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CORPORATE PARTICIPANTS

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

OTHER PARTICIPANTS

Cai von Rumohr

Analyst, Cowen and Company, LLC

MANAGEMENT DISCUSSION SECTION

Cai von Rumohr

Analyst, Cowen and Company, LLC

If I can have your attention, we're going to move ahead. Delighted to have with us Boeing, and we have their Executive VP and CFO, Greg Smith. Greg, welcome.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Thank you, Cai. Thanks for having me.

QUESTION AND ANSWER SECTION

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So I'm not going to ask you, first, about the 737 MAX, because everyone else has, but tell us a little bit about the color of commercial demand by product and geography.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah, look, I'd say the underlying fundamentals, really, have not changed from what we've seen. You know, traffic – passenger traffic growth continues to outpace GDP. Cargo market you've seen being more constrained, so that's going to certainly be a watch item near term and, potentially, long term. When you do look over kind of a long-term period, we're still seeing a pretty significant opportunity; 44,000 aircraft over that period, and 40 plus percent of those being replacement. So I think those are great opportunities, certainly, for our product line to fit in and create better economics for the customers.

So those fundamentals, really, Cai, I'd say are remaining intact. There's certainly some watch items, like I said: cargo; certainly, the coronavirus near term is something we're focused on and spending a lot of time with our customers in China looking for opportunities how we can help them. But near-term, that's I think, something we're all going to be focused on and I can certainly see that impacting – as a result of the traffic, impacting some near-term first quarter deliveries for a lot of us.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah. So we'll keep our eye on that and, like I said, support our customers best we can as we work through it.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So it looks like we're looking at maybe the two markets; single-aisle, obviously with no 737 MAX deliveries. There's strong demand.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

When we look at the wide-body market, last year was the first year that the planes in storage went up; certainly, A330 a lot.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

But even 787, 767, 777.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

So what's happening there? You guys have talked about a wide-body replacement cycle. It looks like we're going the other way near term.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Well I think, certainly, China, as we've talked about. Not having orders, wide-body or narrow-body, from there in over two years has certainly had an impact. And getting the Phase 1 deal is significant, and having Boeing aircraft be part of that is certainly not lost on any of us.

A

Now, the detail's got to get worked out, and the timing, and that's got to fit into a skyline that we're trying to take into consideration on the wide-body market. But look, the 787 competing in the marketplace – you've seen the share the 787 has taken. It's delivering great economics for the customer. I'd say the 787-10 is going to be very successful once that gets up and running and more into the marketplace. That fits in the growth, certainly, category as well as the replacement, but that airplane has still opened up over 200 new routes and it's a unique machine to be able to do that and, again, really ultimately help the customer.

So wide-body market, continue to watch it; the timing on getting details on China; and then, like I said on the cargo market, where we've seen that turn a little bit. So that's something we got to continue to watch. But I'd say there's still, over the long term again, big replacement market. And between the 777X going into the marketplace and the 787 family of aircraft, in particular, and then the 767 on freight, I think we got a good line up that will fit well into the – not only where there's certain growth in segments of the market, but also – again, when you look at the economics that it'll bring on replacing that – those aged fleet in that timeframe, I think it's a great portfolio to be able to do that.

Cai von Rumohr

Analyst, Cowen and Company, LLC

So what do you think can come out of the trade deal with China? Do you expect – they haven't ordered any 787s for a long time. That was one of the reasons you said you might go down to 10 in 2021.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah. Well, like I said, the order is one thing, and then it's the lead time to fit into the production system, and that's where, certainly, there's been – where we've seen some pressure. Ultimately, as you said, there's certainly lift. We've stayed engaged with our customers throughout this period of the trade deal. I think we have a clear understanding of what their near-term needs are as well as their long term. And I think this deal is obviously a significant indicator of that need for lift across, again, the entire portfolio, not just wide-bodies, but also narrow-bodies. So like I said, next step, they got to work through the details. We'll stay engaged on – with our administration as well as the Chinese customers and be ready to move forward with firming up those orders.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it. So overall, traffic seemed like – passenger seemed like it slowed in 2019.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

But I guess you could explain some of it by the 737 MAX, some of it by Hong Kong. You guys do much more analysis than we.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

How much of it do you think were kind of like the 737 MAX, so that if there were more 737 MAX deliveries, the traffic would be a whole lot better, or does that not really matter that much?

