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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to The Boeing Company's Third 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 Mr. Matt Welch, Vice President of Investor Relations for The Boeing Company. Mr. Welch, please go ahead.

Matt Welch

Vice President-Investor Relations, The Boeing Co.

Thank you, and good morning. Welcome to Boeing's third quarter 2021 earnings call. I am Matt Welch, and with me today are Dave Calhoun, Boeing's President and Chief Executive Officer; and Brian West, Boeing's Executive Vice President 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 involve risks, including those described in our SEC filings and in the forward-looking statement disclaimer at the end of the Web presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliations 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.

Thanks, Matt, and good morning, everyone. I hope you're staying well as we navigate to the other side of this crazy global pandemic. We continue to work with our customers, our suppliers and our partners to stabilize our industry and chart the path to recovery. While this summer brought us new challenges with the variants, we have seen encouraging signs of increased vaccination rates, further progress on coordinated international travel policies and protocols and ongoing discussions with customers on their fleet planning.

As expected, the recovery has been uneven. However, it continues to gain broader momentum, giving us confidence in the resilience of our market. Vaccines have proven safe and effective, and they're key to personal health and to reopening the global economy, reopening travel routes and businesses. Our customers, both commercial and defense, have implemented vaccine mandates for their employee populations. After careful review and consideration and to ensure compliance with President Biden's Executive Order, we are implementing a requirement for US-based employees to show proof of being fully vaccinated from COVID-19 or have an approved reasonable accommodation. As we have done since the beginning of the pandemic, we will continue to prioritize the health and the safety of our employees.

We're making important progress in transforming our business, driving stability and quality in our operations and investing for the future. I'm proud of our team's continued resiliency and unwavering focus on our mission.

Before I go through our business update, I'd like to formally welcome Brian West, our new CFO, who is with us here today. In the two months since Brian started, he has spent countless hours at our operational sites with the finance and the broader teams, digging into issues, gaining an in-depth understanding of our business. Brian is an exceptional leader, and we're grateful to have him on board.

With that, let's start with an update on the business in the next chart. Beginning with the 737 program, we continue delivering to our customers and supporting their efforts to return their fleets to service. In the third quarter, we delivered 62 737 MAX airplanes, the most we've delivered since the first quarter of 2019. We have made noteworthy progress since receiving approval from the FAA. And today, over 175 countries have approved the resumption of 737 MAX operations. We've delivered more than 195 airplanes, including about one-third of the 450 airplanes originally in inventory. We have largely placed the airplanes that required remarketing.

Our airline customers have returned more than 200 previously grounded airplanes to revenue service. 31 airlines have returned their fleets to service. And those airlines have safely flown over 206,000 commercial flights totaling more than 500,000 flight hours. Importantly, the fleet has an impressive schedule reliability rate of more than 99%.

And as domestic and regional traffic recovers, for example, intra-Europe, demand for the 737 MAX continues to improve. In September, we saw the eighth straight month of positive net commercial airplane orders, primarily due to the 737 MAX. At the end of the quarter, we had over 3,300 aircraft in our 737 backlog, highlighting the airplane family's value proposition.

Given this demand during the third quarter, we increased our production rate to 19 airplanes per month and continued to progress toward a production rate of 31 per month in early 2022. While we continue to deliver from inventory, we are balancing the need to increase the production rate to position us to support increasing demand

longer term. We're actively working to ensure the production system, including the supply chain, is stable prior to making decisions to further increase the production rate. Raw materials, logistics and labor availability will also be key watch items for future rate increases. As we previously communicated, the timing of remaining regulatory approvals will shape our near-term delivery plans and our production rate ramp beyond 31 per month.

Following the completion of the 737 MAX flight test in China during the third quarter, we continue to work toward approval by the end of the year, with a resumption of deliveries to follow in the first quarter of next year. We also continue to make progress on the certification of the 737 MAX 7 and the 737 MAX 10. We currently anticipate the first delivery of the 737 MAX 7 in early 2022 and the first delivery of the 737 MAX 10 in 2023. As always, we will follow global regulators' lead in the steps ahead on all certification matters.

On the 787 program, we remain fully committed to our methodical approach to driving first-time quality and stability in our operations. The issues that our engineering teams and/or our suppliers have identified and are addressing are part of this purposeful process, and we have transparently communicated with our regulators, our customers and our suppliers every step of the way.

As recently shared, we have also identified quality issues with a sub-tier part supplier. And while our review is ongoing there, there are no immediate safety of flight concerns. We are in regular communication with the FAA on these issues and are committed to taking any action required to address them.

As for the 787 generally, we are conducting inspections and rework and we continue to engage in detailed discussions with the FAA regarding the required actions for resuming deliveries. As we mentioned last quarter, we continue to reprioritize production resources to support the inspection and the rework and are currently producing at a rate of approximately two airplanes per month. Once deliveries resume, we expect to return to five per month over time.

Keep in mind, the exact timing of deliveries and future production rates will depend upon inspections and rework, ongoing customer and supplier conversations, production stability and our activities with the FAA. Again, our regulators will make the ultimate determination. But we believe we have a clear line of sight to the steps ahead, and we are continuing to make steady progress to begin delivering airplanes to our customers.

Moving to the 777 and the 777X program, the combined production rate is two per month. Given continued strength in freighter demand, we have coordinated with our supply chain and are increasing 777 Freighter production capacity in the near term. We now expect 2022 777 deliveries to be relatively in line with 2021.

