

29-Jan-2020

# The Boeing Co. (BA)

Q4 2019 Earnings Call

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### David L. Calhoun

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

### Gregory D. Smith

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

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### Myles Walton

*Analyst, UBS Securities LLC*

### Ronald J. Epstein

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone, and welcome to the Boeing Company's Fourth Quarter 2019 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation, plus the analyst question-and-answer session are being broadcast live over the Internet. [Operator Instructions]

At this time, for opening remarks and introductions, I am turning the call over to Ms. Maurita Sutedja, Vice President of Investor Relations for The Boeing Company. Ms. Sutedja, please go ahead.

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### Maurita B. Sutedja

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

Thank you, and good morning. Welcome to Boeing's Fourth Quarter 2019 Earnings Call. I'm Maurita Sutedja, and with me today are: David Calhoun, Boeing's President and Chief Executive Officer; and Greg Smith, Boeing's Chief Financial Officer and Executive Vice President of Enterprise Performance & Strategy. Dave will start with some opening comments and hand it over to Greg to address the business environment and our financial results. After management comments, we will conduct a question-and-answer session.

In fairness to others on the call, we ask that you please limit yourself to one question. As always, we have provided detailed financial information in our press release issued earlier today. And as a reminder, you can follow today's broadcast and slide presentation through our website at boeing.com.

Before we begin, I need to remind you that any projections, estimates, and goals we have included in our discussion today are likely to involve risks, which are detailed in our news release, in our various SEC filings and in the forward-looking statement disclaimer at the end of this web presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of certain non-GAAP measures.

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

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## David L. Calhoun

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

Thank you, Maurita. Good morning to everyone. I'll state the obvious. I've been here 2.5 weeks, and this is my first earnings call as the President and CEO of the company. While I'm new to the CEO role, I am certainly not new to the company and have long admired the business, the products that we build and the people that serve the company.

It's a very challenging moment for Boeing. We've got a lot of work to do, but I'm confident that we'll manage the situation in the right way. And I'm optimistic about the company's future both in terms of the markets that we serve, and maybe more importantly, the engineering and technical capabilities we bring.

Before we proceed, let me just say to the families and the loved ones of those who perished in the Lion Air Flight 610 and Ethiopian Airlines Flight 302 accidents, we, I am truly and deeply sorry for your loss. I will repeat this many, many times in the years ahead. Their memories will drive me personally to do everything I can to make our airplanes and our industry safer. And I know I speak for all of my Boeing associates, accordingly.

I've been spending a lot of my first weeks' meeting, connecting with, listening to my Boeing teammates across the country. What I'm seeing and hearing is that our employees are incredibly proud to work at Boeing, but they're also hurt and disappointed that we've let our stakeholders down. Together, we're committed to getting back on our front foot, learning with humility and building on the powerful legacy that they and their predecessors have created over the last century. This includes engaging with one another and our stakeholders with greater transparency, holding ourselves accountable to the highest standards of safety and quality and incorporating an outside-in perspective on what we do and how we do it.

To that end, I've also been reaching out to important external stakeholders. I know you know that, including our customers of our three businesses; our supply base; our supply chain which is under stress; business partners; and finally, maybe most importantly, regulators. I look forward to engaging with many others with whom I have not yet had the opportunity to meet with in the weeks and the months to come. All of these conversations that I have had, and I am certain the ones I will have, are laced with support for our company, the important work that we do and the importance of what we do for the country. We will be transparent in everything that we do as we move forward.

I want to express my personal thanks to everyone who has been our partner in this journey. We're mindful that these are challenging times for many, and we remain grateful for your support.

Before going through my initial priorities for 2020, let me share a brief history of my interactions with Boeing. I've known Boeing since the year 2000, when I started with GE's Aircraft Engine business, and we were engaged in the development of a new centerline engine for the long-range 777, capable of delivering 115,000 pounds of thrust to the airframe. That was the first of its kind.

When you're on the wing, you are on the team. Given this history, the 777X first flight on Saturday not only was a major milestone and a proud moment for the company, but also has a significant meaning for me. I've watched the development of the 777 Series from the very first engine to the new wingtip on the 777X, and see it as a proof point of Boeing's engineering and technology prowess.

Shortly after leaving GE, I returned to Boeing when Jim McNerney invited me to join the board in 2009. As a Board Member of Boeing with institutional knowledge of the business, I was able to develop my initial priorities right away in my first week.

We can turn to the second slide, please. First and foremost, our primary focus continues to be returning the 737 MAX to service safely. This includes following the lead of our regulators and working with them to ensure they're satisfied completely with the airplane and our work. The FAA and the global regulatory authorities will determine the timeline for certification and return to service, and we remain fully committed to supporting this process. Our job is to ensure that every requirement is fulfilled, every question from the regulators answered. We'll get it done, and we'll get it done the right way.

As you well know, over the last year, the entire Boeing board has been actively engaged in helping to resolve our current challenges and enhancing our governance and safety oversight. These actions included establishing a Board Safety Committee and realigning and elevating the safety management and engineering organizations across the company. These organization design changes will shine bright lights on the safety process and the engineering disciplines that underlie them.

As previously announced, we've also decided to temporarily suspend the 737 production beginning this month. We believe this decision is least disruptive to maintaining long-term production system and supply chain health. We will work closely with our supply chain to ensure we are ready to safely and smartly return to production.

Similarly, public customer and stakeholder confidence in the 737 MAX is critically important to us, and with that focus, we've decided to recommend simulator training combined with computer-based training for all pilots prior to return to service. Our singular priority is safety; and every decision, every action, every step we take as we move forward will be guided by it.

As we mentioned last week, we're currently estimating that the ungrounding of the 737 MAX will begin mid-2020. This estimate is informed by our experience to-date with the certification process. It is subject to our ongoing attempts to address known schedule risks and further developments that may arise in connection with the certification process. It also accounts for the rigorous scrutiny that regulatory authorities are rightly applying at every step of the review of the 737 MAX's flight control system and the Joint Operations Evaluation Board process, which determines pilot training requirements.