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

No, it matters. Our best estimate on that is 1% to 1.5% of that passenger traffic growth was attributed to the 737 MAX. So it's not insignificant by any means. Look, there's no question, there's – you have the passenger traffic. You're seeing the load factors and you're seeing – in a constrained environment with product, certainly. So really important, obviously, that once we get – safely return that airplane back to the marketplace and get that into the hands of the customer that, clearly, they've got the demand to supply on that product line. So it's not insignificant, certainly, on the traffic side.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it. So turning to the 737 MAX, walk us through the milestones required for ungrounding it, and can you deliver before we got a final decision on exactly what training is going to be required?

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah. I think many of you probably saw the FAA kind of laid out the next steps and, obviously, no timeline, and they – I'll remind everybody that it's their process and our job is to make sure that we're adhering to their process and we're giving them everything they need and responding in a timely manner and ensuring that they gain, again, all the documentation, testing, whatever is required to safely bring it back up in the air, unconditional.

I think they've laid out kind of what they see as their next steps that ultimately lead to lifting of the grounding. The next big milestone is the certification flight. So certainly, that is something we're working with them on and ensuring that we fully understand exactly what needs to take place in there and making sure that we're – got everything in place so they can do their test flight, establish their criteria of what they want to do in the airplane, how they want to do it and facilitate them to support that flight. So that's the next big milestone that I think we're all watching and, certainly, trying to support in the best way we can, and be ready when they're ready; because, again, they will decide when they do that and they'll be ready to do that.

Your second question on production, I think it was...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

...on delivery. So how we're kind of looking at this as we look at these milestones building up to ultimately lifting of the grounding, how do we want to bring the production system back up? Priority one will be helping our customers get their grounded fleet back up into the air revenue service safely. Second one will be our inventoried aircraft. So we've got just over 400 aircraft that are parked and that will be our priority of, again, bringing those back into the marketplace and delivering to the customers while bringing the production system up.

What we've been looking at is, I'll say, waking up the line a little earlier than the return to service. So if we gain confidence in that timeframe of when the grounding will be lifted, that's when we'll reassess and start to wake the line up. And what I mean by that is that we had a very orderly shutdown of the line that ultimately had any – all the work in process of the airplanes being complete. So ultimately, when you look at those three lines, they're empty. We will bring the resources back to the first position, and then gradually bring the line back up in a very smooth methodical fashion that ultimately will – then we'll build on that and the production rate.

The needle we're threading is we've got airplanes that are out on the ramp. We got to get those delivered. We've got our factory, our supply chain, and then ultimately, customers' ability to take the airplanes. And then, of course, we've got the added element in that delivery, now, with the FAA being involved in every delivery of every 737 MAX airplane that we've assumed will continue. So we're provisioning for that as well.

So a lot of moving pieces, but this is why we have a daily phone call on 737 MAX, and production is one of the key elements that we talk about, and including supply chain and preservation and how we bring airplanes out of preservation and return to service is a big level of effort within our operating rhythm.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So I mean, basically, how quickly will you be able to deliver planes? I mean, you said, I guess, the 385 on the ground...

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Right.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

...you've pretty much done. Those will be ready to go.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Right.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

But of the 400, can you get them ready so that we see a huge surge and...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

...what's going to influence?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Well, we're trying to get ahead of that today. I mean, we're flying the 737 MAX airplane almost every day, whether it's – and we've got a ticket to be able to do that, whether that's moving our own aircraft around from different site or helping customers move airplanes and repositioning them. All of that is informing us to a return to service and bringing the airplanes out of preservation. So a lot of that, Cai, we're trying to get ahead of.

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And then, we will work with each customer on sequencing of aircraft and quantities. So certainly, our ability to deliver is one, but more importantly is our customers' ability of how many, then, can they take within that period and – combined with bringing that 385 up smoothly.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Right.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

So that's the needle we're threading. So we'll be ready and we'll be prepared to deliver that – those inventoried aircraft, but it'll be airplane by airplane, one by one, each customer making decisions day to day and resequencing those deliveries. But like I said, we're trying to get ahead of that best we can and working a lot with

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the customers today on what does entry into service look like and how do we ensure that we're supporting them through that period; and again, trying to get ahead of it.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it. So maybe walk us through the different buckets of additional 737 MAX costs...

