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CORPORATE PARTICIPANTS

Greg Smith *The Boeing Company - EVP & CFO*

CONFERENCE CALL PARTICIPANTS

Seth Seifman *JPMorgan - Analyst*

PRESENTATION

Seth Seifman *- JPMorgan - Analyst*

Good morning and welcome back. We're going to continue this morning with The Boeing Company and we're very grateful to have them with us this morning.

We're happy to have Greg Smith, CFO, and Troy Lahr who heads up Investor Relations is here as well. I'm going to turn it over to Greg to start off with some remarks and then we'll shift over to Q&A. So Greg, why don't you just take it away.

Greg Smith *- The Boeing Company - EVP & CFO*

Sure. Seth, thanks very much for that nice introduction and thanks for having us.

I guess before I get into my remarks I certainly on behalf of myself and everybody at Boeing we want to again share our condolences to Joe's family. Certainly a very great guy, a good friend of many of us and a terrific analyst. So we certainly look forward to participating in the scholarship fund that's been established for Joe's kids, so thank you for arranging that.

As I step back and I thought maybe a good place to start would be the market and talk a little bit about the market and then some of the fundamentals that we're working on. And then I know Seth has a few hundred questions for me.

Starting with the market, I'd tell you the market remains very strong. You saw last year we had over a 2 book-to-bill and we expect about a book-to-bill of about 1 this year.

So we're still seeing strength in both the narrowbody and the widebody. And traffic remains strong and I think just the overall economics of the airplanes that we're offering into the marketplace continue to be very compelling around the replacement market as well as the growth that we're seeing across the industry.

From a product portfolio point of view I think you've seen we've made our product portfolio decisions in the commercial side with the very successful launch of the Dash 10 on the 787 program and the 777X as well as the 737 MAX.

So clearly the focus now is executing on those development programs and how we're thinking about that. I think internally a very big focus on risk reduction, productivity and cash generation. On the risk reduction perspective I think if you look back five years and think about the risk profile in the business and think about the next five years, very different profile.

Things we focused on on development programs really how do we leverage the technology that we've already invested in and apply that on to our new platforms and provide our customers with the very strong economics and operating costs these airplanes bring into the market. But we're leveraging that, one way we're doing that, we've set up one development organization in our commercial airplane business, one individual, one team running all development programs.

We're already starting to see the benefit of that early but seeing the benefit of that. That's one way to reduce risk obviously and reduce volatility in the R&D and ensure that we get these products into the hands of our customers in a timely manner and do that in a very affordable way.

We've just set up the same organization in our defense business a couple of weeks ago. Again taking off that same model as we've had in commercial and building upon that.

And again think about that as risk reduction, delivering value to the customer, affordability and really trying again to maintain high profitability and maintain R&D spend profiles through that period. So big, big focus on that.

I'd say another risk reduction item is labor stability. We signed very long-term agreements in our Puget Sound area as well as St. Louis again with a clear view of providing stability for all of our stakeholders and driving additional productivity through that period, delivering at these record production rates to our customers.

Combined with that, pension liability another big risk reduction effort for us. We looked at our liability and tried to figure out how do we address that liability, at the same time provide very market affordable but attractive benefits to our employees. We now have 90% of our people that will transition onto a DC plan.

So a lot of focus on risk reduction has taken place over the last five years or so. And as we look forward we're certainly putting those behind us and if we look at the rate increases that are going forward we have five, in the last four or five years we've had close to 18 rate breaks. We've done those successfully so it's really about building on that success and again driving value and ultimately driving cash flow.

So a big focus on productivity in the Company, big focus on cash generation, working cap, all elements of working capital and then finally deploying that cash. And you've seen we've purchased $6 billion of shares last year, increased the dividend 25% which is about an 88% increase over the last two years. So I think again demonstrates our confidence in the strength of the backlog, the marketplace and our commitment to returning cash back to shareholders.

