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# The Boeing Co. (BA)

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## CORPORATE PARTICIPANTS

Dennis A. Muilenburg

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

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## OTHER PARTICIPANTS

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Good morning, everyone. I am Rajeev Lalwani, the firm's aerospace and defense analyst. I'm excited to have Dennis Muilenburg, the CEO of Boeing with us today. Dennis, thank you for coming. If you [indiscernible] (00:18) maybe some prepared remarks and then we'll get into Q&A.

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Dennis A. Muilenburg

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

You got it. Okay. Thanks Rajeev, appreciate it. Good to be here with you today and thank you all of you for joining us. Just a couple of opening comments. First of all, as you would expect, the situation with the 737 MAX continues to be our focus. I think it's worth again reflecting on the two accidents that occurred and we continue to send our deepest sympathies to the families and loved ones of those that were affected by those two accidents. I can tell you that continues to weigh heavily on us as a company and if anything, it's reminded us of the importance of the work we do and the fact that lives depend on the work we do and that demands a deep sense of excellence in how we do it. And that's really has us focused on safety and quality and integrity in all of the work we do. That's always been the case, but that's been amplified in this environment and you see that reflected in the work we're doing going forward.

On the 737 MAX, we're continuing to make solid progress on return-to-service and we're actively engaged with regulators around the world and day to day working with the FAA on a return-to-service timing. We are making good, solid progress on the software update to the airplane, versions of that final software in our integration labs and simulators being tested and we are still targeting early fourth quarter for a return-to-service of the 737 MAX. I will say the principal schedule risk on that continues to be a regulator alignment around the world and regulator approvals. Ultimately return-to-service timing will be determined by the regulator. So important to know that is a risk area, while we continue to target early fourth quarter for getting the airplane back up in the air. In parallel with the software work, we are making updates to the training packages and have been out engaged with our airline customers around the world, making good progress on that, also working with our customers on their grounded fleets and by tail number, by individual aircraft, we have teams deployed, working specific actions for each airplane and getting them ready for ungrounding, so that work is coming together well.

We're also continuing to work on our production system for the 737 MAX. As we said before, we've got about 4,400 airplanes in backlog. We still anticipate ramping back up to 57 a month in our production system to serve that backlog and we anticipate that ramp-up to occur incrementally from now into 2020. We're also working closely with our supply chain, more than 600 suppliers in that supply chain paying close attention to supply chain health and also the work we're doing on the production system. So, all of that work is going on in parallel. We're very focused on it as our top priority at the company. Obviously, we also have a lot of important work going on elsewhere throughout the enterprise. So, continuing to make investments in productivity and innovation across the broader enterprise. We're looking forward to getting the 777X into flight test, making other investments in our defense programs, in our services programs. So, that work is proceeding on pace and we're going to continue to make those investments for the future. We're also paying close attention to some of those other macro risk areas, U.S.-China trade policy, we're still hopeful that a trade deal will be accomplished and that airplanes will be part of that, but lack of a trade deal does add risk to our wide-body skyline. So, we're paying close attention to that.

We're also recovering from the recent hurricane Dorian, which had an impact on shutting down our Charleston facility for a few days; that could affect local timing of 787 deliveries. So, those are a few other macro items that we're working our way through. But if you look through all of that, our overall view of the marketplace remains strong and I'm – Rajeev, I'm sure, will talk some more about that. But the broader marketplace is a solid, growing marketplace. We're well positioned for the future and we're going to continue to make the right investments for the future. I do see this as a real defining moment for Boeing and through the MAX situation, we're going to stay true to our values around integrity and safety and quality. And I firmly believe that on the backside of getting the MAX back into service, we will be a better stronger company.

So, with that, I'm happy to take any questions you might have.

## QUESTION AND ANSWER SECTION

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah. You got it. Obviously lots to cover, Dennis. So, let's go through it. I guess the first thing you talked about a degree of confidence and RTS early fourth quarter. But what about the first step in terms of submission to the FAA, I think their commitment was end of month. Where are we on that?

