22-Jul-2015

The Boeing Co. (BA)

Q2 2015 Earnings Call

CORPORATE PARTICIPANTS

Troy J. Lahr
Vice President-Investor Relations

W. James McNerney
Chairman

Dennis A. Muilenburg
President, Chief Executive Officer & Director

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

Thomas J. Downey
Senior Vice President-Communications

OTHER PARTICIPANTS

Carter Copeland
Barclays Capital, Inc.

Doug Stuart Harned
Sanford C. Bernstein & Co. LLC

Howard Alan Rubel
Jefferies LLC

Sam J. Pearlstein
Wells Fargo Securities LLC

Noah Poponak
Goldman Sachs & Co.

George D. Shapiro
Shapiro Research LLC

Myles Alexander Walton
Deutsche Bank Securities, Inc.

Cai von Rumohr
Cowen & Co. LLC

Jason M. Gursky
Citigroup Global Markets, Inc. (Broker)

David E. Strauss
UBS Securities LLC

Seth M. Seifman
JPMorgan Securities LLC

Jon Ostrower
The Wall Street Journal

Julie Johnsson
Bloomberg News

Alwyn Scott
Thomson Reuters

Dominic Gates
The Seattle Times Co.

Steve Wilhelm
American City Business Journals, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to The Boeing Company's Second Quarter 2015 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation, plus the analyst and media question-and-answer sessions are being broadcast live over the Internet.

At this time, for opening remarks and introductions, I'm turning the call over to Mr. Troy Lahr, Vice President of Investor Relations for The Boeing Company. Mr. Lahr, please go ahead.

Troy J. Lahr

Vice President-Investor Relations

Thank you, and good morning. Welcome to Boeing's second quarter 2015 earnings call. I'm Troy Lahr, and with me today are Dennis Muilenburg, Boeing's President and Chief Executive Officer; Greg Smith, Boeing's Chief Financial Officer; and Jim McNerney, Boeing's Chairman. After management comments, we will take your questions. In fairness to others on the call, we ask that you please limit yourself to one question. We've provided detailed financial information in today's press release, and you can follow the broadcast and presentation through our website at boeing.com.

Before we begin, I need to remind you that any projections and goals in our discussions today are likely to involve risk, which is detailed in our news release, various SEC filings and the forward-looking statements disclaimer in the presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of non-GAAP measures that we use when discussing our results and outlook.

Now, I'll turn the call over to Jim McNerney.

W. James McNerney

Chairman

Thank you, Troy, and good morning to everyone. As you all know, in June, our Board of Directors elected Dennis as Chief Executive Officer of the company, effective July 1. The move was the result of a dedicated effort over several years to develop the future leaders of this company, including my successor as CEO. This has always been a top priority. Our aim was a seamless transition and continuity in our business strategy and overall direction, and that's exactly how it's playing out. I look forward to continuing to work with Dennis and Greg from my role as Chairman. In a moment, I'll turn this call and all subsequent ones over to them. But before doing that, let me just say a very few words about where we are as a company at the start of our 100th year, which began July 2015.

These calls tend to have a heavy focus on our performance quarter-to-quarter, and rightfully so. But when you zoom out for a wider perspective, a clear picture emerges of an enterprise that is unified in its mission and purpose to lead the industry. It is as strong as it has ever been financially and is positioned to deliver sustained profitable growth in the years ahead. The commercial, defense and space markets we serve are large and growing at a global level. We have already captured a significant share of that growth in our unprecedented backlog. And unlike many companies, our opportunity is largely organic, and harvesting it rests on our execution, a good place to be.

As we deliver that backlog to customers, we are intensely focused on productivity and profitability to drive increased shareholder returns, and to reinvest in technology and innovation to further strengthen our market leading portfolio of products and services. The board of directors and I are confident that Dennis and the strong team supporting him, including company Vice Chairman, Ray Connor, will succeed in growing our company and serving the interests of our employees, customers and shareholders, communities and other business partners.

With that, let me turn it over to Dennis for a summary of our second quarter results and the business environment. Dennis?

Dennis A. Muilenburg
President, Chief Executive Officer & Director

Thank you, Jim. And Jim, thanks for your leadership over the last 10 years and your continued support and partnership. And good morning, everybody. Let me start by saying, it is a privilege to assume leadership of this great company, and the more than 160,000 talented employees who comprise it. With Jim at the helm over the past decade we developed a winning playbook and set a solid foundation for our future. Our job going forward is to deliver on our existing commitments, build on our strengths and improve where needed to create an even bigger better Boeing in our second century.

Now, let's turn to slide two to discuss the second quarter. Boeing delivered strong second quarter operating performance across our production programs and services businesses with higher revenue on record commercial airplane deliveries. Notably, we also generated significant cash flow totaling $3.3 billion. With this strong cash flow and confidence in our long-term outlook, we continue to make strategic R&D and capital investments and return cash to our shareholders. During the quarter we purchased $2 billion of Boeing stock and paid $625 million in dividends. Year-to-date we have returned nearly $6 billion to our shareholders, which remains a top priority for us under our balanced cash deployment strategy.

As we announced last week, our very strong second quarter operating performance was impacted by $536 million after-tax charge to complete development and hold to the delivery schedule on our KC-46 Tanker program for the U.S. Air Force. That program, as you know, is being developed on a fixed price contract. The increased company investment in that program is primarily driven by required rework on the integrated fuel system that was identified as we prepared for and conducted ground and flight tests and verification of that system during the second quarter.

The integrated fuel system is the last major system to undergo component qualification testing. No new technology is needed to resolve these issues, which are well defined and understood, but that in no way mitigates our disappointment in having to take this charge. Our teams are very focused on executing the plan to meet our commitment to deliver 18 KC-46A Tankers to our Air Force customer by August 2017 and 179 tankers by 2027. To that end we completed initial air-worthiness flight testing in the second quarter, which is a major milestone. And test aircraft number one will return to flight this month, followed by the first flight of aircraft number two yet this summer.

To be clear, though, we do have a lot more work to do as we progress through the remaining ground and flight test phases, but we are on the right path. We also remain confident in the long-term financial value of the tanker program for our company. With a potential market of up to 400 aircraft worth $80 billion, we expect to realize strong returns over decades of production and in-service support.

Now, turning to our core operating performance during the quarter, revenue at Boeing Commercial Airplanes increased 18% to $16.9 billion on a record 197 deliveries. Among the key milestones in the quarter was the start of wing assembly on the first 737 MAX. We also completed critical design review on the 787-10, validating that the program is on plan to meet its performance, cost and schedule requirements.

