CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

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

Robert Spingarn  
Analyst, Melius Research LLC

Sheila Kahyaoglu  
Analyst, Jefferies LLC

Noah Poponak  
Analyst, Goldman Sachs & Co. LLC

David Strauss  
Analyst, Barclays Capital, Inc.

Seth M. Seifman  
Analyst, JPMorgan Securities LLC

Cai von Rumohr  
Analyst, Cowen & Co. LLC

Kristine Tan Liwag  
Analyst, Morgan Stanley & Co. LLC

Richard Safran  
Analyst, Seaport Research Partners

George David Shapiro  
Analyst, Shapiro Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. Good day, everyone and welcome to The Boeing Company's Second 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 Company. 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 Second Quarter 2022 Earnings Call. I am Matt Welch, and with me today are David Calhoun, Boeing's President and Chief Executive Officer; and Brian West, Boeing's Executive Vice President and Chief Financial Officer. And 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 this web presentation. In addition, we refer you to our earnings release and presentation.
Operator: And this is John with AT&T. Please continue.

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

...interruption there. Start over? Okay. Sorry, we were muted. It's good to be with all of you. Thanks, Matt, for the intro. I want to start my brief comments upfront with just a revisit at the Farnborough Airshow little over a week ago. It was important for us. It was an emotional outcoming for our company and our people. We always work a little better when we are standing next to our products and the flight teams who are operating them. It was great to see, and I think everyone witnessed the 777X in flight, which was more than magnificent. The dash-10 also in flight and our investment in Wisk and its product in the important eVTOL market. We met with our customers. We met with suppliers, partners, the usual, except it didn't feel like the usual because it had been a while.

We're proud of the orders that we collected over the course of that week, over 200 orders and commitments. And importantly, it covered the whole line, the 737 MAX, our 787, and the 777X. And it shows the extent to which our airline customers are already anticipating fleet renewal projects and their willingness to bet forward on that prospect. Needless to say, they're all as busy as they can be, trying to get their own fleets up and running and the supply constraints they face dealt with.

Looking at the quarter, a lot of things good happened over the quarter. We are on the verge of returning to the 787 delivery process. I won't give a date. I never have. That's up to the FAA. But we've been working closely with our customers and the regulator on those final steps. We're proud of our team. We're proud for the discipline and the detailed work they applied over this long course. And it will be worth it. In the end we'll have a predictable and high-quality line, and our customers will be pleased with the products. And a reminder to everyone that this 787 fleet that's out there has been working harder than it's ever worked and it's been performing incredibly well.

Turning to the MAX, again, one airplane at a time, the fleet is performing incredibly well, oftentimes exceeding the specification and expectations our customers had when they originally placed their orders. And we continue to work hard on predictability of the delivery chain. And we're focused mostly on the engine supply lines and then those second-tier constraints that those engine suppliers are facing.

And I think we've made an awful lot of progress on that front. Brian will give you a sort of our best guess at how this year turns out with respect to those deliveries, but it's now I think based on far better knowledge of what those supply constraints are and commitments from our supply side engine suppliers.

In BDS, I don't want to skip over the Starliner. It was important. It was an emotional up for all of us at Boeing to get back on track. We had a wet dress for the Space Launch System rocket, the biggest rocket yet. We're looking forward to that launch. So we had a good sort of engineering coming out with respect to those achievements. And yes, we're still working through some of the challenging macro environment issues especially with respect to our fixed price development contracts, and Brian will also walk you through that.

And then finally, on the services side, like pretty much everyone that's been reporting, it is coming back and it's coming back in a rapid way. Our commercial service business was up 30%. It carries strong margins with it. And so it was a big and important contributor to our overall cash flow story.
And again, the result of all of this work, a big step forward with respect to stability, we did get to cash flow operating cash flow positive. So that puts us a little bit ahead of our internal plan and we feel good about that. And we are still committed to be cash flow positive for the calendar year 2022.

It's underpinned by a very strong commercial market. I think you all know that. Everyone spoke to it. A lot of supply constraints out there with respect to the operators of our airplanes, the airlines and what they've got to do to get the fleets running efficiently and build their capacity where it needs to be. But they are out there in the market trying to rebuild their fleets for the future and to meet that significant demand. And so far we've not seen any drawback on that demand. While we understand sort of recession fears that are growing out there, so far it has not impacted the aviation industry or our customers.

So mostly what we're focused on and I don't think it will surprise anyone and I think I've heard it in most of my peers' reports is the supply chain, stabilizing it, making sure that it's predictable and consistent. And for us in particular with respect to the commercial side of our business, it relates to engine production, engine availability, so that we can predictably deliver airplanes to our customers. We think we've made an awful lot of progress on that front. I know you've heard directly from the engine suppliers. They are making progress and we've adjusted all of our delivery rate expectations, at least in the near-term, to satisfy those constraints.

