Airbus SE (OTCPK:EADSF) Q1 2021 Earnings Conference Call April 29, 2021 8:00 AM ET

Company Participants

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

Conference Call Participants

Madame Celine Fornaro - UBS
Tristan Sanson - Exane BNP Paribas
Benjamin Heelan - of Bank of America
Chris Hallam - Goldman Sachs
Christophe Menard - Deutsche Bank
Charles Armitage - Citi
Olivier Brochet - Crédit Suisse
Andrew Humphrey - Morgan Stanley

Thorsten Fischer

Good morning, ladies and gentlemen. This is the Airbus Q1 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 to last around an hour. This includes Q&A, which we'll 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, but 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. Through 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.

And now over to Guillaume.

Guillaume Faury

Thank you, Thorsten. Good morning, ladies and gentlemen. Welcome to our Q1 2021 results call, and thank you for joining us today. Together with Dominik, we will take you through our financial results.

In [indiscernible] since we were first hit on COVID-19 pandemic and the status of the overall market environment in Q1 clearly demonstrates that the crisis is not yet over for our industry. Today, the global landscape very significantly in the path to recovery is what we call not necessarily linear. We see that countries around the world are progressing on their national vaccination campaigns. However, they are doing it at different speeds, and new emerging variants of the virus make the sanitary situation more complex and more difficult. However, some regions show encouraging signs of domestic air travel returning.

Other regions like Europe have maintained or even reinforced their travel restrictions. And travel restrictions, especially if and when they are not well-coordinated on countries, have an adverse impact on this traffic recovery. So we continue to face significant incentives, which results in a lack of predictability, at least over the short term, and we think we need to continue to demonstrate our resilience.

In the first quarter, we delivered 125 commercial aircraft, which gives us a good start in 2021. This year, in 2021, we do not expect the entire delivery profile to be the same as pre COVID-19 or, of course, not the same as last year. Deliveries continue to be driven by the agreements negotiated with our customers in COVID time.

Let's now look at our financial results. Due to this still uncertain environment, we maintained in Q1, a strong focus on cost and cash containment, while making progress on our restructuring as planned. This is clearly reflected in our Q1 financials together with our Q1 delivery performance. As a result, our Q1 EBIT adjusted was €0.7 billion compared to €0.3 billion in Q1 last year. Our Q1 2021 free cash flow before M&A and customer financing was plus €1.2 billion, and it includes a strong positive phasing impact from working capital. Our net cash position increased to €5.6 billion -- plus €5.6 billion as of end of March 2021. During our full year 2020 disclosure, so by mid of Feb, we have established a 2021 guidance to provide some visibility in a complex business environment. And based on everything we see today, we keep our guidance unchanged.

Let's look at our commercial position in more detail. Global air traffic started weaker into 2021 than industry forecasts as anticipated. This weakness was driven by deteriorations in most international markets, including domestic China, where citizens were requested to stay at home during the traditional Chinese New Year travel period. However, since March and based on ASK, Available Seat Kilometers, we see different developments across region. Domestic China is now above pre-crisis levels.

Positive signs of recovery are also coming from domestic North America. Domestic Europe is, on the contrary, considerably lagging behind with not even half of the pre-crisis level reached in the last months and weeks. In addition, international traffic globally remains at a very low level. And the recent deterioration in the sanitary situation, as in India, reminds us of the fragility of the recovery.

In this mixed commercial environment, we are managing different priorities with different time horizons. For 2021, we maintain our focus on managing deliveries to our customers in this volatile situation with limited visibility while we closely monitor the health, and in particular, the financial health of our customers. For the period beyond 2021, we are now in a position to define the appropriate single-aisle ramp-up profile. We continue to expect the market to recover, and with a full recovery, expected between '23 and '25 with domestic and regional markets leading that recovery. That ramp-up profile needs to take into account that some customers will have to restore their balance sheet when exiting the crisis.

Let me remind you of our orders and backlog in Q1. We booked 39 gross orders, including 38 single-aisle. We saw 100 cancellations, which were already largely embedded in our backlog valuation that we shared with you as of year-end 2020. This number included 88 cancellations from 1 specific customer, which we recognized in February. As a result, net orders stood at minus 61 aircraft, and our backlog in units amounted to 6,998, so very close to 7,000 aircraft.

Looking at Helicopters. In Q1 '21, we booked 40 net orders versus 54 in Q1 last year. In 2021, we see good momentum for campaign in our home countries, especially in public services, while the commercial helicopter market remains soft. We welcome the most recent governmental orders, such as the order from France to purchase 8 additional H225M and the second prototype of the so-called VSR700 unmanned aerial system as part of the French stimulus plan to the aeronautical industry.

