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# The Boeing Co. (BA)

Q1 2021 Earnings Call

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

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

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Thank you for standing by. Good day, everyone, and welcome to The Boeing Company's First Quarter 2021 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.

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**Maurita B. Sutedja**

*Vice President-Investor Relations, The Boeing Co.*

Thank you, John, and good morning. Welcome to Boeing's first quarter 2021 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 and Chief Financial Officer.

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

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## David L. Calhoun

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

Yeah, thank you, Maurita, and good morning, everyone. I hope you're all staying safe and healthy as we navigate this global pandemic. On behalf of Boeing, I want to share our heartfelt thoughts and support for those in India, who are coping with the devastating and deadly impact of this most recent COVID-19 surge.

If we think back to where we were a year ago as the impact of COVID-19 began to unfold, it's been quite a year. While it has been challenging, we saw the US industry and government come together to support one another like never before, and thankfully, we view 2021 as a critical inflection point for our industry and a proof point for those public investments. While a full recovery is still likely a few years away, we're seeing encouraging signs including progress on vaccine distribution in many countries and domestic travel recovery in certain markets.

I remind everyone at the outset, we never imagined vaccines would be developed and distributed this early in the pandemic. We continue to adapt to new ways of conducting our business and remain dedicated to supporting our teammates and their families as well as our customers and the communities where we operate.

So let me start with an update on the business on the next chart. Starting with the 737 program, as all of you know, we have identified electrical issues in certain locations in the flight deck of select 737 MAX airplanes. We are finalizing the plans and documentation with the FAA to outline the process required for operators to return their airplanes to service. Upon approval by the FAA, we expect the work to take a few days per airplane.

Approximately 100 in-service airplanes are impacted. We will complete this same work on airplanes in our inventory. We have also paused deliveries while we address these issues, which will make our April deliveries very light. At this time, we expect to catch up on deliveries over the balance of the year.

We recognize and regret the impact this has had on our customers' operations and are focused on ensuring that their airplanes are ready for the summer season. More broadly, in the last several months, we've made important progress in safely returning the 737 MAX to service worldwide. Since the FAA's ungrounding late last year, more than 165 countries have now approved the resumption of 737 MAX operations. We have delivered more – 85 737 MAX airplanes to customers, 21 airlines have returned their fleets to service, and we have safely flown more than 26,000 commercial flights totaling more than 58,000 flight hours.

We also recently received regulatory approval for the 8-200 variant of the 737 MAX, an important aircraft for our valued customer Ryanair. We now assume that the remaining non-US regulatory approvals will occur this year, with approval in China most likely now in the second half of the year. As always, we will continue to work with global regulators and follow their lead in the steps ahead.

Our first priority remains assisting our customers with returning their parked fleet to service. More than one-third of the previously parked fleet is now flying revenue-generating flights. We're also honored and encouraged by the orders from Southwest Airlines, United Airlines, and Alaska Airlines in the quarter, along with an order last week from Dubai Aerospace Enterprise and the trust our customers are placing in Boeing and in the 737 family.

These orders underscore our customers' commitment to continued modernization of their fleets with 737 airplanes that enable operational efficiencies such as improved fuel burn, which reduces carbon emissions, quieter engines that benefit the communities they serve and excellent dispatch reliability to support on-time operations. At the end of the quarter, we had approximately 3,200 aircraft in our 737 backlog.

We're currently producing at a low rate and expect to gradually increase the rate to 31 per month in early 2022 with further gradual increases corresponding with market demand. We will continue to assess the production rate plan as we monitor the market environment and engage in customer discussions. The timing of remaining regulatory approvals will also determine our delivery plans and shape our production ramp-up. We will continue to communicate transparently with our supply chain to ensure readiness and stability.

Turning to the 787 program. We resumed deliveries in March following rigorous testing and analysis and are closely coordinating with our customers. We will follow the FAA – the FAA has been involved every step of the way in this process. We delivered a total of nine 787s since restarting deliveries last month with potentially a couple more by the end of this week. Based on what we know today, we still expect to deliver the majority of the 787 aircraft currently in inventory by the end of the year. We will closely monitor the market environment and keep you updated on delivery progress.

As we previously communicated, in March, we consolidated the 787 final assembly to Boeing South Carolina which went smoothly. Also we transitioned to a low-production rate of 5 by the end of the quarter.

On the 777X program, we're working closely with global regulators on all aspects of development including our rigorous test program. Our team remains focused on executing this comprehensive series of tests to demonstrate the safety and the reliability of the airplane's design. And we're pleased with the progress that we've made to date. We're also providing regular updates to our customers and still anticipate that the first 777X delivery will occur late in 2023.

As planned, we are transitioning the combined 777/777X production rate to two per month. We also continue to see strong freighter demand and are assessing our production plans to efficiently transition to the 777X.

In addition to our commercial programs, we continue to deliver for our defense, space, and services customers. As we reach these program milestones, we're firmly grounded in and guided by our core values: safety, quality, and integrity. Let me highlight a few of these accomplishments.

Our Defense, Security & Space team began production of the T-7A Red Hawk Advanced Trainer and achieved first flight and delivery of the F-15EX to the US Air Force, with a second aircraft delivering just last week. On the KC-46A Tanker program the US Air Force has begun demonstrating limited operational use for air refueling as well as cargo and passenger airlift operations and has safely conducted over 1,400 missions over the last six months.

We also successfully completed hot fire testing for NASA's Space Launch System, SLS rocket. Additionally, our Global Services team delivered the 50th 737-800 Boeing Converted Freighter and inducted our first EA-18G Growler for the US Navy modifications. We also continue to manage the COVID-19 disruption on our programs including impacts to the VC-25B program where employee clearance constraints impedes our ability to exchange mechanics when quarantines are required.

In addition to operational and programmatic highlights, we've also maintained significant emphasis on sustainability across the company and are making great strides. We're enhancing our sustainability disclosures

and planning to release our first-ever global equity, diversity, and inclusion report and our first integrated sustainability report later this year.

Underscoring our commitment to the environment for the 11th year in a row, we're proud we've received the ENERGY STAR Partner of the Year award for Sustained Excellence in recognition of our company's successful energy conservation practices.

Now, let's turn to the next slide to discuss the industry environment. Our government services, defense, and space businesses remain significant and relatively stable. While increased government spending on COVID-19 response is adding pressure to defense budgets in some countries, others are increasing spending on their security. Overall, the global defense market remains strong, and we continue to see solid global demand for our major programs.

The strength of our defense portfolio was underscored by another strong quarter of BDS orders, totaling \$7 billion. The diversity of our portfolio will continue to help provide critical stability for us as we move forward.

