Airbus SE (OTCPK:EADSY) Q1 2020 Earnings Conference Call April 29, 2020 2:15 AM ET

Company Participants

Thorsten Fischer - Head, IR
Guillaume Faury - CEO
Dominik Asam - CFO

Conference Call Participants

Ben Heelan - Bank of America
Olivier Brochet - Credit Suisse
Zafar Khan - Societe Generale
Doug Harned - Bernstein
Celine Fornaro - UBS
Andrew Humphrey - Morgan Stanley
Robert Stallard - Vertical Research Partners
Christophe Menard - Kepler Cheuvreux
Harry Breach - MainFirst
Carter Copeland - Melius Research

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Airbus Q1 2020 Results Release Conference Call. I am Amelia, the operator for this conference. Please note, that for the duration of the presentation all systems will be in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to your hosts Guillaume Faury, Dominik Asam and Thorsten Fischer.

Thorsten Fischer

Thank you, Amelia. Good morning, ladies and gentlemen. This is the Airbus Q1 2020 results release conference call. Guillaume Faury, our CEO, and Dominic Asam, our CFO, will be presenting our results and answering your questions. This call is planned to last around one hour. This includes Q&A which 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. A playback of this call will be accessible on the website, but there is no dedicated phone replay service. The supporting information package was emailed 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'll 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, Thorsten. And good morning ladies and gentlemen, welcome to our Q1 2020 results call. Thank you for joining us today. I hope that you, your families are doing well and remain safe in this difficult COVID-19 times. I will say that among the sectors that have been most affected by the Coronavirus pandemic, which is an unprecedented situation, in fact, as I said many times already now, all industry is now facing the greatest crisis in its history. This is particularly true for commercial aircraft.

Demand for air travel has collapsed amid the travel restrictions and the lockdowns put in place by the many countries around the world. Our customers, the airlines have reduced capacity, granted very large share of their fleet temporarily and are implementing measures to reduce cash spending. This also includes full review of their CapEx and pre-delivery payment schedules. Not all of this is yet fully visible in Q1 2020 [Technical Difficulty] that EUR281 million and free cash flow before M&A customer financing at minus EUR8 billion, including the payments of the penalties from the fine of EUR3.6 billion. Before the payments of the penalty, free cash flow before M&A customer financing is indeed at minus EUR4.4 billion, which is roughly at the level of Q1 2019.

After the solid, commercial and industrial performance at the beginning of the year, we have taken prudent steps to ensure the future of Airbus, to prepare as best as we can for a return to normal operations once the situation recovers. In Q1 2020, cancellations were at a reasonable level. But many customers are asking to defer the deliveries or are simply physically unable to take delivery of the aircrafts. We are adapting to this new reality as fast as possible to find the most adequate solutions. We are, I call it facing reality, we're taking a realistic approach to proactively manage our order book and to match production with our best understanding of these new demands and trying to best meet the customer expectations and commitments.

In our Watchtower process, we are constantly talking to airlines and Dassault to understand their different requirements and we're closely monitoring their own financial health and situation. We put particular focus on delivering aircraft which will industrially engage by leveraging the related pre-payments on hand. Based on our best assessment of the overall situation, we decided three weeks ago to adapt our commercial aircraft production rates; Don [ph] was by roughly one-third while protecting our ability to further adapt as the global market further evolves.

For us, the urgent priority is to implement a short-term cash containment plan. We are doing this and to address the longer-term cost structure to right-size the company. We're implementing a number of temporary social measures across sites in coordination with our social partners. We have rigorously prioritized our cap expense projects, R&D in our general cost structure in terms of business criticality and timing, resulting in a very significant reduction. With our strong balance sheets and the measures taken in March to further bolster our liquidity, we've protected our financial flexibility to adapt to the new environment and to ensure what I call the business continuity. We're also advocating support from governments to our airline customers, to the ecosystem and obviously, to our suppliers. We are still at an early stage of this crisis. So, we have to remain humble. The situation is still evolving and we are very carefully managing our ability to understand all the implications.

After withdrawing the 2020 guidance in March, we continue to assess the impact of the COVID-19 on our business. Given the limited visibility, in particular on the valuation equation, we do not issue a new guidance. In summary, our industry is a complex and interdependent ecosystem with many different paths, and we're doing our best to keep those craft synchronized in a COVID-19 environment, which is still evolving. We're in constant dialogue with our customers, partners, suppliers and the many stakeholders and we need and we will we'll navigate this crisis with them together.

Looking into our commercial aircraft environment in more detail; we start to see some signs of recovery in China, albeit at a very slow pace. Passenger capacity declined by minus 85% at the peak of the crisis in China in mid-February, compared to pre-COVID-19 situation, and recovered to a minus 60% in April. That's the latest data available I have in the latest market report, I yet now I expect [indiscernible] to be done by minus 48% year-on-year in 2020 and a decrease of passenger revenue by minus $314 billion versus 2019 levels. With leading companies continue to play a significant role in actively financing and remarketing aircraft, for most of them, their financials were robust before entering the COVID-19 situation with no repayment hours in the short-term.

ECA financing has been reopened last year and we expect demand for ECA support to increase this year. By the way, I want to thank the ECA, the EDC confirmed the continuous availability of support for the crisis and beyond. This is very helpful. Now, looking at Q1 orders in Airbus, after a good start to the year in January, the commercial dynamic changed as the COVID-19 situation developed. In Q1, we booked 356 gross orders. Net orders were at 290 aircraft and our backlog was at 7650 aircraft. We recorded 66 cancellations which represents a lower level than last year. On 220, on the

Airbus A220, we booked 42 planes, 42 net orders, and our backlog was at 529 aircraft. On the A320 family, 248 net orders were added and our backlog stood at a 6220 aircraft mark. This brings our market share in the singular segments in terms of backlog up from 58% to 60% over the last 12 months, with half of the game in the last quarter. Our A330 backlog amounted to 323 aircraft, after four cancellations. Moving to the A350. We booked 21 gross orders, including 10 more -900 for Air France and recorded 17 cancellations. Our backlog was at 569 aircraft.

