Airbus SE (OTCPK:EADSF) Q3 2020 Earnings Conference Call October 29, 2020 3:15 AM ET

Company Participants

Thorsten Fischer - Head of Investor Relation
Guillaume Faury - Chief Executive Officer
Dominik Asam - Chief Financial Officer

Conference Call Participants

Ben Heelan - Bank of America
Celine Fornaro - UBS
Charles Armitage - Citi
Tristan Sanson - Exane
Olivier Brochet - Crédit Suisse
Jeremy Bragg - Redburn
Robert Stallard - Vertical Research

Thorsten Fischer

Thank you, Aurelia. Good morning, ladies and gentlemen. This is the Airbus nine months 2020 Results Release Conference Call. Guillaume Faury our CEO; and Dominik Asam our CFO will be presenting our results and answering your questions. This call is planned to last around one hour. This includes Q&A, which we will conduct after the initial presentation. This call is also webcast. It can be addressed 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. Throughout this call, we will be making forward-looking statements. The package you received contains the safe harbor statement, which applies to this call as well. Please read it carefully.

Now over to Guillaume.

Guillaume Faury

Thank you, Thorsten. And good morning, ladies and gentlemen. Welcome to our nine months 2020 results call and thank you for joining us today. I sincerely hope you're all well. While we saw signs of a pickup in air traffic at the end of H1, the recovery over the summer was slower than anticipated and hoped.

The virus is still circulating. Travel restrictions remain in place in most regions, worldwide and airlines are facing a difficult situation. The outlook for global air travel recovery has deteriorated, indicating that the crisis is far from over. Many uncertainties remain, especially on the evolution of the COVID-19 cases globally and travel restrictions. In this context, we remain prudent and humble but all in all, our Airbus trajectory remains within the corridor of expectations that form the basis of our H1 communication. We further advanced on our cash containment and business adaptation measures, which remain on track.

Our nine-month free cash flow before M&A and customer financing was negative €11.8 billion including the payment of the penalties of €3.6 billion in Q1. Our EBIT adjusted was minus €0.1 billion, including minus €1 billion of COVID-19-related charges, of which minus €0.1 billion recognized in the third quarter.

On the workforce adaptation plan, we've made good progress with our social partners and recognized a €1.2 billion restructuring provision in Q3, which is shown in our EBIT reported. Our strong liquidity position will support us in our ongoing efforts. It will also enable us to act in case new challenges are to come and there will be new challenges. And we are preserving our ability to invest, innovate, grow and perform again after the crisis to ensure we can return to normal operations in a strong position, once the situation improves again.

We remain in close contact with our customers to assess the situation on a case-by-case basis to find mutually acceptable agreements. The result of this intense collaboration is reflected in the third quarter deliveries. Indeed, we delivered 145 aircraft and so production and deliveries converging in the quarter as targeted.

Consistent with our ambition shared with you in H1, we also stopped cash consumption in Q3. In fact our free cash flow before M&A and customer financing was at a positive €0.6 billion in the third quarter. Despite remaining uncertainties with the measures put in place and with the visibility we gained in Q3, we feel sufficiently comfortable to issue a free cash flow guidance for the fourth quarter 2020.

Next slide. Before we look at our commercial aircraft environment, I'd like to give you an update on the recent developments of two important topics for Airbus: The WTO disputes and Brexit. The WTO was recently announced its decision to authorize the European Union to impose almost US$4 billion in annual countermeasures.

Airbus supports all necessary actions to create a level playing field and to restore a level playing field and continues to support the EU's commitment to finding a negotiated settlement of this long-standing dispute to avoid lose-lose tariffs. On Brexit, the end of the negotiations are nearing and we remain concerned about the risk for a no deal. We continue to plan for such a scenario to further eradicate and mitigate risks.

We continue to look for further clarity, particularly on regulatory alignment so that we can properly plan for the future. The shape of the future EU-U.K. relationship remains critical importance for us.

Now let's move to the commercial aircraft environment. Air traffic has continued to rise globally from the low point reached in April, but recovery has slowed down after the summer, due to the increasing number of COVID-19 cases and to travel restrictions, which are becoming tighter.

Domestic markets continue to lead the recovery, particularly in China, but the relapse of the pandemic has slowed down progress in many other regions. International demand remains weak and in many countries quarantine remains compulsory for travelers. Since the beginning of the crisis, we recorded four cancellations. As I highlighted before, airlines remain in a difficult situation and their balance sheets are impacted by the crisis. We continue to expect that air traffic will reach its 2019 level again between 2023 and 2025.