Finally, in defense and space, in Q1 2021, our order intake was at €2 billion, representing a book-to-bill of around 0.9, which is good for our first quarter. During the quarter, €0.8 billion orders were booked in space systems, including the Eutelsat order to build a geostationary telecommunication satellites. The contract signed with Intelsat to build two OneSat satellites and the order from JSAT, the main operator in Japan that has become the first Japanese telecommunications operator to order a satellite from Europe.

We also booked orders worth €0.8 billion in military aircraft, including recurring orders in military services and €0.3 billion in connected intelligence.

On FCAS, the Future Combat Air System, a lot of work has been done until now by the state and manufacturers. We have achieved agreements with our partners in all pillars under Airbus lead for the so-called demonstrator Phase 1b. Negotiations are now with the 3 customer nations, and it is and it remains our joint ambition to fully converge soon in order to move ahead for a timely contracting of this very important so-called demo Phase 1b.

On Eurodrone, we're pleased with the progress made between the industrial partners and the government. And we welcome the decision of the budget committee of the German Bundestag, which is a key milestone before achieving contract signature. So overall, good progress in Q1.

So 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 Q1 2021 revenues were broadly stable year-on-year. Our Q1 EBIT adjusted increased to €0.7 billion, this reflects the cost containment we continue to apply as long as we have to cope with significant certainties in our commercial environment. It also reflects a favorable mix and a positive impact from hedging.

Going forward, we aim to make our cost savings more sustainable and to underpin our earnings and cash growth trajectory for the period beyond 2021.

Our research and development expenses decreased by 6% year-on-year. We continue to expect our 2021 full year research and development expenses to be at a similar level as in 2020. Our Q1 earnings per share adjusted stands at €0.58 per share based on an average of 784 million shares. Our Q1 free cash flow before M&A and customer financing was €1.2 billion. This is mainly driven by a strong positive phasing impact from working capital and reflects our continued efforts on cash containment.

Now on to the next slide regarding our profitability. Q1 2021 EBIT reported was €0.5 billion. The level of EBIT adjustments totaled a negative €0.2 billion and included €29 million related -- negative related to A380 program cost minus €177 million impact from foreign exchange and mismatch and balance sheet revaluation and minus €26 million of other costs, including compliance costs.

Earnings per share reported includes €59 million of positive financial results. It mainly reflects the revaluation of financial instruments and the evolution of the U.S. dollar as well as €43 million related to as Dassault Aviation, partly offset by a net interest result of minus €82 million. The tax rate on the core business is around 27%.

The effective tax rate on net income is 34% impacted by impairments of deferred tax assets in certain tax jurisdictions and on certain investments. The resulting net income is €0.4 billion, with earnings per share reported at €0.46.

Now to our hedging activities. In Q1 2021, $4.5 billion of hedges matured at a rate of $1.16 with associated EBIT impact as compared to $1.19 in Q1 2020.

For the full year 2021, we expect an average hedge rate of $1.21 compared to $1.19 in 2020. And as a result, for the remaining 9 months, we expect a negative year-on-year impact.

During the quarter, we further adjusted the phasing of our hedges by implementing $4.8 billion of rollovers. We also implemented $4.6 billion of forwards at a rate of $1.22, and $1.2 billion of hedges were disqualified. As a result, our total hedging portfolio in U.S. dollar stands at $79.8 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 Q1 2021. Our gross cash flow from operations of €0.6 billion mainly reflects our EBIT adjusted and includes a €0.3 billion provision consumption related to the restructuring plan. Our working capital has decreased by €1 billion and includes a strong phasing impact from working capital also in our divisions.

Year-to-date, the A400M continued to weigh on our free cash flow before M&A, but less so than in Q1 2020. Q1 CapEx was around minus €0.5 billion, stable versus Q1 2020. For 2021, we expect our CapEx to be at a similar level as compared to 2020. Free cash flow reported was €1.2 billion, M&A activities accounted for €11 million, and customer financing represented an outflow of only minus €31 million. This low level of customer financing may not be sustainable going forward. We intend to mitigate the impact from cash consumptions via external financing sources with support from export credit agencies.

Our net cash position has improved to €5.6 billion as end of March, and our liquidity position remained strong and stood at €34.8 billion. We have extended the maturity of our supplemental liquidity line by 6 months, maintaining a high level of flexibility in the uncertain environment caused by COVID-19.

Now back to Guillaume.

Guillaume Faury

Thank you, Dominic. Now on to commercial aircraft. In Q1 2021, as said, we delivered 125 aircraft to 44 customers. After a slow start at the beginning of the year, we delivered 72 aircraft in March.

