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The Boeing Co. (BA)

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CORPORATE PARTICIPANTS

Gregory D. Smith

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

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Great. I think we're ready to get started. Should there be others who stroll into the room, but welcome to the lunch session, day one of the UBS Industrials Aerospace Transportation Conference. Pleasure to have with us from The Boeing Company, Greg Smith, the company's Chief Financial Officer. Obviously a lot is going on at Boeing in the news and in the business, maybe just to kick it off Greg.

Gregory D. Smith

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

Yeah.

QUESTION AND ANSWER SECTION

Q

The most obvious question that I'm asked 90% of my calls current state of 737 MAX has...

Gregory D. Smith

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

Yeah, absolutely.

A

Q

...returned to service. And maybe how that – your outlook has maybe changed in the last weeks or months...

Gregory D. Smith

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

Yeah.

A

Q

...since the earnings call and your last update on that returning service profile.

Gregory D. Smith

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

A

Yeah. Everybody hear me okay? Well, good morning. Hey, thanks for having me. Yeah. Look obviously day-in and day-out working with our regulators and ensuring that we're answering all the questions, addressing any concerns that are taking place, that's a daily occurrence. So we've got a team working seven days a week, addressing anything that comes in. Obviously, we've completed the software and training and pass that over. And so now we've got the regulators around the world kind of again coming in with more questions before we go to the next milestones that obviously are their milestones around when they get in the sim and then when they ultimately do the certification flight. So, the team is just again 100% focused.

We got resources from across the company that are just turning these things around in a very timely manner and ensuring that we're meeting their priorities and the needs of the regulators. Outside of that, we've got a daily operating rhythm that I participate on, as does Dennis, and a lot of the other executive council and the whole team. So, we've got about seven swim lanes that we cover every morning and go through and get a status and that's obviously anywhere from regulatory and how we're addressing these questions, what backlog we may have, how are we working with our customers as far as preserving the fleets and working with them on a return to service plan and how we can support that around the globe, the production system. So we can update on production system.

As you know, we've gone down to 42. So we went down to 42 through this pause. How are we taking advantage of that, getting our suppliers back on to master schedule and essentially getting the production system healthier while we're at the 42, and then again, working with customers around the globe, keeping them up-to-date on where we are and what next steps we see addressing any other questions and concerns. So we go through every one of these swim lanes every day. And we're on a daily rhythm with that, but then within that, there's deep dives into each particular area. Some, for example, on the brand; on MAX brand, on the Boeing brand, what are we doing short term and then long term, what more can we do on training around the globe and working with our customers. So we've got folks dedicated to this. We have, since day one, that are running those swim lane operations and we're ensuring that they've got everything they need. And this is where you bring the best and brightest from the company and also outside the company again to try to help us.

Q

So as you look at those different lanes that you're doing each morning, how is it compared to weeks or months ago, are we...

Gregory D. Smith

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

A

Yeah.

Q

...at a point where we're getting to 6 of the 7 are green, one is yellow, how do you...?

Gregory D. Smith

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

Yeah. I mean, look there's a lot of progress. There is a lot of progress that's been made. It does change day-to-day and it really depends on what questions come in and how quick can we turn those around. But again, it's really about being responsive to the regulators, let them do their job. Make sure we're there to support; our objective, get the airplane up safely and then work with every one of our customers to get these airplanes out of preservation and back into their fleet in a smooth process as possible. So, it changes – each swim lane changes day-to-day. But what's important is we're focusing on the right things, the priorities, and again, we're reaching across the enterprise if we need expertise or additional resources or outside whether it's hiring folks on the brand management side or on the crisis management early on, getting some experts in there and trying to help us manage that with all of our stakeholders.

A

Q

So I think Dennis was on television this week and he talked about simulator training being done or simulator sessions being done at the FAA...

Gregory D. Smith

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

Yeah.

A

Q

...as well as the EASA. How far separated is the FAA's sim time with EASA. How much further behind the FAA is EASA?

Gregory D. Smith

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

Yeah. I mean that's really being worked between them. Again, we're just trying to make sure we've got the sims ready. We're answering questions. We're being responsive. We got the crews ready for whatever they want to do and whenever they want to do it.