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

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Yeah.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

...and their cash flow implications, specifically I guess, the customer compensation. The latest increase was a lot less than the earlier estimate even though the time has moved out a fair amount from the first estimate.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

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Yeah. I would kind of put it in three buckets, one of which, as you've mentioned, is the customer concession. So these are informed by our discussions with customers, some that have been partially settled and recognizing there are still additional settlements to take place, but this is our engagement with every single customer around what we think it will take to settle. And every quarter, we go through that assessment and come up with our best informed estimate of what it will take and, therefore, establish that liability.

As I said on the earnings call, we're trying to front load that and get these behind us on behalf of the airline and for ourselves. So that will take place over the next couple of years. We settled \$1.4 billion last year and we're assuming we'll settle a good portion of those this year with our customers, and then kind of trail off from there; but certainly, again, trying to get that behind us and behind the customer more on the near term. And that's the cash profile that you'll see there.

You've got the abnormal cost as a result of shutting the line down. So under US GAAP, very clear definitions around what's normal and abnormal, shutting a line down is abnormal. We're incurring fixed cost as well as the employment that we have, that we kept, that aren't producing. So those are categorized as abnormal. Those will be period expensed. So they're cash today and they will be cash today until we get back up to what would be considered normal, which is a fully deployed production rate. And we'll, again, go through that each quarter, but think of that over that period time, that window.

And then, you have the program costs, which is essentially the result of a lower production rate and the time to produce those aircraft. So again, think of it as the fixed costs, supply chain costs as well as our labor that we've continued to maintain through that period. Taking all those, again, you can kind of see that cash profile that's really more near-term, meaning over the next couple of years, and then once you get to peak rate you get to a more normalized level on a cash per unit basis than what you had before the grounding

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right. So one of the things you didn't mention was pre-delivery payments.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

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Cai von Rumohr

Analyst, Cowen and Company, LLC

I mean, obviously...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

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Cai von Rumohr

Analyst, Cowen and Company, LLC

...because of the slip, people are not writing you the checks that they normally would.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Correct.

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Cai von Rumohr

Analyst, Cowen and Company, LLC

When do you think those can start to begin, again?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah, well, if you kind of go back, we were collecting PDPs at 52, 57 a month. And now, with the brought down in rate and a pause, and those airplanes moving to the right, we've got to burn off those PDPs before customers will start to pay...

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Cai von Rumohr

Analyst, Cowen and Company, LLC

Right.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

...ultimately, to catch up to the schedule. So if you think about that, that ties right back to the production rates. So as those production rates start to come back up, pick 52 a month as an example, that's when you'll burn off that PDP inventory and start to establish, I'll say, a more regular rhythm of PDPs. So as I mentioned on the call, this year is less – or sorry, more impact as a result of fewer PDPs than last year...

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Cai von Rumohr

Analyst, Cowen and Company, LLC

Right

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

...which is impacting our cash flow in 2020.

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Cai von Rumohr

Analyst, Cowen and Company, LLC

But so, how does next year look, because you still will be ramping up...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Right.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

...and it will be behind where you expected to be?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

It'll take a while for them to catch up. It won't catch up next year. The following year is where it'll start to slowly kind of feather in as we get back up in rate.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

And so...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Under the current assumptions.

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Cai von Rumohr

Analyst, Cowen and Company, LLC

Got it. And so, longer term, do you think profitability on the 737 – once you get back to 52, 57, the cash generation can equal what it was...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

...sort of in late 2018?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah, because I think, fundamentally, if you think about the cost to manufacture the aircraft and the pricing established is unchanged, once you get back to that rate, what I talked about in those three buckets is a period of time that is financially constrained.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Right.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

But once you get past that on a per unit basis, you'll get more back to a normalized level.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

Right. So what impact does the 737 MAX crisis have on the NMA or your thoughts about a new single-aisle?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Well, I mean, it certainly does. I mean, priority one is 737 MAX, and has been and needs to be, certainly, versus the next product. Now, having said that, not that we're not thinking about the next product, but we use this as an opportunity to step back from what we were – I'll say, specifically focused on the NMA and relook at the commercial product landscape near term, long term competitive dynamics that will inform what our next product will be. And that's the direction that we've given the product development team. Not to say we're not focused on it, but that's not taking up a significant amount of our time – meaning our time, me, Dave, Stan. We've got the teams focused on that day in and day out; it's get the 737 MAX safely back up into the air and, certainly, focus on the balance sheet, get the balance sheet healthy. And then, don't lose sight of the competitive dynamics and how we would address that, and that's what the – that team is doing. So we've asked them to kind of step back and relook at the marketplace over the near term, long term, and NMA will inform it.

