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The Boeing Co. (BA)
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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. Good day, everyone, and welcome to The Boeing Company’s First Quarter 2015 Earnings Conference Call. Today’s call is being recorded. The management discussion and slide presentation plus the analyst and media question-and-answer sessions are being broadcast live over the internet.

At this time, for opening remarks and introductions, I’m turning the call over to Mr. Troy Lahr, Vice President of Investor Relations for The Boeing Company. Mr. Lahr, please go ahead.

Troy J. Lahr  
Vice President - Investor Relations

Thank you and good morning. Welcome to Boeing’s First Quarter 2015 Earnings Call. I’m Troy Lahr and with me today are Jim McNerney, Boeing’s Chairman and Chief Executive Officer and, Greg Smith, Boeing’s Chief Financial Officer. After comments by Jim and Greg, we will take your questions. In fairness to others on the call, we ask that you please limit yourself to one question.

As always, we’ve provided detailed financial information in today’s press release and you can follow this broadcast and slide presentation through our website at boeing.com. Before we begin, I need to remind you that any projections and goals included in our discussion this morning are likely to involve risk, which is detailed in our news release and 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 non-GAAP measures that we use when discussing our results and outlook.

Now I’ll turn the call over to Jim McNerney.

W. James McNerney  
Chairman and Chief Executive Officer

Thank you, Troy, and good morning, everybody. My comments today will focus on our positive first quarter performance and what we see as a continued healthy business environment. After that, Greg will walk you through the details of our financial results and outlook.

Now let's move to slide two, please. Building on the strong performance trend we sustained through 2014, Boeing delivered solid first quarter 2015 financial results, including higher revenue, healthy core operating margins and double-digit growth in core earnings per share. We also continued to return cash to shareholders in the first quarter by repurchasing $2.5 billion of Boeing stock and increasing our dividend, as promised, by 25% for a payout of $639 million.

Revenue at Boeing Commercial Airplanes increased 21% to $15.4 billion and operating margins were 10.5%. We delivered 184 commercial airplanes in the quarter and added 110 net new orders. Key milestones in the quarter included delivery of the first 787-9 built at Boeing South Carolina, the opening of our South Carolina Propulsion Systems facility and start-up of an automated Wing Panel Assembly on the 737 program in Renton.

Boeing Defense, Space & Security reported revenue in the first quarter of $6.7 billion and generated strong operating margins of 11.1%. Key contract awards included orders for 43 AH-64E Apache helicopters, a multi-year
combat logistics support contract and an order from SES for an all-electric 702SP satellite. In addition, the U.S. Air Force selected the 747-8 as the next presidential aircraft.

Noteworthy program milestones in the quarter included: launching the first two all-electric propulsion satellites double stacked on a single rocket; and breaking ground on the crew access tower which will support the commercial crew program; and replicating a best practice for bolstering performance on development programs by establishing a single unified Defense and Space Development Programs organization. Our success with a similar structure put in place at Commercial Airplanes starting with the development of the 787-9 shows that we can leverage synergies and expertise across different development programs to reduce cost and risk and better ensure performance, as promised to our customers.

This new organization will oversee current and future development efforts, including work on the KC-46 tanker, the 747-8 presidential aircraft, our commercial crew spacecraft and space launch system rocket, the 502 small satellite and our St. Louis-based 777X work package.

In summary, we delivered another strong quarter of operating performance, achieved significant program milestones, captured orders totaling $15 billion and returned significant cash to shareholders, all of which Greg will cover in more detail in a moment.

With that, let's turn to the business environment on slide three. Strong airline profitability, healthy global air traffic trends and our backlog totaling more than 5,700 aircraft all combine to underpin our planned production rate increases over the remainder of the decade. Our long-term outlook also remains positive, as we expect airline fleet growth and replacement demand to drive the need for nearly 37,000 commercial aircraft over the next 20 years.

As evidenced by the healthy pace of orders during the first quarter, conversations with our airline customers continue to center on new purchases or accelerating delivery slots. Deferral requests are still running well below the historical average. These remain very good times for our industry. As I mentioned on last quarter's call, historically airplane orders are highly correlated to airline profitability and lower oil prices have not fundamentally changed our customers' view on fleet planning or their commitment to existing delivery schedules. The rapid return on investment from new, more efficient airplanes remains a compelling factor in purchase decisions in a fuel price environment, even if it remains well below the 15-year average.

As a reminder, in addition to far better fuel efficiency and lower maintenance costs, our new technologically advanced airplanes also often deliver higher passenger and cargo revenue, increased residual values, a better overall passenger experience and greater range that grows market opportunities by allowing for new city pairs and more optimal routes. All of these elements provide significant value to our customers over the life of the aircraft.

Further to those points, demand for both the 777 and the 777X remains strong. The 777 production line is essentially sold out for 2016, approximately half sold out in 2017 and has a healthy number of slots already sold firm in 2018. As we've discussed before, the new 777X is scheduled to enter final assembly in the 2018 timeframe and we'll leverage new manufacturing processes and technologies being proven on the current 777 to optimize the overall 777X production system. We will continue to assess the most efficient way to phase in this new technology and adapt as necessary to ensure we meet our customers' commitments.

