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EDITED TRANSCRIPT

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PRESENTATION

Doug Harned - *Sanford Bernstein - Analyst*

Okay, why don't we get started here? I'm Doug Harned, Bernstein's aerospace and defense analyst and I am very pleased to have back with us again Boeing and today, we have with us Dennis Muilenburg, who is the President and Chief Operating Officer of Boeing. We are going to do a fireside chat format, so as you have seen before, please if you have questions, put them on cards and pass them to the middle. So with that, we will get started here.

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Good morning. And as always, we have our forward-looking statement up on the screen for reference here. So Doug, over to you.

Doug Harned - *Sanford Bernstein - Analyst*

Okay, great. So Dennis, you have been in this role not that long and you've worked in many different parts of the Company. I am interested in how you look at the opportunities for Boeing today in your new role and what you see as the biggest challenges?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

You bet. Well, thanks, Doug. I appreciate it and good to be here with you today. If you take a look at some of the key, I will say, strategic imperatives for Boeing, obviously a great opportunity immediately ahead of us as we ramp up production in commercial aircraft and doing that profitably on the defense side of the business, a little more challenging market space right now, but continuing to diversify and position that business for the future. Both of those are critical and I think a key opportunity there, Doug, is that the critical mass of both of those businesses together in what we call the One Boeing framework around that really creates some competitive advantage. And things like growing internationally, expanding our international footprint, services synergy and investing for the future, all things that we are driving hard right now. And in particular some of the key productivity initiatives that are not only fueling our bottom line, but also fueling our ability to invest for the future. So those are a few of the things I have been focused on here in the last few months.

Doug Harned - *Sanford Bernstein - Analyst*

Well, I want to start with commercial and certainly the 787 -- it has been our view that this is really one of the keys to making performance at commercial a success. Can you talk about how you see the 787 right now and what the biggest hurdles are in getting that up to really a cash breakeven point?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Well, we've seen some very strong performance on the 787 and really coming into its own now that we have stabilized production rate at 10 a month and encouraged by the progress that we are seeing there. Now, over the last few years, introducing that technology, getting it out into the fleets, ramping up and now successfully hitting a 10 a month rate not only in our final assembly factories, but throughout our supply chain, is a very big step for us. And now we will be able to stabilize at that rate here for the next two years before we break to 12 a month in the 2016 timeframe. So having two years of stability will be a strong suit for that program as well.

Some encouraging signs here, especially on the profitability front, Doug, as you mentioned, key things there. We look at the 787-8. Over the last year, we have seen about a 15% reduction in unit costs there, so the productivity machine is working well. And that was done, by the way, while we introduced the new 787-9 and while we were ramping up production rate.

In addition to that, the 787-9, now over the first six airplanes, we've seen about a 30% reduction in unit cost. So the productivity machine is working and working well. That, combined with production stability here for the next couple of years, will rapidly move that program to where we want it to be from an overall profitability and margin standpoint. So we are encouraged by the progress there.

Doug Harned - *Sanford Bernstein - Analyst*

Now the goal here has been discussed as reaching a peak in deferred production on the 787 by the end of this year at about $25 billion. When you peak in deferred production, that should mean that you are getting to the point where you actually will be net positive on cash flow. Can you talk about what gives you confidence in the ability to meet that goal?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, a couple things there and you are right. We remain confident that deferred production will peak at around $25 billion towards the end of this year. It will stabilize at that level for roughly another year. And then as we get to the 12 a month rate in 2016, you will come down the back side of that curve. Now what will fuel us on coming down the back side of that curve is exactly what you mentioned. That is the productivity improvements and the continuing reduction in unit cost and the progress that we've seen on both the Dash 8 and the Dash 9 makes us very confident that we will be able to do that.

On the front side of the curve, we are continuing to invest in the Dash 9 and 10 rampup and also continuing to make selective investments to help us drive the productivity machine. So those are the balancing factors here. We will clearly see deferred inventory flatten out towards the end of this year and then begin driving down the back side of that curve as we ramp up to 12 a month and as the unit costs continue to come down.

Doug Harned - *Sanford Bernstein - Analyst*

Now when you look forward on cost reduction on the 787, I think of this as two types you could be looking for. One is something that you can plan. In other words, learning scheduled reductions in costs at suppliers, things like that. Then there is another source, which would be on a new type of airplane, like this being the first all composite airplane you have produced. There can be technology innovations that can allow really step changes as you put those into the process. When you map out this trajectory of that $25 billion and the slow rampdown and the faster rampdown later on, how much of it is in the former and how much is an assumption about the latter that there will be some innovations?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

It is much more in the former. So what we are seeing is strong learning curve performance already on the Dash 8 and the Dash 9. Typically, we will see about 3% to 4% overall productivity improvements year over year in our basic factory machine. We see that in the 737, we see that in the 777 line. We expect to see that same kind of learning curve performance on the 87. So it is principally that machine.