It is important to emphasize that this estimate should not be interpreted as an attempt to influence or interfere with the FAA and other regulators' absolute authority to determine the timing and conditions of return to service. Very simply, accurate financial reporting requires that we provide our latest and most informed schedule. Similarly, our supply chain, in the name of transparency, requires a schedule to perform up to its standard.

Moving on to rebuilding trust, which I briefly touched on earlier. We recognize that many of our stakeholders are rightly disappointed in us, and it's our job to repair these vital relationships. We will do so through a commitment to transparency in everything we do and by meeting or exceeding expectations. We will listen, we will seek feedback and respond appropriately, urgently, and respectfully.

Our culture is centered around strong shared values, safety, quality and integrity. Every day, we will recommit to these and foster an inclusive environment that embraces oversight and accountability, and puts these three core principles above all else. We will listen and resolve real-time any/all employee concerns pertaining to safety or other of our shared values.

We will also focus on operating with excellence. We must get back to basics; delivering safe products and services to our customers, while continuously improving our quality. We will complete our work in-station wherever we are and whatever we do, and we will do it to the highest standards.

We are committed to do it across our Commercial; Defense, Space & Security; and Services businesses. This is not relegated to just the MAX or the 737. This requires a focused approach and simplification in everything we do to ensure we deliver on what matters most with accountability.

We will restore production health; health within the Boeing's four walls and the industry at large. We'll keep taking steps to manage our supply chain health and maintain workforce expertise across the enterprise, so that in particularly, with respect to the 737 MAX, we'll be ready to restart production, increase rate safely, smartly, disciplined and with the highest standards of quality.

While doing all of these, we will not lose sight of the importance of investing in our future. Our markets are growing. Customer demand is evolving. The competition is increasing. The technology is advancing at a pace we've never seen before. Boeing must keep innovating to succeed.

We'll continue to invest in our global workforce and new processes, new technologies that will help us become safer, more efficient, as we define the future of aerospace. This work includes preparing for the first Starliner-crewed mission, continuing to progress the 777X and the 737 MAX 10, and further growth of our Global Services business and full implementation of our Embraer partnership.

That said, there are always some investment reprioritizing and streamlining that we can do, and we will. We'll take the time to reassess our product development strategy in a fairly methodical way. I think that's a natural course for any new incoming leader to take. We'll return to this topic in future discussions. This is not intended to delay, simply to refresh. By focusing on these priorities and unleashing our talent, I'm confident we have the right foundation to keep the business strong, to keep it healthy, while navigating this very difficult moment.

Before I turn it over to Greg for an update on the business environment and our performance, I want to pause and thank him for the leadership he has provided throughout this challenging time and for so ably filling the CEO role during the transition. Everybody here knows we've had a number of leadership changes over the past few months, including me. The strong teams we have supporting our leaders have provided the stability we need and paved the way for seamless transitions. But Greg has set in motion some of the changes we need to see, and he has led with real skill. He will continue to be my partner, and we will lead the company together. I'm excited now to be working alongside him and the rest of our senior leaders.

And now, I'll turn it over to Greg.

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## Gregory D. Smith

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

Great. Thanks, Dave; and good morning, everybody. As many of you know, I've had the distinct pleasure of knowing Dave for a long time. And we're extremely lucky to have him in the chair, helping us navigate through these challenging times and the path forward. I have a lot of respect for Dave and look forward to the continued

partnership. And I can tell you, we are completely 100% aligned on our priorities and the path forward for our company.

Let's now move to slide 3, and we'll discuss our overall business environment. We continue to be operating in sizable sectors that are growing and backed by strong fundamentals, with a combined market opportunity of \$8.7 trillion over the next 10 years. We continue to see healthy global demand for our offerings in Commercial; Defense, Space and Services. However, we are starting to see some pressure, such as in the cargo market that we will continue to monitor going forward.

In commercial aviation, although we've seen some moderation in passenger traffic this year, we saw growth of a solid 4.2% through November. The fundamentals remain intact. However, the impact of the coronavirus on near-term traffic growth is clearly a watch item this year.

On the air cargo side, volumes have contracted due to challenging trade environment, and improvements in industrial production and global trade will be key to rebound the air traffic cargo market in 2020. We will continue to see steady utilization of global freighters, while carriers are placing incremental orders to support their fleet replacement needs. But this is definitely something we're keeping close eye on.

In the narrowbody segment, although the MAX grounding has presented us with near-term challenges, the depth and breadth of our backlog affords us the time to assess and mitigate the longer-term implications. Our 737 program has a backlog of approximately 4,400 aircraft, and we continue to see these new airplanes creating capacity for growth and provide required replacement for older, less-efficient aircraft.

Clearly, our narrowbody delivery market share has been and will continue to be impacted by the MAX. Although we've not seen a direct impact on the value proposition of the 737 MAX in the marketplace, we will continue to monitor the market dynamics this creates. The limited production slot availability of aircraft from both Boeing and our competitor affords us ample time to double down on improving operating efficiency in order to mitigate some of these challenges the program is facing in the near term.

With regards to the middle-of-the-market aircraft, as Dave noted, we are reprioritizing and streamlining some of our investments. We've asked the team to step back and reassess our commercial product development strategy to determine what family of airplanes will be needed in the future. The team will build on the work we have done as part of the NMA design and production system analysis as we move forward.

In the widebody segment, we saw solid order activity in 2019 for the 787 and 777 families. However, as we mentioned before, in the near term, the global trade environment has presented challenges for our widebody production plans, in particular, the 787 program. As part of our process, we're continually assessing the environment to determine if any further rate adjustments are required.

We previously announced that we will transition the 787 production rate from 14 per month to 12 per month in late 2020. As we're in the planning window of a rate decision and to reduce risk in the 2021 and 2022 skyline, we've decided to further reduce the rate to 10 per month in early 2021 before returning to 12 per month in 2023.

We're pleased with the recent announcement of a Phase 1 deal between the US and China, and we're proud that Boeing airplanes will continue to be part of this valued relationship. Progress on the trade deal is obviously very encouraging, and we will continue to work closely with our customer and awaiting details of access to the implementation of our backlog and how this will fit into our skyline given production lead times.