On the 787 program, we have now delivered more than 250 airplanes, including 20 787-9s. Notable among the strong new bookings during the quarter was ANA's order for three 787-10s. 787-10 development remains on track for first delivery in 2018.
In the single-aisle segment, demand for our new fuel-efficient 737 MAX also remains high, with cumulative orders totaling more than 2,700 airplanes from 57 customers. Development of the MAX remains on track for first delivery in 2017.

Turning to Defense, Space & Security. We continue to see solid support for our major programs. The president’s fiscal 2016 budget request included increases for core Boeing production programs, such as P-8A Poseidon, Apache and Chinook helicopters. Key development programs such as tanker, long-range strike and commercial crew also saw budget increases.

International demand for our offerings remains strong, particularly in the Middle East and the Asia-Pacific region. During the first quarter, international customers for Defense, Space & Security represented 23% of revenue and 37% of our current backlog. Our investments in technology and innovation for organic growth continue in areas such as commercial derivatives, space, unmanned systems, intelligent surveillance and reconnaissance and a few critical future franchise programs, like long-range strike and the T-X trainer, which are priorities for our customers.

The relative strength of our Defense, Space & Security business stems from a portfolio that is reliable, proven and affordable, supported by our ongoing market-based affordability initiative which is focused on reducing operating costs by another $1 billion on top of the $5 billion already achieved, which will ensure competitiveness through the ongoing downturn in domestic defense spending.

Overall, our business strategies are aligned to the realities and the opportunities of our markets and our teams are executing them well to deliver increased top-line and bottom-line performance, support the needs of our customers and capture new business to sustain our growth and profitability for the decades to come.

Now over to Greg for our financial results and our updated guidance. Greg?

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

Thanks, Jim, and good morning. Let’s turn to slide four and we’ll discuss our first quarter results. First quarter revenue increased 8% to $22.1 billion, driven by strong Commercial Airplane deliveries. Core earnings per share for the quarter increased 12% to $1.97, driven on higher Commercial Airplane volume and continued strong operating performance.

Let’s now discuss Commercial Airplanes on slide five. For the first quarter, our Commercial Airplanes business increased revenue 21% to $15.4 billion on 184 airplane deliveries and reported operating margins of 10.5%. Strong operating margins in the quarter were primarily driven by higher volume, continued focus on productivity and program mix. Commercial Airplanes captured $9.8 billion in net orders during the first quarter and backlog remains very strong at $435 billion and over 5,700 aircraft equating to approximately eight years of production.

Specifically on the 787 program, we continue to expect the program to be cash positive during 2015 and we still anticipate deferred production to the client shortly after we achieve the 12 per month production rate in 2016. No change to these fundamental milestones. We continue to see progress in key operational performance indicators for the 787 program as we further implement production efficiencies while meaningfully increasing 787-9 production and managing through some near-term disruption in supply chain, largely around cabin interiors. Despite these challenges and with a lot of hard work from the team, we delivered 30 787s in the quarter and made further progress on reducing unit cost.
On the 787-8, we’ve seen a decline in unit cost of approximately 30% over the last 190 deliveries. And furthermore, the 787-9 unit cost declined approximately 25% over the first 20 deliveries. In line with our expectations and at a declining rate, 787 deferred production increased $793 million to $27 billion in the first quarter. And as we previously discussed, we continue to anticipate 787 deferred production to grow at similar levels for the next couple of quarters before seeing a healthy decline in the growth later in this year.

We remain focused on the solid day-to-day execution, risk reduction and improving the long-term productivity and cash flow going forward. We continue to manage the smooth ramp of the 787-9 production, prepare for the 12 rate per month introduction of the 787-10 while also driving efficiencies across all aspects of the program.

Let’s turn now to Defense, Space & Security results on slide six. First quarter revenue at our Defense business was $6.7 billion and operating margins were strong at 11.1%, largely driven by solid performance and favorable mix. Boeing military aircraft first quarter revenue declined to $2.7 billion, primarily driven by planned timing of C-17 and F-15 deliveries. Operating margins at 9.5% reflect delivery mix that offset improved operating performance.

Network and Space Systems reported revenue of $1.7 billion and increased operating margins to 9.6% in the quarter, resulting from higher ULA earnings. Global Services and Support revenue was $2.2 billion and operating margins increased to 14.1% on solid operating performance and favorable program mix. Defense, Space & Security reported a solid backlog of $60 billion with 37% of our current backlog representing customers outside the United States.

Next slide, please. Operating cash flow. Operating cash flow for the first quarter was approximately $100 million, driven by solid operating performance and, as expected, the timing of receipts and expenditures that were largely benefited late in Q4 of 2014. We continue to expect 2015 operating cash flow to be more than $9 billion, with the majority of that being generated in the second half of the year. With regards to capital deployment, as Jim mentioned, we paid $639 million in dividends and repurchased 17 million shares for $2.5 billion in the first quarter as we continued to deliver on our commitment to our shareholders and, furthermore, this reflects our ongoing confidence in the long-term outlook for our business. We continue to anticipate completing the remaining $9.5 billion repurchase authorization over the next two years to three years. Returning cash to shareholders along with continued investment to support future growth remains top priority for us.

Moving to cash and debt balances on slide eight. We ended the quarter with $9.6 billion of cash and marketable securities and our cash balance continues to provide solid liquidity and positions us very well going forward.

