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CORPORATE PARTICIPANTS

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

OTHER PARTICIPANTS

Howard A. Rubel
Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Howard A. Rubel
Jefferies LLC

Thank you all very much for being here this morning. I'm Howard Rubel with Jefferies. I'm a Managing Director in the Equity Research Department covering Aerospace. And it's a real great pleasure today to have with us Greg Smith, who's EVP of Business Development Strategy and CFO of The Boeing Company. Greg's been with Boeing – it's got to be, what, eight years now, is that right?

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

Yeah.

Howard A. Rubel
Jefferies LLC

Eight years, and he's seen a lot of change, and he's been instrumental in a lot of development of the company, and I think that he has a very good story to tell. And based on sort of – whether it's the company's backlog, its market position, or its ability to generate cash. And think Greg's going to – we're going to sit and do a fireside, and Greg's going to have a couple opening remarks, and then we'll jump into Q&A. Thank you. Greg? [ph] Yeah, let's take that. (1:02)

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

All right. This one on? Everybody hear me, okay? Good.

Well, look, maybe before – if you're okay -

Howard A. Rubel
Jefferies LLC

Yeah.

Gregory D. Smith

Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

- before we jump in, I'll just kind of step back and give you our perspective on kind of where we think the market is today, long term, what we're focused on, what's important to us, what our priorities are, and I'll say kind of the path forward.

I think when you step back and look at the market over a long-term perspective, I would say no change there. If anything we're seeing increasing demand. I think over the next 20 years, over 39,000 airplanes are going to be required in the marketplace. A pretty significant amount of those airplanes will be replacement, which is a unique aspect of this marketplace as you look forward, and fundamentally that gets to, do you have the right products in the marketplace to serve that, and I think our backlog represents the fact that we do, and the programs that we have in the development phase also do. So I think when you look over a long term – again, very healthy marketplace, traffic is still at above the 10-year average, and something obviously we stay close to.

On the Defense side, certainly domestically, we're seeing continued demand for our products and services. This just really it gets to proven, capable, affordable products and services, and that's what our Defense business has been focused on. More globally, we are continuing to see demand there. Again, if you look over the next 10, 20 years, multitrillion-dollar marketplace, do you have the right products and services to meet those demands? That's the focus that we have been on.

So, again, when you step back, very good marketplace long term, no real change there in our views from – when I was here even last year. If anything, a little bit better than what we've seen. Obviously, having said that, the focus for us: delivering on the backlog. 5,700 airplanes, seven years of production, how do we deliver on that backlog profitably, as we have, and continue to make the rate increases that match the demands of the marketplace, do that in an efficient manner, and generate cash, invest that cash in the right products and services to meet that growing market demand as we've seen going forward, and deploy our capital to our shareholders through dividend and share repurchase.

As most of you know, in the last three years, a 125% increase in dividend, over 160 million shares repurchased. We have laid out an objective to return 100% of our free cash flow to shareholders, and that will continue to be our objective going forward. So, again, when you step back, healthy marketplace, certainly some near-term challenges that we navigate through, but the focus internally is driving productivity, again investing in the right products and services, and deploying that cash efficiently and effectively, as we have.

QUESTION AND ANSWER SECTION

Howard A. Rubel
Jefferies LLC
Q

I think that's a good jumping-off point, Greg.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy
A

Okay.

Howard A. Rubel
Jefferies LLC
Q

If we work through the results of the last quarter, you had terrific margins in Commercial, and some was probably price, but a lot of it's probably productivity -

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy
A

Yeah.

Howard A. Rubel
Jefferies LLC
Q

I mean, what have you done? How sustainable was some of this?

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy
A

Well, I mean, there's certainly aspects quarter to quarter that are mix and timing related. But I think, Howard, as we've talked about, where we've set – I think, again, no rock's left unturned. So we're looking at all aspects of cost, and we're looking at what levels of spending can we get to, to be more efficient, more productive – that funding our future. Again, at the end of the day, for me, it is all about cash generation and how do we do that most efficiently. So all aspects of the cost structure are continuing being reevaluated. I think I mentioned on the last call, or Dennis did, that we're resetting the targets. So we're looking obviously at targets that we have internally and looking within our own space, but we're also looking at more of a global industrial type standard and saying why can we not get to these levels and challenging ourselves about what it would take to do that.