Next slide, looking at helicopters; in Q1 2020, we booked 54 net orders versus 66 in Q1 2019. We concluded the Heli Expo 2020 with 38 orders, including 12 additional H145 for Metro Aviation. On the H145, we booked also an additional order for six H145 for the Ecuador Ministry of Defense, and we also secured an order for 15 UH-72, the Lacota, the military version of the 145 for the US Army. In addition, we booked two Super Puma for the Japanese Coast Guard. We expect the civil and parapublic to remain soft in 2020, particularly in oil and gas, mainly due to the very low oil prices, but we continue to see good prospects in military.

Finally, in defense and space, we booked orders of up to EUR1.7 billion, including contract wins in military across services, secure communications and telecommunication satellites and the Phase 1A of the FCAS project signed in February. Also, in defense and space, discussions are ongoing on contracts like German Eurofighter, batch 1 replacement and the Tornado succession. As always, the exact timing of contract is difficult to predict. However, in the current environment, we see a number of opportunities in the fields of defense with our European governments that are very important to us.

So now, I give the floor to you, Dominik, to guide us into more details and the financial data. Dominik, the floor is yours.

Dominik Asam

Thank you, Guillaume, and good morning ladies and gentlemen. I hope you're all well and remain safe.

Q1 2020 revenues were EUR10.6 billion down 15% versus Q1 2019. This reflects the difficult market environment impacting our commercial aircraft business, and we delivered 40 less aircraft year-on-year, partly offset by a better mix and the more favorable foreign exchange environment. Our EBIT adjusted was EUR281 million for the quarter, significantly down year-on-year, mainly driven by lower deliveries and associated costs, while we benefited from more favorable hedge rates. Helicopters recorded a good performance in Q1, but defense and space remains impacted by lower business performance.

Our earnings per share adjusted stands at EUR0.23 per share, using an average of 782 million shares. Our free cash flow before M&A and customer financing was minus EUR8 billion. It includes the payment of the EUR3.6 billion of penalties in Q1. Despite lower deliveries and the significant inventory build, we managed to maintain a free cash flow before the penalties at about the same level as in the first quarter of last year. Q1 2020 EBIT reported was EUR79 million. The level of EBIT adjustment was around a net negative of EUR200 million and includes the following elements, minus EUR33 million related to the A380 program cost, minus EUR134 million of negative impact from foreign exchange mismatch and balance sheet revaluation, EUR35 million of other costs including compliance costs. EPS reported includes minus EUR477 million of financial result. It reflects a net minus EUR245 million related to Dassault Aviation.

Also, on March 27th, OneWeb filed Chapter 11 bankruptcy proceedings. Consequently, the related loan was fully impaired with an impact of minus EUR136 million in financial results. The tax rate on the core business is around 27%. The effective tax rate on net income is negative 24%, impacted by impairments and certain tax jurisdictions and uncertain investments, as well as updated tax risks. The resulting net income is minus EUR481 million with loss per share recorded of EUR0.61.

Now, on to our hedging activities; our total hedging portfolio in US dollar stands at $95 billion with an average hedge rate of 1.23. In Q1 2020, $5.1 billion of hedges matured at a rate of 1.19. We also implemented $2.1 billion or forwards and finalized the restructuring of our colors portfolio by converting them into forwards resulting in a positive impact on the 2020 and 2021 hedge rates. We adjusted the phasing of our hedges to reflect the situation as of March 31. We rolled $1.8 billion of hedges out of Q1 2020, and $0.8 billion were rolled out of 2020. We will continue to adjust our portfolio based on the recent developments, especially COVID-19 to reflect the evolution of our deliveries going forward, which in particular means no implementation of further hedges for the time being but rolling existing ones to different delivery dates.

Our growth cash flow from operations of point EUR0.3 billion reflects our EBIT adjusted. We paid the penalties of EUR3.6 billion in Q1 2020. The significant inventory built up weighed on working capital, as it includes around 60 aircrafts that could not be delivered. A400M continued to weigh on our free cash flow before M&A, but less so than in 2019. At around EUR0.5 billion, CapEx was stable versus Q1 2019. We have scrutinized our fiscal year 2020 CapEx and decided to cut it by about EUR700 million. So we're now expecting around EUR1.9 billion.

Free cash flow reported was minus EUR8 billion. Customer financing contributed approximately EUR30 million while M&A activities accounted for minus EUR0.5 billion, mainly related to the acquisition of remaining interests in ACLP from Bombardier.

Given the current environment, we announced measures to protect our financial liquidity and continue to fund our operations by securing a new credit line amounting to EUR15 billion, withdrawing our initial dividend proposal and suspending the voluntary top-up funding in pensions. In addition, we issued a EUR2.5 billion bond partially terming out the EUR15 billion credit facility. The transaction settled on April 7, so cash proceeds will be accounted for in the Q2 2020.

In the coming quarters, we will continue to focus on cash preservation and we'll be reducing cash outflows with the aim of stopping the net cash consumption by Q4. Besides CapEx cuts, the activated measures include the deferral and suspension of activities which are not critical to business continuity, and to meeting our customer and compliance commitment.

With that, back to Guillaume.

Guillaume Faury

Thank you, Dominik. Now, on to commercial aircraft and looking forward - first, let me remind you that the activities related to innovation and digital transformation, formerly reported in Transversal are now included in Airbus under the new segment structure. So we have three businesses; they are reported in R&D and there is no impact obviously on Airbus revenues.