But fundamentally that's how we've been thinking about the business and those are the primary areas that we've been focused on. So I'll take your questions, Seth.

Seth Seifman - *JPMorgan - Analyst*

Thanks, Greg. You sort of addressed my first question in the introductory remarks when you talked about your expectations this year for book-to-bill around 1. There's obviously been a string of very strong years both for you and for Airbus.

Where is the incremental demand coming from at this point? And do we get to a point soon where you start to think about maybe burning down some of this backlog of nearly 6,000 airplanes that you have?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, as I said in my opening we're certainly focused on executing these rate breaks as we have in a very way that we're really building of the success of the prior minimizing disruption, at the same time driving productivity. That's the plan going forward. We've got the 737 going to 47 and then to 52 a month in 2018, the 787 going from 10 currently to 12 a month in 2016 and then to 14 a month towards the end of the decade.

So that's what's in front of us. I will tell you the demand still remains strong.

Certainly as we look at it there's replacement and then there's growth. Certainly the replacement market really ties back into the economics these airplanes are bringing into the marketplace. Despite a low oil environment it's still very compelling business case and it's not just the fuel burn, it's the overall operating cost when you look at a MAX or you look at a 787-8, 9 or 10 or a 777X.

The overall operating cost is very attractive even in this environment. If you look back over time, I know you have Seth, there's really no correlation between oil and demand for airplanes. I think some people forget that when we launched the 787 we were at $40 a barrel and you saw the success of that launch.

Customers really look much more long term and look at the overall operating again expense of the airplane. At the same time some of these airplanes are opening up new routes that weren't available before and particularly around the 787. So I'd tell you in general the market still remains very strong.

We're focused on making those rate breaks as we have building on that success, executing that flawlessly. At the same time out active in the marketplace and we're not seeing any of that slowing down at this point.

Seth Seifman - *JPMorgan - Analyst*

And so you have those rate breaks in front of you and Airbus is moving higher as well. How do you ensure -- what are you monitoring to make sure that you guys are building airplanes at the appropriate rate? Are you at a point where your rates are for a perfect environment and if anything were to change that that increases the risk?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, there's many things taken into consideration when you make a rate break and you certainly put factors on that and probability factors building off of history of experience. But the fact is it continues to remain strong, the demand in some cases we're in situations where we're oversold so we deal with that.

But we're not seeing any slowdown here and you saw that we have pressure on the narrowbody to bring that up to 52 a month. But when we make a rate break we really try to look at that and maintaining that rate at a two- to three-year period. And that's what we've seen has been optimizing the operations and again on the productivity and cash side.

So as we think about this we don't think about a rate break that's going to be 12 months. We think much longer than that and look at the demand. Very detailed analysis by airline, how many are firm, how many are options, what do we think the probability of those options are.

We look at the operating performance of that airline, how much of that is growth, how much of that is replacement and again that's some of the fundamentals that we look at. But we feel good about the marketplace, we feel very good about the production rates and we're not if anything we're seeing customers wanting slots earlier. So it gets back to your point, executing on this backlog is the big focus right now.

Seth Seifman - *JPMorgan - Analyst*

And then maybe if we start to dig in on some of the specific platforms I think there's a fair amount of skepticism in the market regarding your ability to hold the 777 rate at 100 per year through the transition to the 777X. You need about 50 orders per year and you got over 60 last year.

So you made it last year. But what gives you the confidence in your ability to keep selling current generation 777s?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, well I mean if you step back this airplane is certainly operating in the marketplace somewhat of its own so we don't have a great deal of competition. It's a great platform, it's been a great platform for many years.

So customers have a lot of experience operating this airplane and the economics the airplane brings into the marketplace. You're right, we had a good year last year, 63 orders, off to a good start this year. And when you step back and look at the skyline we're sold out this year, we're essentially sold out next year and then we're about half sold out in 2017.