A comment quickly on regulatory and geopolitical, I’ll start with geopolitical, China. The good news is that because of the strong demand in the marketplace, we've been able to manage our risk going forward with respect to the airplanes that we have built and are awaiting delivery. We intend to stand by our Chinese airlines, stand by the CAAC and get those airplanes back, but the timing which has been pushed and deferred in light of some of the COVID management issues in China and some of that geopolitical overhang, we can suffer our way through that and will, and it should not impact the cash flow positive posture that we've taken for the year.

So it's a little easier to manage for us. It's no less important. And we will continue to encourage our administration to work as closely as they can with the Chinese to reopen the trade corridor with respect to aviation, a relationship we've enjoyed for over 50 years, and we'll continue to support our customers. Medium- and long-term, it does represent the difference between commercial air space leadership or not, given the size and scale of the China market.

And then on the regulatory front, we are working constructively with the FAA. We have our heads down. We're working towards certification by year-end on the dash-7 and the dash-10, and we believe what we're working on is in fact the safe option with respect to all options in the narrowbody space, and so we're going to just keep plugging away. And anyway, that's enough said.

As we navigate through this environment, stability is the watch word for all of us. We want to be predictable. We think that will differentiate us. And that's why we're focused on it. We continue to increase our investment in research programs, the readiness program with respect to the next big commercial airplane, all the digital modeling tools that are required to be ready for that, we continue to invest aggressively in. And we continue to enhance those underlying digital technologies that we will bring ultimately to the services market as well. Safety, quality, transparency, these are values and this is what we remain focused on.

So before I turn it over to Brian, the MAX is on track and it's performing for customers, in many cases exceeding expectations. We think we're through the most difficult parts of the COVID-19. Starliner, a pivotal and emotional test for The Boeing Company and we feel good about it and we're ready for the crewed flight. Global Services on its way back in a big way. We feel terrific about their progress. And now we are at the detailed moment to get ready for 787 deliveries, a moment we've been waiting for, and we look and feel as though we're on the verge of
doing so. So we take a long view, we continue to take a long view and we do believe we're in the middle of a turnaround and it's beginning to show itself.

So with that, I'll end my opening comments and turn it over to Brian.

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

Thank you, Dave, and good morning everyone. This was an important quarter. We made good progress on key programs in a pretty dynamic macro environment affected by inflation, labor availability, and supply chain constraints, all of which impacted both us and the industry.

Despite these challenges, we improved our quarter-over-quarter cash performance, and importantly, generated positive operating cash flow. Cash was driven by higher commercial delivery volume as well as order activity and advance payment timing. This keeps us on track to generate positive free cash flow for the year and higher cash flows in 2023.

We still think about our performance in three parts and remain confident about the trajectory. First, as Dave mentioned, we made progress on key milestones. We're nearing a return for the 787 and are preparing airplanes for delivery. We continue to focus on 737 production stability of 31 MAXs per month and we've de-risked China from our near-term delivery profile.

Next, as we see continued progress on these programs, we anticipate improvement in our performance metrics including deliveries, revenue, margin, and cash flow in the back half of the year. We also expect cash flow benefits from order activity and favorable receipt timing over the next two quarters.

Finally, our financial performance should start to accelerate into 2023. Going forward, there is a significant opportunity for our company to return to sustainable growth and we look forward to sharing our plans at our Investor Day on November 1 and 2.

Before getting into the financials, I want to make a few points on the current business environment on slide 3. Demand for commercial airplanes is strong especially in the freighter market. We've seen cargo traffic increase from 2019 levels, largely driven by e-commerce and the efficiency of air freight. With more than 90% share of the freighter market, our lineup is well positioned to capture continued growth.

On the passenger side, traffic has recovered significantly, but it's still well below where it's been historically relative to global GDP. As airlines are currently in the middle of the summer high season, operational and supply constraints are becoming the pacing item for air traffic growth and the markets leading the recovery. That said, the commercial traffic recovery is accelerating and passenger traffic has reached its highest point since 2019 in both North America and Europe.

Domestic traffic remains relatively stable at 77% of 2019 levels as of May. While China still lags significantly, we saw some improvements in flight operation in June as travel restrictions lifted. Excluding China, domestic traffic was over 90% of 2019 levels.

International traffic is gaining momentum at 64% of 2019, up from just 48% in March, especially in regional markets such as intra-Europe, transatlantic, and US-Mexico, as well as notable improvements via the Middle East and in some parts of Asia. Overall, our commercial passenger market recovery expectations are in line with what
we’ve shared previously. We still see overall passenger traffic returning to 2019 levels in the 2023 to 2024 timeframe.

Taking all this into consideration, we recently released our 2022 commercial market outlook which forecasts a total addressable market valued at more than $3.3 trillion over the next decade and demand for nearly 20,000 airplanes. The forecast closely aligns to what we laid out last year and reflects the market's continued recovery. More specifically, we anticipate demand for more than 14,000 narrowbodies or over 120 per month on average over the next 10 years. From a 20-year perspective, we project demand for more than 41,000 new airplanes including 940 dedicated freighters. We are very confident in our product lineup which is well suited to capture this long-term demand and we feel very good about last week with over 200 orders and commitments at Farnborough. We appreciate the trust and confidence our customers are placing in us.