On the overall results in Q1, we delivered 122 aircraft to 49 customers. That's a decrease of 40 aircraft year-on-year. Actually, industrially, we made good progress. But we ended the quarter with around 60 plus aircrafts that we could not deliver as many customers asking or were asking to defer deliveries or we're physically unable to take delivery of the aircrafts. Where do we stand on each of our programs? And probably starting with 220, we delivered in Q1 eight aircraft to three different customers. On the 320, we delivered 96 aircrafts, of which 91 were Neos. In Q1 we continued with the ACF ramp-ups and we further improved industrial.

Moving to the wide body, we delivered around 18 aircraft of which 14 A350s and 4 A330s. We also delivered the first A350-900 to Aeroflot. As previously announced, we are now adjusting our production rates down to rate 40 for the A320 family, 2 for the A330, and 6 for the A350. This represents a reduction of roughly one-third compared to our pre-crisis average prediction rates. On the 220, the FAL in Mirabel is expected to progressively return to the rate 4 where we were before COVID and the new FAL in Mobile is targeted to open in May as planned.

Now, let's look at the Airbus financials. Revenues mainly reflect the lower deliveries with the 40 aircraft less year-on-year of which 30 A320 aircraft and 8 350s. EBIT adjusted also mainly reflects these lower deliveries and associated costs, partially offset by

Forex. Looking at helicopters in Q1 2020, we delivered 47 in total. It's a similar level to the First Quarter of 2019.

Revenues in EBIT adjusted reflect a favorable delivery mix and returns on growth in services. In Defense and Space, revenues were table, year-on-year, the EBIT adjusted reflects the lower business performance, particularly in space as already said, for the A400M, one aircraft was delivered in Q1 2020. And due to the severity of the coronavirus pandemic, we're assessing the incremental impact on our business and we'd adjust the restructuring plan that we had started previously. We would adjust it to the new situation at Defense and Space also.

So, now, what are our key priorities? Overall addition was, is, and will remain a long-term business and after the crisis, I am convinced - we are convinced people will want to still need to fly. We also remain convinced that we have the right product portfolio to maintain our lead position in the current context, if not reinforce our position. Our strong A320 competitive position in the single-aisle market, including the XLR that we are maintaining, we keep developing the XLR and at good speed is of particular importance since we expect these segments to recover ahead of the wide body market.

We're implementing a number of measures to ensure the future of Airbus - future of the company. Our urgent priority is to reduce the spending to the right level that ensures business continuity and preserves our ability to meet customer demand. We're also addressing our more longer term cost structure to right size the business while protecting our ability to stay a giant and further adapt as the global market keeps evolving. We will keep monitoring the evolution of the demands and managing our order book in a very productive way. We'd continue to work with our customers to honor our commitments and secure delivery of aircraft. Obviously, we're also monitoring the financial health of our ecosystem, the airlines, but also our suppliers. And we are implementing the recently announced new production rates and aligning this with all our supply chain. That's as you can imagine a very complex and important work that is ongoing.

All in all, we are doing our very best to synchronize sometimes resynchronize the ecosystem, synchronize with all stakeholders as we navigate this crisis and as I said, it's - we will manage that together. Before concluding, I want to remind that we are strictly complying with all health and safety requirements even with sometimes changing requirements. And while we are doing all the rest as I previously explained, health and safety comes first. So as we face this unprecedented situation, we stay focused on our resilience as a company and also as an industry to ensure that we can return to so called normal operations after the crisis in a strong position once the situation improves again, because if the current situation will recover and improve again later.

Now we will take your questions. Thank you.

Question-and-Answer Session

A -Thorsten Fischer

We now start our Q&A time, please introduce yourself and your company when asking a question. Please limit yourself to two questions at a time, this includes sub-questions. Also as usual, please remember to speak clearly and slowly in order to help all participants, particular ourselves to understand your questions. So, Aurelia, go ahead and explain the procedure for the participants.

Operator

We will now begin the question-and answer session. [Operator Instructions] The first question we received from Ben Heelan, Bank of America. Your line is now open, please go on.

Ben Heelan

Morning, everybody. Thank you for taking my question. And hope you guys are all well. My first question is on supply chain. Could you talk a little bit about which areas of the supply chain you're currently seeing as most at risk and how can you add a step in and when necessary support some of those suppliers that are facing stress at the moment? And then my second question, again, you highlighted in your remarks that there was 60 aircraft that you didn't deliver at the end of Q1. I'm assuming that deliveries in Q2 are going to be quite a way below where the newly announced production rates are. How high do you see that undelivered aircraft number going before you have to consider lowering production rates again? Thank you.

Guillaume Faury

Yes, thank you. Good morning. So on the supply chain, where are the risks? Well, basically they are everywhere. Where are the most urgent risks? These risks are on the suppliers that entered into the crisis in a weak position. And we are first looking at those ones. Actually, we have a bit of time as the suppliers keep being paid as they deliver what was ordered under the payment terms. But obviously later on in Q2, we will see a big drop in the cash flows that will go to the suppliers and this is the moment where the situation will become more crucial. So we have sort of two or three months to organize ourselves. And we have conducted very important work with the National Associations, to organize ourselves and be able to proactively speak with suppliers - organize support when necessary. But we are just at the very beginning of the process.

Suppliers that were already impacted by the 737 MAX grounding and then stop of production, obviously higher on our radar screen as they entered into this new crisis, with already major difficulties. But there are a couple of few others that were for other reasons - for wrong purpose reasons sometimes. In difficulties, that's a bit cynical, but that's the way it is. So as I said before, we are very proactively looking at it. We're looking at their ability to deliver as well as their financial situation. And it's more of a one-by-one, a case-by-case approach that has to pay off later.