Let’s now turn to slide nine and I’ll discuss our outlook for 2015. We are re-affirming our 2015 guidance for revenue, operating margins, core earnings, deliveries and cash flow and overall we’re very pleased with the first quarter performance as the core operating engine continues to deliver strong results and we expect that performance to continue as we remain focused on production, program profitability, rate ramp-up and ongoing productivity improvements.

With that, I’ll turn it back over to Jim for some closing comments.

W. James McNerney
Chairman and Chief Executive Officer

Thank you, Greg. With a strong first quarter behind us, we remain focused on disciplined execution, quality and productivity improvements and meeting customer commitments. Our priorities going forward are clear and consistent: the profitable ramp up in commercial airplane production, executing well on our development
programs, driving efficiencies throughout the enterprise, continuing to strengthen our Defense business and, importantly, providing increasing value to both our customers and our shareholders.

Now we'd be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions.] And our first question comes from the line of Howard Rubel with Jefferies. Please go ahead.

Howard Alan Rubel
Jefferies LLC
Thank you. Good morning, gentlemen.

W. James McNerney
Chairman and Chief Executive Officer
Good morning, Howard.

Gregory D. Smith
Executive Vice President and Chief Financial Officer
Good morning, Howard.

Howard Alan Rubel
Jefferies LLC
You talk about – there could be a number of questions to ask – but you talk about being able to make some real progress with the 777 bridge. Could you elaborate a little bit on that? And, Jim, may be talk about the quality and the characterization of the discussions you're having with customers?

W. James McNerney
Chairman and Chief Executive Officer
Yeah, I think 777, you've heard my speech before, Howard. Unique airplane in terms of its capability and where it's positioned in the market, so a real opportunity to manage this bridge well. So far so good. I think last year's performance was good. I think this year, where we stand now, we've got 25 orders and commitments in hand today. That's roughly half or just short of half of what we're looking for for the entire year.

I mentioned the production skyline in 2016, 2017 and 2018, and it's beginning to firm up. So, we are increasingly confident that we can implement this bridge and it's important, not only commercially and to keep the rate going, but as I mentioned in my comments, we're sort of feathering in some new technology on the current airplane, the ER, so it's tested and de-risked by the time we get to the X. And so this bridge has lots of value for us, lots of value for our customers. So steady she goes.

Howard Alan Rubel
Jefferies LLC
May be just a follow up for a second. You talk about feathering in some of this technology. And in the press release, you talk about accelerating some of the development milestones. So are we to take that that in fact the R&D
programs are, whether it's the MAX or the 10 or the X, are kind of coming in a little bit better than your current budgets?

W. James McNerney  
Chairman and Chief Executive Officer

No, what I would say is on budget, slightly ahead on de-risking. In other words, things are – we're spending about what we had planned – but the technical advances or the reliability that we're shooting for is coming in a little bit more robustly than we'd hoped. And as you recall, we've got a development organization that is 100% focused on development now and that gives us much greater visibility and much more objectivity around these kinds of milestones.

Howard Alan Rubel  
Jefferies LLC

Thank you very much.

W. James McNerney  
Chairman and Chief Executive Officer

Yep.

Operator: Our next question is from Cai von Rumohr with Cowen & Company. Please go ahead.

Cai von Rumohr  
Cowen & Co. LLC

Yes, thank you very much. So your 787 deferreds per unit built look like they went from $32 million in the fourth to $26 million. May be give us some color. This looks like better performance than we'd expected. Was this better than your performance expectations? How did the 787-9 and 787-8 do? And is the 787-8 now in a cash positive mode with regard to deferreds?

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

Yeah, I guess what I would say, Cai, when you look over that timeframe, we have seen improved performance, in particular, I noted on the 787-9, as they're coming down the learning curve in a very aggressive manner. And I think that goes to lessons learned off the 787-8 and getting those into the production system. So that introduction of that airplane is going very well and, as you know, that'll be close to half of our deliveries this year so that smooth introduction is important.

When you look quarter-over-quarter, as you know, Cai, mix comes into play. So we did have some early 787-9s, actually the first two, coming out of Charleston. So that played into the shift quarter-over-quarter. But I'd say fundamentally, again, the program continues to make good improvements on unit cost. Still got a long way to go, but making good progress.

Cai von Rumohr  
Cowen & Co. LLC

And may be a follow up. You'd mentioned the cabin interior disruptions.
Gregory D. Smith  
*Executive Vice President and Chief Financial Officer*

Yeah.

Cai von Rumohr  
*Cowen & Co. LLC*

What impact did that have on the 787 and when do you think you’ll have that behind you?

Gregory D. Smith  
*Executive Vice President and Chief Financial Officer*

Well, I mean, Cai, we delivered 30 airplanes, which was the production rate, but it’s disruptive. It added additional pressure obviously on deferred. And you see by the growth in deferred, we were able to offset some of that through our own productivity. But certainly it’s been disruptive. There’s recovery plans in place. We’re part of that recovery. We’re actively engaged with them and we don’t see that impacting our delivery through the balance of the year.

Cai von Rumohr  
*Cowen & Co. LLC*

Thank you very much.

Gregory D. Smith  
*Executive Vice President and Chief Financial Officer*

You’re welcome.

*Operator*: And next we’ll go to Doug Harned with Sanford Bernstein. Please go ahead.

Doug Stuart Harned  
*Sanford C. Bernstein & Co. LLC*

Yes. Good morning.

W. James McNemey  
*Chairman and Chief Executive Officer*

Hi, Doug.