In the meantime, we think it's prudent to take more measured approach to our 787 future production rates. We will continue to maintain this disciplined rate management process going forward, taking into account a host of risks and opportunities. We will also continue to assess the demand environment and make adjustments as appropriate in the future.

Turning to 777X, we successfully completed the 777X first flight last week. The test fleet, which began ground testing Everett last year will continue its rigorous test program over the coming months to demonstrate safety and reliability. This is a comprehensive series of tests and conditions on the ground and in the air to evaluate flight controls, aerodynamic performance and cabin environmental controls, among many others.

We're currently expecting first delivery of 777-9 to be in 2021. We continue to expect the 777 delivery rate to be approximately three per month in 2020. Progress on the 777X will be the primary driver of future delivery rate for the combined 777/777X program. We will take a measured approach to the 777X rate ramp, and we will look to minimize the amount of change incorporation work by managing the number of aircraft produced prior to entry into service. On the 777, as I discussed earlier, we will continually closely monitor the cargo market and carefully manage our skyline. Finally, as we previously announced, we are in the process of starting to transition the 767 production rate from 2.5 to 3 per month.

At Defense, Space & Security, we continue to see solid global demand for major platforms and programs. In addition, the FY 2020 enacted budget provides support for a broad range of products, including procurement of the F-15EX. Our portfolio remains well-positioned with proven, world-class platforms to address current needs and innovative, capable and affordable new franchises to build the future.

We are maintaining a sharp focus on our future franchise programs, such as the MQ-25, the T-7A Red Hawk, and the MH-139A Grey Wolf, while working to ensure strong performance on existing platforms, especially our US Air Force KC-46 program and our space programs, including Commercial Crew and Space Launch Systems.

Last month marked a significant milestone for the Commercial Crew Program with an uncrewed Orbital Flight Test of the CST-100 Starliner. However, as reported, this test was abbreviated due to anomalies experienced during the mission, preventing the docking with the International Space Station.

NASA is in the process of reviewing the data from our December 2019 mission. And the uncrewed mission, including docking to the Space Station became part of the company's contract with NASA. And NASA's approval is required to proceed with a flight test with astronauts on board. Given this obligation, we are provisioned for another uncrewed mission. And you will see this crew impact reflected in BDS' financial results.

Turning to the Services sector, the \$3.1 trillion services market over the next 10 years is a significant opportunity for our company. We continue to see growth with expanded service offerings from our supply chain portfolio and our global digital solutions. The MAX grounding has had impact on BGS growth in 2019 by pushing back the timing of some service demand from our airline customers, who have been impacted by the grounding. We expect much of this to be resolved over time.

Given the backdrop of demand, the healthy supply chain ecosystem is critical to sustain production system stability. Some of the suppliers have had challenges with production rate changes in the past. And therefore, we are extremely engaged, and especially, as we navigate the current MAX grounding and production rate outlook. Suppliers' health and rate readiness will be critical as we assess production rates going forward.



Let's now turn to slide 4 for our full-year results. Our financial results continue to be impacted by the 737 MAX grounding. Revenue, earnings per share, and operating cash were materially reduced. Our revenue of \$76.6 billion reflects the 737 MAX impact, partially offset by higher service volume. Core earnings per share was negative \$3.47 for the full year; and operating cash was a negative \$2.4 billion, again, primarily due to the 737 MAX impacts.

Let's now move to our quarterly results on slide 5. During the quarter, we recorded revenue of \$17.9 billion, core earnings per share of negative \$2.33 and negative \$2.2 billion of operating cash.

Before we discuss segment performance, let me go over 737 MAX financials in more detail, turning now to slide 6. In preparation for our fourth quarter financial statements, we made certain assumptions, including timing of resumption of delivery, production rate and ramp-up profiles. Again, let me reiterate, it is the FAA and the global regulators, who will determine the timing and the conditions of return to service.

We've assumed that the regulatory approval for the 737 MAX will enable deliveries to begin in mid-2020. We've also assumed that as a condition of return to service, regulators will require 737 MAX pilots to undergo combination of computer and simulator training. We've assumed that we will resume 737 MAX aircraft production at low rates in 2020 as timing and conditions of return to service are better understood. And then, we'll expect to gradually increase previously planned production rates over the next few years.

We're also assuming that the 737 MAX airplanes produced in storage during the grounding will be delivered over several quarters, with the majority of them delivered during the first year after resumption of deliveries. Any changes to these assumptions will require us to recognize additional financial impacts.

In the fourth quarter, we added \$2.6 billion of program costs to the 737 program. This is primarily to reflect current assumptions regarding timing of return to service and the timing of planned production rates and reflect the additional time required to produce and complete undelivered aircraft in the accounting quantity. These additional costs will be spread across the undelivered aircraft in the accounting block of approximately 3,100 units, and therefore reduce the 737 program margin. Adding these to the program cost brings the total cumulative program impact to \$6.3 billion.

In addition, the suspension of the 737 MAX production means that some costs must be recorded as abnormal production costs under US GAAP. This includes costs related to our decision to maintain the 737 production infrastructure, including labor during the suspension and low-rate production. As you may recall, this decision is part of our efforts to sustain the gains in the production system and supply chain quality and health made over the last several months.

We currently estimate these abnormal costs to be approximately \$4 billion. These costs will be expensed as incurred, primarily in 2020, and you'll see these flow through earnings as period expense starting in the first quarter. Since a portion of these costs deemed abnormal will be the largest when the production rate is zero and the rates are low, we expect expense to be front-end-loaded.

During the quarter, we also reassessed our estimate of potential concessions and other considerations to customers for disruptions related to the 737 MAX grounding and associated delivery delays. This reassessment included updating estimates to reflect our most recent assumptions, as well as latest information based on engagement with 737 customers. Based on our assessment, we added \$2.6 billion to the recorded liability in the quarter. This brings the total cumulative impacts to \$8.3 billion net of insurance.