I think another thing that is a big driver for us is the overall Partnering for Success effort that we have implemented in our supply chain. That will significantly drive cost reduction as well, unit cost reduction and that is an added emphasis where I think the degree of integration across our supply chain that we are achieving now will allow us to exceed what we have done previously on unit cost reduction learning curve. So I would see that as something that will augment and add to our traditional learning curves. And along the way, if we do find additional opportunities to invest in productivity improvements in the line, find ways to improve flow, find ways to put this airplane together even more effectively -- as you said, it is a new airplane in terms of construct and we are, as we are maturing the production line, continuing to find new ways to put that airplane together even more efficiently. So we will do targeted investments in that category as well. Those total in sum will allow us to not only replicate what we have seen on previous learning curves, but do even better than we have done on some of the past programs.

Doug Harned - *Sanford Bernstein - Analyst*

Now I would think given that something on the order of 70% to 75% of this aircraft is procured cost and you have supplier agreements that have fixed-price stepdowns over time. It gives you some ability to look forward and I would suggest kind of map out where costs -- a large part of the costs will go. But that is fine if you can map that out, but if the suppliers can't deliver on it, ultimately you can't have a supply base that is losing money. So how do you ensure that those stepdowns in your supply base, they can execute to that?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Great question. As I mentioned or alluded to earlier, on that deferred production profile, one of the reasons we are going to see that flatten out this year is as that supplier pricing stepdown kicks in. So that is already showing up in terms of performance, so this isn't all something that we expect out in the future. This is something that is already happening today. But your underlying point is a good one. That is we want a healthy supply chain and this Partnering for Success effort is designed to find those win-win solutions and these are not just promises or agreements that we are developing with our suppliers that aren't based on facts and real plans. So we spend a lot of time with our suppliers in our supply base, in the airframe houses, in the systems houses understanding their implementation plans in detail and those provide the meat behind the agreements.

And I think that is a really important principle and when we think about Partnering for Success, we started that about two years ago. Not only did we, at that point, start with our 20 biggest suppliers. Since then, we have expanded that to 100 and now to 500 suppliers. So not only our direct suppliers, but also a step down into their supply base and that stepdown I think adds additional confidence in detail to the plans.

The other part of that machine that I think is really important to us is finding win-win solutions with our suppliers. So we have now set up a program where supplier cost-reduction ideas, not only things they can do to reduce costs in their own factories, but things Boeing could be doing to reduce costs, either on the design side or how we flow requirements or things in our own factory. That machine of ideas has also really taken off. Over the last year, we've seen about a tenfold increase in the number of ideas and about an 80% reduction in the cycle time to address and implement those ideas. And that pipeline of ideas now includes more than 1000 specific actions from our suppliers or concepts and ideas. More than 200 have already been implemented. So that should give you a sense of the reality of it. These are plans and agreements with our suppliers that are based on real actions and things that we have confidence in. And so when you roll that all up, ultimately that gives us confidence in unit cost reduction and the long-term profile.

Doug Harned - *Sanford Bernstein - Analyst*

Well, I am interested in that because, as you describe it, it sounds like you are making progress, at least as good as you had expected on it. Has this changed your plan at all? In other words, has this changed your plan to be able to expect a better result in two to three years?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

We haven't changed our guidance, but if you take a look at where we are headed, clearly, our plan is to continue to beat our productivity historical performance. So our objective is to as briskly as we can move the 787 line into the margin position that we want for the long run. Some of the actions we are taking on Partnering for Success, lean implementation in our factories, some of the new initiatives around what we call capturing the value of quality, first-time quality, all of those are intended to accelerate productivity. In the end, that will pull unit costs down and move that program into the long-term margin position where we want it. So our expectation is to continue to work that very aggressively and continue to pull that to the left.

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And I am very confident that we will have the ability to do that. We are seeing incredible lessons learned from our today mature 37 and 777 lines that are allowing us to make the 87 line better. And now that we are working this across the whole Boeing enterprise, we are really seeing that idea generation, that synergy between lines beginning to build, which should allow us to accelerate profitability.

