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The Boeing Co. (BA)

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CORPORATE PARTICIPANTS

Eric Hill
Vice President-Investor Relations, The Boeing Co.

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

OTHER PARTICIPANTS

Sheila Kahyaoglu
Analyst, Jefferies LLC

Ronald J. Epstein
Analyst, BofA Securities, Inc.

Myles Walton
Analyst, Wolfe Research LLC

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Seth M. Seifman
Analyst, JPMorgan Securities LLC

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

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

John Godyn
Analyst, Citigroup Global Markets, Inc.

David Strauss
Analyst, Wells Fargo Securities LLC

Gautam Khanna
Analyst, TD Cowen

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. Good day, everyone, and welcome to The Boeing Company's First Quarter 2026 Earnings Conference Call. At this time, all participants are in a listen-only mode. Please be advised that 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, I'm turning the call over to Mr. Eric Hill, Vice President of Investor Relations, for opening remarks and introductions. Mr. Hill, please go ahead.

Eric Hill
Vice President-Investor Relations, The Boeing Co.

Thank you, and good morning. Welcome to Boeing's quarterly earnings call. With me today are Kelly Ortberg, Boeing's President and Chief Executive Officer; and Jay Malave, Boeing's Executive Vice President and Chief Financial Officer.

This quarter's webcast, earnings release and presentation, which include relevant disclosures and non-GAAP reconciliations, are available on our website. Today's discussion includes forward-looking statements that are subject to risks and uncertainties, including the ones described in our SEC filings. As always, we will leave time at the end of the call for analyst questions.

With that, I will turn the call over to Kelly Ortberg.

Robert Kelly Ortberg

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

Thank you, Eric, and good morning, everyone. Thanks for joining in today's call. As we reflect on our first quarter performance today, we're off to a really good start and headed in the right direction. We remain on plan and are building momentum from solid performance across all three of our businesses. Our Commercial Airplanes team continues to integrate our safety and quality plan into its operations, which has enabled us to increase production rates and deliver high-quality airplanes to customers around the world.

Our Defense & Space team continues to stabilize operations, and after two years of hard work and development, we're starting to achieve inspiring milestones like the recent Artemis II launch that carried NASA astronauts to space on the Boeing-built core stage rocket. The launch and landing were truly profound moments, as humans reached farther into space than ever before, and serves as a great reminder of what Boeing, our industry partners and our country can do. In Boeing Global Services, our team is off to a strong start, adding further orders to its record backlog, meeting customer demand and continuing to deliver solid operating results.

While we are seeing some regional instability as a function of the Iran war, we remain confident in the long-term future of our industry. Aviation has seen moments like this before, whether it'd be recession, pandemic or conflict. The resilience of our industry has always led to a recovery and return to growth trends. Our market remains robust, and the Boeing portfolio of versatile, fuel-efficient airplanes, defense platforms and services is built for the dynamic environment of our time.

So far, we have not seen any impact on our airplane deliveries. As always, we stay close to our commercial customers if they make adjustments to their plans, in which case, I think the strength and diversity of our backlog gives us a lot of flexibility. And I should note, we're already seeing higher demand in our defense business, given the increased operational tempo, which over time will be a good offset to any potential commercial MRO weakness that results from these higher fuel prices.

We are confident in our business, customers and markets, and our team remains squarely focused on safety and quality, disciplined execution, and elevating operational performance, so we can profitably deliver on our record backlog of nearly $700 billion.

As I mentioned last quarter, one of the biggest focus areas for our team in 2026 is completing the certification work on our development programs. This is where I'll spend a few moments before discussing our first quarter accomplishments. In BCA, we continue to move forward on certification work for the 737-7 and the 737-10. In the quarter, we began the final phases of the certification and flight test for the 737-10, which includes autothrottle, autopilot, enhanced angle of attack, as well as engine anti-ice solution.

We're pleased with the progress so far and remain on plan for the newest members of the 737 MAX family to be certified later this year, with deliveries expected to start in 2027. On the 777-9, we continue to advance our certification testing. Last month, we received approval from the FAA for the next phase of testing called TIA 4a. While it's a smaller package focused on natural ice testing, it's an important step in moving this development program forward.

You'll recall, last quarter, we discussed a potential durability issue on the 777X engine that was discovered during an inspection. Since then, we worked closely with our supplier. As they've said yesterday, they believe they have identified root cause and they're working on finalizing their modification. We are working together with the supplier and the FAA to pull this into our certification plan, and we remain on track for schedule of first delivery in 2027.

In the quarter, we also achieved an important milestone on the 787 program. We obtained FAA certification for an increased maximum takeoff weight for the 787-9 and the 787-10, enabling those models to fly further or carry more cargo, creating additional value and revenue-generating opportunities for our 787 operators.

In BDS, work to reduce risk across our development programs using active management is leading to win-win outcomes for our customers and Boeing. This means we're proactively working challenging programs by looking more closely at risk, requirements, schedules and customer needs. Combined with stronger focus on program management rigor, we're seeing good progress here.