The single-aisle market will lead the recovery while wide body will lag. Based on the agreements formed with our customers a second wave of COVID-19 pandemic may result in maintaining the current production levels for longer and could have an influence on the timing and pace of the future single aisle ramp-up.

We keep our supply chain informed to ensure that our industrial ecosystems will be adequately prepared to gradually increase production when the right conditions are met. Where are we on the order and deliveries year-to-date? Our backlog stood at 7,441 aircraft as of the end of September. We booked 370 gross orders including 349 single aisle and 21 wide bodies. Net orders were at 300 aircraft following the cancellation of 70 aircraft of which three aircraft in the third quarter.

Next page. Looking at helicopters. In the nine months 2020, we booked 143 net orders versus the 173 in nine months 2019. The 68 net ordered -- net orders booked in Q3 include six H160 following the certification by EASA last July. That was obviously a major milestone for us, and one H215 for Nakanihon Air. In addition, we have recently signed a firm contract for the development of an upgraded version of the NH90 for the French special forces. We have also booked a support contract with NASA for its fleet of H135 helicopters.

We expect the civil and parapublic market to remain soft particularly in oil and gas due to the persisting lower oil prices. Finally, in Defence and Space in nine months 2020, we booked an order intake of €8.2 billion, which is plus 35% versus last year including contract wins in telecom satellites in the U.K. and Middle East in the third quarter.

We also received a firm order for an A330 MRTT from OCCAR placed on behalf of NATO. On FCAS, the Future Combat Air System France and Germany and Spain have recently signed an agreement to bring Spain into the demonstrator phase 1a. The negotiations between industry partners for the phase 1b proposals are ongoing and we are making good progress on that very important project.

On the Eurofighter, we're awaiting the replacement of the existing Tranche one fleet in Germany also called Quadriga. However, the exact timing of the contract award remains difficult to predict. We are also seeing further opportunities for this program in Germany, Spain, Switzerland and Finland.

With regard to the Eurodrone project, the negotiations are still ongoing. And last but not least, we believe European defense budgets be they national and European will support the path towards building European sovereignty. And Airbus has the ambition to play a major role in this endeavor.

Now, Dominik, I hand over to you. Dominik will take you through our financials. Dominik?

Dominik Asam

Thank you Guillaume, and good morning ladies and gentlemen. Our nine-month 2020 revenues decreased to €30.2 billion, down 35% year-on-year driven by the difficult market environment impacting our commercial aircraft business as we delivered about 40% less aircraft year-on-year partially offset by better foreign exchange hedge rates.

Our nine-month EBIT adjusted decreased to minus €0.1 billion. This reflects lower deliveries in commercial aircraft and some idle costs. We've taken the necessary steps to adapt our cost structure to the new levels of production and the benefits are materializing as we execute our plan. Nine-month EBIT adjusted also reflects minus €1 billion charges recorded due to impairments and write-offs triggered by COVID-19 of which minus €0.1 billion in Q3.

Q3 EBIT adjusted was €0.8 billion mainly reflecting lower commercial aircraft deliveries and the lower activities in the space business. Our nine months EPS adjusted stands at minus €0.32 per share using an average of 783 million shares. Our nine months free cash flow before M&A and customer financing was minus €11.8 billion of which plus €0.6 billion in Q3.

Our Q3 free cash flow reflects the higher level of deliveries compared to prior quarter, our efforts on cash containment as well as a strong focus on working capital management.

Now on to the next page on profitability. Nine months 2020 EBIT reported was minus €2.2 billion. The level of EBIT adjustments totaled a net negative €2.1 billion and included minus €1.2 billion booked in Q3 related to the group-wide restructuring plan. The amount takes into account government support measures. It reflects the latest status of the negotiations with our social partners, and therefore, may be reassessed.

Minus €358 million related to the A380 program costs of which minus €26 million were booked in Q3. Minus €374 million negative impact from foreign exchange and balance sheet revaluation of which minus €209 million in Q3; and minus €128 million of other costs including compliance costs of which minus €11 million in Q3.

EPS reported includes minus €712 million of financial results. It mainly reflects a net minus €291 million related to Dassault Aviation; as well as the RLI re-measurement of minus €236 million mainly from amending the French and Spanish contracts to what the WTO considers the appropriate interest rate and risk assessment benchmarks. It also includes the impairment of the loan to OneWeb recognized already in Q1.

The tax rate on the core business is around 27%. The effective tax rate on the net loss is 7% impacted by impairments of deferred tax assets in certain tax jurisdictions and on certain investments. The resulting net loss is minus €2.7 billion with loss per share reported of minus €3.43.