On the 777X program, we continue to subject the airplane to a comprehensive test program to demonstrate its safety, its performance and reliability, while working through our rigorous development process to ensure we meet all applicable requirements. We continue to engage with the FAA and global regulators throughout this process, and, like any development program, we are learning along the way and incorporating those learnings into our plans.

As we progress in our certification work, we continue to conduct Boeing flight tests and began engine performance flight testing earlier this month. The airplane is performing well and in line with our customer commitments based on the data that we've collected to date. We will validate these results, and we will continue to work with the FAA to ensure we meet their requirements prior to beginning the certification flight tests. We still expect that we will deliver the first 777X in late 2023.

Given the continued robust freighter demand and the compelling economics of the 777X, we are currently evaluating the timing of launching a freighter version of our 777X airplane. We will keep you updated as we progress in this evaluation.

In addition to the 737 MAX 7, the 737 MAX 10 and the 777X, we're investing in our future and laying the foundation for our next commercial airplane development program. This quarter, we stood up an integrated product team to bring together a digital environment, where the next commercial new airplane and production system can be designed together.

While we have not launched a new airplane, this is an important step in our digitization journey and our development journey to evaluate how we holistically design, build, test, certify and support the airplane and production system. It will build on the invaluable experience of our recent defense programs.

Meanwhile, we continue to execute for our customers across our business. Let me highlight a few key milestones. Our Defense, Space & Security team made progress on key programs. For example, our MQ-25 unmanned test asset completed aerial refueling of an F-35C fighter jet and an E-2D command and control aircraft. We also delivered 37 aircraft in the quarter, including the first CH-47F Chinook to the Royal Australian Army.

As was recently shared, the NASA and Boeing teams have identified the most probable cause of the valve malfunction on our Commercial Crew Starliner, and we are working through corrective and preventative actions. We are currently working toward opportunities for the second Orbital Flight Test launch in 2022, pending hardware readiness, the rocket manifest and space station availability. As we have demonstrated, we will continue to prioritize the safety of our employees, crew members and spacecraft as we progress.

In our Global Services business, our team continued to perform and demonstrate sustained recovery from the impacts of COVID-19. As cargo demand increases, we announced plans to create additional capacity for the 767-300 Boeing converted freighter. In addition to these program accomplishments, we continue to make progress on our commitment to drive the future of sustainable aviation. Boeing recently joined a virtual White House event on sustainable aviation, reiterating our commitment to have our commercial airplanes capable of running on 100% sustainable aviation fuels by 2030 and our partnership with SkyNRG to expand the global supply of sustainable aviation fuel. We also hosted a two-day Boeing Innovation Forum in Glasgow, bringing together partners in the region, customers, aviation experts and STEM students to accelerate efforts to ensure a safe and sustainable aerospace future.

We're also excited to participate in the IATA Annual General Meeting to discuss our path toward a more sustainable future and how we can support the aviation sector's commitment to achieve net zero carbon emissions by 2050. In fact, just yesterday our Chief Technology Officer, along with the CTOs from six other leading aerospace manufacturing companies, reaffirmed our commitment to reaching this industry-wide target.

Now, let's turn to the next slide to discuss the industry environment. Last month, we released our 2021 Boeing market outlook, which forecasts a total market value of \$9 trillion over the next decade. This is up from \$8.5 trillion a year ago and from \$8.7 trillion in the pre-pandemic 2019 forecast, reflecting the market's continued recovery. The forecast closely aligns to what we laid out last year. Our government services, defense and space markets 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 with enduring demand for all of our major programs.

We remain focused on delivering the highest quality, innovative, capable and affordable platforms to the warfighter and maintaining the health of our supplier base. The diversity of our portfolio creates new opportunities and continues to help provide critical stability for us as we move forward. We continue to focus on our customers' needs, expanding capabilities on our trusted platforms, investing in next-generation technologies like autonomy and building on our foundation in model-based engineering to deliver and intelligently support key franchise programs like the T-7A and the MQ-25. We see strong continued bipartisan support for US national security, including strategic investments in Boeing products and services, as Congress works through its annual budget and authorization process for fiscal year 2022. The F/A-18 and the Chinook Block II remain critical capabilities for the warfighter, both domestically and for non-US customers. We will continue to work with the administration and with Congress to ensure the necessary support for these key programs is in place.

The commercial market is shaping up largely as we expected. While near-term pressure due to COVID-19 continues, the recovery is broadening and the key long-term fundamentals remain strong. We've seen positive momentum in some markets. However, the recovery continues to be uneven. In the third quarter, we saw global departures increase slightly to an average of 67% of 2019 levels, up from 59% the previous quarter.

Similar to what we saw in the first half of the year, domestic traffic is leading the recovery. However, traffic took a slight step back in the late summer due to the Delta variant and increased travel restrictions, resulting in global August domestic traffic of approximately 30% below 2019 levels. Since then, it has shown signs of improvement, most notably in the domestic China market. The US domestic market continues to be a bright spot in the recovery, with TSA screenings resuming in upward weekly trends since mid-September, and peak travel days are reaching 80% to 85% of 2019 volumes.

We are also seeing the recovery accelerate in more parts of the world with reduced travel restrictions and coordinated protocols. Japan's domestic traffic is accelerating after the country recently dropped its COVID state of emergency. And European airlines have seen large booking spikes following the US decision to open to vaccinated foreign travelers in November.