A

Q

Yeah.

Gregory D. Smith

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

Our job is to make sure we're making that available and then they're working amongst themselves on sequencing and finding it.

A

Q

Okay. And the next catalyst that's kind of identified yourself is the certification flight.

Gregory D. Smith

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

Yeah.

A

Q

I guess you're implying that the kind of a checklist or the fulfillment of these inquiries that have come to you is the gating milestone to getting things in that certification line?

Gregory D. Smith

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

Yeah. Yeah. Absolutely. Yeah. And I'm sure there'll be more questions as we move forward, but we've done, I think about 284 flights as of yesterday as well. So we obviously over the last several months, we've been doing an incredible amount of work not just in the sim but actually on the airplane and as well as on all the training packages and so on and working with regulators around the globe and customers getting them into the sim early and getting their feedback and having sessions around the globe on the training as well as the software enhancement and getting their feedback and trying to get that incorporated. That's what's been going prior to where we are today.

A

Q

And you had mentioned that the software as well as the training packages had already been handed off...

Gregory D. Smith

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

Yeah.

A

Q

... [indiscernible] fulfilling requests incoming.

Gregory D. Smith

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

Exactly.

A

Q

So the training decisions that have been made as it relates to in person, on computer, in simulator, those suggestions, those recommendations have been passed?

Gregory D. Smith

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

Yeah. And they'll ultimately decide how they want to do that and then customers. So our job, make sure we can support that and whatever they need. Certainly, we provide a recommendation, but getting in the sims early and

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getting their feedback, taking them through the training, making them part of the training enhancement or recommendation, I think ultimately will be good for all of us in the industry, but we're again responding to questions and inquiries, and if we need to make any changes, we'll do it.

Q

Okay. And is the...

Gregory D. Smith

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

It's all about getting it up safely.

A

Q

Is that baseline training in line with the FAA's draft proposal?

Gregory D. Smith

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

You know, we've kind of gone through that work, but again, it's going to ultimately be up to them. And certainly, we've been working alongside of all the regulators getting their feedback, but that will ultimately be their decision.

A

Q

Okay. So, imagine a point where certification takes place and air worthiness un-grounding or emergency un-grounding gets lifted. Unpack for us how you get planes back in the service. What does it take?

Gregory D. Smith

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

Yeah.

A

Q

You have to take them out of storage...

Gregory D. Smith

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

Yeah.

A

Q

... prepare them for flight, what's the level of effort that we're talking about just so we can level set for time.

Gregory D. Smith

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

A

Yeah. Well, what we're doing is we're spending that time now putting the plan together and working with the airlines. And so you've got a parked fleet within the airlines that we are 100% committed to support and getting them out of preservation and support whatever the airlines need and taken a leadership role in that. There's a very defined process about how you go about doing that. So, we have plans in place about what teams do we need where, when and the defined process and working with each of the airlines. So we're having those discussions, also we got the game plan laid out and we're ready to go. So, we kind of got that aspect of it and then you've got what we have parked, and in preservation. And so we've got, again, a team of technicians and resources that will be required in equipment and so on, how are we getting ahead and getting that in place and then working with the airlines as to how those airplanes get delivered, and sequencing them out in a way that we can support, but ultimately meeting their needs and desires. And so that'll be those two aspects.

And then you'll go back into the production system and look at the production rate, the health of the supply chain, where are we there and then get more, I'll say, defined about what rate increases we'll make and when. But as you've heard us talk many a times, it's all about getting stable; get stable, get everybody back on to master schedule, don't push work outside on to the ramp, keep work in position and get that system stable from also kind of end-to-end even within the supply chain, and then ramp up in rate and work with each of the customers which we're doing as well on the skyline on the delivery side. So, there's a lot of effort that will take place from that time of return to service.