In the commercial market, we continue to see near-term market pressure due to COVID-19. However, many of our key long-term fundamentals remain intact. The recovery is gaining traction but remains uneven. We continue to anticipate the next six months will be very challenging for our airline customers and the entire industry. COVID-19 case rates are still high in many areas around the world, and travel restrictions remain in place, putting significant pressure on passenger traffic, especially in those affected markets.

We're seeing some positive momentum, particularly in domestic travel. Consistent with what we discussed in prior quarters, the domestic market is leading the recovery, and in some cases it has slightly outpaced our expectations. February domestic traffic was 51% below 2019 levels. Since then, it has picked up in some regions including the United States and China, and we anticipate continued momentum this spring.

On the other hand, international operations remains extremely low with February traffic still 89% below 2019, slightly behind our earlier expectations. Ongoing virus concerns and the absence of coordinated global policies on cross-border entry protocols have hindered the recovery in the international segment.

Vaccine distribution remains the critical hurdle to a broad reopening. The active fleet is still around three-quarters of its previous size with single-aisle activity levels slightly above twin-aisle. And although utilization rates and load factors are increasing in some areas, they are still below historic levels, which means airlines are flying less than 60% of their normal capacity at the global level. Regional dynamics such as case rates, government travel policies continue to influence passenger traffic and drive an uneven recovery profiles all around the world.

The US and China domestic markets are showing resilience with pent-up demand. US airlines are seeing a significant increase in bookings for domestic and leisure routes. TSA throughput in April has been the highest we've seen since the onset of the pandemic with daily averages of approximately 1.4 million passengers, around 60% of 2019 levels. However, passenger traffic in other parts of the world such as Europe and parts of Latin America remain significantly lower due to new strains of the virus, lower vaccine penetration, and uncertainty about government reopening plans.

As expected, the number of aircraft being retired from the active fleet keeps growing with around 1,500 airplanes retired or announced to be removed since the onset of the pandemic. We anticipate this trend will continue as our customers focus on retiring their oldest and least efficient airplanes and replacing them with new airplanes that will be as much as 25% to 40% more fuel-efficient with commensurate emission improvements.

The freighter market remains another bright spot with cargo traffic in February 9% higher than 2019. Yields have remained very high, and more freighters are flying than before the pandemic due to limited belly cargo capacity from passenger airplanes. Over the long run, cargo demand will continue to be driven by global trade and GDP growth.

Progress on vaccine dissemination and domestic passenger traffic in many countries continue to support our medium-term outlook and our belief in the long-term strength of the market. As we have shared previously, and consistent with IATA and other industry groups, we expect passenger traffic to return to 2019 levels in 2023 to 2024.

We still see the recovery in three phases: first, domestic traffic; then regional markets such as intra-Asia, intra-Europe, and intra-Americas flights; and then finally, long-haul international routes. Therefore, demand for narrow-body aircraft is expected to recover faster while wide-body demand will remain challenged for a longer period.

As we start to see positive signs in the resumption of domestic and international air travel, our Confident Travel Initiative has continued to partner with airlines, regulators, leading universities, and medical experts around the world to demonstrate the safety of air travel. Our confidence in air travel has been substantiated by science, testing, and analysis based on the multi-layered approach to keep our air crews and passengers safe, no matter where they're seated in the aircraft cabin.

We're also working with governments and industry associations to help ensure when people decide to travel they know what to expect. We encourage any new protocols that use data-driven risk-based approaches to minimize disease transmission risks between countries. Standardized and secure methods to verify traveler information should be part of any solution to safely expand the international travel.

As we move forward, testing mechanisms, progress on vaccine distribution, and coordinated global interactions will be the key drivers of the recovery. We're also monitoring the global trade environment, in particular US-China relations, given the importance of the Chinese market to our near-term delivery profile as well as future orders which influence future production rates. We will continue to engage with leaders in both countries to urge a productive dialogue, reiterating the mutual economic benefits of a strong and prosperous aerospace industry. China represents 25% of the global growth in our industry over the next decade.

In the commercial services market, we saw stable demand in the first quarter. We're seeing some rebound from the bottom, and we expect to see increased activity as airlines are preparing for the summer season. That said, we continue to anticipate it will take multiple years to reach previous demand levels, and the recovery trajectory may be uneven. Additionally, accelerated retirements are lowering the age of the fleet, reducing services demand and prolonging the recovery for commercial services.

On the liquidity front, managing liquidity continues to be vital for the aerospace industry until the market recovers. Despite the challenges, and as we noted in our recently released Current Aircraft Finance Market Outlook, there generally continues to be liquidity in the market for our customers to acquire new airplanes. In fact, 100% of Boeing deliveries in 2020 were financed by third parties. Financiers and investors understand the long-term value proposition of aircraft and the fundamental need to connect the world.

As we see airlines adapt to these market realities, product differentiation and versatility will be key. Our product lineup is well-positioned to meet our customer needs. As we navigate this difficult time, we're not losing sight of

our future. We've taken great care to ensure we have the team, the resources, and the investments necessary to meet our customer commitments, to drive our improvement initiatives, and innovate for the long term.

In addition to our work on our current programs, we're also advancing technology that will define our next chapter. We anticipate that our investments will lead to next-generation aircraft that offer a higher performance while being more fuel-efficient and easier to maintain and easier to reconfigure.

We will continue to take the right action to adapt to the market impact of COVID-19 and position our business for the future by closely managing our liquidity and while driving long-lasting change to make our business leaner, sharper, and more sustainable.

With that, let me turn it over to Greg.

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## Gregory D. Smith

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

Great. Thanks, Dave, and good morning, everyone. Let's please turn to slide 4.

First quarter revenue decreased to \$15.2 billion primarily due to lower 787 deliveries and commercial Services volume. This was partially offset by higher 737 deliveries and higher KC-46A tanker revenue. Earnings in the quarter were also impacted by lower commercial airplane period costs, partially offset by lower tax benefits and higher interest expense. Income tax in the quarter primarily reflects the benefit from the impact of the pre-tax losses, largely offset by the adjustments to the valuation allowance and true-ups to the tax benefits recorded in 2020.

Let's now move to Commercial Airplanes on slide 5. Revenue was \$4.3 billion driven by lower 787 deliveries, partially offset by higher 737 volume. Although Commercial Airplanes operating margin continued to be under pressure, they improved in the quarter due to higher 737 deliveries, lower abnormal production costs compared to the same period in prior year, and the absence of the first quarter 2020 charge related to the 737NG pickle fork repair costs.

We delivered 58 737 MAX airplanes in the first quarter. We currently have approximately 400 737 MAX aircraft built and stored in inventory. As we previously communicated, we expect to have to remarket some of these aircraft and potentially reconfigure them. As you've seen by the recent orders, we're making good steady progress on the remarketing effort.

