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## CORPORATE PARTICIPANTS

Dennis A. Muilenburg

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

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## OTHER PARTICIPANTS

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

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## MANAGEMENT DISCUSSION SECTION

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Good morning everyone. My name is Sheila Kahyaoglu with the Jefferies Aerospace and Defense team. And today we're thrilled to have Dennis Muilenburg here, who is Chairman, President and CEO of The Boeing Company.

To start off with a little anecdote, my first encounter with Dennis was at an Analyst Day not so long ago, and he made a point to seek out conversation with me. And the first thing I brought up was a piece of automation equipment I had seen on the factory floor that day. Dennis immediately knew what I was talking about and referenced the automation company that was Seattle based that Boeing essentially had seeded. So my first impression of Dennis was cemented then, that one, that he cares about the small stuff, myself included; and two, he is focused on technology, innovation and automation, which we'll get to later, but first I think you have few prepared remarks.

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Dennis A. Muilenburg

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

I do. Well. Sheila, thank you for that. And I remember that instance too. So thank you. And thanks for the chance to join you, appreciate the opportunity to talk this morning. Just some brief opening comments then we'll jump into your questions. I'd like to start today just again by reiterating our deep sympathies for the families and communities that have been affected by the two recent accidents of the 737 MAX, that continues to weigh heavily on our company, and we're always going to remember that. But I will say it has also done nothing but reaffirmed our commitment to safety and quality and integrity in everything we do.

And most importantly, I want all of you to know that nothing, nothing is more important to us as a company than the safety of the passengers and crews that fly on our airplanes, that's at the very foundation of our business, always will be. And that drives everything we're doing on the MAX right now. We are making progress on returning the MAX to service. As I mentioned on our recent earnings call, we're working through a software update, finalizing that working through the certification plans. We still anticipate submitting that certification package to the FAA in the September timeframe and we're working towards a return to service of the Max early in the fourth

quarter. There is still some risk to that timeline associated with regulatory approvals and some things that we don't control. We are working with regulators around the world but that baseline case is one that we're making progress on and continuing to drive to.

While we're doing that we're also engaged with our airline customers around the world, we're working on training and education materials. We're out doing simulation sessions with them, also taking care of the grounded fleet and working with them on preservation actions to make sure the airplanes are ready to come back up and enter fleet operations once their return to service is approved.

And we're also working hard on the production system, health and stability and continuing to invest in our supply chain. We mentioned at our quarterly earnings call we are continuing to produce at 42 MAXs a month, 42 737s a month, and then plan to ramp up to 57 a month next year. Again that will be paced ultimately by our return to service approvals. But that is the current baseline plan.

There are about 600 suppliers in our 737 supply chain and we're working daily with all of them as well in terms of health and stability of the supply chain. And we're going to continue to drive forward with that baseline plan. We know that a healthy return to service of the MAX, safe return to service is important to our broader business base and while we're focused on the MAX as our top priority the rest of the business is continuing to execute well and that spans our commercial defense and services businesses. Our market prospects remain strong and I think we'll talk a little bit more about that, but the long-term prospects for our business remain very solid and we still expect this to be a year-over-year cash growth business long term and that will be substantiated by our product line up across all of our sectors. And lastly, we do see this current situation with the MAX as a real defining moment for our company and one where we will reinforce our values and we will stay true to those values around safety and quality, and integrity, that's who we are as a company. And I'm convinced we'll come through this as an even better and stronger company for the future. So with that I'm happy to take any questions you might have.

## QUESTION AND ANSWER SECTION

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

Sure. I guess sticking on the MAX, Greg and yourself laid out all options on the table, potential stopping production, how do you assess all of the options and how so in scenario planning with regards to that.

Dennis A. Muilenburg

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

A

Yeah. We continue to do active scenario planning on a daily basis and bounce that against our return to service plan, so parameters that we consider in this scenario planning include that specific return to service timeline that I just outlined. It also includes our airline customers' plans, fleet by fleet in terms of their ability to take airplanes back. So, as we deliver and re-deliver airplanes we have hundreds of airplanes that will re-enter service, in addition to our production line over the next several quarters.

