Airbus SE (OTCPK:EADSF) Q3 2021 Earnings Conference Call October 28, 2021 2:15 AM ET

Company Participants

Hélène Le Gorgeu - IR
Guillaume Faury - CEO
Dominik Asam - CFO

Conference Call Participants

Tristan Sanson - Exane BNP Paribas
Celine Fornaro - UBS
Christophe Menard - Deutsche Bank
David Perry - JPMorgan
Ben Heelan - Bank of America
Robert Stallard - Vertical Research
Doug Harned - Bernstein
Andrew Humphrey - Morgan Stanley

Hélène Le Gorgeu

Thank you, Christine. Good morning, ladies and gentlemen. This is the Airbus 9 months 2021 Results Release Conference Call. Guillaume Faury, our CEO; and Dominik Asam, our CFO, will be presenting our results and answering your questions. This call is planned to last around an hour.

This includes Q&A, which we will conduct after the initial presentation.

This call is also webcast. It can be accessed via our homepage where we have set a special banner. Playback of this call will be accessible on the website, as there is no dedicated phone replay service.

The supporting information package was e-mailed to you earlier this morning. It includes the slides, which we will now take you through, as well as the financial statements.

Throughout this call, we will be making forward-looking statements. The package you received contains the safe harbor statement which applies to this call as well. Please read it carefully.

Now over to Guillaume.

Guillaume Faury

Thank you, Hélène, and welcome on board. Good morning, ladies and gentlemen, and thank you for joining us today for our 9 months 2021 results call. It's good to speak to you again after we had the pleasure to meet some of you during our road show in New York just before the summer break.

Dominik and myself will run you through our financial results and we are proud of doing it for the first time for a company being part of 2 European prime indices, the CAC40 and the DAX40.

Let's start with our commercial aircraft deliveries. In Q3, we delivered 127 aircraft to our customers, including 1 operating lease. This takes our year-to-date delivery number to 424 aircraft compared to 341 aircraft in the first 9 months of 2020. So we feel we are on track to achieve our 2021 delivery guidance of around 600 commercial aircraft.

Our 9-month EBIT adjusted was at €3.4 billion compared to minus €0.1 billion in the first 9 months of 2020. It reflects our commercial aircraft deliveries, of course, as well as our efforts on cost containment and competitiveness.

Our Q3 EBIT adjusted benefited from a reduction of risk exposures, which enabled us to release some provisions.

In Q3, we began to see an increase of our cost base as we are transitioning back to normalized business activities and as we started to ramp up the A320 production.

Our 9 months free cash flow before M&A and customer financing was at €2.3 billion and included a strong positive phasing impact from working capital.

On the operational side, we raised our A320 family monthly production rate as planned, and our supply chain is now fully engaged in the ramp-up. After almost 18 months of stable rates, we are managing individual cases of supplier difficulties while we are ramping up according to our plan.

In the context of global recovery, we are closely monitoring potential risks to our ecosystem, including the availability of resources. We continue to work closely with our suppliers, striving to ensure that the right industrial and supply chain capabilities are in place. At the same time, we focus on the long-term competitiveness of our industrial operations, in particular, on the transformation of our aero structure assembly value chain. On this subject, we continue to work on solutions with our social partners.

When it comes to the guidance, we keep our full year commercial aircraft delivery guidance unchanged. And following our 9-month financial performance, we raised our 2021 guidance for EBIT adjusted and free cash flow before M&A and customer financing.

Let's now have a look at our commercial environment. Here, the crisis is not yet over, as everybody knows, but the aviation industry has started to emerge from.

In Q3, global air traffic has further recovered, continuing the positive trend which we have seen since the beginning of the year, and I say this prudently. Domestic travel is at 70% of its pre-crisis level. International air traffic is still at low levels, but we've seen some real progress, particularly for Europe and North America, which should be further supported by the reopening of the U.S. for vaccinated EU passengers when it comes to North Atlantic.

However, key markets can still be volatile. For example, China, which lost more than 50% of its air travel activities within one month during the summer and then recovered.

In the context of our recent decisions to launch the A350 freighter derivative, let me also mention that the air cargo market has remained well above the pre-crisis levels.

All in all, we continue to expect the market to recover between 2023 and 2025, with domestic and regional market clearly leading the recovery.

Now let me remind you of our orders and backlog. In the 9 months, we booked 270 gross orders, of which 256 single-aisle. In Q3, we recorded orders for 105 aircraft, including 7 A330neos. We saw 137 cancellations year-to-date, of which only 10 in Q3. These cancellations in 9 months were largely anticipated and already embedded in our backlog valuation as of year-end 2020.

As a result, net orders were positive at 133 aircraft, and our backlog in units amounted to 6,894 aircraft.

Moving to vertical lift. In September, we announced plans for the CityAirbus NextGen. I'm fully excited about it. It's a new fully electric vehicle for sustainable urban mobility. Airbus is here leveraging several years of research and demonstrate our development to plan for a first prototype in 2023 which paves the way towards certification in 2025.