You may also recall right before the 737 MAX returned to service we estimated that around half of the approximate 450 aircraft we had in storage would be delivered by the end of 2021 and the majority of the remaining by the end of the following year. That estimate is unchanged.

Through the first quarter, we have delivered 85 737 aircraft from storage, and as Dave mentioned, the recent delivery pause will impact our April deliveries. We expect delivery timing and the production rate ramp-up profile to remain dynamic given the market environment, customer discussions, and the remaining global regulatory approvals.

There is no material change in our estimated for total 737 abnormal costs of \$5 billion. During the first quarter, we expensed \$568 million of abnormal production costs, which brought the cumulative abnormal cost expense to date to \$3.1 billion. We expect the remainder of these costs to be expenses incurred largely in 2021.

Our assessment of the liability for estimated 737 MAX potential concessions and other considerations to customers as well as the expected cash impact timing did not change significantly in the first quarter from our prior assessment. Cumulatively, we've accrued a \$9.3 billion liability for the estimated potential concessions and other considerations. To date, we've reduced the liability by \$4.9 billion through cash payments to customers and other forms of compensation, including \$1.2 billion we paid this quarter. We have settlement agreements covering approximately \$2.5 billion of the remaining liability balance of \$4.4 billion.

Turning now to 787, as we discussed, we resumed deliveries in March. We currently have approximately 100 787 airplanes in inventory. Based on what we know today, we still anticipate that we will deliver the majority of these airplanes during 2021. We're working with our customers to facilitate deliveries and continue to monitor the international long-haul recovery as we assess our delivery plans.

Our latest assessment of the financial impact related to the inspections and the delivery delays has been included in our first quarter closing position. As we've previously disclosed, the 787 program has near-breakeven gross margins due to previously announced reductions in production rates and program accounting quantity. If we are required to further reduce the accounting quantity and/or production rates or experience other factors that result in lower margins, the program could record a reach-forward loss in future periods. However, on a cash basis, the 787 unit margin has held up relatively well even at lower production rates as many underlying profitability drivers remain intact.

Moving now to 777X; as Dave mentioned, we still expect first delivery of the 777X to occur in late 2023, and we are making good progress on our flight test efforts. We still expect that peak use of cash for 777X program was in 2020, and that cash flow will improve as we get closer to EIS and begin deliveries in late 2023. We anticipate the program to turn cash-flow-positive approximately one to two years after the first delivery.

Given the significant headwinds that remain in the market, BCA margin progression will be highly dependent upon future production rates and will take time. However, we continue to take appropriate action to make foundational, lasting change through our business transformation efforts in order to help offset those headwinds as much as possible.

Let's now move to Defense, Space & Security on slide 6. First quarter revenue increased to \$7.2 billion, and first quarter operating margins increased to 5.6% primarily driven by higher KC-46A tanker revenue and the absence of charges related to the program in prior period, partially offset by a pre-tax charge of \$318 million on the VC-25B program, which was largely due to COVID impacts and performance issues at our supplier.

We received \$7 billion in orders in the quarter including contracts for 27 KC-46A tanker aircraft to the US Air Force, 11 P-8 Poseidon aircraft to the US Navy and Royal Australian Air Force, and 6 Bell Boeing V-22 Osprey rotorcraft to the US Navy and US Air Force, holding the backlog steady at \$61 billion.

Let's now turn to Global Services results on slide 7. In the first quarter, Global Services revenue declined to \$3.7 billion, and operating margins decreased to 11.8%, both driven by lower Commercial Services volume due to COVID-19. No notable asset impairments were booked in the quarter. During the quarter, BGS won key contracts worth approximately \$3 billion resulting in backlog of approximately \$20 billion.

While services demand was relatively flat in comparison to fourth quarter 2020, we expect the quarterly revenue trend to improve as we support increased airline operations and more airplanes are flying as travel recovers. That said, given the dynamic environment, we can expect to see revenue trajectory vary from quarter to quarter.



Despite the challenging environment, we continue to position our services business for the future and are evaluating our portfolio to ensure that we have the right solutions to help our customers and industry navigate the downturn and prepare for market recovery. These efforts are starting to take hold and positively impact our operating margin performance.

Let's now turn to cash flow on slide 8. Operating cash flow for the quarter improved to negative \$3.4 billion, reflecting the timing of receipts and expenditures and higher 737 deliveries, partially offset by lower 787 deliveries and lower advance payments.

Let's move now to slide 9, discuss our liquidity position. We continue to proactively manage our cash position and assess our liquidity through the pandemic. We ended the first quarter with strong liquidity, including \$21.9 billion of cash and marketable securities on our balance sheet and access to \$14.8 billion from our newly increased bank credit facilities, which remain undrawn. We also continue to have access to the capital markets.

Our debt balance remains stable at \$63.6 billion at the end of the quarter. As part of our ongoing prudent liquidity actions, we refinanced \$9.8 billion of our delayed draw term loan that was due in early 2022 and expanded our revolving credit facility by \$5.3 billion. These liquidity enhancing activities are in addition to the many actions we have discussed before, including suspending our dividend, reducing discretionary spending, matching 401(k) contributions in stock, prefunding pension with stock, and awarding most of our employees a one-time stock grant that will vest in three years in lieu of a merit increase. These actions reflect our continued de-risking strategy and are part of our balanced approach to ensure we're proactively meet future obligations.

We worked hard in the past to maintain disciplined cash management while seeking opportunities to strengthen our balance sheet, and we will continue these efforts. Once cash flow generation returns to more normal levels, reducing our debt level will be our top priority. We believe we currently have sufficient liquidity and are not planning to increase our debt levels. However, we will continue to actively manage our balance sheet. Our investment-grade credit rating is important to us, and we will continue to consider all aspects of our capital structure to strengthen our balance sheet.

Let's turn now to the next slide to summarize. Our business environment remains dynamic. And while the commercial market recovery is gaining some traction and has been uneven and the path ahead is far from certain, we will continue to diligently work opportunities and monitor risk factors including vaccination pace and case rates along with passenger traffic recovery and remaining 737 MAX regulatory approvals and US-China relations.

As Dave mentioned, we're still awaiting 737 MAX regulatory approval from China, and the timing of it will affect our 737 delivery plan. China is an important market for our commercial airplanes, and order activity from China will affect our future production rates.

As we've discussed, even as our industry begins to recover, we anticipate 2021 will be another challenging year. However, based on what we know today, we still expect revenue, earnings, and operating cash to improve from 2020. Commercial deliveries will continue to be the single biggest driver across all financial metrics.