Our services business also continues to benefit from growing commercial fleet and strong cargo markets, with several Boeing Converted Freighter and materials management agreements recently announced. Over the next 10 years, we see a $3.3 trillion service market that aligns well with our broad customer-focused portfolio of offerings.

In defense and space, we see solid long-term markets both domestically and internationally. In the United States, there is support for increased defense spending in Congress to meet the challenges of today. Internationally, many of our fellow NATO members, partners, and allies have announced plans for increased spending on national defense and we look forward to more specifics around these priorities.

Turning to the supply chain, we continue to experience real constraints. We're taking action to mitigate risk in a number of areas including engines, raw materials, and semiconductors. To stabilize production and support our supply chain, we're increasing our on-site presence at suppliers, creating teams of experts to address industry-wide shortages, utilizing internal fabrication for surge capacity, and managing inventory safety stock levels and growing where needed.

With that backdrop, let's turn to financials on slide 4. Second quarter revenue of $16.7 billion declined 2% and we generated $0.5 billion of core operating earnings. After accounting for interest expense and taxes, we had a core loss per share of $0.37. Operating cash flow was positive $0.1 billion, in line with our expectations and an improvement from the same period last year.

Let's move to Commercial Airplanes on slide 5. Second quarter revenue was $6.2 billion, up 3%, primarily driven by higher 737 deliveries, partially offset by lower 787 deliveries. Operating losses of $0.2 billion and resulting negative margin rate reflect abnormal costs and period expenses, including higher R&D expense as we continue to invest in the business.

On the 787 program, we're very close to resuming deliveries. We're readying airplanes together with our customers and have completed flight checks on the initial airplanes. As always, we will follow the lead of the FAA on the specific timing.

We have 120 airplanes in inventory and are making progress completing the necessary rework to prepare them for delivery. As 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. Similar to the 737 program, the supply chain remains a key watch item for 787 production and deliveries.
We recorded $283 million of 787 abnormal costs, in line with expectations, and we still anticipate a total of about $2 billion, with most being incurred by the end of 2023. These costs are driven by rework and production rates below five per month. It is important to keep in mind that cash margins on the 787 remains positive and are expected to improve significantly over time. However, as we deliver the first few 787 airplanes, you may see some variability in cash payments as we compensate customers for delays. The 787 continues to be the most utilized widebody airplane due to its operational efficiency and flexibility. With over 400 airplanes in backlog, recent orders and commitments announced at Farnborough, and additional demand as the commercial market recovers, we see a strong future for the 787 program.

Moving on to the 737 program, we have delivered 189 airplanes year-to-date, below our original expectations due to three things: supply chain disruptions, flow time of taking airplanes out of storage, and timing of deliveries to Chinese customers. We don’t anticipate making up those deliveries in the back half of the year and we'll continue to experience monthly variability including a light month in July. We now expect deliveries to be closer to the low-400s for 2022, short of what we discussed earlier this year, as we drive stability and predictability.

We entered the quarter with 290 MAX airplanes in inventory, of which roughly half are designated for customers in China. Given this uncertainty with our customers in China, we now expect more deliveries of airplanes from inventory to shift into 2024. Due to overall progress on MAX production, we did not book abnormal costs in the quarter. Additionally, we’ve reached agreement on over 95% of our MAX customer consideration liability.

Shifting to the 777-9 program, our status is largely unchanged from what we shared last quarter. We still anticipate delivery of the first 777-9 airplane in 2025 and continue to coordinate with the FAA to prioritize resources across our development programs. We booked $102 million of 777 abnormal costs in the second quarter, in line with our expectations, and we still expect to record $1.5 billion of these costs through 2023, while 777-9 production remains paused.

Turning to overall demand at BCA, during the quarter we booked 184 commercial airplane orders, including 169 orders for the 737 MAX. At the end of the second quarter, we had over 4,200 airplanes in backlog valued at $297 billion.

Let's now move on to Defense, Space & Security on slide 6. Second quarter revenue was $6.2 billion, down 10%, driven by lower volume and operational performance. Operating margin was 1.1%, driven by approximately $400 million of charges on fixed price development programs, most notably $147 million on MQ-25 and $93 million on Commercial Crew. This total also includes relatively small cost growth on the T-7A, Tanker and VC-25B, with no one program impacted by more than about $50 million and the drivers were largely supply chain impacts and inflation. All of this will be outlined in the Q.

We also saw these same pressures across a few of the mature programs. While this performance was disappointing, we’re making progress narrowing our development risk profile and remain confident over the long-term.

We received $2 billion in orders during the quarter, and BDS backlog was $55 billion. Additionally, the Chinook helicopter has been selected to bring heavy-lift capability to the German military.

