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The Boeing Co. (BA)

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. Good day, everyone, and welcome to the Boeing Company's Third Quarter 2023 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation plus the analysts' 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 conference over to Mr. Matt Welch, Vice President of Investor Relations for Boeing Company. Mr. Welch, please go ahead.

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

Thank you and good morning. Welcome to Boeing's quarterly earnings call. I am Matt Welch, and with me today are Dave Calhoun, Boeing's President and Chief Executive Officer and Brian West, Boeing's Executive Vice President and Chief Financial Officer. As a reminder, you can follow today's broadcast and slide presentation at boeing.com.

As always, detailed financial information is included in today's press release. Furthermore, projections, estimates and goals included in today's discussion involve risks, including those described in our SEC filings and in the forward-looking statement disclaimer at the end of the web presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of certain non-GAAP measures.
Now, I would turn the call over to Dave Calhoun.

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

Thank you, Matt, and thanks to all for joining us this morning. Let me start with a comment on the conflict in Israel and Gaza. We were saddened to see the horrific attacks on Israel and the escalating conflict in the region that is resulting in a significant humanitarian emergency. We will continue to monitor the situation. We will focus on the safety of our employees and we will aid those in need. As always, we'll follow the lead of the US government, and we will coordinate closely with government agencies, customers, and suppliers, always with safety, security and well-being as our top priority.

Now, let me turn to the quarter. As you know, we ran into a few challenges over the last several months, but we’ve demonstrated that we know how to overcome obstacles and we’ll continue to do just that. We knew 2023 would be a bumpy ride. We have more work to do, but overall, we’re making progress in our recovery, and we are on track to meet the financial goals we shared for this year and for the 2025-2026 timeframe, a timeframe I refer to as stability.

As you know, free cash flow has been our primary financial metric through this recovery and based on our performance year-to-date, we still plan to be in the guidance range for the year as well as the $10 billion target by 2025 and 2026. This is a complex long cycle business and driving stability takes time, especially as an entire industry works its way back from the impact of a global pandemic.

We expect challenges to come our way and when they do, we are transparent. We take action and we move forward. So month-to-month and quarter-to-quarter, it can be tough to predict, but we’re focused on the long-term and we’re taking the tough actions now to ensure that the long-term future is strong.

So with that, I’ll highlight a few key updates around the business. Boeing Commercial, BCA. In Commercial, demand continues to be incredibly robust. We booked about 400 net orders in the quarter, including 150 737 MAX 10s for Ryanair, 50 787s for United Airlines and 39 787s for Saudi Arabian Airlines.

With demand strong, our focus remains on delivering airplanes. We are seeing increased stability and quality performance within our own factories, but we’re working to get the supply chain caught up to the same standards. Our production system is poised for steady and efficient increases, but we won’t push the system too fast and will ensure the supply base is in lockstep with us.

On the 737, we’re moving through rework on the most recent nonconformance in the aft pressure bulkhead. That work slowed production and deliveries down in the course of the quarter and given our year-to-date total, we now expect 737 deliveries for the year to be in this 375 to 400 range. While a setback, we’ll regain our momentum as we progress through the issue. We are keeping our suppliers hot according to the master schedule. We plan to complete the production transition to 38 per month by the end of the year and still plan to reach the key rate of 50 per month by that 2025 and 2026 timeframe.

Important to note, with respect to our supply chain, delivery shortfalls have been driven by nonconformances, not actual supply chain constraints. On the 787, the program is demonstrating improved stability. We’re now transitioning production from 4 to 5 per month and expect to meet our delivery range of 70 to 80 for the year, and longer term, we’re on track for the rate step up to 10 per month by 2025 and 2026.
To ensure our broader recovery and return to more normal margins, the key focus continues to be on liquidating our 787 and 737 inventory so that we can eliminate those shadow factories and focus our resources on the production floor, all of our resources. Nonconformance costs are exponentially higher on all of those finished airplanes. We still plan to deliver most, if not all of the inventory by the end of next year, which will set us on a strong path for 2025 and 2026.

With respect to China, we are encouraged by recent signs of progress and continue to work closely with our customers on the timing of returning to delivery. As I mentioned, supply chain performance will be a key enabler.

As Spirit AeroSystems brings in new leadership, we’re looking forward to working with Pat. Pat Shanahan is known by the Boeing Company. We have great respect for his abilities on the shop floor and we’re pleased to have recently established a mutually beneficial agreement that will enhance stability of our production system and help us deliver on our customer commitments, a true win-win.

Lastly, on the development side, we’re progressing across our commercial programs and our timelines are unchanged on the 737-7 and the 737-10 and the 777X and 777-8 Freighter. A reminder, as always, the FAA will ultimately control the timing.

Boeing Defense Systems, BDS. In Defense and Space, we still have more work to improve operating performance. Results this quarter were impacted by higher estimated costs on the VC-25B program. We are maturing through this build process, incorporating engineering changes to better support the installation process and we resolved important supplier negotiations over the course of the quarter.