But again, we're trying to get ahead of it, we're trying to be proactive with a supply chain, with our customers and with our teams to make sure we're getting all the right sequencing prioritization and the right resources in place. As you can imagine, between pilots and technicians, we're going to have a big need in a pretty short period of time. So what is that, and again, I can tell you. This is an opportunity to leverage the enterprise again. Where do we bring some of this talent across from the fighter business or any – from the services business and Stan's business and get ahead of this and make sure we're on top of it and we're ready to go and do it in a very smooth manner, again get this fleet up, get it up safely in a way that meets the customers' needs.

Q

And you and Dennis have both talked about stability in the supply chain...

Gregory D. Smith

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

A

Yeah.

Q

...is kind of a necessary step before you increase your rates and I'm just curious is the supply chain stable at this point where it's disjointed 42 in the final, you have 52 in some of the supply chain?

Gregory D. Smith

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

A

Yeah.

Q

Is this stable?

Gregory D. Smith

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

A

It's definitely gotten a lot better. I mean when you look at where some folks were at 52 just kind of behind schedule and I think you've heard us talk before. Being on schedule is job one but consistency with that. So ensuring that we have consistency with deliveries on any of the products so you may be at rate, but you may not be consistent. So this is an opportunity to make sure we're addressing both. And I think the sensitivity when you're at 52 is much higher. So getting a fuselage on day one is a big difference from getting it to day 2 and how disruptive that could be. I think we've all learned that that sensitivity at these higher rates is far greater. So this is an opportunity to kind of go work that and look at what we have buffer inventory in the system. Is it the right number? How should we maybe address that and take advantage of this lower rate, while keeping them at the higher rate and be smarter about it as we as we come out. So each one of them is a little bit different Myles, but net-net, everybody's healthier...

Q

Yeah.

Gregory D. Smith

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

A

...through this period. Our production line is definitely much better shape than what it was. We got work off the ramp, but back in the factory. We're hanging engines where engines need to be hung and we're putting things in position. There's still challenges on the shortage side. So we've got teams focused on more of some of the smaller suppliers, get back on schedule and maybe let's look at our whole procurement strategy on some of these low cost parts and is there an opportunity to take a different look at that and try to minimize these as you go back up in rate. So team's done a great job, is using this opportunity to get focused on stability and health of the production system.

Q

So in a normal rate rising or rate declining environment, you would take time in between rate breaks.

Gregory D. Smith

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

A

Yeah.

Q

You'd go to 42 to 47, you'd go 47 to 52 and you get 52 to 57, but there would be six-month intervals at least.

Gregory D. Smith

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

Yeah. Yeah.

A

Q

This doesn't seem like it would require that level of interval?

Gregory D. Smith

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

Yeah.

A

Q

But...

Gregory D. Smith

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

Yeah. I mean if you look at historically, to your point, or in a more routine basis, you've got six months, well that six months is really about learning curve, additional resource, so people just learning new jobs, tooling, capital coming in. We don't have that situation, right. We've been at 52, the supply chain's been at 52 and some beyond that. What's key in this is the resources. So we hung on to our resources and using them to get stable and using them on productivity initiatives that we're trying to optimize during this period. Those people will go back to the job they were at when they were at 52. So that learning curve will be minimized. We don't have a capital and we don't have a tooling element to that and that's pretty much the same with the supply chain if you see most of them stayed at 52, so that talent and expertise didn't leave their four walls which is important as we think about how we go up in those next increments. But I'll tell you that those are going to be gated process and it's going to be all about stability and stability is not just on schedule, but again just ensuring that we've got predictability and accuracy that's more finite than maybe what it's been in the past because that's ultimately what's going to keep the line stable, minimize disruption and ultimately improve the health overall in the program and reliability as we deliver to the customers, so.

Q

And then is it fair as a framework to think at the final assembly line you'd be going to a rate 57 prior. Obviously then the supply chain has been at 52 for some reasonable period of time so you can reabsorb that inventory that's been accumulating today?

Gregory D. Smith

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

Yeah.

A

Q

And how does that work where you're actually at a higher rate than the supply chain and is that in any way disruptive?

Gregory D. Smith

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

You mean if we're at 52 and...

A

Q

If you go to 57 to absorb the inventory that's been held up.