Now, certainly, a lot of progress has been made in a number of fronts, but we think there's a lot more to go. We do have sites and programs that are operating what I would consider at that global industrial [ph] champion. (5:54) So how do you take that and deploy that across the entire portfolio? It's all about being competitive in the marketplace and winning on those 39,000 airplanes going forward and capturing our share on the defense market. But at the same time it's about increasing margin and how do we do that? Ultimately how do we drive cash? Again, at the end of the day for me, it is all about efficient and effective cash generation and then what do you do with it.

But program over program, you'll see unit cost targets out on the floor, flow time targets, and now more of working capital type targets. Again meeting kind of, I'll say, the standards that we've had within our plan, but also you'll also see more of a carrot around a higher level. And those are at different levels of maturity. Certainly don't have it all figured it out by any means, but I think collectively as an executive team, we think they're the right objectives to have in place, considering the products and services we offer in the marketplace, considering the risk profile. And again, I think it's the right objective to have. But not everything's been solved. But, again, we have pieces of this in our business today that are operating at that standard.

And part of the organizational change that Dennis made in putting people like Scott Fancher in to run development programs for the enterprise, moving Pat into production and on supply chain rollout at corporate level, part of that is to take these pockets where we really have best-in-class type performance levels and how do you deploy them across? And that doesn't happen overnight by any means, but the fact is I'm encouraged that it does happen in pockets of the business. So how do you leverage that and how do you deploy it across? A lot of moving pieces, obviously, but I think where I'd leave it at is nothing is fixed as far as we're concerned. Everything is variable, and what levels do we think are reasonable and allow us to compete in the marketplace? And when I say compete, compete to win, but compete for capital as well. And that's been the approach the last three years; we've turned up the game there, and that will be the approach going forward.

Howard A. Rubel
Jefferies LLC Q

I'm going to sort of take that and – the success of the 737 MAX and the development program is pretty notable.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy A

Yeah.

Howard A. Rubel
Jefferies LLC Q

And while you're not committing yet to a cert date -

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy A

Yeah.

Howard A. Rubel
Jefferies LLC Q

The math says early in 2017 seems highly likely?

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy A

Yeah.

Howard A. Rubel
Jefferies LLC Q

So, when you succeed early, it means costs are lower, customers happy, the ability to manage the supply chain is better. So how, externally, do we see that translated into some better financials?

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah, I mean – look, the MAX was the first program to be put under the integrated development organization in commercial, and how do you take the lessons learned off other programs and apply it? When I say other programs, across the enterprise, putting gated processes in place that allow technical maturity to really reach that level of maturity before you go to the next gate, with an all of an eye of de-risking. How do you de-risk this and meet the needs of the customers?

So I think early still, but much further down the development cycle to see how that has benefited that program is what you're seeing today, in where we are as far as test flight, where we are as far as airplanes into the production system. That's what we want, ultimately, and we want to replicate that, and we want to replicate that and we want to apply that to all the development programs. And there's lessons learned there as well, after going through that. But I think it's a testament to that organization, and that regained, I'll say, focus on development and just de-risking, Howard, just really looking at the risk profile, and how do you de-risk it early and not push risk to the right, and then have to deal with it when you're in the production system.

So the ultimate test is go walk those airplanes, those first airplanes that are being built, talk to the people that are building them, and ask them how's it going? How have those development efforts translated into production? And the answer I get, which is in the ultimate test, when you're talking to people building the airplane, it's going well. Now, early stages, still got a ways to go. You look at the flight test data, very good flight test data coming off the airplane, still got more flight tests to go. But the fact is you're starting to see the benefit of that. And then that ultimately will translate into a smoother introduction into production system, will help the overall economics of the program, and ultimately get that airplane to our customer on the committed time or earlier, if they can take it.

So that's been the, I'll say, the broader focus on development programs, but it's really the first one to go through that entire process. And, trust me, not everything went perfect by any means, but it went very well. And, to your point earlier, you're seeing that. You're seeing the airplanes in the production system, you're seeing us finishing early on a development program, and then just flawlessly getting it into the production system so we can capture all the appropriate economics with that. And that's the same approach that's being applied to the 777X. That's the same approach that was on the Dash 9, on the 787, that's gone incredibly well, and then that's going to be the same approach as we bring the Dash 10 into production on the 787. So it's going well.