I’ll note that none of these items will impact the performance and capability of the end product. The increased estimates reflect the process by which we build the airplanes and in a fixed price environment, any unplanned hurdles can introduce unrecoverable cost. At the end of the day, we have two airplanes to build. We’re getting past these hurdles and are committed to delivering two exceptional airplanes for our customers.

Separately, as you saw, we are also expecting higher costs on a satellite program as we build out the constellation and meet our lifecycle commitments for our customer. We’re working on real innovation and advanced capabilities in this space and see real potential market as we deliver against this commitment.

More broadly across BDS, we’re stabilizing operations and taking comprehensive actions to improve performance including Lean initiatives, contracting disciplines, factory improvements, engineering investments and more.

We’re seeing some early signs of progress, but financial improvement at BDS’s lower volumes takes time. Recovery in BDS is slower than we’d like, slower than I’d like, but we’re confident in the future and our path to normalizing BDS margin performance by that 2025 and 2026 timeframe is intact.

The confidence is due in part to key milestones we’re starting to hit and the strong demand we’re seeing. For example, we delivered the first T-7A to the U.S. Air Force this quarter. We also captured a key award from the U.S. Army for 21 Apache helicopters. Additionally, we continue to invest and position ourselves for significant opportunities in proprietary programs.

The backlog at BDS is $58 billion and nearly 30% of that is outside the United States. We’re proud of the role our products play in protecting global security and national defense. Demand is strong, we’re confident in the business, and we will continue to improve operational performance to more normalized levels.
Boeing Global Services, BGS. In Global Services, the team had another strong quarter both on the commercial and the government side, with improved revenue and earnings relative to the third quarter of 2022. The financials were again driven by strong operating performance and the team’s ability to hit key milestones and capture new business.

In the quarter, BGS delivered the 150th 737-800 Boeing Converted Freighter, received an award from the U.S. Navy for P-8 trainer upgrades and signed a digital maintenance agreement with multiple airlines.

Our Services team represents Boeing with our customers nearly every minute of every day. The work they do to keep military and commercial fleets flying is best-in-class and we’re proud of the performance that they’re delivering.

A step back with respect to the market outlook. Looking across all three business units, demand for our products and services continues to be incredibly strong. Our backlog is at $469 billion, including over 5,100 commercial airplanes. Over the next 10 years, the value of the markets we serve across commercial, defense, space, and services is estimated at $10.7 trillion according to our most recent Boeing Market Outlook.

Our products deliver exceptional capability in strong and growing markets and our portfolio is well-aligned with our customers’ needs. The demand is there to support our recovery. It is on us to perform and we will remain disciplined and patient in the process.

Brian, I’ll turn it over to you.

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

Thanks, Dave, and good morning, everyone. Let's go to the next slide and start with total company financial performance.

Third quarter revenue was $18.1 billion. That's up 13% year-over-year. Growth was driven by higher commercial volume, primarily on higher 787 deliveries. Core operating margin in the quarter was minus 6% and the core loss per share was $3.26. Margins and EPS were negatively impacted by unfavorable defense performance, which I'll cover in a moment, lower 737 deliveries that were in line with expectations set last month, and expected abnormal costs and period expenses.

Free cash flow was a usage of $310 million in the quarter. This reflects the lower 737 deliveries and in line with our expectations.

With that, I'll turn to the next page and cover Boeing Commercial Airplanes. BCA booked 398 net orders in the quarter, including 150 MAX-10s for Ryanair, 50 787s for United and 39 787s for Saudi Arabian Airlines. BCA now has over 5,100 airplanes in the backlog valued at $392 billion.

BCA delivered 105 airplanes in the quarter and revenue was $7.9 billion. That's up 25% year-over-year driven by the higher 787 deliveries. Operating margin was minus 8.6%. We saw the impact of the lower 737 deliveries as well as expected abnormal costs and period expenses including higher R&D spending, primarily on the 777X investment.

Now, I'd give a little more color on the key programs. On the 737, we delivered 70 airplanes in the quarter, reflecting the impact of the recent supplier fuselage nonconformance. Since our early September update,
additional areas of the aft pressure bulkhead were identified that require further inspection and rework, which you likely read about. This additional scope impacts units that had already gone through the initial rework and will take us more time to stabilize production and deliveries.

We bounded the issue, understand the rework steps required, and booked a non-material financial impact in the quarter. Considering these latest facts, we expect October deliveries to be in line with September and now expect to deliver between 375 and 400 airplanes for the year. Performance ultimately will be dictated by the pace of the fuselage recovery.

The quarter ended with approximately 250 MAX airplanes in inventory, 85 of which are being held for customers in China. We still expect most of the MAX inventory aircraft to be delivered by the end of 2024, but more are likely to split into 2025 tied to the fuselage recovery.