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We've got a lot of great work being done and – particularly, on the design to manufacturing side and the whole production system that will inform that decision. So there's been a great level of effort there and a significant amount of learnings and maturity of thought to realities of how things could play out on the next product that will definitely, like I said, inform the next decision we make.

Cai von Rumohr

Analyst, Cowen and Company, LLC

So your current plan is to reduce the 787 to 10 a month.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Right.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

What does this assume for orders and what's that going to do to the cash flow impact and the margin impact of that program?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah. If you think unit or cash margin on the program under the 10 – going to 10, and then to 12, we'll still continue to expect to see increases there on a per unit basis. Obviously, not at the rate that we would have at the 14 a month, but we continue to see that growing. And the mix is shifting in there, of course, and the supplier step down, and then our – just our own efficiencies as we continue to work with the supply chain and within our own factory of driving productivity. So again, not the same trajectory as it would have been, but you'll still see improvement on that product line.

As far as the marketplace goes, look, like I said, think of a campaign where the 787 hasn't won, and you'll be thinking a long time. I mean, it's done great in the marketplace. I think it's serving the marketplace well to our customers. Like I said, I think the 787-10 will be a game changer, but it's early in entry into service with that. I think once people further understand the economics that's bringing to the marketplace and the capability and the route structures, I think you're going to continue to see that be a very successful platform and family of aircraft.

The market is there. There's some near-term challenges, certainly, and have been with China. And that's going to be a big driver in these production decisions as well. And then, outside of that, it's that replacement market. And if that continues to sit where we think it is in that 2024, 2025 timeframe, 787 family is extremely well suited to replace those – that aged fleet.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Now, you've talked about going down to 12 – is it set that you plan on going down to 10 or is it just like you're going down to 12 for sure and you'll probably go down to 10?

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

No. The current assumption is we'll go down to 10 and we're planning to go down to 10. If we get further information, then we'll – obviously, we'll reassess it. But even if we do, lead times come into play. And that's where, even if you have, I'll say, the market that you can serve and we have the production, if you don't have the lead time lining up, we'll have to push that to the right. And that's what we're getting in – we're right in that sweet spot on the lead time where we have to make a decision.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

And we think it was the prudent thing to do. But like I said, if we see a marketplace different or there's different dynamics, we'll assess them and we'll make a different decision.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it. You said you expect initial 777X deliveries in 2021.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

How tight is that given that seems like two years and the FAA has obviously put a lot more scrutiny on...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

...737 MAX. I assume they'll give a closer look to [indiscernible]...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

No, no. It's a great question. Look, we're not assuming business as usual, certify the aircraft, and nor should we. Do we have specifics on what exactly might change? Not specifics, but we're anticipating them. We're taking some of the learnings off the 737 MAX and trying to get ahead of it and apply them on the 777X. We've time-lined it, to your point, on 2021, but we haven't been specific of when because we want to have a better understanding of exactly what will change in the certification.

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I would tell you, to-date, the airplane has performed very well. Our first flight went as planned over five hours and achieved all the test points that it needed to achieve, and we're still doing ground testing and we'll continue to do – and as well as doing test flights.

So we're continuing at the cadence you would expect on the certification, but we're, to your point, expecting and provisioning for we're going to have more time, more test points, might be more documentation and so on; and again, trying to take that learning from the 737 MAX and apply it over there. But we'll – as you know, we will work with the regulator and address whatever needs to be addressed to safely get us certified and get it into hands of the customer.

Cai von Rumohr

Analyst, Cowen and Company, LLC

So if entry into service does slip into 2022, can you maintain a bridge on the 777 so that the overall deliveries stay at about 3, 3.5?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah. It depends how much. I mean, certainly, the 777 has continued to sell well. That freight market that we talked about will come into play. So it'll open up some slots, and then we'll have to look at that timeframe and the campaigns that we have in place to see whether we can fill that efficiently. And like I said, I think the freight market, in particular, will inform us of that.