Howard A. Rubel
Jefferies LLC

Q

So, looking forward, I think that it's – and you used the words "nothing is fixed."

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

You've indicated in prior public statements the wide-bodied market faces challenges. And at one point the statement was, at some point we get to 14 [planes per month] by the end of the decade on the 787.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

So suppose – it's like you show up one morning and there's no fish in the ocean -

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

– so the right answer is rather than complain about it, you make adjustments.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Absolutely.

Howard A. Rubel
Jefferies LLC

Q

And so, talk about how the forecasting process works, how you can adjust your costs so that you don't impact profitability or cash flow, and that you match the market to the [indiscernible] (12:47).

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah. I mean, that's ultimately it, is in a timely manner matching supply and demand. And that's what we go through every day as we look at these skylines and look at our production plans, look at the health of the supply chain. And then look at in those skylines, how many of those are options, what do we think the probability of those options getting exercised, who are they with, how big is their fleet? How are they operating today financially? How are they going to pay for the airplane? How much lead time away is there? And then look at open positions and say who are the prime campaigns around those with the same type of methodology of going through – their route structures, is this going to be new route structures, is this a take-share issue? Are they retiring an older airplane? What are the retirement plans, again, financially? How they're performing. All of that taken into consideration, combined with our lead time away.

So on 787 we have some time here, obviously, before we need to make the decision to break to 14 a month, and we're going to do the right thing. So we're going to match supply and demand, and if it doesn't play out to be 14, then we'll adjust accordingly. I think taking that into consideration, taking maybe a 777 rate, a modified 777 rate through the bridge – even taking that into consideration, you're still going to see growing cash flows coming out of the company going forward. And again, at the end of the day, I think that is ultimately what matters.

So we've modeled, obviously, and we continue to model – that's our job – the different scenarios. And again, even with those types of pressures, if they were to come to fruition, we still see growing cash flow, and the deployment commitment remains the same as a result of that. But, look, if they're great, great products, I think the backlog says a lot about what those airplanes are bringing to the marketplace today and what they'll continue to bring. And the 777X will just add to that going forward. They're generating terrific economics for our customers, and that's ultimately our objective: make our customers better, which will make us better as a result of that, and a continued eye on cost and working capital in order to do that.

Howard A. Rubel
Jefferies LLC

Q

So there's a lot that you just said there.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

And I'm going to try to parse it a little bit. So one of the focuses that we find sort of a little weird still is the block on the 787. I mean, so if rate's slightly different than what you anticipated today or how it changes in the future, how do you compensate for that? How do you – I mean, you don't get tackled at the 10-yard line; you try to find a way to get into the end zone.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah. Yeah. Well, like I said, you're lead time away, more than lead time away. So you've got time to make whatever adjustments you need to make. When I say adjustments, retargeting, productivity measures. But I would tell you it's not the end of the world if you went from 14 to 12, and we're not at that point to make that decision, but we can still be profitable on the program, as I see it today, at 12 through that time period. But it's going to be ultimately just matching again that supply/demand, and doing that efficiently.

And even on the 777, as we've looked at the bridge through the 777, is been, one, early on, reset the cost targets on that going through that bridge. So trying to get in front of these things and reestablish a new level of productivity in order to match the market demand versus let the market demand impact you and then deal with the results of that. That's not how we are operating, that's not how we operated with the 737. I know a lot of folks expected a decline through 737NG to MAX; you didn't see that. Well, the reason you didn't see that is because that objective was set two years in advance, to say, your job, our job, is to manage through this transition and manage through it at these level of margins. So what do we need to do to do it?

And we're two years out from those plans together, not two months. And so these are the – that type of, I'll say, thought process and discipline is the same we're applying across all the programs to try to get in front of these things and manage through them at the end of the day, to do it profitably. And learn from other – obviously these experiences.

Howard A. Rubel
Jefferies LLC

Q

Wide-body orders have been tough.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yep, absolutely.