When we look at the Q1 2021 situation by aircraft family, on A220, we delivered 9 aircraft. Our production rate increased from 4 to 5 per month from the end of Q1 2021, as previously announced. The A220 continues to show high utilization rates throughout the pandemic due to low operating costs and is expected to emerge as one of the strongest post-crisis solutions. On A320, we delivered 105 aircraft out of which 46 were A321. We will gradually increase our A320 production rate to 43 in Q3 and 45 in Q4 as planned. And the A321XLR, the development of the XLR remains on track.

Let's move to wide-bodies. We delivered 11 aircraft, of which 10 A350s and 1 A330 new. on March 18, the first A350 test flight with 100% enabilization GOL took off very big inflation which would lead the decarbonization of the aviation industry in a demonstration that it's possible.

Now let's look at Airbus commercial financials for the first quarter. Revenues decreased by 4% year-on-year, mainly reflecting lower volumes in services. The increase in EBIT adjusted mainly reflects our cost containment as well as a favorable mix. It also includes a positive impact from hedging.

Looking at Helicopters. In Q1 '21, we delivered 39 aircraft or helicopters. In total, 8 helicopters less than the first quarter of 2020. This is mainly due to the anticipated lower H145 deliveries in Q1, following the introduction of the new version, the so-called the 5 bladed version of the 145. Revenues reflect this lower volume in commercial helicopters, partially offset by growth in services.

EBIT adjusted increased to €62 million, driven by services, program execution and lower spending on R&D following the certifications of the H160 and the new 5 blade version of the H145 in 2020 sold last year.

Now on to Defense and Space. Revenues are stable compared to Q1 2020. The increase in EBIT adjusted mainly reflects the continued cost containment and a positive phasing in the first quarter. For the A400M, one delivery to the French customer was achieved in Q1. We will continue with development activities towards achieving the revised capability road map.

The profit activities are progressing in close alignment with our customers. Some 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 let me remind you of the guidance we have issued in February. As the basis for this 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. And on that basis, the company target to at least achieve in 2021 same number of commercial aircraft deliveries as in 2020, EBIT adjusted of €2 billion and breakeven -- sorry, breakeven free cash flow before M&A and customer financing.

Last slide to summarize our key priorities, which have obviously not changed since our full year disclosure. After a good start in the first quarter, we will continue to focus on delivering aircraft as we see with our customers and managing the backlog, finalizing the implementation of our restructuring and preparing the single-aisle ramp-up to be ready for when the market recovers, and that's coming sooner now. It is obvious that our priorities go beyond 2021. We aim to become more resilient towards unexpected changes that will inevitably happen from time to time in this complex and fast-changing world to enable the ramp-up of more complex and more innovative products much faster than before and to drive our competitiveness by consolidating and simplifying our industrial setup, which today is still partially fragmented across the company, our subsidiaries and suppliers.

We want to take advantage of the currently lower production rates to best prepare the Airbus industrial system of the future. In that context, we decided to place fuselage aerostructure assembly at the heart of our Airbus production system, and we intend to create 2 new aerostructures entities, 1 in France and 1 in Germany, and a third entity import in Germany has a strong global player for detailed parts.

We believe that it's the right time to transform our industrial system into one digital design and production stream, which also prepares the next-generation aircraft that is likely to have a different architecture as compared to today. This will also support and contribute to our ambition to lead the decarbonization of our industry. This ambition is underpinned by Airbus being the first aircraft manufacturer that has disclosed its so-called scope-free use of sold goods emissions in order to establish a firm reference point against which improvements will be measured. At the same time, we've invested in innovation and in the transformation of our company to deliver on our long-term ambitions across the portfolio.

I think, Thorsten, looking at you, now we are ready to take your questions.

Thorsten Fischer

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

Question-and-Answer Session

Operator

[Operator Instructions] We have one first question from Madame Celine Fornaro from UBS.

Madame Celine Fornaro

So a really good start to the year, Guillaume and Dominik and the rest of the team. So I would say, could you please share our thoughts on what happens next in terms of how we think about the, I would say, quarterly or at least first half, second half thoughts on, for example, the cash as you seem to be able to sustain breakeven as long as production is low? But maybe do we need to start thinking of potentially a cash headwind into the last quarter as you fund for the future ramp-up for next year?

And also, I would say, how do you think in terms of cash on rebalancing the cash, which was a challenge for the last years on being so much H2 weighted? Do you think that this year is a bit of a red profile? Or it also enables you to say, okay, we've rebased. And now we're not going to go into this massive H2 SKU again for the better and making this company more resilient, as Guillaume said.