Gregory D. Smith

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

Yeah. We'll see. We'll see. I have to tell you I mean at 57 right now we're focused on getting stable at 42. There's demand, right. We got a great skyline, great demand for the airplane, but to get to 57 and also say not be healthy and have an optimized production system isn't the right answer. So we're going to take these in increments and monitor health and then make the next rate break, monitor health, next rate break; not a demand issue, right. It's not a backlog issue. It's about production – stability and production and supply chain health.

A

Q

Okay. And then, \$1 billion that you put into the cost base...

Gregory D. Smith

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

Yeah.

A

Q

...this past quarter. How is that going to be updated, evaluated, disclosed...

Gregory D. Smith

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

Yeah.

A

Q

...on an ongoing basis?

Gregory D. Smith

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

Yeah. We'll update every quarter. Obviously, there's assumptions built into that on our baseline plan, around our production schedule in particular and additional costs required as we work through the 737 production rate

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change and supply chain. So, that'll get updated every quarter and we'll reassess that and we'll continue to disclose it as we have.

Q

And what will go into that is just the cost associated with the program, but things that are outside in the realm of the liabilities or concessions...

Gregory D. Smith

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

Yeah.

A

Q

...those may or may not be included [indiscernible]?

Gregory D. Smith

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

Right. It'll vary. Yeah. Some will be in the cost base. There's very defined rules about what goes in into the cost base and what's period expense. So each one of these is obviously evaluated at the time to determine where it gets booked. Some will be period as you saw in the quarter. Some was period and some will be through the block.

A

Q

Okay. And then, one of the things that you did was with true guidance given the uncertainty in the market.

Gregory D. Smith

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

Yeah. Yeah.

A

Q

What's the level of visibility? I mean if this is an un-grounding that takes place over a reasonably extended period of time across regions, what's the tripping point where you actually have the visibility that you require to reestablish guidance?

Gregory D. Smith

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

Well, you know to your point, we're going to have to evaluate where we are with each one of them and our certainty and understand all the elements that are outstanding what we don't know and what we do know. But as I said when we go to return to service, that's an important milestone, but there's also the sequencing of deliveries, there is the production rate assumptions. There is clearing the ramp, there's also getting the airplanes that are grounded within the fleet back up. So it's going to take us some time to kind of get a clear understanding about

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exactly how that's going to work and then input that into how that'll impact the year and the assumptions around that. So, obviously we're very focused on that. And once we get better clarity, I think you heard you know Dennis and I say, we'll have another call and when we provide that guidance, we can give you clarity about all the moving pieces in there and frankly what we know and what we don't know, and then as we know it we'll share that.

Q

Okay. And then what is the view that you have right now in terms of the coordination globally about this un-grounding, and about the return to service on a global basis?

Gregory D. Smith

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

A

It's a 24/7 effort. There's no question about that. It's kind of where I started, is just being responsive to each one of them that have different questions, but at the same time, there's a lot of similarity in some of the things that they're asking about and just making sure we're responsive and we're sharing all the information that whatever is needed or whether they need to talk to somebody or we need to send somebody out or they need to get into a sim, we pulled out all the stops as far as what anyone needs in, I'll say, any part of the globe and be responsive.

Q

Is the nature of the request primarily associated with the training, is it associated with the procedures, is it associated with the architecture?

Gregory D. Smith

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

A

It really varies. It varies. It's across the board. So I wouldn't say there's one particular area. Every day there's something new that's coming in and our job – you start with one question and it get answered, that may lead to two follow-up questions in that area, but look that's going to be where it's going to be and everybody needs to take whatever time they need and we need to make sure we're responsive to those inquiries and they're driving that clock as they should. And we just got to make sure we're playing our part.

Q

So on the financial side of the house, PDPs are important part of your cash flow.

Gregory D. Smith

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

A

Yeah.

Q

And it's a measure of how committed the customer is to a certain extent. What does that look like right now?

Gregory D. Smith

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

Yeah.

A

Q

Has there been any that has slowed or stopped? And what's your anticipation as this extends?