As we've mentioned, we're addressing the impact individually, customer-by-customer. We expect any concessions or other considerations to be provided over a number of years. And we continue to see the cash impact to be more front-end-loaded in the first few years, but of course, will be dependent upon individual conversations with customers. In 2019, we reduced the liability balance by \$1.4 billion through cash payments but also other in-kind considerations.

Looking forward, the key drivers of the financial impact related to the 737 will continue to be the return to service timeline and conditions; the delivery ramp-up, which will be dependent on how fast we can deliver the aircraft once the fleet returns to service and how fast our customers can accept aircraft; and the duration of the 737 production suspension and rate ramp profile; and discussions with customers regarding potential concessions and other considerations. We expect our financial results to continue to be adversely impacted until we safely return the 737 MAX to service, resume deliveries to customers, and ramp up production rates.

We continue to perform detailed scenario planning around return to service and production rates, including analyzing the implications on our supply chain, customer fleet and deliveries to fully understand the range of financial outcomes. We're also taking actions to prudently manage our liquidity, increase our balance sheet flexibility, manage our spending, and stay laser-focused on productivity. I'll talk more about that a little later.

Let's now move to Commercial Airplanes on slide 7. Our Commercial Airplane business revenue decreased to \$7.5 billion during the quarter, and operating margins declined to negative 38%, both reflecting 737 deliveries and additional \$2.6 billion of estimated potential customer concessions and other considerations. BCA backlog includes 5,400 aircraft valued at \$377 billion, equating to more than six years of production.

Let's now move to Defense, Space & Security on slide 8. Fourth quarter revenue decreased to \$6 billion, reflecting lower volume across the portfolio, as well as impact of previously mentioned Commercial Crew charge, which affected revenue recognition on the program. BDS operating margin of 0.5% reflected a \$410 million pre-tax charge to provision for the additional uncrewed mission for the Commercial Crew Program, as well as several performance items and the mix within the portfolio in the quarter. During the quarter, BDS won key contract awards worth \$8 billion, and our backlog now stands at \$64 billion, with 29% from outside the US.

Let's now turn to Boeing Global Services results on slide 9. In the fourth quarter, Global Services revenue decreased to \$4.6 billion, reflecting lower commercial service volume. Year-over-year growth of 8% is lower than we expected, partially due to the impact of the 737 MAX grounding, which affected the timing of demand of some of our service offerings.

BGS operating margin of 14.7% reflected non-cash charge related to retirement of the Aviall brand, as we consolidate our distribution businesses under the Boeing brand, as well as mix of products and services in the quarter. We were partially offset by a onetime gain on a divestiture. During the quarter, BGS won key contract awards worth approximately \$6 billion, which brings its backlog now to \$23 billion.

Let's now turn to cash flow on slide 10. As I mentioned, operating cash flow in the fourth quarter was a negative \$2.2 billion, driven by lower 737 deliveries, lower advanced payments, higher inventories and timing of receipts and expenditures. We expect continued cash flow pressure from the MAX impacting until production stabilizes. Strong operating cash flow from other parts of the business and further balance sheet levers will help provide adequate liquidity during this time.

We also continue to look at all aspects of spending to ensure we have the right prioritization and sharpen our focus on operational excellence, including closely assessing the timing of non-critical expenditures. Additionally, we're accelerating key working capital initiatives to help navigate this difficult period.

During the fourth quarter, we paid \$1.2 billion in dividend, and our share repurchase program remains on pause. Near term, managing our liquidity and balance sheet leverage are top priorities and will continue to be until the MAX deliveries resume, we execute the 737 production rate increases, and see stability in the production system.

And as Dave mentioned, we will also continue to make necessary investments in the business, in our people, new technology, and better processes and tools. Our debt level has been elevated during the grounding, and we are planning to immediately reduce it, once our cash flow generation returns to more normalized level. Again, we will continue to evaluate all available liquidity levers, as we navigate the current challenges. Investing in our business and repaying debt will remain our cash deployment priority for the next few years.

Let's now move to cash and debt balances on slide 11. We ended the quarter with \$10 billion of cash and marketable securities. We raised additional commercial paper in the quarter, increasing the debt balance to \$2.6 billion and helping shore up our liquidity position as we work through the current MAX challenges.

Our strategy of maintaining a strong balance sheet and providing us with substantial borrowing capacity through capital markets access of our credit facility of \$9.6 billion. Additionally, we've received commitment from a syndicate of banks sufficient to enter into \$12 billion term loan facility. Based on the strong demand, the size of facility could exceed this amount when the transaction closes in February.

We are mindful of the impacts the additional debt has on our credit ratings. Currently at A- / A3, we're confident we have the sufficient balance sheet flexibility and operational levers to navigate this challenging time.

Our financials this year will continue to be negatively impacted by the MAX. Cash flow, in particular, will be more significantly impacted in 2020 than 2019. We expect the use of cash flow in 2020 to be greater than 2019, primarily due to – 737 MAX advanced payments will be lower in 2019 based on our latest 737 delivery assumptions. As I mentioned previously, we're increasing our customer consideration liability and expect the cash impact to be higher this year. Also, due to the additional 787 production rate reduction that I discussed, as well as our current 777X entry into service assumptions, widebody receipts will be a headwind in 2020.

Keep in mind, we'll continue to see expenditures on the 737 program despite the production suspension, as we invest in the production system health to de-risk our future production rate. And these investment decisions, including keeping our workforce in place and continuing to make payments to our supply chain for inventory, are examples of our focus on long-term stability, but will require cash in the near term. Given these headwinds and our current assumptions on 737 MAX return to service, as well as future production and delivery rates, cash flow recovery is now expected to start until 2021.

We are committed to providing you with additional updates on the MAX return to service progress and production rate plans, as we have more information. Once we have further clarity, we will schedule a follow-up investor and media conference call to discuss the financial implications and provide financial guidance, which will capture the puts and takes, including the impact of the most recent widebody changes.

So with that, I'll turn it back over to Dave for some closing comments.

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**David L. Calhoun**

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

Greg, thanks. Thanks to everyone on the other end of this line. I want you to know, I'm as excited as I can be about taking on this challenge. I wish the moment was different, but we can get through this moment, and we will get through this moment. I'm confident in this airplane. The MAX is a sound airplane. We believe we're going to deliver the safest airplane in the sky, and we're committed to do just that. And I know our regulator is as well.