Doug Stuart Harned  
*Sanford C. Bernstein & Co. LLC*

I’d like to just continue on that with the 787. If you look at the increases that you’re seeing in deferred and as I look at the numbers for this quarter, it looks pretty much on the trajectory you described last quarter. But can you parse this out into buckets? And what I mean by that is, things that would be one-time investments, I would say higher costs on early 787-9 deliveries and potentially other factors related to operations of the supply chain, how would you divide this? I mean, how much falls into each category?

Gregory D. Smith  
*Executive Vice President and Chief Financial Officer*
I'd say roughly, Doug, it's about a third, a third, a third, breaking each one of those pieces down. Certainly, as we talked about, maintaining some higher employment as we work through incorporating reliability and driving productivity initiatives obviously getting ready to de-risk for the 787-10, the 12-month, and the early introduction of 787-9. And as you know, you've been covering this business a long time, and this is about as smooth an introduction you've seen on a wide-body program and particularly one that is at record production rates. And that's attributed to really risk reduction effort and focus early on in the program.

Some of the supplier negotiations that we talked about moving some of those to the right as we get more mature on the learning curve within those suppliers and then some of the productivity initiatives, as I've highlighted where we're really seeing opportunities to drive further value in the program over the long-term, but require some upfront investment. Those are very good business cases, they're absolutely the right thing to do to drive long-term profitability in cash for this program. And those obviously remain a top priority for us.

And at the same time, we're looking for more opportunities to capture further productivity and cash that will require more investment. So we're continuing to focus on that. And, again, I think it's absolutely the right thing to do for the program and, again, driving long-term profitability and that's the focus.

And if I can, on a follow up on this. I mean, on the 787-9 in principal, I mean, this is an airplane that has higher pricing. You've done a lot of design work to lower manufacturing costs for it.

So in theory, this should be a very attractive airplane from a profitability standpoint. Can you give us a sense of when you expect the 787-9 to become cash positive?

Yeah, I don't really look at it that way, Doug. I mean, I look at it as a program as a whole. And the productivity focus is not just on the 787-9; it's across the entire value chain of 787-8 and 787-9. But, again, on the overall profile, when you combine the 787-8s and 787-9s, we expect to be cash positive during 2015. So that hasn't changed. But the fundamentals, again, are more across the entire either supply chain or internally whether it's a 787-8, a 787-9 or a 787-10, where do we drive additional productivity?
Operator: Next we'll go to Carter Copeland with Barclays. Please go ahead.

Carter Copeland  
Barclays Capital, Inc.

Hey. Good morning, Jim and Greg.

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

Hey. Good morning, Carter.

W. James McNemey  
Chairman and Chief Executive Officer

Good morning, Carter.

Carter Copeland  
Barclays Capital, Inc.

Greg, I wondered if you might clarify something on the 777 for me. I'm just sort of wondering what the implications of inserting some of these productivity investments into the ER production line are on the margin front for that program? Is that -- by including those in sort of end-of-line ERs ahead of the 777X, does that have a negative margin impact of any significance?

And then secondly, how should we think about the impact of splitting the 777X into its own block and what that will mean for overhead and non-recurring investments? Is that a material up, or in the other direction? How should we think about those impacts?

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

Yeah, first, the answer to your last question is no. As far as the introduction of this, we extended the block by 50 units this quarter and that investment that we've talked about that's going to apply on the 777, eventually the 777X, when that cost is incorporated. So those are in our booking rates this quarter.

I would tell you very smooth introduction when I say that, proving out this technology outside the production system in an isolated -- again, outside the mainstream production proving it out, making it rate capable and then a smooth implementation as you're continuing to build 8.3 a month. So a lot of that prove out, again, risk reduction investment up front, but long-term profitability of the program, doing that outside the production system. So we've been doing that.

And that's, I'll say, the plan, to implement that into the mainstream production. So I don't view that as high risk. I think the de-risking activity has been very prudent. And if we see any issues along the way, we have a plan B or, I'll say, an off ramp to continue with the current production system. So I think the risk is very managed. Now, the opportunity obviously is reducing flow time, better quality and ultimately better unit cost. So a very good investment for us over the long term of the 777 plus the 777X.

Carter Copeland  
Barclays Capital, Inc.

And was there any impact on the program margin as a result of the block extension?
Gregory D. Smith  
Executive Vice President and Chief Financial Officer

Yes.

Carter Copeland  
Barclays Capital, Inc.

Up or down?

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

Slightly down.

Carter Copeland  
Barclays Capital, Inc.

Okay. Thanks.

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

And keep in mind, too, Carter, escalation comes into play here that some of the productivity that came through in the booking rate, some of that was offset by escalation that impacted the booking rates across all the programs. But, again, strong productivity across all the programs.

Carter Copeland  
Barclays Capital, Inc.

Great. Thanks, Greg.

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

You're welcome.

Operator: Next we'll go to Sam Pearlstein with Wells Fargo. Please go ahead.

Sam J. Pearlstein  
Wells Fargo Securities LLC

Good morning.

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

Good morning.

Sam J. Pearlstein  
Wells Fargo Securities LLC

I was wondering if you could talk a little bit more about the supply chain and the $2 billion increase in the gross inventory. We know about the seat issue. GE talked about not being able to deliver all the engines that they would
have liked. And so I guess to what extent did those delays impact that inventory number? And where do you see issues in the supply chain that concern you as you talk about going up to 12 a month?