Now, on to our hedging activities. In the third quarter, we adjusted our portfolio and rolled forward around $31 billion of hedges, while containing the cash impact of hedges otherwise maturing in 2020. Our total hedging portfolio in U.S. dollars stands at $86.8 billion with an average hedge rate of $1.25. The evolution in the portfolio hedge rate to $1.25, mainly reflects the forward points on the longer duration of the hedge portfolio after rollover.

In nine months 2020, we implemented $3.9 billion of forwards of which $1.4 billion in Q3 mainly to re-designate hedges disqualified from other aircraft type families. $11.1 billion of hedges matured at a rate of $1.20 in the nine months with associated EBIT impact.

In the quarter, $4.1 billion of hedges matured also at $1.20 with associated EBIT impact. We also bought $2.9 billion at $1.16 to finalize the implementation of rollover started in Q2.

In addition $3.1 billion of hedges have been disqualified in the nine months with maturity dates mainly from 2022 and beyond resulting in a negative impact to financial result, primarily recognized already in the first half of the year.

Now, let's look at our cash evolution in the nine months 2020. Our gross cash flow from operations of €1.6 billion mainly reflects our EBIT adjusted but before COVID-19-related charges. We paid the €3.6 billion penalty in Q1 2020.

Our working capital excluding penalties has increased by €8.7 billion, mainly driven by inventory build and the timing of cash receipts and payments. In Q3, working capital includes a positive effect from inventory as we managed to reduce the number of aircraft that we could not deliver to around 135 offset by a decrease in trade liabilities.

Year-to-date A400M continued to weigh on our free cash flow before M&A, but less so than in 2019. Nine months CapEx is around minus €1.2 billion, €0.3 billion lower versus 2019. This is driven by lower spending in Q3 2020 in line with our cash containment efforts. On a full year basis, we still expect CapEx to be around €1.9 billion.

Free cash flow reported was minus €12.3 billion. Customer financing contributed approximately €42 million whilst M&A activities accounted for €0.5 billion mainly related to the acquisition of Bombardier's remaining stake in ACLP for a cash outflow of $500 million or $0.5 billion in the first quarter.

Now, I would like to give you a short update on our liquidity at the end of September. In addition to the measures we have taken in H1 to improve the long-term visibility of our financing, we issued a $0.7 billion bond in July of which €0.2 billion was partially terming out the initial €15 billion credit line which now -- which stands at €9.3 billion as of 30 September.

Overall, our adaptation efforts allowed us to maintain our liquidity position in Q3, which now stands at €30.4 billion at the end of September. The strong liquidity will continue to support us in navigating the crisis and will position us for growth once the situation improves. In addition we reduced our net debt position compared to the end of Q2 from €0.6 billion to €0.2 billion.

Post Q3, we took additional steps to extend the maturities of our funding sources. In October, we successfully refinanced our €3 billion credit facility maturing in 2021 by securing a new one for a total of €6 billion with initial maturity of three years and two extension options of one year. This allows us to further term out the remaining special COVID €9.3 billion credit line, which now stands at €6.3 billion.

Now back to Guillaume.

Guillaume Faury

Thank you, Dominik. So, when it comes to commercial aircraft, in the nine months, we've delivered 341 aircraft to 75 customers, which is 230 less aircraft year-on-year or in percentage minus 40%. In September, we delivered 57 aircraft, which helped to reduce the number of undelivered aircraft.

When we look at the nine months situation by aircraft family, on the A220, we delivered 18 aircraft. Last week, we delivered the first U.S.-build A220 from Mobile, Alabama.

In October, we also launched the ACJ TwoTwenty business jet. It will address a new market segment the extra-large business jets. The entry into service is targeting for early 2023. Six aircraft have already been ordered.

On the A320, we delivered 282 aircraft, of which 272 neos. This month we achieved a significant milestone with the delivery of the MSN10000 to Middle East airline. What a milestone. On A330, we delivered nine aircraft. And in September, we delivered the 1,500th A330. On the A350, we delivered 32 aircraft.

Now, let's look at Airbus commercial financials in the nine months. Revenues mainly reflect lower deliveries with the decrease of 230 aircraft year-on-year, as I said, of which minus 155 single-aisle and minus 75 wide-bodies.

R&D decreased by 3.5% and by around 10% excluding the impact from COVID-19-related charges. The EBIT adjusted, mainly reflects lower deliveries and lower cost efficiency. It also includes the €1 billion COVID-19-related charges.

Looking at helicopters. In the nine months 2020, we delivered 169 helicopter compared to 209 in the nine months 2019. Revenues were broadly stable, reflecting these lower deliveries, partially compensated by higher services.

