could.

But as we see it today, we see the majority of those again informed by the customer. We certainly have the ability, and we're capacitized to deliver them. And as you know, they're completed aircraft. So the cycle time from turning that airplane on and getting it into the hands of the customer is pretty short. So we got that again, that flexibility, in our favor here. And we'll adapt accordingly based on the needs of the customer.

Robert Stallard

Analyst, Vertical Research Partners LLC

Okay. Thank you very much.

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

You're welcome.

A

Maurita B. Sutedja

Vice President-Investor Relations, The Boeing Co.

Operator, we have time for one more question.

A

Operator: And our last question will come from the line of Cai von Rumohr with Cowen & Company. Your line is open.

Cai von Rumohr

Analyst, Cowen and Company

Yes. Thanks so much, guys. So a follow-up to Rob's question. So if you're going to ramp to 31 a month going into 2022, you've got to be building close to 200 planes or more in 2021. And if you deliver 400-plus planes, the inventory goes down by 200 but you still have 250, 300, a lot of planes. It would only seem to make sense to go to 31 if you felt your skyline called for delivering more 737s in 2022 than in 2021. Is that correct?

Q

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

Well, Cai, I'd say, look, the production rate increases, Dave said it, I said it, it's going to be slow and gradual on the production side, building up to 31 in that timeframe.

A

In conjunction with that will be the delivery again off the ramp. And that will really inform the production rate. But it's a very gradual slow rate buildup to that 31. And that could adjust based on how we deliver off the ramp or any further information we gather from the customers.

Again, the supply chain, we have the inventory clearly on hand as you've seen. And so if we could go up quicker, we'd certainly assess that. But – and I'll let Dave weigh in here. But stability is going to be job one. It's ensuring that we move up methodically and stabilized, not have traveled work, first time quality. We'll do an assessment. Then we'll move up to the next rate. And then again we'll be informed of how quickly we're clearing the inventory off the ramp.

I don't know, Dave, if you had any more to add on the production side?

David L. Calhoun

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

Yeah, I don't really have anything more to add, other than again think about our posture the middle of next year if in fact things are beginning to return, customers are beginning to see the virus in the rearview mirror, vaccines are being discussed and described. I really believe that the toughest part of our puzzle, as I said, going forward is going to be then returning to rates that satisfy what I think will be a reasonably robust return to the market. So that's part of our math here.

A

But what Greg said holds. For most of the year next year, the governor on rate is going to be the pace at which we sell that finished goods inventory.

Cai von Rumohr

Analyst, Cowen and Company

Q

But as you look today, does it look like 2022 you'll deliver more than 2021? Without getting into numbers.

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

A

Yes.

David L. Calhoun

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

A

I sure hope so.

Cai von Rumohr

Analyst, Cowen and Company

Q

Okay. Thank you.

Gregory D. Smith

Executive Vice President, Enterprise Operations and Communications (interim), and Chief Financial Officer, The Boeing Co.

A

That's the plan, Cai.

David L. Calhoun

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

A

Thank you.

Maurita B. Sutedja

Vice President-Investor Relations, The Boeing Co.

All right, thank you. So that completes The Boeing Company Second Quarter 2020 Earnings Conference Call. Thank you all for joining.

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