Howard A. Rubel
Jefferies LLC

Q

Just to stay in that market for a moment. How would you characterize the campaigns? How would you – I mean, I'd love to pin you down to a number, but I know that it won't happen.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Right.

Howard A. Rubel
Jefferies LLC

Q

But how do you characterize what you see in terms of – are they drop-ins, or are they new customers, or are they – we're going to get more orders than what we've seen so far, I'm sure of that.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah, yeah. Yeah, no, we will. I mean, look, as we said on the call, we are seeing areas of softness in the wide-body market. So we're watching that closely and matching that up to our production needs. We've got a lot of campaigns and work on the wide-body. The real question is do they come to fruition in the time period that we need to match the production through the bridge, for example, on the 777. So, over the next couple months, we'll know. We'll either solidify those orders and be able to do that or we'll modify the production rate, at least through that bridge. But, again, what's most important is to have that supply and demand match within that period and have the 777X transition in smoothly.

And how do you find that right transition point like we did with the Dash 9? I mean, Dash 9's an incredible story. If you think about – here you are, you're going up in rate every six months, the highest production rate on any wide-body program in aviation history, and you're introducing a new model. And we've done that. 50% of the deliveries, Dash 9 going up. So how do you take that and apply that onto the 777 and 777X with that smooth introduction that ultimately drives profitability through that period and taking those best practices and bringing them onto the program. So that's been the big focus.

But, look, like I said, in the next couple of months, I think we'll have better clarity on whether those campaigns true up and they true up in the time period we need them to fill the bridge. And if they don't, then we'll make an adjustment accordingly. But even if we do, again, I still look at cash flows growing through that period, because there's other elements of the business that are going to continue to grow through that. 787 certainly now operating at 12 a month, 737 getting ready to go up to 47 to 52 to 57 a month, which is a very healthy skyline. Doing that smoothly. Some of our Defense products moving more into production phase, going forward.

So, as you kind of – it's one piece – it's an important piece, but it's only one piece of the portfolio, and you really got to kind of step back and look at all the moving pieces in the portfolio and get back to the backlog. Can you deliver on the backlog, the 5,700? If you can, then you should be able to generate cash growth through that period and then think about the deployment the way we have. And I'm hoping that that sets a foundation for the expectations around how we will deploy capital going forward, because the game plan is, I'll say, the same game plan we've been working to for the last two or three years.

Howard A. Rubel
Jefferies LLC

Q

Well, your forecasting actually hasn't been that bad. You've been saying for time, you turned the corner on the 787 this year in terms of deferred production.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

And $33 million is a rounding error in a $100 billion company – for most of us. Occasionally a few people call you out.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

But so, as we look forward, there's clearly going to be some incremental momentum there. How do you sort of – the program's going to be cash positive; it actually has been for a little while.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

But you widened the gap. I mean, can you talk about the elements that sort of get you there? Some of them are clearly internal.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah, I mean, look, there's a relentless focus internally on producing – or improving the production system across the board. There has been a lot a progress made, but I would tell you the team has a lot of things in the hopper that need to get matured that if they do we're going to continue to allow them to improve going forward. And then, Howard, there's just fundamental stability that's helped the overall productivity, and anybody that's run a production line knows that when you become stable is when you really start coming down the curve.

So getting to this 10 a month with a smooth transition to 12 while bringing the [Dash] 9 in, you're seeing the benefits of that today. Took a while to get there; we got there. You're seeing the benefits of that. Obviously outside step-down pricing, contractual step-down pricing coming out of the supply chain combined with the mix, having more Dash 9's and 10's in the mix is going to help the overall cash flow, the program going forward, and then obviously outside of deferred, the advances associated with being at a higher rate help overall cash flow profile.

So don't get me wrong. A lot of work still left to do on the program, but I'm encouraged. In particular I'd say we're encouraged over the last six to 10 months of progress that team has made being stable and just seeing opportunities across the board. Now it's about getting them in place and reaping the benefit of them, whether it's in the supply chain or whether it's in Charleston or Everett, the sharing of best practices has improved. Ray got the whole program integrated now under one person. And we're – again, no rock unturned, whether it's overhead, direct support, supply chain, direct labor. Where is there opportunity? Where do we capture it? And I would tell you, Howard, the whole enterprise is engaged. So how do you take things off the Chinook that are frankly a best practice, and how do you get those on the 787?