EBIT adjusted reflects favorable mix increase in services and positive contribution from program execution as well as lower R&D due to the end of the EASA certification campaigns for both the H160 and five-bladed -- the new five-bladed H145. In Q3, we delivered the first of this five-bladed H145 to the Norwegian Air Ambulance Foundation after its certification by EASA in Q2.

Now on to Defence and Space. Revenue mainly reflects the lower volume in space and A400M as well as the impact of COVID-19 on business planning. The EBIT adjusted, mainly reflects lower volume in space again, especially in the launcher business due to COVID-19 impact, partially offset by cost reduction measures in the division.

For the A400M, five aircrafts were delivered in the nine months with Luxembourg as a new operator of the aircraft. The restructuring plan updated in the first half of this year is underway and negotiations with social partners are progressing. The related provision has been recorded in Q3 in EBIT reported.

Now on to the guidance slide. As I said, despite remaining uncertainties with the measures put in place and with the visibility we gained in the third quarter, we feel sufficiently comfortable to issue a free cash flow guidance, which I would like to read to you now.

The company's full year 2020 guidance was withdrawn in March. Given the continued impact of COVID-19 on the business and the associated risks, no new guidance is issued on commercial aircraft deliveries or EBIT.

On the basis of its Q4 2020 guidance for free cash flow before M&A and customer financing, the company assumes no further disruptions to the world economy, air traffic, Airbus internal operations and to its ability to deliver products and services. On that basis, the company targets at least breakeven free cash flow before M&A and customer financing in the fourth quarter of 2020.

So, what are our key priorities? Well, we have not fundamentally changed since our H1 disclosure. Traffic outlook has deteriorated. We believe the measures taken are the right response in the current market environment to protect our strong competitive position throughout the crisis and when the market recovers.

We keep challenging all the time our measures to make sure, they reflect the current environment. Consequently, we focus on the execution of our plan and are making good progress on our priorities. As already mentioned, we will continue to deliver the aircraft based on the agreements reached with our customers. We will also keep our strong focus on cash containment, and of course on achieving our free cash flow before M&A and customer financing guidance in the fourth quarter.

In addition, the full implementation of our adaptation plan is a key milestone to address our long-term cost structure and to establish our new financial balance in a sustainable way. We have also maintained a strong liquidity position Dominik has explained, which will support us on the path of the recovery.

Finally, and it's very important to us, we will invest in decarbonized technologies. And we aim at developing the first climate neutral zero-emission passenger aircrafts.

Now we are ready to take your questions.

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, particularly ourselves to understand your question.

So Aurelia please go ahead and explain the procedure for the participants.

Question-and-Answer Session

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] And the first question is from Ben Heelan, Bank of America. Your line is now open. Please go ahead.

Ben Heelan

Yes, good morning Guillaume and Dominik and Thorsten. Thank you for taking my question, and hope you're all well. I wanted to talk and ask you on the news reports that we saw last week that you'd requested the supply chain to protect it to rate 47 for the second half of 2021. Can you help us understand a little bit, what you actually mean by protect? So are you asking the supply chain to be able to deliver to you at a rate of 47, but the actual rate might be lower by the time you get to the second half of 2021? I'm thinking here if I'm a supplier I'm being asked to essentially invest for a high-teens increase in production in eight months time. I'm looking at the news. COVID cases are increasing exponentially, so what is the risk that I start putting my capital to work, investing for that high level of production and it just doesn't materialize? Thank you.

Guillaume Faury

Hello Ben. Yes, I think we are well, and I hope you're well too. Long time no see. Well, that's an important question, so let me maybe spend a bit of time on it. We keep updating the production planning on a very regular basis. And there is always an active supply plan that we share with our suppliers and this has been the case in the past years just before the pandemic hit the industry. And we updated that production supply plan in the beginning in the outset of the crisis by ramping down and adjusting to the rate 40 for the single aisle for the foreseeable future.

We have then improved our supply plan. Before summer we were with a rate 40 till the end of the first quarter of 2021 and with a modest, but progressive ramp-up starting beginning of Q2. So this was the active, the valid supply plan for all our suppliers before summer or for the one that is in place now.

The one which is in place now by the way relies on the rate 40 till the end of the first half of 2021 and with the start of ramp-up by beginning of Q3 2021 from the rate 40 to the rate 47 for the second half of 2021. This is obviously backed by our backlog by the contracts we have with customers; and it's not speculative. It's robust.

Now we have as well to look at the situation. It's a very dynamic one. And we keep working with customers to adapt to their situation to find agreements that reflects the ability of Airbus of our customers to navigate that crisis. And it might still evolve.