Dennis A. Muilenburg

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

A

Yeah. We're working through all of those certification deliverables with the FAA. So think of that as an iterative process that includes software and training materials along with a number of other certification documents and we have very active engagement with the FAA and the other regulators on those documents, so still open questions that we're working our way through. All of that work supports our timeline for an early fourth quarter return-to-service, but this is not a single event. There's a number of iterations that will occur. I will say that early versions of that final software now in our test and integration labs are going through simulation testing and all of that work is converging and supporting our return-to-service timeline.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. I'm sure you read the press like we do, there's been a lot out there in the last couple of weeks. So let's talk specifically about what's out there. The first thing that's been coming out is EASA...

Dennis A. Muilenburg

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

A

Yeah.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

... and whether or not they continue to be collaborative and taking more of a consensual approach or are they out there may be looking for some hardware changes...

Dennis A. Muilenburg

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

A

Yeah.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

... we've all seen the added sensor chatter. So we'd love for you to clarify what is and isn't accurate.

Dennis A. Muilenburg

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

A

Yeah. Let me give you a little perspective first on the broader regulatory engagement. So we are engaged with regulators around the world on a daily basis. We've had good productive discussions with EASA along with others

and have had EASA in flying our simulator and answering their questions as well. The FAA has built a collaborative environment with the other regulators. They have a certification management team that meets on a regular basis. That includes EASA and Transport Canada and ANAC out of Brazil, a lot of direct engagement with CAAC out of China. So regulators around the world are engaged in the process. And it's fair to say that different regulators have different sets of questions and concerns. And we're working our way through all of that and that collaborative process is important. Regulator cooperation around the world is part of the framework that makes our aerospace industry work. And I think you've heard that from a number of parties about the importance of keeping that regulatory cooperation framework in place.

Now at the same time, we're going to respect individual questions from different regulators and EASA has brought up some questions and that we're working our way through. I wouldn't see those as divisive. I just think those are questions that we need to answer as part of the process. And questions around things like angle of attack, system design. Recognize that our architecture on Boeing airplanes is different than Airbus airplanes. And that's always been a topic of discussion; that doesn't necessarily mean hardware changes. In some cases, those questions can be answered with simulation work or software updates or process updates. So there's no specificity on answers. They're just question areas that we work our way through as part of the normal certification process. So I would describe it that way. I think we've got to pay attention to it, lot of work to do to answer questions. But everyone's motivated to work together here and it creates timeline uncertainty. But in terms of overall convergence, I see broadly convergence amongst the regulators.

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**Rajeev Lalwani**  
*Analyst, Morgan Stanley & Co. LLC*

Q

And sticking on that topic, Dennis, do you envision a scenario where it's sort of a U.S. goes it alone and doesn't have the support of a couple of other regulators, the ones that you've noted in particular...

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

A

Yeah.

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**Rajeev Lalwani**  
*Analyst, Morgan Stanley & Co. LLC*

Q

...Canada, EASA and so on?

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

A

Well, I think a phased un-grounding of the airplane amongst regulators around the world is a possibility. I know the FAA is working very hard to build that collaborative network amongst the regulators and bring everyone along together. But it's the FAA – and their leadership has been very clear, this is all about being focused on safety and we're not going to specify a timeline or make this subject to politics or other considerations; this process is about safety. And when the FAA is confident that the certification steps have been completed, that the airplane is safe, that we've answered all the questions, then they intend to proceed. And that will be the focus, not the politics, this is about safety.

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**Rajeev Lalwani**  
*Analyst, Morgan Stanley & Co. LLC*

Q

In terms of the range of things that regulators are looking at, and you alluded to this a bit, but are we looking at things beyond sort of the flight control work that you're doing? It seems like MCAS is done, I'd love to get your thoughts as well there. I guess there are couple of questions in that.

Dennis A. Muilenburg

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

Yeah.

A

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Are we expanding the focus or really narrowing it down?

Q

Dennis A. Muilenburg

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

Yeah. We've really gone through, I'll say, two phases of evaluation, so the original work earlier this year and through mid-year, we focus on MCAS and the improvements to that system, and that was software that we wrapped up in the middle of the year that's been demonstrated and tested. We've had more than 600 flights now with that updated MCAS software. So we feel very confident in that solution and the redundancies that have been built. But since mid-year, we've done a second wave of evaluation where with the FAA and the regulators, we looked more broadly at the entire MAX software system, flight control system as you referred to. And as part of that broader evaluation, we did find another area as was mentioned around mid-year related to flight control computers, where we're able to simulate certain faults that we've never actually seen in flight, but areas where we said, well, we have the opportunity, let's make an additional software update to improve safety. That's the work that we're wrapping up now. So we've done not only an MCAS update, but a holistic system wide evaluation and update to the MAX. That's the work that we're finishing up now. And that's what gives us confidence that once this is finalized and we certify the airplanes, it's going to be one of the safest airplanes ever to fly.