For example, on KC-46 tanker, we recently approached our best-ever factory performance going back to pre-pandemic levels of productivity, and we remain on track this year to deliver the most tanker aircraft since 2019. We also achieved an important milestone on MQ-25 with completion of high-speed taxi tests, and the first flight is imminent.

The Stingray is our first unmanned aerial refueler for the U.S. Navy. We are now one step closer to providing this first-of-its-kind capability to further enable the US to project power worldwide. Overall, I'm pleased with the progress our BDS development programs are making, and there are no major EAC adjustments.

Let's turn now to the first quarter accomplishments. As we start the year, we continue to drive stable operations across our factories, enabled by a focus on safety, quality and performance. Our team is more engaged in embracing our values and behaviors, which we first shared with our team around this time last year. That increased commitment is helping drive process improvement ideas.

As an example, I just reviewed one from Renton, where the team developed a new drill jig, resulting in more than 30% reduction in defects for 737 wingtip. In BCA, Stephanie and her team are methodically increasing production rates across our key commercial programs. The 737 program has stabilized at a rate of 42 airplanes per month, and in the quarter, we also delivered the final 737 MAX from storage.

As previously discussed, some first quarter 737 deliveries slid into the second quarter due to a recent nonconformance finding on aircraft wiring. As part of our root cause corrective action process, we fully understand the issue and we have reworked all of the 25 airplanes affected, and most of these have already been delivered.

Importantly, this is evidence of our Safety Management System working to identify issues early and drive continuous improvement and avoid these issues into the future. To be clear, the wiring issue will not affect our full year delivery goals or plans to increase production to 47 per month this summer. We believe our internal and external supply chains are well-positioned for this next rate increase.

To support further planned rate ramps above 47 per month, we are readying the new Everett North Line. I recently walked the factory, where I saw construction complete and tooling in place. Our teams setting up the line are eager to get started, and we started hiring and training. Employees for the North Line will complete structured on-the-job training, which will pair new mechanics with experienced teammates from our existing Renton Line.

On the 787 program, we did see some impact to deliveries in the quarter due to delays of premium seat certification, but we still expect to meet our full year delivery range of 90 to 100 airplanes. We're staying close to our customers, suppliers and regulators to work through these seating issues, and Jay will talk a little bit more about actions we're taking to better manage these impacts going forward.

On production, the program continues to stabilize at eight per month, as we work through selected supply chain delays, including interiors and engines. Overall, the factory is performing well and the program continues preparations to increase production to 10 airplanes per month later this year. Like the 737 program, the 787 team will use the same disciplined process guided by our safety and quality plan with data from the six key performance indicators to assess readiness ahead of planned rate increases.

Turning now to BDS, where our defense platforms are providing unique value and capability to our customers, particularly in the current threat environment. Over the past two months, we've seen much of our defense portfolio support key missions in theater. For example, the AH-64 Apache has proven its potent anti-drone capabilities, and the Patriot Advanced Capability-3 interceptor with its Boeing-built seeker has intercepted ballistic missiles and drones threatening civilians and military forces.

Boeing systems remain central to air superiority, precision strikes and electronic warfare, while long-range strike and airborne command and control extend reach and situational awareness. Our aerial refueling, reconnaissance and strategic airlift sustain high-tempo operations, and we're proud that our Combat Survivor Evader Locator system and the Little Bird helicopter played a key part in the heroic mission that safely returned downed pilots.

We continue to make investments in our people and facilities to meet the evolving need of the United States and our allies. Those investments help secure wins like the recently announced agreement to expand PAC-3 Seeker production in our Huntsville factory. The framework agreement with the Department of War enables a massive increase in the supply of seekers needed to expand the protection provided by the world's most advanced air defense system.

The current demand environment for defense extends into services as well, and BGS has had several notable wins, including Boeing Defense U.K.'s largest ever maintenance and support contract for the UK's Rotary Wing Enterprise, which was announced last week. Our Global Services team also signed the largest landing gear exchange contract in Boeing's history with Singapore Airlines. That agreement will provide landing gear exchanges for more than 75 airplanes across Singapore's 737 MAX and 787 fleets.

With these recent program wins and operational improvements in all of our segments, we're well on our way to fully putting the recovery behind us. So, before I wrap up my prepared remarks, I want to thank all of our employees for delivering another quarter of improved performance as we continue to turn the corner. Their dedication to safety and quality, embracing our values and behaviors, and continuous improvement have enabled a solid start to the year.

While there's more to do in 2026, we're making measurable progress. We're restoring trust with our customers, we're increasing production rates, and we're on track to generate full year of positive cash flow. And our commercial, defense and service portfolios are well-positioned to meet the market demands and restore Boeing to the iconic company we all know.

So, now I'll turn it over to Jay to discuss our operating results, before we move on to questions.