Guillaume Faury

Thank you, Celine. Always a pleasure to start questions with your questions. Yes, indeed, it's a good start in Q1 in terms of deliveries and also in terms of financials. As said, I mean we'll continue to work hard to make progress in the year. Q1 start was weak.

You remember, we had weak deliveries in Jan and Feb. We recovered very significantly in March. I guess Q2 will also not be very linear, and we see that it's a complex environment. We had in April new lockdowns and new restrictions in Germany and France, which have made our life a bit more difficult. So I want to remain prudent, but we want to believe the situation will improve, probably in the second half of the year with the progress of the vaccination campaigns.

So again, we don't have that much visibility on the short term, but we think we're gaining visibility on the long term, and that's probably what's driving the fact that we maintain our predictions to start the ramp-up of single-aisle in Q3 and Q4 modestly, but that's an important point for us. That's a reference point, and that's a bit the inflection point.

Now if I may, free cash flow is too serious for our CEO. So I will hand over to my CFO to answer your questions on that topic.

Dominik Asam

At least the rocket science to you when I go to the plus and minuses of free cash flow. So yes, indeed, we had a very exceptional Q1 in a certain way compared to prior years. I think it was 2011 when we last had a positive free cash flow. But I think it's always worthwhile diving into the balance sheet to really look at where it came from, and you see the biggest item that's changing is really on the trade liabilities. So it's really the question of the phasing when we receive goods for our production system and when we pay them, and that was a €2.5 billion increase.

The other topic, which is noteworthy is that we still have because certain customer discussions some advanced POD. So that's a situation where the customer is giving us the cash for the delivery, but it's not taking delivery. And that's, of course, for us, better than not taking it. And the last topic -- and it was positive, of course, also for Q1. And you can -- even if you look very carefully, see it a little bit in the current liabilities, current contract liabilities that they go up, so liability going up is cash in.

And then the last point is really the overall picture on the cash phasing related to the PDPs, we remember, at the end of last year, we already said that we deferred a lot of aircraft, but we keep the PDPs. So we said that in 2021, there will be a difficult situation with a significant negative impact from the overall balance, and this is still to happen in this year. So this will be kind of weighing more on the other quarters. So just to give you the color why it does not make sense to multiply Q1 by 4. It would not be the right way to think about it.

And that, indeed, you're right, the cash challenge will be much more ahead of us. And the linearity on the free cash flow, yes, has improved in some ways from the production system. I mean it's not really the production, but it's more the commercial customer interaction and the fine-tuning on the supply chain, where we need to make sure that we are really synchronized.

Madame Celine Fornaro

And sorry, Dominik, just a follow-on that. The linearity on the cash, I think that could be sustainable.

Dominik Asam

I think from the production side, yes, we are more sustainable. But again, we are not expecting that you will have a kind of very strong positive Q1 free cash flow. I think what we see in this quarter was kind of a little bit unusual.

Guillaume Faury

If I may add, Celine, actually, we have started to see a better linearity of the free cash flow already in Q1 2020. But we were hit mid of March, beginning of March, by the pandemic in China. And finally, it was not visible in our Q1 results. But would we not have had the pandemic, we would have started to see this better linearity compared to previous years. Now everything is up and down, and it's difficult to identify the long-term trends, but we believe we are doing much better, and we will do much better on that front moving forward.

Operator

We have the next question from Mr. Tristan Sanson from Exane BNP Paribas.

Tristan Sanson

First one would be on the commercial relationships you have with airlines today. Can you give a bit of color on what type of feedback you have from airlines by geographical area in part of airline like flagship carrier versus low cost? Who wants to differ? Who wants to accelerate, especially given your comment you made that you need to take into account that some customers will need to rest our balance sheets in the recovery phase of the process? That will be helpful.

And the second question is a theoretical question on the margin trajectory. So you had a pretty good cost management performance in Q1 as you flagged. You've seen cost control mode. But overall, you're in a situation where you have a low fixed cost absorption and you said that you were accepting to be other staff short-term to be able to get a smooth ramp-up going ahead. So I don't know if your staff to do 50 or 55, particularly more than 40.

So it means that the margin progression ahead would not be linear and quite front-loaded in the recovery phase. Is it the right way to approach margin development?

Guillaume Faury

Okay. I'll take the first one, and maybe we sort of share the second question, Dominik. Commercial relationships, it's very diverse actually, and it's very connected to the comments I made on the very different situations we see in the market. China has much improved and is looking positively at the next months and years. So that's one situation.

The U.S. is so quite bullish and is looking for a very strong summer. So the airlines are getting prepared and ready, and we see that they are feeling considering accelerating. Some airlines are considering accelerating the 23, 24, but it's a good start.

