Q3 2023

1. Production rate stabilization
- **Narrative:** Boeing's management has articulated a clear trajectory for stabilizing and increasing production rates across its key aircraft lines, specifically the 737 and 787 programs. The aim is to transition to a production rate of 38 aircraft per month by year-end, with a longer-term goal of reaching 50 per month between 2025 and 2026. This strategic focus on rate stabilization is anticipated to leverage existing labor resources currently engaged with inventoried airplanes and ensure a gradual ramp-up in production efficiency and output.
- **Management's Guidance:**
- Boeing plans to complete the production transition to 38 aircraft per month by the end of the year, with an aim to reach 50 per month by the 2025-2026 timeframe. The 737 factory is expected to stabilize production at 38 per month and step up to 50 per month by 2025-2026. The production rate for 737s is projected to be at least 38 per month by the end of the year, with the potential to maintain this rate into the following year. The underlying production system is intended to stay at 38 per month, with further rate ramps to be described at a later stage.
- **Actual Results:**
['Q1', '2024']:
- Delivered 83 airplanes. On the 737, 67 airplanes were delivered in the first quarter.
['Q2', '2024']:
- The 737 program delivered 70 airplanes in the second quarter, including a meaningful step-up to 35 in June. Monthly production improvement from high single digits at the end of the first quarter to roughly 25 in June and July.
['Q4', '2023']:
- Today, we're producing 737s at a rate of 38 per month
['Q3', '2023']:
- We have kept our master schedule intact to get to that 38 a month.
- **Evaluation:**
- Expectations Met: Boeing successfully stabilized its production rate at 38 aircraft per month by the end of 2023, aligning with management's guidance and expectations for the 737 program.

2. Supply chain management
- **Narrative:** Management has indicated a proactive approach towards addressing supply chain challenges, with a focus on clearing existing inventory and setting a stable operational base for the coming years. The strategic initiatives aim to streamline operations and bolster supply chain resilience, ensuring smoother delivery timelines and enhancing overall efficiency.
- **Management's Guidance:**
- Management anticipates delivering most, if not all, of the current inventory by the end of the following year. This move is projected to establish a robust operational foundation for the years 2025 and 2026.
- **Actual Results:**
['Q2', '2024']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
['Q4', '2023']:
- Data Not Available
['Q1', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

3. Quality control improvements
- **Narrative:** Management emphasized the critical focus on resolving nonconformance issues promptly. This involves efficiently addressing the backlog of inventory aircraft, which saw a significant increase between the second and third quarters. The resolution of these quality control challenges is prioritized to streamline operations and enhance overall efficiency.
- **Management's Guidance:**
- Management is confident that the resolution of nonconformance issues will progress rapidly, with expectations to see significant improvements by the November-December timeframe.
- **Actual Results:**
['Q4', '2023']:
- We ended the quarter with approximately 60 airplanes in inventory, about 50 of which require rework.
['Q2', '2024']:
- On-site Boeing inspectors at Spirit increased by almost 3 times the number that we had before January, and defects we initially caught and reworked in Renton are now caught and reworked in Wichita. We ended the quarter with around 35 airplanes in inventory built prior to 2023 that required rework.
['Q3', '2023']:
- Data Not Available
['Q1', '2024']:
- Effective March 1, we moved inspection and rework teams to Wichita. Since then, we have only allowed fully-inspected fuselages to be shipped to Renton, which has dramatically reduced our non-conformances entering the Renton factory. We ended the quarter with about 60 airplanes in inventory, about 40 of which require rework. Full inspections being performed in Wichita.
- **Evaluation:**
- Expectations Not Met: Management anticipated substantial improvements in resolving nonconformance issues by November-December, but by the end of Q4 2023, a significant number of airplanes still required rework, indicating that the expected progress was not achieved.

4. Cash flow optimization

- **Narrative:** Management has reiterated their focus on optimizing cash flows as a critical component of their financial strategy. The company aims to maintain robust free cash flow generation despite fluctuations in delivery schedules and R&D expenses. Their disciplined growth model emphasizes high cash conversion and capital efficiency, which are expected to sustain mid-teen margins in the BGS segment.
- **Management's Guidance:**
- 1. Management targets achieving a free cash flow of $10 billion by the end of 2025. 2. Despite updated 737 delivery expectations, the free cash flow projection for 2023 remains between $3 billion and $5 billion, with a tendency towards the lower end of this range. 3. R&D expenses are expected to increase modestly over the next couple of years but are not anticipated to disrupt the free cash flow target. 4. Fourth-quarter deliveries and cash flow considerations are integrated into future outlooks.
- **Actual Results:**

['Q4', '2023']:

- Free cash flow for Q4 2023 was reported at $3.0 billion, which aligns with the lower end of the management's guidance range for 2023. This performance is consistent with the company's focus on cash flow optimization amid fluctuating delivery schedules and R&D expenses.