Revenue improvement from 2020 to 2021 will be driven mainly by higher 737 and 787 deliveries as we plan to unwind inventory and deliver from the production lines.

Consistent with what we shared last quarter, we also expect improvement to our bottom line from 2020 to 2021 primarily driven by higher commercial deliveries absent of 2020 charges, improved performance and benefits from

continued business transformation actions. These impacts will be partially offset by higher interest expense. Also bear in mind that our commercial business will continue to book significant abnormal production costs for the 737 program in 2021.

Similar to our revenue and earnings trajectories, we continue to expect 2021 operating cash flow to be much improved from 2020, driven mainly by inventory burn-down associated with 737 and 787 programs. While higher deliveries will be a tailwind, the timing of advance payments and the burn-down of excess advance payments along with 737 customer settlement payments and higher interest payments will continue to be headwinds.

We expect the first quarter was the most challenging quarter from a cash perspective, and we expect the trend to improve for the remainder of the year as we ramp up 787 and 737 deliveries in subsequent periods. However, there could be some timing variation quarter-over-quarter, so quarterly trajectory could be uneven. As discussed, our cash flow profile is heavily dependent upon obtaining the remaining 737 MAX regulatory approvals, the commercial market recovery, and ongoing discussions with our customers on their fleet planning needs.

In aggregate, we continue to expect 2021 to be a use of cash. We expect that continued improvement on the 737 MAX program due to lower customer considerations and higher delivery payments as well as recovery in Commercial Services will enable us to turn positive cash flow in 2022. The key watch items that I highlighted earlier will be the differentiator in our outlook trajectory. Given the dynamic environment, we continue to monitor the risks and opportunities to ensure we're well-positioned for the future.

Over the past year, we've been keeping you updated on our extensive business transformation effort. We're continuing to closely examine all aspects of our operations to simplify and streamline everything we do and take billions of dollars out of our operating costs while driving our key efforts in safety, quality, and performance. We're doing this now so that we can emerge a leaner, sharper, and more resilient company as the market recovers and production rate increases in the future. We'll continue to execute a widespread set of changes over a multiyear period.

I'm pleased with the strong progress we have shown in 2020 that has carried into 2021 and is gaining momentum. We expect the majority of our efforts will result in lasting change that will drive long-term productivity, future margin expansion, and cash flow generation as our market continues to recover.

And as we take action, we're ensuring that every step only further drives key efforts in safety, quality, and delivering on our commitments. We have a dedicated team focused on these efforts embedded in every business unit and function to ensure we're continually improving in every aspect of our operations. This is an enduring effort that our entire leadership team is committed to driving forward in the future.

And finally, as you know, last week I shared my intent to retire from Boeing in July. I want to take a moment to thank the 140,000 great people of Boeing and all of our partners who have made my 30 years at the company so special. It has been a true honor and a privilege to work alongside all of you. I will cherish the relationships that I've been very fortunate to have here and over the years, and those include all of you in the financial community that I've had the opportunity to get to know so well over the last decade and beyond.

At Boeing, I've been inspired every day by the incredible technology, products, and services we bring to the world. And while it's our products and our mission to get you excited, it's the great people of Boeing that make it all possible. And it is the people that I will miss the most.

Over the next few months, I will be solely focused on a smooth transition of my responsibilities and then onto the next chapter of my career. I will always be cheering on Dave and the entire Boeing team from the sidelines. I'm confident in the long-term market opportunity ahead, The Boeing Company itself and the team behind it.

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

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## David L. Calhoun

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

Thanks, Greg. Thanks for everything, as you know. On behalf of the board and the entire Boeing team, I want to thank Greg for his incredible contributions and his dedication to Boeing and its people. His remarkable leadership has made a significant and lasting impact for our company, for our customers, and for our stakeholders. Thanks to Greg's efforts, Boeing also has had the benefit of very solid teams across the function that he oversees, people I've gotten to know quite well.

As we build on Greg's legacy, we're not searching for a new strategic direction. We will engage in a comprehensive and thoughtful search process for a world-class executive with the talent and skills commensurate with the high level Greg has set. This process will encompass executives within Boeing and across the external market.

We're well-positioned for the future, and we will continue to transform our business to not just navigate through this pandemic but to ensure that we emerge stronger and more resilient for the long term. While there is no question that COVID-19 has had a profound impact on our industry, we view this year as a key inflection point, as positive signs begin to emerge. As governments around the world accelerate vaccine distribution, people are getting back to work, and global economies are beginning to get back to business. And as they do, we are proud of our role in enabling travel, to connect people, to connect businesses, and importantly, to connect cultures.

As we face into the challenges at hand, we remain steadfast in our commitment to quality, safety, integrity, and transparency. Through it all, I am proud of how our team continues to stay focused on our customers and their important missions, and I'm confident in our future.

With that, Greg and I will be happy to take your questions. Thank you.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question comes from Sheila Kahyaoglu with Jefferies. Please go ahead.

**Sheila Kahyaoglu**

*Analyst, Jefferies LLC*

Q

Thank you. Good morning, everyone, both Dave and Greg. Greg, congratulations, and we look forward to your next chapter. I guess for either of you, how do we think about commercial profitability going forward and into next year? Is there a breakeven rate when we think about production or deliveries on both the 737 MAX and the 787 as that destocking resolves itself?

**Gregory D. Smith**

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

A

Yeah, Sheila, I think, as I mentioned in my remarks, and obviously I'll let Dave weigh in here, but it's really tied to burning off that inventory and then the production rates associated and particularly with the 737. So very similar to what we talked about on cash and revenue trajectory, earnings and margin are going to be very much on the same trajectory.

But also, as we've talked about under the umbrella of business transformation, we've been really – as we've been in this period, we've been challenging all aspects of the business and looking for opportunities to streamline but at the same time never losing sight of the future. So as you've seen from – as we posted last year, we continue to make significant investments in the business, and we will. But at the same time, we're going to still stay very focused on the business transformation efforts that should continue to help that trajectory as we see the market improve and then our ability to increase production rates associated with that improved market.

But I'll let Dave weigh in as well.

**David L. Calhoun**

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

A

Yeah. There's probably not much I can add there. But I'll just add my confidence that as production rates begin to return to what we would consider ultimately normal and then above, we should get more leverage than we've ever gotten simply because of all the actions that we've taken with respect to the fixed and readiness-to-serve costs that are out there. But maybe even a bigger part is the stability we will bring back to the production lines themselves. So that as we move the rates up, we can do so in a stable fashion. There is enormous productivity attached to that track.

So I agree with all the comments that Greg made, I would just add that commentary.

**Sheila Kahyaoglu**

*Analyst, Jefferies LLC*

Q

Thank you.