We're also keeping a close eye on our supply chain, our best assessment of regulatory approvals, so every dimension of the MAX enterprise is being considered in our contingency planning. We have taken a look at some hard scenarios, that if regulatory approvals extends significantly and return to service is significantly delayed that we would consider things like lower production rates or a temporary shutdown to the production line. Those are not decisions we would make lightly. If you think about our production line, again 600 some suppliers, hundreds of thousands of jobs that would be impacted and we're very mindful about supply chain health because we still have the long term plan, as I said to ramp up to 57 a month, and do that in a healthy way. So we're continuing to do active scenario planning, very focused on executing to that baseline plan and returning to service in the – early in the fourth quarter, but I think it also behooves us to make sure we're doing disciplined contingency management and trying to be transparent about that. So we all understand the risks, but at the same time, know that we're very focused on delivering on that baseline plan.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

Boeing took a \$4.9 billion charge related to the 737 MAX, how do you think about the parameters and input it took to come up with that number? And how do we think about a prolonged grounding post early Q4 with regards to that?

Dennis A. Muilenburg

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

A

Well as we contemplated all the parameters around possible concessions and considerations for our customers, we know that we've impacted their fleet operations and we regret that and it's had a significant impact to a number of our airline customers around the world. And you know it's in our mutual interest to make sure that they have healthy businesses and are ready to ramp back up. And we've looked again through all of the impacts of having grounded airplanes for many customers, more than 370 aircraft that were grounded. We're also taking a look at delivery profiles for the future.

So when you think about the fact that we've reduced production rate to 42 a month, that means future deliveries have been delayed. That will have impact to their fleets as well. So we've taken all of those parameters into our assessment of the total potential considerations and concessions we took that entire charge in the second quarter

as you saw in the numbers. That is a multi-year assessment, in terms of how that will ultimately play out, those concessions would also be made over multiple years. Some of that could be cash payments that we anticipate, it will be a variety of considerations in addition to potential cash payments, it could be features, it could be skyline positions, services tailored for each customer. We do expect that ultimately that the cash impact of that charge, while it will play out over multiple years, it will be more front loaded over that time period. So we've thought through all of that and we've done our best to capture all of the variables including the potential return to service scenarios and timelines and given us enough flexibility to capture all those possibilities.

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**Sheila Kahyaoglu**

*Analyst, Jefferies LLC*

Q

Sure. You talk to your customers all the time about the MAX. I'm sure we've heard from a number of them in the past few weeks, how are they thinking about reintroducing the MAX and how is Boeing focusing on training and outreach?

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**Dennis A. Muilenburg**

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

A

Yeah. Well first of all, I really want to thank our airline customers for their partnerships, because they stuck with us through all of this and it's been a challenging situation for all of us. But I can tell you, our customers remained tremendous partners in this. We have had no order cancellations. We have 4,400 MAXs in backlog. And we're going to be working hand-in-hand with each of our customers to make sure they bring their fleets back up successfully. That includes working with them on training and education materials, so we have teams out working with their pilots, working with our customers to make sure we're providing everything they need for training. We have teams deployed tail number by tail number with their airplanes in the field on preservation actions, maintenance actions, helping to make sure the airplanes are healthy as they come back up online.

And then we also have some work to do on, I'll say rebuilding the public confidence, the flying public's confidence in the airplane. So communications, working with all of our airline customers on how we're talking about the MAX, the safety of the MAX and we know that will take some time to rebuild public confidence, but we do believe that with the software updates the MAX will be one of the safest airplanes ever to fly. We are very confident in that and we'll be working with our airline customers to help rebuild the flying public's confidence in the airplane as well.

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**Sheila Kahyaoglu**

*Analyst, Jefferies LLC*

Q

I want to shift gears to 777X a little bit. You have 364 orders and commitments for that plan, you've announced a slight delay, can you talk about what's going on with the engine and what are next steps to first flight?

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**Dennis A. Muilenburg**

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

A

Yeah. You bet. Well 777X is going to be a fantastic addition to our portfolio if you take a look at the future global networks and the routes that it will support, the ability to connect city pairs around the world in new ways with the kind of capacity we're talking about, more than 7,200 miles of range on initial deployment, great capability that's going to come into the marketplace.

We're working through – I'll say two paths to getting to first flight, sort of the airplane system integration path and the engine path. The airplane is performing very well. So we have four flight test airplanes, two of which were out on the ramp now being tested. You might have seen in the news. We conducted additional taxi tests of flight test # 1 airplane this week. So we are actively using those airplanes to reduce risk and work towards certification.