Boeing Defense, Space & Security reported revenue in the second quarter of $7.5 billion on the delivery of 54 aircraft, 2 satellites and healthy volume in our services business. Key contract awards included Qatar purchasing four C-17s and Australia purchasing two C-17s; an international F-15 service contract extension; and for the first time in history NASA awarded a contract for a human space flight mission to a commercial company. In summary, notwithstanding the tanker charge, we delivered another quarter of strong core operating performance, achieved significant program milestones, captured orders totaling $18 billion, and returned significant cash to our shareholders.

With that let's turn to the business environment on slide three. Our overall view of the business environment remains positive due to improving airline profitability and healthy global air traffic. Based on that traffic growth and strong replacement demand, our new long-term commercial market outlook forecasts demand for more than 38,000 commercial aircraft over the next 20 years. That new forecast is up nearly 1,300 aircraft from last year. Customer discussions continue to focus on placing new aircraft orders or accelerating deliveries as indicated by the favorable pace of orders in and around the Paris Air Show and yesterday's decision by FedEx to purchase 50 767 Freighters, with options for 50 more.

Deferral requests continue to run well below the historical average. Demand also remains strong for both the 777 and the 777X. Year-to-date 777 orders and commitments totaled 44, which puts us in solid position to achieve our target of 40 orders to 60 orders a year to bridge production of the 777X. The 777 production line is essentially sold out for 2016, more than half sold out in 2017 and has a healthy number of slots sold firm in 2018. As we've discussed before, the new 777X is scheduled to enter final assembly in the 2018 timeframe and will leverage new manufacturing technologies and processes that are being proven on the current 777. We continue to assess the most efficient way to phase in this new technology and adapt as necessary to optimize the 777X production system and meet our customer commitments.

On the 787 program, we've now delivered more than 290 airplanes, including 34 787-9s. The airplane's capabilities continue to draw strong interest from airlines around the world, as noted by the order and commitment activity at the Paris Air Show. Production of the 787 is now balanced between the 787-8s and 787-9s, and this is a testament to the progress that the team is making about increasing the 787-9 up to full rate production. In the single-aisle segment, demand for our new fuel efficient 737 MAX also remains high, with cumulative orders totaling more than 2,800 airplanes from 58 customers. Development of the MAX remains on track for first delivery in 2017. We also continue to see upward pressure on narrow-body production rates beyond the announced 52 per month in 2018. However, we remain steadfast in our financial discipline as we assess production rate changes.

Turning to Defense, Space & Security, we continue to see solid support for our major programs. Congress has been supportive of the President's fiscal year 2016 budget request, which increases core Boeing production programs, such as the P-8A Poseidon, the Apache and Chinook helicopters. Additionally, all four defense oversight committees have added 12 F/A-18 [ph] varying (10:56) aircraft to their budget proposals. Year-over-year budget increases have also been supported by Congress for development programs, such as tanker, long-range strike and commercial crew, though in some cases, at levels below the President's requests. Boeing's Space Launch System program is once again been recommended by the Appropriations Committee for funding increases far above the President's request.

International demand for our offerings remains strong, especially in the Middle East and the Asia-Pacific region. During the second quarter, international customers for Defense, Space & Security represented 33% of revenue, and 39% of our current backlog. The strength of our Defense and Space business stems from a portfolio that is reliable, proven and affordable, supported by our ongoing market-based affordability initiative that will ensure our long-term competitiveness. Now, before I turn it over to Greg, let me expand for just a minute on Jim's comments earlier about our competitive position, the continuity of our focus, and the attitude and approach we are taking to further improve our business.

All in all, Boeing is financially strong and well positioned in attractive markets. We have the right products, the right strategies and the right people to continue growing and leading our industry. However, we know that standing still is not an option for staying ahead of our competitors and for meeting our customer's expectations in a more-for-less world. In recent years, we've made large and important strides in driving productivity and first-time quality to fund our innovation and growth, working as one Boeing to fully leverage the breadth and depth of our capabilities, reducing long-term risk to our business and balance sheet, expanding internationally and developing better leaders and better teams.

Moving forward, our focus on these areas will only grow stronger. We will sharpen our strategies to win, we will accelerate our pace of progress on these and other fundamental efforts, including development program performance. And through these efforts, we will succeed in profitably executing our record backlog, leading through innovation, investing in our people and making our second century even better than our first.

Now, with that, over to Greg for our financial results and our updated guidance. Greg?

Gregory D. Smith

Executive Vice President-Business Development & Strategy and Chief Financial Officer

Thanks, Dennis, and good morning. Let's turn to slide four, and we'll discuss our second quarter results. Second quarter revenue increased 11% to $24.5 billion, driven by strong commercial airplane deliveries. Core operating margins of 7% both reflect the impact of the $835 million pre-tax tanker charge, or $536 million on an after-tax basis. It offsets solid productivity gains on production programs and across our services businesses.

Core earnings per share for the quarter was $1.62, reflecting the $0.77 per share tanker impact that again offset the benefit of continued strong operating performance across the business. As Dennis noted, despite our disappointment in encountering the charge on the tanker program, we're confident in the path forward and as we progress through the remaining functional and flight tests. While we have a lot of work to do in front of us, we have added the necessary engineering and support staff to complete the program on schedule to meet the customers' commitments.

Let's now discuss Commercial Airplanes on slide five. For the second quarter, our Commercial Airplane business increased revenue 18% to $16.9 billion on a record 197 airplane deliveries. Operating margins of 7.1% reflect the $513 million pre-tax tanker impact at BCA, and the dilutive impact of higher 787 and 747 deliveries, partially offset by stronger performance on production programs. Commercial Airplanes captured $13 billion in net orders during the second quarter and backlog remains very strong, $431 billion and nearly 5,700 aircraft that equates to approximately eight years of production.

Specifically on the 787 program, we continue to expect the program to be cash positive during 2015, and we still anticipate deferred production to decline shortly after we achieve the 12 per month production rate later in 2016, and there's no change to these fundamental milestones. We continue to see progress in key operational performance indicators for the 787 program as we further implement production efficiencies, while meaningfully increasing 787-9 production. The team delivered 64 787s during the first six months of the year, and made further progress on reducing unit costs. On the 787-8, we've seen a decline in unit cost of approximately 35% now over the last 210 deliveries. And furthermore, 787-9 unit costs declined approximately 30% over the first 34 aircraft delivered.