To support stability, suppliers are continuing with planned rate increases and we're selectively managing inventory levels on certain parts where prudent. We expect to complete the 737 transition to 38 per month by year-end, and we're maintaining plans to increase to 50 per month in the 2025-2026 timeframe. On the 787 program, we had 19 deliveries in the quarter and 50 year-to-date. We still expect 70 to 80 deliveries this year. We started transitioning production to five per month in October and still plan to reach 10 per month in the 2025-2026 timeframe.

We ended the quarter with 75 airplanes in inventory. Rework is progressing nicely and we still expect most to be delivered by the end of 2024. We booked $244 million of abnormal costs, in line with expectations. The total estimate is now $3 billion, up a bit, and we still expect to be largely done by year-end.

Moving to the 777X program, efforts are ongoing. The program timeline is unchanged and we plan to resume production later this year. We booked $180 million of abnormal costs in the quarter, in line with expectations. The total estimate is unchanged at $1 billion, and we expect to be done this quarter. Importantly, as Dave mentioned, we recently reached an agreement with Spirit on commercial terms associated with the 737 and 787 programs. We believe this agreement is a win-win for both companies and directly promotes our goal to drive stability and support our airline customers.

Moving onto the next page, Boeing Defense and Space. BDS booked $6 billion in orders during the quarter and the backlog now stands at $58 billion. Revenue was $5.5 billion, essentially flat year-over-year, and we delivered 28 aircraft. Operating margin was minus 16.9% in the quarter. In early September, we indicated that margins would be around minus 9%, the driver being a $482 million charge on the VC-25B fixed price development program due to higher estimated manufacturing costs related to engineering changes, labor instability, and the resolution of supplier negotiations.

As we close the books at quarter-end, we saw another 8 points of margin erosion driven by, first, a $315 million loss tied to customer considerations and higher estimated cost to deliver a highly innovative satellite constellation contract that we signed several years ago; and second, we had smaller less material cost pressures across a couple programs totaling $136 million, primarily driven by the MQ-25 program. These are disappointing results in the quarter and year-to-date. This performance is below our expectations, and we acknowledge that we aren't as far along in this recovery as we expected to be at this stage.

I'd like to point out that the team is executing a game plan to get BDS back to the high-single digit margins by the 2025-2026 timeframe, as you can see on the right-hand side of the slide. We are driving Lean manufacturing, program management rigor and cost productivity consistently across the division. We've invested in new training...
programs to accelerate performance on the factory floor and we’ve deployed resources at our suppliers to support their recovery.

Perhaps most importantly, we instituted much tighter underwriting standards. As you know, part of the challenge we’re dealing with are legacy contracts that we need to get out from under. Rest assured, we haven’t signed any fixed-price development contracts nor intend to. These moves are all fundamental to accelerating the recovery by the 2025-2026 timeframe.

We have detailed metrics and milestones to evaluate our performance and progress across the three areas that we previously highlighted. First, we have a solid core business representing about 60% of our revenue that performs in the mid- to high-single-digit margin range. The demand for these products is strong. In particular, volume for missile and weapons products, as well as the Apache are very robust given the current threat environment. And we need to keep executing, competing and growing these offerings. Then we have the 25% of the portfolio representing specific fighter and satellite programs that have negatively impacted margins the past several quarters.

In these areas, we took on fixed price production contracts in a pre-pandemic environment with real technical innovation that we’re working our way through. We fully expect to see recovery in these areas as we improve execution, deliver next-generation capabilities, enroll in the new contracts with stronger underwriting disciplines that more accurately reflect the prevailing economic conditions. We expect to return to the strong performance levels that we demonstrated historically on these programs as we move into the 2025-2026 timeframe.

Lastly, we have our large fixed price development programs to represent the remaining 15% of the portfolio, and we continue to be focused on maturing and retiring these risks. Specifically, on the KC-46A program, we’re stabilizing the production system. We’ve seen signs of progress and improved productivity. And as of this month, we have delivered 77 tankers to the customer. For the VC-25B, we’re now maturing through the build process and the key milestones ahead are power on and first flight, both of which will essentially be behind us as we move to the 2025-2026 timeframe and represent a significant de-risking of the program. For commercial crew, while it has been a long road, we’re preparing to execute a successful crude flight test next year and then fulfill operational launch commitments, all of which will be completed as we exit 2025-2026.

On T-7A, we just delivered the first aircraft to the Air Force this quarter and have begun critical phases of the flight test program. On MQ-25, we’ll get through key build and flight test milestones and transition out of the development phase as we move through the 2025-2026 timeframe. We remain very confident in the T-7A and MQ-25 investments that will deliver innovative performance to the customer with a strong long-term demand profile. So, for BDS, this recovery is challenging at the moment, but we believe the actions we’re taking will begin to gain traction and then accelerate. Fast forward to that 2025-2026 timeframe, fixed price development contracts will be substantially de-risked. We’ll have a healthy order book underwritten with much better economics in underwriting disciplines and resilient employee base in supply chain that’s executing at a much higher level.