**Gregory D. Smith**

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

You're welcome.

A

**Operator:** And next we'll go to the line of Doug Harned with Bernstein. Please go ahead.

**Douglas S. Harned**

*Analyst, Sanford C. Bernstein & Co. LLC*

Thank you. Good morning.

Q

**Gregory D. Smith**

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

Morning.

A

**Douglas S. Harned**

*Analyst, Sanford C. Bernstein & Co. LLC*

First, Greg, I just want to thank you for all the work you've done with all of us over the years. It's been great, and definitely want to wish you the best in your next steps here.

Q

**Gregory D. Smith**

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

Thank you very much, Doug. Time has flown by.

A

**Douglas S. Harned**

*Analyst, Sanford C. Bernstein & Co. LLC*

Yeah. No kidding, no kidding. It's a long time. I actually – Dave, I have a question for you that also goes over a long time, I think, in your involvement in the industry. If you think back over the years, Airbus and Boeing historically have always had kind of an ongoing battle about market share. They talk about it, [indiscernible] each other, that sort of thing. And it's been particularly true on narrow-bodies.

Q

So when you look at the situation today, and the 737 MAX obviously has been held back, there's still a large market for it. But Airbus has been delivering a lot of NEOs. They have a big backlog. On the last call, we talked a little bit about the A321XLR. So when you look forward now, how important is market share? Do you think about that? Is that number for narrow-bodies important? And is there a level that you would want to make sure that Boeing is at?

**David L. Calhoun**

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

Yeah. It's a great question. I want to split that market. Let's put it that way. That's the way it's played out historically. They do better in some segments of that market, we do better in other parts of that market with respect to the products that we field. And I'm confident we can get there.

A

What I will say about this is I can't make up for the production gap that we created on our own right for that entire year. I can't make up for that. And so I'm not going to try to regain that ground. I'm simply from this point forward going to try to hold our own with respect to what I think is our rightful share. I will also bring the rates back in the

most stable fashion I can conceivably bring them. So I will pace that, and I think that is good for Boeing, I think that is really good for shareholders.

So it's all a question over what period of time do you want to measure it. I'm confident that over a longer period of time, we'll get back to where we need to get to and I'm confident in the product line. I always have been and I continue to be. And I think some of the recent activity suggests that. When you look at the applications that we're actually putting into our airplanes to work for, I think we're in a pretty decent place. So it's a great question, though.

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**Douglas S. Harned**

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

But if I can follow up on that, when you look at the last four months, you've been averaging a little bit more than 20 737 MAXs since it restarted. And that's clearly well below the capacity that you have to deliver them. What are the constraints here? Are they more on customer willingness to take delivery or more on your processes to get those airplanes out there and delivered?

---

**David L. Calhoun**

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

A

Well, it's the former. I'm quite confident that recovery in this country is coming, and it's probably coming sooner than most anywhere with the exception of China. But when you look broadly around the world, it's not quite as robust. And so this year is still going to be a rough and tumble year for most countries around the world including Europe, and that is the issue is, when do they project that they're going to come out. And then will the order activity pick up in each of those markets the same way it has picked up here in the United States? And I'm confident that it will and that we will get over those gaps. But it's uncertain in a lot of countries around the world.

And then the final and very important straw is we've got to reinstate our trade relationship in aerospace with China. That's a big part of the market long term. It's important that we get our share out there, share of that market, which historically has always been at 50%, little more when you consider all the wide-body activity. And we need to get back to that stage. I believe that will happen, but it's going to take a little time.

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**Douglas S. Harned**

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Great. Thank you.

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**David L. Calhoun**

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

A

Yeah.

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**Operator:** And next we'll go to Seth Seifman with JPMorgan. Please go ahead.

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**Seth M. Seifman**

*Analyst, JPMorgan Securities LLC*

Q

Thanks very much, and good morning. Greg, thanks very much for all your help over the years, and best of luck to you.

**Gregory D. Smith**

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

Yeah, thanks, Seth.

A

**Seth M. Seifman**

*Analyst, JPMorgan Securities LLC*

Sure. I just wanted to ask this morning about 787. And when we think about the process from here, similar to the question that Doug asked about 737, the delivery pace, is it more governed by customers' willingness to take deliveries? Or is it governed by putting aircraft through kind of a change incorporation process, in which case kind of how much of that work is done?

Q

And then not to split hairs too much here, but I believe last quarter the plan was to deliver the vast majority of the aircraft in inventory. And this quarter, it's the majority. So is there now an expectation to carry some more 787 inventory into 2022?

**David L. Calhoun**

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

Yeah. Let me take that, and I'll let Greg – if he wants to add something if he can.

A

**Gregory D. Smith**

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

Sure.

A

**David L. Calhoun**

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

You used the word willingness, and that's an important word. That is not the issue. There are a lot of logistics issues when we look month to month to month to month around getting crews in and getting them out, not so much with respect to the US policy but from where they might be coming. So all of these orders, there's not a giant reconfiguration cost embedded in the 787 program. These are orders with known customers and known destinations.

A

And we're not playing games with our language; whether we put the word vast in front of it or not, we'll see. But that's not going to be because of a lack of willingness to take airplanes. It's just going to be because of logistical timing with respect to when crews can get in and take delivery and move them out.

Anyways, that would be my commentary. Greg, anything you want to add?

**Gregory D. Smith**

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

No, no, I think that's absolutely right on.

A

**Seth M. Seifman**

*Analyst, JPMorgan Securities LLC*

Okay, great. Thank you.

Q

**Gregory D. Smith**

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

You're welcome.

A

**Operator:** And our next question is from Carter Copeland with Melius Research. Please go ahead.

**Carter Copeland**

*Analyst, Melius Research LLC*

Hey, thanks. Good morning, guys. And, Greg, I echo everyone else. Thank you so much for your help over the years, and nothing but the best of luck in the next chapter.

Q

**Gregory D. Smith**

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

Thank you very much. I appreciate it.

A

**Carter Copeland**

*Analyst, Melius Research LLC*

You only have to deal with one more geeky accounting question from me, so.

Q

**Gregory D. Smith**

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

I could guess what it is, but I won't.

A

**Carter Copeland**

*Analyst, Melius Research LLC*

Yeah, maybe you can ask it for yourself. I want to ask about the 787 deferred production number, the reduction in that...

Q

**Gregory D. Smith**

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

Oh, I would have won. That was my guess, too.

A

**Carter Copeland**

*Analyst, Melius Research LLC*

Oh, good, good. Then you have the answer ready to go.

Q

**Gregory D. Smith**

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

Absolutely.

