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CONFERENCE CALL PARTICIPANTS

Howard Rubel *Jefferies & Co. - Analyst*

PRESENTATION

Howard Rubel - *Jefferies & Co. - Analyst*

Good morning. Howard Rubel with Jefferies. And it is with great pleasure that I'm able to host and we are able to host The Boeing Company and Boeing's representative here today is Greg Smith, who is the Executive Vice President and Chief Financial Officer of the Company. It is the world's largest aerospace company and it is actually also the largest delivery, largest producer of commercial aircraft and they have been doing that for quite a number of years and with quite a bit of success. I think that Greg has a great number of good things to say about where Boeing is and where it is going. Boeing has been a bit volatile lately and we will address that in the Q&A.

And I just want to remind people that Greg, at one point, was in charge of Investor Relations at Raytheon and then prior to that, he has also been with The Boeing Company and had done some of the harder jobs other than just being CFO, like running internal audit and being in charge of shared services. So this is not a case of somebody who is just a high-level executive. He knows how the organization works and it's a real pleasure to have a leader like that with us today. Greg?

Greg Smith - *The Boeing Company - EVP & CFO*

Great, thanks, Howard. How would you like to start?

Howard Rubel - *Jefferies & Co. - Analyst*

If you wouldn't mind just like talking a little bit of the state of affairs and then you and I will just have a nice dialogue.

Greg Smith - *The Boeing Company - EVP & CFO*

Sounds good. Let me maybe start with the commercial market and I know that has certainly been on a lot of folks' minds. And I would start by telling you that we continue to see very strong demand on the commercial side. When you look at deferrals and cancellations, we are well below historical lows and we continue to anticipate that going forward. Certainly for us continuing to focus on our product strategies and how that addresses the market and we have made those product strategy decisions and they are reflected in the strength that you have seen on the 777X order and the 10X order and certainly the continued strength on the 737.

So for us, certainly the product decisions have been made to address this growing marketplace and it's all about execution from here forward, but again not seeing any weakness whatsoever in the market and a very strong demand. In particular, I'd say on the 737, we are seeing more pressure to go up in production rates than anything and we will be addressing that here in the next couple of months to come.

With regards to 777, I know there has been a lot of discussion on 777 bridging and I will tell you that we have 39 commitments and firm deals as of today and you will continue to see activity on the 777 going forward in filling that bridge. Again, a fantastic product, very well-received in the marketplace providing great value to the customers and it will continue to do that.

If you look at filling that bridge that we've all talked about, you essentially have six years to fill that bridge and an order base of about 40 to 50 airplanes. So as you can see by the cadence of the orders over the last couple years and the orders to date, we are on track to do that. We are sold



out through 2016. So the focus is really 2017 and beyond. But, again, we are seeing robust activity and the robust activity again goes to the economics that airplane is bringing to the marketplace and at the same time, that is what we are seeing on our other productlines. Significant economic advantage of putting these products into your portfolio. That is what is driving the strength of this record backlog in seven years of production and over 5,200 airplanes. So our focus is on executing on those development programs and executing on those rate increases that I'm sure we will talk about a little bit later.

On the defense side, I'd say that we continue to monitor the overall DoD environment and address that. At the same time growing internationally to try to offset some of that pressure. Not that long ago, 15% of our revenue in BDS was coming from international and we are now in the 30% range; continue to anticipate that going forward. Big affordability focus, \$4 billion we have taken out of that infrastructure at BDS, another \$2 billion to go. All under the umbrella of market-based affordability and again trying to address the challenging marketplace, at the same time drive profitability across that business.

So as a backdrop, that is kind of obviously the big topics and things that are moving around in our marketplace. But we feel very good about the backlog. We feel very good about the marketplace and this gets to doing what we have been doing, which is executing flawlessly on that backlog and driving productivity, driving profitability and cash and deploying that cash efficiently and effectively going forward.

Howard Rubel - Jefferies & Co. - Analyst

Maybe a good way to start, and you sort of talked about it, is this business cycle and how can you sort of parse the order cycle from the deliveries? In the end, it's deliveries and if you do it at the right price and at the right cost, you actually make a little bit of money. Orders aren't everything.

Greg Smith - The Boeing Company - EVP & CFO

Correct.

Howard Rubel - Jefferies & Co. - Analyst

I mean they are important, but can you kind of parse those two a little bit?