A

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Great to hear. In the near term, I know we're looking for a couple of data points. On one side, there is a – hopefully I get this right, a Joint Authority Technical Review. What are we looking for in terms of that report or that relief that's going to come in, how does that impact the MAX, how does it impact future programs?

Q

Dennis A. Muilenburg

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

Yeah. The Joint Authority Technical Review is one of many independent government reviews that are being done. That one in particular is focused on the overall certification process and we anticipate that they'll make some recommendations on improvement to the longer-term process. Any ideas, recommendations there, we'll certainly take on and make improvements. We've done our own internal reviews. I asked my board to set up a special committee that's also coming forward with recommendations. So we have a number of independent reviews ongoing, not only on the MAX update itself, but also on the broader certification process. And that's part of what makes the aviation industry so safe, is we have this continuous improvement culture and anything we learn from these independent reviews, we'll roll into the process. I don't see these independent reviews slowing down the return-to-service. I do see them strengthening our certification processes going forward and especially for the longer term.

A

Rajeev Lalwani  
*Analyst, Morgan Stanley & Co. LLC*

Q

And then the second thing I was alluding to was training requirements.

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

A

Yeah.

Rajeev Lalwani  
*Analyst, Morgan Stanley & Co. LLC*

Q

What, what are we likely to hear? Is it going to be a one-size-fits-all, I'm guessing not? How is that going to look and what should we be looking for?

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

A

Yeah. Once again, we've been making great progress on the training package. So for the specific software updates that are being made to the MAX, we've developed an enhanced computer-based training module that would be focused on that and added to the overall mandatory MAX training. I think it's important again to provide context that the mandatory MAX training that occurs for all MAX pilots is a 24-day program, which is primarily in the simulator. And so it's a heavy simulation-based training regimen.

This additional computer-based training module is additive for the specific changes that we're making on the MAX. That additional module is undergoing evaluation right now, the official results of that will come out as something that's called the Joint Operation Evaluation Board. These are a set of operational crews that will be selected from around the world that will come in, fly the simulator with the newest software and evaluate the training package and coming out of that, they will make the final training requirement determinations. So that's something that will happen in the near term before we get back up and flying.

Rajeev Lalwani  
*Analyst, Morgan Stanley & Co. LLC*

Q

Sticking on the 737, you made an interesting comment on your earnings call about production halt and the potential for that. Can you talk about where you are in that regard? What we should be monitoring to say, hey, look, Boeing may actually move in this direction and take that sort of action?

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

A

Yeah. We, as you might anticipate, we pay a lot of attention to the overall production system health and we are continuously doing scenario planning depending on parameters around return-to-service timing, storage capacity for airplanes coming out of the production system, our airline customers' ability to take airplanes and the volume at which they can bring those back up, supply chain health, our own production system health. So, all of those parameters go into our production scenario planning. And you can be sure that we're very mindful of production system stability. So we have a bias towards stability. Any changes to the production system rate would get a lot of scrutiny. But one of the parameters we have looked at is if we had to make a change to production rate, in some cases, it might make more sense to temporarily halt production rather than try to change the rate from 42 a month to some lower number, may actually be more efficient to temporarily hold.



Now, those are not actions we would take lightly and we don't see anything right now that would drive us to those actions. But we are responsibly looking at those scenarios. But our bias right now is to maintain a stable rate at 42 a month. And again always remember that ultimately we've got 4,400 airplanes in backlog. And our intent is to ramp up to 57 a month. And the timing on that will be determined, but the endpoint is very clear.

Rajeev Lalwani  
*Analyst, Morgan Stanley & Co. LLC*

Q

And actually on the topic of ramping back up to 52 and then going to 57, what are the big constraints, what's going to drive whether you're at 52 by the end of this year or 57 beginning of next year, how do we feel comfortable?