And on the contrary, we see in Europe that the scenario of recovery is much worse than airlines were expecting. And therefore, it's a very difficult situation for them. And therefore, it is a huge velocity of situations. And I want to reflect the diversity by saying that, on average, for us, it stays consistent with what we have said a couple of months ago at the full year results. But when you look at the details, it's different.

So I call it volatility and uncertainty because it could go up or go down on the shore, and it's very difficult to assess.

Now to your question of being prepared for ramp-up, yes. At Airbus, we are taking care on the single-aisle later this year. Indeed, we have the staff we will need for the beginning of that ramp-up. The other staffing you're referring to, I would like to put more color on that one. It's not on the wide-bodies.

And on the white bodies, we have considered we are at low rates for a long period of time. Therefore, we are fully adapting to that new situation, and the priority on the wide-bodies is to be back to breakeven as soon as we can. On single-aisle, that's different. We considered, and I think we were right to consider, that we had a big dip and then a ramp-up. And we want to make sure we can deliver that ramp up, both from an internal perspective and from a supply chain perspective.

The other staffing, large except financed by our governor, so-called Altana, Apelin in France, the furlough schemes that are rather shortened. So they will expire by end of this year or the majority of that, but that's a point where we start to see the ramp-up. So we think so far, that decision to founders of people with us largely financed by government to be able to work. It's a good deal for government, for employees and for us. And therefore, we think that will help us drop.

For the long-term ramp-up, we'll be back to traditional situations for hiring, training and so on. Is there anything in the question? No.

Operator

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

Benjamin Heelan

Yes. I have one on 2022 production when you expect to make a decision. You mentioned in your prepared remarks that you see you still see demand in premium '22. So I'm just keen to understand when can we be thinking about the decision being made then.

And then second question is on the announcement, you talked about it a bit in your prepared remarks, but just wondering if you could delve on it a little bit more for the group or any cost savings that we should be thinking about. And I guess why does that decision be made now rather than 5 years ago?

Guillaume Faury

Ben, pleasure speaking to you. Well, when it comes to 2020 production rates, we are planning now and will, for the single-asile, continue the ramp-up. So you see the 43 in Q3, the 45 Q4, and it will continue to ramp-up in 2022. We have already given indications to our aerostructure. That's outside of what we call the same horizon.

So we will solidify those numbers and communicate at a later stage once we enter into the farm right. But it's a steep ramp-up in '22 and '23 for the single-aisle.

Aerostructures. Why didn't we make the decision 5 years ago? I don't know. I think there are a couple of triggers which come today. One is the progress we have made on the so-called DDMS project, which is the digital backbone of the company. We have more visibility on what we want to do for the next generation of products and the better understanding of the depth of the changes in architecture, and therefore, the nature, the core nature of Aerostructure assemblies to enable the digital design and production of these airplanes and their production systems.

And as well, the fact that COVID-19 and the low level of production is providing a window of opportunity to accelerate change. Now this will provide a lot of capacities to enter into service modern product in a much more efficient way in the future. This will improve the cost base at that point in time. On the short term, there is no major evolution to be expected, except that it's creating the conditions for us to be successful when this will be coming and to focus our investments on Aerostructure assemblies and give life to our detailed part to the opportunity to grow to get investments, but not as a core activity of Airbus, considering that this is not the priority for our investment. We have so much to do on what is in our plate for the technologies, for the future products, for the digital systems that we want to concentrate on this.

Benjamin Heelan

Okay. Is the plan to dispose of that detailed parts business at some point in the future there?

Guillaume Faury

This is one of the scenarios we will investigate with our partners moving forward. But we have just started the project, and this will be one of the scenarios that will be considered.

Operator

Next question is from Mr. Chris Hallam from Goldman Sachs.

Chris Hallam

So in the full year call, you referenced that deliveries this year would depend upon the industry reaching a tipping point in commercial demand. So I suppose is it too early to say that the March delivery performance was that tipping point?

And then second, you mentioned that you now have a better view on the pace of appropriate ramp-up beyond 2021. Could you give us some point as on what pace of ramp-up is deliverable from a supply chain perspective and from a demand perspective? Should we assume a similar pace as you're doing this year, i.e., A320 rates moving up by 5 every 6 months?

Guillaume Faury

So I confirm that it's too early in our perspective to consider we are at the tipping point. We might be coming closer, and I would like to be at that place by end of Q2. We see. We will be just ahead of the summer or in the summer, and it's not unlikely that we have that visibility to call it the tipping point. But end of March, beginning of April, that's really too early.