In line with our expectations, 787 deferred production increased $790 million to a $27.7 billion [ph] in the second quarter. As we previously discussed, we continue to anticipate 787 deferred production to grow at a similar level next quarter before a healthy decline in growth in the fourth quarter. More work to do here, but we remain focused on the solid day-to-day execution and risk reduction while (16:10-16:33) improving the long-term productivity and cash flow going forward. We continue to manage the smooth introduction and the ramp-up of the 787-9, prepare for the 12 per month rate and introducing the 787-10 while again driving efficiencies across all aspects of the program.

Let's now turn to Defense, Space & Security results on slide six. Second quarter revenue in our Defense business was $7.5 billion and operating margins were 7.2%, as the $322 million pre-tax tanker charge at BDS offsets strong performance on production programs and favorable delivery mix. Boeing Military Aircraft's second quarter revenue was $3.5 billion due to timing of deliveries, and operating margins of 3.5% in the quarter, again, reflecting the tanker impact. Beyond the tanker program, BMA captured productivity improvements on a number of key production programs. In addition, the BMA segment significantly retired risk during the quarter on the C-17 program by capturing contracts for six aircraft. We now have one more aircraft to sell, and we continue to see strong interest in that final aircraft for delivery.

Network & Space Systems revenue was $1.9 billion, and the segment generated operating margins of 7.8%. Global Services & Support revenue was $2.1 billion and operating margins increased to 12.8% on favorable program mix and performance. Defense, Space & Security reported a solid backlog of $58 billion, with 39% of our current backlog representing customers of outside the United States. Let's move to cash flow now on the next slide. Operating cash flow for the second quarter was strong, $3.3 billion, driven by higher volumes and solid operating performance across the company.

With regards to capital deployment, as Dennis mentioned, we paid $625 million in dividends and repurchased 14 million shares for $2 billion in the second quarter, as we continue to deliver on our commitment of returning cash to shareholders. Furthermore, this reflects our ongoing confidence in the long-term outlook for the business. We anticipate completing the remainder $7.5 billion repurchase authorization over the next two years. Returning cash to shareholders along with continued investment to support future growth remains top priorities for us.

Moving now to cash and debt balances on slide eight. We ended the quarter with $9.6 billion of cash and marketable securities, and our cash balance continues to provide solid liquidity and positions us well going forward. Turning now to slide nine and we'll discuss our outlook for 2015. We are reaffirming our 2015 guidance for revenue, deliveries, and cash flow and updating the margin and core EPS guidance to account for the tanker charge that offsets improved productivity. Our cash flow guidance for 2015 remains unchanged at greater than $9 billion as the cash impact in the tanker program is offset by improved cash performance across the company.

Our 2015 guidance for Commercial Airplane operating margin is now 9%, reflecting the tanker impact and Defense, Space & Security operating margin guidance is now 9.5%. That is more than offset the improved performance at BMA and GS&S. Core earnings per share guidance is now between $7.70 and $7.90 from $8.20 and $8.40 reflecting the $0.77 tanker charge and $0.27 benefit from improved performance. In summary, we generated solid revenue growth delivered on our backlog, generated significant cash flow, and meaningfully returned cash to shareholders.

So with that I'll turn it back over to Dennis for some closing comments.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

Thank you, Greg. With the strong first half behind us we remain focused on disciplined execution, quality and productivity improvements, and meeting customer commitments. Our priorities going forward are clear and consistent. The profitable ramp-up in commercial airplane production, delivering on our development programs, with an emphasis on tanker execution and our new commercial product line, driving productivity and performance throughout the enterprise to fund our investments in innovation, talent and technology, continuing to strengthen our Defense and Space business, and importantly, providing increasing value to both our customers and our shareholders.

Now, we'd be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Carter Copeland with Barclays. Please go ahead.

Carter Copeland
Barclays Capital, Inc.

Q

Hey. Good morning. Welcome, Dennis. And congratulations, Jim, on your retirement. I hope this doesn't mean you're going to hang up your skates for the Pond Hockey League as well.

W. James McNerney
Chairman

A

[inaudible] (22:10).

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Thanks, Carter.

Carter Copeland
Barclays Capital, Inc.

Q

Just a clarification and a question. Greg, the comment you made on the stronger performance on production programs, I just wanted to clarify if that was a result of any margin change on those programs? And then, Dennis, just from a high level, I mean, I know it's been a lengthy transition, and you've been with the company for a long time, but these events always cause some reflection on where the company can and will go. And I think, if you could just expand on the comments you made before in terms of now seeing where the company's been over the last couple of years and the lessons learned, when you look out over the next three years to five years, what do you see is the biggest opportunities and risks that the company will face? And more specifically, how are you thinking about long-term margin potential, the need for major new investments, programmatic risks? Any more granular details you can provide on how you're thinking about that?

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Greg, you want to answer the question first?

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

Yeah, sure. We had good performance across the board on margins, Carter. We had a little bit of impact on escalation on the commercial programs, but overall I'd say, across the board and you saw it in the results today, good performance across all areas of the portfolio. Having said that, there's a lot of productivity initiatives still in place, and that continues to be a big focus for the teams on all production and our services business. So we've still got some things to do that we want to try to capture going forward.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Yeah, and that'll continue to be a priority. And, Carter, to your broader higher level question, it's frankly been a privilege for me to work side-by-side with Jim for about the last year and a half, with him and the rest of the team, Greg, Ray and the whole Boeing team. So I've got a lot of confidence in the foundation that we've put in place. And as we noted, today we have a very strong company. We're well-positioned in our markets. We have a strong financial foundation. We've got the right productivity machine in place. We've got the right strategy in place. So the theme you'll be hearing from me and the team is one of strategic consistency. We like the path we're on, the direction we're headed. There are a few areas where we've continued to hone our strategy, sharpen it and accelerate our actions.

I think if I look at big opportunities and at risks, certainly going forward, our opportunity to execute on our commercial aircraft backlog and to do that profitably, and return cash to shareholders and fund our future innovation, that is the single biggest opportunity we have. Having seven years of backlog and the opportunity to execute that well, that will be a clear focus for us. On the risks side, certainly, we want to continue to pay attention to delivering on our development programs. We're seeing steady improvement overall in terms of our ability to deliver on cost and schedule. I think tanker is a good reminder to us to continue to hone that effort. But we are on the right path to continue to deliver innovation to the marketplace, and to do it in a repeatable, financially disciplined way.