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

A

Really the principal drivers are return-to-service timing and then the ability of our customers to take those airplanes. So as you know, we've got about 380 airplanes roughly that were grounded back in April. Since then, we've been building at 42 a month, those airplanes that have been built, but not yet delivered; so they're being stored. We have to go through the delivery sequence with customers on that. And then we're continuing to fuel that pipeline with additional production airplanes that are in flow. So we have to be mindful of our ability to deploy those airplanes to customers for them to be able to bring them back up in their fleets in a very disciplined and safe way. So, that will be another gate that we'll look at. And then we're paying close attention to our supply chain health and our own workforce and production system health.

So, all of those play into the evaluation of the timing and the rate ramp. We're not going to specify a timeline upfront for when we're going to make those rate breaks. We want to be very disciplined on these other factors with a bias towards production system stability. Health and stability is really important. We've used this window over the last few months here, running at 42 a month to invest in stability of the production system and drive new quality systems and actions into the productivity of that system. And I think what you're going to see on the backside here is a much better, much more efficient, much more effective production system overall. And our intent is to maintain the stability and health of that system as we think about the ramp up to 57.

Rajeev Lalwani  
*Analyst, Morgan Stanley & Co. LLC*

Q

Dennis, you talked a little bit about the backlog and the size of it. That 4,400 number is great. At the same time, we haven't seen much in the way of order activity here year-to-date. You provided some data here in the last couple of days. Is there are a lot of pent-up demand? Should we start to think, hey, look once that RTS comes through, we're going to have a flood of orders, so that we can keep that backlog healthy while raising production?

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

A

Yeah, the demand signals are still strong in the marketplace and you saw a couple of signposts of that even during this year while we've been largely on the sidelines in terms of MAX orders, with IAG coming forward for 200 MAXs around the Paris Air Show. And that's just a signpost of the demand signals and confidence for the future. But with our updated current market outlook, we see a world that needs 44,000 new airplanes over the next 20 years. That's up from last year's estimate of 43,000. So, the trend is up. Of those 44,000 airplanes, about 32,000 are narrow-body, single-aisle airplanes where the MAX plays.



Traffic continues to grow at about 4% to 5% a year. Traffic growth has been a little more modest this year than last year, but it's still growing at 4.5% to 5%. So the fundamentals are solid. And once we get the MAX back up and flying and flying safely, again that's the most important thing here. The long-term market remains very solid. And as a result, we anticipate growth going forward.

Rajeev Lalwani  
*Analyst, Morgan Stanley & Co. LLC*

Q

In terms of the underlying cash flow generation financials of the company, obviously we're in a transition now.

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

A

Yeah.

Rajeev Lalwani  
*Analyst, Morgan Stanley & Co. LLC*

Q

I get that, we all get that, between this year and next year and management has made a comment that 2021 more or less should look like it did a year or so ago, meaning that's what you were projecting. Is that still true? If so, how is that possible given everything that's happened and all the concessions and so on?

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

A

Okay. Well, certainly the MAX has had an impact on all of us. And clearly it's been a big headwind for us in 2019. Some of that will carry over into 2020, but we expect we'll return to a more normal trajectory as we go later into 2020 and beyond. But as we look to next year, you will see some tailwinds on cash from 737 because of these airplanes that are currently grounded that will ultimately be delivered. You'll see some headwind on cash because of customer concessions on 737. So that will be a bit of an offset. But don't forget the rest of the enterprise is still continuing to march forward and making good strides. 787 program, for example, is a continuing source of cash generation for us. We expect that to be a tailwind next year. So there're, as usual, puts and takes on our cash flow as we look to 2020. But longer term, this is a growth business and that long-term prospect hasn't changed. We still see this as a year-over-year cash growth business and we're making the right investments for productivity and innovation to fuel that and we expect that's going to result in a return to our shareholders.

Rajeev Lalwani  
*Analyst, Morgan Stanley & Co. LLC*

Q

You touched on non-737 programs, so let's go there in the last several minutes. 777...

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

A

Yeah.

Rajeev Lalwani  
*Analyst, Morgan Stanley & Co. LLC*

Q

...obviously a lot going on there. How do we get comfortable that the plane would be flying and delivered next year given the engine issues, if you will...