Moving on to the next slide, Boeing Global Services. BGS had another strong quarter. They received $5 billion in orders during the quarter and the backlog sits at $18 billion. Revenue was $4.8 billion; up 9% year-over-year primarily on favorable commercial volume and mix. Operating margins were a strong 16.3%, in line with our expectations. Importantly, our commercial and government business continued to deliver double digit margins.

With that, we’ll turn to the next page and cover cash and debt. On cash and marketable securities, we ended the quarter at $13.4 billion. And on debt, the balance remained flat at $52.3 billion. We had access to $10 billion of revolving credit facilities at the end of the quarter, all of which was undrawn. Our liquidity position is strong. The
investment grade credit rating continues to be a priority. And we're deploying capital in line with the priorities that we've shared; invest in the business and pay down debt through strong cash flow generation.

And flipping to the last page on our outlook. The overall financial outlook for 2023 is unchanged from what we've previously shared including $3 billion to $5 billion of free cash flow generation although the updated 737 deliveries now point more toward the low end of the free cash flow range. We also expect R&D to come in slightly above our original guide tied to the higher 777X investments that I touched on earlier. Stepping back to address the state of the market. Commercial demand remains strong across our key programs and services. Global passenger traffic was up nearly 30% year-on-year in August and is at 96% of pre-pandemic levels, 109% domestic, and 89% international. Cargo remains healthy and August was the first month with annual cargo growth since early 2022.

Defense demand is also robust and the FY 2024 budget continues to be in line with our expectations. Our portfolio and capabilities are well-positioned to support the needs of the nation and of our allies. With demand strong, we still find ourselves in the supply-constrained environment; and our focus continues to be on execution, both within our factories and the supply chain, as we steadily increase production. We're squarely focused on a meaningful step up in operating performance including deliveries, revenue, margins, and cash flow; all of which we expect to improve as we finish out the year. On 4Q specifically, we expect BCA margins to improve sequentially but remain negative more in line with 2Q and we're still not anticipating much in terms of BDS profitability. On the tax expense side, we still expect full year tax expense of approximately $250 million.

As we look into early 2024, we see a number of key milestones that give us confidence in building momentum across the business. The 737 factory should be recovered from the current nonconformance and will be stabilizing production at 38 per month with step-ups as we move to 50 per month by 2025-2026. 787 will be stabilized in production at 5 per month with a focus on stepping up to 10 per month by 2025-2026. We'll be further along in our inventory unwind with better line of sight to the elimination of the 737 and 787 dual factories.

Keep in mind that correcting nonconformances gets exponentially easier when this inventory has been delivered to our customers. BDS will be further along in recovery as I described earlier. BGS will still be generating mid-teens margins executing on its high cash conversion, capital efficient disciplined growth model. And all of this will underwrite our continued strong liquidity position and enable us to further de-lever the balance sheet early next year.

With that, back over to Dave for closing comments.

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

Yeah. Thanks, Brian. In closing, I just wanted to make a couple of comments and double down on the resiliency of our recovery. We've had no shortage of challenges this year. You all know that. Conformance items, development hurdles, external challenges within the supply chain and even logistics routes. These are not uncommon in our industry. I've heard from a few of you wondering if we've lost a step in this recovery. You might not be surprised to hear that I view it as exactly the opposite. Over the last several years, we've added rigor around our quality processes. We've worked hard to instill a culture of speaking up and transparently bringing forward any issue; no matter the size; so that we can get things right for a bright future.

As a result, we're finding items that we need to resolve. They're not newly created defects in the system. Instead, thanks to the culture we're building, we identified items from the past that we now have the rigor and the focus to fix once and for all. Our shadow factories will be shut down. So this process of transparency and change can be difficult in the moment, but I'm proud of our team. I'm confident we'll look back on this time period as when we got
things right and we set Boeing on the right course. We still have work to do, but progress is clear and our focus is long-term. We're on the right path for restoring our operational and financial strength, and we thank you for your patience.

Okay. Now let's turn it over to questions.

**QUESTION AND ANSWER SECTION**

**Operator:** Thank you. [Operator Instructions] And our first question will come from the line of Doug Harned from Bernstein. Please go ahead.

**Douglas S. Harned**  
Analyst, Sanford C. Bernstein & Company

Yes. Good morning. Thank you.

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

Hey, Doug.

**Douglas S. Harned**  
Analyst, Sanford C. Bernstein & Company

Talking about the recovery here, when we look at the 737 MAX ramp, we had thought you'd be at 38 a month production back in August and we were looking forward to a new line that should be up and running at Everett in 2025; which looks to us you have capacity for well over 60 a month. But now that the 38 a month rate is still to come later this year, and if I separate the bottlenecks here into three topics that are engines, Spirit, and everything else; engines appear fine.

You've got a new leadership, your new leadership at Spirit, a new agreement. So, this is not just one part, but I guess how much has your longer-term ramp outlook changed, given the Spirit issues you've had this year? And if you could take those Spirit risks off the table, what bottlenecks are still out there in the everything else category for the MAX? And to put it all together, what could this ramp look like if you can avoid quality escapes like the ones we have seen this year?