And if I look out a little farther beyond that as we think about how we're going to invest that capital, as you noted, our cash opportunity in terms of executing our backlog also creates opportunity to invest in future innovation. And successfully bringing those new commercial aircraft to the marketplace is very important to us with the MAX, 787-10 and the 777X, and we feel very confident in all of those development activities. We're also investing in a few future franchises on the Defense side, including long-range strike, again, good solid opportunities for us. And if we look at uses of cash, going forward, our number one priority remains at disciplined investment and innovation for the future. Secondly, returning cash to shareholders, as you've seen through both the stock repurchase and through dividends. And then thirdly, where it makes sense, bolt-on acquisitions, but our fundamental investment priority for the future is in organic investment machine. We have a very strong position here, and we plan to leverage that.

Operator: Our next question is from Doug Harned with Sanford Bernstein. Please go ahead.

Doug Stuart Harned
Sanford C. Bernstein & Co. LLC

Q

Thank you. And first, Jim, just want to say it's been great working with you over the years, and just want to wish you all the best in your next steps.

W. James McNerney
Chairman

A

Thanks, Doug. Appreciate the comment.

Doug Stuart Harned
Sanford C. Bernstein & Co. LLC

Q

And something you may not miss is 787 deferred production discussion, but I want to just get into that. But specifically, when you look at the 787 over the course of this year, you've said in the past that by the end of this year we should see cash positive on the 787 just by the end of the year, not for the whole year. I want to confirm that's still the case. But also, as you see the model shift towards the 787-9, 787-9 should ultimately be, we would think, considerably more profitable than the 787-8. So as you see these two airplanes mature, the 787-8 and the 787-9, can you give us a sense of the relative profitability of these two models longer-term? And when would we likely see the 787-9 cross over in terms of becoming more profitable than the 787-8?

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

Yeah, I mean, to answer your first question, Doug, no change on the outlook for 787 [ph] cash, though (27:55) we do expect that to be positive later this year, and the team's tracking well to that. On 787-9, I mean, certainly as I indicated, the team has done a very nice job coming down that learning curve. If you think about the numbers, I talked to you about 30% over 34 deliveries. It gives you really good sense of how well that's being incorporated. But you remember, we made some investments upfront to ensure we had that smooth introduction. At the same time, lessons learned after 787-8 and getting those into 787-9, so the producibility of the 787-9 has definitely improved. So over time, that favorable mix will work in our favor. I think I've mentioned that half of our deliveries this year will be 787-9s.

And I would tell you, just from my time at the company, that is the smoothest introduction of a derivative on top of the all-time high production rate on a wide-body program. So again, I think there's more opportunity for us going forward. We got the enterprise focused on that, and whether that's on the shop floor, support or across the supply chain that remains a top priority for us. So made good progress. But as you know, we still got a lot of work to do going forward. But I think we got the right people focused. We got a lot of projects. We're working our way through, and ultimately, you got to get those projects to hit the production system. And that's what we're trying to do. Get those matured, get them implemented, implement them in a fashion where you don't disrupt the production system and capture the benefit as the result of that.

Doug Stuart Harned
Sanford C. Bernstein & Co. LLC

Q

But can you give us a sense of when the 787-9 profitability will sort of be there? In a mature sense, when we should find that as a more profitable airplane?

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

Yeah, I mean, I think as we get into next year and we'll have – keep coming down that learning curve, we'll see higher levels of profitability on the 787-9.

Doug Stuart Harned
Sanford C. Bernstein & Co. LLC

Q

Okay. Great. Thank you.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

Yeah.

Operator: Our next question is from Howard Rubel with Jefferies. Please go ahead.

Howard Alan Rubel
Jefferies LLC
Q

Thank you very much. Good luck, Jim. Although, I don't think you're going away any time soon. And Dennis, it will be fun to work with you.

W. James McNerney
Chairman
A

Thanks, Howard.

Dennis A. Muilenburg
President, Chief Executive Officer & Director
A

Thank you, Howard.

Howard Alan Rubel
Jefferies LLC
Q

There's sort of two questions. One is on the KC-46. My understanding is you have price options on the seven and 12 tankers. So how did you think about managing the risk so that when you exercise those contracts, or when Air Force exercises those contracts, we don't see a follow on charge? And then second, if I back out what appears to be the revenues associated with the 787 and 747, it would seem that there was a little deterioration in the margins on the mature aircraft. Could you address that as well, please?

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

Sure. Maybe I'll [indiscernible] (31:03) and then I'll pass it back over to Dennis on KC-46.

Howard Alan Rubel
Jefferies LLC
Q

Thank you.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

Yeah. Slightly, Howard, as I said, we had some little bit of additional escalation with oil deteriorating slightly. But again just on those particular production [ph] growth (31:21) very, very slight. And again good solid performance I'd say across the board, and you're seeing that in the margins, both the BDS and BCA.

Dennis A. Muilenburg
President, Chief Executive Officer & Director
A

And Howard, on your question regarding tanker. That's one of the reasons that we're investing now during the development program to refine the production system and ensure we're ready to ramp into the low rate initial production. There was priced options that you mentioned are part of the low rate initial production program. And I think as you're aware, we've already got the first two aircraft loaded into the production line system in our commercial factory in Everett. And our ability to integrate that into the full commercial line is one of the big ways that we've reduced risk on the program overall.

And some of the charge that we've taken in this quarter is the fact that we are having to retro-fit a couple of those early aircraft that are in early build stages. But that allows us to get into a mature position now, so again we have high confidence in the production program. We've got Ray and our BCA team very much engaged on ensuring we're doing the right things now to drive profitability in the production system for the long run. So we'll complete that work here during the development phase. We're confident that as we get into low rate initial production and then full production, this program will have a lot of financial value both for the company and for our shareholders.

Howard Alan Rubel
Jefferies LLC
Q

Thank you both, gentlemen.

Dennis A. Muilenburg
President, Chief Executive Officer & Director
A

Okay.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

Yeah.

Operator: Next we'll go to Sam Pearlstein with Wells Fargo. Please go ahead.

Sam J. Pearlstein
Wells Fargo Securities LLC
Q

Good morning.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

Good morning.

Sam J. Pearlstein
Wells Fargo Securities LLC
Q

I was wondering if you could talk a little bit about the cash flow just given this cash outflow that you're going to get for the tanker program. Can you just talk about what is the offset? I know you said operations. Is it C-17, is it taxes, is it BCA, is it Defense? And where do you still see the opportunity to potentially drive higher even during this year?

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

I'd say, Sam, it really was across the operations. It's not tax related. It's just purely operational performance. Both BDS and BCA that is [ph] the A drove the stock (33:30) solid performance in the quarter, so not timing, it's pure core performance. And that's what's going to offset the impact on tanker through the balance of the year. And we're going to obviously continue to focus on being efficient on all uses of working capital.