What's the fastest possible ramp-up? That's a very important question, and we are currently doing the work with our supply chain to give an answer to that question. So that's why I said it's premature to give figures for 2022. We have indicated scenarios to the supply chain. We are working with the supply chain to see what's reasonably possible, and this will be one of the drivers for when we give visibility on 2022 and the pace of recovery and a ramp-up of the single-aisle that we will be targeting. So sorry, it will be not more explicit, but that's slightly premature.

We'll probably be able to say more next quarter.

Operator

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

Christophe Menard

So one is on the working cap, you see the trade liabilities were up on. But I was also wondering about inventory, which was under -- I mean, the inventory control or the inventory level was pretty good under control. How you see this throughout the year? That's the first question.

And second is on the aero structure reorganization further details, if possible. Do you intend to do more -- to do more make or buy decision on that basis of the reorganization? And is more CapEx needed for the DDMS, I would say, implementation? Or is the CapEx already spent on this?

Dominik Asam

Okay. I have a goal on the working capital question. I mean, first of all, yes, we have increased aircraft in storage. That's correct. So that should actually give an increase, but you see that what we've seen on the increase side is quite moderate.

So it also tells you that in the working process, we've actually been improving the situation.

Now you asked for the outlook at the end of the year, that's kind of tricky because it very much depends on the delivery number. We have said we want to do the 566 in last year -- like last year, at least, the more that we do, the lower inventories will be. And as Guillaume mentioned, we also want to be prepared for the ramp next year. So that's the difficult balancing act to find the right balance between reducing cash consumption, on the other hand, being prepared for the ramp. So this is why I'm not willing to kind of really gives you a strong indication what inventories at year-end because that would buy a strong guidance on what's upside if any of the 566 thereof.

And that's really premature, as Guillaume has already indicated.

Guillaume Faury

And on the second question, we are spending money for the DDMS 2020, 2021 moving forward. That's part of the R&D predominantly. And when it comes to the CapEx required for Aerostructure transformation, there will be some, to a limited extent, until the point -- to the point we launch or we prepare the launch of the next-generation products. And here, it will come with a major CapEx. And we will prepare the industrial setter, the active, the tools and the systems.

So this can be done in an efficient way because the next generation of industrial systems and products will be very, very different. So we need to be prepared, and it takes time. So that's really one of the reasons why we do this now.

Christophe Menard

And on the make or buy, do you intend to do more make or buy [indiscernible] programs or with this new structure?

Guillaume Faury

I don't think that I get what you mean by more make or buy. We will.

Christophe Menard

Do you intend to -- do you want to internalize more production external at the moment? Or is it unrelated, I would say?

Guillaume Faury

It's unrelated. There will be a lot of make, but it will make and buy, and the decision will be taken one by one based on competitiveness of what we see in the market. So that is premature to answer that question, I'm sorry.

Operator

Our next question is from Mr. Charles Armitage from Citi.

Charles Armitage

Just thinking about the A220 versus the A320. So pre-pandemic, you were limited by A320 engine supply. And so you wanted to deliver as many A321s as you could, and then you would feel at the bottom of the lower end with the A220 since the sort of concept. Now engine supply is much less of an issue. So can you talk through how you think about the A220 or you sell the bigger the losses, but the potentially the closer you are to breakeven?

And the A220 -- the second question, related question is the A220 looks a great play. But at the moment, it's not profitable. When do you think you'll achieve breakeven post pandemic and at what rate? And in the very long term, conceptually, what drop-through margins could you see on the 220?

Guillaume Faury

Dominik, can you take the question?

Dominik Asam

So I'll start on the back maybe in terms of the at A220 turnaround, and maybe you want to answer the kind of fleet decisions of our customers with regards to choosing A220s and A320s.

On the profitability, indeed, as I always say, we are in a J curve, where we are still going through losses, and we have the benefit of the long contract provisions from the purchase price allocation. So we can bring the losses to a low triple-digit million amount in the cash usage. It's significantly higher because, of course, these loss-making contract provisions don't help on the cash side. We've always said that we need to ramp basically both factories in mobile and Mirabel to a decent loading level to come to breakeven operationally. Now that's the key question, how quickly can we do that.

You can make a math. You will see that to come to full load. It would be probably some 170 or so per year. But we don't need all of -- we need probably slightly less than that to come to breakeven. And it's -- it will take us several years still to get there because you know the rates, we currently have are much lower than that.

And for that, to be frank, we need new orders. And then that was a question about the pricing on the new orders that will determine the breakeven. On the fleet decisions, A220 versus A320?

Guillaume Faury

Yes. Maybe I'll try to answer the question on engine being the limiting factor. It was the case in the ramp-up of the A320neo, both with the potent weakness and the CSM engine. So let's say, '18, '19, beginning of 2020. You're right in saying that it was no longer the case in the last 15 months, let's say.