On the number of planes which are produced but not delivered, yes, we were at 60 plus end of Q1. Deliveries in Q2 will remain very low - will be very low as we are at the meet of the crisis itself and the bans and it's very difficult for customers to come and take deliveries. We were as well slow down by the measures that impacted offsets in the supply chain. So if we continue to go up before it goes down, I would say the scheme is probably that it will start to go down in Q3 and there are two effects. We anticipate that customers will be able to come more easily and probably in larger numbers to pick their planes. But as well, we will see the first effect of our Ramadan of adaptation in terms of production. So that's probably somewhere in Q3 that we would see the peak in terms of planes produced not delivered. At least I have to say this is very prudently my guess as of today, and as you can imagine, we are running different scenarios to be able to be robust and adjust to different realities. It's still a very dynamic feature.

Ben Heelan

Okay, great. Thank you.

Operator

The next question is from [indiscernible]. Your line is now open, please go ahead.

Unidentified Analyst

Good morning, everyone. Thanks for taking my question, I hope you're all safe and safe for your family. So sorry, the [indiscernible]. The first question is on the net impact that we should expect from the pullback of deliveries this year. You provided us in the past indication about the rough level of EBIT we should expect from delivering additional A320s. When we look at the drop in deliveries that is upcoming, given the fact that you're probably going to have a higher negative leverage but you're also going to work on your cost structure, you're going to get rid of penalties for delivery delays, how should we consider the negative leverage? Do you think it should be in the same order of magnitude, higher, much higher? Any qualitative comments would be useful on that front. And the second is on the negotiation that you have with airlines, can you give us a feel for what is a share of the backlog for which we have completed at this stage negotiation with airlines and what's the philosophy of these talks or the mood of these talks with airlines right now? Thank you.

Guillaume Faury

So, as you rolled, I will make the end easy [ph]. I will hand over to Dominik for the more difficult one. My easy answer to the first question is we have withdrawn the guidance. And the reason we have withdrawn the guidance is because of the many uncertainties in the very dynamic and changing picture and we are not at that point in time, in a situation to indicate where we think, we would most likely launch by the end of the year. That was the easy answer. Dominik, do you want to try to give a bit of color?

Dominik Asam

I can just reiterate what we have discussed in previous discussions on the sensitivity. I mean, we said it's kind of mid-teens type of fall through from each delivery we are missing. However, you're right, in the current environment that is more kind of a normalized contribution margin or gross margin number. We also stranded with some fixed cost, which we cannot get rid of so quickly, so fall through is, if anything higher to the downside, then if we are kind of in the planned manner ramp-up.

Guillaume Faury

In other words, all nature of cost are now being reviewed. The classical approach, the fixed cost and variable cost is very challenged and on top, the speed of evolution of the different cost of nature- natures, of course, sorry, it's not the same, so it's really harder, complex and a picture with a lot of moving parts, but I don't want to hide behind complexity. We are here lining and now I come to the second part of the question as well. As soon as we will have something that this study line, that is likely, that we can share, we try to share. But this is obviously not the case. I was commenting earlier today that we're still May-June, in the phase where we are having those very detailed negotiations. Sometimes, we have temporary agreements for the short-term; we are more discussing on the bigger, on the larger frame of the contract. Sometimes, we have a lot of difficulties to come to conclusion with airlines, which are themselves negotiating their own bailout or support plan or looking for financing. Sometimes, we have already formed some agreements with airlines or some are just willing to- it's a small number and some are just willing to keep executing the contract as before. So, it's very difficult to give a novel hedged answer to your question, as the overhedged would represent a huge diversity of situations, which are first, very different, and second, still moving and changing. We think- I mean, our goal is to have sort of completed a new stability to define a new world by June and that's why, as well, we have indicated that we could re-adjust a second time, our production rates June- June-ish, I would say. At the time where we will have a more granular picture, it should not change significantly compared to what we are going to hedge on but it could change slightly. At least this is prudently the way I see it today and this is all I can share, I think, with- being as transparent as possible, but also recognizing that this is a time of huge change and many, many things are changing at the same time. So, it's not easy to give an outlook for the future, as we have so many moving parts.

Unidentified Analyst

Thank you, sir. That's very helpful and good luck.

Guillaume Faury

Thank you. We need some.

Operator

The next question is from Olivier Brochet from Credit Suisse. Your line is now open, please go ahead.

Olivier Brochet

Yes, thank you and good morning, Guillaume, Dominik, Thorsten. Thanks for taking the question. Hope you're well. Olivier Brochet with Credit Suisse. We have two, the first one is on non-current PDPs. If you could help us understand a bit the turn of conversations you have with airlines and lessors about this, anything you can provide that will help us understand how the trend, the momentum is, if it is changing. And the second question is a bit more- it's a longer-term, at this stage, what do you think is the biggest strategic threat that you have in particular in balance of competition with your- I would say your unforeseeable Chinese competitor? Thank you.