Dennis A. Muilenburg
President, Chief Executive Officer & Director
A

Sam, just to add on to Greg's point here, I think this just represents fundamentally how we're driving the business. This is part of our core operating engine, our focus on disciplined cash management, all of the levers that are inside the business. We are committed to that for the long run, and I think that's reflected in the guidance that you see and our confidence for long-term year-over-year cash growth.

Sam J. Pearlstein
Wells Fargo Securities LLC
Q

But you didn't change the number of C-17 deliveries.

Dennis A. Muilenburg
President, Chief Executive Officer & Director
A

No.

Sam J. Pearlstein
Wells Fargo Securities LLC
Q

Okay. Thank you.

Dennis A. Muilenburg
President, Chief Executive Officer & Director
A

You're welcome.

Operator: Our next question is from Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak
Goldman Sachs & Co.
Q

Hi. Good morning, everyone.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

Good morning.

Noah Poponak
Goldman Sachs & Co.
Q

Let me add my congrats to Jim and Dennis on the post changes.

W. James McNerney
Chairman
A

Thanks, Noah. Appreciate it.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Thank you.

Noah Poponak
Goldman Sachs & Co.

Q

Greg, a question on working capital change, and specifically advances and their impact on cash flow. It looks like if I strip out what's happening with 787 deferred, and I'm just looking at total working capital change other than that, it's been about a third of total company free cash, excluding deferred, the last kind of three years to five years or so. Should I be reverting that back to zero over time, or can that be sustainably greater than zero for a long time because it's a growth industry? And then specifically on advances, specifically given that's kind of a big part of that, has there been any strategic change with how and when the company takes advances, whether it's a competitive advantage driver or any other reason just because that's been such a big piece?

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

Yeah, there's no fundamental changes to how we handle advances in our contracts. I think as I've said to you before, as you think about just purely the production rate increases that are going to take place over time, and how that advanced stream is completely associated with that, you're going to continue to see advances grow going forward as we increase production rates and then ultimately increase deliveries, so that profile will continue. Now, it won't be at the same growth rate that it's been because we don't have 18 [ph] rate (36:04) breaks in front of us that we've just completed. We've got about five. So you'll still see a healthy increase in advances going forward. And then ultimately, as you know, the bulk of the cash coming on delivery, so that's where you'll see it coming from. In the quarter, that is core cash. That is just pure core cash performance across the business. It's not timing. It's not driven by some advances from one quarter to the next, and it's purely associated with performance across, again, multiple programs in the portfolio.

Noah Poponak
Goldman Sachs & Co.

Q

I mean, if I look over a – forget about the quarter, if I look over a very long period of time, the last half a decade, decade, advances have grown at a pretty significantly faster rate than deliveries and BCA revenue. How do I square why that's happened, and does it need to [indiscernible] (36:58) revert at any point?

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

Well, I mean – look, you've got two sides of the business, obviously. You got BDS, where you've got milestone payments associated with major contracts, as I've talked about. Those vary quarter-to-quarter, year-to-year, dramatically. And then the advances are just purely the growth. So if you think about the backlog, and as you take that order and as you get closer to that airplane delivering, you're getting advances associated with that. I mean that's fundamental, but, again, think about the backlog we have today, and then think about delivering on that backlog. There's a complete correlation to cash flow. And so I'd say, no fundamental change in that model as you look back, or frankly, as you look forward.

Noah Poponak
Goldman Sachs & Co.

Q

Okay.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

Okay?

Noah Poponak
Goldman Sachs & Co.

Q

All right. Thanks for the help.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

You're welcome.

Operator: And next, we go to George Shapiro with Shapiro Research. Please go ahead.

George D. Shapiro
Shapiro Research LLC

Q

Yes. Good luck, Jim, and congratulations, Dennis.

W. James McNerney
Chairman

A

Thank you, George. Good morning.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Thanks. Hi, George.

George D. Shapiro
Shapiro Research LLC

Q

I question Greg, if I try and look at the deferred, it was $26 million a plane this quarter, the same as Q1. I'm assuming it stayed flat because you had more 787-9 deliveries this quarter or in the first quarter? Could you just give us at least some quantitative measures as to how much above the $26 million the 787-9 might be at this point, and how much below the 787-8 might be? And then one for Dennis, any reason to increase [ph] two 767 (38:37) production rate? I know you're going up to two, but any need to go a little further with the FedEx order?

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Can you go first?

George D. Shapiro
Shapiro Research LLC

Q

Yeah, on the deferred, [ph] Howard (38:47), you're right. I mean, certainly mix comes into play here. But as I said to you, I mean, we're focused on unit cost performance. So unit-by-unit, are we improving? What are the opportunities? How do we capture those opportunities? And as I said, the 787-8, down 35% over the last – over 200 deliveries, and 787-9 down 30%. So to your point, mix comes into play here. But we only have 34 787-9s delivered. So as 787-9 becomes more of that portfolio on the deliveries, and we continue to come down that learning curve, we'll see more benefit as associated with that.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

And George, on the 767 side, we'll treat future rate considerations like we do in all of our production lines. It's a very disciplined evaluation process. As you said, we've already planned to go up from 1.5 a month to two a month next year. That'll position us well for the tanker production program, as I noted earlier. The fact that we see the order strength here, especially with the FedEx order just announced yesterday. By the way, that 50 plus 50 is the largest single order in the history of the 767 program. So that gives you some sense of the strength and longevity of that line.

As we look at future demand, we get into full rate production on the tanker program. We have a lot of confidence in that mature 767 production line. And any changes that we might consider beyond two a month, again, we'll go through that normal, very financially disciplined assessment. Right now, we're very focused on just ramping up successfully to two a month. That will position us for what we need to do for both tanker and our FedEx customer, and we'll use our disciplined process beyond that.

George D. Shapiro
Shapiro Research LLC

Q

Okay. Thanks.

Operator: And next we go to Myles Walton with Deutsche Bank. Please go ahead.

Myles Alexander Walton
Deutsche Bank Securities, Inc.

Q

Thanks. Good morning, and congratulations to the role changers. First, a clarification on the inventory. It looks like there was about a $1 billion liquidation of commercial spare parts and used aircrafts from the disclosures on the website. But the bigger question for me is on the book-to-bill. You've been targeting, I think, full year around one. I'm curious if you still have confidence in that and the pathway to get to the 1.2 implied in the second half? Thanks.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

Yeah, the inventory is driven by C-17. It's been the other category there, Myles. So it's the liquidation on the C-17s as we firmed up those contracts and got advances associated with that. That moves into that category of long-term contracts in progress. So you'll see that shift there.

