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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 2022 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 Co. Mr. Welch, please go ahead.

Matt Welch
Vice President-Investor Relations, The Boeing Co.

Thank you, John, and good morning, everyone. Welcome to Boeing's first quarter 2022 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 take – 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 discussion this morning involve risks, including those described in our SEC filings and in the forward-looking statement disclaimer at the end of this web presentation.

In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of certain non-GAAP measures.

Now, I will turn the call over to Dave Calhoun.

David L. Calhoun
President, Chief Executive Officer & Director, The Boeing Co.

Yeah. Thanks, Matt. I'm going to make a few comments upfront and then turn it over to Brian for a more detailed look at our financials in the quarter.

First, I need to acknowledge that on the 21st of March, Flight 5735 of our good customer China Eastern unfortunately crashed and took the lives of 132 passengers and crew. These things always take our breath away and I want to extend our thoughts and prayers from the entire Boeing Company of course to the families and friends of those passengers. Those are always rough moments.

Our technical team is in fact supporting both the NTSB and the NTSB as it supports the CAAC, who is of course the lead investigator. Those are the only comments that I will make along the lines of the China Eastern accident, but know that we are in the middle of that investigation.

2022 1Q some challenges presented themselves, unexpectedly Russia obviously is the big issue in the news. Inflation continues to take a hard run at pretty much everything we do, and COVID, unfortunately, didn't leave as soon as we would have liked, so at least the first 45 days of the quarter, were impacted more than we imagined.
All that said, our focus and progress remains consistent with what we shared the last quarter. We still expect to accelerate our performance and the key financial metrics, namely cash flow, because that is our key financial metric. That's what we've been focused on for a couple years and we will remain focused on, and we remain committed to the notion that we will have positive free cash flow over the course of 2022 and meaningful improvement in 2023.

Everything we are doing is leading with safety and quality, and ultimately driving stability for our airline customers, and we believe we're taking the right actions for the future. We have progressed on many key milestones, we'll comment on a few of them today, but we're focused on the 37 MAX and the 787, production and the return to service of those airplanes that we have built and stored into half of our airline customers.

We feel good about all the progress we're making on that front. The commercial market recovery, I'm not going to expand significantly on that. You've heard from almost all of the US airline customers, many of the European customers, traffic is returning and it's returning in a pretty big way. Airplanes are being utilized at a fairly high rate. Domestic markets are the first to have recovered and they are recovering robustly. Regional markets second and even long haul traffic now is beginning to return.

The only real exception in that demand scenario is China, in light of their current COVID constraints, but we're hopeful and we expect that they will come out of that and continue to expand their fleet. So that commercial market is very, very strong and it's particularly strong for our line of airplanes, namely the MAX, the 87, and the 777, and I don't want anyone to forget the 67 basically continues to play a very important role in the freighter world.

I should comment on the conflict in Ukraine. I think I mentioned the last time we're together we have a thousand people in both the Ukraine in Kyiv and in Moscow and those two teams work pretty closely together, so it's been a bit of a gut wrenching and emotional period for all of The Boeing Company and our associates.

I'm very proud of the work that we are doing to support our team in Kyiv. We've provided $1.5 million in humanitarian assistance, but also matched all of our employee donations to those people who are helping, and then most importantly, we have Boeing families in Poland, and throughout the region, who have willingly accepted and opened their homes to our displaced teammates. That's a big deal, and it's been an uplift for all of us to watch that happen.

We're following the lead of the US government and strictly adhering to export controls and all the restrictions. We suspended maintenance and support for Russian customers, and then in the spirit of doing the right thing, we had suspended titanium imports. Fortunately, for us, we had a program of inventory build for quite some time ever since Crimea, such that we believe we are reasonably protected on that front.

Next, I should comment on the 37 MAX specifically. It's only been a little over a year since that airplane was recertified and put back into service. We now have over 1 million flight hours. It is performing incredibly well at 99%-plus service reliability. Our customers are happy with it, in almost every case that I'm aware of. They talk about the airplane exceeding the performance specs that we sold it on, so we feel very good about that, and we feel very good about the skyline and our ability to deliver on that. Brian will get into rate discussions in his piece of that one, but we still continue to think about this one airplane at a time, so that we can maintain high in-service reliability rate.

We're applying the same rigor to the 787 and we took a very important step just in the last week by submitting the Cert paperwork and the plan to the FAA. We're proud of that work. We've touched a lot of operations across our
facilities, exacting spec with respect to the 87 [indiscernible] (00:08:12) precisely and that's all embedded in the Cert paperwork that we presented to our FAA, and as always, we will let the FAA take the lead with respect to Cert and ticketing and we'll work closely with them.

They have been involved in this process from the very beginning, so there's no new news embedded in this. 777 family, I'd like to make a comment with respect to the decision we made on the 777X and the extension of its introduction until 2025. I believe we've made that decision out of a position of strength, not weakness. We've embedded every lesson that we've learned on 37 MAX Certs, and we continue to have two of those ahead of us. We've applied all of the lessons from the 787 Cert, which of course we've just submitted and believe that we've got to give ourselves the time and freedom to get this right with the FAA and give everybody the time they need to give us the cert that will last frankly for decades and decades into the future.

It also, by calling it out now, gives us an opportunity to create some capacity for our traditional metal wing 777 freighter, which right now is in incredibly high demand, so we will extend that airplane life and continue to meet that demand and then finally, the 777-8 freighter, which we introduced with Qatar, is a very big deal with respect to the long term ramifications of the 777 family in the decades ahead. We're very proud of the 777 family in the post A380 747 world. We think it stands on its own and it'll be one of the great contributors to sharing our value over the decades ahead.