Dennis A. Muilenburg

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

Yeah.

A

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

...the recent headline around the...

Q

Dennis A. Muilenburg

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

Yeah.

A

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

...testing incident with the cargo door and layer in trade.

Q

Dennis A. Muilenburg

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

Yeah.

A

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

So I'd love to hear how you get comfortable, how we can get comfortable with the outlook there.

Q

Dennis A. Muilenburg

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

Yeah. Yeah, we're working to make very good progress on 777X development overall. So if you think about the airplane side of it, we've got two flight test airplanes that are in testing on the ground right now. We've gone through what we call gauntlet factory testing, high-speed taxi testing, the airplane has performed very well. The recent structural tests that you heard about in the news, this is not unusual for a static test. This is testing the airplane well beyond anything you would ever see in operation to test it to its very limits. And obviously, we found a structural limit in that testing. There's nothing there that we see that's going to significantly affect the aircraft design or the flight test schedule. And our teams will continue to work through their structural analysis. We continue to see the engine as the pacer to first flight. GE is making progress on the previous engine issues that were discovered. They are working to get us engines delivered towards the end of this year. We still expect the first flight to occur in the first quarter of next year. And we're working towards entry into service by the end of 2020.

A

There is risks to that schedule because of the engine flow. So we're going to pay close attention to that, but we do expect to get the airplane into flight test next year. And everything we've seen in the ground testing makes us believe that the value proposition that airplane is going to hold up. Skyline, down in the future, that's where the risk area is on U.S.-China trade. We have reserved slots in our widebody production lines, both 777 and 787 for Chinese orders. And there is dependency there on Chinese orders ultimately coming through. So we're paying very close attention to the U.S.-China trade deal. We're still hopeful one will be struck and that airplanes will ultimately be part of that. But that's a risk area until it's finalized.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah. Before we get into the 787 and China trade, one last thing on the 777, to the extent we do have a year delay, two years delay just from a planning perspective, do you feel like you'll be able to mitigate that risk by moving freighters around to avoid having to go below say at 3.5 per month kind of level?

Dennis A. Muilenburg

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

A

Well, first of all, let me be clear, we're not seeing those kind of delays. So we're – we still anticipate getting into flight test here first quarter of next year. That all said, we have been busy building the bridge between the 777 and 777x, and as you recall, that's been a key risk area we identified a couple of years ago. We've been very successful in building that bridge. You've seen recent additional 777F Freighter orders. That airplane is adding a lot of value for our customers. So we continue to see opportunities there, and where we can capture those, we'll feather those into the skyline. That does mitigate risk for us and gives us some more schedule flexibility, if you will, on the overall production line. So we feel good about how the bridge is coming together and how strong the 777 Freighter has been in the market.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. And now let's come back to trade and the 787, is it fair to say that 14 a month and sustaining that will be tied to trade resolution and filling out that skyline as we get into 2021 and 2022?

Dennis A. Muilenburg

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

A

Yeah. Our 14 a month projection is based on our overall global demand preview for the 787 and we have assumed Chinese orders in that skyline. As you would expect, it's a big market. Of that 44,000 new airplanes that the world needs over 20 years, about 7,700 are in China, so it's a big part of our skyline. And in the widebody production system, those tend to be longer lead. We don't have as much skyline flexibility to trade positions because those airplanes tend to be more tailored for individual customers. So that is a risk area for us. And we're hopeful again that resolution will be achieved, but it's a risk area until we get there. We are assuming Chinese orders in our 787 skyline profile. Our production system at 14 a month is operating very well and you can see it in the numbers.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah.

Dennis A. Muilenburg

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

A

So we're continuing to tune that system. We have taken some actions to make it more rate-flexible, so we can be productive regardless of rate, but our clear preference is to continue operating that production line at 14 a month.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. A last question on the 787, there's been a lot of dialogue out there about Boeing being competitive on the program, on price, is that coming from a place of strength, meaning, you're doing such a good job on the cost side

that you can offer a good price or is it more the other side where you're trying to aggressively fill that skyline and having to cut price a bit?