Guillaume Faury

I'll take it on the negotiation with our customers, our airlines, our lessors and on the particular point of PDPs, or PDPs and deliveries, there is contractual frame that gives some boundaries and rights to Airbus, but as I said earlier, it's also a crisis that we have to navigate together because there will be a tomorrow and we are actively trying to find the best balance between enforcing our rights and still be able to navigate today, next month, next quarter, next year. Each situation of each airline is very different. As soon as they have managed to find a way to go through the crisis, to ensure their own financing, the discussions are easier when they are in the very short-term of extreme cash drain pressure. Obviously, as you can imagine, it's more difficult and they're focusing first on their short-term survival. So, huge diversity of situation, we're expecting the lessors to fully play their role in this current situation. They entered into the crisis in a good shape and therefore, we count on them to be a very strong shock absorber and help navigate the liquidity situation that we see in the industry. So, we are enforcing our rights, but we are behaving as well as we can as partners, not endangering our own situation, being very strong when it comes to protecting ourselves, but in a collaborative way. It's difficult, I have to say. What is the biggest strategic threat, well, basically, I think what we are focusing on is our ability to adapt to that situation, to rebalance cash-in, cash-outs and ensure that we will be, again at a later stage, stabilized and then creating a positive free cash flows, so when the things start to do better or accelerating, it might be the case, it will be the case at a given point in time, we can put full throttle and be as fast as possible. Because I think the race we start again, after the phase where we have to protect and to weather the storm, that will be probably a better weather, good times and here we want to be very fast, very agile, we want to be able to further invest, move on our products and I think this is the biggest threat. The threat is to be stuck beyond the first month of the crisis, not to be able to compete again. We are doing everything we can to be in the best shape for competing again later. We think we have the right products, we have a lot of ideas on what we could do better, we have ambition for this industry. We think the environment decarbonization, need for flight will be as before. We'll keep investing in the right products, you know, that we have said very clearly, we'll keep up developing the XLR and we think this will be a very, very competitive playing for the post-COVID-19 situation. So, we are a bit schizophrenic, I think in English is- short-term very prudent, but to be able to be mid-term, long-term again very aggressive and very ambitious innovating and investing and that's the complexity of the situation. I tried to give a bit of cut-off on the difference between what we see short-term issues and more mid-term, long-term, I am and we are fundamentally convinced that the need and the willingness to fly will be back after this confinement and this very painful COVID-19 loss of freedom.

Olivier Brochet

Thank you very much.

Operator

The next question is from Zafar Khan, Societe Generale. Your line is now open. Please go ahead.

Zafar Khan

Thank you very much. Zafar Khan, Societe Generale. Good morning, everyone. Hope everyone is well and safe. I have two questions, please. The first one is just on phasing of deliveries this production. Now, given at the start of the year you were targeting 880 deliveries for this year, I guess, there'll be a lot of in-production aircraft at the moment.

So, how does the new production rates phase in and how does that tie-up with the deliveries for this year? Because, we've talked about production for this year, we haven't really said much about deliveries. And the second question is, you mentioned that you need to adapt the cost structure to right size the business, given the great uncertainty at the moment, what term assumptions will be underlying the restructuring that you will be doing, how do you look at the future and then, set the right cost base?

Guillaume Faury

All very important questions. Thank you. Hope you're safe too. Thank you for your comment at the beginning and we are okay on that end. Yes, we had a guidance for 880 deliveries. We delivered 122 in Q1. We have 60 produced not delivered. We have decided not to give a guidance for the Euro or to withdraw the guidance because the most difficult part to predict today are the deliveries and this is the result of the so-called very granular work called airline by airline, plane by plane and very often at the top level of the company that we are currently conducting. It's not over. We have some short-term agreements with the majority of the airlines but we need to find more mid-term. When I say mid-term, I mean at least 2020, 2021. This is what we are looking at with the airlines and we think we should be at restabilized somewhere in June. When I say stabilized, I think better visibility. It's better visibility not only for 2020 and here I go to the second part of your question but also for the shape of the recovery. All the bottom activities that we are conducting with airlines and the modeling, the simulations and the data we are collecting and computing are telling us that the single line is very likely to recover faster than the wide bodies but depending on the data, on the assumptions we put in the models and also I think this moving discussion with customers. It's very difficult to say today when the recovery will take place and what will be the pace of recovery. That's why we keep working. We want to do cost adaptation to the so-called resizing of the business as in gaining more visibility than we have today to be as appropriate, as adequate as possible. There is obviously a balance between the short-term and the mid-term. As we said before, we think it's very likely that there will be a recovery. There will be another ramp up after this phase of going down. The second romp up could be very aggressive on the single line so we have to keep this in mind, but this will not prevent us from doing the right things in the short-term because we think it's absolutely essential to hear that our cash out to the real cash in and to regain this profitability, this ability to reinvest and to restart competition basically and being a performing company. That's a non-answer or it's a way to tell you that we are not yet at the point where we know where we want to be in terms of mid-term or long-term resizing. We are very aggressively adapting to the short-term and very comprehensively assessing what is the most likely new scenario of aviation for the next year.

Zafar Khan

That's very helpful. Thank you.

Operator

The next question is from Doug Harned, Bernstein. Your line is now open. Please go ahead.

Doug Harned

Good morning. Thank you. During past downturns, Airbus had said that its use of temporary workers and contractors gave the company flexibility to scale back operations. Back then it was around 20% of the workforce was what was discussed although, it was never really needed like today. The first question, when you look at the furloughs of workers, you're talking about the use of temporary workers, how much of a reduction in workforce can be done and in what timing can that be done and when would we see the impact? Would be the first question. Then second as airlines look to get cash, get finance progress payments and deliveries as you've talked about, I know you're working with lessors, but can you talk about if you're seeing the ECAs actually in process now to address these problems? Then with Airbus consider doing some of this financing itself if needed?

Dominik Asam

Okay. So, two questions. On the temps and on the furloughs [indiscernible] we are a little bit less in some of our home nations that we have this supports mechanisms from government because indeed they allow us to resize very, very quickly. Depending on the country, also for relatively long periods of time and as Guillaume has already indicated, we are going to extensively use these schemes to reduce the cost base. I mean, if you think about the new production rates, they about a third down and at least on the remain to do for the year, that's the kind of target to rebalance and bring the cost out. On the funding of our customers, the ECAs are indeed very helpful and we are starting to reengage in much more intensive dialogs with them. They have been crowded out a little bit by the lessor markets. We had only 2%, I think in deliveries in the prior years with ECAs and we think it will be a super important tool going forward and we are very encouraged by the signals we get from our home nations in terms of supporting us in this very difficult journey. Now working on the first situations with customers where we try to leverage these tools.