And looking at helicopters, in the 9 month '21, we booked 185 net orders compared to 143 in the 9 months 2020. In Q3, we recorded several orders in the right segment. And in 2021, we see good and positive momentum for large campaigns in our home countries.

Finally, in Defence and Space, in the 9 months 2021, our ordering was at €10.1 billion, and this represents a 23% increase year-on-year. During the third quarter alone, orders were booked in the amount of €6.6 billion. This includes the order by the Indian Air Force for the acquisition of 56 C295 aircraft to replace its legacy fleets.

The support and spares contract renewal for the German and Spanish Eurofighter fleets, the order by the Republic of Kazakhstan of 2 Airbus A400M, becoming the ninth operator of the aircrafts. This new export contract brings the total number of A400M orders to 176 units.

Let me take this opportunity to highlight the crucial role played by our Airbus military aircraft in the context of the recent Kabul evacuation Afghanistan, which involved 25 A400M from 7 customer nations and 9 A330 MRTTs tankers from 6 different operators. This underlines, once again, the critical assets these aircraft has become for our customers, and more generally, the role that our defense solutions play in protecting people's lives and providing humanitarian relief.

In line with the United Nations' sustainable development goals, it also demonstrates how we contribute to safety, stability and prosperity worldwide by developing defence and security solutions that promote the rule of law, freedom and democratic values.

In Space Systems, Q3 orders including the remaining portion of the contract to design and manufacture 6 Galileo second-generation satellites. And we also continue to see good momentum in the satellite business. The second satellite of Pléiades Neo earth observation constellation was successfully launched in August which enables us to start delivering to our customers in the very high resolution market.

On FTA, we very much welcome the signing of the third implementation agreement for the so-called demo Phases Ib and II, which marks once more the support of Spain, France and Germany for this program. Airbus is proud to be part of the future combater system, which is key to secure national solvency and European strategic autonomy with respect to operational, technological and industrial capabilities for the 21st century.

Beyond aircraft and following the recent German federal elections, we are pleased to see among the German political parties a continuation of the widely shared commitment to strengthen European cooperation, including in the area of defence.

For Eurodrone, we continue to progress towards contracted nature with OCA.

And now, Dominik will take you through our financials. Dominik, the floor is yours.

Dominik Asam

Thank you, Guillaume, and good morning, ladies and gentlemen. Our 9-month 2021 revenues increased to €35.2 billion, up 17% year-on-year, mainly reflecting the higher number of commercial aircraft deliveries.

Our EBIT adjusted increased to €3.4 billion in the 9 months of 2021, up from minus €0.1 billion in the prior year's period, which included €1 billion of charges due to impairments and write-offs triggered by COVID-19. The strong year-on-year improvement of our EBIT adjusted is mainly driven by the commercial aircraft delivery performance and our efforts on cost containment and competitiveness. It also reflects a reduction of risk exposures which enabled us to rerelease some provisions. As an example, we reviewed the COVID-19-related charges and reassessed the level of exposure which had a positive impact on our EBIT adjusted. At the same time, in Q3, we saw the progressive resumption of activities that will further accelerate in the coming months.

On research and development, our expenses in the first 9 months decreased by 6% year-on-year. We now expect our 2021 full year research and development expenses to be slightly lower than in 2020. Some expenses previously foreseen in 2021 will now be incurred in 2022 and we will ramp up our R&D next year.

Our 9 months earnings per share adjusted stood at €2.95 per share based on an average of 785 million shares.

Our 9 months free cash flow before M&A and customer financing was at €2.3 billion. It reflects our efforts on cash containment and also includes a strong positive phasing impact in working capital, part of which is expected to be neutralized in Q4 2021.

All in all, in the 9 months, we saw a good number of commercial aircraft deliveries and we focused on competitiveness while we are still managing our cost in a crisis mode up to H1. We began to resume activities in the third quarter with further acceleration expected for the fourth quarter. In the 9 months, we also benefited from a favorable hedge rate and from some provision release.

Now to the next slide regarding our profitability. As said, the 9 months 2021 EBIT reported was also €3.4 billion. The level of EBIT adjustments was a net positive of €0.1 billion in total, including €190 million related to the A380 program, of which €45 million booked in Q3; minus €165 million negative impact from foreign exchange mismatch and balance sheet revaluation, of which only €5 million in Q3; plus €43 million of other adjustments, including compliance costs, of which minus €6 million in Q3.

Earnings per share reported includes minus €172 million of financial results. It mainly reflects the net interest result of minus €233 million, partly offset by plus €63 million related to Dassault Aviation.

The tax rate on the core business is around 27%. The effective tax rate on net income is only 21%, including the effect from tax risk updates and the tax effect on the revaluation of certain equity investments, partially offset by deferred tax asset impairments.

The resulting net income is €2.6 billion with earnings per share reported of €3.36.

Now to our hedging activities. In the 9 months 2021, $15.4 billion of hedges matured with associated EBIT impact at the rate of $1.19 versus $1.20 compared to the same period last year.

For the full year 2021, we expect an average hedge rate of $1.21 compared to $1.19 in 2020. As a result, we expect the hedge rate for the remaining 3 months to be less favorable both year-on-year and in comparison with the 9 months 2021 average.