Dennis A. Muilenburg

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

A

No. I think what you see is the value that airplane brings to the customer. I can tell you the pricing on the 787 is holding up in the marketplace and we're winning in the marketplace because we're creating more value for our customers. That's really the bottom line here. Now we are taking a lot of actions on productivity and cost reduction in our production system line, but largely pricing is being held up in the market because of customer value.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

Switching gears a bit, obviously been a lot out there in terms of a changing landscape. Where are we on the NMA? Where are we on other future development programs given maybe some question marks around certification?

Dennis A. Muilenburg

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

A

Yeah. Yeah. Well, we think it's important that we continue to invest in the future. Now clearly our current priorities is on the MAX. We have pulled some resources and people to focus on the MAX, very visibly Mark Jenks has come over to run the 737 MAX program. So we have made some adjustments, clearly that's our focus and priority. But we have a dedicated team that's continuing to work on NMA, making good progress on risk reduction and the business case. We're not ready to make that decision yet. But we'll make that decision when the business case data says we're ready to make it. And we're also continuing to do risk reduction work that protects the schedule, enter into service schedule for our customers. So we're being mindful of all of those parameters. We're not going to rush to a particular timeline on that decision. We're going to make a good, disciplined business decision, but we're also going to continue investing in innovation. NMA is helping us create the production system of the future. And that's going to be valuable for the long run.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

An obligatory defense question, if you will. Boeing has talked about – you've talked about a mid-teens margin target. At the same time, you've done a great job in terms of winning some new programs - MQ, TX, et cetera. How do you get there with those sorts of programs, we're all aware of the sorts of headwinds you see in development?

Dennis A. Muilenburg

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

A

Yeah. I would say first, our defense business is probably in the strongest position it's been in a decade. Part of that is the environment. We applaud the recent two-year budget deal in the U.S. and the defense budget strength; we're seeing that around the globe as well. And we have been winning some new franchise programs. We see renewed interest as well in our Fighter production lines, which are profitable lines. We're also seeing a lot of demand in our helicopter and satellite businesses, commercial derivatives. And about a third of our business now is outside of the U.S. And generally, our opportunity to generate profitable deliveries is accentuated by our international business. So if you look at international domestic mix, that's an advantage for us. And then Leanne and her team have really been focused on cost reduction and productivity. And those actions are taking hold for the long run. So we haven't changed our margin objective for that business. And more broadly, as I said, we're

still targeting mid-teen margins for the Boeing Enterprise. And I think you've seen some progress we've made on that front over the last few years.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah, absolutely. A final question and then we'll wrap it up. There is a lot out there in terms of now this is thinking 10 years/20 years down the line, there's...

Dennis A. Muilenburg

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

A

Yeah.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Q

...urban air mobility, space tourism so on and so forth, what gets you excited the most, what do you think will be the biggest needle mover for Boeing in that timeframe?

Dennis A. Muilenburg

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

A

Yeah. Well, a couple of things. One, I think it's important that even in this environment, challenging environment around the MAX that we are a company that invests in innovation. We've won for 100 years because of innovation and we're going to continue to win with innovation. We're bringing more innovation to the marketplace now in our basic product lines than we ever have. 777X is a big step innovation for our customers. So it's important to keep that baseline in place. New programs like T-X and MQ-25 add to that.

But when we look to the future, there are some big new opportunities, high-speed travel, supersonic, hypersonic travel, as that technology matures, is a big opportunity for us, low-Earth orbit space travel, space ecosystem, making that a day-to-day application; that's a very real growth area for the future, and as you mentioned, things like urban mobility, relieving congestion in urban environments in a very safe way by making those urban highways going from 2D to three dimensions. Right. So those are all future innovations for the future, that's part of what drives our talent, the traction for the future, and that investment in innovation is what's going to continue to fuel the growth of Boeing.

So we're going to work our way through the current MAX situation, get that airplane back up and flying, get that system back to a healthy position in terms of production, while we continue to invest in future innovation. And all of that gives us strong prospects for the future.

Rajeev Lalwani

*Analyst, Morgan Stanley & Co. LLC*

Okay. Dennis, let's leave it there. It is a pleasure as always. Thank you for coming out here.

Dennis A. Muilenburg

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

Rajeev, thank you very much, and thank you all.

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