So as you look forward and you look at the timeline we have between now and introducing the 777X we've got some time to continue to work it. We're off to a good start, we'll continue to monitor it, we'll make whatever adjustments we need to make but we don't see a need to make any of those adjustments at this time.

At the same time we're looking at how do you transition this 777X in to the line on the 777. So we've got some moderation through that in our production levels very similar to what we did on the 787-8 going to the Dash 9. So really taking those lessons learned and having a very smooth transition, really again maintain profitability and cash but ensure we get the airplane to the customer in a timely manner.

So we're off to a good start. We'll keep watching it, we're working it hard in the marketplace but again it's a great product. And we have some time on our hands to continue to fill in that bridge.

Seth Seifman - *JPMorgan - Analyst*

And as you think about the negotiations and your efforts to sell those planes, is that getting much harder? Is the pricing environment getting much tougher? And then maybe also a little bit more to tell if there's anything you can tell us the order opportunities out there are they fairly steady, are they clustered in a particular time period, are they more oriented toward growth or replacement, any additional color?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, I would tell you what you see coming forward very similar to what we saw what we've had experience, you know about 50% growth and about 50% of that being replacement. Again we go through airline by airline, airplane by airplane to really understand when that airplane will get retired and what would be replaced within that route. That continues to look very similar to what we've seen in the past.

As far as timing of orders, I wish I could time orders, Seth, but I can't. So they tend to be lumpy and they are pretty dispersed around the globe and the fundamentals again if you thought about the last year as far as the attributes you describe not a lot of difference there. So I think very similar.

Seth Seifman - *JPMorgan - Analyst*

And the pricing?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, pricing's pretty stable, pretty stable. So again it gets right back to what's the airplane bringing to the marketplace, what it's bringing to the customer.

Certainly the customer environment, the customers are more healthy, they are more profitable than they've been and they are being operated extremely well. And I think that's very good for the overall industry and certainly an increase in like I said in near-term demand. So we're trying to fulfill that at the same time.

Seth Seifman - *JPMorgan - Analyst*

Maybe one more on 777. It looks like you determined during the fourth quarter to separate the 777 and the 777X into two different programs with separate accounting quantities. What was the reason for that?

Greg Smith - *The Boeing Company - EVP & CFO*

Well, there's a process you need to go through when you establish a new airplane program and very clear I'll say kind of accounting criteria that you need to go through. Some of those go through the design of the airplane, how different is that from a 777, the amount of investment differences, what markets that airplane may serve that are different than other and many attributes. So it's I'd say a very disciplined process that we go through to establish whether it's a continuation of a current accounting block or a new one.

Going through that and knowing the differences between the 777 and the 777X as you do you can see there's enough difference there to drive a new accounting block. And that will be obviously established around the first delivery in 2020.

Seth Seifman - *JPMorgan - Analyst*

And maybe we'll move on to the 87. Do you think about unit cost reduction on the 87 as maybe overall for the Company the biggest risk to financial performance over the next few years?

Greg Smith - *The Boeing Company - EVP & CFO*

Well I would say it's certainly one of the biggest focus areas for all of us across the enterprise. And so how do you continue to leverage the enterprise and then bring best practices whether it's within the factory operations or within the supply chain, how do you bring those to the 787 to continue to drive profitability. So I would tell you everybody's engaged.

People from BDS, people from our engineering operations and technology organization to continue to optimize that factory. You saw on the last call I talked a little bit about some of the further investments that we're making to optimize that factory. So now you've got to 10 a month and we're getting stability in the production system.

We're seeing more opportunities that require certainly an upfront investment but a real benefit longer term on cash and profitability. So those are I'll say enterprise focus that are coming in again, really looking for opportunities to capture best practices and get them on the program.

There's a lot of practices that have taken place on the 37 and 777 that have been very successful. Now that we've become more stable in the production system at 10, some of those are going to start to get implemented as well. So a lot of activity going on there.