Doug Harned - *Sanford Bernstein - Analyst*

Now on Partnering for Success, certainly as I talk with a lot of people in the supplier community and I am sure you have had these discussions as well, not all of them describe it as a very attractive win-win situation. Can you talk about the types of situations you get into with suppliers, which must I think vary across the map from really good partnerships to ones that are perhaps more difficult?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, I can. We launched this separate in mid-2012, so we are about two years into it. And initially, I think as we have framed it up, there was some uncertainty within the supply base about how we would go about doing it. And we have had some tough conversations along the way. I would say, of our supply base to date and about 60% to 70% of our cost base is in the supply base. So it is important that we address this and within that supply base, I'd say about 40% of our suppliers are now on firm agreements and we are executing. I would say another 30% --.

Doug Harned - *Sanford Bernstein - Analyst*

40% based on the Partnering for Success --

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes.

Doug Harned - *Sanford Bernstein - Analyst*

-- results?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

40% of that Partnering for Success envelope. I'd say another 30%, the agreements are in essence done, very mature. We are just finishing up a few details and then we probably have about another 30% where we are farther out, but we are making progress. Over the last year, my sense is that we really turned the corner on getting everybody aligned with where we are headed and finding many more win-win solutions. It is not all the way there yet, as you point out. In some cases, tough discussions, but we are going to be relentless on our overall productivity goals here. We intend to take double-digit percent costs out of our supply base. We have to. It is the right thing for our customers, right thing for Boeing, ultimately the right thing for our suppliers, but our goal is to do that in a way that is win-win. And I think really over the last year we have gotten much more aligned with that vector.

I think you see that in the agreements that have been closed. You also see that in the idea generation that I mentioned earlier where we now have suppliers stepping up offering these new cost-reduction ideas and seeing the advantage of volume across our supply base. If you take a look at our total backlog, more than 5,000 airplanes, commercial airplanes, more than $400 billion of backlog. So there is opportunity here for our suppliers to gain volume advantage and in some cases trade that for price and that can be a very effective trade for both our suppliers and for Boeing.

Good examples there I think if you take a look at volume on the new 777, 777X, in some cases, has allowed us with our suppliers to get better pricing on 787. We have a combined composite structure workflow on some of our satellite business and 787 business. By combining those two, we found a win-win solution. Another supplier, we worked 737-MAX and F-15 cockpit displays together instead of separately. That turned into a win-win. So we are seeing more and more of that type of idea generation and it's a challenging program, very high objectives overall for Partnering for Success, but I'm confident we will get there.

Doug Harned - *Sanford Bernstein - Analyst*

Historically, at least what I've seen in my experience in this space is that you often have parts of the supply chain that I would say are under the radar. You talked about -- you start with the top 20 and then you move from there. Is there an issue here with I would say scale of suppliers? I mean you, Airbus as well have many, many small suppliers. Is it as easy for them to compete in this environment? How do you look at the large versus small?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, it gets more challenging as we go down the supply chain because they have less opportunities to diversify; they're a more concentrated business. That is one of the reasons we have been working with our direct suppliers to get to that next one or two tiers of the supply chain. We are spending a lot of time focusing on industrial base strength. We want a supply chain that is strong all the way to the bottom and with the amount of commercial volume that is out there right now and competition for that volume, it is important for us to make sure the right capacity is there and the right business help is there.

But that is exactly why we have expanded from that initial envelope of 20 and 100 suppliers to now more than 500. And being able to work hand-in-hand with that deeper supply chain is really making a difference. And I am confident that we have the capacity that we need there and we are paying the right attention to it so that we can find business solutions in a deeper supply chain that allow them to be healthy for the long run. Certainly it is in our mutual interest to have that deep healthy supply chain.

Doug Harned - *Sanford Bernstein - Analyst*

Now we are at an interesting point in history in this industry because you have backlogs right now that -- you and Airbus have backlogs that are on the order of eight years of current production. So if we were having this discussion about Partnering for Success 10 years ago, 20 years ago, it would be quite different because the two of you could just compete away those savings. Right now, you are looking at several years of things that are already effectively priced in. So should we think of the benefits in Partnering for Success as being incremental benefits that would go to the bottom line or are these things that perhaps you before wanted to compete aggressively and you have got to do it just to make the targets you set up?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

It's really going to be a combination of things, Doug. In the end, you will see it flowing to the bottom line as a very significant component of it. I think a couple of things are different as you point out. One, the backlog that we have today does give us this volume advantage that we can then dovetail and counterbalance with pricing. So pricing versus volume trades, we are uniquely positioned to do that. But something that we are doing a little differently this time around, this Partnering for Success effort is under this One Boeing umbrella. So we are having a single conversation with our suppliers, not tens or hundreds of conversations, and that spans not only all of our commercial airplane lines, but also our entire defense and space business. And so that creates even more volume advantage, if you will, beyond just the backlog growth. And so that One Boeing construct I think is a really important part of how this works as well.