Greg Smith - The Boeing Company - EVP & CFO

Well, yes. I think it's a great point, Howard. Obviously, I mentioned with seven years of backlog, a lot of the focus was continuing to execute that. You look at the rate increases going forward. The last four or five years, we've increased rates 17 times and we have about three left to go as far as rate increases to meet the backlog that we have today and the marketplace we see beyond that. And again, I think a lot of that demand, when you look at -- I will say kind of really analyze the data of what is driving that, it is the economics these airplanes are providing, the economic advantage these airplanes are providing in the marketplace, the aged fleet and the fact that 50% roughly of our backlog is driven by replacement. And those economics really are driving that replacement and as you look at products like the 737 MAX as an example, 13%, 14% more efficient than a brand-new NG coming off the line today. So you can see the economics obviously on the widebody even more so.

And that is what's really again driving a lot of this demand, along with obviously traffic growth. Over the next 20 years, we see a marketplace of about 37,000 airplanes. You look at where that is happening in the regions of the world, you look at the GDP assumptions in there and again, you kind of look at about a 6% growth rate traffic right through there and then it gets to really your share and that is why we feel very comfortable and very confident about the product portfolio decisions we have made in getting those products into the marketplace and again, I think the backlog reflects that. So that is kind of how we are thinking about it.



Howard Rubel - *Jefferies & Co. - Analyst*

Well, there is really two points that you sort of raise here. One is, if we surveyed this room or at least I know if you had asked me what I thought you'd do for book-to-bill this year, I would have said a nice solid 1 and we are through early August and it is over 800 units and unless you are going backwards, you are at about 1.10 versus -- so I am like wrong again. We are not done yet for the year, so this means you are really selling well forward and mitigating a chunk of what I will call operating risk.

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, I think that is very fair, Howard. The fundamentals of what these airplanes are bringing is really what is I think compelling. Just that whole replacement cycle is significant and it is much more significant than prior cycles that we've seen. And again, it comes right back to what you are offering in the marketplace that is driving that. We have had a very good year, to your point, on order from anywhere from widebody to narrowbody. Certainly the launch of the 777X along with the 787, again, the strength of those orders is compelling economics along with the MAX. So we will continue to see good order activity on there and again, big focus on filling that bridge. And I think with 39 orders to date as of today and a continued focus and execution on that, you will see more activity that I think will give folks confidence in our ability to start filling that bridge out further.

Howard Rubel - *Jefferies & Co. - Analyst*

You have had a couple of competitive takeaways this year. What do you think Monarch, Air Canada on the narrowbody side -- I mean that is a notable accomplishment in a world that usually doesn't give you credit for doing that. And on the widebody side, I think solidifying the 777X and Emirates making a fairly loud statement, what do you attribute that to?

Greg Smith - *The Boeing Company - EVP & CFO*

Well, I sound like a broken record, but it really is the value that those products are bringing into the marketplace into these customers. That is what is compelling. That is the competitive differentiator. That is why we feel very comfortable and confident about the product decisions we made because the backlog is reflecting what that brings. So those particular situations -- fundamentally that is what you get down to is what value that airplane is going to bring, what is the lifecycle cost of that airplane and just the overall NPV that that is going to bring to that customer versus the competition. That is what is going to continue to drive I will say strong business decisions coming from our customers leaning in our direction of the product portfolio that we have today.

Howard Rubel - *Jefferies & Co. - Analyst*

Sales aren't all of that, as you well know and you have to --.

Greg Smith - *The Boeing Company - EVP & CFO*

It's part.

Howard Rubel - *Jefferies & Co. - Analyst*

And so the other side of it is cost and productivity. If we look at the most recent numbers, the results point to some pretty darn good margins in the commercial business. What has changed? These are numbers that we really haven't seen before, especially given the product mix?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, certainly the focus on overall productivity and every element of cost -- I think I have said before no rock goes unturned as far as looking for an opportunity to drive more productivity and profitability. Some of that to certainly address in some situations maybe a pricing challenge, but the overall objective is to drive productivity profitability, generate that cash and deploy it. Certainly partnering for success was a big part of that effort, but at the same time I will say the regular cadence of 3% to 4% productivity targets embedded in every element of our business and the execution and discipline around achieving those targets is certainly in place.

On top of that, development costs and we have talked a lot about development costs, lessons learned and how do we be more affordable in developing our products and services. As you know, we set up a consolidated development organization under Scott Fancher in BCA and we are starting to see the benefits of that. The whole objective of harvesting the investments that we've made, overall objective of transferring of technology from one productline to another and leveraging that across the enterprise and a whole objective obviously of reuse and then operationalizing research and development efforts more like we do day in and day out in our production system, how do we take that discipline and put that in place within the engineering and development. So that has also been another element.

The final, I would say, if you put it in categories, is this whole cost of quality initiative. Think of that as the next step and we've got a lot of focus in the supply chain, as well as in our factories. Again, think of it as no rock being unturned, continuously challenging ourselves to look for further opportunities of how to be more efficient and more effective with our resources. And if you put everything under that category, I think it gives you a sense of the operating rhythm and the discipline and the target-setting and the overall cadence in how we reward our people all aligned under that umbrella. And that has been a big focus area for us. We are going to continue to do that going forward.

