09-Aug-2017

The Boeing Co. (BA)

Jefferies Global Industrials Conference
CORPORATE PARTICIPANTS

Gregory D. Smith  

OTHER PARTICIPANTS

Howard Alan Rubel  
Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Howard Alan Rubel  
Analyst, Jefferies LLC

Good morning. I'm Howard Rubel with Jefferies. I'm Head of the Aerospace and Defense Equity Research Practice here at Jefferies. And it's a great pleasure today to have back with us Greg Smith, who's the Executive Vice President of Boeing and he's in charge of business development strategy and the CFO. And Greg, also in his spare time, is on the Board of Trustees of the Chicago Museum of Science and also on the – and is also part of The Economic Club of Chicago. We have a great audience today. We have [ph] our timely moments (0:48) for him.

And Greg, I think you probably have a couple of opening remarks. I'm going to sit down next to you, and then we'll go into the Q&A.

Gregory D. Smith  

Yeah. Sounds good, Howard. Hey, morning, everybody. Maybe I'll just start a little bit and talk about the market and then some of the things we're focused on that are very consistent with what we've talked about before. But I'd say overall, the markets remain healthy and we see good demand. I think you see that in some of the fundamentals around the traffic data that's out there globally and domestically, as well as some of the load factors. So, we're pleased with the market. There's always areas of the market that we have to continue to stay focused on. But in general, we're still seeing robust demand, as we talked about in the prior call.

I think with that, the focus for us again is executing, executing and executing on this backlog. Big focus on productivity across the enterprise, all elements of cost, and then cash generation, as you've seen really reemphasized the focus on cash, and at the same time, efficient use of cash and our priorities. Obviously, investing organically as we have and we'll continue to do, and we'll continue to do that in some other areas of the business, as well in our – in verticals in particular and in services.

And then, again, dividend, staying very focused on the dividend, being competitive on the dividend, 190% increase we've had there, and buy back shares. 200 million shares we've bought back, and as we said on the
second quarter call, we remain committed to returning cash to shareholders. So, that's fundamentally the playbook. That's what we're executing on, and we're staying laser-focused on that. And I think we got a lot of opportunities not just obviously in the marketplace. We've got a lot of opportunities internally that we've got everyone again focused and aligned on, and we got to continue that focus going forward.

So, maybe with that, Howard...

---

Howard Alan Rubel
Analyst, Jefferies LLC

Thanks, Greg.

---

Gregory D. Smith

Take whatever questions you might have.

---

Howard Alan Rubel
Analyst, Jefferies LLC

Sure.

---

Gregory D. Smith

I'm sure you've got a few.

---

QUESTION AND ANSWER SECTION

---

Howard Alan Rubel
Analyst, Jefferies LLC

[ph] Yeah, indeed. Exactly. No one have – (03:05) you always are doing something. And maybe we're going to talk about two things that are topical first and you can address them, and they're kind of interrelated. One has been Partnering for Success and the work you're doing with the supply chain, and some of it's been pushed back. And then, of course, there's this. I would call it, misunderstanding about the avionics group that you set up or how you might be able to compare and contrast that with what you're doing. And so, there's really two questions here.

---

Gregory D. Smith

Yeah. Yeah.

---

Howard Alan Rubel
Analyst, Jefferies LLC

One is, the pressure on the supply chain and the standards you hold yourself and what does this new avionics group do?
Gregory D. Smith  

Yeah. Look, I think on the whole PFS initiative, it's fundamentally looking for productivity opportunities on all elements of the business, and therefore, competing to win and funding the future. And so, as we look across the cost structure, we see opportunities everywhere. What we've asked the supply chain to do frankly isn't any different than what standards we're holding ourselves to. I think there's been some great best practices internally and I think there's been some great best practices within the supply chain, and I think there's opportunity to share that, but really looking at the whole value stream of the supply chain and really looking for opportunities and doing that together, doing that in a way there's a win-win. And I think there's plenty of opportunity for that.