So with that, and again, open this line up to questions. I want to thank Greg for the last time, because now, we're partners.

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**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

Right on.

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**David L. Calhoun**

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

But at any rate, he has really stood tall in this big transition process, and I appreciate it.

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**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

Thanks, Dave.

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**David L. Calhoun**

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

Thanks.

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**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

I appreciate it.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question comes from the line of Carter Copeland from Melius Research. Please go ahead.

**Carter Copeland**

*Analyst, Melius Research LLC*

Thanks, gentlemen. Can you hear me?

Q

**David L. Calhoun**

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

Yes, we can, Carter.

A

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

We can.

A

**David L. Calhoun**

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

Good morning.

A

**Carter Copeland**

*Analyst, Melius Research LLC*

Okay. Thanks. Morning. I wondered if you might expand a little bit on the short comment you made about monitoring the market dynamic for the MAX and not having the value proposition change there. I mean, I guess, are we referring to sold aircraft or unsold aircraft? And I guess, more broadly, what's your level of confidence that longer term, MAX pricing won't be materially impacted by what you've seen, or just can you expand on that comment for us? Thanks.

Q

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

Yeah. No, Carter, look, I think, first go to the backlog. We've got 4,400 aircraft in backlog, and this has been a very challenging time obviously for our customers. But folks want the airplane, and the value proposition the airplane brings to the market is unchanged. So look, we're in a grounded period, and we realize the strain it's put on the customer, so we're monitoring that closely, but the value proposition of the franchise still remains intact. And like I said, Dave said, the focus right now is safely get this thing back in the air, and we're going to do it one airplane at a time. And as Dave has said, and ensure that we have this production system stable as we move up and delivering on our commitments to our customers.

A

**David L. Calhoun**

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

In the first couple weeks, when I've talked with most of our large customers, they get to tell me whatever they want. They do still believe in the value prop of this airplane. They believe in everything about the airplane. And it means a lot, but I've heard it firsthand.

A

**Carter Copeland**

*Analyst, Melius Research LLC*

Great. Thank you, guys.

Q

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

Thank you.

A

**Operator:** Thank you. And our next question comes from the line of Myles Walton from UBS. Please go ahead.

**Myles Walton**

*Analyst, UBS Securities LLC*

Thanks. Good morning. Hey, Dave...

Q

**David L. Calhoun**

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

Hi.

A

**Myles Walton**

*Analyst, UBS Securities LLC*

You're coming to the table with a decade of experience, seeing the company from the inside, and I just wonder how you've been able to step outside of that familiarity and taken orthogonal view – kind of a different view of what went wrong and reorient everything so that this isn't just maybe changing tone and/or repairing relationships? But maybe it is, or if there's something more needed, how you've been able to step out of that familiarity role?

Q

**David L. Calhoun**

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

Let me maybe answer that question a little differently because I get a lot of media attention around the idea that I'm somehow an insider. What if I change that a little bit, and what if I told you, I simply had a front-row seat to everything you saw. And so all the things I read, and see and hear, make no mistake, they all have an impact, they have an effect. And I get a front row seat, and ultimately, our board took action as a result of it. And now, I'm the one sitting in the operating seat.

A

So I don't want it to be lost on anybody. I know we've got things to work on and changes to make. I treasure my relationship across the industry with customers, and with regulators and others. And when they tell me something, I believe them. I always fault to believing them. And so the work we have to do internally to restore all those confidences, and yes, modify our culture, you can bet, I'm working on it.

I don't think I see it any differently than you probably do. I might put a nuance here and there, but I think I know the job at hand, and that's exactly what I'm going to do. I've got to restore trust, confidence and faith in The Boeing Company.

**Myles Walton**

*Analyst, UBS Securities LLC*

Q

And from that orthogonal view, do you think there is a deficiency in your competitive narrowbody offering in the market?

**David L. Calhoun**

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

Say that again.

A

**Myles Walton**

*Analyst, UBS Securities LLC*

Do you think there's a deficiency in your competitive narrowbody offering in the market today?

Q

**David L. Calhoun**

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

Yeah. No, I don't. I know that in airplane, type by type, sometimes you've got a lead, sometimes you don't. But in the family, and ultimately, the performance of this MAX and the feedback I get from our customers, I'm not actually worried about that.

A

All that said, we're in the airplane development business, and we're going to stay in the airplane development business. So we're going to keep looking at what the next one needs to be. I want to make sure everyone understands that me not immediately signing up to the NMA is me not wanting to do new airplanes; we'll do one. And I don't want to even suggest or convey to you that it's anywhere near the narrowbody fleet we have today. I don't see big deficiencies there.

On the other hand, I'm just simply going to listen to customers and markets. It's been over two years since we started that whole discussion. I'm going to refresh it every way I can think of, along with my new commercial airplane leader, and then we'll get out with new news. But honestly, right now, it's all about the MAX, getting it up. And yes, I believe in the product.

**Myles Walton**

*Analyst, UBS Securities LLC*

Thank you.

Q

**Operator:** Thank you. Our next question comes from the line of Ronald Epstein from Bank of America. Please go ahead.

**Ronald J. Epstein**

*Analyst, Bank of America Merrill Lynch*

Hey, Dave, Greg. Good morning.

Q

**David L. Calhoun**

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

Hi, Ron.

A

**Ronald J. Epstein**

*Analyst, Bank of America Merrill Lynch*

Q



Maybe a big picture question for you. You've mentioned a couple times when you talked to the press before that you're focusing on the culture of the company, right. And so my question is this, How do you change the culture? It's a big organization.

Particularly, when you've got a workforce in some places that might be a bit demoralized, given some of the texts and things that went around, maybe that's something we can infer. And since you had this front-row seat on the board of what happened, and this is a question I asked your predecessor that he never really answered, how did we get here?