Myles Alexander Walton
Deutsche Bank Securities, Inc.

Q

Got it.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

That's all that's going on there. I'll let Dennis address the book-to-bill.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Myles, our outlook on book-to-bill hasn't changed. We still anticipate roughly a book-to-bill of one by year-end. Obviously, timing plays into that, but we're continuing to see strong fundamental order strength. We're pleased with the amount of activity we saw in and around the Paris Air Show. We're continuing to see interest in both narrow-bodies and wide-bodies. And the fundamental marketplace still looks strong. Traffic growth trends are good. Cargo is returning a bit, and we're waiting to see that play out in terms of demand. Replacement value continues to be attractive to our customers. And we're not seeing any changes in the demand cycle or signals in the marketplace. So steady as she goes on our book-to-bill expectations.

Myles Alexander Walton
Deutsche Bank Securities, Inc.

Q

Okay. And aside from that, feathering dynamic on the 777, when is the earliest that you'd have to think about bringing the rates down more on a demand basis?

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

So the key thing there on the bridge, two things, Myles. One is building the 777 order book, and we're pleased with the progress this year. As we said, we needed to achieve about 40 to 60 orders a year to build that bridge, and we're at 44 firm and commitments so far this year. So continuing to see strong demand signals there. 2016 is essentially sold-out now; 2017, more than half sold-out, so progress there. We're beginning to fill the 2018 pipeline well also. Several campaigns still underway. So our ability to build the bridge one, we continue to be confident there. In terms of the transition, this is where we'll be feathering in the new production system. As you know, that'll start hitting the production system around the 2018 timeframe in terms of long-lead implementation for 2020 deliveries on the 777X.

So specific decisions around that will be more in the next year timeframe. But to the key thing we're doing now is de-risking that transition by pulling some of the technology and some of the automation forward into the 777 line, things like the Fuselage Upright Build, for example, and that's allowing us to de-risk the production system. And we'll continue to look for ways to make sure that feathering in is done most effectively and efficiently. We know how to do this. We've built bridges on our other production lines. We're doing the same thing on the NG to MAX transition in the 737 line. So we know how to do these transitions with discipline. And we'll make sure it's done as efficiently as we can. We'll get more into details as we get into next year.

Myles Alexander Walton
Deutsche Bank Securities, Inc.

Q

Okay. Thanks.

Operator: Our next question's from Cai von Rumohr with Cowen & Company. Please go ahead.

Cai von Rumohr
Cowen & Co. LLC

Q

Yes, thank you very much, and congratulations to Jim. So quick question. You had very good 787 deliveries in the quarter. And I guess one of the blogs is talking about potential for a big Q3. What is the chance that you could exceed your bogie of 125 for the year? And [ph] elatedly (44:38) what kind of impact do we see potentially on cash flow? Because you had very strong Q2 cash flow with essentially very little increase in progress and advances. You still have some deposits to come on the C-17 orders you received. So it would look like on paper as if you should easily come in well above your cash flow guide. Thanks.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

Thanks, Cai. On deliveries certainly we expect the back half to be healthy on 787 deliveries. But as you know quarter-to-quarter, Cai, just purely from customer ability to take the aircraft, I mean that moves around a little bit. But we're comfortable about where we are on our guide. If we have the opportunity to change that, we'll do that. But I'd say, we're well on track to hit that our objective on about 120. So I think we're in pretty good shape there. But again the back half will be important for us. On Q3 cash, I mean, as you know Cai, again, there's a lot of moving pieces in here. But we expect solid performance. We do have some milestone payments and progress payments that will come in in 3Q as well. So we're tracking those, and trying to capture those in the third quarter. But again, a lot of moving pieces [ph] quarter-to-quarter (46:00). We're comfortable about where we are now with our guidance. And we'll see where we end up at the end of Q3 and go from there.

Cai von Rumohr
Cowen & Co. LLC
Q

Thank you.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

You're welcome.

Operator: And we'll go to Jason Gursky with Citigroup. Please go ahead.

Jason M. Gursky
Citigroup Global Markets, Inc. (Broker)
Q

Hi. Good morning, and congratulations to both Jim and Dennis as well from me.

W. James McNerney
Chairman
A

Thanks.

Dennis A. Muilenburg
President, Chief Executive Officer & Director
A

Thanks.

Jason M. Gursky
Citigroup Global Markets, Inc. (Broker)
Q

I just want to spend, if you don't mind, a few more minutes on 777 program, talked about the timing on a decision sometime next year, which is great. Helpful for us all. I think it would be helpful as well to look a little bit beyond next year. And perhaps just give us an update on how you're going to manage through this process with regard to inventory that's going to get built on the 777X program for production, [ph] that may get (46:57) built on that program. And just perhaps give us some guidance on when we should expect you to begin communicating that kind of stuff to us, and if there are some historical examples that you can point to so that we can begin really gauging the potential impacts on expenses and cash flows as the 777X begin to feather in. Thanks.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Jason, let me start on that one. Then, Greg, I'll flip it over to you for some additional comment. Again when we look at that overall transition, Jason, it's important for us to first note that the market demand for the 777 remains very strong. So our ability to confidently build the bridge and to plan on that is part of the equation here. The bridge itself and the transition to the 777X, the key there is to flow it efficiently into the production system and into our supply chain. So long lead planning is already underway. As I said we'll make some additional decisions next year on exactly how we'll implement that and feather it into the production system. But we do this across the entire depth of our supply chain. Any technologies or investments that we can pull forward and pre-implement on the 777 line, as I said we're doing with some of the automation technology, further de-risks it for 777X, and also allows us to drive additional profitability on the current 777 line.

And that's part of how we're continuing to pay for the implementation, if you will, is by driving productivity on the base programs to fuel our future innovation and allow us to put automation into the production line. That cycle is one that we're going through right now. We expect the overall R&D and capital profile for 777X to remain stable. We've guided you to about $3.5 billion of total R&D spend this year. That remains confidently in place. Our 2016 overall expenditures will be similar to that. We'll see some incremental growth in 777X [indiscernible] (48:55) roll off in some of the other development programs. So it's a very disciplined process, as I said, one that we understand how to do, and rolling it efficiently so that we can continue to drive profitability while we make the transition is fundamental to the equation. We've done it previously on our other rate ramp-ups. We're doing it now on the 737 line, as you can see in the results, and we expect to use that same disciplined process on 777. Greg, anything you want to add?