We also achieved important milestones across the portfolio. NASA's Space Launch System completed the wet dress rehearsal and the KC-46A tanker is now certified to refuel 97% of the military's air refuelable fleet.
Let’s now turn to Global Services results on slide 7. The Global Services team celebrated its fifth anniversary this month and continues to perform well, especially in our parts and commercial training businesses. We’re encouraged by the overall momentum. Second quarter revenue was $4.3 billion, up 6%, and operating margin was 16.9%. Results were driven by higher commercial services volume now nearly back to pre-pandemic levels and favorable mix. We also discontinued an engine distribution agreement in the quarter which will impact our government service revenue profile going forward.

We received $4 billion in orders during the quarter, including a contract for airlift flight dispatch services for the US Air Force, and a contract for avionics upgrades and cybersecurity support for the US Navy. The BGS backlog is $19 billion. With strong support for our defense business and our highly-valued commercial capabilities, our services business is poised for growth as the commercial market continues to recover.

Now let’s turn to slide 8 to cover cash and debt. We ended the second quarter with strong liquidity comprised of $11.4 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 last quarter to $57.2 billion, driven by repayment of maturing debt. Our investment grade credit rating is a priority and we remain committed to reducing debt levels through strong cash flow generation over time.

As far as the rest of the year is concerned, we still anticipate 2022 total company revenue to be higher than last year, primarily driven by higher commercial airplane deliveries on the 737 and 787 programs and growth in our services business partially offset by lower defense revenue.

Looking into 2023, we expect total company revenue growth from this year. BCA revenue is planned to be higher, again, on 737 and 787 deliveries. The demand outlook for the defense business remains steady and we expect 2023 revenue to be better than 2022 as the business stabilizes. While we forecast BGS revenue to continue to grow next year, the growth rate will be tempered as we are nearly back to pre-pandemic levels.

Turning to cash, we still expect to generate positive free cash flow this year and the key drivers of second half improvement are higher 737 and 787 delivery volume, orders of advance payments, BDS receipts, as well as favorable expenditure timing. As we look to 2023, we still expect cash flow will be higher than 2022 and we plan to share more details in November.

Overall, our performance is tied to several key items: supply chain, production system, and delivery stability, 737 and 787 delivery ramp, successful execution and certification of development programs, the commercial market recovery, and the macroeconomic environment. While our progress depends on some factors beyond our control, we’ll remain focused on our own performance and taking the right action to drive stability and predictability and growth in the future.

Taking a step back, this business and our team have come a long way over the last few years. We’ve seen our fair share of challenges and more hurdles still remain, but we’re making progress. Demand for our product is strong, and we’re investing in our future and our people are demonstrating exceptional commitment.

With that, over to Dave for closing comments.

David L. Calhoun
President, Chief Executive Officer & Director, The Boeing Co.
Yeah, I'll keep them brief. We do believe we're in the middle of a momentum shift. We're all anxious and looking forward to delivery of our important airplane, the 787. Again, a reminder of how well it is performing in the field and therefore this delivery stream is critically important to our customers.

So I'll leave it with that, and turn it over to Q&A.

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

Yeah, thanks, David. Before we start the Q&A, as I noted at the beginning of this call, 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 disclaimer at the end of this web presentation. Please also refer to those materials for reconciliation of certain non-GAAP measures.

With that, as Dave said, we are now prepared to take your questions.

QUESTION AND ANSWER SECTION


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

Thank you. Good morning.

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

Good morning, Doug.

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

Good morning, Doug.

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

When you look to this year and are looking at positive free cash flow for the year, it appears to have really depend heavily on two things, the delivery – restart of the 787 and the deliveries for the – the ramp in deliveries for the MAX, which you're now saying you're going to get to the low-400s on this. If you look at those two parts, I mean, the 787, could you describe on that one, what gives you confidence now that you are so close? We've heard things before, optimism about a near restart, but this appears to be much more imminent now, I would guess, even though I know you're not going to try to predict the FAA's timing. So that's on the 787. And when you go over to the MAX, you've taken that number down into the low-400s. Could you talk about what you need out of that MAX profile to be on this positive cash flow timing? And then what's the split between stored and new production? So, a lot of things there, but all in that positive free cash flow objective.
David L. Calhoun
President, Chief Executive Officer & Director, The Boeing Co.

Yeah, Doug, so why don't I start with 787 predictability. So, like we said and like you acknowledged, we can't give you a date, but what we do track is all the work and the issues that both teams have wrestled with over this time, and we are approaching closure on all of that. The number of documents, the number of analyses, the number of signoffs has progressed at a fairly rapid rate here towards the close. So we see that documentation phase, which has been a lion's share of the phase, as closing relatively soon. And then therefore the readiness of airplanes, which we have been working on exactly the same moments, simultaneously, has also been in shape to the point where customers are climbing around the airplanes and making certain that they are also ready for delivery and acceptance.

So, all that's coming together, and, yes, the FAA remains in control, but there's just enough workload on sort of both fronts, readiness of the airplane and the documentation and certification requirement that we just feel like we're on the verge and are reasonably confident in that front. So, that's why I feel different this time, and I will acknowledge, Doug, that we have felt like it was near-term in previous periods, but not with the same level of due diligence that I feel now.

On the MAX delivery front, let me turn it over to Brian. He's got all the numbers.