Gregory D. Smith

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

Yeah. Well, certainly as you bring the rates down that in itself re-phases PDP. So that's obviously taken place. But I think as far as committed to the airplane and the backlog, you've seen that no one's moved away from the product. It's really more today about when, when do I get my airplane. And how do we sequence everybody and deal with everybody's needs and priorities. And so that's where there's discussion that's taking place around. It's one thing to say we can deliver it on this date, but let's face that customers can only take so many airplanes in a period.

A

Q

Yeah.

Gregory D. Smith

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

So that's skyline management, there is an entire team that is again seven days a week, managing that and reaching out to customers to try to make sure that we're meeting their demands and priorities and matching that up with the production schedule, matching that up with what we got on the ramp, also with what we've got on the ground. All of that ultimately kind of plays into the PDP schedule and timeline.

A

Q

But most of these PDPs are coming in today are for a year and a half...

Gregory D. Smith

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

Right.

A

Q

...two year out delivery. And that two year out delivery is in the accounting block and that accounting block still I think assumes 57 a month out in those – in those outer years.

Gregory D. Smith

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

A

Well, like you said, we've made an assumption on from a baseline perspective last quarter about how we would incrementally move up. We'll assess all of this again at each quarter and make whatever change is needed. And there may not be any, but where there are and that will ultimately go into the block.

Q

Okay. Good. The 777X, you've got two test articles that are...

Gregory D. Smith

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

Yeah.

A

Q

...on the flight line.

Gregory D. Smith

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

Yeah.

A

Q

Give us an update on when we'll have more external measurements of your progress...

Gregory D. Smith

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

Yeah.

A

Q

...and also how the customer receptivity and the filling campaigns are going on that plane?

Gregory D. Smith

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

Yeah. To your point, we've got two out. On the ramp we've got two in final assembly now. I mean, I'd say, it's really come together well. I think a lot of the work that we did upfront on this disciplined gated process, reuse, just a prototyping and money we've spent in labs upfront, I think after four airplanes you start to see the benefit of that investment. So I think – and it's not to say there's some challenges here and there, that are more rates driven, but certainly doing this upfront it de-risked the program, that was the intent.

So now we're progressing obviously to the flight test program and getting ready for that. Long-pole in the tent right now is GE engine. There're some challenges. They're working through their own testing. So we're having to do some retesting. And they're working their way through that. We're doing that together. As we see it

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today, we still expect to fly this year and entry into service in 2020, but obviously we're staying very close to that and we'll keep you up-to-date of that changes, but that's still the current assumption.

Q

And in terms of your ability to flex freighters, I mean in the context of if that were to slip a little?

A

Gregory D. Smith

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

Yeah. I mean, yeah, the demand for 777s still remains very high. So we're also trying to bring that into the skyline and frankly meet the demands of the customer on the 777. And while we feather in the 777X and then obviously looking at 777-8 and 777-9 entry into service, but looking at the timing also and the demand for 777-8 and see if that still makes sense. And do we want to push that out? And how do we want to manage that? So it's kind of managing the whole mix within that portfolio, along with market demand. There is still good demand from the airplane, but we only want to get it up and get it in the air and I think we'll see even more activity. It's a great product, obviously following on to the 777 with operating economics that are very advantageous. So, the customer sees the value proposition.

Q

Yeah.

A

Gregory D. Smith

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

[indiscernible] (00:24:35).

Q

And I think on the call, Dennis said, he hadn't seen or you hadn't seen any ripple effects from the 737 certification process being...

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Gregory D. Smith

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

Right.

Q

... looked at, re-evaluated, explored onto the 777X, is that's the case?

A

Gregory D. Smith

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

Yeah, it is. Yeah. Yeah. But as you know we're working with a bunch of committees, some from the government side. And then Dennis instituted a committee on the board. They just kind of go back and re-look at any of this. So we don't see anything at this point. But if we do, we're going to put it into the process overall on the 777X, but we

haven't seen anything come out of either side of that yet. But if it does, we're going to do whatever we need to do to ensure that we have gone above and beyond on from an aspect of safety and certification. So if there's some lessons learned in there, they're going to get applied, but we haven't seen anything.