What we believe is first the rate 40 is robust. And the way we manage for the moment is by moving that point, the point of ramp-up from rate 40 to a higher rate. And, obviously, with the degradation of the outlook of the traffic, it has moved to the right, therefore, going from beginning of Q2 to beginning of Q3 but this is robust.

It's not speculation. It really reflects today's situation as good as we can see it. And we think we owe to our suppliers to our transparency and visibility on how it should play out. It's also very important that the world supply chain is prepared for when the recovery comes, because then this is the weakest link that would create the speed of recovery.

So we make sure everybody is informed. Everybody is aligned. Everybody has the transparency on the situation. And as you have seen going from beginning of Q2 to beginning of Q3 2021 for the start of the ramp-up, it's not such a big change but it reflects what I have said before, which is we are in a lower-for-longer scenario when it comes to the downturn of the aviation. So now we really expect the suppliers to be ready to do that ramp-up. It's they have to be committed to it. This is what we are expecting from them. It's in nine months from now so it's quite with a sufficient time to continue to review and to update.

What we think we owe to the supply chain is to have enough anticipation that they are not in the short-term taken by surprise or having to do things that they have not prepared. We want them to have time to prepare. And this is what we are trying to do as good as we can in an environment that is very volatile and with yes, I mean a lot of things which are happening which are unpredicted. So that's the way we try to deal with it. Sorry. My answer is really long, but I see that there are a lot of questions turning around that one. It's not a new request we have put to the supply chain. It's the updating the supply plan that is permanently in place with the supply chain.

Ben Heelan

Okay. That’s great. Thank you for the color.

Operator

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

Celine Fornaro

Yes. Good morning, everyone and thank for taking my question. I happen to have two questions if I may. The first one is regarding the planes in inventory, which Dominik you said you were standing at 1.35 at the end of Q3 compared to 1.45 at H1. If you could share any thoughts on the assumptions that you would have behind for Q4; and the rate of this for 2021 as you commented before that you want to reduce this larger size of planes in inventory by the end of 2021; and if that also has been pushed to the right given the recent market softness; and the implications for free cash flow that this would have looking at 2021.

And secondly would be, if you have any thoughts regarding the footprint. You have now advanced your restructuring discussions. You've booked a charge. And you've said that you're going to reduce 13,000 full-time employees at Airbus. Any thoughts regarding footprint reduction? We've heard Boeing; Raytheon RTX saying 20% 30% reduction potentially. So how would you think about that from an office reduction point of view? Thank you.

Guillaume Faury

Okay. Dominik, will you take the question?

Dominik Asam

Yes, maybe starting on the kind of communicating two question of deliveries burning down the finished good inventory and free cash flow. Yes, we have improved in the nine months and of course, we want to continue to slightly work off these inventories over time. The larger part of it is single aisle. And we also would like to make further progress, especially, on the single-aisle in 2021, but I think it's premature now to go into details because that would kind of imply almost like a guidance of deliveries given that on the rates side we have been quite clear where we want to be with the rates. And the gap is of course the change in the finished good inventory.

On the free cash flow, of course, the -- there are many puts and takes. I mean I don't want to comment on 2021 yet in terms of numbers, but there are puts and takes. If you look at the cash flow statement for the nine months you can see that the inventories have been of course the lion's share of the cash absorb. The other part that was negative was the reduction of trade payables because of the reduced supplies from our suppliers. So the financing so to speak the payment terms from our suppliers, while being constant in terms of days in volume go down.

But there was also positive news on the contract assets and liabilities where we got some couple of billion. If you look at the change in the balance sheet you can see positives which will then reverse at some point in time because we also talked about structures with customers like advance PODs, pro nodes and all these type of instruments. And this is exactly why we have been kind of willing to come up with guidance on free cash flow because we think we have a certain re-phased customer commitment for Q4.

We are very much aware of all the imponderabilities uncertainties with regards to delivery because some aircraft will come very late in the year. And they might slip into the New Year, but we feel that on the cash side there is more levers we can pull to secure that kind of at least free cash flow before M&A and customer financing of breakeven for Q4. So sorry to be so vague, but it would really be premature at present to be more detailed given the high degree of uncertainties we face in the market.

Celine Fornaro

Thank you, Dominik.

Dominik Asam

Thank you, Celine. Hope you are well.

Celine Fornaro

Yeah, and the...

Guillaume Faury

Sites. Well we are in an adaptation plan. We are negotiating that plan with our social partners. We have an industrial setup that is almost the same as what we had 10 years ago when we had the level of production similar to what we are observing in 2020 and we think there will be a ramp-up again at a later stage.