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

Yeah, so thanks, Doug. So the low-400s we think the balance of the year will satisfy the cash flow requirements to do their fair share of that total picture. So we think that's pretty well aligned.

In terms of what's coming out of inventory versus the production line, our biggest objective is on both fronts to do both in a stable manner. And as you can see from our numbers, we've been doing about 10-ish out of storage this last quarter. We continue to get a little bit better on that front. So that's something we're going to work hard on as we turn the corner in the second half of the year, so both are very important. Doing both in a stable, predictable manner gets to that low-400s for the year.

I will also indicate there's three really other important levers of the cash flows in the back half as a bridge from the first half. You mentioned the big two, the 737 and the 787 deliveries, but there's also going to be favorability timing from BDS receipts that will work to our favor, there will be favorability of expense timing that will accrue to us, and there will be higher order activity and advanced payments particularly driven by the 777 adjustments that we made last quarter. Remember, we added metal wing capacity and the launch of the 777-X freighter version, and all those benefits are going to manifest themselves in helping the cash trajectory in the second half versus the first half. So, those are the big pieces that we think about.

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

Okay. Very good. Thank you.

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

Robert Spingarn
Analyst, Melius Research LLC
Hey, good morning.

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

Hi, Rob.

Robert Spingarn  
Analyst, Melius Research LLC

Dave, you opened with the supply chain and the troubles there, and I have a specific supply chain question and then something more general on rates.

Given your engine background from GE, how do we solve this casting shortfall that's now plagued the industry twice in recent years, both now and I want to say around 2018? Is this a short-term cyclical issue, or is there a greater structural problem? So that's the first question.

The second question, Brian touched on 2023 and the significance of the MAX and the 787 ramp. I wanted to see if you could boundary the MAX production rate on the low and high end perhaps with – the trajectory, perhaps with and without China?

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

So let me discuss the engine related. It is a very important issue to be resolved, and it is not yet resolved, that structural casting part of the puzzle. You may recall two or three meetings ago at this I acknowledged that would eventually be the issue and of course it is. So that capacity is limited. It's not just about money, it's qualification. It's one of the toughest components inside the supply chain to ultimately get to a qualified status, as well as just the sheer physical capacity to do it.

So I do think we all have to moderate our rates to make sure that we are ahead of that. And I do think the work that we've done, unfortunately our choice not to move up to 38 here as soon as we had originally predicted is honestly based on that constraint. But I do believe we're at a state now where at 31, we're comfortable the industry can get there and maybe have already gotten there, and then we're going to watch as they qualify more capacity going forward before we pull those rates up.

So, is it medium- and long-term? Somehow, some way that constraint in my view in the next three to five years has to get solved itself. Some investment has to get made and capacity has to expand for the engine suppliers to keep up with what I believe will be continued robust demand. So, this may not be a satisfactory answer, but I think that is the reality of the world I've lived in for the last 20 years. And then with respect to the other parts of the question, I'll flip it over to Brian again.

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

Yeah, for rate, production rate, I wouldn't worry about China. As Dave has and we've continually talked about, we enjoy a pretty robust demand market. And the China delivery and when that happens is separate from our ability to move rate given the other demand in the marketplace. So, I think I'd separate those two. It's not a pacing item.

Robert Spingarn  
Analyst, Melius Research LLC
What does the trajectory look like?

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

Robert Spingarn  
*Analyst, Melius Research LLC*  
For MAX production. So, Dave just talked about 38, do we know when that's going to happen?

David L. Calhoun  
*President, Chief Executive Officer & Director, The Boeing Co.*  
No, I'll answer that. The answer is I don't know when that will happen. Stability at 31 and then confidence that engine suppliers will have their castings in order and can predict steady delivery at 38, that will then initiate us to say now it's 38. I don't want to get ahead of ourselves. Stability for me is still job one and that's what we'll stay focused on. Do I think it will be better next year? Yeah. But I don't know exactly when and I don't want to get ahead of myself.

Robert Spingarn  
*Analyst, Melius Research LLC*  
Okay. Thank you.

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

Operator: Next we'll go to Sheila Kahyaoglu with Jefferies. Please go ahead.

Sheila Kahyaoglu  
*Analyst, Jefferies LLC*  
Hey, good morning, Dave and Brian. Maybe if we could talk about commercial profitability. If we strip out the abnormal costs from the 787 as well as the 777, you're at 2.3% operating margins in the quarter with an average of 33 MAXs produced or delivered. So how do we think about how margins come back as maybe the 787 comes in, the supply chain pressures alleviate? How should we look on to the step-up of commercial operating margins? Thanks.

Brian J. West  
*Chief Financial Officer & Executive Vice President, The Boeing Co.*  
Yeah, so in the short-term, it will be a little bumpy as we start to roll out the 787s and continue to get confidence in our stability in the 737s, but over time when we get to a point where both are stable and operating where we expect them to, the margin is going to go up. I can't predict a number – I won't predict a number. But they are going to get better and better because we are going to be more predictably and in a stable fashion be able to deliver on both fronts, anyway.
All right. All right. Thank you very much.