I'd tell you the production system is operating well. There's certainly challenges along the way as there always has been, but within the supply chain and particularly around seats and side panels but we've navigated through that very well. And you can see that Ray and his team continue to deliver at about that production rate.

And we're in good shape as we think about 12 a month. So lots of work to do, big focus and I think we know exactly what we need to do and we know how to go to capture that savings on the unit cost side. But again very big focus for us, big priority for us.

Seth Seifman - *JPMorgan - Analyst*

Maybe we can move on to a question about your guidance. You've been able to beat earnings expectations fairly consistently over the past few years.

When you look at 2015, where do you see the biggest risk? And I think we can point to maybe a couple of discrete events potentially in 2015 that could have a significant impact whether we're talking about charges on tanker or 47 or C-17. To what extent are these factored into your guidance this year?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, I mean you factor in some form of reasonableness, to your point you look at the risk, you look at the opportunities that you're going into the year and how you're going to mitigate some of those risks or activities that are taking place to try to mitigate those ahead of time or drive additional profitability in some of those areas and then you look at how you're going to capture the opportunity. Obviously earlier in the year you don't have all those plans exactly nailed down.

So as you make progress through the year the focus as it's been in prior years, you know, mitigate the risk and capture as many opportunities as you can. The areas that you highlighted are certainly big focus areas for us finalizing the C-17 orders this year is what's assumed. And I think we're we have a good all say pipeline in order to do that but it's not done.

So we've got to get that done. And I think we have high probability we'll get that done.

747, great airplane, great operating economics, challenging cargo environment getting better and an airplane that's sitting in a marketplace by itself. So it's a very attractive platform in a down market.

When that market continues to turn I think we will be very well-positioned. At the same time really focused on cost reduction on that program as we have as we brought down production rates at the same time bringing down overall cost on the program.

Then tanker you saw we flew the first tanker near the end of the year. Now we're focused on finishing all four of those airplanes and getting the militarized version into the air this year.

So certainly lots of work to do but very focused on it, again mitigating risks on those elements of the plan. At the same time trying to capture opportunities.

Seth Seifman - *JPMorgan - Analyst*

Cash flow has been obviously a source of intense investor focus for the past couple of years. Your guidance this year for free cash flow is a little over $6 billion.

Can you talk about the trajectory going forward? And management has talked in the past about how with 787 unit costs improving do you see a path to steady annual growth in cash flow? Is that something that you still see ahead?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, I do. I mean again if you think about the rate increases, particularly on the commercial side that we've talked about, obviously the growth that goes with that through progress payments and delivery payments will allow for more cash flow improving on 787. And then as well just overall productivity that again think about what we've captured over the next three years, we've got very aggressive productivity targets that are deployed not only inside but obviously outside within the supply chain.

So we're not asking the supply chain to do anything different than we're doing ourselves. So that's the focus, Seth. Then just basic elements of working capital, really trying to get further in-depth into the working capital elements and looking for opportunities to improve there.

So as I talked about on the call we continue to see growth coming out of 2015 and into 2016. We've got lots of work to do but we've got a backlog that's unprecedented that we've got to deliver on as we have and execute on that. And that's what's going to drive the cash flow.

Seth Seifman - *JPMorgan - Analyst*

And you touched on progress payments in that answer and advances have been an important source of cash for the Company, $3 billion source of cash in three of the past four years. How do you think about this in 2015 and going forward?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, it won't grow at the same rate it has because of the production rate increases are not as great as they were. But it will continue to grow as you look at rate increases across commercial airplanes.

Seth Seifman - *JPMorgan - Analyst*

And the CapEx has climbed up as you've increased rates. The guidance this year is a little under $3 billion.

I know that the 777X is playing a role here. Does CapEx continue to grow and if so where is the peak?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, I think so first of all I mean the CapEx increase this year is really driven to deliver on the growth. 777X, 737 MAX, 787 rate increase and going to 10 a month. If you broke down all of the capital the predominance of it that's where it's going, so it's going to growth.