In 9 months 2021, we implemented $22.8 billion of Forwards at a rate of $1.22, of which $12.1 billion in Q3 '21 at a rate of $1.21 mainly for the years 2022 and to 2025. This translated into improved average hedge rate for those years.

Our total hedging portfolio in U.S. dollar, including 1.2 billion of hedges disqualified in Q1 '21 and now at $87.1 billion with an average hedge rate of $1.26 versus $81 billion, also at $1.26 in December 2020.

Now let's look at our cash evolution in the 9 months '21. Gross cash from operations was at €2.7 billion, mainly reflecting our EBIT adjusted and including a €0.5 billion provision consumption related to the restructuring plan.

Our working capital has decreased by €0.8 billion. It includes a significant positive phasing impact from the timing of receipts and payments, partly offset by inventory build in the divisions, reflecting the delivery profile.

Year-to-date, the A400M continued to weight on our free cash flow before M&A, but less so than in the 9 months of 2020.

9 months capital expenditures were around €1.2 billion negative, broadly in line with the 9 months '20 level. For 2021, we continue to expect our capital expenditures to be around €2 billion cash out.

Free cash flow reported was €2.3 billion. M&A activities accounted for only minus €14 million. While customer financing represented an inflow of €62 million.

The aircraft financing environment remains solid with sufficient liquidity in financial markets for our products. We also benefited from the support of export credit agencies.

When it comes to our fiscal year 2021 free cash flow, and in particular, looking at our working capital, we expect the 9-month phasing effects to be partially neutralized in the fourth quarter and to see an impact from our single-aisle ramp-up.

Our net cash position has improved to €6.7 billion as of the end of September, and our liquidity position remained strong and stood at €27.7 billion. Given the increase of our net cash position and our robust liquidity, we decided not to renew the undrawn €6.2

billion supplemental liquidity line, which matured in September. In the meanwhile, we extended the maturity of our €6 billion revolving syndicated credit facility by one/ year.

Going forward, we will continue to adopt an active approach when it comes to managing our liquidity with the objective of maintaining our robust credit rating.

And now back to Guillaume.

Guillaume Faury

Thank you, Dominik. Starting with commercial aircraft. In the 9 months 2021, we delivered 424 aircraft to 74 customers, of which 1 operating lease without revenue recognition at delivery.

When we look at the 9-month 2021 situation by aircraft family, first, on the A220, we delivered 34 aircraft. Our production rate currently at 5 per month is expected to increase to around 6 per month in early 2022, with a monthly production rate of 14 envisaged by the middle of the decade. To support the A220-ramp up, we are bidding a prefile in Mirabel, which is targeted to be operational in early 2022.

On the A320, we delivered 341 aircraft, of which 155 were A321s. We are working to secure the ramp-up, and we are on our trajectory to achieve rate 65 by summer 2023. The modernization of the A320 family striving to lose is progressing well and should be operational by end of 2022.

On the A321XLR, the main component assemblies, namely the wins from Breton, the nose forward fuselage from San Jose and the rear fuselage from Hamburg are planned to enter a tumble in the coming days.

Letting to wide-bodies. On the A330, we delivered 11 aircraft in the first 9 months. I'm happy to share with you that we expect to increase our A330 production rate from around 2 to almost 3 aircraft per month on average at the end of next year.

We also delivered 36 A350, and we now expect to increase the A350 production rate from around 5 per month to date to around 6 in early 2023.

On A380, we delivered 2 aircraft in the first 9 months. In October, 1 more A380 was delivered to Emirates, and we are organized to end the deliveries by end of this year.

Now let's look at Airbus commercial financials in the 9 months. Revenues increased by 21% year-on-year, largely reflecting the higher deliveries as compared to 2020, which you remember was strongly impacted by COVID-19. The increase in EBIT adjusted is mainly driven by the delivery performance and our efforts on cost containment and competitiveness.

In addition, we released some provisions reflecting, among others, the good progress made on the remarketing of unplaced aircraft. Finally, let me remind you that the 9 months 2020 EBIT adjusted included €1 billion of charges due to impairments and write-offs triggered by COVID-19.

Looking at helicopters. In the first 9 months of this year, we delivered 194 aircraft in total, 25 more than in the 9 months '20. Revenue increased by 14% year-on-year to €4.1 billion, reflecting growth in services as well as higher deliveries, notably more Super Puma helicopters than last year at the same period. The EBIT adjusted increased by more than 30% versus last year, versus the 9 months 2020, to €314 million this year, driven by services, program execution and lower spending on R&D due to the end of the certification process for the H160 and the new 5-bladed version of the H145 in 2020.

Now on to Defence and Space, revenues are broadly stable compared to the 9 months 2020. The increase in EBIT adjusted mainly reflects our efforts on cost containment and competitiveness in the first 9 months of 2021. For the A400M military transport aircraft, we delivered 4 aircraft in the first 9 months of 2021. We have continued with development activities towards achieving the revised capability road map of the aircraft, retrofit activities are progressing in close alignment with customers. Risks remain on the development of technical capabilities and associated costs on aircraft operational reliability, in particular, with regard to power plants; on cost reductions; and on securing export orders in time as per the revised baseline.