Jesus Malave

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

Thanks, Kelly, and good morning, everyone. As Kelly mentioned, a good start to the year and a clean quarter. Consolidated revenue was up 14% to $22.2 billion, driven by solid growth across all three segments. Of note, the revenue impacts from last year's Spirit acquisition and Digital Aviation Solutions divestiture largely offset each other in the quarter. Operating margin was 2%, down primarily from lower FAS/CAS pension adjustment as compared to last year, partially offset by higher segment earnings.

The core loss per share of $0.20 improved from last year on segment growth and other non-operating earnings improvements. Free cash flow was a usage of $1.5 billion in the quarter, driven by seasonal corporate expenditures, in addition to planned CapEx increases as we continue to make progress on our growth investments in Saint Louis and Charleston. Free cash flow was notably better than expectations I shared last month, largely driven by the solid recovery from the 737 wiring issue and favorable collection timing late in the quarter.

Turning to BCA on the next page. BCA delivered 143 airplanes in the quarter. Revenue of $9.2 billion was up 13%, as Stephanie and her team continuously drive quality improvements while increasing delivery volume. Operating margin of negative 6.1% improved compared to last year, primarily driven by higher delivery volume and a favorable accounting adjustment, partially offset by dilutive impact of the Spirit AeroSystems acquisition that we highlighted last quarter.

Regarding our customers in the Middle East, as Kelly noted, at this time, we have not seen any requests for delivery deferrals, nor have we encountered material supply chain disruptions that would impact our delivery or production rate plans. In fact, we delivered four airplanes as planned to customers in that region since the conflict began. That said, we will continue to monitor the situation. Importantly, backlog continued to grow and remains at an all-time high of $576 billion, including over 6,100 airplanes.

Now, clicking down to the commercial programs. Starting with the 737 program, where we delivered 114 airplanes in the quarter, which included the final shadow factory airplane built prior to 2023. As Kelly mentioned, we completed the rework on all 25 airplanes impacted by the wiring NoE, and we remain on track to deliver 500 airplanes this year.

In the quarter, production stabilized at a rate of 42 per month, and the team drove a nearly 20% reduction in final assembly rework hours as compared to the first quarter of 2025. We continue to expect a production increase to 47 per month in Renton this summer and will benefit from buffer inventory during this transition.

As we discussed previously, production rate increases above 47 per month will be enabled by activating the 737 North Line in Everett. But North Line is expected to begin operations later this year at a low rate of initial production to demonstrate conformity to the FAA that will allow operations under our current production certificate. Following completion of these initial units, we will be led by our safety and quality plan to increase rate to 52 per month when the entire production system is ready.

On the 787, we delivered 15 airplanes in the quarter, in line with expectations shared last month, and remain on track to deliver 90 to 100 airplanes in the year. Although seat certifications impacted deliveries in the quarter, we are working with the FAA and our customers to address these risks by partnering earlier in the development process and creating contractual off-ramps to avoid delivery delays in the future.

In Charleston, the factory is performing well and continuing to make progress at stabilizing the production rate at eight per month. In the quarter, our rework hours improved by more than 25% as compared to the first quarter of 2025. These gains in the factory come even as our stability is being paced by the supply chain, where we don't enjoy the same buffer we have on 737. We are closely working with our suppliers, including forward deploying resources to support their recovery plans. We continue to expect an increase to 10 per month later this year.

Finally, on 777X, Kelly highlighted TIA 4a approval, as well as progress made with GE on the solution for the engine durability issue we highlighted last quarter. During the quarter, we successfully completed flight testing associated with handling qualities, lighting, and stability and control. We remain on track for first delivery in 2027 and continue to focus on managing the production system for increased rates. We also have a dedicated team performing the change incorporation statement of work for built airplanes, which will be completed over a number of years.

All right, let's shift over to BDS on the next page. BDS delivered 29 aircraft and 1 satellite in the quarter. Revenue grew 21% to $7.6 billion, primarily driven by higher volume on KC-46 tanker, missiles and weapons, and classified programs. Spirit contributed approximately $150 million of sales in the quarter. Operating margin increased 60 basis points in the quarter to 3.1% on improving operational performance.

BDS booked $9 billion in orders during the quarter, including notable awards to continue E-7 Wedgetail development and additional international demand for KC-46 aircraft. Backlog grew to a record $86 billion. As I mentioned last month, I've continued my reviews of BDS and have come away impressed with the teams leading these programs. I have also generally found reasonable assumptions in our EACs. They're not without risk and many assume improvements in front of us, but the estimates have a solid basis.

On many of these legacy challenged programs, the teams have made excellent progress in retiring risk and moving these programs forward. Steve Parker and the team are building on this progress, utilizing active management and increased program management rigor to drive continued gains and improved financial stability. As Kelly has previously said, you're never done until you're done, but the team has made great progress here.