Operator: And next, we'll go to Noah Poponak with Goldman Sachs. Please go ahead.

Hi. Good morning, everyone.

Hi. Good morning, Noah.

Good morning, Noah.

I'm just going to circle back to this MAX delivery discussion, because it's a bit confusing. Depending on how you define low-400, if I subtract the first half from that and divide it by six, it suggests the delivery pace would slow compared to what you did in June, and that's with a higher production rate. So it suggests the inventory unwind is slowing. So why would that happen?

And then just on this underlying rate, I mean, any supplier we talk to says they're kind of ready to go and just waiting for direction from you that they're not getting. The leasing companies are saying there's a narrowbody shortage. You have a competitor at a much higher rate. Is your answer to Rob's question that it's just purely forgings and castings and otherwise you would be higher? It's a little hard to square the circle on all of those inputs.

Before Brian gets in the – it's never about any supplier. It's about one or two that surprise you one way or the other. And with respect to medium or longer term rate increases or changes, yeah, it does actually get down to that engine supplier and it does get down to those castings. So, we have to be confident that they are ready and that we can count on those deliveries. So anyway, that is the world we live in now.

And, Noah, June, we are proud of the 43 that we were able to deliver. I want to caution everyone if you remember, April was 28, May was 29. I just indicated that July's going to be a little light. So, I don't want us to get ahead of ourselves in terms of taking the June rate and extrapolating it. That would be a mistake. Month in and month out, we're aiming at stability around 31, some months might be a little lower, some months might be a little
higher. When we look at the whole balance to go and the things we're watching, we feel comfortable in that low-400 number. And hopefully it will be better, but that's right now what we're squaring to.

Noah Poponak  
Analyst, Goldman Sachs & Co. LLC

How much lead time do you feel like you need to give the broader supply chain to break to that next higher rate, whenever that is?

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

Well, first of all, we're doing our very best to be transparent and we are always informing them when we get close. How much lead time? I don't know, three or four months...

Noah Poponak  
Analyst, Goldman Sachs & Co. LLC

Okay.

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

...if it's a formal designation. But I think they're all – like you said, I think a lot are prepared to get to those higher rates, but we need a few specific ones to be ready to get to those higher rates. And sorry to keep coming back to that, but that's really where it is. I think we have our eye squarely focused on the constraint that matters the most. And as that plays out, you'll probably know as fast as I do, and then we'll let that go to the rest of the market. I think the rest of the market will respond quickly.

Noah Poponak  
Analyst, Goldman Sachs & Co. LLC

Okay. Helpful. Thank you. I appreciate it.

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

Yeah, thanks, Noah.

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

David Strauss  
Analyst, Barclays Capital, Inc.

Thanks. Good morning, everyone.

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

Good morning, David.

David Strauss  
Analyst, Barclays Capital, Inc.
Dave, Brian, wanted to see if you could tell us how many roughly 787 deliveries you're assuming for the rest of the year, because it's pretty hard to kind of bridge sort of the positive free cash flow for the year without assuming a fair amount of 787 deliveries in the last five months. That's my first question.

And then second question, you've talked about a meaningful improvement in free cash flow in 2023. I just want to see if you could put some bounds around that. Are we talking a couple billion dollars? Or are we talking, you know, the consensus right now is showing a $7 billion improvement in free cash flow next year. I wanted to see if that's within the realm of reason. Thanks.

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

Yeah, sure. So, your last question, can't wait for November to be able to give you a more detail around that, and we'll wait until November. And then on your question on the 787 number, we're not going to give a number on that front. We want to get to one. And we're really excited to get to one as fast as we can, and once that plays out we'll get more visibility. But it's a little too early to quantify that. Clearly we've got an expectation that we're going to liquidate some 787s over the course of the second half, but I'm just a little cautious to stick a number out there.

All right. Quick follow-up, Dave, the IG Audit that's going on with the FAA and the change in leadership there, you don't think that potentially holds up the 787s at all?

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

I do not. I do not. And I've also asked that question many times. So I think we're in a good place. Again, I'm going to follow up just quickly with Brian's comment. We're not playing a game. We are working as hard as we can to get to stability in a tough environment. We chose that November meeting as a moment to sort of say, okay, where are we on stability, what is the framework for cash flow over the course of the next year? We're looking forward to that day and that meeting, and I think at that moment in time a lot of these variables will have resolved themselves and we can give you a much clearer view of what the future looks like.

Thanks very much.

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

Yeah.

Operator: And next question from Seth Seifman with JPMorgan. Please go ahead.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Thanks very much, and good morning. I guess, Brian, when we look at the advances balance of $52 billion, I think it's higher than it was at the end of 2018 when rates were significantly higher, and it sounds like you're telling us
that that balance is going to be even higher still, but perhaps significantly by December 31. Does that ever come
down at some point? How do we kind of think about where that goes from here? And Dave, when you say having
some visibility on some of these big questions at the November meeting, does that include potentially MAX
deliveries into China?