Now on to the guidance slide. Although we continue to face a rather unpredictable environment, our 9-month performance enables us to raise our 2021 guidance. Let me read out our updated 2021 guidance to you.

As the basis for its 2021 guidance, the company assumes no further disruptions to the world economy, air traffic, the company's internal operations and its ability to deliver products and services. The company's 2021 guidance is before M&A.

On that basis, the company has updated its 2021 guidance and now target to achieve in 2021 around 600 commercial aircraft deliveries, no change; EBIT adjusted of €4.5 billion; and free cash flow before M&A and customer financing of €2.5 billion.

Let me conclude, as usual, by summarizing our key priorities. First, on top of managing our deliveries and backlog as agreed with our customers, we will maintain our efforts of dedication to secure the ramp-up of our A320 family as planned and because the demand is very strong.

At the same time, we make further progress on the modernization and transformation of our commercial aircraft industrial operations. This includes the digitalization of our development, production and logistics processes; a wider use of robotics in our production sites; as well as the simplification of our industrial setup by bringing Aerostructure assembly back into the heart of our company and preparing for the future.

In this context of ramp-up and transformation, we expect to see a pickup in hiring with a focus on securing the right skills to support our plans.

When it comes to our leading role in decarbonizing our industry, we are pleased with the

additional momentum generated by the Airbus Summit, which recently brought together a wide range of international decision makers in Toulouse. The events supported the view that, firstly, the decarbonization for our sector can only be the result of an unparalleled collective effort of all industry stakeholders as well as supportive government policies.

On that note, we welcome the IFA commitments to align the global air transport industry with the Paris Agreement and to achieve net 0 carbon emissions by 2050.

And secondly, the summit has confirmed that we are likely to see a multistep process. This starts by replacing all planes with new ones, emitting less carbon; followed by an increased use of sustainable aviation fuels, including synthetic fuels, before finally moving towards more disruptive technologies, like hydrogen-powered aircraft. In case you've not been able to follow the events, I invite you to visit our Airbus website to find the replay.

Let me finally emphasize that it remains a priority to deliver on our updated 2021 guidance. As we've seen through the crisis, strong results and a strong balance sheet enabled us to sustain our ability to invest in our long-term ambitions across the portfolio.

Now we are ready together to take your questions. Thank you for your attention.

Hélène Le Gorgeu

We now start our Q&A time. [Operator Instructions] So Christine, please go ahead and explain the procedure for the participants.

Question-and-Answer Session

Operator

[Operator Instructions] First question is from Mr. Tristan Sanson from Exane BNP Paribas.

Tristan Sanson

This is Tristan from Exane. First question is on the delivery trajectory for this year. You've been delivering lately below your production rates. In August, September, 40 units. 13 for October is not going to be a material pickup.

And from what we see, you still have strong demand from -- for your aircraft, especially you have a strong reiterated commitment on the A320neo demand. You don't have major disruption in the supply chain. And we are still expecting for the inventory release to happen. So can you explain a bit the dynamics what's going on? Why you don't yet start to release that inventory?

That's the first question.

And second one, I will ask one about your margin ambition. After a few quarters of strong performance and another upgrade of your full year margin trajectory, how do you look at the midterm potential for commercial aircraft profitability?

Guillaume Faury

Tristan, I guess, Dominik will take the second question, I'll start with the first one. Yes, you spotted a difference gap between production and deliveries, mainly in September. And October will very likely be a bit of the same nature. Well, it reflects a different situation.

First, on customer side, where we have planes ready for delivery that have not been delivered and we need to work on it November, December to get them delivered. And also, as I mentioned in the earlier call or tried to explain a bit this morning, with production issues with a number of suppliers which are leading to planes having to go for outstanding work. So planes are close to be delivered but not fully finished.

They've been through the assembly line, but they need to be fully finished before being delivered. That's not unusual. As you remember, we had some similar issues in the early phases of the ramp-up, we need to get on top of it, and we plan to deliver the vast majority of those planes until the end of the year. That's why we maintain the guidance of 600 planes because we think we can achieve it. I hope it's clear.

Dominik, the second part of the question?

Dominik Asam

So on the margin ambition, maybe I should first clarify that the slight uptick in the guidance. So EBIT adjusted, what are the components so you can judge and what that means for the margin ambition.

I mean, first of all, we mentioned that there is some R&D phasing topics, so where certain costs we wanted to incur this year might slip into next year. That's part of it, the low triple-digit million amount. There were some Q3 nonrecurring item. I mentioned some provision releases recall. We had €1 billion-ish provision and other charges which were COVID-related in -- predominantly in June last year, and they related to topics like inventory write-offs, some vendor financing issues, bidding off certain buildings.

And to a certain degree, we were able to release some of that. But again, only a low triple-digit million amount.

And then what rest is really a relatively minor change to what we've guided. So don't overestimate the €0.5 billion and let it fall through to the model ambition basically because it's predominantly phasing and nonrecurring items.