Boeing Global Services, I'm not going to get into a lot of detail other than to say we're riding that wave of recovery with respect to fleet utilization pretty much everywhere in the world and so that business has enjoyed that success and has been able to stay ahead of the supply chain constraints that some are feeling, so all things good on that front, and then on BDS, a messy quarter, and we got hit where you might expect us to get hit in a supply constrained, still COVID impacted and inflationary world and then as that is on a group of fixed price development contracts that I think you're all aware of, where we had to recognize future costs on those program economics, and so we have taken a write-off on those programs, VC-25B, the T-7A and the MQ-25. Brian will talk to you a little bit more about this.

VC-25B was by far the biggest part of that hit. You'll recall it was a public negotiation that happened quite some time ago. We took some risks not knowing that COVID would arise and not knowing that an inflationary environment would take hold like it has, and both of those things have impacted us fairly severely. This will ultimately accrue to two airplanes where we will continue to do our work and deliver first-rate airplanes to our customer in the government.

As we deliver today's numbers, know that we are increasing our investment. Safety, producibility, digital transformation, autonomy and sustainable aerospace are the keynotes with respect to where those investments are going. We feel good about where that's setting us up for the future. We're progressing on our development programs. Are we frustrated with the timing? You bet, but we're progressing, and everyone is getting their feet firmly planted on the ground, both us and our counterparty and the regulators around the world, and so I have to feel good about the progress that we're making collectively and that matters for the long term.

Stability and predictability, it's coming along, it'll matter in the years ahead and above all else, our culture is built around safety, built around quality and transparency is the word of the day with respect to how we interact with our counterparties everywhere in the world.

Strong leadership team in place. I'll comment and also congratulate Leanne. Leanne has retired. She's given us over 30 years of service, never had a more die hard and more engaged leader in our company, so I want to congratulate her on that. As you know she'll be with us until the end of the year and supporting transition
activities, but also to congratulate Ted Colbert, who’s a fantastic leader and proven himself in our services world and servicing, half of his business is servicing the US military so he is ready to go on Boeing Defense and will do a fantastic job.

And then Stephanie Pope in our services business. It’s a bit of an old hat. She was the CFO at our services business when we stood it up. She did a lot of the hard work associated with that standup, and we treasure her as an operator, all the right instincts and look forward to her future leading the services business. So, we feel good about the talent transitions that have occurred.

And I’ll call out before I turn it back to Brian just the thanks to administrator Steve Dickson at the FAA, as many of you know, he has retired. He stood tall during a difficult moment for The Boeing Company and for the FAA and the recertification of the 737 MAX, amongst the other multitude of responsibilities that he’s had. We respect the work that he did and ultimately the courage that he provided in the face of what was otherwise difficult external circumstance, but congratulations to him and then the acting administrator, Billy Nolen, he can count on our full support as he now takes over.

So, I’m confident in the milestones that we’ve been meeting, and we’ve been focused, I think, on the right things and with respect to long term shareowner value that is what it's all about, and we intend to deliver on that prospect.

So, Brian, I’ll turn it over to you.

Brian J. West
Chief Financial Officer & Executive Vice President, Finance, The Boeing Co.

Great. Thanks, Dave, and good morning, everyone. We certainly had a few challenges to navigate: the war in Ukraine, the updated regulatory requirements on our Commercial Airplane programs, as well as the combination of COVID, supply chain constraints, inflation impacting in particular the fixed price defense development program, as Dave mentioned.

Importantly though cash performance is on track with our expectations. The utilization in the quarter was in line with what I shared a few months ago. The trajectory throughout the rest of the year remains intact and we continue to expect to generate positive free cash flow for the year.

The business is resilient, and we’re encouraged by the momentum we’re seeing. We still think about this year in three parts. First, we anticipate reaching key delivery milestones. On the 87, we’re on a path to restart deliveries, in the near term. On the 37, we continue to work towards resuming MAX deliveries, to Chinese customers. At the same time, we’re resequencing our skyline to take advantage of strong customer demand for the MAX airplane and to meet delivery objectives.

Next, once we see progress on these programs, we anticipate improvement in our performance metrics, including deliveries, revenue, margin and cash flow, and finally, as we move through the remainder of the year, our financial performance will accelerate and going forward, there’s a string of opportunity for our company to return to sustainable growth.

This fall, we plan to host an Investor Day to share our more detailed expectations for the rest of the year and beyond. Before I get into the financials, I did want to make a few points on the current business environment on slide 3.
I’ll start with one of the stronger segments, Freighters. The market remains quite robust with cargo traffic up 12% above 2019 levels in February, largely driven by e-commerce. This continues to be one of the more reliable forms of transportation and our lineup is perfectly positioned to take advantage of this growth for a very long time.

The commercial pass through market recovery expectations are largely unchanged from what I shared last quarter, even as we saw some events that added near term pressure including reduced passenger traffic in and around Russia. Global flight ops are at about 75% of 2019 levels, as the global recovery is tempered by China, and the impacts of the war in Ukraine. We still see overall passenger traffic returning to 2019 levels in the 2023/2024 timeframe.

Domestic traffic continues to lead at 78% of 2019 levels in February with China the notable exception. Ex-China domestic traffic was 84% of the 2019 levels. US carriers are providing the best window into the recovery at this point. Our customers are seeing record booking volumes and very strong forward yields for late spring and summer. To the point of being able to offset sharply higher fuel prices, and it's also highlighting the return of business travel.