And I think we've seen some of that with some of our suppliers that have embraced the PFS initiative. And obviously, significant growth opportunity, whether it's to the backlog or into this marketplace that we're serving that, from an industrial perspective, is really unprecedented. And so, how do we partner better in that and win in the marketplace and look for efficiencies. And that's all elements, whether that's how our suppliers are buying material, how lean are they within their factories, how are they managing inventory, how well are our requirements being pushed down to them, how clear are they as there are opportunities on our side. And I think I've talked about before. As we talked about PFS, we said, hey, look, we got to make an investment here too, because we want to hear from the supply chain about where is their opportunities for us to allow them to be more efficient and how do we embrace those.

So, net-net, the whole objective here is certainly for all of us to get better in this phenomenal market that we're in. And obviously, we see – pardon the pun, but we see a lot of runway ahead of us here, how do we capture that opportunity together. And I think, look, since we started PFS, there's been significant savings, and you've seen the overall margins in this business really haven't been impacted. And it really, I think, gives you a good sense of there's inefficiencies across the board and the only we're going to capture them is getting to this together and leverage best practices. And I think where I'd like to see us go further, for instance, on the 787, that the team's done a great job, and take them out into the supply chain and let's help the supply chain get leaner, reduce their cycle time, reduce their level of investment needed in capital or tooling, and then we all win as a result of that.

I think they're a healthier company as a result, and therefore, we're meeting our, I'll say, productivity objectives and meeting our commitments to our customers. So, we're going to continue on this journey. And again, I think of it as a win-win. I realize there's constraints. We realize there's constraints in the system. We got to work through them, because this is a big change in an operating model and a big change in priorities. But again, I see no shortage of opportunities on all sides, but we got to do it together and capture it together. And we got to have competition. In places where we don't have competition, obviously, we think we got to have – there's certain elements where it's good for our customer and good for us where we have more of a competitive dynamic. And so, with that, we're looking for people that compete in that and we're making investments in those areas where we can have more competition.

Howard Alan Rubel  
analyst, Jefferies LLC

Okay. And your – Airbus doesn't sit still either. So, I think if you don't it, they'll do it to you, as I think I've heard that expression before. But also on avionics, just to stay there for a second, Airbus does some of the flight – they have a slightly...
Howard Alan Rubel  
Analyst, Jefferies LLC

Q

Different approach to avionics to begin with. I think they do some of the flight controls work themselves and they've been doing it for a long time. So, they're setting up with this new...

Gregory D. Smith  

A

Yeah.

Howard Alan Rubel  
Analyst, Jefferies LLC

Q

New organization. It's modest in size and...

Gregory D. Smith  

A

[ph] Yeah, they do (08:26).

Howard Alan Rubel  
Analyst, Jefferies LLC

Q

[ph] They published (08:27) the entire company.

Gregory D. Smith  

A

Yeah.

Howard Alan Rubel  
Analyst, Jefferies LLC

Q

So, help us understand what the objective is.

Gregory D. Smith  

A

Well, when I talked about priorities on organic investment, I touched on the verticals, this being one of them. So, this is really kind of looking through the lens of wanting more vertical content and then looking through the life cycle lens on the services side. And so, where do we see some of these [ph] cross-planks (08:52), and with that, making investments in that to increase our capability. In the avionics, it's really – for us, it's around navigation, flight controls, information systems. To your point, it's modest right now at 100 people. It'll grow to about 600. And this is a great, frankly, One Boeing example.

We've got some incredible expertise on some sides of the business, in particular in some of these areas in space and defense. How do we consolidate this and leverage that experience and know-how and develop this core technology for the company? But that's just one example of these selected verticals that we've talked about that
we think are critical to our success. We think we can deliver good service and affordability to our customer. And again, looking through that life cycle lens is another, I'll say, enhanced element of our operating rhythm today, and setting up that services business is certainly key in doing that.

Howard Alan Rubel  
Analyst, Jefferies LLC

Q

In talking about this new management structure both the three entities now instead of two...

Gregory D. Smith  

A

Yeah.