As I also mentioned, a key part of our ongoing reviews of the BDS portfolio is focused on strategy and growth. It's clear to me that our defense portfolio is well-positioned to capture upside from increased operational tempo and rising defense budgets among the US and our allies. We see incremental growth opportunities from our missiles and weapons systems, including PAC-3, Small Diameter Bomb and JDAMs, as well as exquisite capability offered by platforms such as P-8, F-15EX and other proven solutions, where we are investing to ramp up production.

While we pursue additional growth, new opportunities are now subject to tighter underwriting to account for risk and our ability to deliver on our commitments. This approach, combined with continued operational improvements, supports steady progress towards high single-digit operating margins as we execute against a record $86 billion backlog.

Moving to Global Services on the next page. BGS continued to perform well and again delivered strong financial results in the quarter. Revenue was up 6% to $5.4 billion, primarily reflecting increased government volume. Excluding the impact of the Digital Aviation Solutions divestiture, revenue was up 13%. Operating margin of 18.1% was down from prior year, primarily related to the impact of the Digital Aviation Solutions divestiture and less favorable mix. Both commercial and government businesses delivered double-digit margins in the quarter.

Also in the quarter, BGS received FAA and EASA qualification for 777-9 training devices, an important step forward in support of the airplane's entry into service next year. Chris Raymond and the BGS team remain focused on continuous improvement. For example, the business has implemented automation and AI to reduce proposal cycle time by approximately 25% year-to-date, enabling faster response times to our customers.

BGS received $8 billion of orders for a book-to-bill of 1.6 in the quarter, led by a strong intake from its government business. BGS ended the quarter with record backlog now at $33 billion and remains a high-performing business focused on profitable, capital-efficient service offerings and continues to execute very well.

Okay. Let's shift over to cash and debt. Cash and marketable securities ended at $20.9 billion, primarily reflecting debt repayments and free cash flow usage in the quarter. Debt balance ended at $47.2 billion, down $6.9 billion in the quarter on the pay-down of maturing debt, consistent with our debt reduction plans. There are $1.4 billion of maturities left in the year. We also maintain access to credit facilities of $10 billion, all of which remain undrawn, and we remain committed to strengthening the balance sheet and supporting our investment-grade rating.

Regarding our cash flow outlook, we continue to expect positive free cash flow of $1 billion to $3 billion this year, aligned with the expectations I shared last quarter. As I said previously, we benefited from order timing in the first quarter. We expect second quarter free cash flow to improve, with the second half of the year turning positive. Of note, we assume the expected DOJ payment to occur in the second half of the year.

Beyond 2026, and consistent with what we've discussed previously, cash flow is expected to grow, primarily driven by higher commercial deliveries, steady performance improvements at BDS, and continued growth at BGS. We continue to view the $10 billion free cash flow figure as very attainable, with significant growth beyond that into the next decade, as we execute on our record backlog and benefit from continued strong market demand.

Okay. Let's sum it all up. A good start to the year, as we've continued to build on the momentum of 2025, and we're focused on steadily elevating our performance in 2026 to deliver on the long-term potential of this business.

With that, let's open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from the line of Sheila Kahyaoglu from Jefferies. Your line is open.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Thank you. Good morning, Kelly and Jay, and congratulations on getting rates stable and looking up. Wanted to ask your thoughts on the conflict in the Middle East and potential impacts to deliveries, your commercial services and weapons businesses and free cash flow, and just how we think about scenario planning if the conflict drags another three months, six months or nine months.

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Yeah. Sheila, as we said in the prepared remarks, we have seen no impact so far. No customers are requesting changes in their deliveries, and as Jay said, we made deliveries in the first quarter into important customers there in the Middle East. I think the broader thing for us to watch is the overall impact of fuel prices and jet fuel price impact and whether that hits the aftermarket. As you know, we're less susceptible to aftermarket. It's a smaller part of our overall portfolio going forward.

But let me come back and give you a feel for how we're exposed on OE. So, 14% of our unit backlog is in the Middle East for customers, but two-thirds of that backlog delivers out in 2030 and beyond. And we have pretty good ability to re-sequence airplanes in the 12 to 18-month timeframe. So, I think we'll be okay. We'll manage through that. If someone has some issues, we'll be able to re-sequence their airplanes. I have received calls from airline customers, letting me know that they're willing to pull forward if there's any opportunity. So, I think the overall market dynamic will be okay for us in terms of OE deliveries.

It's going to be very dynamic. I think we just need to watch particularly the flight hour and the services business that's flight hour-dependent. That'll be the first indicator of any impact in our aftermarket. I'm encouraged with the near-term performance in our defense aftermarket. So, hopefully, as I said in my remarks, we'll see some upside there probably offset some of the downside if we see it in commercial, and we'll see the relative timing of those ups and downs. I'm not too worried about it right now. Obviously, the big question is how long does the war last? And I can't answer that. We'll just have to watch it and manage as things happen.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Great. Thank you.

Operator: Your next question comes from the line of Ron Epstein from Bank of America. Your line is open.

Ronald J. Epstein
Analyst, BofA Securities, Inc.