A

So we'll see how it goes. If not, we'll manage through that transition the best we can. But if there's an opportunity to fill a bridge in there with 777 metal wing airplanes and do that, like I said, in an efficient manner, we'll address those campaigns.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So while focus has been on the 737 MAX, so BDS has had its miscues with the commercial crew vehicle...

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

...ongoing tanker charges. Where do you think you are in terms of getting those under control?

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah, look, fixed price development – and we've talked – I've been coming to your conference, I think, since day one. Fixed price development has had its challenges. And when I think about the de-risking activity that has taken place around things like the pension plan and things like labor agreements and, I'll say, multiple significant development programs taking place, I think we've made good progress in getting our arms around that. Fixed price development, better than what it was, but still not where it needs to be.

So there needs to be, and is, a continued level of effort there to bring these things to closure and make sure that we're meeting the needs of our customer while we're doing that and learning from some of these developments. No surprise to anybody, these are challenging, you know, not only the fixed price. We're dealing with a lot of technology in these products and risks that we've got to manage, you know, well in advance. And like I said, there's work to be done there. And we're seeing improvements, but we're not where we need to be or where we want to be across the board on fixed price developments. So that continues to be a big priority for us.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

And so, how did you feel you did in the fiscal 2021 budget request? Any big surprises?

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

No, I wouldn't say there's big surprises there. I think, like a lot of the environments you know we've been faced into, proven, capable, reliable, affordable products, that's where you want to be. That's where you want to be and fit the needs of the warfighter and make sure you're doing that on time and in an efficient manner, again, with a proven capability. And I think when you look at the budget and tie that to some of those product lines, you'll see that correlation. So I'd say no big surprises in there.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right. So Global Services has been a consistent performer. How should we think about the outlook going forward?

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

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Yeah. Look it's – it continues to be a really great opportunity for growth and it's a \$3.1 trillion market. And we have single digit share in – between defense, space and in commercial, so getting that established and operating as one company and really – again, 100% seven days a week is focused on how can we help the customer. I think we've got a lot of great product offerings that we can bring. We're learning from both sides of the business and we're getting more efficient in the back rooms as we bring these things together.

So I think from a top line perspective, there's a lot of great opportunities. There's portfolio gaps, certainly, and – that we've got to figure out how to address organically or inorganically. And then, again, I think in the back room, there's still a lot of effort going on within there to look for more efficiency. So it's a great opportunity. It was a great move, I think, to set it up, but ultimately, we've got to demonstrate to the customer that we can provide them with a better level of service, more integrated level of service at a better price in a very timely manner.

And in a business like this, as you know, time matters. So we're spending a lot of time on some simple transactions of order to placement and how do we be more efficient and how do we have the front, I'll say, entry point for our customers. How user friendly is that? How efficient is that rate to the logistics to ensuring we get them whatever they need in a timely manner. And so, there's a lot of great things going on within the business, so it's an exciting opportunity for us; a little slowed down right now as a result of the 737 MAX and, particularly, on spares, but overall continues to be a great growth opportunity for the company.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right. So to the question of cash flow, on a high level, what are the directional pieces we ought to consider when we look at the next two to three years and what kind of degree of visibility do you have that you can kind of hit any sort of number?

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah. No surprise: the single biggest driver is 737 MAX and getting back to rate. That is the single biggest cash driver, I'd say, over the long term. If you step back pre-grounding and think about the fundamentals that we laid out and what were in place there, what's changed outside the MAX? 787 was 12 to 14 and 777X was earlier in the schedule. Those two have changed. So now, going to 10 a month will certainly impact that profile of cash to 12 and the triple 777X moving to the right, back to progress payments, those move out as well.

Outside of that, fundamentals within even the businesses, not a lot of change. So again, single biggest driver in there is getting the 737 MAX safely back up, and then making incremental rate increases, assuring we have stability. I can't say that enough; just ensuring we have stability. Each one of these rate increases within the supply chain, within our own factories, that will give us the confidence to move back up to the next rate and so on, and the cash profile will align right to that.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So I mean, you've kept your labor force, so you will be able to kind of ramp up.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

If you look at other guys, like Spirit, basically 21% of their folks in Wichita are gone. They have to rehire. Is that a major issue in terms of your ability to kind of ramp back...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Sure.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

...or this could take...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

...longer and...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

...therefore elongate all of that?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

No. Look, I mean, through even coming down to 42, obviously, had a significant impact on the supply chain, and then going to the pause. So there is daily engagements with all levels of the supply chain to understand where we are from an inventory perspective, because in some cases we gave everybody a green light, hey go, continue to produce. So we got inventory to burn off once we come back up at rate, but right now, it's really liquidity and where they need help or support. How can we help? How can we bring in third parties to help? And then, going further down within the supply chain is a big focus area.