['Q2', '2024']:

- Free cash flow was a usage of $4.3 billion in the quarter.

['Q3', '2023']:

- In Q3 2023, Boeing reported a free cash flow usage of $310 million for the quarter. The BGS segment is currently generating mid-teen margins.

['Q1', '2024']:

- Operating cash flow was reported as ($318) million and free cash flow was ($786) million for the quarter. Cash flow usage was $3.9 billion, which was higher than the previous year. The company ended the quarter with $7.5 billion in cash and marketable securities, reflecting debt repayment activity and the use of free cash in the quarter.
- **Evaluation:**

- Expectations Met: The free cash flow for Q4 2023 was reported at $3.0 billion, which aligns with the lower end of management's guidance range for 2023, meeting expectations despite challenges in delivery schedules and increased R&D expenses.

5. Debt management strategy

- **Narrative:** Management emphasized their commitment to maintaining a strong liquidity position as part of their broader financial strategy. This involves proactive measures to manage the company's debt, underscoring a focus on reducing leverage in the near term.
- **Management's Guidance:**
- Management indicated that they plan to de-lever the balance sheet early next year, supported by their strong liquidity position.
- **Actual Results:**

['Q2', '2024']:

- On cash and marketable securities, we ended the quarter at $12.6 billion, reflecting the $10 billion issuance of new debt in May, partially offset by the use of free cash flow in the quarter. The debt balance increased to $57.9 billion, driven by the new debt issuance.

['Q3', '2023']:

- On debt, the balance remained flat at $52.3 billion. Consolidated Debt for Q3 2023: $13.8 billion, Q2 2023: $13.4 billion.

['Q1', '2024']:

- Retired $4.4B of maturing debt during the quarter. The debt balance decreased to $47.9 billion, as we paid down $4.4 billion of the $5 billion of maturities due this year.

['Q4', '2023']:

- On debt, balance remained flat at $52.3 billion.
- **Evaluation:**

- Expectations Not Met: Management aimed to de-lever the balance sheet early next year, but the debt balance increased to $57.9 billion by Q2 2024 due to new debt issuance, instead of reducing leverage as planned.

6. Revenue growth analysis

- **Narrative:** Management expressed confidence in reaching their financial goals for the 2025-2026 timeframe, which they describe as a period of stability. They highlighted a clear path towards achieving a $10 billion target within this timeframe, building on the performance observed year-to-date. Additionally, the company anticipates a return to positive margins in 2024, with expectations for double-digit margins by 2025-2026, consistent with historical performance levels.
- **Management's Guidance:**
- Management maintains their guidance range for the year and emphasizes their target of $10 billion by 2025 and 2026. Management anticipates positive margins in 2024, with a view towards achieving double-digit margins by 2025-2026, aligning with historical trends.
- **Actual Results:**

['Q2', '2024']:

- Revenue for Second Quarter 2024 was $19.8 billion, with a revenue change of (8.3)% compared to the previous quarter. The core operating margin was not positive, and the core loss per share was ($0.82). Free cash flow was $2.6 billion.

['Q3', '2023']:

- Q3 2023 Revenue was $18.1 billion, up 13% year-over-year.

['Q1', '2024']:

- Revenue for the first quarter of 2024 was $16.6 billion, which is down 8% from the previous year, primarily due to lower 737 delivery volume.

['Q4', '2023']:

- In Q4 2023, Boeing reported a revenue of $22 billion, reflecting a 10% year-over-year increase. The operating margin was just positive at 0.4%.
- **Evaluation:**

- Expectations Not Met: Despite maintaining a revenue increase in Q3 2023 and a slight positive margin in Q4 2023, actual results in Q2 2024 showed a significant revenue decrease and negative core operating margins, which indicates that Boeing is not on track to meet its financial goals for positive margins in 2024 and the $10 billion target by 2025-2026.