Q

Yeah. Hey. Hey. Good morning, guys. You both spent a fair amount of time on the call talking about the defense business. And I was wondering if we could maybe dig down deeper on the defense portfolio both in terms of new product sales and in the services business, what you're seeing there and where are other potential areas of growth that you didn't highlight in your prepared remarks?

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Yeah, Ron. So, I'd put it in two categories. One is our product lines and portfolio are very much being utilized in the current war environment. So, anytime you see that kind of op tempo, we're going to see service uptick associated with servicing those platforms. And by the way, we're very proud of our platforms. We've got teams of people in the Middle East supporting our customers in very dynamic situations. So, we're really proud of those folks as well.

And then, you look at the overall just – I'll say the defense budget increase, and I look at our portfolio, and we're really well-positioned for that. Let me give you a couple examples of areas where I think this new defense budget is going to benefit as well. F-47, we see $5 billion in the budget for F-47. KC-46, increasing KC-46 production, $4 billion. F-15EX, $3 billion. The enhanced SATCOM – strategic SATCOM of $2 billion. So, massive increases in weapon systems as well.

And if you look at the backdrop of this, while it is funding new capability, it's really funding additional production of these existing systems, which should be low risk for us. So, our focus is really making sure we underwrite this growth properly with the right contract structures. We have our supply chain costs under control, so that we get an opportunity here as we see increased production to actually make money on these opportunities. So, that's our focus. I feel like the portfolio is well-positioned, and there's no doubt that, as we look at our five-year outlook for defense, we're going to see upside from what we had planned last year.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

Yeah. Ron, maybe just a couple others. You look at the first quarter results, the tanker program, the classified programs, as well as missiles and weapons, we expect that to continue to drive growth this year. As a reminder, we're expecting to increase our deliveries on the tanker from around 14 last year to about 19 this year. And then, as you know, on the classified programs, we've got some pretty significant content there. And going back to Kelly's comments, the beauty of our portfolio is that we participate and have exposure on shorter cycle defense platforms as well as longer term. And the missiles and weapons would be where I would categorize more shorter cycle, and we certainly see some upside over the next few years in that area.

Ronald J. Epstein
Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Myles Walton from Wolfe Research. Your line is open.

Myles Walton
Analyst, Wolfe Research LLC

Q

Great. Thanks. Good morning. Jay, could you speak to the free cash flow profile for the rest of the year, particularly if the second quarter can get close to breakeven? And then, is there any free cash flow downside risk on requests for progress payment deferrals either from Middle East or other carriers? And is there upside free cash flow risk from the Chinese orders if those were to come to pass? Thank you.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

Sure. Let me just take you through the profile, the first part of your question there, Myles. Just to reiterate the guide in terms of $1 billion to $3 billion for the year, as I mentioned during the prepared remarks, we benefited from some timing as well as the good recovery at BCA. So, it's just timing in the year. We are a little bit back-end loaded, as you would expect. In the back half of the year, we'll expect to see, obviously, the advances on the KC-46 program like we have seen in previous years.

We'll see a little bit higher weighting towards aircraft BCA deliveries, which will come in with higher delivery payments in the back half of the year. In the second quarter specifically, somewhat similar to last year, an outflow, but in the range of, say, low hundreds of millions of dollars. So, as I mentioned in my prepared remarks, an improvement from where we landed here in the first quarter, continued ramp throughout the year, and we still feel very confident in that guide.

As far as variability, on the upside, we had a really good start at BDS and BGS. You look at the revenue growth there. To the extent that we can continue to have strong growth, have that convert into net income, and we can keep a lid on working capital, there could be some upside in those businesses. As you know, we're highly dependent on the BCA delivery profile. So, those are things that we're keeping an eye on, and those – as Kelly mentioned in his prepared remarks, we're pretty much right on track on those.

As far as experiencing any specific requests, nothing meaningful. I get back to Kelly's comments. As far as Middle East customers, nothing meaningful in terms of requests that would cause right now any variability to our cash flow outlook. So, pretty much on track, and we'll monitor obviously throughout the rest of the year, but a very good start to the year.

Myles Walton
Analyst, Wolfe Research LLC

Q

Thank you.

Operator: Your next question comes from the line of Doug Harned from Bernstein. Your line is open.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Good morning. Thank you. Kelly, I wanted to go to the 737, and you stabilize production at 42 a month. But I'd like to see what you can say about the process and timeline to get to 47 and 52. And I'm highlighting 52 because that had been a challenge in 2018 for Spirit. And now that you're integrating Spirit, what are your thoughts on the timing of these next two rate breaks and where beyond Spirit do you see some potential supply chain challenges?

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Yeah. Thanks, Doug. So, first of all, let me reiterate. We've done a really nice job of stabilizing at 42. That was our plan, and we've done a nice job of that. So, the rate increase from 42 will be done by this summer. That's our current plan. And I feel pretty good about that. We still benefit, as you know, from high levels of inventory. So, I kind of look at the rate 38 to 42 and then 42 to 47 kind of as similar rate increases. We'll go through the same process that we've gone through in the prior rate increases.