In parallel we are addressing engine issues and GE has had some challenges on the first engine that we discovered in some of the reliability testing. They're making some component changes. We believe we have our arms around the change that's required but some additional testing has to be done yet and as a result we don't expect first flight to occur until early next year. We're still driving towards first delivery by the end of 2020. But there is pressure on that schedule because of the delay in the engine in first flight. That's why we are doing some additional ground testing and things like taxi testing with the current airplane to take some of that flight test schedule pressure out.

So that's really what we're working through right now. The airplane itself is looking really good in the factory and gauntlet testing, we've got to work our way through the engine, get our first flight early next year, do the flight test program and then begin delivering airplanes. The backlog, the orders opportunity, the way it will fit with our airline fleet networks, it's going to be a great airplane.

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Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

I want to catch up on the backlog a little bit, given the delay how do you transition from the 777 legacy to the X?

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Dennis A. Muilenburg

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

A

Yeah. We've continued to build the bridge between the two, and as you know that's been a key focus for us in terms of risk mitigation over the last couple of years, and we've been very successful on building that 777 to 777X bridge. The Freighter market has been extremely strong over the last couple of years and that's showing up in 777 Freighter sales, in particular on the current generation 777. So we've made a lot of progress on filling out that bridge, and our confidence remains high that we're able to do that. With the delay in the 777X, that does mean the mix of airplanes next year is going to be a little different, probably more heavily weighted to current 777s, 777 Freighters, but we believe we have the orders pipeline to fill that out.

We're going to continue to look at our exact production mix for next year. We do expect the production line to continue to run at five a month and deliver airplanes at about 3.5 a month for the rest of this year and we'll look at the exact mix for next year. But the combination of building that bridge between current generation and the 777X, our overall confidence level is strong.

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Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

I know this is a long term business, but I want to step back a little bit and think about the short term. There's tariffs, there is slowing air traffic, cargo demand, how do you think about the demand for narrow-body and wide-body aircraft from here?

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Dennis A. Muilenburg

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

A

Well. This is a really interesting marketplace, right. And you're right there are some near-term challenges, we think about the trade tensions with China, we have seen some moderation in passenger traffic early this year, although passenger traffic is still growing at about 5% this year. So passenger traffic is still continuing to outstrip GDP growth around the world. And so, even when it's a little more moderate than it was previous year, that's still a pretty strong growth rate.

So when you look at the long-term opportunity, we just updated our current market outlook – 20-year outlook. It's up across the board, you look 20 years out, the world still needs 44,000 new commercial airplanes. Traffic trends are strong. They are global. The trends are less cyclical than they've been in the past. Out of those 44,000 airplanes about 32,000 airplanes are narrow-body airplanes. The MAX is well-positioned for that. On the wide-body front, we said the near-term concerns on China trade, give us a risk area on wide-body skyline for 787 and 777 that we're keeping a close eye on. But we still see a very strong wide-body replacement wave coming early in the next decade.

So, long-term prospects we feel very bullish about the aerospace marketplace. It's a robust long-term growth market and not only in the commercial sector, but Defense budgets are looking solid and the services market growth is also continuing to look robust. So our long-term prospects for the business, we remain confident while we work through some of the near-term challenges around trade tensions.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

I want to talk about profitability and productivity, where it's almost developed a negative connotation these days.

Dennis A. Muilenburg

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

A

Yeah.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

How do you think about where profitability goes from here with commercial airplanes, driving margins from high single digits to 13% in 2018?

Dennis A. Muilenburg

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

A

Yeah. Well, we remain on our on our track to drive the overall business to be a mid-teens margin business. And I think it's important to note that productivity and profitability, they go hand-in-hand with safety and quality. And I think sometimes right now as you implied, some are suggesting that productivity and safety are opposing forces, and they're not. We all know that in our factories and in our airplanes safety, quality and productivity are mutually reinforcing. For example, in the factory when we have a lean productive flow and we're doing work in position that's also a safer work environment.