As I told you just before, we are currently running the analysis of the supply chain readiness for the ramp-up ahead of us. And an engine supply chain is also a complex one with some specific parts, which are always at the edge. So it's premature to say that engines will not be the limiting factor again in the ramp-up. I'm more optimistic. Obviously on that front, that was the case previously, but I would be prudent.

And the choice between the 220 and the 320, well, I think the overlap in terms of market segment is very small. I don't see in the recent years that we had campaigns where we would have had one of the -- and the other. It was always one or the other. They are in different market segments, and I think that's good. That shows that we have a good positioning of the different products as we speak, with strong products.

And we anticipate good market momentum for both the 220, as we commented upon, it was very, very much used during pandemic, and for the 320, because it remains a very, very strong product line including the new developments we have made on the 321 with the XLR, which makes it really a super product.

Operator

Next question is from Mr. Olivier Brochet from Crédit Suisse.

Olivier Brochet

I would ask two if I may. The first one on a number of disruptions, which are happening in various parts of the supply chain in semiconductors some suppliers flagging, casting and forging issues that they've been facing in the quarter. And another one this morning mentioning productivity issues. Is this something that you are starting to see flow through your production system and something that we should be worried about?

And the second question is on the consolidation that is happening in the leasing world with a number of deals having been announced. What is your reaction to this?

Guillaume Faury

Thank you, Olivier, and thank you for your questions. Well, actually, you're right to put the finger on those topics. In the last 12, 15 months, the main issues came from the demand from the customers, from the disruption on air travel. I fear that the main problems, the main risks ahead of us are on the supply chain for -- I mean the main reason that all suppliers have adapted to the pandemic situation with a lot of consequences, and they will have on the single line, in particular, to ramp up now. And this is -- this roller coaster situation, it's very difficult to manage for a long-term industry like ours.

That's why we are very focused on the transparency of the supply chain on running scenarios and preparing with our suppliers. We put in place so-called watchtowers, which have given a lot of positive results, gaining the transparency and what we see coming in the different fields you have mentioned that others is something we expect to see more, unfortunately, in the next 12 months. And we will have to manage the situation. That's why we are also prudently commenting for the rest of the year because we are still with the wake of the issues. It's a big wake of the issues on the demand side, and we start to see challenges on the supply.

So I would say challenges, complexity, we think we have the level of transparency we need to see problem coming, and therefore, to anticipate and resolve before it becomes a big crisis. But obviously, we have to remain very humble and work hard because it's a lot about preparation.

When it comes to the consolidation with lessons, my first observation on the lessons is that they have remained very strong over the last year. They've been instrumental in enabling that industry to keep moving forward in a very, very challenging situation. We rely on the stability of the financial system, and that's very important to probably comment on. There's no financial quits, and that's very important for us. There is some consolidation with players that are important for us.

And actually, we look at the consolidation. There are pros and cons in these situations. But overall, I would say, we're fine with it.

Olivier Brochet

Okay. If I may, on the supply chain issues. Are there any specific areas that you think are very much in focus for you?

Guillaume Faury

Yes and no. There are a lot of specific areas. Is there a sectorial crisis on one domain? I don't think so. And what you mentioned on semiconductors is impacting many industries, in particular, our friends in the car industry. But we are, for the moment, not too much exposed to that crisis.

So -- but we are monitoring, obviously, the situation. So I would not point to any sector that I would consider more critical by its nature today than others. So.

Operator

So our next question is from [Mr. Doug Amir] from [Branche].

Unidentified Analyst

First question, just following up on the financing environment. You said at the beginning that you may have to see an increase in customer financing. And so it would be good to understand what changes you're seeing, if any, in third-party and the ECA financing environment.

And then second, freight has been a hot market during the pandemic. And this is one area that I would say has not been an area by strength. Do you have plans to address freight more aggressively? And if so, how?

Dominik Asam

So I'll start with the financing, the situation is actually, as Guillaume mentioned, quite stable. So we still see that the financing service providers are alive and kicking. And top of that, you mentioned the export credit agencies which have been really way nicely. So I see a positive trend, but it's still a little bit early to declare victory. So this is why we said that keeping our vendor financing cash-out to a kind of low double-digit million per quarter might not be sustainable in the current environment, but I'm not seeing a kind of wave of financing hitting us either.

Guillaume Faury

Thank you, Dominik. On the side question, it's indeed the case that Airbus has been weak on the freight market segment in the past our wide-bodies. And I don't like the idea and we don't like the idea to remain weak in the segment in the future. So indeed, we will be more aggressive, and we think we have the products to be able to be more aggressive in the future.