Now the results of this are really threefold. One is we will see Partnering for Success cost reductions flow to the bottom line certainly and that gets to profitability of the 787 line and others, as I mentioned. It is also helping us create the capacity we need to continue to invest in R&D for the future, our new products like the 777X and in some cases, it does go to pricing because we are still in a competitive pricing environment. So all three of

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those are advantaged by reductions of cost through Partnering for Success. But a very significant component of those reductions will flow to the bottom line.

Doug Harned - *Sanford Bernstein - Analyst*

Now going to a different program, the 777, right now, if you look at the backlog for the 300ER, this starts to fall off in 2017. I know in discussions we have had, you've talked about, when you get toward last off the line for this program, as any program, you will do some discounting naturally. Can you talk about how you look at the demand for this airplane ahead of when the 777X comes in in the 2020 timeframe?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Well, the whole effort to build that bridge between today's 777 and the future 777X, very high priority to us. And you have described some of the boundaries very well. We remain very confident that we are going to effectively build that bridge. We have in essence filled out all the 2016 slots. We are now focused on 2017 and 2018. We have more than a dozen very active campaigns underway. A lot of options you might recall as well in previous deals that are still in play as well. All of those give us a lot of confidence that we will be able to fill that bridge.

We are going to use a philosophy similar to what we used to build the bridge from the 737NG to the MAX. We have now in essence completed that bridge. So in some cases paired orders makes sense. ANA, for example, recently coming forward with an order for both 777-300ERs and 777Xs. That kind of pairing is a good formula for us for the future. And then if you step back from it and look at the marketplace, you are right; we have about 300 in firm backlog, but there is a fleet of about 1,200 777s in service today. And the number of customers, the number of operators has grown from about 50 to about 70 over the last five years. Many of them are operating today older 777s, including 777-200s. So if you look at the time-phasing, replacing those 200s with 300ERs makes a lot of sense. The 300ER is still a great airplane, very, very competitive in the market and ultimately, that replacement cycle, those will be the last airplanes that eventually get replaced by 777Xs.

So if we look at the market capacity, number of operators, the differentiation that the 777 has in the marketplace and then the time-phasing of how that bridge would be built, we remain very confident that we will successfully build that bridge. And being about two to three years out in terms of filling slots is very normal widebody buying behavior.

Doug Harned - *Sanford Bernstein - Analyst*

The way things used to be?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes. So we are very confident we will be able to build that bridge. Now certainly we have got work to do and we don't want to discount that, but we will get it done.

Doug Harned - *Sanford Bernstein - Analyst*

But here is -- if you look at today and right now, between you and Airbus, you are producing 32 to 33 widebodies a month combined. If you assume the 787 ramp as planned and the A350 ramp as planned and then assume that you continue production at current rate of the 777 and that Airbus continues the A330 at its rate, you end up at kind of 50 a month toward the end of the decade. Do you see that as a level of production the industry can support?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Well, I can't comment on Airbus's planned production rates. I can tell you when we look at the overall market, the growth remains very strong. So we are continuing to see about 5%, 6% growth per year in the market, very rational behavior. About half of that is replacements, about half of it is actual fleet growth because of traffic growth. We see shifting continuing towards widebodies in terms of growth of the widebody fleets because of the route structures. And when we look at our productline lineup in widebodies, in essence, five new airplanes from the 787-8, 9 and 10 and then the 777X, 8X and 9X, those five airplanes compared to the A350, 900 and 1000, we like our widebody product lineup.

So when you talk about marketshare and expectations for the future, we expect to be able to grow our marketshare in the widebody marketplace as well. So those are all factors that get to your question. We think the market certainly has the capacity for the kind of widebody volume that we are talking about. We see sustaining our production lines, our widebody lines at the rates that we have put out there. We are very confident that the market can handle that. And just to give you a sense of our confidence, not only maintaining 777 at the current 8.3 a month, but we have planned rate increases continuing on the 787. So we are at 10 a month now. We expect to go to 12 a month in 2016 and we expect to go to 14 a month before the end of the decade. So that should give you a sense of our confidence in both our competitive position and what the market can handle.