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

Yeah, Doug. That's the money question. We think we are synched perfectly with the constraints that we know. You talked about engine constraints. We have as clear and as transparent a relationship as we could possibly have with the GE and CFM teams. The rates that we have outlined in our guidance reflect those constraints. We all could go much higher, much faster if it were strictly a demand question but we have to listen hard to those constraints. So we are there.

On Spirit, we really do believe that the commercial agreement – and I can have Brian make a comment on, he was in the center of that negotiation – the commercial agreement gives them the resources and the breathing room they need to get ahead of our rate forecast. And maybe even more importantly, I think the selection of Pat at exactly this moment in time to sort of get them really focused on factory performance, I'm quite optimistic and
quite pleased with. We've had just in the last 30 days as many interactions with Pat as we've had over the last year, even though we've had more than 100 people embedded at Spirit. So, all the signs are good there. I feel like we took a major step forward on relieving that particular constraint, and as you know, that is mostly a conformance constraint. I've got to tell you, these fuselages, man, they have been gone over with a microscope in light of what we've experienced here in the last four months.

So, all that said, those are, you correctly articulated, the constraints that we've had to deal with on the all other. We had one that has really taken aggressive steps and gotten ahead of us; and so I'm feeling better about all other than I have in quite a long time just because there was another one embedded. I'm not going to mention names. So anyway, that's it in a nutshell. I am always tempted based on demand to tell you we can do more than 50 and get to 60 a month. And we are physically capacitized to do it, you're correct in that. But I can't call it out until the supply chain constraints can make it and they haven't yet to get to those kinds of numbers, but we have a couple years to work it, and we'll continue to work it, but right now everything we're doing is based on the constraints we know and that's what we've outlined to the industry.

And even in these last just several months with the nonconformance issues that have sort of constrained our delivery, as we've said many times, we have kept our master schedule intact to get to that 38 a month. We're definitely building inventory in the process and we're paying our suppliers. So they're not second guessing where we're going to end up, and we think we're going to have a little bit of buffer, particularly at the front end in light of what we've just experienced.

Douglas S. Hamed

**Q**

And is there any point that we should be looking toward where you might have clarity on how that whole supply chain is going to come together for this?

David L. Calhoun

**A**

Yeah. First of all, we'll definitely update guidance for next year as we get into the early part of next year, put these nonconformances in the rearview mirror once and for all, get to a stable rate at 38 a month. And then we're going to be anxious to build from there as fast as we can. We will give guidance based on everything we know early in that year. So not avoiding it now, but it's best we get these things in the rearview mirror. And the good news is we really do have these in a box with respect to the scope of work that's required and now it's just executing against it, and our teams have done a pretty good job on that.

Douglas S. Hamed

**Q**

Okay. Thank you.

David L. Calhoun

**A**

Yep.

**Operator:** Thank you. The next question is from the line of Jason Gursky with Citi. Please go ahead.
Hey good morning, everybody. Brian, you made some comments in September about expectations for cash flow in 2024 in the past to your goals in 2025 and described things back in September as potentially being non-linear. So you've had some things that have happened since then, including the pushout of some deliveries into 2024. You've incurred some more charges, I think, that were a bit greater than you were expecting in the Defense business. So I'm wondering if you can kind of update us on the current thought on 2024 cash flow, kind of the puts and takes that you're expecting. What are the good guys? What are the bad guys relative to 2023?

And then maybe just provide us some thoughts on the quantum of cash that you expect to generate at the company 2023-2024 2025-2026 given all that's occurred here, particularly in the Defense business here since you laid out those goals at your Investor Day last year, whether the quantum of cash that you'd expect to generate over those four years has changed materially? Thanks.

Yeah. Thanks, Jason. Let me start with the quantum in the 2025-2026 timeframe. It's $10 billion. And we continue to have line of sight to hitting that target. I think that's most important. In terms of how we get from where we land in 2023 to that moment, yeah, going to be some things we got to deal with not going to be linear, but we've got some things that feel good about in terms of momentum. Let me just highlight a few.

Of course, we'll be more specific in January on next year's free cash flow guidance, but we expect it to be higher. It's too early to be that specific, but it'll be underwritten by higher BCA deliveries both on the 737 and the 787. We'll have made progress on the inventory wind-down that Dave mentioned, and we're also going to factor in the 777X ramp. So those things are pretty discrete and we just got to follow our ability to deliver in a stable environment. BDS will be steady. BDS, as you point out, we expect cash flows next year to be better than they are this year, but still likely a drag, mostly factoring in the impact of some the charges that you mentioned and we just got to put behind us. So we'll spill all of this out in January once we finish our planning cycle and get through 2023, but the most important thing to remember is that quantum in 2025-2026 is $10 billion; and all the levers that we have to go from where we land this year to at that point are still very clear to us and underwritten by execution, and we know how to do that.

Okay. And then, Brian, just if you don't mind, the $10 billion quantum out in 2025-2026, can you talk about the potential for where we might go from there? What are some of the puts and takes that we might see from a growth perspective beyond that $10 billion?