So that means we are not changing our margin target, where we said that when we are back to the rate of 2019, we want to deliver the EBIT margin we had in 2019. So if you think about the rate profile, there might be a certain rate increase. And you can speculate now when this will happen, maybe '23 figure number. But don't forget that year is still burdened by ramp-up costs, is burdened by the R&D expenses for XLR. And so there are several items where we think we can harvest later on.

So it's not really the long-term margin ambition, but it's just a kind of intermediate milestone we guide here.

Operator

Next question is from Madam Celine Fornaro from UBS.

Celine Fornaro

I just have two. The first one would have to be, I guess, on the supply chain constraints. And some of the colors that you provided here on the outstanding work and probably it's to do with things like materials and reworking of interiors, if you have changes in the customer's demand. But also on the supply chain, if you could provide us some color on how many suppliers have you got on watch? And if that number has increased compared to the June, July period.

And also how you are planning to support and help the suppliers in this ramp-up in terms of hiring staff or materials purchasing, especially you have slightly raised your target number for Q2 2023. And how should we read that?

Guillaume Faury

Celine, on the number of suppliers on watch, we have not significantly changed compared to end of H1. Some changes in the mix of suppliers, we are monitoring. Some have put their situation under control. Others are suffering maybe more than what we were expecting from the early phases of the ramp-up. I consider we have no systemic issue with commodities or suppliers from that -- of that area, but we have a number of difficulties just in the early phases of the ramp-up.

And that's a rather small number of suppliers which are at the origin of our current challenges. But we think this will be, over time, managed. And therefore, we are not changing our trajectory for the ramp-up.

How do we plan to help? Actually, we don't plan to help. We have been helping all along the COVID-19 crisis, and I would say, big time. There's been a lot of resources, Airbus resources that have been involved. Well, it's mainly on supporting on-site finding workarounds when we have difficulties, adapting our production plans and the mix on the short term when we face difficulties here and there.

This has, as a consequence, the fact that sometimes we have to take planes out of delivery plan of the month to deal with the situation and put them back on trajectory later. But we think this can be managed in the last months of the years -- of the year, sorry, that's why we have not changed the guidance.

So that was, to some extent, expected. You remember, I was quite cautious end of H1 on the difficulties that we were seeing for going out of 15 months of hibernation, as I call it. That's what's happening. Overall, the supply chain is at the -- on the route. We see things moving forward as we expect, but specific difficulties, we are on top of those difficulties, we are very focused we are demanding for the -- with the supply chain that they stay on track for the ramp-up and dealing with those individual cases.

So that's basically the way I look at it today.

Celine Fornaro

Thank you, Guillaume. And if I could just kindly follow up on the slight increase in rates for Station 40 to 65, how should we read this? Is it a further sign of conviction from your side on the demand and how you see the order book panning out?

Guillaume Faury

Well, on that very specific point, it's very consistent with what we had said before. We will probably be less granular on the rates moving forward compared to what we have done in the COVID-19 crisis, where we really believe it was super important to give that granularity to suppliers. So we'll be back to the kind of guidance we were giving on rates before COVID.

So this very specific figure, I would not see it as a sign of trust in the demand. But this being said, yes, there is a very strong demand for our products and even stronger day by day on the A320 family. So that's why we are confirming the trajectory of the ramp-up. It's mainly driven by the supply. The speed of ramp-up is driven by the supply.

Because the demand, in our perspective, will justify going beyond 65. And you know that we are considering 70, 75 moving forward because we see the very strong demand for the 320 moving far away in the second half of the decade.

Operator

Next question is from Mr. Christophe Menard from Deutsche Bank.

Christophe Menard

Precisely on the strong demand for aircraft, I was wondering if you could give us some more color on the impact of decarbonization strategy of airlines on the replacement cycle in the second part of the decade and whether it has changed over the last 2 years in terms of the demand and what they expressed to you.

The second question is on material shortage. Could you also mention to us whether magnesium is starting to be a pain or an issue in terms of supply for your aluminum raw material?

Guillaume Faury

Thank you, Christophe. Impact of decarbonization, yes. To what extent? I think it's difficult to judge. We have more and more questions.

We spend more and more time during the bid process. We really observed that this is a growing topic for customers. How do they weight the carbon in their decision-making at the end? That's probably very diverse and not easy to access for us.

But in the decision to buy new planes, to replace older planes and the focus they have their financial and nonfinancial equations moving forward, it's absolutely obvious that decarbonization plays a bigger role. And this has changed compared to 2 years ago, I think that's really a fact.

On the magnesium, I know it's on the radar of our teams. I'm not aware of significant disruption or shortage as far as we are concerned because of this very specific commodity. I can't say more. It's beyond my pay grade, if I may say so. But it's not very, very high as a specific topic today at Airbus.

But it's part of what we're monitoring.

Christophe Menard

But on -- if I could follow up on this point. Can you confirm that magnesium is actually used in the aluminum alloy that you have on the planes?

Guillaume Faury

Yes. Yes, but it's mainly aluminum and then you have other components inside the aluminum. You have different kind aluminum. So to what extent? I mean I think it's very small percentages.