Doug Harned - *Sanford Bernstein - Analyst*

And Airbus right now is in the process of making a decision on whether to do an A330 (inaudible) or re-engine it. Does their decision on that affect you at all in your planning for the 777?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

That doesn't change our planning. It's something we are keeping an eye on, but you have got to recognize that today's A330-300, if you compare it apples to apples to the 787, 787 is about a 25% better airplane in terms of operating cost for our customers. Even with a re-engined A330, it will still be penalized by the fact that it is an old aged airplane and it will not be able to compete with the 787. So it is something we are keeping an eye on. It is certainly a factor in how we think about the marketplace, but it doesn't fundamentally change our strategy. We still like our widebody lineup and our productline mix.

Doug Harned - *Sanford Bernstein - Analyst*

Something that I would say we have been very confident on is demand levels and strength, even the worries about emerging markets. This is something that hasn't bothered us very much frankly. We think the demand is there, but it is something that comes up quite often in discussions because there are a lot of headlines around emerging markets. There are also some deferrals that come up both for you and for Airbus. How do you see the market right now when you look at emerging markets, the level of deferral requests you are seeing? How does this compare to history?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Our market confidence remains very good and compared to history, we are seeing sustained growth. So the behavior that we are seeing here in the market is not what I would call a historical shorter cycle kind of market. This is a long-term sustained growth. Part of that is just the sheer number of passengers that are entering the marketplace. That is adding a lot to the growth. The value proposition of the new airplanes that we are putting out are helping to drive the replacement market as well. As I said earlier, those are roughly half and half in terms of the numbers of new airplanes that we are selling. So that is a fundamental strength in the marketplace.

When we take a look at diversity of backlog, you mentioned earlier the fact we have got 5,000 airplanes in backlog, seven to eight years of production. That is also highly diversified backlog. So about two-thirds of that backlog is outside of the US and Europe, whereas previously it would have been much more concentrated in US and Europe. It is well-diversified across a number of customers and in terms of emerging market exposure, only about 15% of that market or that backlog is in what we would call emerging markets. And of that 15%, the large majority of those are with airlines that are government-owned, government-supported, which adds a degree of confidence as well.

So you look at all the fundamentals of the market, the market size, the fundamental growth, the diversity of the backlog, we remain very confident. And I would say compared to history, the number of deferrals, cancellations that we are seeing is roughly equal to or slightly better than what we've seen in history. So that just further adds to our confidence in the marketplace.

Doug Harned - *Sanford Bernstein - Analyst*

An airplane that gets talked about less is the 747-8 and you have taken rate down to 1.5 a month. What is the outlook now for the 747-8? Can you talk a little bit about how campaigns are going for this airplane? Is there the potential to take this back up to two or could we see it drop to one?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, we think the 1.5 a month is a good sustained rate for that airplane as we look out over the marketplace. So that is where we would plan to run it and that looks solid as we look over the market in the next couple of years. A couple of factors there that are important. One, it is important to remember that the 747-8 is in a size class of its own in our productline. So it is another 15% to 20% larger than the 777-9X. So it fits in that product portfolio very well and operates in a unique position. That is more of a niche market, but one that we think sustains a 1.5 a month kind of build rate.

A couple of other important factors, the freighter market, the 747-8 freighter is a truly unique machine. There is nothing else that operates with that kind of capacity and range and we are starting to see some signs of the freighter market turning around. That's not where we want it yet, but year over year we see about a 4% improvement in freighter market this year versus last year and most of the longer-term projections now are saying that will get back to the traditional 5% a year growth rate. That is another thing that will sustain 747-8 production rate for the longer term. So it's a key part of our product portfolio. We think a 1.5 a month kind of production rate is reasonable and the market is beginning to turn back favorably in terms of cargo.

Doug Harned - *Sanford Bernstein - Analyst*

And on the commercial -- sorry -- the passenger version of this, you've got Lufthansa, who I know is very happy with the airplane, but they sure wish there were more people that operated it. So are you seeing much appetite on the passenger side for this? I know both you and Airbus are having trouble period at the very large aircraft level.

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Again, I think that is a place where we are starting to see more interest. It is interesting you mentioned Lufthansa. They recently decided to purchase both the 747-8s and the 777s. So that combination again makes good sense to them. We are seeing more and more interest in the 747-8i because of the economics that it provides in the marketplace. Again, you compare that to an A380, the seat mile cost advantage is very sizable. In that size class, we think it is the right airplane and again, having a more modest 1.5 a month production rate, we think that is very sustainable when you look at the combination of passenger and freighters.