Doug Harned

Will Airbus consider doing financing itself in some cases?

Dominik Asam

Well, this is really a means of last resort. As we said, while we are well-protected, we believe, given the cash flow profile we foresee and given liquidity resources we have it doesn't mean that we can support the entire ecosystem. So if, of course, there is a special situation, I would not rule it out but it should remain an exception.

Doug Harned

Okay, thank you.

Operator

The next question is from Celine Fornaro, UBS. Your line is now open. Please go ahead.

Celine Fornaro

Good morning, gentlemen. Thank you for taking my question and I hope you are all well as your families. So I would have two questions if I may. The first one is Guillaume to just come back on your comments regarding the medium-term demand for aviation. We've got Southwest CEO yesterday saying that it probably takes five years for business travel to recover from a crisis. I was wondering if you see anything that is probably more structural that would limit the air traffic growth and that we wouldn't have these 15 years doubling that we had for the last two to three decades. So something to do with environment competition and other things. My second question would be regarding the Chinese deliveries. I remember early April you alluded to the fact that potentially we could have or envisage deliveries restarting China during Q2. I was just wondering where we are on those? Thank you.

Guillaume Faury

Thank you, Celine. Hope you're doing well too. On the near-term demand where it's a bit the crystal ball we are all working on that. When we look at the very long-term, we all believe nothing basically has changed with COVID-19 but the long-term three to five years, it's more difficult. That's really the difficult part of the equation. What are the what you call the structural factors that could change the picture we had before COVID-19 where it's potentially change in the willingness to fly because of the wake of the crisis. I think before three - after three to five years it's probably back to where it was before we saw similar situations with steroids in 2001. People were back to flight faster than what we thought. We had the [indiscernible]. It was a bit the same reacceleration after the crisis but each crisis is different so we have to remain very prudent. It could be as well the economic downturn impact. It's going to be a worldwide economic crisis as well, not on your health crisis and we don't know how long it's going to take. Our assessment for the single line is not that gloomy but we are very prudent. As I said before, we think we are not at the end of the assessment with the airlines. On the wide-body, we think it is going to take more time and scenarios of full recovery of the COVID-19 is probably between 2023 to 2025 but its work ongoing. There is a lot of studies produced by a lot of different players. That's a moving picture. I think, we would be wrong to try to be right too early. We are still at the very center of the health crisis and the rest is a bit too much speculation. And China, yes, the situation is recovering in China and we'll see deliveries in Q2 in China.

Celine Fornaro

Thank you.

Operator

The next question is from Andrew Humphrey, Morgan Stanley. Your line is now open. Please go ahead.

Andrew Humphrey

Hi, thank you very much for taking my questions, and hope you're all well. Just a couple of things, if I may. One is on the clear commentary you've given around wanting to balance cash in with cash out; which I think clearly implies a reluctance to build a significant amount of inventory during the year. It was clearly a range of expectations out there in terms of deliveries at the moment. You've highlighted that any further adjustments in production might be small from the levels that you've indicated. So, while clearly, you've said it's very hard to give guidance on deliveries for the full year; should we take those revised production rates as indicating that at least the midpoint of a wide range for where you believe deliveries could be for the full year?

And then the second and related point is, I think your approach in terms of limiting inventory build is clearly very prudent. And you obviously have a situation particularly on single hand where your main competitor has built a lot of inventory over the last year or so as a result of the next grounding; can you talk about how you are working with customers to mitigate the potential - sorry, to defend the long-term profitability of your core business when you can see this crude oil is kind of quite problematic to this in terms of broader industry inventory build, which clearly is not appropriate for the current situation the industry finds itself in?

Guillaume Faury

Yes, you'll take it?

Dominik Asam

I have a - go at the kind of cash phasing question, and then the deliveries; I think I can only reiterate that the heart of thing to predict is the deliveries. And the way we think about the cash phasing, is the following; I mean we started with about EUR4.4 billion in Q1 negative and you've seen that the vast majority of that was basically related to the 60 aircraft inventory builds. So we see that we are not burning much cash to speak off at these type of delivery rates of 122; and don't forget the seasonality we have where it's more difficult in Q1 anyhow. Now, the June quarter will be the toughest one because as an Guillaume hinted too, it's probably in terms of deliveries, the toughest and most difficult one to talk of and the measures we are currently taking on the supply chain have a certain kind of latency, and they really give us - the relief under sourcing more in Q3. And this is why we think and we'll flip back in Q3 even if the deliveries are not snapping back massively, the cash should improve significantly and then, towards the end of the year, that's the big question mark. Are we then going to kind of languish on a low level and then become cash flow breakeven, which is really even in the lower depressed scenario possible we believe with all the measures we are contemplating? Or do we see a certain snapback back in deliveries and that will then give us a higher number, so the question you ask is really the crystal ball question and how much inventory will we have at the end of the year at these production rates and we cannot tell you, because then we would need to know the deliveries. However, if we see that there is too much inventory piling up, then as Guillaume hinted, we would need to adjust the production rate, maybe at the earliest than the June timeframe.

Guillaume Faury

On the long term - on the long-term aspect you alluded to, but we think our capacity to compete and be strong on the long-term is intact, if not improved as the impact of COVID-19 on our main competitor on top of the previous difficult situation, they had to manage is probably making us stronger. So, I want to remain very prudent on this and always very humble when it comes to competition. We are - we tend to underestimate the ability of the other guys, but I think our product range is the right one for going out of the crisis we have the 220. I mean we see - we see a tenancy to go for smaller planes what they call smaller modules in the airlines, a bit smaller modules compared to pre-COVID, that's one of the few trends we could see. And the 220 and the 321 and the XLR to go long range and the 350 are particularly good playing. So I think we really have the ability to keep competing and as we told you already, we think we are doing the right things to be able to go through the crisis and not jeopardizing our main projects to compete against.