Q

And when is that internal auditor review [indiscernible].

Gregory D. Smith

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

A

Yeah. There's no defined timeline on it. So our teams are supporting that and providing information and briefings. Again it's kind of a cross company collaboration and supporting all of those committees. And we'll continue to do so. Again, it's their pace, it's not ours. We're just backed. We've just got to make sure we're given all of the information and all of the clarity and put in all of the subject matter experts up in front and being very open-minded about what if any there may be some opportunities to improve and let's get them in place and let's get them implemented and move forward.

Q

And then is this – just one last one on the 777X, is this the year still a peak for working capital and then it would get better...

Gregory D. Smith

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

A

Yeah.

Q

...next year and subsequent year thereafter?

Gregory D. Smith

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

A

Yeah, yeah absolutely.

Q

So it's still a tailwind into...

Gregory D. Smith

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

A

Yes.

Q

...next year from a cash flow.

A

Gregory D. Smith

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

Yeah, yeah, it is. It is. And I think I mentioned before as far as priorities, campaign reviews used to be 777 bridge, so that was where company energy was in the 777 bridge, that shifted now. So certainly fill in 777X skyline, that's a big priority and we got to face into that and now 787 at 14 a month obviously little more energy going into filling that skyline as well. So these priorities obviously in management attention and focus are shifting, but from a skyline point of view and from meeting a rate point of view filling out skyline those are probably the two biggest ones that we are focused on.

Q

Before we jump to the 787 I just want to go back to the guidance and capital deployment for a second. Obviously you're very prolific share repurchasers...

A

Gregory D. Smith

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

Yeah.

Q

... it's been a period of time.

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Gregory D. Smith

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

Yeah.

Q

What's the measured steps to get back to that as well? What's the level of confidence you need...

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Gregory D. Smith

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

Yeah.

Q

...and the visibility you need, if it's consistent what the guidance is, is it beyond? Is it below that?

Gregory D. Smith

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

A

It's going to be, look, get back to service get this production plan established if it's different than what we have in place and then we're going to assess what we do as far as repurchase. So I'd say long-term same commitment that we had before. Timing is obviously shifted. So we've got – it's really around those milestones I talked about around return to service and getting the airplanes out of preservation into the customers' hands. And coming down that curve from a cash perspective, improving overall cash condition of the – as the 737 starts to kind of come back up in rate and then we'll reassess it there. But as far as the deployment priority, same priority we've had in place before. It's really more of a timing issue.

Q

I want to give you the opportunity to comment on the 787 which seems like the performances is everywhere that you want it to be and probably gets better with price step-downs in the supply chain for the mix shift. How far along are you in getting that to kind of best-in-class historical widebody margins at Boeing?

Gregory D. Smith

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

A

Yeah. I'd say, you're right. I mean the team has done a great job across the board and the partners on the program and certainly have come a long way getting the model mix in place around the 787-9, the 787-10 going up in rate and being at the highest widebody rate in aviation history, no small task, but you've seen how well the team has executed on that. Day-to-day, I'd say, productivity focused that intensity that was there before is still there today. Sharing of the best practices across between Everett and Charleston has been fantastic on both sides. And they've set a company standard to some of these areas where we call these champion times where teams have established their best time to do a wing-body joint, that's now a company standard and frankly something that I've deployed across as a One Boeing – under my One Boeing responsibility is best practice. So let's get champion time [indiscernible]. So the team has actually – through this has established some really good best practices, by no means are they done. I mean taking some of these back into the supply chain, there's still a lot of opportunity. The whole focus on working capital on the program, more opportunity there. So we're not done. We probably will never be done. But certainly operating much better than we were before and very competitive sensitive team. They want to win in the marketplace. They want to be best-in-class on margins, on working capital, on customer support, on dispatch, reliability and that team dynamic is the one we want from across the company.

So coming from where they were to where they are now, is definitely made them stronger and more resilient and more focused on winning. And I think as you see we're in the marketplace with the 787, the airplane is certainly – our sales folks have done their job, but the airplane is really selling itself. The operating economics of that airplane are unmatched. And so now it's about getting the 787-10 and the 787-9, getting that more of that mix into the production system and getting that into the hands of the customer.