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

Yeah, I mean, just as you think about the cash flow going forward, our comments about going into next year, year-over-year growth and continued growth beyond assumes what you described as a transition on the 777 to 777X timeframe. That's like 2018, 2019 timeframe, as Dennis indicated. Now, we step back, keep in mind, during that timeframe, we've got the 787 going up in rate, and as well as, obviously, we got to continue down this learning curve on 787. But if you think about out into that timeframe, we should be in a lot better shape on that program as well. So there is more offsets than any short-term, I'd say, impact as related to this transition on 777 to 777X. Now, obviously, that is a key franchise for us. So having that short-term transition period is very minimal considering the benefit that program, both of those programs bring to bottom line of The Boeing Company.

Jason M. Gursky
Citigroup Global Markets, Inc. (Broker)

Q

Great. Thank you.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

Okay.

Operator: The next question's from David Strauss with UBS. Please go ahead.

David E. Strauss
UBS Securities LLC

Q

Good morning. Thanks. Congratulations, Jim.

W. James McNerney
Chairman
A

Thank you, David.

David E. Strauss
UBS Securities LLC
Q

Greg, the deferred step down that you're expecting in Q4, can you just talk about exactly what's driving that? Is there some sort of supplier step down in pricing that you're expecting? But just what's driving that? Thanks.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

Yeah, no, I think there's mix involved, and continued productivity in our operations combined with some pricing step downs out of the supply chain. So it's really a combination of things, David. At the same time, we're continuing to make those investments I talked to you about on improving the overall reliability, and improving the long-term productivity and profitability of the program. So a lot of moving pieces in there, but all of those, fundamentally, have an impact in that step down going forward. We've got good plans in place in order to do that, so the team's focused on capturing those and coming down the curve.

David E. Strauss
UBS Securities LLC
Q

And then one quick follow up on 747, the step down to one a month, can you talk about where you guys stand from on a forward loss standpoint, how this might impact that? Thanks.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

Yeah, That's already been incorporated, so there's no forward losses associated with that. Again, I think that is just, again, a focus on productivity inside and outside the complete supply chain in order to offset any of that pressure as a result of that rate coming down. The team was able to do that and hold the program profitability through that rate transition.

David E. Strauss
UBS Securities LLC
Q

Great. Thank you.

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer
A

You're welcome.

Troy J. Lahr
Vice President-Investor Relations
A

Operator, we have time for one more question.

Operator: And that will be from Seth Seifman with JPMorgan. Please go ahead.

Seth M. Seifman
JPMorgan Securities LLC

Q

Hey. Good morning. Thanks very much for taking the question.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Good morning.

Seth M. Seifman
JPMorgan Securities LLC

Q

Good morning, and congratulations to Jim and Dennis. One more question on working capital, and just thinking out over the next couple of years. You guys have done a very strong job through all the rate increases we've had over the past three years to four years in terms of managing physical inventory build. How do we think of that as a component of working capital as we move to 2016, 2017, 2018 of rate increases on the 737 and the 787?

Gregory D. Smith
Executive Vice President-Business Development & Strategy and Chief Financial Officer

A

Yeah, Seth, I guess I would just put it in the category of day-to-day business, just day-to-day business, solid execution across the board. I wouldn't differentiate that any different than trying to drive productivity in the factory or getting additional flow time. It's all key measures on our programs and objectives that we have and opportunities we're trying to capture. So again, it remains just a key element of how we're running the business.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Seth, I'll just reinforce that, this is fundamentally how we are doing business and how we'll continue to do it. We understand the linkage between that productivity machine, cash machine and our ability to return value to shareholders and invest for the future. So it's fundamental to our business model, and we remain committed to it.

Seth M. Seifman
JPMorgan Securities LLC

Q

Great. Thank you.

Operator: That complete the analyst question-and-answer session. [Operator Instructions] I'll now return you to the Boeing Company for interjectory remarks by Tom Downey, Senior Vice President of Corporate Communications. Mr. Downey, please go ahead.

Thomas J. Downey
Senior Vice President-Communications

Thank you. We'll continue with the questions for our speakers this morning. If you have any questions following this part of the session please call our media relations team at 312-544-2002.

Operator, we're ready for the first question, and as we're pressed for time we ask that you limit everybody to one question, please.

QUESTION AND ANSWER SECTION

Operator: And we'll go to Jon Ostrower with the Wall Street Journal. Please go ahead.

Jon Ostrower
The Wall Street Journal

Q

Hey. Good morning, guys.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Good morning, John.

Jon Ostrower
The Wall Street Journal

Q

Two parter. First one is for Jim. Jim, you told Aviation Week in May that you had a high degree of confidence that another tanker charge wasn't coming. Just curious where your confidence was coming from at that point, and when did you guys become aware of the fuel system issues and how was the process of this arriving on your desk? The second, continuing on the tanker theme is, thinking about the pace of rework on the fuel system and looking at the history of 787 and what happened with F-35 over at Lockheed, is it wise to push headlong into production when you're not totally clear on the pace of changes ahead of KC-46A flight tests? And how are you guys going to kind of avoid manage a pile-up of post-production modification like you had on 787? And ultimately what you did last week, is that the last of the charges?

W. James McNerney
Chairman

A

Jon, as you know, we evaluate our position every quarter. I think the – we said back in that specific interview you're talking about, I never made a categorical statement. I said we're always reviewing it, and when we see issues we deal with them. And the facts were that in the second quarter, as we tested out the fuel system and as we got into flight tests, we began to see issues that you can only see when you integrate fuel system into an airplane. And those are the issues we're dealing with now. And so Dennis, do you have any other comments?

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Yeah, I'll just add on, Jon, to the second part of your question. The key here is the work to go is well understood. There's no technology or invention that has to be accomplished. As Jim said, this is the nature of what came out of some final ground in flight testing on certifying the integrated fuel system. This is the last major system to be qualified under the development program. So while we're disappointed in the charge, it reflects the ripple effect that is the last system. As a result there's [ph] more (56:50) retrofit into the aircraft that are in the line already.

That said we have our arms around this. We understand the work that has to be done. We have found a way to execute that work and keep the program on schedule for our customer, and we're confident that we're going to do that. So now, it's about executing the work ahead of us and delivering those first 18 tankers by 2017. And part of the message here is, we have invested in system integration labs that did allow us to find some of these issues now rather than later in flight tests. And while disappointed in taking the charge now, we're doing the right thing and we remain committed to meeting our customer's schedule.

Operator: Our next question is from Julie Johnsson with Bloomberg. Please go ahead.

Julie Johnsson
Bloomberg News

Q

Hi, all.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Hi.