Doug Harned - *Sanford Bernstein - Analyst*

Well, if we switch over to defense, when you look out over the next three to five years, do you see the ability to keep revenues -- keep the top line at least where it is today?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, if we take a look at our defense business today, it is in the low $30 billion a year in terms of volume. Clearly, some pressure in both the US and European markets. We are still dealing with sequestration here in the US and some of the uncertainties around that, somewhat offset by growth in international markets, in particular in the Middle East and Asia Pacific. And if we look at that combination of markets, budgets, our productline, upcoming competitions, we think it is reasonable that our defense business will stay roughly flat top line. We see opportunities to continue to improve bottom-line performance as we drive our productivity machine, as well as our Partnering for Success effort. The top line, we think that is a reasonable expectation is to be roughly flat over the next five years.

Doug Harned - *Sanford Bernstein - Analyst*

And if you parse that out into the individual units, military aircraft, network and space systems and global services and support, how would you look at the puts and takes on those to get to that flat top line?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, it's similar across each of those businesses. Each has a very different dynamic. On the services side, we continue to see growth opportunities, especially internationally, where we have customers that are looking for integrated performance-based logistics solutions and we see opportunities for synergy between our commercial aviation services business and our defense services business. And we think that uniquely advantages us to grow that top line.

Within the military aircraft portfolio, we obviously have some production lines that are going to wind down. We have announced the fact we are going to close the C-17 line in 2015. Tough decision, but the right thing to do from an affordability standpoint. We think that the revenue associated with C-17 will be more than replaced with the ramp up of P-8 and the new tanker program. So net-net, we expect to see some growth in the large airplane side. We see opportunities for rotorcraft to continue to expand and in our network and space business opportunities for the satellite business to continue to expand, especially commercial satellites. So if you look across all three of those business segments, some opportunities to grow, some offsets by planned production rampdowns, but on balance we see that as a good solid business stable top line with an opportunity to continue to incrementally grow the bottom line.

Doug Harned - *Sanford Bernstein - Analyst*

Well, in the BMA portion, what is your assumption then around the outlook for F-18 because that is obviously a very critical piece of it?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, that is typically the other key question that we are facing right now. I mentioned C-17 rolled out. The F-18 line today producing both Super Hornets and Growlers, the current contract with the Navy takes that program out into the 2016 timeframe. Opportunities beyond that are both a combination of domestic and international. Internationally, we are engaged in about six or seven different substantial campaigns principally for the Super Hornet and that will help us sustain that line for the longer run. Additional domestic buys, in particular the Growler, however, will be very important to that line. And as you've seen most recently, our Navy customers have come out talking extensively about the importance of electronic attack and what that means to the overall defense umbrella of the United States and our allies for the next decade. And I think that is one of the things that is really going to help us domestically extend the Growler line. The Navy has put out an unfunded requirement request for 22 Growlers in the fiscal year 2015 budget, which I think is evidence of the need, but longer term you are going to see that electronic attack capability fundamentally important to all of our services and it will be complementary to the F-35 and will be needed as the F-35 fleet ramps up.

And so I think that will create some longer-term opportunity for additional domestic Growlers. And if I look at the combination of domestic Growlers and international Super Hornets, it gives us confidence that we will be able to extend that line. And beyond that, we are continuing to work

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investments in programs like the new bomber program, UCLASS, TX. All of those leverage that same experience base and that same industrial capacity, which again helps us preserve those skills.

Doug Harned - *Sanford Bernstein - Analyst*

But on F-18 international, there were a couple of very big competitions, Brazil, India that didn't go to an American supplier. When you look forward, what are you looking at in terms of -- what countries and are these the same type of scale that -- those were big deals?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Well, if you recall the opportunity down in Brazil was for 36 aircraft and certainly we were disappointed in the final decision. There were some other factors that obviously weighed into that. I would offer that the Super Hornet offering down there in terms of cost and capability is unmatched around the world. So we think being able to present that value proposition internationally still remains very strong. We see some opportunities in both North America and Europe for the Super Hornet. The competition is underway in places like Denmark, Canada. We see interest from Middle East customers and we also have interest in the Asia-Pacific region. So in all three of those big regions, we see opportunities for Super Hornet. The key is the capability cost combination of that compared to any other international offering is clearly superior.