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

Well, I mean, some of that, Sam, is just the fact that we’re going up in rate. So there’s some of that. The disruption we’ve talked about, again, the team has done a fantastic job managing through that disruption, reaching back into the supply chain and helping wherever we can help out. And there’s recovery plans in place. So watch item, certainly been disruptive, but certainly not something we see impacting the deliveries for the year.

Sam J. Pearlstein  
Wells Fargo Securities LLC

And can you tell us when in 2016 you plan to go to 12 a month?

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

Later in 2016.

Sam J. Pearlstein  
Wells Fargo Securities LLC

Okay. Thanks.

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

You’re welcome.

Operator: Next question is from Jason Gursky with Citi. Please go ahead.

Jason M. Gursky  
Citigroup Global Markets, Inc. (Broker)

Hey. Good morning. Jim, I was wondering if you might spend a few minutes talking about the Defense business.

W. James McNemey  
Chairman and Chief Executive Officer

Yeah.

Jason M. Gursky  
Citigroup Global Markets, Inc. (Broker)

In particular, comment on the sales efforts on the C-17. And then maybe just provide some updated thoughts on, say, the next five years in the Defense business. Historically have talked about this being flattish, with some programs coming up and some coming down. Maybe just an update there would be helpful.

W. James McNemey  
Chairman and Chief Executive Officer
I think the summary would be the outlook remains challenging, but recently looking a little better as I read the political dynamics, just overall comment about the marketplace, particularly the U.S. Congress-driven marketplace. But to the specifics of your questions, C-17s, we’ve got orders and commitments that leave about five to go. We have a lot of action on those five. So I think the team made the right call on when to curtail the program. You always want to curtail these things where you end up having a little more demand than you’ve got airplanes at the end to hold pricing and production. And that is playing out well for us.

I think in the face of sequestration, the reason for my optimism—and it’s not wild-eyed optimism, it’s a matter of sort of Ryan/Murray 2.0 sort of may be extending the kind of budget compromise that had been fashioned a couple of years ago another couple of years. And that may turn into a broader consensus dealing with sequestration in a balanced way. So a little more optimism that that will sort out. And based on newspaper reports I’ve seen, Murray and Ryan are working together again trying to come up some kind of a budget compromise that would include the defense portion.

We’re well marked up in the president's budget request, more than our fair share of sort of the jump balls I guess is the way to put it. And so our backlog remains strong. Our profitability because our productivity plans assume the worst and what we’d like to do is be surprised, and so that’s the reason you’re seeing strong margins in the first quarter in our Defense business, notwithstanding some timing on the deliveries, which will sort out by year end. But does that give you the flavor you were looking for?

Jason M. Gursky
Citigroup Global Markets, Inc. (Broker)

Yeah, and maybe just to put a little bit finer tooth on this, you’ve got risk on F-18, F-15 towards the end of the decade. You’ve long talked about tanker and P-8 offsetting those declines.

W. James McNerney
Chairman and Chief Executive Officer

Yeah.

Jason M. Gursky
Citigroup Global Markets, Inc. (Broker)

Is that still the broad brush stroke view of the world?

W. James McNerney
Chairman and Chief Executive Officer

Yeah. And I think F-18 and F-15 may have more legs to them yet to be proven than the last time I made that comment. So a little bit more bullish there. But long-term that is the way I look at it. The only other thing I’d add to that is that there are three or four major development programs that are in play right now. Long-range strike is one, tanker is another one. The UCLASS is another one. And so there’s some major programs. And if we win our market share’s worth of those or maybe a little better, that will provide some upside to the equation you mentioned.

Jason M. Gursky
Citigroup Global Markets, Inc. (Broker)

Perfect. Thank you.
Operator: Our next question is from Ron Epstein with Bank of America Merrill Lynch. Please go ahead.

Ronald Jay Epstein
Bank of America Merrill Lynch

Yeah, hey. Good morning, guys.

W. James McNerney
Chairman and Chief Executive Officer

Morning, Ron.

Gregory D. Smith
Executive Vice President and Chief Financial Officer

Hey, Ron.

Ronald Jay Epstein
Bank of America Merrill Lynch

Just a quick question on customer advances. It seems like more recently that's been more volatile than it has been in the past. And just thinking about it, has there been a change in policy around how you collect the PDPs? Meaning, with backlogs going out so far and is it to your advantage to try to collect some of those PDPs may be sooner, monetizing it sooner than waiting eight years for those PDPs? Does that make sense?

Gregory D. Smith
Executive Vice President and Chief Financial Officer

No change, Ron. No change. I mean, what you're really just seeing is just that the timing of those. And as you've heard me talk about before, as you go up in rate, obviously, and with the strong order book, we've seen more advances. But the timing of those quarter-over-quarter, very difficult to see a trend there. And you really got to look at it over a year-over-year and, frankly, over a 24-month period because of the size of those — some of those — as well as milestone payments, so very difficult to look at quarter-over-quarter basis. But no change.

I would tell you as far as cash flow goes, the outlook for operating cash from us remains unchanged. And we still see strong cash flow this year, again, greater than $9 billion and continued growth as we come out of 2015 into 2016. Advances are certainly a part of that, but just the core operating performance and the fact that our delivery rates will continue to go up as we deliver on the 5,700 airplanes. So our view on cash flow, again, is very solid and remains unchanged.