Passenger traffic in other parts of the world, particularly Southeast Asia, remains significantly lower due to continued travel restriction uncertainty and case rates. Even there, however, there is increasing momentum for air travelers as vaccination rates climbed. International operations are starting to see incremental improvement with August traffic 69% below 2019, which was an improvement from June and July. And we're seeing promising signs of entry protocols loosening across the transatlantic corridor. Despite this progress, international traffic is still a long way from full recovery. Limited coordination on travel protocols are still significantly hindering traffic in the international segment.

Yet the active fleet is now approximately 85% of its previous size, with single aisle activity levels slightly above twin aisle. With utilization rates and load factors still below historic levels, airlines are flying around 60% of their normal global capacity. Recent changes to government policies could accelerate this to 70% by year-end. However, we have seen continued variability in capacity due to supply chain and logistics challenges our customers are facing. As the recovery continues to expand, airlines are shifting their focus to medium-term fleet planning. As part of this assessment, airlines have retired or announced plans to retire around 1,500 airplanes since the onset of the pandemic. We anticipate this trend will continue as our customers modernize their fleets to reduce carbon emissions and increase operational efficiency.

With oil prices today approximately 30% higher than at the end of 2019, operating efficiency is top-of-mind for most of our customers. The new airplanes we deliver will be as much as 25% to 40% more fuel efficient with commensurate reductions in emissions compared to the airplanes they replace.

The freighter market remains robust, with cargo traffic 8% higher year-to-date through August compared to 2019. With limited belly cargo capacity on passenger airlines, more dedicated freighters are being utilized to transport cargo. This is resulting in healthy demand for our freighter offerings, with 24 additional freighter airplanes ordered in the quarter and strong demand for Boeing converted freighters. In fact, our converted and new freighter orders through the first nine months of this year have already surpassed our highest annual freighter tally in history. As we look to the medium- and long-term, we see our original forecast still holds. We continue to expect passenger traffic to return to 2019 levels in 2023 to 2024, and then a few years beyond that, to return to long-term growth trends.

We still see recovery in three phases. First, domestic; then regional markets, such as intra-Asia, intra-Europe and intra-Americas flights; and finally, long-haul international routes. We've seen this phase recovery translate into demand with strong 737 MAX orders this year, which mainly support domestic markets. We anticipate demand for wide-body aircraft to take longer, in line with the international traffic recovery.

Our 10-year commercial airplane market outlook is largely unchanged from what we assumed a year ago, reflecting the impacts of the global pandemic as well as the ongoing market recovery. From now until 2030, we forecast demand for over 14,000 single-aisle airplanes, such as the 737 MAX, which equates to roughly 115 to 130 airplanes per month.

From a 20-year perspective, we still see the impact of COVID, but to a lesser extent as traffic reverts to long-term trends. Through 2040, we project demand for about 43,500 new airplanes, an increase of about 500 planes over last year's forecast. And as air travel grows, we're committed to reaching sustainability goals and future guidelines through government and industry partnerships and a combination of technology, policy and operational advances.

In a significant area of growth, projected demand has increased for dedicated freighters, including new and converted models. With sustained demand for air cargo tied to expanding e-commerce and air freight's speed and reliability, we project the global freighter fleet in 2040 will be 70% larger than the pre-pandemic fleet.

On the global trade front, we continue to support and monitor US-China trade relations given the importance of the Chinese market to our economy and our industry's recovery, as well as our near-term delivery profile and future orders, all of which influence future production rates. We remain in active discussions with our Chinese customers on their fleet planning needs and continue to urge leaders in both countries to resolve trade differences by reiterating the mutual economic benefits of a strong and prosperous aerospace industry.

Ultimately, America's leadership in aerospace as well as the health and stability of millions of commercial aerospace jobs rely on free and fair trade, and we are confident our leaders understand the importance of this area not just for our business, but for the overall health of our economy and competitiveness.

Turning to the commercial services market, we saw demand improve again in the third quarter as we supported airlines during their peak summer season. We expect this trend to continue near-term slightly ahead of our expectations. That said, we still anticipate a multiyear recovery that may be uneven.

Liquidity is improving across the industry and managing liquidity remains critical for the aerospace industry's bridge to full recovery. As we highlighted previously, product differentiation and versatility will be a key as airlines adapt to evolving market realities. In fact, the 787 has been the most utilized wide-body airplane during the pandemic, and demand for the 737 MAX continues to grow. So far this year, we have sold more than 550 737s across each of the models, from 737 MAX 7 to 737 MAX 10, reflecting the value of versatility and

commonality. I'm confident our product line is well positioned, and we're focused on executing to meet that customer demand.

Despite the continued challenges our industry is facing due to COVID-19, passenger traffic is increasing, and more broadly, we're seeing incrementally positive indicators for economic growth. With economic activity picking up, labor availability within our supply chain will be the critical watch item. As we position for a robust recovery, we're focused on delivering for our customers and capturing the opportunities ahead. We're maintaining and, in some cases, expanding key investments in strategic processes, technologies and capabilities that will define our future.

And whether we're investing in manufacturing technology, digital engineering, technology advances, autonomous solutions, supply chain capability, or platform designs, sustainability will be a key factor in every decision. We're continuing our transformational efforts to create long-lasting value, which will improve our performance, help us generate positive cash flow, and create a foundation to enable us to return to healthy margins. While we do this, we remain committed to safety, quality, and transparency- and I'm confident in our future.

With that, let me turn it over to Brian.