All tied into the business cases behind each one of those airplanes and something that I personally review on a regular basis. First of all I approve it but then on a regular basis as our progress to ensure that we're staying within the budget framework that we put in place when we launched the program. But it's all driving growth, it's also driving automation.

We've got more automation built into this plan than we've had in prior plans. Again thinking about productivity, thinking about going to higher rates within the same footprint like on the 737 as an example and thinking about advanced technology, stuff that we know how to do but how do we take it to the next level and gain more productivity and again optimize the factories in a better way.

So that's where the CapEx is being allocated. I see similar level into next year and then we'll start to moderate from there. But again just think about when these airplanes break rate or when they get introduced in the marketplace that is all again supporting those rates and as we reach those the CapEx will get again down to a more normal spend rate.

Seth Seifman - *JPMorgan - Analyst*

And you touched on working capital as well and the Company has done a great job if you exclude 787 and you look at the physical inventory for commercial airplanes as rates have come up is that something you think you can hold or is there eventually start to does some pressure start to emerge there?

Greg Smith - *The Boeing Company - EVP & CFO*

No, I think we can hold it. I'd tell you we have done a good job, you're right Seth, but that doesn't mean we're not looking for more opportunities there. And it goes all across working capital, inventory, payables, receivables, everything, we're looking again more opportunity there in what we could do but all the elements of inventory on every program getting into really more detail there and really leveraging best practices.

If you look at something like the 737 they have done a fantastic job on managing work in process inventory as well as stores inventory and turns associated with that. How do you take that and leverage it across? I know you and I have talked about this but we were building 19 a month in a footprint that we will now build 52 airplanes a month.

That's all driving lean and efficiency, working capital, all elements of productivity. So how do you take that and really I'll say franchise that across in some cases we've been able to do that but I think there still more opportunity there. So pretty big focus area for us going forward.

Seth Seifman - *JPMorgan - Analyst*

Maybe we can move on to some questions about defense. And you talked about the top line there being flattish and you'll have new programs in international sales that come on and there are some more mature programs that are rolling off. When you talk about flattish is that flat at the end of some planning period with a lot of fluctuation in between or does that imply consistent sales year to year?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, well I think as we talked about in the past from a sequestration point of view we've assumed that a sequestration environment would continue. So that's assumed in there. We've assumed that we will do our best to offset that through international sales and we've done a good job there.

About 15% of our revenue not that long ago, 30% of our revenue today. So a lot more focus obviously on I'll say a One Boeing approach to capturing international sales for BDS.

But on the top line that what we're assuming. On the bottom line we're continuing to operate again assuming a challenging environment. So we've taken over $4 billion out of that infrastructure and we plan to take an additional $2 billion out of that through this market-based affordability initiative.

So again trying to obviously drive margins in the business but at the same time assuming a continued challenging environment. Having said that it's all about proven, reliable, affordable products and services.

And that's been again the focus on the international side as well as the domestic. And I think we've got a great portfolio line-up but we're again continuing to try to make that portfolio line-up more affordable and provide most of the customers across the globe, at the same time trying to drive margins.

Seth Seifman - *JPMorgan - Analyst*

And if we look at the tanker program which is one of your growing programs and we look at the budget, the combined R&D and procurement are up fairly significantly in fiscal 2015 and fiscal 2016. You talk about the profile of that how it flows into sales and then as the procurement aspect of it picks up what's the earnings profile there?

Greg Smith - *The Boeing Company - EVP & CFO*

You're right. You're at the early stages of tanker. Once we get through the EMD phase and move into the production phase you'll start to see I'll say more cadence of deliveries around the tanker.

Obviously a great platform, one that certainly we're very focused on meeting our customer commitments on and milestones and getting that into the hands of the Warfighter. So we're marching along to the schedule that we had in place with our customer but again it will be a little while here before you start to see that at full rate.