Howard Alan Rubel  
Analyst, Jefferies LLC

Q

And that probably increases some flexibility or at least you're going to put the service company out on its own, and we're also going to see the margins that the commercial business has without service.

Gregory D. Smith  

A

Yeah.

Howard Alan Rubel  
Analyst, Jefferies LLC

Q

So, what kind of standards do you think Dennis is going to hold the commercial to going forward, because he has some big and bold targets? So, how does this all play out?

Gregory D. Smith  

A

Yeah. From that perspective, I wouldn't expect to see – well, there won't be significant change there. Obviously, it's a different business structure and one that now we've got people in the service organization that 24/7 are thinking about how to serve our customers better and drive profitable growth. And when we look at the size of the market and look at our current share of that marketplace again – and I'll say our deep understanding of our products and our services, we think there's opportunity to grow there. So, Stan's got a big target in place.

But it's our job – when I say our job, One Boeing, to help him be successful and staying very, obviously, close with the customer and deliver a better level of service than maybe what they have today. And part of that is changing the incentive plan, One Boeing score. Everybody is on One Boeing score. It's the success of Boeing. It's not the success necessarily of your scorecard. And then, the key operating elements within that, revenue, earnings and cash; clear line of sight externally, internally; clear accountability. And so, this is another mechanism to drive the One Boeing and to ensure that we're doing – we're making the right decisions to drive value for our customers and our shareholders as a company.

And I know you've heard the One Boeing phrase a lot. There's many great examples of that, but I would say, and I think the whole team would tell you, there's a lot of great opportunities still in front of us. And so, part of setting up the services, we're all in this boat and we all got to enable this to be successful, at the same time, enabling Defense, Space & Security, as well as BCA. But the fact is [ph] we all own (12:29) this and we're all on – the
whole team is on one score, and I think that's an important element of driving the right behavior and the right accountability across the company.

Howard Alan Rubel  
Analyst, Jefferies LLC

So, as you — there's really two questions that come out of this new org structure. One is what we saw, when Dennis was running BDS, he did a nice job of continuing to drive productivity, so that even though volume shrunk, the business remained profitably strong and generated good cash. And as he's looked across the other two businesses and had that opportunity to do that, do you think some of that has occurred?

And then the second thing is, if we look to BDS, you've changed the structure again...

Gregory D. Smith  

Yes.

Howard Alan Rubel  
Analyst, Jefferies LLC

so that – again, I want to call it lean management that maybe even has higher level of accountability for product lines than existed before. Can you talk about that and how that raises the bar a little bit?

Gregory D. Smith  

Yeah. I guess I would put that into the – again, the category of looking for every opportunity to be more efficient, more agile and better serve the customer. And it's all in that all within this whole market-based affordability initiative, frankly, at BDS. So, where can we remove layers? Where can we be more nimble, more agile, and at the same time meet these margin objectives?

And so all of that kind of taken into consideration, but I would really put that into the category of we're constantly looking for opportunities to capture value. And I put value under a big umbrella and challenging ourselves going outside, benchmarking into companies that you wouldn't traditionally see us benchmarking against and trying to find best practices, and trying to figure out how to implement them into the company and do that in a very efficient manner. But it's a change of mindset. It's resetting an expectation. It's moving a bar up and striving to get there but not – and by recognizing business as usual. It's not all going to get you there.

You're going to have to make investments. You're going to have to think differently. You're going to have to go learn from other people outside the four walls, outside the industry. What's best in class look like in a manufacturing environment, and how do we get there? And where are we? I think I talked to you before about we've got some phenomenal examples in Boeing that we need to leverage better, and we are and we will. We've got people from 787 going over to Chinook. We've got Chinook people going over to 787.

And there's best practices there within the enterprise that in some cases are top quartile. They are global industrial champion levels of performance whether it's inventory, working capital, unit cost, quality, whatever that may be, let's leverage it. Let's leverage it.