Again, we need to address this question, if you want to dig into it, with a specialist. I'm not a specialist of percentage of magnesium in aluminum. Sorry about it.

Operator

Next question is from Madam [indiscernible] from Barclays.

Unidentified Analyst

Yes, [indiscernible] from Barclays. On the cost side for the Airbus segment, Guillaume, you mentioned that you saw an increase in the cost base. I was wondering if you're able to clarify how big the cost impact was this quarter compared to Q2?

And then your guidance implies that this cost will continue to increase in Q4. So can you help us understand the scale and what will drive the increase? As Dominik, you pointed that part of your guidance upgrade comes from lower cost than what you were previously anticipating.

Dominik Asam

Yes, sure. I'm happy to try to shed some color on that. I mean, first, you see on the topic, you really see it quarter by quarter what we print in SG&A and R&D. And if you look at the guidance, we gave some on R&D, when we say we now will be slightly lower than last year. And you see what we've done in the first 9 months.

It's clear that there is a big Q4 expected that we will be drifting into the right but increasing and ramping there. And also one we want to resuscitate that bucket of the business to really prepare ourselves for the future, and we'll go further there. So this will continue.

SG&A, we try to contain, of course, much more rigorously, but there are also some activities which have been shifted to the right, which we do start like on high-end projects, try productivity going forward. So from that perspective, there is a gradual increase.

And of course, last but not least, we need continued support on the production side. We don't quantify that in detail, but it's weighing a little bit on the gross margin going forward. You mentioned the working parties we need to really sustain the ramp. And this is something that you also see feeding into our financials, and that's all reflected in what we've guided for the EBIT adjusted for Q4.

Operator

Next question is from Mr. Q - David Perry from JPMorgan.

David Perry

Two questions, please. The first one is, I just wondered what your tolerance was on this inventory situation. Obviously, you're now committed to the production ramp-up every 6 months. It's just not clear to me whether you will initially be building more inventory or bringing it down to Q4 and Q1 next year. So just wondered your thoughts on that.

And then secondly, Dominik, maybe it's a difficult question, but it just seems that the quarterly results, certainly this year is an unusual year, there's a lot of one-offs each quarter and we're having, obviously, very volatile, if you look at the margins Q1, Q2, Q3. Just as we all start to think about next year, are there any sort of one-off items? I think in provision releases or other one-off items that we could start to think about that might help us formulate a view on next year, please?

Guillaume Faury

Okay. So I will let these difficult question to Dominik indeed. You say tolerance on inventory. I think the situation in nature is changing. We had inventory buildup in 2020 because of the big unmatch on the short term between the demand and the supply.

We decided to maintain on the A320 a rate of 40, which we thought will help us converge the production and the deliveries, and this is actually what we observed. And we keep having this nature of inventory going down. So that's directionally what we want to do.

Now we are entering in a situation, especially as we start the ramp-up on the A320, where we have some inventory linked to this ramp-up, that's more coming from the supply side, and we try to make it -- to keep it as low as we can. But dealing with those industrial difficulties that are probably quite specific to H2 2021, at least that's what I hope, and then when we will be stabilized on the ramp-up trajectory, we should be back to more normal times.

So I guess -- I hope it answers your question. The nature of inventory we've had in COVID time, we have little tolerance to it. We try to bring it as low as we can moving forward. The rest is more business as usual, unfortunately.

David Perry

Sorry, Guillaume, just -- maybe I didn't ask my question clearly, cleanup. I meant inventory of complete but undelivered aircraft. But I think it was about 140 planes at the end of Q3 is my estimate. Do you think that there's a chance that number may rise in Q1 next year? Or are you confident you can deliver everything you build and maybe hack away at the inventory of undelivered plans?

Guillaume Faury

That's the question I tried to answer. I think the peak was end of H1. Dominik [indiscernible], H1 2020. In the meantime, we've been going down. It was slightly below 100 at end of 2020, top of my mind.

And we kept going down slightly, progressively moving forward. So it's below or significantly below 100. Dominik, I look at you, if you can give more color on that one.

Dominik Asam

Yes, it's slightly below 100.

Guillaume Faury

Slightly below 100, and we want to keep it going down moving forward from the demand side. We might have these production issues impacting this, but it's not a tolerance to inventory, that would be more of the nature of difficulties on the production side. So the mix -- the reasons why we would have inventory are really going from demand to supply, if I may say. Hope it helps. Dominik?

Dominik Asam

The second part of the question was related to the question, I mean what is the kind of clean base to jump off extrapolating into '22 one-off that we have so far. I think very roughly, a couple of things I can mention here. On the COVID-related charges we took last year within EBIT adjusted was about €1 billion. We are releasing so far about €400 million. You will see that in the financial statements.

But I have to caution that not all of that is in EBIT adjusted. There are some part of it, some very roughly half is actually in the adjustment itself, was A380-related.

And on top of that, there are some other benefits we got because of some support schemes of COVID and so for. So very roughly, I would say you can assume it's a kind of mid triple-digit million number so far in the 9 months has helped us to deliver the results. And we also embarked on the guidance, I mentioned in the guidance, there is a certain component of that.