Funding for the program remains very stable and frankly funding for many of our programs I think it goes back to what are you bringing into the marketplace, reliability, how are you supporting that product and affordability. So those elements are I'll say at the forefront of our minds as we think through the portfolio and the new products coming on.

You see P-8 ramping up, again another very successful program but we'll continue to ramp up. Rotorcraft continues to remain strong, very solid backlog internationally and domestically, so continuing to focus there. And then you've seen in the space area we had a pretty significant win around commercial crew but again we've got a good portfolio in the space business and we still see some more opportunities around SLS and other contracts that we're very focused on continuing.

Seth Seifman - *JPMorgan - Analyst*

When you think about international opportunities where are the most promising opportunities today in terms of either platforms or geographies and then also you've grown a lot in international. It's been a focus for a lot of other defense contractors as well during a time when budgets have been under pressure and we always think about international work being so much more profitable than domestic work. Has profitability in international competition come under pressure at all as there's been more of a focus there?

Greg Smith - *The Boeing Company - EVP & CFO*

I'd say for us we see it pretty similar. It really again gets to what you're providing the marketplace, the competitive environment around that and all those elements around what really what a customer is looking for in that capability. So I don't see much change in there.

Certainly again Rotorcraft on the international side remains very strong. Fighters continue to be a strong interest in certain elements of the fighter portfolio and then finally we'll finish up the C-17 here with international orders. So in general I'd say similar demand to what we've seen, pockets of regions around Middle East in particular but across the globe there continues to be good interest, it's just as we know on the defense are in the international side it's all about timing.

So strong demand but it's all about when you can book that order, when you do book that order. So that's a little bit obviously more delayed than what you see traditionally in the domestic side.

Seth Seifman - *JPMorgan - Analyst*

Then you talked about margins. I know this is a tall order in the type of environment we're in but if you think that all about any possibility or how you might move beyond the 9.5% to 10% range you've been in, you talked about cost-cutting.

There is perhaps some favorable mix shift towards international. Is there any particular area or any particular segment also within defense you would highlight where there is some opportunity for margin expansion?

Greg Smith - *The Boeing Company - EVP & CFO*

I would say in general it's across the board. The whole market-based affordability effort is infrastructure, it's support levels and then it's also supply chain. So the whole Partnering for Success element is woven into this and so I'd say it's across the board.

Certainly getting over $4 billion of savings to date doesn't come easy but they really fall into those elements. This next $2 billion is very similar so I'd say it's across the board.

We're very focused on again affordability, investing in defense, at the same time expanding margins. Mix certainly comes into play there as you indicated, Seth, but we're really trying to go product line by product line, operational factory support by support and really looking at what affordability levels can we get to and what's it going to take and what kind of time frame would it take to capture all those benefits.

Seth Seifman - *JPMorgan - Analyst*

Great. Maybe we'll move back over to the commercial side, since we were talking about margins in defense we'll talk about margins at Boeing commercial.

Some of the benefits from Partnering for Success that we saw in the first half of 2014 were overcome in the second half due to higher period costs. What were those and to what extent are they temporary versus permanent?

Greg Smith - *The Boeing Company - EVP & CFO*

It's a mix. We've had some additional fleet support in the back half as we support more 787s going into the marketplace. We want to ensure that those go into the marketplace as smooth as possible, ensure our customers get into revenue service as fast as they can, focus on reliability, so we've made more investments in reliability and putting those into the marketplace and into the factory.

There's been some of that in the back half and just some other I'll say smaller period cost elements. So I don't expect all that to continue. Obviously R&D will be higher this year as we indicated driving 777X and 10X and 737 MAX but the focus on margins is very similar to how I described at BDS.

It's all elements of cost. 787 being the number one priority in driving margin, certainly Partnering for Success being a big element of that and then again internal how do you leverage additional best practices bringing them off maybe the 37 or F-18, getting them onto 787. At the same time still very focused on productivity on the 777 and [73]. So we pretty much 3% to 4% productivity is what we target everybody whether you're a function or whether you're a program on an annual basis and that has gone unchanged.