And part of my role is to do that, is to enable it and to drive it and to identify it, but then, at the same time, look outside the four walls. And not everything obviously is going to work in our environment but it really kind of
challenges you and really allows you to kind of really reset the standard of expectations that, again, kind of drive back into the comp structure and really drive into the whole personal accountability that you brought up, that business as usual isn't going to cut it. It's not going to cut it. It's not going to allow us to win in the marketplace. It's not going to reward the people that are putting their trust in us to have an adequate return on investments.

So, hey, we got to reset the bar. Do it in a smart way, have solid plans in place. At the same time, keep a keen eye on risk management. We've spent so much time and effort trying to derisk this portfolio. Labor stability, capping – moving the pension to defined benefit, to defined contribution, production rate increases. 18 increases since 2010, the team has done a great job. But that's by taking best practices, keeping a keen eye on risk and finding that right balance, piloting projects before fully implementing like automation. Let's walk a little bit before we start running. Learn from it, step back and then get running.

737 automation is a great example. You've got to make a little bit of investment upfront. Work through some of the bugs. Go outside, see how other people have implemented it, bring it in, scale it up, run with it, but not just jumping in by running with it. So, this whole kind of derisking element, I think is really key. And we're continuing to look for opportunities where we can derisk our own portfolio.

And the latest move with the – pulling forward some of that pension funding from now to 2021. There's another example of how we can take – look at risk differently, be proactive and manage that today and take that uncertainty out over the next five years. So, boy, I look at the risk profile of the enterprise for the next five years versus the prior five, big difference. So, it's our job to keep managing that and keep a keen eye of that, at the same time reset expectations in standards on productivity and challenge ourselves.

Howard Alan Rubel
Analyst, Jefferies LLC

So you've set me up for a 787 questions.

Gregory D. Smith

Okay.

Howard Alan Rubel
Analyst, Jefferies LLC

Assuming you've done a couple of those.

Gregory D. Smith

I didn't run out of timeout?

Howard Alan Rubel
Analyst, Jefferies LLC

No. No. No. It's all right.

Gregory D. Smith

You can tell. We're focused and passionate about it and [ph] I envisage (18:35) a lot of opportunity.
Howard Alan Rubel
Analyst, Jefferies LLC

Q
So, all of a sudden 787, in the last 12 months, has gone from being modestly breakeven on the – for cash, maybe a little profit. And all of a sudden, we're now at $16 million a unit on taking cost out. Where does it go from here – how should we think about the trajectory from here?

A

Gregory D. Smith

A
Yeah. Well, you're right. Team's done a great job. We've got the best of Boeing work on this program and really being innovative and coming up with ideas of how to reduce cycle time, improve quality, lower unit cost, improve safety of the whole – how do you implement best practices. As I think I mentioned on the call, some best practices are being developed there under this whole champion time concept.

So, the team has stayed very focused on day-to-day execution. How does that next airplane in the line become better than the one you're working on? That starts with commitment to making our deliveries, and they have been delivering as scheduled to our customers. So, first and foremost, that's a big obviously driver in productivity. We're making schedule. And that doesn't come without a supply chain that's arm in arm with you through that.

And then there's the internal productivity. The productivity in the supply chain, the stepped-down pricing we've talked about and the smooth implementation of the 787-9 and the 787-10 which, as you know, is not by mistake. We made investments up front to ensure the 787-9 would get implemented smoothly. We set up a separate line. If you remember, the whole surge line and proved it out down that line before we brought it into the full production system.

We're seeing the benefit of that investment today. We're seeing the benefit of the commonality focus on the 787-10. I mean, we've got three airplanes in flight test. We're 50% through flight test and on an hours’ per unit is operating close to par of a 787-9 already. So, really kind of – really gives you a sense of that focus up front by the team of trying to get [ph] common (20:56) in the factory, minimizes disruption, maximizes opportunities on flow, quality, cycling of the crews and so on, and we're starting to see the early benefits of that. But fundamentally, Howard, that's what everybody has been focused on day in and day out.