Beyond domestic routes we're seeing encouraging signs from intraregional traffic in both Europe and the Americas. International traffic continues to lag at 40% of the pre pandemic levels, but we are seeing recovery in regional markets such as intra-Europe and US Mexico both progressing well with significant reopening now underway across many parts of Asia.

Long-haul recovery will be led by the transatlantic market this summer as well as Middle East connectors. Time and again the market has shown its resilience driven by the essential nature of moving both people and goods around the world and then in addition to commercial airplanes, the expanding market recovery directly benefits our commercial services business.

In Defense and Space, we continue to see stable demand. The present FY 2023 budget request – reflects the important role our products and services had in ensuring our national security, including significantly increased funding for the F-15EX in support for our other critical products and services that support national security.

Outside of the US, we're seeing similar solid demand as governments prioritize security, defense technology and global cooperation given evolving threats. Our operations are well-positioned to maintain continuity despite the war in Ukraine and we see limited impacts to our business. I'll cover the financial impacts a bit later.

On the supply side we are carefully managing supply chain constraints and working through issues as they arise to ensure the stability of our production system. We've experienced some disruption to our production such as some supplier delays and resource availability including impacts of COVID, and we're actively working mitigation plans to ensure continuity.

The markets we serve continue to be big, our competitive position is strong and we're actively addressing the supply chain and all of this gives us confidence in the fundamentals of our business and the long-term outlook as we work hard to serve our customers.

With that let's turn to the financials on slide 4. First quarter revenue of $14 billion was down 8% and the core operating loss in the quarter was negative $1.5 billion resulting in a $2.75 core loss per share. Operating cash flow was a usage of $3.2 billion in line with what we expected. These results were impacted by $1.3 billion of charges at BDS, which I will discuss in more detail in a minute.
Due to the war in Ukraine and associated impacts to our business, we did record about $200 million in pre-tax charges in the quarter related to certain asset impairments and we also reduced the backlog by 86 units and roughly $5 billion. As we review business unit financials, I'll highlight some unique challenges that we're overcoming as we drive stability and position for the future.

Let's move to Commercial Airplanes on slide 5. First quarter revenue was $4.2 billion, down slightly. It's primarily driven by the timing of wide-body deliveries, partially offset by higher 37 deliveries. Operating losses of $0.9 billion and the resulting negative margin rate reflect abnormal costs and period expenses including charges for impacts of the war in Ukraine and higher R&D expense as we increase our investment in the business.

Turning to the 787 program. As Dave mentioned, we met a very important milestone and submitted the cert plan to the FAA. Deliveries remain paused and we had 115 airplanes in inventory at the end of the quarter. Importantly, we've completed the rework on the initial airplanes and are preparing them for delivery, including conducting our own check flights in advance. As always, we will work closely with the FAA on remaining steps and will follow their lead on timing of deliveries.

As we stated last quarter, we're producing at very low rates and will continue to do so until deliveries resume, gradually returning to five airplanes per-month over time. Notably we're currently rolling out conforming airplanes from the factory. We did not take additional charges on the 787 program in the quarter. We did record $312 million of abnormal costs in line with expectations and we still anticipate a total of approximately $2 billion of abnormal, with most being incurred by the end of 2023.

Consistent with what we shared last quarter, cash margins on the 787 remain positive and are expected to improve significantly over time. We see a long runway ahead for the 787 program based on a very healthy backlog of 405 airplanes and compelling operating economics for our customers, and we're well positioned to capture future demand as the wide-body market recovers.

Moving on to the 37 program. We delivered 86 737 airplanes in the quarter, including 37 in March, a slight decrease from fourth quarter of last year, despite impacts of COVID, some supply chain delays, and typical seasonality. Given some supply chain disruption and timing of taking airplanes out of storage, deliveries, were slightly below our expectations and we ended the quarter with 320 MAX airplanes in inventory; however, we still anticipate delivering most of these airplanes by the end of 2023. The timing and pace of deliveries to Chinese customers and supply chain stability remain key factors to our delivery profile.

We continue to make progress ramping our 737 production rate and are essentially at 31 airplanes per-month. As we shared last quarter, 737 abnormal costs are largely behind us. The MAX customer consideration liability also continues to burn down as expected.

On our development programs, we're doing everything we can to complete the certification of the MAX 7 and MAX 10 and ensure their respective first deliveries, this year and next. We're working closely with the FAA on implementation of Aircraft Certification, Safety and Accountability Act legislation and expect any necessary actions to be defined later this year. As always, we will follow the lead of regulator on the timing of certification.

Moving on to the 777, 777X programs. We remain highly confident in this family of airplanes as Dave outlined. We launched the 777-8 Freighter with an order from Qatar Airlines in January and as a result we increased the accounting quantity on the program to 400 airplanes. We continue to perform 777-9 Boeing flight tests to retire technical risk with over 2,000 flight hours completed through the end of the first quarter. The airplane is
performing well, and our customers continue to see the value and the compelling economics and sustainability benefits this airplane offers.