Unidentified Analyst

But which products are you referring to there?

Guillaume Faury

I was mentioning the wide-bodies, so in the segment of the widebodies moving forward. And again, the wait come is not clear, it's not a different day, but we are looking at that segment very excitedly, and we want to play a role moving forward. We think it's not it's not healthy to have only one player only in the market for a segment that is actually very significant and has been resisting well in the pandemic. So we want to bring our contribution to that segment.

Operator

Next question is from [Mr. Gansu Copland] from Research Service.

Unidentified Analyst

A couple of questions for me. One on the Airbus commercial and just the profitability, the implied profitability by program. Is there anything to call out that's particularly unique about the customer mix in the quarter that shouldn't repeat in the future that we should be mindful of?

And then secondly just, Guillaume, on the conversation around the tipping point. And specifically, when you look at wide-body market and what you're watching there from an incremental risk standpoint, can you give us color around what that tipping point is and what the decision are there? Any color would be helpful.

Guillaume Faury

Dominik, you take the customer mix?

Dominik Asam

Yes. I think what you probably referred to is a question, and given the Q1 we had versus the guidance and was there something that was kind of boosting profitability in Q1, was it the mix or other things, I would say it's not a predominant factor of the customer mix. Of course, we sometimes have a stronger mix and better margin aircraft, but I would say, it's not the biggest driver. The 3 big drivers we see on the phasing side are, first and foremost, the currency issue that we had a $1.16 effective hedge rate in Q1 versus -- remain to do, which will be, from today's perspective, at $1.22. You've seen the phasing of the R&D investment, where we said that we are going to spend about the same amount as last year for the full year, and we have under proportionately spent on that in Q1. And the last one is you should not forget that the ramp activity and the resources required for that are very much loaded towards the second half of the year.

So this is the predominant driver of the phasing we're going to see and not so much the customer mix.

Guillaume Faury

I will take the second answer, and thank you for raising the question. It gives me the opportunity to maybe put more color on this notion of tipping points. As I said, I hope and I believe we will see the tipping point for regional traffic this year. So for our single-aisle family, I would be happy moving forward if later in the year, we can tell you where we think we have reached the tipping point. I don't see the tipping point this year for the wide-bodies.

Widebodies are relying on the international market recovery, which we see being not significant at least before summer next year. And due to the complexity of the situation, the big differences in the pandemic situation of the waste managed around the world with some regions with still a lot of circulation of the virus. Others where there is no circulation of the virus, somewhere the vaccination is moving forward at an impressive pace. Others, where it's not the case. So I believe before we see an international market back to order, it will take more time.

So tipping point this year, yes, probably likely for single-aisle. For wide-bodies, not for 2022.

Operator

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

Andrew Humphrey

Yes. Congratulations on a very strong start of the year. Just a couple of follow-ups on earlier points. You've highlighted in a couple of places in your prepared remarks really customer situation on financing. First, indicating that customers will need to do balance sheets; and secondly, indicating that you're more open to customer financing or you'd expect that to increase.

Is that situation worse than it was when you were giving full year guidance? And by implication, is the delivery number more challenging?

And my second question is also around kind of aerostructures and supply chain. I think the rationale for longer-term integration of a lot of your aerostructures businesses is very clear in terms of future architectures. But clearly, we have a situation at the moment where there are parts of the aerostructure supply chain in Europe that are in some distress or have a lot of challenges. Would you anticipate any emerging problems there? And I guess, what do Airbus' strategic decisions mean for the rest of the European supply chain in aerostructures?

Guillaume Faury

Dominik, I suggest you take the question on the customer side and the financing.

Dominik Asam

Sure. I would say no, it has not gotten worse. I would -- if anything very, very slightly more positive. There was one or the other financing looming where we thought we need to chip in and were able to secure funding externally. But I think, again, it is uncertain and premature, so I'll not call it a trend yet, but I'm not seeing any trend down, definitely not.

Guillaume Faury

On the second question, aerostructure companies are in challenges, yes and no, I don't see, and back to the previous question, a situation that would be worse or more challenging than other sectors of our supply chain, and I don't see the need for a structural decision or a sectoral decision on aerostructure assemblies or aerostructures in Europe at the moment. It doesn't mean that we won't have to take case-by-case decisions and actions. It's likely that it will be the case. But I don't have the same perception at what you were suggesting that we have a particular problem in aerostructures in Europe at the moment.

Thorsten Fischer

Thanks, Guillaume. Well, this closes our conference call for this time. If you have any further questions, please send an e-mail to Philippe Gossard or myself, and we well get back to you as soon as possible. Thank you, and I look forward to speaking to you again soon.