Julie Johnsson
Bloomberg News

Q

Quick Ex-Im related question. I'm just wondering what the prospects are for reauthorization over the next few months and the sales impact that you see beyond 2015 if that doesn't occur.

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Julie, let me give you the short answer first on the prospects here. We know that's a very active discussion on the Hill right now. As you know the Senate was in the midst of discussing the highway bill yesterday, and the potential of Ex-Im being included, Ex-Im reauthorization being included as part of that bill. We know it has the attention of both the house and the Senate right now. We remain optimistic that we'll ultimately see reauthorization. But we also recognize that there's a political risk to that. So we're being mindful of that and staying properly engaged in the process. I will say, from a company perspective, as we said before, this is not something that creates near-term financial risk for Boeing. There are multiple commercial credit sources available today that the market is sound there.

We have about 15% of our customers that use Ex-Im financing as backstop financing, but in the current financing market that doesn't create risk for us. This is about long-term global competitiveness. And that's why we're so forceful on this topic that it's important Ex-Im be reauthorized. It's about allowing U.S. industry to be globally competitive. It's about American manufacturing jobs. It's the right thing for the country to do. And we're going to continue to advocate on behalf of U.S. manufacturing jobs.

Operator: Our next question is from Alwyn Scott with Reuters. Please go ahead.

Alwyn Scott
Thomson Reuters

Q

Good morning. Can you hear me okay?

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Yes.

Alwyn Scott
Thomson Reuters

Q

Great. You guys have stressed continuity and the transition to CEO, for Dennis as CEO, which raises the question. Other than the lower age, is there some ambition or vision or goals that you bring to the table that sets Boeing apart for the next 100 years? Without moonshots, what does Boeing do to be great? Merely, are you guys going to merely execute on production, or is there a bigger vision? Can you talk a little about that?

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

[indiscernible] (01:00:04) I'll talk about it a bit here. Just to give you perspective, as we're rounding out our first century here we do have a great company. It's the leader in aerospace today. And the advancement that the company's made over the last 10 years under Jim's leadership has been very significant. And we do have a very strong market position today. We've created the right strategy. Jim, Ray, Greg, myself, the whole team, we've been deeply involved in that strategy. So it's something we understand and we're committed to.

It is a big bold strategy, one that is a growing business strategy. We've invested in our Commercial Airplane product line for the future. You can see that reflected in our backlog, and you can see it reflected in the new innovation that we're bringing to the market. So I would offer that that reflects a bold vision for the future, and one that will grow and allow our company to beat the competition. We continue to look for opportunities to invest in the future on the Defense and Space side of our business as well. And you can see the number of newer products that we've brought to the market there.

So we do plan to continue a path of strategic consistency, but as I said we also sharpen and accelerate where we need to. And I think this is about taking a company that's very good today and making it even better. And fundamental to business, for 100 years we've led with innovation, disciplined innovation. And that's part of how we'll continue forward. Innovation is fundamental to our mission as a company. And bringing disciplined innovation to the market for long-term growth continues to be our strategy.

Operator: And next we go to Dominic Gates with The Seattle Times. Please go ahead.

Dominic Gates
The Seattle Times Co.

Q

Hi. Good morning. I want a clarification, something on tanker. Earlier this year Boeing and the U.S. Air Force negotiated a revision to the tanker schedule. It didn't change the end target of 2018 deliveries, but it did shift around the timing of first flight, the timing of the decision on [indiscernible] (01:02:11) and so on. Now, that was earlier this year. And the fuel system problem was discovered. I saw it in the last six weeks since Jim's interview with Aviation Week. So my question is, is that latest problem factored into that revision of the schedule, or is there possibly more revision to the schedule now needed because of this new problem?

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Yeah, Dominic, let me take that one. Yeah, in addition to what we announced previously, these intermediate program level milestones about exact flight dates and sequencing of flight tests, those are things that we will, with the customer, refine to allow us to most efficiently complete the program. As we said, we still plan to fly the first [ph] full-up (01:03:02) tanker which is aircraft number two later this summer. We remain on track to do that. We have re-sequenced some of the downstream flight test phasing, again in the name of efficiency. All of that has been done to hold the delivery schedule at the end. And if, as you talked to our Air Force customer, the most important thing to them is for us to deliver those first 18 aircraft by 2017. We remain resolute and committed to meeting that schedule. Incorporating the latest learnings on the integrated fuel system. We've rolled that into our planning.

And while we may move some of these intermediate program level milestones, we remain committed to the overarching milestone of delivering on our customer commitment. And that's all part of what we've announced with the 2Q charge.

Thomas J. Downey
Senior Vice President-Communications

A

Operator, we have time for one last question, please.

Operator: That will be from Steve Wilhelm with the Puget Sound's Business Journal. Please go ahead.

Steve Wilhelm
American City Business Journals, Inc.

Q

Hi, gentlemen. Congratulations for your transition. There's a question for Dennis. When I've talked to people on the factory floor, there's still a lot of rough feelings from the vote in 2014. And I just wondered, as you move ahead as CEO, what is your relationship going to be with union people, how do you hold that and look at that? And in particular, what are you thinking about the possibility of [ph] unionization (01:04:23) in South Carolina, and will Boeing be pushing back as actively as it has been?

Dennis A. Muilenburg
President, Chief Executive Officer & Director

A

Hey, Steve. First of all, I think it's important to emphasize the fact that we understand how important our people are to our business. We invest in our people. I have a great deal of respect for our team and the work they do every day, building the best airplanes in the world. I think, as you may know, I had a chance to start with Boeing about 30 years ago in Puget Sound. So I have a very deep appreciation for our workforce there as well. And during the first couple of weeks in my new role here, I've had the chance to get out on the factory floor as well and continue the dialogue with our team. So this idea of mutual respect and partnership and investing in our people is very important to me and will continue to be important.

We know this is a long-term business that demands those kind of good partnerships and relationships, and I expect to emphasize that going forward. As far as Charleston goes, we're equally pleased with the progress we're seeing there. Our team there is performing and performing well. Our business in Charleston is growing as a result. We're looking forward to the 787-10 being built there. And the investments we've made in Charleston are reflective of the quality of our workforce there. And we treat that management to workforce relationship as very important, and we'll continue to invest in that relationship as well. And going back to Puget Sound, I think you can also see the fact we're investing there for future. Our new composite wing factory in Everett, I think is a good example. So the employee relationships are important, investing in our people is important, and our ability to do work at multiple sites is important.

Thomas J. Downey
Senior Vice President-Communications

That concludes our earnings call. Again, for members of the media, if you have further questions, please call our media relations team at 312-544-2002. Thank you.