Brian J. West

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

Thanks, Dave, and good morning, everyone. In the short time I've been here, the priorities couldn't be more clear: Deliver for our customers; drive the highest levels of safety, quality, and stability in all that we do; innovate for the future; and generate positive sustainable free cash flow. While we have our share of challenges, I'm impressed with the team and confident in our path forward. Let's turn to slide 4, please.

Third quarter revenue increased to \$15.3 billion, primarily due to higher commercial deliveries and commercial services volume. We recorded a \$0.60 loss per share in the quarter, primarily driven by higher commercial volume, partially offset by lower tax benefits. Third quarter 2021 was also impacted by 787 abnormal costs and the Commercial Crew Starliner charge.

Now let's move to Commercial Airplanes on slide 5. Revenue was \$4.5 billion, reflecting higher 737 deliveries, partially offset by lower 787 deliveries. Although Commercial Airplanes' operating margin continued to be under pressure, it improved in the quarter due to higher commercial airplane deliveries. And the BCA backlog is currently valued at \$290 billion.

Moving to the 737 MAX. We delivered 62 airplanes in the quarter. We currently have approximately 370 737 MAX airplanes built and stored in inventory, including those that we have successfully remarketed. We know where the vast majority of the airplanes are going, given the demand, and we anticipate delivering most of these airplanes by the end of 2023. This assumes we resume delivery to our customers in China during the first quarter of 2022.

This delivery timing and the production rate ramp profile remains dynamic, given the market environment, customer discussions, regulatory approvals and supply chain stability. There is no material change to our assumptions for the 737 abnormal cost or our assessment of the liability for estimated 737 MAX potential concessions and other considerations to customers.

Turning to the 787. We did not deliver any 787s in the third quarter while we continue our reviews and work with the FAA, as Dave mentioned. In line with our accounting practices, we recorded \$183 million of abnormal cost in the third quarter due to the low rate of 787 production as well as inspection and rework costs. These costs will

continue in future periods while we complete the rework and we remain at an abnormally low production rate. We currently anticipate total 787 abnormal cost to be approximately \$1 billion. Our latest assessment of the financial impact of these abnormal costs and the estimated impacts of delayed deliveries to customers has been included in our third quarter closing position. The 787 program margin remains near break-even. We still expect overall unit margins to hold up relatively well and we're confident in the demand and the health of the 787 program over the long term.

As of the end of the third quarter, we have approximately 105 787s in inventory. Timing of deliveries will be dependent upon completing necessary inspections in rework, ongoing fleet planning conversations with our customers and closing out our activities with the FAA. While the commercial recovery will take time, we remain focused on driving stability on the 787 program and across the business. As we bridge to the recovery, we expect improvements in Commercial Airplanes financial performance due to increasing deliveries and continued efforts by the BCA team to transform for the future.

Let's now move to Defense, Space & Security on slide 6. Third quarter revenue decreased slightly to \$6.6 billion, and operating margin was 6.6%, primarily due to a \$185 million earnings charge on our Commercial Crew Starliner program driven by the second uncrewed Orbital Flight Test now anticipated in 2022 and the latest assessment of remaining work. We received \$6 billion in orders during the quarter, including an award for four Chinook Block II helicopters to the US Army and a JDAM contract for the US Air Force. We also received the award from Germany for five P-8A aircraft. The BDS backlog is currently valued at \$58 billion.

Let's now turn to Global Services on slide 7. In the third quarter, Global Services revenue increased to \$4.2 billion, and operating margin grew to 15.3%, driven by higher commercial services as the market recovers from the impacts of COVID-19. Operating margin was also favorably impacted by lower severance cost and mix of products and services. During the quarter, BGS won key contracts worth approximately \$4 billion, including 12 additional 737-800 Boeing converted freighters for BBAM and an award for performance-based logistics support of the global C-17 fleet. Total backlog remains at \$19 billion.

We continued to see incremental improvement in commercial services during the third quarter, and we expect the quarterly revenue trend to improve as we support increasing airline flight operations. Looking ahead, we expect the continued commercial market recovery to drive commercial services to increase as a percentage of total BGS revenue.

Let's now turn to cash flow on slide 8. Operating cash flow for the quarter was negative \$0.3 billion, reflecting higher commercial deliveries, higher order receipts, reduced expenditures on lower wide-body production rates, and importantly, benefits from our business transformation efforts. Operating cash flow was favorably impacted by a \$1.3 billion income tax refund. While we continued to see a cash flow benefit from order activity and we saw some advanced payment timing benefit in the third quarter, we still expect advanced payment burndown to be a headwind through next year.

Let's move to slide 9 and discuss our liquidity position. We ended the third quarter with solid liquidity, including \$20 billion of cash and marketable securities on our balance sheet. We have access to a total of \$14.7 billion across our bank credit facilities which remain undrawn. Our debt balance decreased by \$1.2 billion from last quarter to \$62.4 billion, driven by the pay-down of bond maturities. As we mentioned last quarter, we expect to have lower total debt at the end of the year due to the pay-down of maturing bonds and early pay-down of the remaining \$4 billion delayed draw term loan.

Given continued uncertainties in our environment, we are vigilantly managing our cash. We've seen our cash balance begin to stabilize due to prudent actions taken across the business and increasing commercial deliveries. Therefore, we believe we currently have sufficient liquidity. We remain committed to reducing debt levels and actively managing the balance sheet. Our investment grade credit rating is very important to us, and we will consider all aspects of our capital structure to strengthen our balance sheet.