Ronald Jay Epstein
Bank of America Merrill Lynch

Okay. Great. And if I can, just follow on with a just a more technical question.

Gregory D. Smith
Executive Vice President and Chief Financial Officer
Ronald Jay Epstein
Bank of America Merrill Lynch
Q

On the 777X, I think you guys have said that the center wing box is going to be aluminum as opposed to carbon fiber. What can we read into that, with that move on that aircraft compared to what was done on the 787?

Gregory D. Smith
Executive Vice President and Chief Financial Officer
A

I wouldn’t read anything into it, Ron. Obviously, when we go through the design of the airplane, I won’t pretend to be a design engineer here, but everything’s taken into consideration as far as efficiency of the operating economics of the airplane and the weight and that gets taken into consideration. Maturity of technology and obviously development costs and recurring costs to build the airplane. So those are a few things that obviously are some important key factors that we take into account when we’re making tradeoffs between one type of, I’ll say, application versus another.

Ronald Jay Epstein
Bank of America Merrill Lynch
Q

Okay.

W. James McNerney
Chairman and Chief Executive Officer
A

And there was no change there. That was always the plan.

Gregory D. Smith
Executive Vice President and Chief Financial Officer
A

Yeah.

Ronald Jay Epstein
Bank of America Merrill Lynch
Q

Okay, great. Cool. Thank you.

W. James McNerney
Chairman and Chief Executive Officer
A

Yep.

Operator: And next we’ll go to Myles Walton with Deutsche Bank. Please go ahead.

Myles Alexander Walton
Deutsche Bank Securities, Inc.
Q

Thanks. Good morning.

W. James McNerney
Chairman and Chief Executive Officer
A

Good morning.
Myles Alexander Walton  
*Deutsche Bank Securities, Inc.*

Greg, you did 10.5% BCA margins in the quarter. It looks like mix and volume would actually be modest helps for the rest of the year. Doesn’t look like R&D should be much of a headwind and it sounds like the 777 kind of extension was a negative in this quarter. So other than conservatism, how do you foot it to the 9% to 10% guidance for the year?

**Gregory D. Smith**  
*Executive Vice President and Chief Financial Officer*

Yeah, I’d kind of put it in three main areas, Myles. I mean, R&D, we do expect R&D to pick up a little bit in the half back with, in particular, the 777X ramping up. We’ll have more 787-9 deliveries and then with more 747s as well. So that’s the, I’ll say, the dilutive impact for the margins going through the balance of the year. And having said that, obviously, we got everybody extremely focused on continued [inaudible] (38:05) productivity and we will through the balance of the year. But it’s really that mix that’s driving it.

Myles Alexander Walton  
*Deutsche Bank Securities, Inc.*

And just one clarification. You said the majority of cash in the second half. Are you thinking two-thirds or are you talking 80%?

**Gregory D. Smith**  
*Executive Vice President and Chief Financial Officer*

Well, I would say traditionally, as you know, we’re back-loaded, but third and fourth quarter will be heavier than first and second quarter. And, again, progress payments, milestones and then just delivery profile.

Myles Alexander Walton  
*Deutsche Bank Securities, Inc.*

Okay. Thanks.

**Operator:** Our next question is from Rob Spingarn with Credit Suisse. Please go ahead.

Robert M. Spingarn  
*Credit Suisse Securities (USA) LLC (Broker)*

Good morning.

**Gregory D. Smith**  
*Executive Vice President and Chief Financial Officer*

Hey, Rob.

W. James McNerney  
*Chairman and Chief Executive Officer*

Good morning.

Robert M. Spingarn  
*Credit Suisse Securities (USA) LLC (Broker)*
Just wanted to get a clarification from Jim and then a question for Greg. Jim, on the 777, you mentioned 25 orders and commitments, but I think you printed just the seven orders in the quarter. So are these still in process or are they falling to Q2?

W. James McNemey
Chairman and Chief Executive Officer

Well, we don't mention commitments unless things are largely done.

Robert M. Spingam
Credit Suisse Securities (USA) LLC (Broker)

Okay.

W. James McNemey
Chairman and Chief Executive Officer

And so things are largely done. And there's timing considerations, in some cases driven by customer requirements and things. And so we let the customer decide when to finally approve and release. But I have a very high degree of confidence in the 25 number.

Robert M. Spingam
Credit Suisse Securities (USA) LLC (Broker)

Okay. And then, Greg, on cash flow, just going back, sort of a follow up to Ron's question. So you'll probably have, let's call it, after-tax of $1 billion to $2 billion tailwind on 787 deferred. And you're guiding to a flattish OC – operating cash flow – somewhat flattish net income and I know timing is at work there a little bit. But given that, how should we think about the advance and physical inventory balances at the end of the year here? I imagine that there's some offset to the deferred tailwind in terms of a headwind on advances and physical inventory.

Gregory D. Smith
Executive Vice President and Chief Financial Officer

Yeah, like I said, Rob, timing around advances and milestones can swing significantly quarter-over-quarter and, as you said, year-over-year. So, that comes into play as well, as I said, delivery mix and even the way the orders are profiled through the balance of the year. So, again, the outlook on cash flow for this year, unchanged. Greater than $9 billion, that's what everybody's focused on generating. Again, quarter-over-quarter, you're going to see variance in there. And those elements I described are really what the big shifts in quarter-over-quarter, I'll say, fluctuation you're going to see.