Q

So that observable kind of gross margin implied in the deferred production that should continue to expand. There's no – we're not reaching...

Gregory D. Smith

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

Yeah.

A

Q

... [indiscernible] just yet.

Gregory D. Smith

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

No. As you move through each block, you'll see improvement. And I'd say, from the outside in, it's making our deliveries. So are we making our deliveries, if we are and we're moving our way through that block. Are we getting the model mix into the skyline and meeting our commitments there? That helps you, again, moving through that block. Supply chain step-down will continue as we move through these blocks. And then just overall productivity, we're still capturing and targeting levels of productivity within our factories that will continue to contribute to the bottom line, not as much of a contributor as some of those other factors, but we've got – not about could it be as good as the prior program, it's about what's the best. What's top quartile performance look like? And how do we get there? And then how do we bring the supply chain along?. Learn from them, they learn from us and ultimately at the end of the day everybody wins and we're meeting the demand in the marketplace that's strong for a great family of airplanes.

Q

Yeah. Earlier in the year before the 737 MAX accident this year, Dennis referred to demand this year as weakening versus the strength over the last few years and obviously that's been the case not just for you but for Airbus as well. How much – but it's impossible to separate now from the MAX and what's going on there.

Gregory D. Smith

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

Yeah.

A

Q

So how much of this slackening demand environment you attribute to just that and how quickly can it come back?. It's one of the persistent questions you've raised this it's going to be around brand.

Gregory D. Smith

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

Yeah.

A

Q

And if there is an issue it will show up in the orders and the market share?

Gregory D. Smith

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

Yeah. Look, that is, we're very clear-eyed on the brand. And so we're putting whatever resources required inside and outside the company to help us restore the MAX brand and then obviously work on the company brand. So that's going to take whatever is going to take. That's a top priority for us. And working with every one of our customers and addressing whatever concern may be with them or with the flying public, that's our job. And we need to bring the best and brightest together to do that, and that doesn't necessarily mean just people within our four walls and understand where we are globally with the brand. And what do we need to do in the U.S. versus China first and by airline and work with the customers on that, 100% dedicated to doing whatever we need to do to do that.

A

Q

You have case studies in mind that are – these are the shining examples we'd like to success cases with...

[indiscernible]

Gregory D. Smith

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

Yeah. Look, there is always – you look at past of where there has been crisis in other companies and other products and we'll try to learn from that. But then, apply, I'll say, the uniqueness of our industry, how regulated it is? We're not a direct B2C, but we kind of are now in some regard and how do we address that? And then how do you bring the best and brightest that have been part of some of these crisis management and brand restoration opportunities? And how do you bring those learnings into our four walls and learn from that?

A

And like I said it's going to be different by region. We know that. But you've got to work with each one of our customers as well that want to address this maybe a little bit differently. But what's most important is being clear-eyed and recognizing where you stand and then being clear-eyed and open-minded to recommendations that come from people that are outside – maybe outside of the industry, facts and data and then resources it accordingly and then work with all your stakeholders and make sure you're not getting out in front of somebody, that we are supporting the customer in that effort. But at the end of the day we own the brand. And so that'll be a swim lane I talked about and one we'll be working on for a while.

Q

Yeah. And on the services side, you stood up the services business...

Gregory D. Smith

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

Yeah.

A

Q

... it's actually been growing truly better than the market, which is consistent with what you thought would happen. I guess what's the catalyzing change, because for years while it was embedded in the commercial

piece for example, when it was embedded in BCA, the implied underlying growth rate wasn't what we're seeing today.

Gregory D. Smith

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

Yeah.

A

Q

What's the catalyzing change [indiscernible] ?

Gregory D. Smith

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

Well, look I think bringing both of these together and having people at the highest level of the company dedicated and responsible for services and they are coming in day in and day out. All they are doing is how do we serve the customer better? How do we grow our share in that? That fundamentally has obviously made the difference.