So, I mean I'm very prudent on the short term, we want to do all the right things to have no regrets and not react too late too small, but on the other hand, we are as we well looking at the future very positively, we strongly believe in this industry, even in this big downturn.

Andrew Humphrey

Thank you very much.

Operator

The next question is from Robert Stallard, Vertical Research. Your line is now open. Please go ahead.

Robert Stallard

Thanks so much. Good morning. Just a couple from me. First of all, Guillaume, obviously there's a huge number of parked aircraft at the moment. How many of these parked aircraft do you think will be coming back into active service? And then, secondly in terms of research and development, what are your priorities going to be going forward from here? Thank you.

Guillaume Faury

Okay. I mean, parked aircraft, I suppose you're referring to the ones of the global industry of the airlines. Well, yes, it's really massive. We see a clear trend for the airlines which as either secured the right liquidity and thing that we managed to go through the crisis, all our state sponsored are already in good shape when entering into the crisis. The discussions we're having with them clearly show that they are weak in the state of mind, I was sharing with you before for Airbus, which is doing the right things, on the short-term survive but compete again and the competition they clearly put environments at the top of their priority, I think most of the airlines have understood, this is a must for the year, the rest of the 21st century at least and the crisis is potentially an opportunity to accelerate the transformation of the fleet or reduction of the CO2 footprint airplane and therefore there are two competing trends, the most forward looking airlines which want to add new planes, modern equipments, low emission planes, low fuel burn and we'll go very much accelerating on that path and that's good for us and maybe some others which are parking planes and we'll use them back in service minimizing their cash investment, their CapEx when they will have to do so, and obviously this will be a bit of a different competitive landscape, but I think there is space and there will be even more space moving forward for new technologies.

So we have this competing trends and that's why it's so difficult for us to assess the market for new aircraft moving forward obviously, as this is going in opposite directions for us. But I'm quite encouraged by the discussion we are having at the moment. R&D,

well I made it clear environment, so it's all the decarbonization of the aviation, I think there is still a huge potential for flight for human beings, if we manage that side of the equation and we are working on it big time, and we will keep doing it. I explained that we are short-term [indiscernible] and slowing down for cash purposes, but as soon as we have more visibility and room to invest again, will be back and probably with more speed on some of the projects.

We keep working and we keep believing in automation and robotization of production in the full 3D design of the product and the production system and on digital big time. We think the connected plane artificial intelligence and data before it goes into playing themselves and the digital native plane that is in my view the next generation of plane, these are the priorities that remain or even reinforced by the crisis and there is probably a new topic on the agenda or a topic that is of a higher importance itself on board as cost manufacture and we have worked very heavily on those topics in the past, was not too much known by the public people, we are more focusing on safety and later on security, more than on health. We have prepared, but this will probably be a more important topic, moving forward after this COVID-19 worldwide scar I would say.

Robert Stallard

That's great, thank you very much.

Operator

The next question is from Christophe Menard, Kepler Cheuvreux. Your line is now open. Please go ahead.

Christophe Menard

Yes, good morning. I have two questions. Thank you for taking the question. The first one is on the ability to recover and in terms of, you mentioned the fact that you need to right size the organization when demand actually recovers especially single-aisle, what kind of ramp-up, could you - could we expect, I mean, in the past where you had lead times of 12 to 18 months and what is - what do you have in mind when actually demand recovers? Second question is more long-term. Embraer-Boeing, the deal has collapsed. Do you think that could change the kind of competitive position or the competitive landscape in the future, because I would expect that Embraer would probably seek other potential partners, what is your view on the situation at the moment?

Guillaume Faury

Well, ramp-up and especially ramp-up of the single-aisle, so we are going down from 60 - down from 60 to 40-ish that's easier to run down industrially speaking than it is to ramp up. Financially speaking, we know that for suppliers and for us, it's very difficult and this is what we are managing now. The discussions we're having with customers and the assessment of the forward-looking demand, clearly make us believe that there will be a ramp up again. And the question is when - and the question is when and at what pace? So your question is a very valid one. I see two different questions for us. The first one is from 40 to 60, it's going to back to 60. We know the industrial systems are able, have demonstrated the 60 and we have even demonstrated in the last six months that we are now coping with the complexity of the 321 of ACF, all of this has finally been digested. So what we want to preserve in the next month, is the ability to be back to 60, not too slowly, if the demand comes back, and we think it will come back.

Then there is the rate beyond 60. As you have probably heard or seen, we have decided to pause the investment we had on the new A321 final assembly line in Toulouse. We have not canceled the investment we have just paused and we will recover at a later stage. So, we keep having in mind that the mid-term demand could be higher could justify more than 60 and - but we are not investing today for that and we would restart investments, when we have a clear picture.

In other terms, I think the recovery from 40 to 60, could be rather quick or probably a bit quicker than what we have done in previous years to go up to 60 because we are prepared. The capacity of the industrial system has been in place. We are working with offsets and suppliers to make sure it's not damaged or not too much damage, so, we can recover. Beyond 60, it's another story and we would need to have a much clearer assessment and if we really flow to the other side of the river, before we restart to invest big time on production rates, we are not yet there. We think the products would deserve it, we think the family of the 320 including the XLR, we'll be very successful family for the decade to come, but we would be wrong to be right too early, okay. And while I bring - well, what to say, in a crisis like this, there are collateral damages; I think this is a collateral damage for our competitors and therefore, I would see it more positively for us. Now, we see that we have our own challenges. I think the 220 was, is and will remain a very strong product, we are very committed to it. I think it's very adapted to the post-crisis post COVID-19 crisis and I am very happy that we made this investment two years ago that we reinforced our position; it cost money, and currently we know that it's an investments, but I think it's a very valuable and adequate investment for the future. That's a very good plane, and it's a very good program under right point in time for Airbus.