When we go from 47 to 52, there's a couple important dynamics that are a little bit different. That's where we bring in the North Line, our fourth line of 737 production. We call it the North Line because it's in Everett as opposed to in Renton. We're in the process now, as we talked about in the prepared remarks, of bringing that online. The capital is all in place. The facility is ready to go. We're hiring people. We're going to bring those people through the Renton production system, so that they get experience in a stable environment. And then, we're going to be moving some folks from – experienced folks from Renton up to Everett. So, we've got to get that all stabilized and also get the FAA authorization on that line. So, that'll be happening while we're producing here at 47 a month.

And as I've also said, once we burn down inventory – and we'll be burning that down. At 52 and further rate increases beyond 52, that's where the supply chain needs to be more in line with our production rate. We won't have the levels of inventory that we had. And so, continuing to watch the supply chain there, and we have areas that we continue to work – will be a focus when we move to that next rate. So, hey, let's get from 42 to 47 here in front of us, and as we've done on these previous rate increases, just continue to work the constraints where we see them to allow us to move to the next rate.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Well, can you say anything about Spirit on this as you integrate?

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

So, Spirit's done fine. We're very pleased with the performance and the rate increases. We do still need to see some improvements in Spirit. But everything's tracking to our plan, and I would say the integration has gone well so far. So, things are looking up with our Spirit integration.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

Yeah. Doug, just some of the quality improvements that I mentioned on my prepared remarks have been enabled by the better quality performance that we've seen coming out of Spirit. From an integration standpoint, we have biweekly meetings with the functional teams and go through the status of those teams, and everything is progressing well.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Very good. Thank you.

Operator: Your next question comes from the line of Seth Seifman from JPMorgan. Your line is open.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Hey. Thanks very much, and morning, everyone. I heard the comments earlier on 787, and I'm wondering if we could dig in a little bit deeper there, first on what gives you the confidence in kind of overcoming the supply chain challenges there. It seems like the line in Charleston is doing quite well, but waiting on some suppliers, particularly with seats. And then, on the financial profile of the program and bringing in Spirit, and we can see some increase in deferred during the quarter, but how that moves from here and gets to the kind of healthy financial profile that we're looking for. And then lastly, maybe the long-term opportunity there with the new capacity that you're adding.

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Okay. Seth, let me talk about production, and then I'll have Jay talk about the financial performance. So, as you commented, we've done a good job of stabilizing as we've moved from five to seven to eight per month. A good example is, in this case, rework has improved significantly in the final assembly line, 25% improvement year-on-year. We have – as we talked about throughout the past year, we've been struggling with getting the seat certifications complete for the new cabin configuration.

So, if it's a new seating configuration, typically with doors, this has been an area that we've struggled. It has less impact on our factory production, because we can essentially build the airplanes. It's that we can't deliver them. And so, we've got a fair number of 787s that are held up – that are actually built, that are held up now to get seat certification. So, this is something we're just kind of getting the pig through the python. We've got to work to get this done. I don't see any showstoppers in these certifications, but it's just taking longer than we anticipated.

In terms of the supply chain – other supply chain performance, it's been a tough quarter in terms of engine deliveries for us. They've fallen behind a little bit. We do have a recovery plan on engines. So, we got to stay on that recovery plan to allow us to get to the next increase of 10 – to 10 later on in the year. So, it is a little bit different scenario than on 737, because we don't have the inventory levels. So, we have resources forward deployed in our supply chain where we have constraints, and that's not unusual. We'll continue to do that to help the suppliers where they have issues, resolve those issues to support our rate increases.

So, a lot of work yet ahead. I think getting these – some of these near-term certs – seat certs behind us will unlock our delivery. And as Jay said in his prepared remarks, we're still – there's no change in our forecast in terms of number of aircraft delivery in the full year. It's going to be a – I wish it was a little more linear than what it is, but we're working through those issues.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

As far as the financial profile and deferred production, Seth, we had a cost base extension. So, we added to the block, which is a good thing, at higher margin additions to the block. It'll take us maybe a year or so to stabilize that and start working it back down. But all good news in terms of improving financial profile in that program.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Great, great. Thank you.

Operator: Your next question comes from the line of Peter Arment from Baird. Your line is open.

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

Q

Hey. Thanks. Good morning, Kelly and Jay. Nice way to start the year. Hey, Kelly, on the 777X, you mentioned the FAA last month cleared Boeing to continue to kind of advance the program to – in this fourth phase out of the total of five. Can you maybe update us on your thinking on how – this current certification phase and what milestones any investors should be kind of tracking?

And then, just related long-term, just given the complications that you've seen on seating and everything else, any reason to think the production system here couldn't deliver at a much higher rate than what it's averaged the last eight years of 2.5 aircraft a month? Just trying to get a better handle on the long-term, just given the program delays and kind of the widebody replenishment cycle you guys kind of see out there. Thanks.