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

So, that balance did come down this quarter. And we do expect it to come down, it will. It will be the excess PDP
burndown that will come down, but it gets offset by the benefit of incoming PDPs and order receipts, and we love
that, right. That's a lever of our business that accrues to us and the more we do that, the more we've got airplanes
going and commitments and orders to our customers. But overall, the trajectory will have to fall quarter in, quarter
out, it's hard to peg because of that accretive offset.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

But if you had in your model at some point like a requirement that there has to be some kind of 10-plus billion
dollar reduction in this balance at some point over time, is that just an incorrect understanding of how this all
works?

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

Well, I'm not going to comment on $10 billion. I do know that there has to be the burndown of the excess, and that
will happen over time. And we do our best to try to isolate that in terms of our projections. On the other hand, the
benefits of order volume is something that we benefit from as well. So it has been flattish over the last several
quarters. It's been taking small chunks down. And we expect it to continue to come down, but I can't call it order of
magnitude of $10 billion drop the way you're suggesting. There's just too many dynamics in there and I'm
reluctant to make those kind of statements.

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

And then with respect to China in November, I will give you the update. You will probably be as up-to-speed every
week between now and then as I am, because it does require a bit of a thawing and a geopolitical break between
China and the US, so, at any rate, in the meantime we do deliver airplanes occasionally to China based on pure
need, and those are mostly widebodies and mostly cargo.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Thank you very much.

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

Yeah.

Operator: Next, we'll go to Cai von Rumohr with Cowen. Please go ahead.
Cai von Rumohr  
*Analyst, Cowen & Co. LLC*

Yes. Thank you so much. So, it looks like you produced on average 24 737s in the second quarter. How comfortable are you that you can kind of sustain an average of 31 per month, because I know that you pause when you have to even though the indicated line rate is 31? And secondly, if you can, should we estimate your production plus taking 10 or 12 out of inventory to kind of get to what we assume for the production rate in the second half?

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

So I'll take the second part of that. I think that reliably month in, month out, we'll aim at 31. Anywhere from 8, 10, 12 is the range on liquidity from inventory, could be in that kind of mix and that gets you to the low-400s for the total year is the way I would think about it.

I don't think the pieces go much below 8 on the coming from inventory and I probably don't think we'd do better than 12 in any given month. But we will modulate between that and the production rates as we go into the back half of the year.

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

And again, the average of 31 with respect to production is a clear objective of ours and even short of that will be disappointing. Our real objective though is to make that a stable rate in each of the months. And we're not there yet. So be careful to extrapolate any one month.

Cai von Rumohr  
*Analyst, Cowen & Co. LLC*

And you've made the point that demand is so strong. What will you have to see to make the decision to raise the rate from 31 per month?

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

I'm going to get back to earlier questions. If I thought I had an engine supply, I'd do it today.

Cai von Rumohr  
*Analyst, Cowen & Co. LLC*

Thank you.

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

Yeah.

Operator: And next, we'll go to line of Kristine Liwag with Morgan Stanley. Please go ahead.

Kristine Tan Liwag  
*Analyst, Morgan Stanley & Co. LLC*
Thanks. So, good morning, guys.

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

Good morning, Kristine.

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

Good morning.

Kristine Tan Liwag  
*Analyst, Morgan Stanley & Co. LLC*

Dave, on the supply chain, how much will your mitigating actions cost in terms of higher labor costs or investments for general fabrication or maybe even working capital for buffer stock? And also, as a follow-up on the engine discussion earlier, what can you do to encourage investment casting suppliers to invest?

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

Well, that's — well, I've been trying to encourage them for a very, very long time. Honestly, I think it's going to be, as is always the case, they are going to increase their margins. My guess is it will be considerable. I don't know all their contract timings and all their relationships with our engine suppliers, but you know how hard they're going to be working. And when those margins get to a point where everyone believes it's worth investing a significant amount of money, that's what they'll do. And I suspect that day will come. And I will encourage the industry in that way. And they're going to have to believe in our demand forecast which so far I think we've been highly credible with respect to the long-term demand forecast for airplanes.

So, on all those readiness questions and investments, you're right to ask the question because we've said to everybody if you're in pursuit of predictability, then you have to invest in all those buffer stocks and you have to stay ahead of this curve in every way that we possibly can. And I'd say it's marginally more investment intensive, but not enough to honestly make that big a difference for us going forward, especially when you compare it to our investment in finished goods inventory, which right now is at a bit of an all-time high.

And I will also — we haven't talked about it, just mention to everybody that while none of us like how we got here, if you are faced with a bunch of supply constraints as a market over the next couple of years, having over 400 airplanes that are finished at your fingertips, and yeah, they're hard to get out and get ready and back into the marketplace, is a pretty good buffer in and of itself and allows us to exercise a little extra discipline on the stability front as we begin to march up that curve over the next 18 months. So anyway, I don't want that to get lost as a buffer overall.

Kristine Tan Liwag  
*Analyst, Morgan Stanley & Co. LLC*

Thanks, Dave.