7. Cost management strategies

- **Narrative:** Management remains committed to their cost management strategies by maintaining their financial estimates within expected ranges and ensuring that key projects remain on track for completion. The focus is on achieving budget goals and completing major expense items by the stipulated timelines,

reflecting disciplined financial oversight.
- **Management's Guidance:**
- Management anticipates completing significant expense-related projects by the end of the year, with current estimates remaining around $3 billion. They also expect to conclude a $1 billion project within the current quarter and maintain a full-year tax expense of approximately $250 million.
- **Actual Results:**
['Q2', '2024']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
['Q4', '2023']:
- Data Not Available
['Q1', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

8. Commercial aircraft demand
- **Narrative:** Management has articulated a robust outlook for the commercial aircraft market, underpinned by expectations of significant delivery volumes in the coming year. This is part of a broader strategic emphasis on capturing a substantial share of the projected $10.7 trillion market value over the next decade across various sectors, including commercial aviation.
- **Management's Guidance:**
- Management expects to deliver between 400 and 450 commercial airplanes in 2024.
- **Actual Results:**
['Q4', '2023']:
- BCA booked 611 net orders in the quarter with 411 737s, including an order with Akasa; 98 777Xs, largely in Emirates order; and 83 787s. We have over 5,600 airplanes in backlog valued at $441 billion.
['Q1', '2024']:
- Data Not Available
['Q2', '2024']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

9. New aircraft models
- **Narrative:** Management is focused on advancing through critical phases of new aircraft development, with key milestones on the horizon for both defense and commercial projects. The emphasis is on de-risking and transitioning out of development phases, indicating a strategic push towards operational readiness and execution in the near future.
- **Management's Guidance:**
- For the VC-25B, significant progress is expected as the company moves through the build process, with major milestones like power on and first flight anticipated to be completed between 2025 and 2026, marking a de-risking of the program. The commercial crew program is preparing for a successful crewed flight test next year, aiming to achieve all operational launch commitments by the end of 2025-2026. The MQ-25 project is set to progress through key build and flight test milestones, transitioning out of the development phase by 2025-2026.
- **Actual Results:**
['Q1', '2024']:
- The program also delivered the first static test article to the Navy. T-7A testing aircraft completed climate lab testing in February.
['Q4', '2023']:
- Data Not Available
['Q2', '2024']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

10. R&D investment focus
- **Narrative:** Management has outlined a robust plan for substantial investment in research and development to drive future growth and innovation. This includes specific attention towards enhancing the capabilities of their 777X program, signaling a commitment to advancing their product offerings and maintaining competitiveness in the aerospace market.
- **Management's Guidance:**
- Management plans to invest $2 billion in R&D over the coming year and anticipates that R&D expenditures will slightly exceed initial expectations due to increased investments in the 777X program.
- **Actual Results:**
['Q1', '2024']:
- Data Not Available
['Q4', '2023']:
- Data Not Available
['Q2', '2024']:
- Data Not Available

['Q3', '2023']:
- In Q3 2023, it was reported that R&D expenditure at Boeing Commercial Airplanes (BCA) increased by approximately $150 million sequentially, indicating a spike in 777X R&D investment as part of the broader R&D efforts.
- **Evaluation:**
- Insufficient Info: Data not available.

11. 2030s product timeline
- **Narrative:** Management articulated a strategic focus on stabilizing the business and achieving significant financial milestones by the mid-2020s. This involves de-risking fixed price development contracts and accelerating recovery efforts to position the company for a stronger market presence going into the 2030s.
- **Management's Guidance:**
- Management anticipates that fixed price development contracts will be significantly de-risked by the 2025-2026 timeframe, which is essential for accelerating recovery. Furthermore, they are focused on achieving a $10 billion stability target within the same period.
- **Actual Results:**
['Q1', '2024']:
- Data Not Available
['Q4', '2023']:
- Data Not Available
['Q2', '2024']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

12. Defense sector contracts
- **Narrative:** Management highlighted the potential growth in the defense segment, driven by strategic initiatives and expansion in defense sector contracts. The focus remains on leveraging existing contracts and exploring new opportunities to bolster the company's presence in the defense market.
- **Management's Guidance:**
- Management anticipates a 5% increase in defense segment revenue next year.
- **Actual Results:**
['Q4', '2023']:
- BDS booked $8 billion in orders during the quarter, including the Lot 10 award from the U.S. Air Force for 15 KC-46A tankers.
['Q2', '2024']:
- Delivered the first CH-47F Block II Chinook to the U.S. Army
['Q3', '2023']:
- Data Not Available
['Q1', '2024']:
- BDS booked $9 billion in orders during the quarter, including awards for 17 P-8 aircraft for the Royal Canadian Air Force and the German Navy and securing the final F-18 new-build production contract from the US Navy.
- **Evaluation:**
- Expectations Exceeded: Management anticipated a 5% revenue increase in the defense segment, but the actual results showed substantial bookings, including significant awards like the Lot 10 from the U.S. Air Force and multiple large contracts in 2024, indicating performance beyond expectations.