So I'm not suggesting we are not looking at optimization and things we would have done anyway but we are not in a massive initiative of adding complexity to the complexity we see today by major site closures. That's not the way we have entered into the crisis. And I have nothing major to share except that we are working on the costs side of the equation very strictly that we have our so-called cash containment plan that is delivering, what we were expecting. So we are in the corridor of expectation that we have given to ourselves and with the measures we have decided so far and which have been shared.

Celine Fornaro

Thank you.

Operator

The next question is from Charles Armitage, Citi. Your line is now open. Please go ahead.

Charles Armitage

Good morning. Hope you are well. A couple of quick ones. First of all, apologies. The line cut out at a critical moment during Ben's – your answer to Ben's question. The whatever rate increase that you were talking about is that when it enters the file or when they exit the file? That's the first question. So in Q3, you were talking about is that ramping up. Or is it a deliberate output or input I guess?

Guillaume Faury

Yeah. It's a technical question, but it's a good question. At Airbus, when we talk about production rates, it's what we call the Station 40. So it's a bit technical. What is the Station 40 at Airbus? That's the station where we install the wings and a number of other components on the fuselage. So that's the reference point.

Now what we give to the supply chain is a reflection of the increase in production rates and with the timing that corresponds to the arrival of the goods to Airbus. That's why you cannot directly relate production rates and deliveries in period of times where we are going up or down significantly.

In the current environment, where we are stable at rate 40, as we have said we want to converge the delivery and the production to be in a steady flow, but when it will come to ramping up the impact on deliveries of the planes that go at the Station 40 is obviously a couple of months later. For the suppliers, they have to come with the parts a bit earlier as we need the parts to go to the production flow and to the Station 40 and for the installation of the equipments after the Station 40.

Charles Armitage

Excellent. That's clear. My second question is on pre-delivery payments. And essentially, has – have you changed – well has there been any shift in the trends of when the pre-delivery payments are being paid? i.e. are you being asked to give or are you granting any relief from those pre-delivery payments to maybe some more favored customers on the understanding they will still take the planes?

Dominik Asam

I mean, of course, it's always customer specific, but the general answer very broadly is that the pre-delivery payment schedules are always a function of the delivery date. So they only change, if the delivery date is moved. Then of course, they would be following that, but not really in terms of phasing. But it's also true as I mentioned and it's important to notice that we benefited in the nine months from some PODs that have been paid for aircraft that will be delivered later.

If you go to the balance sheet in our disclosure, you'll see there's a positive about a two billion-plus positive impact from all the items related to contract assets and liabilities. So that's reflecting more or less that effect. And these two billion positive, which are in the cash flow statement then they will really not be sustainable, so you should not expect that to continue to a certain degree. They will reverse because we will deliver some aircraft without POD because the POD has already been paid.

Charles Armitage

Excellent. Thank you very much indeed.

Operator

Okay. And the next question is from Tristan Sanson, Exane.

Tristan Sanson

Yes. Good morning, gentlemen. Thanks for taking my questions. The first one is on cash and second on margin. The first on free cash flow, I wanted to come back to some comment Dominik that you recently made about the potential to do at least break-even free cash flow into 2021. I know, you don't have any formal guidance on basically anything from that yet. Can you help us understand what will be the key moving parts underlying that assumptions in a free cash flow bridge?

And the second is on the margin or the margin power of the group post restructuring. So you have an adaptation plan that is aiming for completion by the end of summer 2021, if I remember correctly. And I think you said in the past that you will probably be slightly oversized compared to rate 40 as you're planning to ramp production thereafter. Can you give a hint for what would be – when you return to a higher level of production rates based on that new cost structure what should be a reasonable margin ambition for commercial aircraft? Thank you.

Dominik Asam

Okay. So I mean, it's clear since we have now been able in the September quarter to be slightly positive on free cash flow before M&A and customer financing; and that we want to achieve that again breakeven at least in Q4. We want to kind of sustain that track record once we have balanced production and deliveries and on top of that trying to work off some of these inventories. We discussed it already on the call. That should give us some support to continue that track record of not burning cash anymore. That's a clear objective of ours to make sure, weather the crisis without kind of harming our balance sheet too much.

Now if you think about the puts and takes, one big one is of course the inventories. So to what degree are we able to sell aircraft, which have already been produced? I hinted before that we have a little bit more kind of confidence that maybe that's possible in 2021 on the single aisle. I think on the wide bodies, it will be still a very difficult story with the projected prices there. I mentioned a little bit of a kind of overhang on the PDP POD discussion with the contract assets having contributed positively in 2020 in the first nine months, but maybe reversal of that needs to be worked off.