Based on an updated assessment of the time required to meet certification requirements, we now anticipate delivery of the first 777-9 airplane in 2025. Additionally, we're coordinating with the FAA to prioritize resources across our development programs. As we manage the company for cash flow, we're adjusting our 777-9 production rate including a temporary pause through 2023. This move will minimize inventory, reduce the number of airplanes requiring changing corporation, and avoid capitalizing costs on the balance sheet. Additionally given the robust market for freighters, we're leveraging this production pause on the 777-9 to add 777 Freighter aircraft in 2023 to 2026 timeframe. We anticipate that that 777-9 pause will result in approximately $1.5 billion of abnormal cost beginning in the second quarter of this year and continuing until production resumes. We believe this is the best allocation of resources and cash.

Turning to overall demand at BCA. During the quarter we booked 167 gross Commercial Airplane orders including 134 orders for the 37 MAX. At the end of the first quarter, we had nearly 4,200 airplanes in backlog valued at $291 billion.

Let's now move to Defense, Space & Security on slide 6. First quarter revenue was $5.5 billion, down 24% and operating margin was negative 17%. These results were primarily driven by lower volume and $1.3 billion in charges on fixed price development programs, including the VC-25B and the T-7A. On a normalized basis, adjusting for one-time items, revenue across our defense portfolio including government services was down 9%, half of which was the impact of COVID and supply chain constraints. The other half was from plan program transitions.

The VC-25B program recorded a $660 million charge primarily driven by higher supplier costs, higher cost to finalize technical requirements and schedule delays. The T-7A Red Hawk program recorded $367 million in charges primarily driven by ongoing supplier negotiations, impacted by supply chain constraints, COVID and inflationary pressures.

We continue to have high confidence in the long runway ahead for the T-7A program. Similar pressures impacted other fixed price development programs though to a lesser extent. From a cash perspective, these charges will be incurred over the next several years. We received $5 billion in orders during the quarter including an award for 6 MH-47G Block II Chinook rotorcraft for US Army special operations and the BDS backlog remains at $60 billion. Across the portfolio, we're focused on improving performance as we transition several development programs into production and we're making progress but have more work to do as we position ourselves to deliver for our customers.

While we recognize charges on these key programs, we remain confident in demand for these future technologies and capabilities, and our Defense and Space portfolio is well positioned for growth.

Now let’s turn to Global Services results on slide 7. The Global Services team had a great quarter, particularly on our parts and distribution business due to the strength of the portfolio and broad offerings.

First quarter revenue was $4.3 billion, up 15% and operating margin was 14.6% in line with our expectation. Results were driven by higher commercial service volume and favorable mix.
We received $3 billion in orders during the quarter including a fuel saving digital solutions contract for Etihad Airways 87 fleet and a contract for KC-135 horizontal stablers from the US Air Force. The BGS backlog remains at $20 billion.

With commercial services revenue now back to nearly 90% of pre-pandemic levels, our services business remains well-positioned for growth as the commercial market recovers and their defense business continues to see strong support.

Now let's turn to slide 8 and cover cash and debt. We ended the first quarter with strong liquidity comprised of $12.3 billion of cash and marketable securities on the balance sheet and access to $14.7 billion across our bank credit facilities, which remain undrawn. Our debt balance decreased slightly from the end of the last year to $57.7 billion driven by repayment of maturing debt. Our investment grade credit rating is a priority, we remain committed to reducing debt levels.

Now similar to what I shared last quarter, I'd like to review the key drivers of 2022 revenue and cash. In comparison to 2021, we still anticipate total company revenue to increase this year, the growth will be primarily driven by higher Commercial Airplane deliveries, on the 37 and 87 programs and solid growth in our services business as the commercial market continues to improve, and while the overall demand outlook for the defense business remains stable, due to the revenue impacts of the charges we took in the first quarter, we're forecasting a modest decrease in revenue at BDS this year versus 2021 however we expect 2023 to return to stable levels.

On cash, we still expect to generate positive free cash flow this year. The key driver of improvement remains higher 37 and 87 delivery volume. As we described previously, the working capital benefit from delivering airplanes from inventory will be partially offset by a lower advances and progress payments balance, while we still anticipate a burn-down of our advance balance this year, the profile continues to be dynamic due to customer discussions and timing of deliveries.

From a phasing standpoint, our first quarter cash utilization was in line with what we shared in January. We remain confident that our free cash flow will improve in the second quarter and will make meaningfully accelerate in the back half of the year as we achieve the key delivery milestones that I outlined.

As we look beyond this year, we expect 2023 cash flow will be materially higher than 2022 and we look forward to sharing more details on our plan in the fall.

To wrap up our performance is tied to several key items, commercial market recovery, return to delivery for the 87 and 37 MAX in China, successful execution and certification of development programs and production system and delivery stability. We remain acutely focused on what we can control and most notably, we continue to focus our efforts to stabilize our production system including the supply chain and improve our delivery predictability. And while we saw improvements in some of these first quarter, we have more work to do and we're keenly aware that these activities will be critical to our success and are prioritizing these resources accordingly.

Beyond these execution priorities immediately in front of us, we continue to invest in our people, technology, manufacturing capabilities and strategic partnerships to ensure we're well-positioned for future growth and there's no doubt that the business environment is evolving. That said, we're making good progress driving productivity and cash flow while addressing risks as they arise.

And while we do all this, we're laser focused on safety, quality, and stability. We believe these are the right actions and resource calls and we remain confident in the strength of our business now and in the future.
With that, over to Dave for closing comments.

David L. Calhoun
President, Chief Executive Officer & Director, The Boeing Co.

Yeah, we believe we're on a real improvement track with respect to an engineering and manufacturing of our products and ultimately the predictability of our business, with respect to our commercial customers. We also believe strongly in our defense product line and the prospects for defense orders and growth in the relatively near to medium-term.