---

**David L. Calhoun**

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

A

Boy, is that a big question. Yeah, so first of all, let's go back to what happened. So the MCAS design failed to deal with a boundary condition in an environment we should have known something about. The regulators made the same mistake. There are engineering disciplines that you can and should apply to that question that I think can get fixed relatively quickly. I don't think culture contributed to that miss. I think, simply, disciplines did.

The question with respect to training recommendations and the horrible IMs that people would like to think all of Boeing writes, really was relegated to a relatively small group of folks. But it wasn't detected. The system didn't apparently listen or watch for things like that, and it didn't react appropriately. And I have to do everything in my power to make sure, going forward, that it does.

Listening starts with leadership, and it starts with me. And I think we need to do more of it. And then, slowly, steadily, you change culture. People want to believe in that, and they will. They are all good engineers. They follow disciplined processes. And let's not mistake, flying this 777X tested more technology, tested our patience, tested our disciplines in every way you can think of. And we did it successfully on that first flight, and we will move it through a certification process that will be more rigorous than history has ever seen. And we'll get to that finish line, and we'll fly it. And if you looked at that product and sat near it or flew in it, you'd be impressed with everything about Boeing. I promise you.

So this thing isn't entirely broken. Leaders have a massive role to play in setting culture, setting the stage for how to fix a culture. And I have to demonstrate that; one step at a time, every inch of the way. I don't have to convince anybody that safety is in the best interest of every stakeholder and including investors; it is. It's perfectly obvious to everyone, so I have no convincing to do on that front. I will have no competing priorities as we step forward. And so I hate to reduce it to think that simple, but I think that's what it's all about.

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**Ronald J. Epstein**

*Analyst, Bank of America Merrill Lynch*

Q

Okay. Thank you.

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**Operator:** Thank you. We have a question from the line of Sheila Kahyaoglu from Jefferies. Please go ahead.

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**Sheila Kahyaoglu**

*Analyst, Jefferies LLC*

Q

Good morning, Dave, and thank you for your agenda; and Greg as well. We talked about clearly a lot of challenges with the MAX grounding, the 787 rate cut and 777 potential delays. I guess, how do we think about the longer-term implications of what the Commercial Airplanes segment looks like in 2022, whether that's market

dynamics, touching on Carter's question; impact of charges; and some of that offset by manufacturing processes at Boeing? If you could maybe talk about what 2022 looks like.

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A

Yeah. Yeah. Well, I think on the widebody side, we talked about kind of where we see the rate profiles today. And I think, as we said, I think it's prudent, considering the outlook and some of the global, I'll say, trade dynamics and the timing associated with taking a trade deal to a point of actually a delivery in a skyline, we still got some steps to work our way through. So I think we're being prudent here and looking at the marketplace in that time and moderating those rates.

Now, having said all that, there's still a great demand for the widebody franchises. And you see that in the backlog and you see that in the market outlook. So I think the potential there going forward continues to be strong.

On the narrowbody, 2022 under these assumptions, we talked about. You're certainly getting back up in rate, but all these investments we've been making during this time of grounding, Sheila – and I think if you saw the line today versus what you saw even a year ago, there's been tremendous activity put in place in tools and processes to have stability for the long-term. But ultimately it's going to help the overall franchise, our predictability on delivering to our customers on time and a healthier supply chain as a result of it.

So that's been a huge level of effort today. Though let's face it, that's a long-term play, but it's a really critical one to get in place during this time. So we have that stability and predictability, again, on our delivery profile, and then ultimately, on our financials.

And then during this, we mentioned, we're still making investments. We're making investments in the productivity, as well as on the R&D side. So we're being prudent about it, and we're sharpening the pencils. But that, again, is really focusing on the long-term franchise that we have and the potential franchises to come.

**Sheila Kahyaoglu**

*Analyst, Jefferies LLC*

Q

Thank you.

**David L. Calhoun**

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

A

Yeah. And I'd just...

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A

Yeah, go ahead.

**David L. Calhoun**

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

A

...follow on. And like everything about the portfolio of products that we field, widebody and narrowbody, the trade deal matters a lot. And I believe, if it is what I think it is, and our Chinese customers come back and we rebuild the relationship we've always had and enjoyed with them, I think that is a major stimulus.

Secondly, this industry has been supply chain limited and constrained. And I believe that some of the actions that have been taken on Boeing's side of that process during this pause, some of the readiness questions that I believe are being fixed, I think that supply chain will begin to alleviate itself, and I don't think we'll be as supply-constrained going forward as we have been to-date. And now, I'm trying to speak for the industry, not just for us. So I am optimistic from lots of angles, but I think those are the big ones.

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**Sheila Kahyaoglu**

*Analyst, Jefferies LLC*

Great. Thanks.

Q

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**Operator:** Our next question then will come from the line of Doug Harned from Bernstein. Please go ahead.

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**Douglas S. Harned**

*Analyst, Sanford C. Bernstein & Co. LLC*

Good morning. Thanks.

Q

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**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

Hi, Doug.

A

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**Douglas S. Harned**

*Analyst, Sanford C. Bernstein & Co. LLC*

The one thing I'm certain, Dave, is that a decade ago, we could not have predicted we'd be having this conversation. The thing I'd like to look at is the challenges you're looking at, at BCA. And short term, as you said, you're spending time with the regulators and customers that support MAX certification.

Q

And then, over the course of the year, you've also got to deliver on the restart, operationally, of the MAX; prove efficiency on the 787 as rate comes down; progress on the 777X; and then, as you talked about, decide on how Boeing's going to look at what it does next. And I would think you wouldn't want to wait too long to see how you want to compete against Airbus in the back half of the decade.

So with all of this on your plate, new leaders across BCA, how are you prioritizing your time? When we get to the end of the year, what would you consider a successful outcome on sort of short, medium, and long-term issues there?

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**David L. Calhoun**

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

Well, one – Doug, so thanks for the question. As you said, I remember looking at this chessboard all the way back in 2000. Didn't turn out actually as different, with the exception of the MAX hiccup, as you might think. We are on a very long-cycle world. Getting decisions right is way more important than getting them fast, so I make no mistake about that.