Yeah. We're still looking forward to that stability, as Dave calls it, in the 2025-2026 timeframe and that $10 billion. That's where we're laser-like focused. Anything beyond that is going to be outside of our planning window and hopefully it's going to be underwritten by a very attractive robust demand environment, but let's get there first.

Great. Thanks.
Operator: Thank you. The next question is from Peter Arment from Robert W. Baird. Please go ahead.

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

Yeah. Thanks. Good morning, Dave and Brian.

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

Hey, Peter.

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

Hey, Brian maybe just to talk about stability there because you just brought it up. If we look at just the remaining two months of the year, if you're going to deliver about 15 737s in October, that kind of implies that you need to deliver high-30s or high-40s if you're going to be at the upper end of your range. Just kind of the confidence level around that for November-December? And if you could update us on when you talked about – in September I think, about the 75% of the MAX aircraft and storage had to be inspected. What's the latest there? And just lastly, is the getting to 38 a month later in the year, does that impact any of your rate break decisions when you're thinking about 2024? Thanks again.

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

Yeah. Sure. So October will be a little bit light as I mentioned with November and December being picked up. Remember, we had a number of airplanes that were ready to be delivered prior to this latest Spirit NoE and now we just have to work them through the system. We do have good line of sight to finish in the year and the team is laser-like focused on meeting this updated set of numbers. And then, of course, we feel good about the free cash flow that'll be dragged along with that.

In terms of the 75%, that is still the way to think about how we have to touch those inventory airplanes as we mentioned. We know the scope. We know what's got to happen and we're working our way through finishing that work across that cohort of airplanes.

So that has remained unchanged and it's just all the work we have to do in front of us, clear line of sight. And in terms of the rate breaks, largely speaking, we've had a master schedule out there for some time with the required rate breaks. Of course, we're trying get our way to 50 per month by the 2025-2026 timeframe. None of that changed. And we're still focused on executing that once we can get to that 38 as we exit this year, and then move the supply chain with us considering everything Dave described about how we see the supply chain coordinating going forward.

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

Appreciate the color. Thanks, guys.

Operator: The next question is from the line of Myles Walton from Wolfe Research. Please go ahead.
Myles Walton  
**Analyst, Wolfe Research LLC**

Thanks. Good morning. Brian or Dave, looking at the $10 billion target for 2025-2026, is there a way that we can have confidence yet that even if BDS is nearly neutral, that the rest of the organization can still get to that number? And then, also if you can just highlight the space, satellite constellation charge. I'm always a little bit curious when I first hear about it, if I'm going to hear about it again. So maybe just lay out the trajectory of that program. Thanks.

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

Sure. So I'll take the last one first. This is a particular contract with the customer that really isn't in the category of development where we talked about the fixed price development contract is very different. We are completing the requirements for the customer. We have additional work to do to make this constellation very robust with new technology. It's very innovative. And we have to work our way through and we will in short order. This is not going to be one that's going to be drag out for a long periods of time.

And in terms of the $10 billion, we always built that with some understanding that not every piece was going to go exactly correct. There were going to be some puts and takes and we provide ourselves the room with which we could have certain things not go quite perfectly. And in the case of BDS, even though it might be a bit different than we had thought even a year ago, it's still within the quantum of us being able to deliver that $10 billion.

And we have a lot of confidence that they will be contributing to that $10 billion. Maybe not quite as much, but they're going to be positive and of course BGS remains strong. BCA, we always get more and more confident. So we still have a path to that $10 billion and just reinforce how confident we are and get — being able to get the whole enterprise there.

Myles Walton  
**Analyst, Wolfe Research LLC**

Okay. Thank you.

Operator: Thank you. And the next question is from the line of Sheila Kahyaoglu from Jefferies. Please, go ahead.

Sheila Kahyaoglu  
**Analyst, Jefferies LLC**

Good morning, Dave, Brian and Matt. Thanks so much. I just wanted to dig into commercial airplanes and just the operating loss there of $678 million. Brian, I know you've been out there in the trenches working with suppliers. You called out another loss in Q4. So maybe as you think about the production rates normalizing, can you may be parse out how much of the losses are linked to concessions, pricing, supply chain constraints, and how you expect that to turn?

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

Yeah. Thanks, Sheila. The fact is that we were negative again in the quarter as all the Spirit impact that we've described and fourth quarter is going to be sequentially better, but it's still going to be negative. And that's, again, as we work our way through this factory disruption and we still have this abnormal running through the BCA P&L.
I will tell you that in 2024, we expect margins to be positive. And that's going to be underwritten by two things primarily, BCA. It's going to be driven by higher volume, for sure.

And remember, all this abnormal will be essentially done, which has been a drag on the BCA margins for quite some time. So we just got to work our way out of that which we will by the end of this year and then work towards executing on the delivery targets for next year and that will get us back in a positive territory.