But nothing's changed on the cash flow, Rob, and we continue to remain extremely focused. And I think as you've seen, $2.5 billion share repurchase in the quarter alone, I think should give you some idea of the confidence we have in executing to our business plan and just the overall business environment and executing on the total backlog.

Robert M. Spingam
Credit Suisse Securities (USA) LLC (Broker)

But, Greg, just to be clear, you can do the $9 billion even if advance balances decline?

Gregory D. Smith
Executive Vice President and Chief Financial Officer


Well, we don't anticipate any change from what we talked about when we gave guidance. So, again, I see advances about flattish year-over-year...

Robert M. Spingarn  
Credit Suisse Securities (USA) LLC (Broker)

Okay.

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

...from 2014. But those are all scheduled. We know where they're timed and we know where they're coming from and we have the confidence that we'll obtain all of those as we normally do. So I don't see any change there.

Robert M. Spingarn  
Credit Suisse Securities (USA) LLC (Broker)

Okay. Thanks, guys.

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

Yeah.

W. James McNerney  
Chairman and Chief Executive Officer

Yep.

Operator: And the next question is from Peter Arment with Sterne, Agee. Please go ahead.

Peter J. Arment  
Sterne, Agee & Leach, Inc.

Yes. Good morning, Jim and Greg. Jim, a question on the — you mentioned the deferral requests continuing to run at record low rates and kind of accelerated purchases. Do you still feel confident about the bookings environment? I guess it speaks to healthier backlog, but do you still think you can get a book-to-bill of 1 this year?

W. James McNerney  
Chairman and Chief Executive Officer

Yeah, I think we'll get a book-to-bill of 1. I mean, when I look at the pipeline, I look what's happened so far in the first quarter, that remains how I see it coming in. And I think that's a healthy sign after a number of years at well above that. But remember a lot of demand out there is replacement demand, new technology replacing old technology. We're in a technology cycle now where we're not tied to GDP growth. We are tied to very favorable replacement economics and so half our growth is replacement. Half is sort of new routes, new airlines opening up new deliveries is more tied to GDP, but that's the nice thing about what innovation can do for you.

Peter J. Arment  
Sterne, Agee & Leach, Inc.

Yeah. And is there any concern about just when you mentioned oil that you're not seeing any pushback just related to that. Are some of your leasing customers that — as production rates not to go up as high as they had indicated — are you worried about the capacity aspect or is it just related to that replacement cycle?
W. James McNerney  
Chairman and Chief Executive Officer

Yeah, I think said another way, the replacement cycle numbers still work really well with oil at current prices. Remember, we launched the 787 at roughly 25% lower oil prices than we have today, okay. So we felt very confident then and we even more so do now in a higher oil price environment from then that this is attractive proposition for our customer. And as I said, the order trends relate more when you just look at the stats, you look at the r-squared, relate more to airline profitability than it does to temporary fluctuations in the dollar or in oil prices.

Peter J. Arment  
Sterne, Agee & Leach, Inc.

Thank you. Very helpful.

W. James McNerney  
Chairman and Chief Executive Officer

And that's very profitable now.

Peter J. Arment  
Sterne, Agee & Leach, Inc.

Thanks.

W. James McNerney  
Chairman and Chief Executive Officer

Yeah.

Troy J. Lahr  
Vice President-Investor Relations

Operator, we have time for one more question.

Operator: And that will be from the line of Hunter Keay with Wolfe Research. Please go ahead.

Hunter K. Keay  
Wolfe Research LLC

Hey. Thanks a lot for getting me on. Sort of a follow up to the previous question actually about the comments you made, Jim, over last couple calls about running below historical deferral or cancellation rates. Can you give me some more color on that? How are you tracking that? Did you look back at that metric to sort of where we are in prior cycles at this point in time, or is it sort of like a rolling historical look back? Is there any way you can give us some more color on how you look at that metric and help us think about it in quantifying it?

W. James McNerney  
Chairman and Chief Executive Officer

Yeah, it's sort of a rolling look back, this specific metric. I think, this question, I started working this into our presentations when we – this is before the last – back in the last dip. And people were concerned, rightly so, about that metric. And we've just sort of kept it in place. But just in my experience over the last decade, we have remained -- in bottom-ish parts of the cycle, top part of the cycle for the last decade or so, we've remained below
that historical average, which is a good thing. We can break out the number for you a little more finely, if you'd like. But, in general, I think the point is valid through the cycles of the last 10 years.

Hunter K. Keay  
Wolfe Research LLC

Okay, great. And, Greg, maybe a quick follow up for you on the comment you made about advances being roughly flat. I had thought you'd said at a conference last month that they were going to be maybe down a little bit because of lack of rate break. Were you just referring to PDPs or is there any other noise in the advances line that would cause that may be disconnect? Or am I just – did I mishear you?

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

I mean, I was talking on Commercial. There's a little bit more on the BDS side...

Hunter K. Keay  
Wolfe Research LLC

Okay.

Gregory D. Smith  
Executive Vice President and Chief Financial Officer

...that's driving that.

Hunter K. Keay  
Wolfe Research LLC

Yep. Great. Thanks a lot.

W. James McNerney  
Chairman and Chief Executive Officer

Thank you.