And then there are some things going on in the 787 that I would like to see us apply back onto some of the other programs. So how do you facilitate that and capture it. So don't get me – again, a lot of work left to do, but making good progress. Mix matters. Getting that Dash 9 in smoothly, getting that Dash 10 in smoothly with a 95% plus commonality in the factory makes a difference.

Howard A. Rubel
Jefferies LLC
Q

So investors always look at Boeing and new development programs and go, oh, my God, here we go again. There's another -

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Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy
A

I think that's an industry response. But, yeah, I got it. Yeah, I got it. Yeah.

Howard A. Rubel
Jefferies LLC
Q

Well, then if we look across the board, I think everybody's learned what the word "forward loss" means, and they didn't at one point. But, to be serious, talk about risk reduction on the 777X. And everyone says, Oh, gee, you built the factory, great, congratulations, you're going to pop out a wing.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy
A

Yeah.

Howard A. Rubel
Jefferies LLC
Q

There's a lot of thought that probably went into it, there's a lot of -

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Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy
A

Oh, yeah.

Howard A. Rubel
Jefferies LLC

Q

– testing that's probably been done before -

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

– you decided you could -

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

– do a wing this size. Can you address the risk? Can you address where you are in the timeline? I mean -

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

– critical design, I think, is very early in 2017. And maybe talk about what that means?

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah. Well, if I could, let me just back up for a minute. I mean, probably about four or five years ago, we had a big discussion on de-risking the decade. And so, let's kind of just lay out where do we see the risks, and then how do we go deal with them? And certainly fixed price development was one, which led to why we reorganized and put all the development under two individuals in each of the businesses and then ultimately now have an individual at the corporate level that his job is to ensure that we do exactly what you just said. And how do you do that in a disciplined manner?

Certainly labor stability was a big one. So getting long-term labor contracts in place that are good for all everybody, all of our stakeholders. And then pension liability was obviously a big one. Getting everybody converted over to a defined contribution. And then production rate increases. I mean, those would've been the ones that would've been on the list that we're staring at, saying, okay, how do we de-risk this and then how do we sustain that going forward? And certainly I think if you look at the risk profile from the last 10 years and look at the risk profile going forward, it's very different. As a result of literally just going through each one of those, Howard, and checking off as we're working our way through it. Is there more to go? Absolutely. But a lot of those, again, been checked off.

So this whole kind of, I'll say, methodology or operating rhythm around, let's stare at the risk early and make sure we've quantified it properly and then how do you go after it, how do we de-risk it, has been now obviously applied on the development programs. Or market change, whatever it is. It's get on it early and then de-risk it. And, again, I think the risk profile's very different. When you think about 21%, 22% rate increases over the last six years and, to the team's credit, really have gone flawlessly in the big scheme of things, especially when you go back and look at how those were executed in prior cycles. They've done a great job, but that's been very deliberate in a how do you get on top of this stuff early, whether it's supply chain visibility, whether it's how you're procuring, tooling, and how do you – proving it out early.

And so on the 777, taking all that and applying it – the wing, that was a big factor obviously in our decision-making around risk and around our internal capabilities that we thought were important. And how do you leverage Dash 8, Dash 9, Dash 10, 787, composite wing, lessons learned and experiences and manufacturing techniques, tooling, you name it, and how do you take that and lift it and put it on the X – the things we learned, good and bad, and put it onto the X? And all under that same person that was overseeing it. So seamless, I'll say, pass-over of those practices. And then how do you take that through flight test? How do you take that through bringing the 777X into the production system smoothly? Just think about the methodologies being applied is all coming off 787, primarily, or 737 MAX. And so how do you take that, put it on the X to ensure?

So automation. I think a number of you saw some of the automation activity that we're embarking on, on the 777X. We're starting with the 777, and we're trying to prove it out and make sure that we're getting exactly what we need out of it. So by the time the X hits, it's a smooth transition. Yeah, is there a cost to do that? Absolutely. But we think that is a very short-term investment that can benefit many years to come. Because we've seen the other side of this coin, when you don't do it. But upfront you got to be committed to making the investment, learning from it, but you got to have clear line of sight where you're going to get that benefit from long term. So focus on that business case is relentless on the 777X. But proving it out.