So it's important to understand one, that those objectives are mutually reinforcing, and we're going to continue to drive productivity on our business, not only in our factories but first time quality and engineering, how we work with our supply chain. And we still have a lot of opportunity ahead of us. I think you've seen over the last few years we've made some good progress on overall margins for our company. We have more to go, but our long term expectations to get this to be a mid teens margin business overall, that remains our target, and that is our fuel for the future. That productivity, that profitability, our number one use of cash continues to be innovation, investing in the future products and services, and that is a solid growth model for us.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

I want to talk about what gets me excited a little bit, and it's the future of aircraft manufacturing. How do you think about some of these automation tools that you could implement whether it's for the NMA or the FSA.



Dennis A. Muilenburg

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

A

Yeah. So as we look at future potential future products as well as implementing current production lines; the transformation that's happening in design manufacturing right now is one of the biggest transformations you can imagine. And we're putting as much innovation into how we design and manufacture as we are into the products themselves. You think about what we're doing on digitizing engineering, model based engineering, the ability to digitize our supply chain as a result that drives first time quality, it drives performance enhancements, all of that is unleashing new capabilities in the manufacturing sector. So when we digitized our designs we're now able to apply automation. We're not just applying automation to how we used to build airplanes, which is the first step of efficiency but when we design airplanes to take advantage of automation in our factory systems, there's a whole new wave of productivity that we gain.

So that implementation of automation and how we have our workforce working hand-in-hand with robots in our production lines is a big transformation and is going to create growth for the future. We're also investing in things like additive manufacturing on the production lines. So the idea that not only can we reduce cost and schedule with additive manufacturing. We can also do inline customization for customers, and so in the past when customization might have created variability in the future ,we'll be able to do customization for customers because of additive manufacturing.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

Okay. I want to shift to Defense a little bit...

Dennis A. Muilenburg

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

A

Yeah.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

...Boeing made headlines last year with three big wins...

Dennis A. Muilenburg

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

A

Yeah.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

...the T-X, UH-1N and MQ-25, can you update us on what's going on with those programs?

Dennis A. Muilenburg

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

A

Yeah. We're making great progress in all three of those programs. And I just had a chance recently to do a review on all three. So T-X we are up and flight testing. We're deep into the EMD development program. Now we're into the developmental test and evaluation portion of the program, in fact just earlier this week we completed the 100th T-X flight, airplane is looking very good and we're steadily marching through the program. We still see that as a potentially 2,000-airplane market in the long run. MQ-25 continuing to make progress with the U.S. Navy; we



have a vehicle it's in any ground test, taxi test right now we still expect to get in the first flight of the MQ-25, later this year and on MH-139 we've got the commercial helicopters already rolling off the line and we expect to have the militarized versions up and flying later this year. So we are already into flight tests on all three, and if you combine that, that's about a \$60 billion opportunity for us over the next – over the next decade or two.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

How do we think about the growth for the Defense business, growth profile and margin and how do you think international opportunities as well?

Dennis A. Muilenburg

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

A

Yeah, sure our Defense business is probably in the healthiest position it's been in a decade. I want to applaud the recent action by the administration and Congress on the two-year budget deal and what that means to the Defense budget and getting off the sequestration path and really this is enabling our armed forces in the U.S. to make the modernization investments that they need to make. And I can tell you, our Boeing programs within those service plans are strongly supported, and that spans fighters, helicopters, commercial derivatives, satellites, space programs.

And internationally, we see continued strength as well, a little over 30% of our Defense backlog is now outside of the U.S. and it continues to become more geographically diverse. So we see our Defense business as a strong part of our portfolio both top and bottom line.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

Can you talk about the Service business as well...

Dennis A. Muilenburg

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

A

Yeah.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

...how do you think about that \$50 billion target and how you expect to get there?

Dennis A. Muilenburg

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

A

Well we launched our Services business now, it's almost two years ago, and we've been very successful in the market, positive over the first couple of years, it's grown at about 17%, about 11% growth over the last quarter but over the last two years about 17%. And this is in a market that's growing at about 3.5%. So we are clearly winning in the marketplace. I think we have an advantage by being able to tap our OEM, our manufacturing knowledge and bring that to our customers in the Services business. We've launched a number of vertical areas that add value to services, parts and distribution including our acquisition KLX has been very effective, training solutions, and then a lot of growth in digital solutions, software based solutions that create new value propositions for our customers. So we still have work ahead of us, but we've kept her eyes on that \$50 billion target, it's a long term target but we are growing on a pace that will achieve those goals.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

Makes sense. So, we should – we should think about the parts and services as maybe the biggest piece and digitalization the quickest growing?