Cash flow expectations are largely unchanged from what we've shared last quarter. We still expect full year 2021 to be a use of cash and to turn cash flow positive in 2022. As always, cash flow may vary quarter-over-quarter due to timing of deliveries as well as receipts and expenditures, including the potential of further cash tax benefits and 737 MAX customer settlement payments.

The key driver of cash flow in 2022 compared to 2021 is higher 737 and 787 delivery volume. The significant working capital benefit of delivering airplanes from inventory will have some offset from the reduction to the advances in progress payments balance. As we previously shared, our advances balance largely reflects delivery plans from before the pandemic and 737 MAX production pause. While we anticipate a meaningful burndown next year, we expect the balance will normalize by the end of 2022. Also keep in mind, there will be an impact to cash flow in 2022 for compensation to customers for delivery delays and some headwind from the strong 2021 order book, which helped fill the near-term skyline and improve cash flow in this calendar year. As we bridge to sustainable free cash flow generation, we continue to proactively manage our liquidity and look to strengthen our balance sheet.

In closing, while our business environment is dynamic, we're confident in the future. The key enablers for our business and our financial performance for the remainder of this year and into 2022 include vaccine distribution and travel protocols, which will ultimately facilitate the commercial market recovery, remaining 737 MAX regulatory approvals, US-China trade relations, and resumption of 787 deliveries. Our team continues to closely examine all aspects of our business, simplify, and streamline our work and make long-lasting change. Above all else, we'll stay focused on safety, quality, stability, innovation while generating sustainable free cash flow.

With that, I'll turn it back to Dave for closing comments.

David L. Calhoun

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

Thanks, Brian. We're making important progress. We're taking the right actions to drive stability, to drive safety and quality in everything that we do. And while the path can be dynamic, I'm confident in our recovery and in our long-term growth.

I'll close by thanking our teammates. Your resilience, your passion, your commitment continues to impress. These are challenging times, and you've continued to bring your best to Boeing each and every day. As we look to the future, we're investing in our people and our teams to be sure Boeing remains a unique place to build your career and contribute to our important mission. Thank you for all that you do to support our customers, our company and each other.

And with that, Brian and I will be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Doug Harned with Bernstein. Please go ahead.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Good morning. Thank you.

Q

David L. Calhoun

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

Hi, Doug.

A

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

So you have taken customer compensation related to the 737 MAX down from \$9.8 billion to \$3.4 billion. And this has understandably helped with getting deliveries out in a tough demand environment and I think of it as many of your customers are effectively seeing a discount through compensation. But two issues around that. First, how complete are your compensation negotiations at this point? In other words, is the remaining \$3.4 billion largely spoken for, it's just a matter of paying it out over time?

Q

And then second, how do you work with new customers? You see, if I'm an airline, I look at others benefiting from these effective discounts and discounts that would not be available to me potentially. Is this an issue that can hold back new 737 MAX orders or put added pressure on pricing?

David L. Calhoun

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

So, Doug, I think, as you know, we have done everything in our power to separate the settlement of the contract misses that we've experienced from new airplane orders and discounts. So we've done everything in our power to keep them separate, and we've been very successful in that process. No negotiation is complete until it's complete. So I can't be perfectly accurate on this front. But the lion's share are, in fact, in the rearview mirror. And we know where the wiggle room is with respect to, we think, the final ones.

A

On the other hand, I'll never say we're done until we're done. I am quite confident that pricing discipline going forward has been and will continue to be sustained and maintained. And I think as we shift from what used to be a demand problem to more of a supply problem in the course of next calendar year, that in fact all of the trends are in our favor on that front. So I really think this has been managed well in the separation of those issues. And I think we're in a pretty good and disciplined place with respect to pricing.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

So your sense is that, when you're talking with new customers around this, you're essentially back to the kind of pricing you would normally be at on the 737 MAX. In other words, nothing that in a sense is handicapped by the deals you've made over the last two years, essentially.

Q

David L. Calhoun

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

A

Yes. Doug, I feel very strongly that that is in fact the case. And I've been involved in them, and we have proof points. So, yes.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. Great. Thank you.

Operator: Next, we'll go to the line of Myles Walton of UBS. Please go ahead.

Myles Walton

Analyst, UBS Securities LLC

Q

Thanks. I was wondering, you'd commented on the timeline for exhausting or including the 737 MAX inventory. I don't think you made a similar comment on the 787, of those 105 aircraft. Could you lay out the timeline you think you could get those out the door?

David L. Calhoun

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

A

Yeah. I think it's too early for me to even suggest that one. We'll be as aggressive as we can in moving them out. But as you know, it all depends ultimately on fleet planning changes that our customers employ. We've caused them harm to date. As they rethink their fleet planning, they're going to take them when they want to take them. I can't jam them down anybody's throat. So as soon as we have real clarity with respect to timing of all that, we will give you a real good firm guidance on it.

Myles Walton

Analyst, UBS Securities LLC

Q

Okay. And a follow-up to that. Is there baked into the program concessionary damages that have been included, or are those still being calculated? And given that the year ongoing, I'd imagine you're starting to mount those, if that's correct.

Brian J. West

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

A

No. We are actively talking with customers. And as we close the quarter, there are provisions for what we believe those concessions to be as we stand here today.

Myles Walton

Analyst, UBS Securities LLC

Q

Okay. All right. I'll leave it. Thanks.