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

Yeah.
Operator: And next, we'll go to the line of Rich Safran with Seaport Research Partners. Please go ahead.

Richard Safran
Analyst, Seaport Research Partners

Dave, Brian, Matt, good morning.

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

Good morning.

Richard Safran
Analyst, Seaport Research Partners

I'd like to shift the topic to defense for just a minute, your comments about stable global demand. Could you also comment on international demand in general for defense equipment? And maybe in your answer, also comment about additional demand for your tanker programs, the KC-46 and MQ-25? And the reason why I'm asking this is, I believe both these programs had quite aspirations for international sales. So I thought maybe you'd comment on that as well. Thanks.

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

Yeah, no, I appreciate the question and we've been bullish on international opportunities. I am more bullish now than I was when I even began, and again, I was optimistic there. And it is because of the world we see in front of us. It does take a couple of years to take the threats that are out there, that manifests themselves into real orders and sort of long commitments. But I suspect that's the way this world will turn here in the next couple of years. We had some early sure indications from those closest to the conflict. Our Chinook victory here came faster than maybe we would imagine. Why? Because our customer is right next to the front. So, I am optimistic on the programs specifically that you called out. They might be on the leading edge of that demand curve. But it's not going to happen in the next six months and it's not going to – it will take us probably a year to get to where that demand begins to manifest into real orders.

Richard Safran
Analyst, Seaport Research Partners

Okay. Thank you.

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

Yeah, thanks.

Operator: And we'll go to George Shapiro with Shapiro Research. Please go ahead.

George David Shapiro
Analyst, Shapiro Research LLC

Thanks for the time. Dave, I'm trying to figure out where all this strong demand is coming from, because the way I look at it, air show orders were the weakest since 2009 for both you and Airbus, you were better obviously, but still weakest since 2016. If domestic traffic returns to 2019 in 2023, then the same number of planes should be needed. Yet, unless retirements really pick up to a level never before we've seen at 5% of the fleet versus the
current 1.3%, there's going to be 2,000 more planes than needed out there. So if you can kind of just reconcile where all the demand is coming from.

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

Well, there are an awful lot of irons in the fire. And like you, I try to compare and contrast how many irons in the fire are now versus where they were certainly in the COVID period, significantly hotter, but even if that prior 2019 world, there's just a lot of irons in the fire and there's already a concern about supply constraints. So you know what that mix ends up doing.

And then I will just add to that puzzle, you know the sustainability constraints and while you may be skeptical and maybe I am too about renewal or taking airplanes out of service, I think that day is on us. And I think that's going to be real in the years ahead. You'd be surprised at how many of the orders, particularly in the mature markets like Europe, et cetera, where that is the discussion more than any other, which is we need to improve the sustainability performance of our fleets, otherwise we're going to lose ground.

I will point, if you don't mind, to a tool we introduced at the show called Cascade, which is a measure of emissions for every airplane every day for everybody. And it's meant to be an open tool for the industry to use, think about policy changes and all those things that are going to incent the renewal of fleets and the improvement on this front. That tool is a tool that we'll show you in our November meeting and it's one I hope you'll use, because I do think that changes that rate of retirement in a pretty big way.

George David Shapiro  
Analyst, Shapiro Research LLC

Yeah, because, I mean, you've really got to get to level we've never seen before to get these 2,000 planes out. And if I even just look at Delta and your recent order with Delta, they're not taking the MAX 10 until 2025. Right now they've got six [indiscernible] (00:58:41) that are over 25 years old.

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

Yeah, no, exactly. But those 25-year-olds, I believe the pressure on this will not subside. It will grow and policies will get written. I think our trick here honestly speaking for the industry for a moment and as you get familiar with the tool that I'm referring to and think about this, our trick is to make sure that policy with respect to the environmental and sustainability performance of the aviation fleet does not get so far ahead of the industry that it stops the music. We've seen that happen in the energy world little bit. I don't want to see that happen in the aviation world. So that's why this tool is important to us. Incent the retirement of some of the old, less efficient airplanes and yes, that's good for us and good for the industry, but also educate the policy makers, so they don't get so far ahead that it begins to constrain the industry's growth.

George David Shapiro  
Analyst, Shapiro Research LLC

And how do you think increasing recession concerns affect this? You would think there would be less retirements then.

David L. Calhoun  
President, Chief Executive Officer & Director, The Boeing Co.
Well, so far I'm not sure I can draw the correlation all the way to retirement, but this general recession thing so far hasn't impacted our aviation industry. Will it at some moment? Maybe. Pricing elasticity has been remarkable as I look at things, and demand for air travel I think has been prioritized fundamentally to a higher slot in the consumers' list of priorities. So anyway, I'm not smart enough to draw a perfect line between one and the other, but I believe that the retirement world is going to change in a pretty big way.

George David Shapiro  
Analyst, Shapiro Research LLC

Okay. Thanks very much for the color.

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

Yeah, thank you.

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

All right. Thank you, everyone, for joining us this morning. This completes our second quarter 2022 earnings call.