Dennis A. Muilenburg

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

A

Yeah. That's the way I would look at it. I'd say that the parts and distribution business is the highest volume part of the business today, and we see a lot of synergy between our KLX acquisition and our existing spares distribution business. And in fact we see even more synergy than we had originally thought possible when we made the business case. But the fastest growing part of the business is the digital business, and we recently made an acquisition of ForeFlight, just as an example in that sector, but we expect that to continue to be our fastest growing segment of the Services business, and all of this again looking through the lens of what adds value for customers. And I think that's where we have a unique advantage in our relationship with the end customer, understanding value proposition and then creating software digital solutions that match up to what they perceive is value.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

I just want to – before turning over to capital allocation, I want to talk about the team has done to derisk the balance sheet and put Boeing in a more formidable position, can you just talk about all the mitigating factors?

Dennis A. Muilenburg

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

A

Yeah. We've taken a lot of actions on that front. And as you know cash management, cash discipline, is a big part of how we run the company. So over the last several years, we've done things to reduce cyclicity in our business, how we run our production programs or production rate discipline, our development programs, sequencing of development programs, our discipline on long term labor agreements, all of those things have added stability and taken cyclicity out of the business.

All that adds to cash management disciplines as well. We've also been taking disciplined liquidity actions recently given the MAX situation, as you saw we were just in the market with a \$5.5 billion bond, that will fund our Embraer partnership, we expect to get that deal closed by the end of the year and also provide some additional liquidity for other general purposes.

So we're carefully managing our liquidity as we work through the MAX situation carefully, think it through cash management on a daily basis, being very disciplined about that, and then still have our expectation that this will be a year-over-year cash growth business going forward.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

I want to talk about free cash flow, managing your working capital, because I think you did it quite well with Q2. How do we think about the puts and takes for the rest of 2019 and into 2020?

Dennis A. Muilenburg

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

A

: Well, working capital management as you noted is an important priority for us, it's something that our team is focused on, again when we're efficient with our capital usage, it enhances quality and safety as well, of all those things go together, and I think that's a really important point to maintain.

We do see tailwinds on our cash profile, if you think about it – as we get the MAX back up and flying and look to 2020, we will see a tailwind on these airplanes that are currently grounded that will be delivered in addition to our normal production deliveries. That will be a positive for us, that will be somewhat offset by the customer concessions that I mentioned earlier.

And then if you look more broadly at our commercial production plants, in particular 787 profitability, and where we're at in the production profile of the 787 at 14 a month, that will be another cash tailwind for us next year. So when we look at puts and takes, we're managing all of those, but if you roll it all up, we expect 2020 to be a cash growth year for us. In longer term we do see this again as a sustained cash growth business.

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Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

I just want to touch on the, the NMA and FSA before we wrap up. I know first and foremost you're focused on getting the MAX into the air. How do we think about how you balance the NMA and FSA decisions?

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Dennis A. Muilenburg

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

A

Yes, certainly the MAX has been our priority and we prioritize resources and people that focus on the MAX, but we do have a dedicated team that's continuing to work the NMA or the potential middle of the market airplane. We continue to work through our business case in a very disciplined way. We're having ongoing productive discussions with customers. We're still working towards a 2025 sort of timeline for entry into service.

We're continuing to do engineering work and testing work right now to preserve our options, protect our schedule while we evaluate the business case. And we still expect that to be a two-step decision process where we do authority to offer and then authority to launch. And we're going to be very disciplined about it. We're going to make sure the business case make sense for us and our customers, if it does, we'll go, if not we've got other investments we can make. But we are making good steady progress.

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Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

Thanks. Thank you very much, Dennis. I think you have a few tough milestones ahead of you...

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Dennis A. Muilenburg

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

A

Yes.

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Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

...but once you get through that it's back on track for Boeing and I really appreciate you being here.

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Dennis A. Muilenburg

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

A

Well, Sheila, thank you very much. It was good talking with you. And as I said, we've got strong prospects for the future and we do have some challenges to work through in the near-term, but we have the right game plan and strong company for the future. So thank you.

Sheila Kahyaoglu

*Analyst, Jefferies LLC*

Q

Thank you.

Dennis A. Muilenburg

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

A

Thank you, all.

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