David L. Calhoun

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

A

Thank you.

Operator: Our next question is from Sheila Kahyaoglu with Jefferies. Please go ahead.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Good morning, Dave and Brian. Thank you for the time.

Q

David L. Calhoun

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

Hi, Sheila.

A

Sheila Kahyaoglu

Analyst, Jefferies LLC

Hi. Your two a month on production on the 787, maybe what are the gating factors to restarting? You gave a bit of color on that, if you can give a little bit more. And how do we think about underlying demand for the 787?

Q

David L. Calhoun

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

Yeah. So I wish I could give you a little more clarity. It's going to be when it's going to be with respect to increasing the rates and also beginning deliveries, because we really do have to get through these issues that prevent us from getting ticketed.

A

While I believe we have clear line of sight on the issues, we've got to give our own teams and then the FAA time to get through all their analytics and agree with everything that we're doing with respect to the rework plans, et cetera. We are well through it, but we're not through it. So until that happens, until we can announce deliveries commencing, it's going to be hard for me to give you guidance.

With respect to demand, look, if I thought we were going to be at something below five a month any time soon, I would make bigger adjustments, and we'd have less of an abnormal cost scenario. Abnormal costs for me are important costs to keep this line up, running fresh and ready when five comes back. And so that's where we are.

And I also just happen to believe on the basis of the testimony from customers and their experience with the airplane. As I said and I reiterate, the irony of the whole story is it's the most utilized wide-body out there. It's delivering on efficiency. It's delivering on everything we promised. It's got cargo capability which has been an important factor in the role that it's played. It's just – I think the demand is going to be quite robust. And I think as we get to the second half of next year, that will begin to play out for all of us. But at this moment in time, I just can't be real definitive until we commence deliveries.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Okay. Thank you.

Q

David L. Calhoun

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

Yes.

A

Operator: Next, we'll go to the line of Ron Epstein with Bank of America. Please go ahead.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Hey. Yeah. Good morning, guys.

Q

David L. Calhoun

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

Hi, Ron.

A

Brian J. West

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

Hi, Ron.

A

Ronald J. Epstein

Analyst, BofA Securities, Inc.

So, Dave, just on the 777X, you guys are saying you're reasonably confident that's going to be completed in late 2023. Maybe can you give us some color on why you would think that would be the case? I mean most airplane developments, not just you guys to be fair, have had this effect of slipping into the next year. It's the end of the year. So what gives you the confidence there?

Q

David L. Calhoun

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

Well, the time we gave ourselves just for starters. We put a lot of time into this that, prior to the 737 MAX recert, we would never have included. It would have been the total opposite. We would have been doing sort of straight lines from here to the cert. So we have put time in based on everything we've learned from the 737 MAX.

A

So far, our experience is that there have been pauses that the FAA has taken on maintaining the same posture that they did with the 737 MAX. Boeing, get your house in order before we run this test. Boeing, do this before we do that. And we have stuck to that discipline. And that was all part of the original plan and the timing for fourth quarter of 2023.

So we're still on that plan. Nothing at this moment in time has sort of – or posture taken has suggested that the plan isn't still workable. So that's why. Really, it was that first moment when we surprised everybody with the delay and the time that it was going to take. It was all the planning involved in that that I think still gives us confidence.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

And to me, as a follow-on to that same question, what are the technical milestones that – we're sitting outside the company obviously – that we can keep an eye on as followers to understand that you are indeed – not you, but the company is indeed on track?

Q

David L. Calhoun

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

Well, on technical milestones, meaning, the commitments to our customers, efficiency, this, that, and the other thing, I think we've done all of our own flight tests. That's another reason why we're so confident. We've been

A

flying. And so we are in a pretty good place on all that front. And we believe we can meet those expectations, if not surpass them. So no shortfalls on that front technically.

As we work through all the safety protocols and all the documentation required on that front, I can't really guide you to any one thing, and I don't believe there is any one thing that gets in the way. But if there was ever going to be a gotcha, that's where it would be.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Okay.

Operator: Our next question is from Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning, everybody.

David L. Calhoun

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

A

Good morning.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Q

Dave, you mentioned you're – on the 787, you're in discussion with the FAA about the required actions to resume deliveries. Can you tell us what the FAA's required actions are at this point? You mentioned conducting inspections. Are there still inspections for potential new issues? Or have you found everything you're going to find, and the inspections are now just looking for those to then do the rework?

I know there's uncertainty here, and it's up to the regulator, but you mentioned having some line of sight. I think, for the investment community, this timeline feels very uncertain. So if you could just kind of tell us everything you know here, even if there is some uncertainty, just to help us have some degree of visibility.

David L. Calhoun

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

A

Yeah. On the subject of certainty, I can't give you certainty until I'm certain. I wouldn't use the word very, so I would characterize it as something quite a bit less than that. Our tip-to-tail inspection, I think I had mentioned this the last time we're all together, is complete. So we're not out there hunting for anything.

We did have sort of a late breaking from a parts supplier that unfortunately is a sub-tier supplier to other suppliers, where we have to track a particular material substitution question that was brought to us by their regulators and track it through every part and in every supplier to us. So that process just takes time. We have, of course, segmented those parts. We believe we're in a good place. We don't believe there's safety ramifications.

On the other hand, on the subject of compliance, we have to make sure we're compliant with the material specs that are included in our design. So that just takes some time. We are working our way through it. We're well past halfway. We're working our way down to the finish line. But that was the one that sort of added some time to this.