We really have a view of this that we are not done. Partnering for success isn't an initiative; it's a new way of doing business. It is a win-win for everybody involved and we have seen some success on both sides with a number of settlements we had over the last year or so and we are going to continue with that cadence. And again, I think that's overall very attractive to both us and our supply chain and ultimately to our customers and our stakeholders.

Howard Rubel - *Jefferies & Co. - Analyst*

You talked about, on the last earnings call, I think it was the 787-9 being down I want to say 50% versus unit one and all of us who try to think about learning curves all of a sudden say you broke the curve a little bit and is this -- I mean this is really like, oh, my goodness, this is well below an 85% learning curve and it drives George crazy when I point that out, but what happened and how do you sustain that because all of a sudden this sort of comes back and supports a lot of the comments you have been saying is we are getting there.

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, and I think it does kind of give you a view into what is happening day in and day out in the operations. And you are right, it was a 50% decrease in unit costs from unit 1 to unit 7 and the reason I highlight that on the call is just again to give you a sense of the focus and the discipline in place to try to bring down unit costs and drive productivity and profitability on the program. But that just goes to every element of cost on that airplane, Howard, and the level of effort and the dedication of the team to try to be more efficient unit over unit and understanding the importance of the profitability of that program and ultimately the cash flow on that program.

The 787 13% drop in unit cost from the last year, and again another indicator that the program continues not only to execute in going up in rate, 10 a month, highest production rate of any widebody program in the history of aviation and they are executing that and executing it well. At the same time focusing on efficiency and driving again productivity and profitability and ultimately cash for the program. But I highlight that; it's obviously important to us, it's important to you all. But again I think it is a key indicator of just culturally what is going on day in and day out and where the teams are focused. And they've made great strides and they have great plans in place to continue to execute that going forward.

Howard Rubel - *Jefferies & Co. - Analyst*

You have a lot of new customers that are taking the airplane this year and each has a different requirement. So you always warn us about entering the service costs, but we haven't really seen a big blip. What is the secret there to doing it seamlessly?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, well, I mean first and foremost, to your point, it is about a very smooth transition to our customers and ensuring that they, day one, can have that airplane up and operating and we have an infrastructure in place that helps support them as they learn about how to operate the airplane. And so we are 110% dedicated to continue to do that. We obviously at the same time try to manage the costs associated with that or try to manage some of the other period costs to offset that and that has really been the level of effort. But our commitment to continuing to do that, we've got 169 airplanes out in the marketplace today that are operating very well and it's our job to continue to do that and help these customers as they make that transition into say the new product line. But at the same time, like I said, we will continue to manage our cost structure and we assume that we are going to have to continue to do that for a period of time as we do have new customers coming into the portfolio.

Howard Rubel - *Jefferies & Co. - Analyst*

You've had a couple of customers move from Dash 8s to Dash 10s. What sort of happened there and -- I mean they obviously could have had an opportunity to either buy an A330 NEO or something like that. What has been the value proposition?

Greg Smith - *The Boeing Company - EVP & CFO*

Well, that has certainly been the most compelling. Going from an 8 to 9 is all about what is the most efficient product line to their route structure and certainly in those cases, the Dash 10 is extremely compelling. It is the most efficient airplane operating in that marketplace. Certainly when you look at a -- if you look at a business case, directly to your question, this is still an extremely compelling airplane. Whether it's a Dash 8, 9 or 10 compared to a NEO looking at the operating efficiency, the lifecycle cost and the residual value of that airplane, along with the cargo capability and along with more passengers, it by any means really stands out as far as providing very positive NPV to a customer. And that is what you are seeing in the marketplace and frankly that is why we feel confident about the product portfolio. Because of those elements, because of those things that are important to our customer that ultimately are going to drive more demand versus the competition.

Howard Rubel - *Jefferies & Co. - Analyst*

You actually, when you delivered the first Dash 9, updated the range, payload capability of the aircraft and if I interpret that, it means you are getting more either fuel efficiency or legs than what was originally promised at the time of the deal. And this is like, hello, where did this come from? And I think a lot of people, my sense is, haven't noticed that. What happened? This is the old Boeing underpromise overdeliver.

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, well, I can tell you the Dash 9 development was executed extremely well from a cost and schedule point of view. Certainly a lot of lessons learned from the Dash 8, but some very clear objectives in place around range and weight and obviously cost and schedule and the team executed very well. And that is our overall objective is to continue to look for opportunities to do that to again make that airplane very compelling in the marketplace. And what you saw is exactly what we have been experiencing and what we customers will experience.