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Okay. Well, let's talk about the certification first, important. So, we continue to make progress on the certification. I guess a couple of milestones. We got the TIA 4a authorization, which was not a super large package, but it was really an important package, because it had de-icing, and we want to get that de-icing done while there's still ice available in Alaska. So, that was a really good – important one for us to get, so that we don't have to search for weather. The next one will be TIA 4b. We're expecting that very soon, and that's a pretty large package. So, I think watch for that milestone. Achieving 4b will be important for us to continue the flight test.

As I've talked about, we had the engine issue that we identified. GE's got a fix that they're working for that. And so, that's not impacting our flight test program now. We're having to do periodic inspection, but we're able to incorporate that and keep the airplanes flying. So, we just have a lot of work yet to do here with this program. This is going to be a big focus area for us in the balance of the year. GE is also working the – with this mid seal issue that we've identified that'll require an update to the engines before delivery. So, to your production point, we're still working through the industrial plan to get those – to get all the engines upgraded to support delivery. So, no real change in our forecast. And then, the second part of his question was around capacity?

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

Q

Just long-term on the production system, just the ability to deliver at a higher cadence than you currently have been running. That's all. Thanks, Kelly.

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Yeah. Look, we're targeting five a month, and I think that's a reasonable – with the overall market demand and our capacity, I think that's a reasonable goal and where we expect to be.

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

Q

Appreciate it, Kelly. Thanks.

Operator: Your next question comes from the line of Noah Poponak from Goldman Sachs. Your line is open.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning, everyone.

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Good morning.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Jay, you made an interesting comment on longer term free cash flow that you think you could have significant growth beyond the $10 billion. I wondered if you would just talk about that a little more. I mean, I think we hear skeptics say, can they get to the $10 billion, and then the $10 billion is peak, because there has to be a downturn at some point or there has to be new aircraft investment at some point. I think people who are more bullish would say the production rates are still below demand, and there's some pieces in there that are moneymaking eventually that are still breakeven in the $10 billion. The 787 math is interesting. I'd just be curious to hear you talk about what gives you the confidence to make that statement and what some of the key pieces are.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

Sure. Again, Noah, first things first, let's get to $10 billion. That's a bogey that's been out there for quite some time. And so, we got to first get to that before we can go beyond it. But again, the building blocks, whether it's $10 billion or even beyond that, are pretty much the same. A lot of it depends on the BCA recovery. And first things first, as Kelly mentioned during his prepared remarks, is achieving certifications on the 737 variants as well as the 777X program. And so, we're on track to do that. That helps us enable the higher production rates. And Kelly just talked about what our path is for rate, just as an example, on the MAX from 47 and to 52. And so, we have – that is a significant enabler to these types of cash flows we're talking about.

When you think about that for a second, these delivery profiles, in the first – or in January, on the fourth quarter call, I talked about these drags that were bringing our cash flow down and weighing it down. What the increased production rates enable us to do is burn that off. At the same time, you get the compounding benefit of stepping into the higher priced backlog. And a third compounding element to that is with the higher volumes, you're also going to see cost reduction through absorption and productivity. So, all those elements together are really driven by our ability and the timing which we drive to these higher production rates.

Beyond BCA, you've got BDS recovery, and they've done a good job. You see here in the quarter, they delivered 3.1% on the margin. So, we're on the right track in our march towards high single-digit. The way I look at that business – I've spent a fair amount of time talking about what I've seen thus far. And to me, I kind of simplify it into three elements, which I refer to as the three Ps, performance, process and price discipline. And I think Steve Parker and his team are employing that exactly right now as they march up to this high single-digit.

And then, the last piece of it is BGS and their continued march up. They're performing exceptionally well through any environment and continue to drive growth there. So, those are the three. It's a question of timing, whether it's $10 billion and beyond that. But this is all underpinned by a nearly $700 billion backlog that Kelly mentioned. We talked about kind of perturbations that can occur, but it's such a strong backlog that we have the flexibility to manage these rates and still deliver on them. So, it's up to us as a management team, obviously, to execute. But it's all sitting there in front of us, and we're confident that we can deliver that.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Do you see 1Q as the low watermark for the BDS margin for the year?

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

It's in that ballpark. I think for the year, it could – yeah, I mean, it could be a little bit better. Kind of think about 3.5% for the year. So, I would say slightly better from here on out.

Noah Poponak
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

All righty.

Operator: Your next question comes from the line of John Godyn from Citi. Your line is open.

John Godyn
Analyst, Citigroup Global Markets, Inc.