And then, the good news is by 2025-2026, we still have a view where they will be double-digit margins as they have been historically and that will be underwritten by these dual factories that Dave's talked about will be behind us and all that labor that today is working on inventoried airplanes for both the 737 and the 787 is going to go be applied to these ramps in the rates up to 50 and 10 respectively in the 737 and the 787.

So all of that still is right in front of us and it all still gives us confidence that we are going to be able to hit those kind of targets and the BCA team is very focused on delivering that.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Okay. Great. Thank you.

Operator: Thank you. Our next question is from Cai von Rumohr from TD Cowen. Please go ahead.

Cai von Rumohr
Analyst, TD Cowen

Yes. Thanks a lot. So, Brian, 777X R&D spiked up. It looks like total R&D at BCA was up about $150 million sequentially. Where does the 777X sort of R&D number go moving forward? When does it peak? When does it come down? And also, maybe you could update us on the certification status given we're in a CR. Are we going to make it on MAX 7 by year-end? What about MAX 10? What about achieving TIA on the 777X?

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

Yeah. So let's start with the R&D question. So overall R&D, we continue to spend on the 737 MAX 7 and the 737 MAX 10. And the uptick is, as I pointed out, I mean, as you mentioned on the 777X and the 777-8 Freighter. Now, as we move forward, that range of $3 billion, call it, $3-ish-billion, $4-ish-billion of R&D, that's going to modestly go up over the next couple years, but it's not going to do anything to disrupt our free cash flow target. And if it goes up a little, I think that'll be good news, because we're investing in programs. So we're not necessarily worried about that at all and it's all within our expectations both near-term and longer term.

And in terms of the certification milestones that we have in front of us, as Dave mentioned, there's been no change to either the 737 MAX 7, the 737 MAX 10 or the 777X. We move forward. And in particular, the 777X team's hard at work at trying to meet that commitment. So there's really nothing to say other than there's a lot of people hard at work which is why we continue to invest in those spots.

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

I always have to add, because I don't want to get in a trap like we did a long time ago, the FAA makes that call. And we're going to give them all the flexibility they need. We try to interpret it the best we can and that's what
we've done. Know that there haven't been any real changes to the airplanes. So we are mostly working design
insurance documentation as required by the new legislation back at the end of 2020.

Cai von Rumohr
 Analyst, TD Cowen

On the issue of 777X TIA, when do you expect that?

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

I don't think that we've necessarily put a date out on that for obvious reasons, so we'll let the teams do the work,
and we'll let the regulators dictate those specifics. And we're just going to follow their lead.

Cai von Rumohr
 Analyst, TD Cowen

Thank you very much.

Operator: Thank you. And the next question is from Seth Seifman from JPMorgan. Please go ahead.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Hey. Thanks very much. And good morning, everyone. Brian, with your comment that the 2023 cash flow is going
to come in at the low-end of the range, your expectation for growth in 2024, I guess, should we be expecting 2024
to be in the 2023 range when we're trying to get draw a bead on where 2024 is? And then, within that, the 737s,
sometimes I think it's hard to bridge between production and deliveries. If it's 38 a month exiting the year, can we
say at least 38 times 12 next year plus some chunk of the inventory that's remaining?

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

Yeah. So, Seth, we're just going to wait until January to be able to describe any kind of range for cash flow next
year. We just got to get through our planning cycle and close the year, so just be patient with us, but we will be
specific in January the same way we were this year.

And I'll also probably let you know that that would apply to your question on deliveries, how to think about them.
Deliveries are going to be higher next year. We're going have momentum going out of this year. All of those details
we're going to flesh out and share at the beginning of the year and we hit the right time and we look forward to
doing that.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Okay. Thanks very much.

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

Noah Poponak
Analyst, Goldman Sachs & Co. LLC
Hey. Good morning, everyone.

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

Hi, Noah.

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

Hey, Noah.

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

Brian, just staying on the 737 pace from here, recognizing you're not going to give a number for next year, it sounds like. But if October is similar to September, it implies November, December are decent delivery numbers. So is it the case that the aft fuselage issue and the incremental inspection of hand-drilled in addition to laser-drilled fasteners that that is kind of behind you as you get to January 1? It's not impacting 2024 737 deliveries?

And then, when you're talking about being at 38 a month, often the off-the-line final assembly versus where the system is, is a different number. Is there a wide gap in that to start the year, or can we think about a real clean stable 38 a month to start the year?

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

Answer your first question, the answer is, yes, for sure. And in terms of how we think about the rate, the system, as Dave mentioned, is always maintained to be hot, because we want to make sure that they know that the demand cycle is there and then we want them to continue to focus on that master schedule.

How exactly as we start the year we'll be able to count deliveries relative to that 38, we'll see. But right now, job one is to exit – get the nonconformance behind us. Remember, we had about a 30 aircraft growth between the second quarter and the third quarter in terms of inventory airplanes. So that's going to be working its way out of the system relatively quickly, which gives us confidence in the November-December timeframe.