So that's it. I'll turn it over to questions. Let's go.

QUESTION AND ANSWER SECTION


Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Good morning, everyone.

David L. Calhoun
President, Chief Executive Officer & Director, The Boeing Co.

Yeah, hi, Noah.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

A lot of questions, but, I guess, that the two most important things in the near term are when you can restart 787 deliveries, and when you'll resume MAX deliveries to China. So, can you give us more specific detail on what the regulators and counterparties are still looking for, what specifically you need to do to satisfy their questions and process? And then I know you don't want to get into predicting timing on these but you have guidance for cash flow for the year so just how are you thinking through what those deliveries, need to look like to have that positive free cash?

David L. Calhoun
President, Chief Executive Officer & Director, The Boeing Co.

Yeah, so why don't I grab that one, Brian can augment it anyway you like. Again, this is a tricky moment where I get into trouble if I predict any outcome with respect to FAA certification. What I can say, because I do control it, is the quality of the package that we've delivered to the FAA and I also know that their fingerprints are all over it, because they've been sort of side-by-side with us in this process, we've been getting guidance every step of the way, so I feel very good about all of that.

Our customers have been through these airplanes, and so I think we're in reasonably-good shape to go through normal order and I do not expect this to get elongated in any significant way, and I believe our cash flow projections or confidence, if you will, with respect to the year, are well-suited and have enough room for the FAA
to do its work and for us to answer questions in that process, so it’s been a long, hard run, but I feel really good about where we are.

And with respect to China, similarly, we've had no indications that there aren't going to be China deliveries, in any case. As we know, we're certified to fly the airplanes. The COVID environment has put a really tough situation in play because our customers are not flying. They've down 70% in their domestic travel and this is significant for them, so how long that goes on, if it's measured in a couple of months, I still feel good about where we are with respect to delivery. We de-risked this year's deliveries significantly and we can de-risk more. The market is craving 737 MAXes, so I'm not concerned about our ability to de-risk. I don't want to de-risk because I still have faith that China can take the airplanes.

**Noah Poponak**
*Analyst, Goldman Sachs & Co. LLC*

Dave, the last quarter you talked about collecting data as you rework 787s and it sounded like you had to collect a lot of data, it took time, then you had to iterate with the FAA, is the package you've sent them that you describe is a package, is that now sort of binary they will either accept that package or not or does it still remain an iterative Q&A type of process?

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

Well, we believe based on all of our interactions with the FAA and our own engineering unit members and others, that we have sufficient data to make our case and recertify or certify this airplane in accordance. So, we have a reasonably high level of confidence in that and I don't expect any significant sort of banter around that, but I can't be absolute about it.

**Noah Poponak**
*Analyst, Goldman Sachs & Co. LLC*

Right.

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

We're going to go through the process, so I just know that there's been a lot of involvement on both sides and a lot of working together in this process in getting to the package we've submitted.

**Noah Poponak**
*Analyst, Goldman Sachs & Co. LLC*

Okay. Thank you.

**Operator:** And next we'll go to David Strauss with Barclays. Please go ahead.

**David Strauss**
*Analyst, Barclays Capital, Inc.*

Thanks. Good morning. Brian, I know you noted that you would expect free cash flow to improve here in the second quarter. I wanted to see if that meant positive or do you still think you're running negative and how you're thinking about the capital structure from here. I think, you've talked about in the past that you need $10 billion to
run the business. You're down to $12 billion. If you burn further cash in the quarter, I mean, are you willing to take on additional leverage at this point or would you look to potentially an equity raise. Thanks.

Brian J. West  
Chief Financial Officer & Executive Vice President, Finance, The Boeing Co.

Yeah, I'll take the last one. We see no need as we think about both near term and mid-term any need for that type of event. We feel very comfortable with our liquidity position and the balance sheet. We know that as we get more progress on really accelerating cash flows, that de-risking will change and we'll talk about that later, as we meet some of these milestones, but we don't see any need to tap lines, add debt, or anything else of that nature as we stand here today.

In terms of the cash flow for the year, look, 2Q will be better than 1Q, and it's probably pretty obvious but in the second half, we'll accelerate so I'm not going to put a discrete number on 2Q, it'll be better, but the full year, we will generate cash flow and everything is pretty much lined up as we talked about last quarter. Puts and takes but overall confident with where we think we're going to land for the year.

David Strauss  
Analyst, Barclays Capital, Inc.

So, is $10 billion still the right number that you need in terms of cash to run the business or is it lower than that?

Brian J. West  
Chief Financial Officer & Executive Vice President, Finance, The Boeing Co.

I think recency effect, it seems like it's in that $10 billion to $12 billion, but it's too hard to tell right now given it's a dynamic world. We're very comfortable where we stand right now, and as we start to put points on the board with delivery and execution, all that will be a rich discussion that we can't wait to have with you.

David Strauss  
Analyst, Barclays Capital, Inc.

All right. Thanks very much.

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

Peter J. Arment  
Analyst, Robert W. Baird & Co., Inc.

Yeah, good morning, Dave, Brian. Dave, I wonder if I could just come back to kind of Noah's question on the 787, just you have 115 aircraft in inventory, and it sounds like you now are producing aircraft off the line and conforming to your latest spec. What's left to be done within that 115 and like the other stored aircraft when we think about MAX, should we think about most of these aircraft will be delivered through 2023 or does it stretch out beyond that? Thanks.

Brian J. West  
Chief Financial Officer & Executive Vice President, Finance, The Boeing Co.