And again, it's about in leveraging best practices. That's a team again that's gone out to a rotorcraft where they've seen what they viewed as a best practice which I think was a best practice and now implementing it. At the same time, they're sharing some of the things that they're doing with other parts of the business, and that we've got to continue that cross - business cross-functional sharing of best practice. But it's a team that is coming in every day focused on meeting their commitments and trying to execute flawlessly.

Now, there's still a lot of work to do, and they'll tell you that, but at the same time, they're seeing – as they make progress, they're seeing more opportunities. They're reaching levels of performance that probably a couple of years ago they would have a hard time seeing a path to get there. But they're achieving it. And, again, what's the next level of performance? How do we get to that next level?

Howard Alan Rubel
Analyst, Jefferies LLC

Q
Let me switch a little bit from cost to orders and couple things there that are important. You're 25 units away from getting to the milestone on the Block. And kind of two points. One is do you see some new customers that might
be added to the 787 family this year? And second is, do we cross that milestone? I mean, is there a good probability that we cross that 1,300 milestone this year?

Gregory D. Smith  

Yeah. I mean, look, sure. I mean, there's a lot of folks in the pipeline from a campaign perspective that are – that could come home for the 787, obviously, great family of products. And particularly, I think the 787-10, once it gets out and operating, I think people are going to love it. It's a game changer. The whole family is a game changer, but the 787-10, I think once that gets out again and starts operating, I think people are going to be extremely pleased with that product.

As far as the Blocks go, as you know, we're meeting our commitment on delivering the key element of that and working through time. So, there's an opportunity certainly to extend the Block this year. And we meet the criteria on percentage sold within the Block. It really gets down to time, which really kind of gets into the 12 or 14 a month. And we certainly see a marketplace that supports the 14 a month but there's more things to take into consideration before you commit to that rate increase. And so, we're working our way through that right now.

Howard Alan Rubel  
Analyst, Jefferies LLC

That's pretty – that's understandable and I get it.

Gregory D. Smith  

Yeah.

Howard Alan Rubel  
Analyst, Jefferies LLC

Let's go to 737. I mean, you had an air show that surprised everybody. I mean, you changed the dialogue on the 737-10X from what is this to, oh, my gosh, I want to have it. How did that work? I mean.

Gregory D. Smith  

Yeah.

Howard Alan Rubel  
Analyst, Jefferies LLC

What's been the – what's the change that really enables you to create this – satisfy this pent up demand for the product?

Gregory D. Smith  

Yeah. Well, look I think obviously it starts with customer and the customer's needs and how do you fulfill that need in a manner, in a timeframe, and at a price point that works. And that was the challenge for the team and minimizing the development cost is a key part of that obviously and getting that airplane into market.
And those elements really came into play a bit. We offered an airplane that clearly met the needs of the market at the right price. And the right, again, operating efficiencies that they were looking for. And getting it into the customer's hands in a reasonable timeframe and again that gets to the whole development cost and development cycle time initiatives that we've had in the company.

So, we're certainly pleased with the early introduction of the 737-10X. Again, it's a great family across that 737 platform and we're going to continue to look for opportunities to improve it.

Howard Alan Rubel
Analyst, Jefferies LLC

The thing that's interesting also, you talk about kind of shared practices. And what we're seeing on the 777 is you've gone back to the supply chain and said, if you'd give me better quality, I'll pay for it but I'll also be able to improve my assembly lines. So, as you look at a 737 and you kind of talk about this agreement you've now reached with Spirit, I mean, what are you doing to sort of work together to also improve the quality of the product that you received so that they benefit and you benefit?

Gregory D. Smith

Yeah. I mean, again, that's a great example of PFS where if there's opportunities for improvement and we have been able to demonstrate that in other parts of the company, let's get in there and let's help them. And that's a win-win opportunity for us and I think Tom and the team have really embraced that we've got to work together and if we do, net-net, we'll both be better and serve the customer better at the end of the day. But first and foremost is you've got to be transparent and recognize where you've got challenges and be willing to work together and take the help and improve upon it. So, that's what the partnership is all about.