And then, as we think about priming the pump for 38 per month, we're going to move towards January and beyond and hopefully some pretty good execution. So we'll have to wait and see exactly how that plays out. But the underlying system is going to stay at 38 and as we get through next year, obviously there will be certain rate ramps that we'll describe later. But right now, if we have everything be coordinated across the broad supply chain, I think we'll be fine.

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

Okay. And I guess putting a lot of this together and everybody trying to figure out where the 2024 free cash is going to land, is it kind of reasonable to think of 2024 as just two halves and that some of your hesitation in giving some of those numbers is, you just don't know exactly where the year starts? Is there still some 737 disruption? 787 at 5 is a different margin than 787 at 10, maybe BDS margins are still negative in the first half, but they're positive in the second half.
And so, does next year’s first half free cash flow just still have some of 2023’s elements lingering in it, but that the second half will be kind of run rating into more of what your stable looks like and maybe second half 2024 looks – the numbers look more like second half of 2022 type of free cash flow numbers and we can comfortably think of that as run rating into your future?

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

Yeah, all that is going to have to be something we talk about in January. Right now, we have to get the nonconformance behind us. We have to be able to hit this delivery range that we’ve just described and we have a lot to do, but confidence, we’ll get there.

And then, we’ll describe the shape of next year at the right time. I just don’t want to get too far ahead of ourselves and I do believe that as – I do believe next year we will be better. And I do believe we will exit next year better. How that folds out between halves, you’re just going to have to give us a little bit more time as we work our way through our planning cycle and we get to January.

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

Noah, if I could just maybe add one thing to make sure everybody knows what – at least what I am all focused on. We’re going to exit this year with a little more than 100 of the return to service airplanes that we had at the end of 2020. That is what our shadow factories are focused on in a big way to make sure that we can bleed that down to basically nothing by the end of next year.

So the pace at which we bleed that down, we complete that rework, deliver all those airplanes, dictates a lot about that cash flow. It gets better every month, but it’s going to be all about the pace at which we can do it and transfer that workforce into the production rate increases.

So there’s a lot to know about that. We’re going to give you our best shot at what that guidance looks like. But by way of proxy, that is a very important achievement for us. And I am 100% focused on it, I know Brian is and the team at BCA.

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

Okay. Thanks so much.

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

Yeah.

Operator: Thank you. Our next question is from David Strauss from 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 Strauss  
Analyst, Barclays Capital, Inc.  

Wanted to ask about the supply chain. Are there any other spots, hot spots in the supply chain where you've either had to infuse a meaningful amount of cash like you did with Spirit or are in negotiations to do something similar to what you've done with Spirit? That's the first question.

And then the second question, I guess, a clarifying comment for Brian. On the BCA margin progression next year turning positive, is that both on a program and a unit basis? Or would that just be on a program basis? Thanks.

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

Brian, how about I answer the first part of this one? I consider the Spirit remedy fairly unique, in fact, totally unique. I don't think that's going to have any ramifications anywhere else, and there aren't any signals that way. But the linkage really is important. As Spirit becomes stable and we get to our rates, rates solve most of the supply chain's problems. We got to get to those rates so that they can make the kind of money that they associate with those rates and we get to where we need. So there is a linkage, but it's not a copycat linkage and there's no sign of that happening.

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

And in terms of the margins on both unit and program they'll be positive and program will have growth. So we look forward to describing that as we get closer to January, but both.

David Strauss  
Analyst, Barclays Capital, Inc.  

Great. Thanks very much.

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

Yeah.

Operator: Thank you. And our next question is from Rich Safran from Seaport Research Partners. Please go ahead.

Richard Safran  
Analyst, Seaport Global Securities LLC  

Dave, Brian, Matt, good morning.

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

Hi Rich
I got a two-part tanker-related question for you. First, with Lockheed dropping out, when do you expect an award? And what could that do to your overall assessment of program profitability? I'm basically assuming here that you wouldn't have to redo the accounting on the program. Second part is with deliveries restarting, what's being anticipated? I mean, how much of a catch-up should we expect in 4Q and is that being factored in your guide?

Let me just comment on the tanker. I am not surprised at what we all read with respect to Airbus now going on their own. But they will go, so we shouldn't expect them to sort of vacate. I do like what it ultimately does for us and the competition. We are not afraid of competition. And, yes, that next contract matters a lot. We have to ultimately underwrite the costs and get this right, as we have committed to you all along. We are going to stay disciplined on that front.

And, no, this isn't program accounting. It's contract accounting. So I don't think we're going to have any implication associated with lots and an additional contract. Now, I am not the accountant, so I will ask Brian to corroborate.

Yeah, no. Exactly. We don't see that changing. We just added volume like we do with any kind of extension. And in terms of your question the fourth quarter, of course, any kind of deliveries and cash flow are going to be factored into our look for the quarter and going forward. So that's all baked in.

Thanks a lot.

Yes.

And that concludes our call this morning. I appreciate everybody joining. Thank you again.

Thank you.
Operator: Thank you. And that completes the Boeing Company's third quarter 2023 earnings conference call. Thank you all for joining and you may now disconnect.