A

**Carter Copeland**

*Analyst, Melius Research LLC*

So you have been running \$400 million, \$500 million a quarter up until this quarter. You talked about a rate change. Obviously, you've got the rework on the planes that are sitting there in inventory. Can you just help us

Q



understand kind of bridge between the \$178 million and the kind of numbers you were running? Because the rate is not all that different, it doesn't seem. So any color there I think is helpful.

**Gregory D. Smith**

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

A

No, absolutely. Yeah. And actually, Carter, you got it right. I mean, it's all those other moving pieces that are obviously unusual and didn't exist in the prior quarters. So once we kind of get through that and get kind of to a normalized pace, you'll see deferred continue on the trajectory that we've outlined before. But near term, to your point, there's a lot of moving pieces in there that are weighing into that number that are not, I would say, sitting on a normalized level. But it will once we start continuing delivery. And long term, like I said, we will be on the same path as we've talked about before. Now, I like I said on the past...

**Carter Copeland**

*Analyst, Melius Research LLC*

Q

Is it safe to say that the biggest piece is revaluation?

**Gregory D. Smith**

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

A

Pardon me?

**Carter Copeland**

*Analyst, Melius Research LLC*

Q

Is it safe to say the biggest piece of that delta is the revaluation of the inventory?

**Gregory D. Smith**

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

A

Well, it's the fact that you've got so much disruption going on in the factory. That's it.

**Carter Copeland**

*Analyst, Melius Research LLC*

Q

Okay.

**Gregory D. Smith**

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

A

Between the rework and building inventory and storing aircraft, it's all that that's weighing in, in the current period that obviously we'll not be experiencing once we – when we start ramping up, which as Dave indicated earlier, that we've already started. So like I said, before long you'll see that back at a normalized, I'll say, level of burn.

Outside of that, like I said, unit cash basis, program is really doing a great job and really holding up well at a very low rate. And again, that's a testament to all the hard work that's gone on over the years on stabilizing the factory and the operations and the productivity initiatives. So you're seeing the benefit of that.

So as the rate kind of stabilizes and goes up, and we certainly deliver those inventoried aircraft, that's going to be a big driver as I mentioned on cash flow between the balance of this year and then going into 2022.

**Carter Copeland**

*Analyst, Melius Research LLC*

Okay. Thank you very much.

Q

**David L. Calhoun**

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

If I could add...

A

**Carter Copeland**

*Analyst, Melius Research LLC*

Yeah, please, Dave.

Q

**David L. Calhoun**

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

If I could add just one thing is our pause went on longer than I think anybody wanted it to, maybe even including us. Except for that pause, we directed an awful lot of energy, a lot of cost, and a lot of effort to remove the nagging rework loops that existed for quite some time. So our ability to now climb down that rework curve, get back to real standard operations with fewer constraints to get us ready for a return on rate, I'm highly confident that that's exactly the way this is going to play out. So it was purposeful with respect to that pause, the amount of work that we took on.

A

**Carter Copeland**

*Analyst, Melius Research LLC*

Great. Thank you for the color, gentlemen.

Q

**Gregory D. Smith**

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

Thank you.

A

**Operator:** And our next is from Peter Arment with Baird. Please go ahead.

**Peter J. Arment**

*Analyst, Robert W. Baird & Co., Inc.*

Yeah. Thanks. Good morning, Dave, Greg.

Q

**Gregory D. Smith**

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

Morning, Peter.

A

**David L. Calhoun**

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

Morning.

A

**Peter J. Arment**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Greg, thanks for everything, like everyone else said. Appreciate it.

**Gregory D. Smith**

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

A

Thank you.

**Peter J. Arment**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Over all the years. Hey, Dave, this is more I guess a bigger picture question on the US-China relations, kind of the watch item comment. It seems like it's the first time that you're really highlighting this under the business environment. Has something changed in terms of your timeline on what you thought when the regulator would be approving, or is this just that it's taking longer? And maybe you could just give us a little more color on that in terms of when you expect it. Thanks.

**David L. Calhoun**

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

A

Yeah. Thank you. No, this issue has been hanging around for quite a while, but we have a new administration in place in the United States. I didn't want to walk in their office on the first day when they're trying to come to grips with their own strategies with respect to China broadly. And I'm glad they're doing that. But we're now at a stage where the focus on the economic recovery here in the United States on the part of the administration as well as now getting their feet a little firmer on the ground with respect to China relations, it's time for us to just point out the economic implications of trade with China in the aerospace industry and commercial aviation specifically.

They're significant. You all know that. And so we're just hoping to get everybody incentivized and lobby both sides. We have great relationships in China. We have firm orders on the books with China. But we need to get the order stream going again. And I'm confident that that will happen, but this just happens to be the moment to begin to talk about that broadly. And that's why you saw me talk about it on the call this morning and in this discussion.

We're just going to make sure that our administration knows the importance of getting those relationships straight. I think trade is good for everybody. I think they do, too. But we've got to work our way through that and give them the time to process.

**Peter J. Arment**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Dave, just as a follow-up to that, is the timing aspect if this drags on into the middle of the second half or later that impacts your rate decisions for next year? Is that what you were alluding to earlier?

**David L. Calhoun**

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

A

Well, it will eventually. If we drag out all the way through the year, it eventually will impact the recovery of our rates, not so much the rates that exist as we exit the year. So the pace of that recovery of those rates is what it may impact. And anyway, narrow-bodies before wide-bodies, but – so that's it. It is what it is.

**Peter J. Arment**

*Analyst, Robert W. Baird & Co., Inc.*

Got it. Thanks so much.

Q

**David L. Calhoun**

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

Yeah.

A

**Operator:** And our next question is from Myles Walton with UBS. Please go ahead.

**Myles Walton**

*Analyst, UBS Securities LLC*

Thanks. Good morning, and Greg, best wishes on the next pursuit. Thanks for all the help over the years.

Q

**Gregory D. Smith**

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

Oh thank you, Myles.

A

**Myles Walton**

*Analyst, UBS Securities LLC*

Even the IR at Raytheon was helpful.

Q

**Gregory D. Smith**

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

Yeah.

A

**Myles Walton**

*Analyst, UBS Securities LLC*

The question for Dave or Greg, one of the pushbacks I get which I think is actually fair is that Boeing maybe shouldn't be putting or taking out as much structural cost, and instead maybe there is an absence of costs that need to be added for innovation and program execution and supply chain health. I know the last call, a lot of the comments were actually on the structural cost actions.

Q

I'm just curious, how would you respond to that given that program execution has not been perfect, but it – you can go down the list. But how would you respond to you might actually need to put structural cost into the system?