Yeah, so I'll take that one. It is on the 115 in inventory on the 87, as we have described that abnormal cost, it's going to substantially be done by the end of 2023 which will also correspond with the liquidation of that inventory, so nothing is really changed on that front. In fact, we probably feel a little bit more confident as we're starting to look at clean airplanes.
On the 37 consistently, we’ve got 320 in inventory at the end of the quarter. We hate that it's that high, but the flip side of that is that we’ll be able to meet some pretty robust demand that's out there in the marketplace and that, again, will likely liquidate over the course of between this year and next, and that has not changed.

**Operator:** Our next question is from Rob Stallard with Vertical Research. Please go ahead.

**Robert Stallard**  
*Analyst, Vertical Research Partners LLC*

Thanks very much. Good morning.

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

Good morning.

**Brian J. West**  
*Chief Financial Officer & Executive Vice President, Finance, The Boeing Co.*

Good morning, Rob.

**Robert Stallard**  
*Analyst, Vertical Research Partners LLC*

The question I have is on the 737 MAX, right. You mentioned you’re pretty much at 31 a month here. What are your plans going forward, and what is your confidence that the supply chain could match any further rate increases, especially what’s going on with your competitor? Thank you.

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

Yeah, so we always think about this in two ways. One is that inventory opportunity I just described, and we’ve got to work on getting those delivered, and then of course the production rate that we’re essentially at 31 a month. Our biggest job right now is to stabilize around that rate. The teams are working hard. They deal with supply constraints that pop-up every now and then, but we’ve got to be stable around 31 and then anything else is going to be a future decision that we’re not prepared to take because we just want to get confidence in what’s right in front of us.

The good news is that there's plenty demand we can fulfill and while we're watching the supply chain very closely, we feel good about where that particular program stacks up.

**Robert Stallard**  
*Analyst, Vertical Research Partners LLC*

That's great. Thank you.

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

**Seth M. Seifman**  
*Analyst, JPMorgan Securities LLC*
Thanks very much, and good morning. Just following up on 737, I think Brian, you spoke last quarter about looking to deliver about 500 aircraft and you talked about being on-plan, so is that still your target for this year, and how does the kind of evolving situation in China affect that, if at all, and then second on Rob's question on the production rate for 737, how does the MAX-10 certification question factor into that?

Brian J. West  
*Chief Financial Officer & Executive Vice President, Finance, The Boeing Co.*

So, we de-risked China to put that one aside, as Dave mentioned. The first quarter deliveries were a little light versus what we expected and we probably won't get quite all the way there in the calendar year count, but that's just timing. Like I said, we've got plenty of finished goods inventory. We've got the rate where we want it, so we may not quite get there, but again, the momentum month in month out has gotten better and we feel confident that if you don't quite get there this year it's just going to be timing to the next which we're perfectly comfortable with and again that's been all factored into our cash flow updated look and still believe that we'll be cash flow positive in the year.

As it pertains to the MAX-10, right now it's all the energy and focus is on certification and really, that one won't disrupt our near-term projections.

Seth M. Seifman  
*Analyst, JPMorgan Securities LLC*

Okay. Thanks very much.

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 on their call, General Dynamics mentioned that their G700 is basically may have a certification slip because of additional software validation that the FAA is now requiring which was not anticipated when they started this process, and they mentioned kind of the MAX sort of indirectly as an issue, so are you seeing that the FAA is now basically stabilizing what they're requiring, or are they stable and then they ask for even more data and how does that sort of relate to your confidence that you will be able to certify the MAX-10 by year-end?

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

Yeah, let me take that one. It's a very tricky question, and I don't want to speak for our counterparty in anyway. Part of our 777X move-out into 2025 was to incorporate exactly whatever observations that you took account of to incorporate all the learning we've had from our cert programs. The original MAX, the 87, now the MAX-7 and then the MAX-10, so we keep trying to incorporate all our learning and it is definitely a more rigorous process that we're all going through. Everything has to be completed, every I has to be dotted and every T has to be crossed, and now we're all getting used to it.

So, on the subject of whether that's a mature process or not, boy, I hope so, and I believe we're all better off for it. I don't like all the difficulties we've had to go through to get here, but so far so good, and I know, I think the FAA has enough rigor in what they're doing, but with every next cert, I think we're all going to learn that it's just going to take a little longer, it's going to be a little more thorough than it's ever been.
Cai von Rumohr  
Analyst, Cowen & Co. LLC

Thank you.

David L. Calhoun  
President, Chief Executive Officer & Director, The Boeing Co.

Yes.

Operator: Next we'll go to Rob Spingarn with Melius. Please go ahead.

Robert Spingarn  
Analyst, Melius Research LLC

Hi. Good morning. Just following with this theme, Dave, we've already covered this today. A lot of the problems and issues Boeing is facing are on these development programs, or this unusual recertification process that you're doing on 787 and had to do on the MAX. Is the common denominator here the FAA or is it engineers? Do you have enough engineering resources? Brian mentioned allocating resources with the FAA, so is there a shortfall there and how do you solve it?

David L. Calhoun  
President, Chief Executive Officer & Director, The Boeing Co.

Yeah, I don't – I've never seen this and I have yet to run into an issue where we have not been resourced adequately on the programs. This has always boiled down to the timelines and we go through these timelines every week, so the timelines have always been impacted by the rigor of the discussion between ourselves and our counterparty, the FAA, on what's needed, what data is required, what's needed to demonstrate a certain point or to write fully the development assurance program.