And to your point, it doesn't happen by mistake. It is a very clear focus by the Company, by all of us, by the program, but that team executed extremely well on the key objectives they laid out for that Dash 9 and you are going to continue to see that on the Dash 10. And by the way, the 50% reduction in unit cost and also a very good indicator of how well the team has executed on blending I will say that Dash 9 into the production

system, wow, at 10 a month and continue to go up in rate on the Dash 9. So all elements of that Dash 9 introduction have been very well and we continue to look for opportunities to improve it.

Howard Rubel - *Jefferies & Co. - Analyst*

I want to change focus for a moment. We've seen a number of what I will call international partnerships and whether they are with Embraer in Brazil or South African Airways and I think there is probably multiple things that are going on there, it helps broaden the portfolio. Talk a little bit about what that means for Boeing longer term?

Greg Smith - *The Boeing Company - EVP & CFO*

Again, one of the key objectives on our international strategy is just some of those things that you have seen where you see certainly an opportunity where we all benefit through some form of a joint venture, opens up markets for us, opens up capabilities or markets for the other party and at the end of the day provides value across the board. And certainly when you look at the objectives on the commercial side and defense side around international, it's a key element in doing that. So you will continue to see more activity in that area. Again, very strategic, very specific of how those joint ventures or partnerships are formed and the objectives that are I will say set out by both parties. But you will see more of it going forward and it is all around growing the Company and leveraging I'll say capabilities across the globe and both parties obviously benefiting as a result of that.

Howard Rubel - *Jefferies & Co. - Analyst*

Some of it is supply chain management, some of it is also capital-light and if I talk about capital light for a moment, we've seen very few acquisitions and they've been very targeted. What do you think in terms of -- are there some needs or how do you want to use your capital as you see going forward?

Greg Smith - *The Boeing Company - EVP & CFO*

I would tell you the strategic focus around M&A is really unchanged. And so what you have seen -- I would expect what you'd see going forward really in the unmanned C4ISR cyber areas and services. Those are areas of the business where we see further growth opportunities or marketshare opportunities and in this kind of bolt-on technology and leveraging that on a broader scale has been the objective and we'll continue to do that obviously with a keen eye on valuations and capabilities. But we like the portfolio we have today, but having said that, that continually rounding out as we've done primarily in the defense area is something we'll continue and services. We see great opportunity in services whether it's on commercial or within defense business. So where are there capabilities there that we'd like to strengthen and how do we do that, integrate it and ultimately drive value again for the customers and the shareholders as a result of that? So that is kind of -- I would say the focus is unchanged in those areas and again, we will continue to look for opportunities, but a lot of what you've seen already.

Howard Rubel - *Jefferies & Co. - Analyst*

You have some seed-planting in defense, you have some sunset programs. So if we look out over the next three to five years, how do you see the size of the defense business?

Greg Smith - *The Boeing Company - EVP & CFO*

It's a good question. I think you are going to see a flattish type defense business for us. Certainly there is some moving pieces that you indicated as C-17 ramps down. Rotorcraft we will see some pickup in there, tanker will pick up, P-8 will pick up. So there is a number of I'll say kind of moving pieces. We are anticipating more growth on the international side and you know better than most, single-digit 12%, 15% of our revenue at BDS



was international. Now we are in the 30% range and that is our objective to sustain that all with I will say a One Boeing approach to these defense campaigns, not just a BDS approach. And I think that we are seeing the benefits as a result of that and we still see good opportunities on the international side. Obviously timing comes into play, but there is no question there is demand, there is a need and we have again I think a great portfolio to address that. It is just a question on the timing side.

But on the bottom line in BDS, I think we've said before, we are anticipating a full sequestration type environment and we are rightsizing the business and the infrastructure to do that. That is what drove the \$4 billion of market-based affordability and that is what is driving the additional \$2 billion and we will continue on that journey. So I would say a lot of again what you have seen is what to anticipate going forward about how we are addressing the overall defense environment. But we feel good about the portfolio. Again, a lot of moving pieces, some programs really ramping up, as well as those few you mentioned ramping down, but the international again demand remains strong. So we have got to again take a One Boeing approach to that as we have.

Howard Rubel - *Jefferies & Co. - Analyst*

Well, we could go on, but I know you have some other appointments and --.

Greg Smith - *The Boeing Company - EVP & CFO*

That you've set up for me. Thank you. Yes.

Howard Rubel - *Jefferies & Co. - Analyst*

So thank you very much.

Greg Smith - *The Boeing Company - EVP & CFO*

Thank you, I appreciate it.

Howard Rubel - *Jefferies & Co. - Analyst*

Greg, this is always a great dialogue.

Greg Smith - *The Boeing Company - EVP & CFO*

Thank you, I appreciate it. Good to see you.



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