We still have some A400M cash-out, it has not changed frankly to the kind of €0.5 billion guidance we've given last year. We still have the structural mismatch between earnings and cash on the A220 where we are basically protecting the EBIT with loss-making contract provisions, but the cash will still be slowing as we ramp A220. There is also the restructuring provision, which we booked and the lion's share of the restructuring cost will be paid next year. So there are also some significant headwinds. And I have to say that the cash-out for the restructuring I mean is even higher than the €1.2 billion provision we have taken over the full program because there are pre-existing accruals for vacation and retirement that will be payable as employees leave the company.

So many puts and takes which are really complicated to forecast. We are still in the process of doing that so please bear with us for February to be more granular on that. But in general, we as a management team have a very, very strong focus on preserving that track record of not burning cash.

Tristan Sanson

Super, helpful. And on margin?

Guillaume Faury

On the margin, Dominik?

Dominik Asam

On the margin side. I mean the one thing we always point to is yes of course, we had a certain margin in 2019 on it was 863 deliveries. And the way we think now about the planning process is we have to find a way to get back to that margin level when we are back at these rates. Now the exact trajectory how that will happen is very much dependent on when will we get to these rates. There is so much volatility so it's tough to predict, but this is the kind of anchor point in terms of thinking where we want to drive towards.

Tristan Sanson

Just to be precise: You are just talking A320 here.

Dominik Asam

No, no. I talk about the 863 total deliveries. It's a good question. So there will be a mix impact in that equation. I mean of course, we have the tailwind from the restructuring which has benefits for the margin, but there will be also some challenges with more A220s in the mix which is negative; more A320 in the mix which is positive; and lower wide bodies. So how all of these will play out we need to see.

And then there is a little bit of a headwind still coming from ForEx in the coming years. You know that our hedge ratios are quite high right now after the re-phasing of the hedge portfolio. But very, very roughly we think there's a path to that kind of recovery in margin if and when -- well I hope to say the 863 will be reached again.

Guillaume Faury

Thank you, Dominik.

Tristan Sanson

Thank you so much.

Operator

And the next question is from Olivier Brochet of Crédit Suisse. Your line is open sir. Please go ahead.

Olivier Brochet

Good morning, Guillaume. Good morning, Dominik. Two questions if I may. Maybe first one is a number of airlines and some lessors have been talking of the way that they are now switching to planning for their future needs. It's obviously very volatile with what is happening on restrictions and lockdowns and so on, but have you seen a change relatively speaking compared to the start of the year in behavior requests PDP payments and so on? That's first question.

And the second one is on the undelivered aircraft. Out of the 135, how many of these were already on your balance sheet at the end of Q2? As this could impact future profit release?

Guillaume Faury

Maybe I'll take the question for the airlines and Dominik the one on the inventories. Well you said compared to the beginning of the year -- compared to the beginning of the year everything has changed. But I guess you mean compared to the beginning of the crisis. We saw different phases of first trying to understand the new reality. Finding the ways to adapt; and the environment and the realities are very diverse. It's extremely diverse between a low-cost airline operating in one given regional market that is -- that has remained open for domestic flights; or a national carrier who has no domestic market and has lost almost completely its market international flights for a long period of time. They all have to deal with very different situations. And that's why we have said we've made a work a very comprehensive work airline-by-airline, plane-by-plane.

Now has it changed recently? Yes, because I think the majority of airlines over the course of the last quarter have realized as well this lower for longer. And that's what we see in the discussions we're having today. It's not fundamentally changing the view that there will be a recovery post pandemic that it's not a structural change, but that it's a very tough short-term situation. There will be long-term implications. They have different views on the long-term implications for them and again it depends very much on the nature of the market they're operating in.

So it's difficult to answer your question because I think there are as many answers as airlines and even for a given airline, it's changing over time as they refine their plans. Now Dominik are you ready for the other question?

Dominik Asam

Yes. I mean in terms of numbers as we said we went down from 145 to 135. I think your question was a little bit are these the same aircraft still at the beginning of the quarter or at the end of the quarter. And that's well they are moving of course but the way I would characterize it: The lion's share is really -- the lion's share of these aircrafts are not white tails just to be clear.

These are aircraft where we have a contract which has been now re-phased and we discuss to the customer and where delivery might be simply postponed a year or 2. That's the typical background of these aircraft. There is a very, very low double-digit number of white tails we have to cope with but that's the kind of minority by far. That helps to give you a quality of this kind of backlog or inventory.

Olivier Brochet

Thank you.

Operator

The next question is from Jeremy Bragg, Redburn. Your line is now open. Please go ahead.

Jeremy Bragg

Good morning. Two questions please. First on restructuring, so we've got some details on the restructuring costs. Would it be possible to sort of quantify perhaps what benefits are and how that compares with what you're getting from the government at the moment please?