Doug Harned - *Sanford Bernstein - Analyst*

Now one of the things that I think has been an issue is your margins on the defense side have not been as good as what some of your competitors have been able to deliver, particularly on the Boeing military aircraft and network and space systems businesses. Can you talk about that, the potential to get those margins up and particularly with the headwinds of the P-8 and the tanker coming in?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, well, a couple of things on that, Doug. And I think, one, if you look out over the last couple of years, you will note that the margin performance has steadily -- incrementally but steadily improved and that is a trend that we intend to continue. A couple of factors play into this. One is the market-based affordability effort that we launched a couple of years ago has taken about $4 billion of cost out of the defense business structure. We just set a target to take another $2 billion of run rate cost out. That market-based affordability work combined with Partnering for Success will continue to take cost out, which will allow us to add to margins.

In addition, that hard work has fed our R&D and as you noted before, our R&D expenditures have been higher than some of our competitors. That has been an intentional strategic move. I think you have seen that show up in terms of international advantage where our revenue base now on the defense side of the business is about 30% outside the US and that has been hard work, but that investment has paid off there. That investment has also allowed us to win P-8 and tanker and albeit challenging development programs. P-8 is now rolling into full rate production on the 737 line. That is going to be a very good program for us. Tanker, we will finish up development over the next two years and then roll that into production. That is a 179-aircraft production run with the potential for significantly more. And that will add to our bottom line as well when it gets into production.

So I think a lot of reasons to expect that we are going to see profitability continue to improve incrementally over time, but continue to improve bottom line in our defense business while sustaining our ability to invest for the future and pursue some new franchise opportunities like the new bomber program as an example.

Doug Harned - *Sanford Bernstein - Analyst*

So is it fair that you expect that you will be able to take these margins up -- we should expect some level of margin expansion from these levels over time?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

That is our stated intent and I have every reason to believe we will be successful on that. You have seen it over the last couple of years where we have made those improvements. We are going to continue to take cost structure out ahead of the curve on any budget pressure. So we have assumed a full sequester in the US and we are sizing our cost structure to handle that. If it doesn't end up that bad, it creates upside opportunity for us. We are going to take cost structure out with the idea that it is going to feed bottom-line improvements. It is going to fuel our R&D and in some cases, it will give us pricing flexibility for competitive reasons.

Doug Harned - *Sanford Bernstein - Analyst*

And what does that mean to size to that level in terms of changes in headcount, changes in facilities?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

It gets into every component of our cost structure and this applies not only to what we are doing on the defense side of the business, but across the entire enterprise. So it includes headcount reductions. Those headcount reductions have been north of 20% in the defense business over the last two years. We have taken out about 30% of our executive and management headcount. Across the entire Boeing Company, we had taken out about 25% of our footprint while increasing overall volume by 60% over the last 10 years. So that is where that lean productivity machine comes in and that plays across our commercial and defense business. It gets into our supply chain and in particular the work we are doing with Partnering for Success. Every category of overhead. So we are in a very disciplined way touching every segment of our cost structure, both internal and external. We set aggressive targets, we hold people accountable to those targets and all again with the idea that it is going to feed bottom line, feed our investment and give us pricing flexibility.

Doug Harned - *Sanford Bernstein - Analyst*

Because you have a real reshaping of the effective footprint in defense now because with the P-8 and the tanker being more Puget Sound-oriented, then you have got very large footprints in St. Louis, you have got Long Beach. What is the future of the footprint of BDS?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Well, we continue to consolidate our footprint. So I mentioned earlier our plan to shut down the C-17 line. That will in essence close our plant in Long Beach. Very tough decision, but one that we are implementing. We also announced the fact that we are closing the Wichita site. Again, we have about 2,000 personnel there, a very difficult decision, but the right thing to do. We are also taking a look at a lot of our secondary sites and where we can consolidate, we are doing that. In some cases, we have the opportunity to consolidate the footprint with commercial airplanes. So the fact that the P-8 and the tanker will be done as in-line production programs. We are not taking them off the commercial line flying them to another site to modify them; we are doing the large majority of the mods in line in the commercial airplane factories. That creates huge opportunity to reduce footprint and is one of the reasons both of those airplanes are very cost-competitive. So we are going to continue to look for opportunities to reduce footprint. It is one of the key categories of cost reduction in our next $2 billion of market-based affordability.