Q

Hey, guys. Thanks for taking my question. I wanted to maybe just ask about BCA margins, the trajectory from here. We've gotten a lot of interesting commentary on the call on 787, 737, delivery production outlook, certification trends. But intra-quarter, it felt like there was a couple of chances where you guys wanted to just level-set people on BCA margins. So, I wanted to just ask a question where perhaps we could kind of get it in one place. BCA margins this year, next year, kind of how do you see the play-by-play evolution with so much going on with the 737 and the 787? Thanks.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

Yeah. Thanks, John. Let me just baseline you. Again, in the quarter, BCA had negative 6.1% margins. It was a little bit better than what I talked about in March, and that was largely due to this one-time benefit that we received. Having said that, we still expect progressive improvement sequentially throughout the rest of the year, and that'll, again, carry over into next year where we expect the margins to turn positive mid next year.

So, I think they're on the right track. That is basically dependent on the delivery volumes and us continuing to increase deliveries. It's also dependent on cost base extensions. And again, we have such a strong backlog that's well-priced, high confidence there. And so, we've got, I think, over this time period, over this next 18 months or less, a solid path to get back to positive booking margins on that program.

Operator: Your next question comes from the line of David Strauss from Wells Fargo. Your line is open.

David Strauss
Analyst, Wells Fargo Securities LLC

Q

Thanks. Good morning.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

Good morning.

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Hey, David.

David Strauss
Analyst, Wells Fargo Securities LLC

Q

Hey, Kelly. Two quick questions. First, I guess on Spirit. I think, Jay, you've talked about a $1 billion kind of cash drag from Spirit this year. How do you see that progressing into 2027? That's the first one. And then, 777X change incorporation. I hear change incorporation, it sounds a bit scary based on past history when we hear change incorporation. What exactly is involved in terms of change incorporation? And how many aircraft – kind of built aircraft are we potentially looking at where change incorporation is going to be necessary? Thanks.

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Let me start with the change incorp. So, we've – what change incorp is, is basically for the airplanes that we have built to incorporate all the changes that have happened since they've been built. So, things that result from the certification program, things that happen as a result of productivity improvements or process improvements. So, we go back in and we incorporate all those changes before we make the delivery. So, it is a pretty massive activity that we have underway. We've got a dedicated team within BCA focused specifically on the change incorporation of the airplanes. So, we've got roughly 30 777s that'll go through this change incorp process over several years.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

On your question on Spirit, this year, we talked about about $1 billion of negative cash from Spirit, partly due to just operating performance and the other part being related to CapEx. As we head into next year, probably similar types. And then, beyond next year, we'll start to see that improve with the benefit of performance and productivity, as well as synergy capture. So, that's the way to think about it, David.

David Strauss
Analyst, Wells Fargo Securities LLC

Q

Okay. And Kelly, are there any major – in terms of that change incorp, is it structural, software, kind of any color on kind of the big things that need to be done?

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Yeah. The answer to that is yes. And actually, it depends on when the airplane was built. The older the airplane, the more change incorporation and the more structural-related changes that are needed and they'll take longer. The newer the airplane, the more it's – it's likely more minor upgrades. And each – actually, each airplane has a different change incorp work scope. So, that's what the team is doing right now, is going through defining the statement of work.

We're actually going to bring all of those airplanes down to a common configuration level and then incorporate the changes. We think that's going to be the most efficient way. Now, this isn't new, David. This is something we've always planned. It's a part of the production process. Unfortunately, when you build the airplanes early to get all the learning, but then in order to make the final delivery, we do have to bring them all up to the latest configuration. So, it's in our EAC, it's in our operating plan, and we're in the early stages of that change incorp effort.

David Strauss
Analyst, Wells Fargo Securities LLC

Q

Okay. Thanks. Appreciate that, Kelly.

Eric Hill
Vice President-Investor Relations, The Boeing Co.

A

Rob, we have time for one more analyst question.

Operator: Your final question comes from the line of Gautam Khanna from TD Cowen. Your line is open.

Gautam Khanna
Analyst, TD Cowen

Q

Yeah. Thanks. Good morning, Kelly, Jay and Eric.

Jesus Malave
Executive Vice President & Chief Financial Officer, The Boeing Co.

A

Good morning.

Gautam Khanna
Analyst, TD Cowen

Q

Wanted to just – you touched a little bit about demand and no erosion in demand yet. I'm curious if you could just talk about the big order campaigns you're pursuing on the BCA side. I know we talked a little bit about the China order, but how big could that be? When did it happen? And what are your expectations for kind of airplane orders this year? Thanks.

Robert Kelly Ortberg
President, Chief Executive Officer & Director, The Boeing Co.

A

Well, let me specifically address the China order. I think that's 100% dependent on the US-China negotiations and relations. As you know, there's a big summit coming up with between Trump and Xi. I'm highly confident that that will result – if there's an agreement at the country level, as I said in my comments, I'm highly confident that that will include some aircraft orders. President Trump has been very focused on supporting us in international campaigns, and he's been very successful in doing that. So, I think that's a meaningful opportunity for us. I'm not going to give you the number of airplanes, but it's a big number.

Operator: And that completes The Boeing Company's first quarter 2026 earnings conference call. Thank you for joining.