A lot of writing, a lot of documentation, very thorough, et cetera. It has not been about whether we've had enough engineers to do the development work, or even to write the technical work, so more focus, more resources on programs is always helpful, but that's not been the constraint so far and I don't expect it to be the constraint. I think our pushout on the 777X with respect to the reallocation of resources, frankly, the biggest beneficiary of that is going to be the traditional metal wing 777 and our ability to just run some more airplanes through that, through the line in the midst of the demand that we're seeing, so on the reallocation question, that's where I see the benefit the most. I have yet to really see it on the cert programs themselves.

Robert Spingarn  
Analyst, Melius Research LLC

And if the MAX-10 slips beyond year-end and then you need the new flight crew alerting system do you assume you'll get the waiver or does this put the program at risk? I mean, if you can't get the 10 done without substantial more costs and looking at the order book, do you just leave that market for next airplane?

David L. Calhoun  
President, Chief Executive Officer & Director, The Boeing Co.

That's a great question. I hope I never get there. First and foremost, with respect to the original legislation, there was a lengthy window put in there based on historic certification timetables that would have provided for the MAX-7 and MAX-10 easily, so these things have taken longer. The intent of that legislation was never to stop the
derivative product line with respect to the MAX. So I believe our chances are good with respect to getting legislative relief. It doesn't mean we'll get them and if we don't it's a problem.

On the other hand, demand for the MAX is substantial. And we have other airplanes and substitution that we could implement and that decision has to get made sometime between now and the end of the year. We don't feel the need to do it now. I'm still pretty focused and our company is pretty focused on getting the dash 10 certified in our customer's hands. They love everything about the airplane, it's doing incredibly well on development program itself. So it's a good question, it's the right question, and we have to make sure our decisioning and thought process is ahead of where we think things end up at the end of the year.

Robert Spingarn
Analyst, Melius Research LLC

Thank you.

David L. Calhoun
President, Chief Executive Officer & Director, The Boeing Co.

Yes.

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

Ronald J. Epstein
Analyst, BofA Securities, Inc.

Yeah, hi. Good morning, guys.

David L. Calhoun
President, Chief Executive Officer & Director, The Boeing Co.

Good morning.

Ronald J. Epstein
Analyst, BofA Securities, Inc.

Back to the engineering question, Dave, when you sit back and you look at the company, do you – I mean, do you have to restructure the engineering organization? I mean, really what's going on there? I mean, I struggle to think of a program that you guys aren't or haven't taken a charge on. And the vast number of the issues that you've had compared to some of your peer companies, both in either defense or commercial, it just seems like it's just been more troublesome for Boeing than some of your peers. Why is that the case? And what can you do to prevent that for future programs because future programs are going to have to happen.

David L. Calhoun
President, Chief Executive Officer & Director, The Boeing Co.

Yeah, so, Ron, let me start by hoping that you haven't missed the restructuring of our engineering organization. That's the first thing I did. It wasn't to address the issue you're talking about, because I don't attribute all of our issues and specific instances and write-offs to engineering shortcomings. I don't and I never have. But we did restructure engineering to in effect reinforce, build our safety management system in a different way with a different outlet, so that people could voice concerns and call out engineering disciplines as appropriate. And it's worked. And it's been fantastic, and we've benefited from the ideas that have moved from the BDS to BCA, et cetera, et cetera. So we've been beneficiaries of what I think is a significant restructuring.
We are hiring, we are doing I think a terrific job on that front. It is not easy, so I don't want anybody to think otherwise, but we have had a pretty successful hiring program, a pretty successful retention program on that front. But when we look at the write-offs that we've taken, let's take this quarter, for instance, these fixed price development contracts that we took, were taken before COVID existed and before this inflationary spiral came ripping down the road. So I don't attribute that to engineering shortfalls. And I don't attribute our certification issues and timelines to engineering shortfalls in any way.

Our airplanes are flying incredibly well. Our 777X made it to Dubai, made it to Singapore in a gangbuster show. Everyone loved it. It's flying beautifully. It's meeting all of the requirements that we laid out. But the process of discovery between ourselves and our certification or our regulators around the world, it's different, it's changed. It's got to be thorough and it's got to be good. So I don't accept the premise entirely that you put forward in a question, but please don't miss the fact that we have restructured and we are building our engineering function. I've always believed it's strong, I believe it's going to be even stronger.

Ronald J. Epstein  
Analyst, BofA Securities, Inc.

Okay.

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

Sheila Kahyaoglu  
Analyst, Jefferies LLC

Good morning. Dave, Brian, thanks so much. Dave, you've alluded to MAX demand being good several times on this call. But also, you're not at 31 a month on the delivery rate there yet. So how could we think about going above 31 a month? It doesn't seem like you need the MAX-10 cert to get above it, but do you need China to get above it or do we stabilize at that level?

Brian J. West  
Chief Financial Officer & Executive Vice President, Finance, The Boeing Co.

We don't need the MAX-10. Believe me, the demand is there, and we delivered 37 MAXes last month – in the month of March and we're working our way towards momentum. So we feel pretty good. The trick for us is to stay focused on that production rate of 31 a month and make it stable and dependable and reliable. We de-risked the China piece, the dash 10 isn't contemplated in the near term. So if we just execute at that level, we feel pretty good.

Sheila Kahyaoglu  
Analyst, Jefferies LLC

Okay. Cool. And then on commercial profitability, if we exclude the abnormal costs, there was still a loss. So how do we think about that program getting to breakeven and how 787 is maybe impacting it?