There's some areas that have more productivity we're targeting and others that maintain that 3% to 4%. So I would think of it as just for us a normal course of business, how do we continuously get better.

Some of that is going to go back in price as it has but ultimately we want to make sure we're driving value for all the stakeholders and including driving margins in that. So a big focus area again, 787 being the priority.

Seth Seifman - *JPMorgan - Analyst*

So it sounds like if we think about margins in commercial and we broke it up into three pieces, one being the mix of 787s which are lower margin, one being R&D which is an independent aspect that's centered around your growth and then one being the underlying margins of the more immature programs that if we think over time we should think about that underlying piece moving gradually higher over time.

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, I mean, certainly no matter where the margins are our objective is try to continue to drive margins and productivity no matter what program or service across the board. Again the priority right now, primary priority is a 787 but again having said that we're still looking for opportunities and we still see opportunities on 37 and 777.

I would go back to Partnering for Success. I think there's tremendous value there from our perspective and the supply chain's perspective if we can work closer together, sharing these best practices like I talked about on 737 factory how do we take that, get that back into the supply chain and that's a win-win for both of us.

That's all going to take time certainly. But we have a great platform to build off of through our lean efforts and our affordability efforts and how do you get continue those in the factory which is the objective and at the same time get them more mature into the supply chain and really find an opportunity where we both can get better and drive value for both of our enterprises and ultimately for our customers.

So that's where I continued effort. I think of Partnering for Success as the way of doing business. It's not an initiative, it is just a way that we're going to continue to do business.

And again I think it's a real win-win between us and the supply chain in order to work closer together and really look at every opportunity we can whether it's in the design, whether it's in manufacturing techniques, utilization of tools and capital. We've had some early stage to partnering success where we have seen success in us working more collaborative to do that and both companies have benefited as a result of that.

I think it makes us both stronger and again ultimately drives better value for all the stakeholders. So that's where I'd say we continue to be more effort being applied.

Seth Seifman - *JPMorgan - Analyst*

You mentioned 787. Can you talk about maybe some of the relative importance of the drivers of unit cost reduction whether it's coming down the learning curve or increases in volume or supplier concessions? What's going to help you drive up unit profitability on the program?

Greg Smith - *The Boeing Company - EVP & CFO*

Yes, really it's everything you just mentioned, Seth. That's the focus.

Certainly the supply chain we have contracts in place with step-down pricing. We're looking for further opportunities there. On the internal unit cost certainly getting better unit over unit and you've seen I tried to give you a little color on that on each of the calls and we have come down the learning curve.

We'd certainly like to come down at a steeper rate. There's been some disruption as I mentioned that's in there that we've navigated through that's really caused us to hold onto headcount a little bit longer.

At the same time we're really looking at the program as we normally would over a longer period. What investments can you make today to capture additional productivity whether it's in the supply chain or within our own factory to ultimately drive unit cost. So I will tell you there's no rock left unturned when it comes to profitability or productivity on the 787.

But some of that is certainly is easier to capture over the near-term and some of it we know we can capture based on experience we've had on other platforms. But it will take a little bit more time as we get those I'll say productivity initiatives or rephasing of our factory or reordering of the factory in place and then really start to see the benefit of that.

So there's nothing I'll tell you, Seth, that we're not focused on when it comes to elements of cost of the 787. But again some of that takes time and we're committed to go do it.

Seth Seifman - *JPMorgan - Analyst*

And you mentioned the supply chain and it has been a pretty steep climb to get up to 10 a month. Are you finding as you look at 12 now are you finding that suppliers maybe need a little more help and you that?

Greg Smith - *The Boeing Company - EVP & CFO*

It varies from place to place. Some need more additional support than others. I mentioned with seats that's been a challenge for us but we've navigated through that and we're supporting our supplier through that but at the same time it's disruptive.