A

So I talked about the daily 737 MAX calls; supply chain is front and center...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Right.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

...giving us a clarity on where we are, where we have some strain, bringing our treasury organization into that discussion, working with suppliers, bringing our banking relationships in. Ultimately, right, we want to make sure everybody maintains health through this period. And what can we do to help do that, first and foremost, is get visibility on where everybody is and where – what decisions they have to make, certainly Spirit being a big one, which we are partnering with and helping through this transition. But back to the rate increases, we'll have to watch as we burn off that inventory...

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

Right.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

...how efficient are those resources coming back to Spirit? How is their production health? That will then inform our production health and our decision to go up to the next rate.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

Right. So you know if you – it looks like this year, obviously, is abnormal cash flow. Next year is abnormal because, presumably, you're delivering all those planes. What's the first quasi-normal cash flow year we could have? Is it 2022, or is it really 2023 because of all the complexity of kind of ramping all this up?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah. So under the current assumptions we have, to your point, you'll start to see that gradually come, I'll say, out of where we are today really tied to those deliveries and those production rates. So it'll link directly to that. So once you get to, I'll say, peak rate is where you'll see more, I'll say, normality with regards to cash generation.

A

And certainly, through that period, we'll be focusing on the balance sheet and repaying a lot of this debt that we've had to bring on through this period. That will be a big, big priority while continuing to invest in the business, which we are today. So look, it's a long-term – long cycle business. It's competitive and we're making sure that, even in the middle of all this, that we're continuing to make the right investments near-term and for the long term, but we're being prudent about it and being strategic about it, especially through this period.

So that's kind of the trajectory to look for over time: grounding lifted; delivering airplanes, slowly moving up in rate; monitoring the supply chain, as you talked about, and ensuring we can go to the next rate; and, that will inform that profile of cash more than any other element in the company.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So you were kind of at one point at 57. You're now – other people talk around 21 or so. That's roughly where they're starting. I mean, that's a pretty long climb and, even when you were at 57...

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

...before, people were kind of struggling to keep up. What's the earliest you feel you could get to 52 or 57?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

It's going to be a couple years. But keep in mind, informing that is the supply chain, to you point...

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

Right.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

...you know, this pause, and then coming back up. But also, we've got our ramp to deliver, and that's going to inform our production system. So as we're clearing the ramp will inform how quickly we can go up in rate. And we're starting at the beginning of the line.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

Right.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

So that's going to take time to slowly bring that line back up – all three lines, and we'll monitor our own health through that. We'll monitor the supply chain health through that and our customers' ability to take airplanes – quantity of airplanes in periods of time. All of that is going to inform when we go up and how we go up. Look, we've got – everybody's been to that rate, to your point; not all healthy.

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Cai von Rumohr

Analyst, Cowen and Company, LLC

Right.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

And this period of time has allowed a lot of people to get healthy, build some inventory for us, get work back in position. And I'll tell you one of the disciplines coming out of this is ensuring we stay there. Get work done in position, keep the supply chain healthy and continue to monitor that. And those are going to be indicators and

A

enablers, really, informing us to go up or maintain a rate for a period of time. So just think of this as incremental milestones with multiple, I'll say, aspects being considered, not just the production system...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Right.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

...but that ramp and our customers and so on, that'll ultimately inform that profile.

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Cai von Rumohr

Analyst, Cowen and Company, LLC

Right. So near-term, obviously, 737 MAX is the focus.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yes.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

737 MAX is sucking a lot of cash out the door, but you clearly have substantial borrowing capacity.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

How should we think about deployment over the next three years?

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

You've got Embraer to do, but what do you have to see to sort of consider stock repurchase or...

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Yeah.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

... another M&A transaction?

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Well, again, you'll continue to see investment in the company. And again, we're being prudent with that and being smart with that capital through this period, especially, but that commitment remains unchanged. Like I said, it's a big marketplace, competitive one. We want to make sure when we come out of this we're competing to win and making the right investments not only just in the technology, but investments in our production systems as well.