**David L. Calhoun**

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

Yeah, well, I completely reject that argument, and of course I would. But we have maintained and sustained – it's actually quite remarkable in light of everything we faced, but we have sustained all the important research investments that we've been making. We've sustained all of the development programs that were in the works, and they're not insignificant. And we've added resource to those development programs, as reflected in the accounting adjustments we made at the end of last year. They represent – we put time and we put more cost into these programs. We didn't take less.

A

So I'm actually very confident. I think we have removed an awful lot of duplication of effort, and Greg can give you that in living color, especially with respect to overlapping technology development programs between our BDS and our commercial world.

So, anyway, I'm confident in our future, and I think the level of investment we've put into our research and development differentiators compared to our competitors, I feel great about. I feel great about it. That's the benchmark we care the most about. So, anyway, that'd be my commentary. I'll turn it over to Greg.

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**Gregory D. Smith**

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

A

Yeah, no, no surprise, I completely agree. And, look, I think you've also got to step back. We've invested over \$60 billion over the last 10 years, and that has all been in key technologies and programs and all efforts within our factory, within our space. So we've not been short on investment by any means. And you saw even last year in the middle of the pandemic we're – continued to make the appropriate investments in the right area of the business.

And I'd say even in some cases we've made more investment like on the 737 line in order to capture stability on the other end, as Dave indicated. That's ultimately going to be great for our company but great for our industry and our partners.

So in a lot of cases, we've moved money or shifted money or even added money in some cases because we're playing the long game here. And we're looking for areas where we have constraints or where, as Dave said, we have duplication of effort. And we're just challenging ourselves also in what's best-in-class, even down to program levels of layers and spans around leadership and what constraint they have down at a program level and how can we remove those constraints, so.

But not losing sight of the future, and quite frankly making some of these moves that are going to provide even more stability going forward, as Dave indicated. And that's the whole idea that as 737 rate comes up, we see better stability coming out of this than we did going in. And it's no different on any of the other programs.

So, anyhow, there's lots being done here, and there's going to continue to be lots being done. But I think I can speak on behalf of everybody, no losing sight of the future here and it's all about helping our workforce, helping our suppliers, and driving stability that ultimately will be good for the entire industry.

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**Myles Walton**

*Analyst, UBS Securities LLC*

Q

Thanks for the color.

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**Gregory D. Smith**

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

A

You're welcome.

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**David L. Calhoun**

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

A

Thanks.

**Operator:** Our next question is from David Strauss with Barclays. Please go ahead.

**David Strauss**

*Analyst, Barclays Capital, Inc.*

Q

Thank you. And, Greg, let me echo what everyone else said, congrats on a good job, particularly in these last couple years.

**Gregory D. Smith**

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

A

Thanks, David.

**David Strauss**

*Analyst, Barclays Capital, Inc.*

Q

Wanted to ask on 787, the 100 or so aircraft that are parked today, what proportion of those have actually had the fixes implemented? And how long does it take to make the fixes to an individual airplane? And just so we're all on the same page here, you're implying that you think you can deliver 100-plus aircraft over the next three quarters?

**Gregory D. Smith**

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

A

Yeah. So maybe I'll start, and Dave can certainly weigh in here. But as far as the number of aircraft, we're working through them sequentially, Dave. So we're working through them in tail number by tail number. So as we're working through those, that's informing, aligned up with our delivery plan. So you're not going to see all of them being reworked at the same time. That's not how it's going to work, that's not how it is working.

But it's progressing well, as you can see by the increase in the deliveries so far to date. As far as you're measuring this in days, as far as the amount of rework required. But we're taking whatever time it takes to get the work done in station and completed per our spec. But it is improving aircraft over aircraft. So as the teams are completing the rework, they are actually coming down a learning curve. So we anticipate that overall cycle time to improve.

And like we said, look, right now we've got a schedule lined up with – by tail number, by month, by customer that gets the majority of the 100 inventoried aircraft delivered by the end of the year. And as Dave indicated, that could move around from customer to customer and so on. But we're trying to stay ahead of that and staying very engaged with our customers around specific time frames of which we'll be making our delivery, and all that aligned up with how we do the rework and how we stabilize the ramp and complete the final deliveries.

So I don't know if, Dave, there was anything you wanted to add to that.

**David L. Calhoun**

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

A

No. This is more about how the airplanes move from position to position as opposed to the applied work itself. And at the end of the day, we're going to be at a rate probably this month at 10 or 12 airplanes, and that just demonstrates that that's what we can do. And we're going to hold that rate for as long as we can depending on customers and their ability to get in and take deliveries.

So again, as I said before, the trick in this one is the logistics of all of the customers coming in and out and then how we move these planes through position. The applied work itself, that's pretty clear, and it's getting more productive every day. So we're in a pretty good place on that front.

**Gregory D. Smith**

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

Yeah.

A

**David Strauss**

*Analyst, Barclays Capital, Inc.*

Thanks. And, Greg, you had mentioned sequential free cash flow improvement through the year. Would you expect by the fourth quarter that you're free-cash-flow-positive?

Q

**Gregory D. Smith**

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

Yeah, no, what I said was that the first quarter was the more challenging one. It's going to be plus or minus month over month, quarter over quarter, so it's going to be a little bumpy, David, but it's going to play right back into Dave's comment just prior on the 787 delivery profile. It's not linear. So it's again laid out in detail, but it's not exactly the same month over month or quarter over quarter. So all of that is going to play in.

A

But, look. Everybody is working extremely hard obviously to meet our commitments to our customers, get these aircraft reworked appropriately, and then of course to continue delivery. The same thing on the 737. And that's what's going to get us to a better profile by the end of the year. But I'd expect it to be lumpy quarter over quarter between – and particularly the second and third quarter. And then I think on a better trajectory in the fourth quarter.

**David Strauss**

*Analyst, Barclays Capital, Inc.*

Great. Appreciate the comments.

Q

**Gregory D. Smith**

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

Yeah, you're welcome.

A

**Operator:** And next we'll go to Ron Epstein with Bank of America. Please go ahead.

**Ronald J. Epstein**

*Analyst, BofA Securities, Inc.*

Yeah. Good morning, guys. And Greg, I echo everybody else's comments. It's been a pleasure working with you over the years both at Raytheon and at Boeing, so thank you for all that.

Q

**Gregory D. Smith**

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

Likewise. Thank you.

A

**Ronald J. Epstein**

*Analyst, BofA Securities, Inc.*



Best of luck with what's going on. Dave, question for you. So I just want to follow up on Myles' question. You've talked a lot about business transformation. What's the end state? And ultimately how does engineering fit into that vision? Because, to be fair, 737 had issues, 787 had issues, 777X has issues, 747-8 had issues, KC-46 has issues, Air Force One now has issues, and the Starliner has issues. So how does business transformation fix that?