And then keeping the secondary line running. So you think about the surge line on the 787. That was an investment we made. That was a risk mitigation investment. And the – now it's gone, and the Dash 9 is up to over 50% [indiscernible] (30:17). That's exactly what that was for, as you're going up in rate. So all of those learnings, taking them under one person now, there should be seamless transition here in putting it on the X. Now, will everything go perfectly to plan? No. It won't. We'd like it to, and we're planning on it. It won't. But is the risk profile different than it would have been prior? It absolutely is. So keeping that stuff in front of us and leveraging the enterprise to figure out how to de-risk some of these things early.

Howard A. Rubel
Jefferies LLC

Q

So, to put it into some financial metrics for a moment, I think Mr. Muilenburg talked about 10% margins for next year in Commercial and then higher margins going forward. Yet if you probably see, whether it's my forecast or anybody else's forecast -

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Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

– we're probably discounting that by quite a bit. I mean, is it just going to be the proof of the pudding is in the eating, and then we'll just buy in? I mean, can you maybe walk us through one or two of the things that -

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Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah.

Howard A. Rubel
Jefferies LLC

Q

– get you to from close to 10% this year to above 10% and so on next year?

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah. I mean, look, this all started with an objective in mind that just looked across our own space, looked across industrials, looked at the kind of risk and reward profile and said we should aspire to be higher than where we are, pretty significantly higher. Aspire to do it. And when we looked at that through that lens said there's no reason why we shouldn't set that standard for ourselves in order to, I'll say, kind of fit within that profile of top-quartile industrial type companies. Put everything else aside. Is that the wrong objective? We don't think it is. We think it's the right objective.

Now, the path to get there, certainly, it's challenging, and will we get there in every aspect? Time will tell. But I think the objective itself and the targeting process or the whole kind of philosophy around that nothing is pushed aside. We got to look at everything. We got to compete. We want all those 39,000. So we got to compete to win, and at the same time we want to hold ourselves to a different standard in that regard. Now, like I said, will that all come to fruition in a timeframe that we think is reasonable? It's still early, but we've got it in place within a timeframe we can see, as far as the objective goes, and we're going through the process line item by line item to figure out what does that mean, translate into, in these areas of cost? And then how are you going to get there?

And is there some that have clearer line of sight than others? But I still think it's – and Dennis obviously leading this – but it's not the wrong objective to have in place. So I would say stay tuned. We just got to deliver it quarter over quarter, year over year, but we got to have everybody focused on every dollar and just challenge ourselves into a level of standard that may be different than what we've had in the past. Now, again, I'm a bit of a broken record in this. At the end of the day, it's all about cash. It's all about cash. It's all about how efficient, unit over unit, are you more cash positive than you were? I mean, 787. Unit costs, which ultimately is cash. 777, you name it.

And then it's managing that overall working capital. Because at the end of the day, we can set the margin objective and so on, and that's the right thing to do. But if we're not also focused on the short and long term around cash management, they won't all match. And so we're doing both. We're doing both.

Howard A. Rubel
Jefferies LLC

Q

So, I'm sorry we didn't talk a lot -

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

So stay tuned.

Howard A. Rubel
Jefferies LLC

Q

No, I appreciate. No, I mean, this is a little bit more about – I'll call it, this is why it's both aerospace and industrials, because there's elements here of – it's about making a difference on the factory floor and then translating it into a solution for your customer and fighting some of the competitive pressures.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

A

Yeah. Hey, listen, and that's going to fund our future. That's going to fund the next development. That's going to allow us to win in this marketplace, too. So that's also part of the dialog internally, is this is about driving shareholder value and funding the future. And this is the engine to do it. It's not coming from anywhere else.

Howard A. Rubel
Jefferies LLC

Well, thank you, Greg, very much for a good dialog, and I'll see you again.

Gregory D. Smith
Chief Financial Officer and Executive Vice President of Corporate Development & Strategy

Thank you for having me. Yeah, likewise. Thanks, Howard.

Howard A. Rubel
Jefferies LLC

All right, bye.