Operator: That completes the analysts' question-and-answer session. [Operator Instructions] I'll now turn you to The Boeing Company for introductory remarks by Mr. Tom Downey, Senior Vice President of Corporate Communications. Mr. Downey, please go ahead.

Thomas J. Downey  
Senior Vice President-Communications

Thank you. We'll continue this morning with media questions for Jim and Greg. If you have any questions following this part of the session, please call our Media Relations team at 312-544-2002.

Operator, we're ready for first question. And in the interest of time, we ask that you limit everyone to just one question, please.

Operator: And we'll go to Jon Ostrower with The Wall Street Journal. Please go ahead.
Hey. Good morning, guys.

Good morning, Jon.

Hey, a question about Boeing South Carolina. The IAM just withdrew their request for an election there late last week. I’m just curious, Jim, your thoughts on the site today and looking forward as far as the relations with the Union more broadly and whether or not there are any lessons to learn from how Boeing has dealt with its workforce there in terms of more broadly looking at what's going on back in Puget Sound and how to manage that relationship and whether or not essentially Boeing South Carolina, in your view, has to stay non-Union for it to be a competitive site?

Listen, I mean, you're right. They decided not to go through with the election, presumably because they felt they didn't have the votes, but you'd have to ask them specifically about why they withdrew. We are very happy with our relationship with our teammates down in South Carolina. The site is technically and on a manufacturing certification engineering basis doing very well. I'm very pleased with its progress.

But I also highly value the relationship that we all have with our employees in Puget Sound. I mean, one group has a Union, one doesn't. We prefer to have a direct relationship with our employees, but when they choose to have a Union, we want to work with them. So it's not either/or. Our task is to work with both environments and to grow them to their potential. And so very happy with developments down in South Carolina. That place is really doing well.

Operator: Our next question is from Julie Johnsson with Bloomberg News. Please go ahead.

Hi. Good morning, all.

Good morning.

Hey.
Julie Johnsson
Bloomberg News

Airbus said today that they're looking at boosting A320 production past 60 a month. And I'm just wondering if Boeing is studying a similar increase in narrow-body output and if there are concerns at this point about the supply chain's ability to keep pace with some of the increases coming down?

W. James McNemey
Chairman and Chief Executive Officer

Didn't see Airbus' comments today, but I think our supply chain has anticipated robust growth, probably from both of us. They see the orders in the backlogs as we do. We spend a lot of time talking with our supply chain and working on them on readiness issues. We've announced 52. They count a little bit differently. 60 is roughly the same as 52, 54. I've forgotten how the math works. But I think the supply chain is ready and we spend a lot of time investing in getting them ready.

Operator: Our next question is from Dominic Gates with The Seattle Times. Please go ahead.

Dominic Gates
Seattle Times

Good morning.

W. James McNemey
Chairman and Chief Executive Officer

Good morning, Dominic.

Dominic Gates
Seattle Times

Hi. I wanted to ask for an update on tanker. And very specifically, we learned from the GAO Report this month a couple of things. First of all, that the flight tests are—you're going to start production ahead of the flight tests. So could you speak to the risk of that? And a very specific question, the GAO Report says that Boeing's own estimate of the cost overrun on the initial development phase is $380 million. Is that amount covered by the charge you took last July, the pre-tax $425 million, or is that some anticipated new charge later?

W. James McNemey
Chairman and Chief Executive Officer

I'm not sure about the last number.

Gregory D. Smith
Executive Vice President and Chief Financial Officer

There's no anticipated charge here, Dominic. Our estimates...

W. James McNemey
Chairman and Chief Executive Officer

No. I don't know where they got it from.
Gregory D. Smith  
*Executive Vice President and Chief Financial Officer*

Yeah, our estimates, taking all of that into consideration on first flight as well as completing the balance of the airplanes, certainly there’s work left to be done here and we’re going get the airplane into the air sometime this summer and that will be fully militarized. And we’ll see how that goes. And continue to execute the balance of the program, but there’s no change to the financial position on the program at this point.

Thomas J. Downey  
*Senior Vice President - Communications*

Operator, we have time for one last question.

**Operator**: And that will be from Alwyn Scott with Reuters. Please go ahead.

Alwyn Scott  
*Thomson Reuters*

Hi. Can you hear me?

Gregory D. Smith  
*Executive Vice President and Chief Financial Officer*

Yes.

W. James McNerney  
*Chairman and Chief Executive Officer*

Yes. Yes. Good morning.

Alwyn Scott  
*Thomson Reuters*

Thanks for taking the call.

W. James McNerney  
*Chairman and Chief Executive Officer*

Sure.

Alwyn Scott  
*Thomson Reuters*

I wondered if you could say a bit more about why you feel confident that the Zodiac seat problems are resolved. They’ve said today they got to the root of the problem, but that they’re still anticipating some disruption. Can you tell me more about that, what gives you confidence that it won’t disrupt your deliveries this year?

W. James McNerney  
*Chairman and Chief Executive Officer*

Yeah, I think that all the problems are not resolved. We do have a high confidence in the plan to resolve them and it’s because our people are deeply involved with them in the resolution. We don’t anticipate a lot of it being worked through til the end of the second quarter. But we’ve all figured out a way to work together that it’s not going disrupt our production plans and we’re pleased to see their response now to getting this fixed.
That concludes our earnings call. Again, for members of the media, if you have further questions, please call our Media Relations team at 312-544-2002. Thank you.