A

The MAX itself has to be my priority over the course of this year. It's important from a lot of points of view. One, the economics of our institution rely in a significant way on it. Rebuilding the relationships with our customers and our regulator in the process of getting the MAX back up is also critically important. We will always be dependent on those relationships.

And then, finally, with respect to new airplane development, I don't think anybody will enjoy working on that more than I will. I just want to get exactly the right airplane for the market that's out there. And I want to refresh our view as to what that is. The last 2.5 years have been tumultuous. It has tested, in my view, some of the edges of demand on all types of airplanes. And so we have to learn from that. But I will not hesitate to move forward on it. And I think creating competitive advantage in that next airplane, I think, I have more tools to work with than I've ever had in my previous life.

So at any rate, I have confidence in all of that. Going back to your original question, I don't want to confuse anybody in the process. The fact that I will be focused on the MAX, the fact that I will talk about that almost exclusively across Boeing over the course of this coming year is not an indication that I'm going to starve anything going forward. It is simply a necessity for us. We've got to get it out there, and we have to get our confidence back and get on the front of our feet. And so again, that's mostly what you'll hear from me. But don't get confused by it, please.

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**Douglas S. Harned**

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Well, and if I can, when you look at this year, certainly, financially, this will be a rough year. But when you put all this together, do you have goals you're thinking of in how this should translate into financial goals in 2021 or 2022, or is it too early to think that way? How do you treat that?

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**David L. Calhoun**

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

A

Yeah, it's too early to think that way. While I might conjure up a notion here or there in my head, I'm going to listen to an awful lot of people before I do. And I'm also going to be certain that all the investments that are required to stand up our engineering function, have everybody regain their confidence, and again, simply believe in the safety of every airplane that The Boeing Company puts forward. I'm not going to jump to that conclusion now. I'm simply going to get through this moment, restore our confidence, and then projections will follow.

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**Douglas S. Harned**

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Great. Thank you.

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**Operator:** Our next question then will come from the line of David Strauss from Barclays. Please go ahead.

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**David Strauss**

*Analyst, Barclays Capital, Inc.*

Q

Thanks for taking the question. I wanted to discuss the supply chain and how you're approaching the supply chain during this halt. Greg, you mentioned some of this \$4 billion, I guess, is to support the supply chain during the halt. How, overall, are you approaching it? It doesn't sound like you're telling everyone to halt. Who are you not telling to halt? How much financial support are you going to provide to the supply chain, or do you think is needed for the supply chain during this?

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**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A

Yeah, no, David, I would tell you it's a one-on-one engagement. And not just them, but their suppliers. And so I'll say, kind of tiered down suppliers, and understanding the impact that this is having on them, and then, what levers do we all have in order to help get them through this; and again, with the objective that we're playing the long game and we want to come out of this healthier quite frankly. So each one of them is a little bit different about how we're working, and how we're engaging, and what type of assistance is needed.

Everybody, as you know, has been at a little bit of a different level of production through this, so there's different levels of inventory. So I would tell you if you went around supplier by supplier, you're going to get a variation of what their build rate is, or where they are in inventory. But the engagement with them, I would say, has been very good by our supply chain folks, and keeping them informed and trying to get ahead of this, and again, making smart decisions and assisting where we can assist.

So, yes, we've got some provisioning in here to help them. And we'll continue to do that, again, with the long-term objective: We need them to be healthy; we want them to be healthy; and we're playing this for the long term. So even some of these productivity things that we talked about on the 37, supply chain team is taking those into the supply chain, that again, ultimately, will make them healthier; more stable; more predictable, which is going to be key to our production rates going forward.

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**David L. Calhoun**

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

A

I might just add, their rate in return in these early months will be ahead of ours, and that's by design, simply because we want the protection in our factories so that we never travel work. That's actually an important discipline that we will re-instill with our MAX line. And they will be the beneficiaries of that as they, as I said, accelerate at a faster rate.

---

**David Strauss**

*Analyst, Barclays Capital, Inc.*

Q

Thanks. Can I ask one clarifying question, Dave? I think you mentioned that you see certification, or for planning purposes, accounting purposes, certification and deliveries resuming in the middle of the year, or is it cert? And then, I assume some sort of lag between cert and then deliveries resuming.

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**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A

Yeah. We've got kind of timed in the midyear timeframe, Dave. But like we said, it's going to be a very moderated, slow, I'll say, prudent ramp-up. And as we talked about, priority one, once the grounding is lifted, will be to start getting those airplanes off the tarmac, the inventoried aircraft, and then slowly bring in that line up in a very methodical way and monitoring stability each step of the way. And when we reach our objective of stability, then we'll make the next move. But that'll kind of be the priority in the timeframe associated with that.

Now, we will – currently, we're looking at starting the line earlier than the actual lifting of the grounding. But, again, think of that as a risk mitigator. We'll look at that during that period of time and our confidence level of getting the grounding lifted. And then we'll start to slowly bring resources back on to the program, keeping in mind that these lines are empty. They're going to be empty. They're emptying right now. And so we'll start in position one. But again, very methodical, start bringing the crews over, get stability, and then slowly bring them back into play. But we'll make that decision as we get closer return to service, but that's the game plan as we see it today.

**David L. Calhoun**

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

A

And if the question relates to the certificates by airplane, which of course, is going to be a new and very I think, tightly run process, of course that involves us and the FAA. And I think we've provided for plenty of room for that process to unfold methodically and not with too much pressure on it. So that's important in the way we've laid out our timeline.

**David Strauss**

*Analyst, Barclays Capital, Inc.*

Q

Great. Thanks very much.

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A

Thank you.

**Operator:** We have a question from the line of Jon Raviv from Citi. Please go ahead.

**Jon Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

Thank you. Good morning, everyone.

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A

Jon.

**Jon Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

In the context of cash being a bigger use in 2020 versus 2019, certainly understand the moving pieces in BCA. Can you talk about perhaps some of the cash generation and the state of the businesses outside of Boeing Commercial, which I think is still a relevant topic here?

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A

Yeah. Yeah, on BDS, slightly lower than last year. And I'd say a lot of that is timing. It's just around receipt timing and award timing. But outside of that, from an operating – core operating performance, pretty much on par, but we'll see a little bit of headwind this year.