David Perry

So would you release more in 2022? Is that how we should think about it or in Q4?

Dominik Asam

Be careful. I mean that's why I mentioned what did we do in the -- I mean, in the COVID times, there were different buckets of that same as €1 billion we took in EBIT adjusted. The big one of this was inventory write-offs. I would say there is a little bit more to come in Q4, but not much more going forward because we have made great progress, thanks to the efforts of our commercial colleagues in placing unplaced aircraft for the wide-body side, and this is where these write-offs came from. And there was some booking of provision unwind for some buildings that's already behind us.

So I'd say the lion's share is behind us and there's not much more to come out of that bucket because certain write-offs like, for instance, R&D projects we terminated were permanent and will not come back.

Operator

Next question is from Mr. Ben Heelan from Bank of America.

Ben Heelan

Glad to hear you all well. I wanted to come back firstly on the supply chain question, because listening to some of the conference calls from peers and Tier 1s over the past week, some of them do seem to be a little bit more concerned on the supply chain. And I think the messages that you've given today, I think one of the peers highlighted as well like some pressure particularly in forgings and castings that arose in Q3 specifically.

So what areas of the supply chain are you seeing pressure? Is it forgings and castings? Is that the area that we should be thinking of? And why you seem a little bit more comfortable with how the supply chain is positioned today than kind of some of the messages I think we've had from peers? And that would be the first question.

And then secondly, on the cash guide. And good to see that you're generating cash every quarter. It looks to me like the cash guide for Q4 is very, very small inflow. Obviously, historically, you've had very large inflows in Q4. So is there anything specific that we need to be thinking about as to why you're not going to see a bigger inflow in Q4?

And should we assume going forward that Airbus can generate cash in every quarter?

Guillaume Faury

Thank you, Ben. I will share the answers. I'll take the first one on the supply chain. I think we have a number of contradictions indeed in the situation, and I try to sort of help understanding those. We have tensions a bit across the board on the supply chain due to the overall worldwide situation, be it on logistics, transport, cost of energy, difficulties to access to human resources, cost of raw materials.

So that's a bit something that is across the board. And it's no surprise that some of our peers have highlighted the consequences of these tensions.

As far as we are concerned, you remember we have tried to anticipate as much as we could the start of the ramp-up by communicating in the second quarter of this year to all our supply chain a very detailed supply plan and hamper plants to try to help prepare, anticipate.

And therefore, preparing for the call this morning, we were wondering whether we should single out some commodities or some of the suppliers or the countries where we operate and looking at the issues we're having with suppliers. It's more case by case and things we think we can get on top of it other quickly.

So I don't want to just to single out, to finger point some of the commodities or the supplies because we don't see it as of today at Airbus. And again, we think the things we are having at the moment, the topics, the issues we're having are things that we will manage in the course of the next month. So that's the situation and the color I'd like to give or try to give to you, Ben.

And for the cash flow, the quarterly cash flow, Dominik?

Dominik Asam

Yes. So in terms of what is the reason why the uptick in the free cash flow is not so big as compared to the remain to do so to speak on EBIT adjusted, and given also that delivery should go up, if you think about the 600 targets for the year, following items, I think are important, you know that there's always a notoriously difficult issue with the prediction of the working capital items.

We have some receipts and payments in working capital which are fluctuating a lot. And just to give you a flavor about that, you just have to open the balance sheet and look at some of the items that [indiscernible] to have all the contract asset liabilities, you see that so far in the 9 months, we have €1.3 billion negative. On the other hand, you see the fluctuation on trade liabilities, you see a €2.3 billion positive, which was also driven by appreciation of dollar. So not all of that is cash-relevant. But let's give you feeling about how big these swings might be.

And while we have been benefiting, first and foremost, from trade liabilities as you can see in the balance sheet, and that effect is, to a certain degree, neutralized in Q4. We will continue to see that kind of negative PDP challenge from today's perspective. There's also much higher CapEx in Q4 than in the first 3 months. And all these factors will, in total, bring the free cash flow down to the kind of €4.2 billion remain to do, which we have guided from today's perspective.

I want to highlight though that if you look at the overall year, we try to really have a free cash flow which does not count any mortgage on the future or in the other way, but try to keep it clean. And I think for your modeling for next year, you can assume that kind of conversion we see this year, with the puts and takes like A400M and A220 in between, is in a solid base for the full year.

Whether we will be able to have a positive free cash flow every single quarter, I would not kind of sign with blood on that, but that's clearly the objective. And I think -- but given the volatilities or the timing of receipts and payments, it's very hard to really commit to that.

Operator

Next question is from Mr. Robert Stallard, Vertical Research.

Robert Stallard

I'll keep it to one in the interest of time. Guillaume, this whole topic of the A320 moving to 75 a month, there's been a lot of chat in the press from some of your suppliers and from the lessors. Just generally on this topic, is it contingent on Boeing 737 deliveries remaining subdued? Or do you see overall market demand justifying this move to 75?