And at the end of the day, if we win in the marketplace, our suppliers win. And so, we want to make sure that we're competitive today but that we're competitive going forward as well. And again, if we win, everybody wins.

Howard Alan Rubel
Analyst, Jefferies LLC

So, the MAX is now in the market.

Gregory D. Smith

Yeah.

Howard Alan Rubel
Analyst, Jefferies LLC

It's now operating. What kind of customer feedbacks are you getting? And also, I think just at the same time, the other thing that's happened is you're introducing a new model while at the same time, you're actually taking the production rate up on the 737. And maybe a third point I might make, and you can address this, is that you started almost two years behind Airbus with respect to where you were in terms of entering it into service. And if we look out 18 months, that difference between your market shares almost narrows to a de minimis amount. So, maybe you can talk about how that's created value for the 737 fleet in the process.
Gregory D. Smith  

Yeah. I think similarly it goes to my comment for the 787-10. You've got to have the right airplane that meets the customers' needs, that's driving efficiency, overall operating efficiency. And you get it into their hands in a timeframe that they need it, and net-net, help them be better. And I think the whole MAX family does that. And that I think is represented in the backlog and the commitment we've had from our customers.

So, focus for us now obviously is continuing that ramp-up. We're off to a good start. And getting these airplanes into the hands of our customers as we ramp up the production rate on the 37 but also ramp up on the MAX, I would tell you that's going well. But, again, put that – think of that similarly to how I talked about the 787. We set up, we invested in a separate line to run the MAX and to prove it out and minimize risk well running at 37 to 42 a month over here on the NG to not disrupt that, workout any potential issues we had, and then we'll merge these lines together, and that's a smart investment.

That's a smart investment. It's risk management, and that today when you go out and talk to the mechanics and ask him how's the MAX coming together versus the NG you just finished, that's the real test in the factory, boots on the ground. Conceptually, we know how it shouldn't work, how did it work, and they're loving it. I mean, they said it's going together really well, minimal issues, so now it's the ramp. It's ramping up. And that's what everybody's focused on. So, we're off to a good start. And again, I think it's a great family of aircraft and the backlog represents that.

Howard Alan Rubel  
Analyst, Jefferies LLC

And so, do you have any kind of feedback in terms of from the operators as they've started to fly the plane? I mean, we're not seeing any squawks at least.

Gregory D. Smith  

Yeah. Yeah. Yeah. I have not specifically, Howard. I can tell you I've heard anything that would cause me any concern.

Howard Alan Rubel  
Analyst, Jefferies LLC

It's good.

Gregory D. Smith  

So, I guess no news is good news, but I'm sure the BCA team have heard from our customers. But, as you know, when we deliver these things we have an infrastructure in place to ensure that we get these things into service with our customers smoothly. So, that's an investment, that's a partnership, that's a relationship, and so we want to make sure that when they get that airplane they're ready to go. They know how to work through what's new and help them get that thing into revenue service as fast as possible.
Let’s talk about the 777 for a moment and the 777X specifically. It’s the next big high profile development program.

Howard Alan Rubel  
Analyst, Jefferies LLC  
You’re getting close to starting to put together the first airplane.

Gregory D. Smith  
Yeah.

Howard Alan Rubel  
Analyst, Jefferies LLC  
And can you give us some insights as to where you are?

Gregory D. Smith  
Yeah. It’s always exciting but it’s getting really exciting now because there’s parts in the factory being fabricated, being assembled. So, I think it’s going well. I think a lot of the – remember, we talked about the initiatives in the risk management. One of that being development programs and best practices and how do we execute better on development, what are the lessons learned, and so on.

And really the MAX and the 777X were the first to kind of go through some of those new [ph] gated (31:40) process and best practices. So, I think we’re seeing the result of that. Now, certainly we've got a long way to go before we start delivering airplanes, but it's tracking well on schedule, tracking well on cost. But you can imagine, we're laser-focused on that thing every day to make sure that it continues that way and we get to that first delivery on time. But it's going well.

Howard Alan Rubel  
Analyst, Jefferies LLC  
Okay. Good. Let me talk for a moment about defense, and it's sort of important. Yeah. I mean, it's not trivial and...