You're going to continue to see that, first and foremost, to pay down the debt. So as we have a better, I'll say, clarity on our cash generation profile, we'll be starting to try to get that balance sheet back in order. Long-term, as far as a balanced deployment strategy, unchanged. But clearly, this has caused us to re-shift that balanced approach and primarily pay down a significant amount of this debt, and then we'll reassess where we are and decide how to move forward with a more balanced deployment.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

And then – so last one, when – you haven't provided any guidance to the Street.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Right.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

What would you have to see to provide guidance sometime? I assume you may not provide exactly the same type of guidance...

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah. Right.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

...but what would you have to see to give the Street a little more color in terms of where things might be going?

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Well, look, first and foremost, airplane safely back into service. That's number one. The even more detailed discussions with the customers on how we sequence deliveries and their ability to take deliveries, and then that informing the production system. So I kind of see all of those – we need to have good clarity on them to get a good sense of what's the profile going to look like going forward.

And I told you we're obviously committed to getting back together and describing the puts and takes and the risks, and the opportunities around whatever guidance we give and condition it to recognizing that there's decision points along the way. But to get a real, I'll say, kind of sense of projection of where we're going, really need to be

informed by those three to be able to lock those down, and then have, again, good line of sight and clarity about what's the next year going to look like.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

And like I said, we'll paint a picture and let you know what's in there, what isn't in there, what are the key drivers within there, what are the watch items so everybody's kind of well-informed to understand the puts and takes.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it. So I think everybody understands the risks. Maybe talk about, as you think about this year, what are the one or two things that could make this be a better year than people are kind of looking for today?

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

A

Yeah. Well, look, while the 737 line has been down, the level of effort with the management team as well as the staff that we've kept is what are all the productivity initiatives that we had, I'll say, on the list, but didn't have implemented or had them time phased because we were at a very high rate, difficult to implement. Every one of those is on the table and we're getting updates on those and engage with those on a regular basis and getting them into place now.

Relooking at buffer between us and the supply chain at a higher rate, I think one of the things that that we learned is, when you're at a rate of 52 and a fuselage is a day late, it makes a big difference. And we don't want work out of position, so making up for it out on the ramp is not something we want to get in. So let's relook at the buffer.

Let's relook at economic order quantities. Let's look at all these productivity initiatives. And just to give you an idea, Dave and I just went and toured the line, again. We have 6,500 kits deployed, right down to paint brushes for the team. So this – they've spent a tremendous amount of effort, two hour work packages, people on the airplane with everything they need. And that's a big efficiency driver where we've modified some of the capital or tooling all under productivity, getting down to root cause on shortages and really driving them to a corrective action, and taking all this time to just dig into these what I would consider inefficiencies at times and how do we come out of this healthier than ever.

And I really believe that we're in a position to do that that, ultimately, is going to be an opportunity. It's going to make us more predictable on a – from a delivery point-of-view, first time quality, no out of position work and reliability on delivering, again, to the end customer, and it's going to drive a lot of efficiency, and driving some of that back into the supply chain as well.

So some of these teams that have established some of these things on the line today, they're over on 777 and 777X and take – and trying to deploy those over there. So this is how we've been using some of these resources, and that is an opportunity to come out stronger.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Right.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

At least – from a – again, from a productivity or predictability perspective. And look, there's been a lot of hard learnings as a result of the 737 MAX, certainly, and we've made a lot of changes and will continue to make changes that are – have been and will continue to be a big commitment. Having a safety committee on our board, having somebody in charge of the safety for the Boeing Company and reporting to us on all the items that are being addressed, having safety representatives in each of the organizations, having the engineering organization realigned, hard lined into the chief engineer, these are all things that we've taken on and become – you ask where do you spend your time? There's a lot of our time being spent on some of these things and fundamentals that, ultimately, will improve our company.

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Cai von Rumohr

Analyst, Cowen and Company, LLC

Terrific.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

So no shortage of things we're focused on, but having said that, the list is about five.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

Okay.

Q

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

And they're not insignificant, but the entire team – and Dave laid them out from day one. Everybody is in each one of those swim lanes and working on those five.

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Cai von Rumohr

Analyst, Cowen and Company, LLC

Terrific. Thank you very much.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Cai, thank you. I appreciate it.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President-Enterprise Performance & Strategy, The Boeing Co.

Thanks.

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