Christophe Menard

Thank you very much.

Operator

And the next question is from Harry Breach, MainFirst. Your line is now open. Please go ahead.

Harry Breach

Yes. Good morning, Guillaume and Dominik. Thank you for taking my question and wish everyone with you in the Airbus team good health or return to it. I had just two questions; maybe one for Guillaume, and one for Dominik. Dominik, maybe, firstly; you spoke earlier about matching cash-in and cash-out, you spoke about the crystal ball challenge of forecasting inventory and deliveries later in the year. I guess, the other important side of cash-in is PDP flows, and I know when we spoke back in late March, you know, there was a point where you said the vast majority is still paying and then there were fewer. Can you possibly give us some feeling about PDP flows, whether it's sort of what's being made on-schedule or some metric about what you'd expect, just so we can have some way to think in our models about PDPs?

And then maybe just for Guillaume, you - Guillaume, again, coming back to what you have said to us in March about 737 MAX customers and potentially, the interest of some MAX customers in diversifying their single-aisle fleets, particularly as we come up to 12 month anniversaries of the grounding. Can you share with us sort of any thoughts about the level of interest you're seeing? Has it gone away, perhaps from these MAX customers; can you share with us how you're thinking about them?

Dominik Asam

So, talking on the cash-in, cash-out; I mean you're right, the PDPs besides the POD is our key component of the cash-in. But I don't want to go beyond what Guillaume explained in terms of individual customer discussions. What I want to say is that we're looking into Q4 and want to bring the cash-out to a level where we can cope with even very pessimistic cash-in scenarios; that's the kind of idea to really look for kind of rock-bottom idea; you never know where rock-bottom really is but in terms of everything we can see today, every customer dialog we have, if we look at both the POD we can expect and the PDPs we can expect, and then try to resize the cost base. And the key question is, of course the rates, if the deliveries would suffer more we would need to potentially adjust as we said before, in June. But for the time being, it's about bringing these two back and balance at the latest in the December quarter. And trust us that we are not hoping on kind of 100% of PDPs coming at that point in time.

Guillaume Faury

Well, on customers and the situation of our competitor on the single line, I think there is not much I have to had compared to what I said in March, it's not that long ago. Obviously, all airlines are focusing on the short-term liquidity and how long the planes on the ground would last for them, and when is to return to service and how long they need to sustain the crisis. So, we don't see airlines being very active on that side of the equation but it's not unlikely that it will come later. So short-term, I would say it to be survival mode for everybody.

Harry Breach

Thank you.

Guillaume Faury

Was it the last question? No, one more?

Operator

And the last question is from Carter Copeland. Your line is now open. Please go ahead.

Carter Copeland

Sneaking the last one. Thank you very much, gentlemen. I'm glad everybody is staying well, I hope it stays the same. Guillaume, just a couple of quick ones, one with respect to the 60 aircraft that didn't deliver in the quarter; can you help us with some color on how much of that was related to financial distress and inability to take the plane because of a financial condition versus just simply the logistics of not being able to get a crew across international lines or wanting to avoid quarantines and whatnot? So any color there I think is helpful. And then, with respect to the June timeframe that you've laid out on knowing more, is there something with that date that's significant in terms of a decision point? Is that a point where airlines get enough visibility on forward bookings on recovery that they have a bit more confidence around how 2021 will look? Any color there would be helpful Thank you.

Guillaume Faury

On the 16 - well, I have the share by type, I don't really have the share by reason. Basically it started in China; what I have clearly top of my head, is that they were 19 planes to be delivered in Feb in China to Chinese airlines that Chinese airlines didn't take for many clear reasons. They were just not able to travel any longer. They were not able to travel to Europe and then Europe was in lockdown. I would say that in my view, the vast majority of cases where the combination of reasons but not yet the financial distress itself. It was just not yet the case. This maybe leads me to the second part of your question of the June timeframe. Except for Chinese airlines which are ahead of the pack, for the majority of others, the crisis is a month or a month and a half old so it is very young actually. The time it takes to manage very short-term situation, your planes to pass them, all the staff, what you do with your customers, your passengers, the ticket and so on and starting to discuss with your lenders, with many stakeholders, the governments, this is what the airline have done so far. Now, I said earlier today that we see airlines that have secured their viability through the crisis and these are the ones with whom we start to have visibility, but it's just to share. Not all airlines regain their own visibility and to come to agreements with us on the short-term in the mid-term, they need to do that. So the June timeframe is our assessment today of how long it will take to restabilize a new scenario in this new world.

On top for us, it's more the time it takes to run to get more data points, including from governments, also on the virus itself and the health dimension of the crisis, to understand better on - and the economic impact to understand better what will be the scheme of recovery. The speed of recovery of the traffic of the number of planes in the year and what it means for the demands and this is important for us to have this mid-term or long-term view that will lead to decisions, okay. So that's basically what I can share with you, and these are the main reasons why we think by June we will be more educated than we are today.

Thorsten Fischer

Ladies and gentlemen, you can close call for this time. If you have any further questions please send an email to Philippe [ph] 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. Goodbye.

Guillaume Faury

Thank you very much. Keep safe. Bye-bye.

Operator

Ladies and gentlemen, the conference is now concluded and you may disconnect your telephone. Thank you for joining and have a pleasant day. Goodbye.