**David L. Calhoun**

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



Well, I'll remind everybody that the A380, the A350, the A3...

**Ronald J. Epstein**

*Analyst, BofA Securities, Inc.*



We're not talking about Airbus. We're talking about...

**David L. Calhoun**

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



But I just want to remind everybody that they had a little trouble as well. These programs are big, and they're complicated. So the idea that we fix everything, I'm not sure I can sign up for that. The idea that we're going to be a whole lot better, I can sign up for it. And the work we've done to align our engineering function broadly, everybody inside the company has signed up for that endeavor and feels great about it.

The work we've done with respect to the safety management system that surrounds that engineering function and which they lead in behalf to company, it avails itself to new data, to a faster cycle time with respect to how our company processes that data and ultimately makes decisions around that data. And a reinvestment in the fundamental design practices of the company that will instill disciplines that we just need to get better and better at. And everybody in the company has signed up to do this, and we're making real investments in that process.

So I feel very, very good about all of that, and it does not mean that in a flight test somewhere along the way we don't run into an issue that needs to get resolved. And so it is the nature of our industry to do big things and do them very well.

So, anyway, I'm confident that these transformation efforts are significant. I'm also confident on this production stability which goes hand in hand with engineering. We've taken actions over this – really hard actions over the course of this year to stop things when we see an issue and get them fixed once and for all. And the 787 in Q1 was a glaring example of that. These fit and finish issues with respect to the joints in our fuselages were just nagging problems, difficult problems. And we applied real engineering talent and expertise to that, new process controls, new lines of communication with our supply side so that we're not surprised by that stuff anymore and we can eliminate rework moves that ultimately travel with the product.

I could go on and on and on and on and on, but I think some of the signs should be very apparent to you and to our customers.

**Ronald J. Epstein**

*Analyst, BofA Securities, Inc.*



On the next product, would we expect to see it go smoother?



**David L. Calhoun**

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

A

Oh, yes. Yeah. And I expect the next product to get differentiated probably in a significant way on the basis of the way it's engineered and built and less dependent on the propulsion package that goes with it.

**Ronald J. Epstein**

*Analyst, BofA Securities, Inc.*

Q

Got it, got it. Okay. Thank you.

**David L. Calhoun**

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

A

Yeah. Thanks.

**Operator:** And next we'll go to Jon Raviv with Citi. Please go ahead.

**Jon Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

Good afternoon. Thank you very much, and best of luck, Greg, obviously on the next endeavor.

**Gregory D. Smith**

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

A

Yeah.

**Jon Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

But one related question here, looking at the balance sheet, I mean when you look at net leverage, you're over 3 times levered versus your peak EBITDA. And I appreciate that that number climbs as you continue to consume cash. So how is the company prepared for, God forbid, another crisis given this position and your commitment to the IG rating? I realize you had issued some stock for pension and 401(k), but how are you evaluating it here? I know it's a different conversation versus \$100 ago, but here we are in the mid-\$200s depending on the day.

**Gregory D. Smith**

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

A

Yeah.

**Jon Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

So how are you thinking about how – that dynamic at this point?

**Gregory D. Smith**

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

A

Yeah. Look. I don't think it's any different than we have been thinking about it since the beginning, which is we're looking around corners and playing out options and making sure we have them and understanding the second and third order effect. And to your point, some of them – sequence of these sometimes matters and the timing of them matters.

So I think the big takeaway should be that we're going to constantly review the capital structure and the strategy and the long-term strength of the balance sheet. And with that, we're going to keep all our options open and on the table. But how we think about it is, again, not just as a base case but just as we have, keep looking around corners and understanding what levers would we pull and when would we need to pull them and what would be the implications of doing that.

And as I said on the call that, as we see it today, we don't see a need for additional liquidity. But also, as you have seen how we've handled the bank line and extended our credit facility, we're making sure that we've got all the right things in place if we need to go there. And if we do, we'll be prepared to do so.

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**Jon Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks very much for fitting me in.

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**Gregory D. Smith**

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

A

Yeah. You're welcome.

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**Maurita B. Sutedja**

*Vice President-Investor Relations, The Boeing Co.*

A

Operator, we have time for one more question.

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**Operator:** Thank you. And that will be from Hunter Keay with Wolfe Research. Please go ahead.

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**Hunter Keay**

*Analyst, Wolfe Research LLC*

Q

Thank you so much for getting me on. Greg, let me be the last one to say congratulations. It's been a pleasure.

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**Gregory D. Smith**

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

A

Yeah. Likewise, Hunter. Thanks.

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**Hunter Keay**

*Analyst, Wolfe Research LLC*

Q

Of course. Dave, I'd love for you to continue on the comment that you made to Ron at the end there about what's next and how it's less dependent on the propulsion package. Can you just continue to elaborate on what you were about to say, please? What is this going to involve from a product perspective but also from a manufacturing perspective? What are you guys thinking about?

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**David L. Calhoun**

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

A

Yeah. So there's a lot that goes into this, but I think it's important that everyone understand. Most often when a new airplane is developed by either side, it is usually developed around a propulsion package that offers 15% to 20% improvement with respect to efficiency versus what it's displacing. That's the way it's happened over a long period of time. I don't believe the next generation of engine can deliver that kind of performance. And then,

therefore, whatever cost efficiency ultimately and whatever performance advantages are derived from the next airplane in my view are going to come from the way it's engineered and the way it's manufactured, all with a focus on a lower cost per seat when we get it out to the marketplace. And yes, a more sustainable package with respect to environment. So that's what we all have to be focused on.

I like the pressure that puts on the manufacturers. That means the technologies we deploy are our technologies. We've done an awful lot of fantastic work in our defense programs with respect to using engineering modeling and then manufacturing processes that tap that engineering modeling directly, create parts that can be assembled in one motion with great efficiency.

Secondly, we've invested, as you know, in composites in our platforms for a very, very long time. The learning curves associated with getting efficient at composite development are significant. I believe Boeing has a huge advantage on that front. And so how we bridge that engineering modeling, that composite development work that we've done over the years and then quick, simple assembly like we've demonstrated with the trainer airplane and other defense programs, we have to do it at scale, and we have to prove to ourselves we can do it at scale. But in my view those are going to be the advantages to that next airplane that gets developed. And I just love where Boeing is positioned on that front when the time comes.

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**Hunter Keay**

*Analyst, Wolfe Research LLC*

Q

Thank you.

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**David L. Calhoun**

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

A

Yeah.

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**Maurita B. Sutedja**

*Vice President-Investor Relations, The Boeing Co.*

All right. That completes The Boeing Company's First Quarter 2021 Earnings Conference Call. Thank you all for joining.

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