Gregory D. Smith  
No. I know. Happy to take defense questions.

Howard Alan Rubel  
Analyst, Jefferies LLC  
So, the F-18 has proven its worth, and the Navy's [ph] flown the (32:23) wings off them. And so there’s a shortage of those aircraft in the fleet. How do you – there’s some dollars in the budget. How does that fleet stay current? And then also where you’re – and I think can you give us a status on some of your international orders?
Gregory D. Smith  

Yeah. Well, I think on that note, we've got a healthy pipeline on the international and they're moving along on F-18 and F-15. So, to your point, there's a lot of life in these products. But we've invested a lot in these products, and in innovation, and improving the overall capability and enhancing that product line. And that you're going to see that continue over time.

I think in particular on the F-18 and the F-15 – look, it's proven, reliable, capable and affordable. And that are really the four fundamentals that I would say that differentiate this product in the marketplace. And the affordability piece, put that back again under the market-based affordability initiatives, we're not satisfied. We're going to continue to go after costs on that program, get the price down, and continue to offer it in the marketplace again, and make investments where we see opportunities to enhance the capability of the fighter lines, we'll do it. We'll do it and we've done it. And look, it's been modest really as far as investment. But it's been pretty significant as far as upgrading the overall capabilities.

So, look, they are phenomenal platforms. There's clearly a global need for both of them. And our focus is again executing on the contracts we have winning on these international campaigns or finalizing some of these international deals that we have. And just, again, a relentless focus on unit cost, productivity, cycle time, you name it, on those fighter lines. And they've made good progress obviously. But there's still more opportunity to go. There's still more opportunity.

Howard Alan Rubel  
Analyst, Jefferies LLC

Thanks, Greg. And we just have a couple of seconds left. Is there anything that – have I covered everything that's – I've never covered everything, Greg, but is there anything that I've left out?

Gregory D. Smith  

I wouldn't say you left it out. I think a lot of people – I don't want to diminish the whole focus on risk, risk management within the company. So, again really, execution-focused, I talked about the compensation.

I talked about the personal accountability, the functional cost that we're all accountable from a functional perspective and as well as the businesses, the benchmarking inside, benchmarking outside, really resetting the standard, cash whether it's payables, receivables, inventory, people have targets, metrics. We're driving that. You're seeing some of that in the results. There's some more opportunity there at the same time, again, focusing on the whole volatility aspect of it.

And there's stuff we control, like we talked about, R&D profile, pension, rate increases, how we bring products into the market, how we bring automation in to try to derisk it but be effective and work with agility and speed. And then you've kind of got the market. And the market has changed. You look at the mix of the backlog, you look at the difference between replacement and growth, that's a real differentiator. So, a lot of people talk about this "cycle" that they've been talking to me about for the last six years, we don't see it that way. I mean, there's always going to be ups and downs, certainly, in the market, but there's a lot of fundamental differentiators that really don't kind of "fit" into the cycle anymore.

And they're fundamental, but they're high impact. When you've got 40% of your backlog that's replacement, and then you look forward into the marketplace that we all see, and there's more replacement demand, that really
goes to – it’s a bit very different than the past, but it goes to do you have the right products in the market to serve that replacement of growth? We think we do.

And I think the backlog again kind of represents that. But those fundamentals really shouldn’t be lost to anybody because they’re a differentiator in this business, but they’re a differentiator in the broader industrials as well. The robustness of this marketplace on traffic and global demand for defense space and security, I would argue, is very different than the broader industrial group.

So, we’ve got to continue to execute, continue to drive, compete to win and really go after these productivity initiatives that we’ve got in place.

Howard Alan Rubel  
*Analyst, Jefferies LLC*

Thank you very much.

Gregory D. Smith  
*CFO & EVP-Enterprise Performance & Strategy, The Boeing Co.*

Thank you.

Howard Alan Rubel  
*Analyst, Jefferies LLC*

Great. Perfect. Thank you, all.