Brian J. West  
Chief Financial Officer & Executive Vice President, Finance, The Boeing Co.

I would say the 87 from a cash margin standpoint, they're still positive, they're down obviously, but the future it's going to get significantly better once the deliveries start rolling. So I think that program is perfectly fine. And of course, the 37 is strong.
We might have some mix in there around any given quarter and of course we had a couple charges related to abnormal period costs and things like Ukraine. But those are kind of isolated. I think going forward as we get deliveries going on 37, 87, those cash margins will accrue and accrete and then the 87, some of the moves we’re making, we feel pretty good about getting the metal-wing freighter going to fill a factory and satisfy its demand. So overall we think that BCA margins are heading in the right direction and are going to follow deliveries.

Sheila Kahyaoglu  
Analyst, Jefferies LLC

Okay. Thank you.

Operator: Our next question is from Doug Harned with Bernstein. Please go ahead.

Douglas S. Harned  
Analyst, Sanford C. Bernstein & Co. LLC

Good morning. Thank you.

David L. Calhoun  
President, Chief Executive Officer & Director, The Boeing Co.

Hi, Doug.

Douglas S. Harned  
Analyst, Sanford C. Bernstein & Co. LLC

Hi. I want to switch over to defense. Dave, as you said, the defense programs that you are talking about this quarter, they were bid as fixed price development contracts, and some were very aggressive, even to the point of known below-cost bids as investments. And some of those problems we’re now seeing them coming home. So I mean, these were done well before you came on as CEO. But how do you look at the BDS bidding process going forward? And then also, are the cost overruns on these programs completely due to higher input costs or are there other execution issues at work here?

David L. Calhoun  
President, Chief Executive Officer & Director, The Boeing Co.

Yeah, so it’s a great question, Doug. Yeah, I will have a very different philosophy with respect to fixed price development. And so I don’t expect and I hope never to contribute to that issue. But we are where we are, and let me also say because I was on the board at the time the T-7 and MQ-25 programs were taken. And yes, they were written-off the day we took them, knowing that we would be investing a fair amount of our own money in the future of those airframes.

I will tell you this. I think those are going to be really good bets, even though the development costs are more than we had anticipated. When we get through them all and deliver on those contracts, those airplanes don’t go away. There are futures attached to them and big programs, in our view, that involve many, many airplanes. And I think both airplanes are going to be very successful in supporting our military. So, the futures, with respect to real airplanes making real margins and contributing to The Boeing Company, I still believe strongly in.
And then I'll just as I think I said earlier in my CNBC interview. Air Force One I'm just going to call a very unique moment, a very unique negotiation, a very unique set of risks that Boeing probably shouldn't have taken. But we are where we are, and we're going to deliver great airplanes and we're going to recognize the cost associated with it.

With respect to inputs, yes. It's predominantly COVID-related inefficiency because I'll remind us, in the defense world, when a COVID line goes down, or a group of workers steps out, we don't have a whole bunch of cleared people to step into their shoes. So it has always been a tougher implication. And for VC-25b where the clearances are ultra-high, it's really tough. So we just got whacked in a number of different areas, where you started is a great question and one that I hope I never contribute to.

Douglas S. Hamed  
*Analyst, Sanford C. Bernstein & Co. LLC*

Very good. Thank you.

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

Thanks.

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

John, we have time for one more question.

Operator: And that will come from Myles Walton with UBS. Please go ahead.

Myles Walton  
*Analyst, UBS Securities LLC*

Thanks. Good morning. Dave, I'll stick to a high level one. When you first signed on you had I think seven performance goals and after today I think maybe you'll be able to achieve a couple of them. And so I'm just trying to understand how we should measure your firm's performance? And also, it begs the question, is Boeing realistic in its expectations of its own performance and have you sort of recalibrated some more realistic, things go bad, so maybe we should calibrate more margin into our measures of success.

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

Well, that's -- it's a big question for the last one. But I'm very willing to take it on. You know the circumstance under which I came into the role, it all happened in a period of weeks and I simply took on the objectives that had been set program-by-program inside the business. And I discussed with the board that I would not, in any way, shape, or form, hold that compensation program hostage to what I do with The Boeing Company. I would simply do what's right.

I would simply pursue the programs, operate them the way I think they should be, if there are improvement opportunities that would compromise my ability to make one of those deliveries, then that's what I would do. So, and that's what I've been doing. And I have been resetting expectations every step of the way the best I can.
We have certain things in the world that we can’t predict, that frustrates everyone, I get it. But what we do is we just keep trying to improve and get better and get back to a normalized rate of cash flow for you, cash flow for us. And I’m highly confident in our ability to do that. And I’m highly confident in the Boeing people to do it. So I don’t want to recalibrate expectations other than timing questions, and real-world stuff around how regulators approach certification. These are real.

They take a little longer than they used to. They’re a little more thorough than they’re used to. Boeing is better for it in the long run. And every one of these programs lasts for decades and decades, every one of them. And that’s how I think about everything I do inside The Boeing Company. I think my board understands it, and I trust that they will evaluate me on that basis, whether or not compensation schemes are perfectly aligned.

Myles Walton
Analyst, UBS Securities LLC

Thanks for taking the question, Dave.

David L. Calhoun
President, Chief Executive Officer & Director, The Boeing Co.

Thanks.

Matt Welch
Vice President-Investor Relations, The Boeing Co.

And that concludes our first quarter 2022 earnings call.