And then with respect to the workload, it's 90% Boeing. We're the ones that have to satisfy ourselves that we're compliant, and then the FAA has to agree with those set of analytics and they have to agree with all of our – ultimately, the judgments we make. And that's reasonably well in hand. We've been transparent from the word go. So there won't be any surprises with respect to what the issues are and/or the data that we're collecting to support our ultimate conclusions. So I think we're in an okay place. I wouldn't say very uncertain. I don't use that term. But we are uncertain. And we've got to get to that moment where we can start delivering.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Q

You've done a tip to tail inspection. Has the FAA done it, or is the FAA still searching for additional possible issues?

David L. Calhoun

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

A

Yeah. No, they – I wouldn't suggest they've been hunting for them in any profound way. From the very beginning, this has been mostly Boeing on Boeing. But anything and everything that we ultimately find and/or a supplier volunteers to us, we take it straight to the FAA, and then we begin to work our way through it. So, again, I want to be careful. This is not a problem with the FAA. They're doing their work. We just have to solve these things by ourselves and bring it to them and make sure that they agree with our judgments.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Q

So it sounds like it's now just down to this titanium component input issue. Is that correct?

David L. Calhoun

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

A

That's the long pole in the tent.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Q

Okay. All right. Thanks a lot.

David L. Calhoun

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

A

Yes.

Operator: Our next question's from Kristine Liwag with Morgan Stanley. Please go ahead.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning, guys.

David L. Calhoun

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

A

Good morning.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

Dave, on the 737 MAX aircraft in inventory, some of these airplanes have different customers than the initial customers. Can you provide more color in terms of the additional work and testing that needs to be done on these airplanes before they're delivered and how long that process takes?

David L. Calhoun

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

A

Well, that's a little bit of why some drift into 2023. So it's like everything. We don't get to unilaterally decide who gets and then how fast they get them. They've got to incorporate them into their fleet plans, and there has been some repositioning of airplanes that require work. And you're right about that.

That's all included in our forward estimates with respect to the program performance. It's very manageable and I think well within our means to do it all. I wouldn't consider it significant relative to the number of airplanes that we're going to move. Most of them are going to move under previously determined plans. So that's probably the best color I can give to you. But that is why there is some drift into 2023 with respect to deliveries.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

I see. And I guess on production, the supply chain has been in low production for the 737 MAX for some time now, and there's a lot of inventory also in the supplier system. Considering the constraints that other industries are seeing with regards to supply chain, raw materials and labor, what gives you the confidence that you can get to 31 per month and sustain that next year?

David L. Calhoun

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

A

Well, because 31 was the number we used to evaluate the supply chain. I continue to believe, and the evidence is beginning to support, that by the second half of next year, our industry will be supply constrained. So in trying to determine what the right rate would be for us, at 31, we believe we have a supply chain that can handle that. And you're right, with the amount of inventory build that we have asked for during these current months with low production rates, we think we're in a pretty good place to be able to do that.

With respect to increasing from 31, as we go through the second half of the year and forward, I think that will be an assessment of the supply chain, not an assessment of demand that gets us to whatever number we get to. I think we're going to be in a supply constrained world probably from second half through all of 2023 with respect to narrow bodies. And that's true, I believe, for the industry.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

David L. Calhoun

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

A

Yeah.

Operator: Next, we'll move to David Strauss with Barclays. Please go ahead.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Good morning. Thanks for taking my question. A follow-up there on 737 MAX. I guess, Dave, what is the reason you're not delivering more 737 MAX aircraft? I guess if I look at market share of narrow-body deliveries year-to-date, even adjusting out that you can't deliver into China, market share for the 737 MAX is something like 35%, 40%. So is it an issue with rework? Is it an FAA issue? Or is it a market share issue? And when would you expect to see – you've talked about 737 MAX getting back to 50% market share. When should we see that in terms of delivery levels? Thanks.

David L. Calhoun

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

A

Yeah, good question, David. The bigger source of variability with respect to completions and deliveries is on the inventoried airplanes that we are bringing back, we're bringing into service as opposed to ones coming fresh off the production line.

So, of course, as you know, there's a lot of warming up. There's a lot of things that you have to do, and depending on what you find, you've got to do the work to make sure the readiness is what it needs to be. And we've said to the team take all the time you need to get that exactly right. We're going to do this one airplane at a time.

So we still have more variability in that than I'd like to have. We are getting a little more stable. I think as we move into next year, we're going to be quite stable on that front. But at any rate, that has been the source of most of our delivery variation on the 737 MAX. And we've got to keep – we do have to keep that discipline. That is why we're at the reliability rates we're at, which is extremely high.

David Strauss

Analyst, Barclays Capital, Inc.

Q

And a follow-up on that, Dave, can you be any more specific at all, the 370 737 MAX that are in inventory, is it kind of we do a little bit more, liquidate a little bit more through the end of the year, and then it's kind of half of whatever is remaining is in 2022 and half is 2023, or is it still going to be more skewed towards 2022?

David L. Calhoun

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

A

Ought to be more skewed to 2022, yeah. Yeah. It will be more skewed to 2022.

David Strauss

Analyst, Barclays Capital, Inc.

Q

All right

David L. Calhoun

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

A

And remember, like I said, we don't – all these airplanes have homes, and so, fleet – our customer's fleet plans and all the turmoil that we've created for them, we've got to incorporate every one of these deliveries into their fleet plans. And so the counterparty has a lot of sway with respect to when we deliver and how we deliver. And like I said, that has a lot to do with sort of the tail moving into 2023.