And on BGS, a little bit of headwind but less than BDS. And, again, a lot of that is just timing. It's nothing more than that. Core performance-wise or the conversion earnings to cash, it remains pretty consistent with 2019. But again, the bulk of the variance in cash will be at BCA.

**Operator:** Okay. Thank you.

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A



You're welcome.

**Operator:** We have a question from Noah Poponak from Goldman Sachs. Please go ahead.

**Noah Poponak**

*Analyst, Goldman Sachs & Co. LLC*

Hey. Good morning, everyone.

Q

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

Morning, Noah.

A

**David L. Calhoun**

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

Hi, Noah.

A

**Noah Poponak**

*Analyst, Goldman Sachs & Co. LLC*

Wanted to ask about 787 supply and demand, and then also the margins, given the changes there. Do you have visibility into the order pace stepping up into the kind of mid-100s per year for a while there? Because even at the 12 a month or the 10 a month, you're still building over 100, but the order rate's been below 100. So I know China's an input, but I don't know if China's planning to order that many widebodies that would fill that gap sustainably.

Q

And then Greg, on the cash margin, you've talked about being able to continue to increase it just at a slower pace at 12 versus 14. Is that still true, or not, at 10?

**David L. Calhoun**

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

Yes.

A

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

Yeah. Yeah, obviously, not at the same, I'll say, slope as it was, but we still continue to see improved cash margin over the profile for all the reasons we've discussed before between supply chain, mix and our own productivity. That story is unchanged. But again, the amount of growth over that period is moderated obviously under these lower rates.

A

On the supply/demand, China's a big deal, don't mistake it. It's a big deal, and that's a big play in these production rates. Outside of that, as you've seen, when we have been going head to head with the 787, we've been winning the marketplace. The airplane continues to bring great economics into the field. And the long-term market outlook continues.

When you look at the 20-year forecast, there's still a lot of widebodies and then more replacement in there in the 787 family. I think it's extremely well suited to address that market. And I did say, the one that is probably underserved at this point is the 787-10. I think as we see that replacement market, I'll say, coming more within our

skyline, I think we're going to continue to see more demand for 787-10 that's just an incredible value proposition and machine for our customers, especially considering what it's going to be replacing in the market.

So China, big watch item. Outside of that, do we have work to do on the skyline? Absolutely. And we're going to play that out one campaign at a time. And we'll continue to monitor, again, our lead times and make whatever adjustments are needed. But as we see it today, we think that's a prudent thing to do. And we have good confidence in the 10 to going to 12 a month.

**Noah Poponak**

*Analyst, Goldman Sachs & Co. LLC*

Q

Do you expect a China 787 order to come out of Phase 1 specifically, or do we need to get past Phase 1?

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A

I don't know at this point. No, we know that airplanes are certainly a big part of the trade deal with China. And we'll get into those details when – between the government and our customers. But we're actively engaged with them. And when we get more clarity on that, then we'll provide it. But at this point, we don't have model clarity.

**David L. Calhoun**

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

A

There's no reason to believe it has to wait for Phase 2.

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A

Yeah.

**Noah Poponak**

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Okay. Thanks so much.

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

A

You're welcome.

**Maurita B. Sutedja**

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

A

Operator, we have time for one more question.

**Operator:** Okay. We have a question from the line of Hunter Key from Wolfe Research. Please go ahead.

**Hunter Key**

*Analyst, Wolfe Research LLC*

Q

Hi. Thanks for getting me on. I appreciate it. Good morning.

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

Morning, Hunter.

A

**Hunter Key**

*Analyst, Wolfe Research LLC*

Good morning. So I realize, obviously, FAA is the decider here. You've made that very clear. In the spirit of transparency, would you care to share your accounting assumptions for the MAX rate ramp, 6 and 12 months after recertification? And then, the second part of the question is, how can you get comfortable potentially resuming production before certification, given all the head fakes that we've had over the last few months or so? Thanks so much.

Q

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

Yeah. Well, maybe on that one, I'll just again put a finer point on what the game plan is as we see it. Don't think of that as just turning the line back on. We're going to slowly bring crews back. But we're going to have to have a higher confidence level in that exact timeframe on return to service. Because obviously, we don't want to build more airplanes and store them. So that's the game plan as it sits today.

A

But again, remember the line's empty, so it's going to be in the first position. And that's going to take some time to slowly bring that up. But obviously, we'll have cert flight behind us, which is a big milestone. And that will give us more confidence in our, I'll say, kind of slow introduction of the production line. So that's the game plan on that.

As far as rate increases going forward, Hunter, I would just say to you, look, we've got to get this thing back. We've got to start delivering on the off the ramp and think of the rate increases as one step at a time – or as Dave has said to many of us, one airplane at a time. We're going to keep work in position, and we're going to ensure we have stability. And equally, if not more important, the supply chain has stability. We'll make the next rate increase.

So we've certainly made some assumptions in there, but we are going to do this one at a time, and again, really playing the long game here to ensure we've got stability that is, I'll say institutionalized, not just with us but all suppliers. And then, that'll ultimately have a much more predictable production, I'll say, cadence to it and predictability and delivering to our customers.

So we'll keep you posted on our rate plans going forward. But at this time, that's kind of the game plan, and we'll give you more clarity, like I said, once we provide guidance, and I'll say the moving pieces that will support that guidance.

**David L. Calhoun**

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

I just will reiterate because I think it does matter. That philosophy, one at a time, is reflected in what we have built into this set of financials and our expectations. So I hope we can go one at a time at a rate that exceeds those expectations. But we're not going to think about it that way; we're simply going to get to every next airplane.

A

**Hunter Key**

*Analyst, Wolfe Research LLC*

Thank you.

Q

**Gregory D. Smith**

*Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.*

You're welcome.

A

**Operator:** Please go ahead.

**Maurita B. Sutedja**

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

That concludes our question-and-answer session. Thank you for joining the call.

**Operator:** Thank you. That completes The Boeing Company Fourth Quarter 2019 Earnings Conference Call. Thank you for joining.

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