Guillaume Faury

Thanks, Robert. We don't ask to our customers if their decision is to order A320 family planes is contingent on what they assume happening with other players and our preferred competitor. So it's very difficult for me to answer that question. The plans and the need to ramp-up comes from what we, Airbus, observe in our customer base in terms of demand, be it already in the backlog or moving forward in the discussions we're having and the ongoing competitions. And so that's basically the view, the angle of attack of Airbus on the market, and that's not speculating on what's going to happen on the other side.

On the long term, I would be very prudent on what's going to happen. In the midterm, we have a very good visibility. We probably never had such a strong backlog and visibility and clear demand from our customers for our products. Therefore, we base it on a rather good understanding of the situation moving forward.

Dominik Asam

Maybe one comment that is underpinning that argument, if you think back about the big guidance raise, also free cash flow in June, good topic, a good part of that is PDP flows, which were actually better than what we anticipated at the beginning of the year because customers are current on PDP. So they really put their money where their mouth is.

Operator

Next question is from Mr. Doug Harned from Bernstein.

Doug Harned

The first question is I wanted to follow up on the previous question with respect to the finished inventory of airplanes. You talked about being at 100 at the beginning of the year, maybe a little bit less. But the gap that you've discussed before, it's hard for us to see how you are not having 135 to 140 spare planes today of inventory given that gap. So I just wanted to make sure we could get some clarity on where that gap stands.

And then second, one of the things that we've noticed has been with respect to China. Your deliveries to China in the last couple of months have been about half of what we've been seeing. And at the same time, orders from China still remain pretty much shutdown. What do you think with respect to China in terms of when your deliveries may pick up again there? And when might we see order flow start again?

Dominik Asam

So maybe I'll start on the delivery side. I think what you need to look at is really the full 9 months of the years to date. So we said we ended last year at least less than 100. If you just take the rate 40 for the first half and then increase it slightly for Q3, and you would take into account a couple of weeks of vacation shutdown in August, you come to about 34 single-aisle produced [indiscernible] single-aisle produced. I mean and we deliver 341.

So that's basically a little bit of a wash.

And then we were actually able to reduce the inventories on the wide-body. So that's I think where delta comes from, has been going down by around a dozen or so wide-bodies over the 9 months and this is how the statement comes together.

It's not super useful to look at it quarter-by-quarter because sometimes the aircraft is almost finished just ahead of the quarter. So I think it's more useful to look at the envelope of the 9 months. And there you can make the numbers work quite well.

Guillaume Faury

On the deliveries to China, we had last year, roughly 20% of our deliveries that went to China. And we anticipate we expect something rather similar for 2021.

So I don't see a significant change in nature. We have up and downs, depending on the situation in China and the willingness of our customers to come. We've had some challenges in September from that perspective. Now it's fair to say that we have not seen orders now for a long time, and we know that it's the same for our competitors. So the backlog of planes to be delivered to China is going down.

And you remember that I was expecting a significant change in 2021. We are coming close to the end of 2021, but there will be, at a point in time, a need for the Chinese airline industry to be back to OEMs and other planes to refill the backlog and make sure they can access to slots for the future because they will need it.

But this being said, you can see the positive momentum as well for what I said on the A321 this morning. We are in a process to convert all our production system into A321 because there is demand and there is also demand in China for that product. So I don't see a change in nature moving forward as far as the demand from China is impacting us.

Operator

We have one last question from Mr. Andrew Humphrey from Morgan Stanley.

Andrew Humphrey

Two if I may. On the subject of demand visibility, can you tell us whether you have delivery slots still available in 2023? And if so, quantify it?

And the second question is on production and supply chain and the visibility you have on that. I think, yes, I would interpret it as relatively reassuring that some of the issues you've had are not resulting from the tightness in prior lack of availability of materials, but from some internal issues and rework. Can you tell us, are those issues relating -- or are they sort of random issues? Or would you relate them to kind of any particular area of the business? I'm thinking of some of the issues you've had around ACF in the past.

Guillaume Faury

I'll start with the second part of the question where there's more to say probably. I just want to make sure I have not been misunderstood. You said rework linked to internal issues, actually that's not the case. The rework is linked to issues with on-time delivery of parts, of components, of quality escapes that needs to be managed. And this is mainly, if not entirely, coming from the supply chain.

Then it's creating a need for outstanding work and rework and working parties, but that's the consequence of supply chain issues impacting us.

We are, to be very specific on your question of ACF, we are no longer in the situation where the bottleneck is at Airbus, be it for design or production reasons. That's the situation today.

I hope it clarifies what you say. So it's more external issues impacting our internal operations and leading to delays, need for outstanding work and planes that have gone through the fall that need to be finalized, completed before they go to the delivery center and be delivered to customers.

The first question was on the open slots where I don't want to answer specifically by type, except

telling you that on the A320, we have no slots available in 2023.

Hélène Le Gorgeu

This closes our conference call for this time. If you have any further questions, please send an email to Philippe, Goesta or myself, and we will get back to you as soon as possible. Thank you, and I look forward to speaking to you again soon.