David Strauss

Analyst, Barclays Capital, Inc.

Thanks very much.

Q

David L. Calhoun

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

Yeah.

A

Operator: Our next question is from Cai von Rumohr with Cowen. Please go ahead.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Yes, thanks so much. So, Dave, what percent of the 370 737 MAX approximately of planes in inventory are for China?

Q

David L. Calhoun

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

I don't have that number.

A

Cai von Rumohr

Analyst, Cowen & Co. LLC

What percent?

Q

David L. Calhoun

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

Yeah, I don't have the percentage on the tip of my tongue. Brian, if you might. But what I will say this is the risk, if the question is related to risk, the risk related to that number continues to go down as we continue to sort of move out delivery rates.

A

And then secondly, with the robustness of the market, the willingness and the number of people interested in potentially taking some big portion of that, that's also sort of at the door. So it's not as big a risk to our company as it once felt. On the other hand, I don't have the number on the tip of my tongue.

Brian J. West

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

Yeah, Cai, it's roughly a third.

A

Cai von Rumohr

Analyst, Cowen & Co. LLC

Okay. That's very helpful. So the one problem I have is, if you're really going to take down more than half of the inventory in storage and you're going to have – you're going to raise the production rate to 31, by my math, you have to deliver over – about 500 planes next year, 737 MAXs, or more. And you really only did an average of 20 per month in the third quarter. I guess, 26 in September. October doesn't look so much stronger. So how do we get there? I mean, that just seems like a huge, huge increase in deliveries. Is there a problem there? What am I missing?

Q

David L. Calhoun

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

A

Yeah. We have to get better at delivering out of the completion center or inventoried airplanes, which I think we will. As I mentioned to you before, we've had a lot of variability on that front and we've got to be better at that and that is the kind of work that we're doing. I'm reasonably confident. I'm not sure I've got the same math you've got, but nonetheless, you're in the ballpark and that's what we have to commit to do.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Q

Excellent. Thank you very much

David L. Calhoun

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

A

Yeah.

Operator: Next, we'll go to Peter Arment with Baird. Please go ahead.

Peter J. Arment

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

Q

Good morning, Dave, Brian.

David L. Calhoun

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

A

Good morning.

Peter J. Arment

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

Q

Maybe one for Brian. He seems like he's getting lonely over there. Just maybe how you're thinking about kind of the drivers, the bigger buckets as we think about comparing 2022 versus 2021, and obviously a lot determined on some of these liquidations of what's parked. Thanks.

Brian J. West

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

A

Yeah. So a big piece of it is going to be, as I mentioned, the deliveries and the subsequent inventory unwind. We've talked a lot about how the 737 is going unwind. We have the same thing with the 787. And so that would be a huge benefit going from negative to positive. We always wants to temper folks to make sure they appreciate that the advanced burndown will happen by the end of 2022, and it's going to naturally occur as those deliveries take place. So really it's deliveries, the vast majority of that swing into cash flow, as well as continuing to drive the operations to higher stability and continue to work on our business transformation efforts.

Peter J. Arment

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

Q

And just to follow up on that, is there any color on what the burndown looks like on the advance line?

Brian J. West

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

A

We don't have that specifically, but we do know that based on some of the order activity from this year and the delivery timing between the two years, it's naturally going to have to burn down. And we're preparing for that. It's a headwind, but not so much so that we can't accomplish that free cash flow generation largely because we're going to deliver a lot more airplanes.

Peter J. Arment

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

Q

Appreciate the color. Thanks, Brian.

Operator: And our next question from Hunter Key with Wolfe Research, please go ahead.

Hunter Key

Analyst, Wolfe Research LLC

Q

Thank you for getting me on. Good morning.

David L. Calhoun

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

A

Hi, Hunter.

Hunter Key

Analyst, Wolfe Research LLC

Q

Two quick ones. What are you penciling in for tax refunds for the 2022 free cash flow guide? And then of the 105 787s that you have in inventory right now, assuming the FAA gave the green light to start delivering again, how many of those 105 require additional rework and how many could be delivered pretty quickly? Thank you.

David L. Calhoun

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

A

Well, let me answer the second question first. I'll let Brian discuss taxes, although I doubt he'll want to forecast it.

Most of the rework, with respect to the issues that have come up on the 787 is in the rearview mirror for us. So this will be a little less about that. Whatever we find in these last set of parts and anything that we may have to do on that front, as I said, is ahead of us. But we've been doing rework nonstop for the last seven months. So it's not a giant mountain ahead of us.

So then it just becomes a question of customer – when do they want it. Now, remember, international ops for almost all of our customers are still significantly below where they used to be. So, when do they want them, how does it meld into their fleet plan, because we're going to be incredibly accommodative to that. And then second, just how we orchestrate the movement through our completion center alongside the FAA. So those will be the determinants, but it will not be a giant rework backlog that is going to prevent us from delivering airplanes.

Brian J. West

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

A

Yeah. And on the taxes, we could expect something. But when we execute our swing from negative to positive, it's not a factor in underwriting that case. So not a lot.

Hunter Key

Analyst, Wolfe Research LLC

Got it. Thank you, both.

Q

David L. Calhoun

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

Yes.

A

Operator: That concludes The Boeing Company's Third Quarter 2021 Earnings Conference Call. Thank you for joining.

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