And then the second question would be on wide body. I mean Boeing for example yesterday were repeatedly cautious on international traffic; and as are you. And Boeing hinted on a further rate cut on 787. So I want to know how you're feeling please on A350 and A330 rates, whether there is a risk of another cut; and whether you kind of feel that A330 is a critical part of your product portfolio whether it's something that you must have? Thank you.

Guillaume Faury

Okay thank you for the questions. So on the restructuring, we are happy with where we are today and probably mainly for two reasons. The first one is, we've made good progress in the negotiation with our social partners, but I mean real negotiation in the sense of finding the best ways to deal with the situation in a very constructive way. And it's been really making great progress for the execution of this plan.

The second one is happy as well on the solutions which have been found with governments to try to sort of find a good balance between letting people go but retaining some of the key skills that we will need for the ramp-up and having this being mostly financed by governmental support, which means we can keep these key skills and key people. It's supported by governmental money. They will not go into unemployment and they will be still current, when the market will go back and when we will start to ramp up again. So that's a good achievement that we are very happy to have and to report.

And that maybe answers your question on the benefits of the restructuring. So we are now in negotiation at a national level. We have passed the European milestone and that's really looking good. Now when it comes to the question on the wide bodies, well be it on the single aisle or on the wide bodies we have taken very strong measures very early in the pandemic.

You'll remember we adjusted our rates very straightforwards from week one almost very early in April. And we have monitored and updated on very regular basis. I was commenting earlier on the call on what we have done with the single aisle and potential ramp-up in 2021, but on the wide body we have already made adjustments. We started by adjusting from almost 10 on the 350 to down to 6. And then we have further adjusted to 5. We are around 5. We are depending on the months around 5 let's say.

We don't see today reasons to change that, but we will keep monitoring and updating. We think we are quite appropriately geared with this 5-ish. And on the 330, we are at a rate 2. It's small, but it's sustainable for the program. We have converged as well the deliveries and the production on the 330 in the last months. So it's working well with the 330.

On top, we are supported by some military derivatives of the 330 in the backlog. That remains robust and solid. We even had as reported new booking on that side. So the 330 is an important part of the -- important piece of the puzzle. We are very happy to have that product in the product portfolio and we think it has the potential to be a very good plane for moving out of the pandemic because it's a very cost-efficient plane. And we believe there will be huge pressure on competitiveness and cost when we will move outside of the pandemic and when airlines will have to replace all the planes that will have been retired because of the pandemic, but they will be looking for very cost-efficient solutions. And we think the 330 in the competitive landscape is a very good one.

Jeremy Bragg

Very clear. Thank you very much.

Guillaume Faury

Thank you.

Operator

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

Robert Stallard

Yes. Thanks so much. Good morning.

Guillaume Faury

Good morning.

Robert Stallard

A couple of questions from me. First of all, to follow up from Ben's earlier question on preparing for rate 47 in second half of next year. Are you helping suppliers with funding any long-lead procurement on things like nickel alloy or titanium or even staffing to get ready for that?

And then secondly, on the China market. Obviously, we've seen a good recovery on the domestic front there. Are you seeing Chinese airlines reverting to their pre-pandemic fleet plans? Thank you.

Guillaume Faury

Okay. So the rate increase from rate 40 to rate 47 is start of Q3, 2021, so it's significantly outside of what we call the firm horizon with suppliers, okay? So, no, we are not funding their share. And by the way, through the mechanism of the orders deliveries, payment terms, we have supported suppliers a lot in the past months, as we have built these inventories and we have paid the suppliers as we were committed to pay.

Actually the amount of billions, which are in the inventories is money which has been going to the suppliers, where we were not getting money from the airlines. So they have been massively supported in the past months just by applying the condition of payment and taking delivery of the goods we had ordered.

Chinese airlines. Well, I would say, it's premature to answer the question. They're obviously working on -- or reworking their plans. You know that it's a very central way of dealing with the situation in China. And there was beginning of this week -- sorry, no. Last week, yes, that was last week, the meeting of the party committee for the fifth year of the 19th plan.

And we don't have the outcome of that plan, but obviously China keeps looking at the growth of aviation as a central piece of their development. And that's what we've been saying very clearly, very recently in the frame of that preparation. So they are back to 100% in terms of domestic flights. And we see that they keep investing in new runways on their major airports, so they continue to see the development of aviation as a core element of the growth and development of China.

Robert Stallard

That’s great. Thank you.

Thorsten Fischer

This closes our conference call for this time. If you have any further questions, please send us an e-mail. Send an e-mail to Goesta, Philippe 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.