They're getting a lot more visibility and time and attention across the enterprise. And so it's kind of a One Boeing opportunity, a leverage across the company, where to your point, we were kind of beneath that, staring into these markets through different lenses combined now. Leveraging best practices, I mean, you look at how an F-18 pilot is trained, you look at the commercial. Is there a best practice in there? Is there a way to optimize that? You look at how we logistically move parts on the defense side and how do we do that in commercial? When you consolidate and is there a best practice applied there? PBLs out of the defense business, is there something there that you can bring.

This team is bringing these together and recognizing, there are some really good best practices that we're not applying in all aspects of the business.

Q

Right.

Gregory D. Smith

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

And optimization just again looking at even just the detailed logistics of how we move parts around the company or with outside the company, the supply chain, dealing with the supply chain is one. And then the customer facing, obviously very different parts of business, but there's opportunities to learn there.

Q

I mean Boeing has been fairly forward leaning on the supply chain in a couple of routes; one is the aftermarket presence, desire for greater presence, the other is partnering for success. I imagine this experience with the 737 MAX is causing probably a little bit of a pause in that forward leaning approach towards the supply chain as they are dealing with their own volatility.

Gregory D. Smith

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

Yeah.

A

Q

Is that a fair statement?

Gregory D. Smith

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

Well, look we're all partners in this, right. It's an \$8.1 trillion market over 10 years. There's plenty of opportunity for everybody to win. Is there an opportunity to be more efficient? I'll have a hard time sitting up here telling you the reason.

Q

Right.

Gregory D. Smith

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

There is opportunity – some of that's on us, some of that's – but ultimately we can all win if we kind of approach these things and face into them and recognize what's the best practice, what is it and implement it. They are healthier...

Q

Yeah.

Gregory D. Smith

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

...in doing that in my 787 example. Taking some of these things that we've invested in improving and bringing them back in, that makes them better as a company, makes them healthier as the company, allows both of us to go out and win in the marketplace more competitively. Look, during the MAX, staying very tight with the supply chain and recognizing their strain in certain parts of that supply chain, if there is, what do we need to do to help. Can we help? Can we bring in a third-party and one of our banks in to help near-term? Can we work something out on payment terms? I mean ultimately we all want to try to manage through this in the best and most efficient way possible.

But again kind of back to my point, we got a whole team dedicated to understanding financially where does everybody sit and it's not in any of our best interest for somebody to be under more strain than they need to be when we can be helping them.

Q

Maybe the last one on the supply chain is, I get a lot of questions from them. What's going to cause Boeing to say 52, we can't have you there, you have to be lower. Is it time? Is it costs? Is it lack of visibility globally? What's going to be the triggering event...

Gregory D. Smith

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

Yeah.

A

Q

...by which you pick up phone and you say Spirit, time to go to 47 or 42 or whatever that number is?

Gregory D. Smith

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

Yeah. That's one line as mentioned daily production. So it's a daily dialogue on that but we've got deep dives on that and waypoint decisions that need to be made. But keeping them informed about what we know about where we are, potentially could be on return to service and really hand in glove trying to manage, hey, you're building more inventory, where do we want to cap out here? And how does that impact the overall flow of material? And so it's just a regular dial-up. But everybody's had a bit of a different place right.

Some are very healthy and cranking it out at 52. Some are not all the way – we just got to manage each one of them differently, keep them informed and then make a smart business decision based on the information we know.

Q

Okay.

Gregory D. Smith

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

And some of that is stored – storage. We don't want – there is – you want to limit how much we got stored and it's not just about storing it, it's how you have it stored and preserving it and there's a process, that's very disciplined around how we do that.

Taken all of that into consideration and based on the information we know at the time and so I think you're going to find in each one of these depending on where they are and I'll say a line of balance of schedule some may have to be pulled back a little bit for a period, but maintaining that flexibility and if there's constraint, is there something we could do to help over the short-term to do that.

Unverified Participant

Well, I think that wraps it up. Thank you so much.

Gregory D. Smith

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

Thanks for having us.

Unverified Participant

Appreciate it.

Gregory D. Smith

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

Yeah, great. Thanks.

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