It doesn't match the production schedule we have in place. So we've got hotspots as we normally do but we apply resources into those and expertise bringing people outside the factory. But I would see today the supply chain in general is pretty healthy.

You're right, they've done a great job getting to rate and supporting these rates. And they are also getting ahead of the 12 month and getting ahead of the 52 a month and we're doing that together. We're doing it now.

And looking at how do we optimize the current infrastructure and the tools and the capital to really try to minimize investment overall which again ultimately will help them and obviously help us. So we're trying to get ahead of a lot of that and looking for more opportunities again to minimize that kind of investment. So that's where I'd say the bulk of the focus has been put.

Seth Seifman - *JPMorgan - Analyst*

And then maybe just one last one on 787, how would you characterize the headwind in terms of overall unit cost that's coming this year from the shift to the Dash 9? I think by the end of the year maybe around 50-50 in terms of the Dash 8 and Dash 9?

And so you're improving every unit but the units that have higher costs are becoming right now at least are becoming a larger part of the mix. So how would you characterize that overall?

Greg Smith - *The Boeing Company - EVP & CFO*

Well I mean you're right, you think about the introduction of the Dash 9 so here you're at the highest production rate of any widebody program in the history of aviation and you're introducing a new model. And the team did a great job introducing the Dash 9 last year while we're running at 10 a month.

Unit cost performance I'd say on that program over the units completed has been very good. So we're continuing to come down that learning curve and frankly a lot of lessons learned off the Dash 8, so getting those on the Dash 9 and ultimately getting them on the Dash 10. That mix going to approximately 50%, a lot of last year that's what plans were being put in place and investments being put in place and earlier into this year is how do you do that in a very smooth manner and maintain that 10 a month.

The team has done a great job so it's really just building off of that. And again meeting our commitments to our customers to get those airplanes into their hands and get them into revenue service. So I'd say plans are coming together.

I think they are in -- they've got a good detailed plan of how to bring those in while maintaining but think of it as building off of the foundation of last year how we introduced the Dash 9 and frankly did it flawlessly. And with the help obviously of the supply chain in doing that.

Seth Seifman - *JPMorgan - Analyst*

Great. We're down under a minute here, so maybe I'll give you the mic to finish it up and just tell us about the risks and opportunities that you're most focused on right now.

Greg Smith - *The Boeing Company - EVP & CFO*

Certainly executing to these production rates I talked about doing what we've already done. This is fairly fundamental when you think about $500 billion of backlog. It's all about executing on it and executing on it flawlessly.

That has been the focus. That's what you've seen the last couple of years in the result. That's going to continue to be the focus.

And the risk reduction I talked about, continuously looking for opportunities to reduce risk. These development organizations I talked about and the leveraging best practices, having a very disciplined gated process, really focusing on reuse of technology, technology that we've spent money on on the 787, how are you leveraging that across these new platforms and that's what that organization has really been set up to do.

The same thing on the defense. So in early stages but really something I'd tell you we're spending a lot of management attention on. So those are the fundamental I'd say focus areas.

Cash flow is as you said a big focus on cash flow. If you think about the profile over this year you're going to see it much more backloaded very similar to what you've seen in prior years and the same things with the earnings profile I talked about 20% of EPS being in Q1 in the balance spread.

So again I'd say continuously see strong cash flow but I know folks are focused on quarterly. You can't really focus on quarterly within our Company just because of the amount of advances and the delivery profiles and the milestone payments and so on.

You really got to look at this over and 18- to 24-month period and if you do that you can see very solid cash flow. And again I think you've seen our commitments to redeploying that cash. So again fundamentally those are the things that we're focused on.

Seth Seifman - *JPMorgan - Analyst*

Great, Greg, thanks so much for being here. We really appreciate it.

Greg Smith - *The Boeing Company - EVP & CFO*

My pleasure. Thanks for having me.