Doug Harned - *Sanford Bernstein - Analyst*

And one of the key programs, I know when you talk about R&D investment, is long-range strike. That is a difficult program to talk about; you are working with Lockheed on it. Can you give us some sense of the timeline and your approach to this program?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, I can only give you information that is already in the public that our Air Force customer has announced. As noted, it is a very important program. It is always in the top tier of investments that General Welch, Chief of Staff of the Air Force, mentions. He often mentions tanker F-35 and the new bomber as his top three. You can see it in the budget profiles over the five-year plan where it grows into a very significant budget item for the Air Force. So clearly high priority. I think just recently, in fact, over the last couple of days, the Air Force has publicly noted that they expect to issue the final RFP here in the very near term, during the next quarter and that they are headed towards a down select in the 2015 timeframe. So this is a very active ongoing effort, very high priority to Boeing and one where we are putting all of our One Boeing resources against it. And we are teamed, partnered with Lockheed on this effort. We feel very strong about the industrial team that we have put together, the technology investment that we have made and we will continue to treat this with that kind of priority.

Doug Harned - *Sanford Bernstein - Analyst*

Now I want to ask just one quick question back on commercial that I got here, which is your thoughts on emerging competitors. So Chinese in Comac, Bombardier with the C Series. Just like to get your thoughts on how you look at that.

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

We continue to pay very close attention to that. Obviously, there are strong desires to grow the aerospace industry in China. It is a very important marketplace for us with tremendous customers there today. We have industrial partners in China. We also have a future competitor who is clearly investing as well. Investments in Canada, Brazil, continuing investments in Europe. Clearly, there is a lot of attraction to grow aerospace footprint. And I think part of that is driven by the market attractiveness that we talked about earlier.

We are not surprised by that. It is something that causes us to drive our competitiveness even more. It's frankly one of the things that drives us to continue to be aggressive on reducing our own cost structure, working aggressively with our supply base to be Partnering for Success and then continuing to innovate. It is important for us, this innovation model, that we are continuously innovating. Not just a single step that might happen every 10 or 20 years, but a new investment and innovation model that every couple of years we can bring new capability to the marketplace. And so that combination of staying on the innovation leading edge while taking cost structure out I think is how we deal with emerging competitors.

Doug Harned - *Sanford Bernstein - Analyst*

Now I am going to pull this all up for a minute and talk about cash because you just did a very large share repurchase in Q1, $2.5 billion. You have still got more than $11 billion in cash and short-term investments on your balance sheet. Can you talk about how you are looking at cash deployment over the next year or two?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, a couple of things here. First of all, when you look at cash performance, as we continue to ramp up production rates, as we drive profitability on 787 and our other lines, long-term cash flow generation, we see a strong opportunity there. And that is a long-term view, not something that is cyclical, but continued opportunity for cash flow growth. So that is cash generation.

Now on the use of cash side, we remain very consistent in our priorities here. The first priority is to continue to invest in the business for the future. So these are the investments we are making in the 777 MAX, the 777X, the tanker, new derivatives of the 787. We will continue to make the right investments there. Secondly, returning value to shareholders, very important to us. As you noted, we increased our dividend by 50% and we expect to continue to pay a strong dividend aligned with the growth of our business.

Share repurchase is a key part of that. With the recent authorization to add another $10 billion to our overall authorization, that is a sign of strength there, the fact that we bought or repurchased $2.5 billion of stock in the first quarter is another important sign there and that still leaves us headroom for a little over $8 billion of share repurchase that we would expect to be able to execute over the next few years. So that will continue to be an important part of use of cash.

Selective M&A where it makes sense. Again, our philosophy has been one where we invest primarily in organic growth, but where we can find a bolt-on acquisition, that would be another use of cash. And then overall from operating the Company, as you mentioned, about $11 billion of cash positioned today. We think high single digit billions of dollars is a reasonable place for us to be in terms of operating the Company and a healthy position for us to be as a business. So you can see that does give us some flexibility in terms of how we invest and how we return to shareholders.

Doug Harned - *Sanford Bernstein - Analyst*

And then on M&A, you talked about mainly it would be bolt-on type acquisitions. How do you think about where those might lie on the defense side, the commercial side, the types of capabilities you might be interested in?

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Yes, areas of interest there continue to be aligned on where we want to build deeper vertical capability. Advanced services is one of our key areas and again just evidence this week, we picked up another small bolt-on acquisition in our commercial services arena. So we see M&A opportunities that span services and then areas like unmanned systems, C4ISR capability on the defense side, cyber security. Those vertical areas are ones where we have made more than a dozen acquisitions over the last three years and are sectors that continue to be high interest to us.

Doug Harned - *Sanford Bernstein - Analyst*

Well, I think we are out of time. So I want to thank Dennis for being here.

Dennis Muilenburg - *The Boeing Company - Vice Chairman, President & COO*

Thank you, Doug. I appreciate it. Thank you all. I appreciate your time.
