Airbus SE (OTCPK:EADSF) Nine Months 2024 Earnings Conference Call October 30, 2024 2:30 PM ET

Company Participants

Guillaume Faury – Chief Executive Officer
Thomas Toepfer – Chief Financial Officer
Helene Le Gorgeu – Head of Investor Relations and Financial Communication

Conference Call Participants

Ross Law – Morgan Stanley
Chloé Lemarié – Jefferies
Victor Allard – Goldman Sachs
Robert Stallard – Vertical Research Partners
Christophe Menard – Deutsche Bank
Ken Herbert – RBC Capital Markets
Phil Buller – Berenberg

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Airbus Nine Months 2024 Results Release Conference Call. I am Sharon, the operator for this conference. Please note that for the duration of the presentation all participants will be in a listen-only mode and the conference is being recorded. After the presentation there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to your host, Guillaume Faury, Thomas Toepfer, Helene Le Gorgeu. Please go ahead.

Helene Le Gorgeu

Thank you, Sharon. Good evening, ladies and gentlemen. This is the Airbus nine months 2024 results release conference call. Guillaume Faury, our CEO; and Thomas Toepfer, our CFO, will be presenting our results and answering your questions. This call is planned to last around an hour. This includes Q&A, which we will conduct after the presentation. This call is also webcast. It can be accessed via our home page by clicking on the dedicated banner. Playback of this call will be accessible on our website, but there is no dedicated phone replay service. The supporting information package was published on our website earlier today. 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. I invite you to refer to our safe harbor statement that appears in the presentation slides, which applies to this call as well. Please read it carefully.

And now over to you, Guillaume.

Guillaume Faury

Thank you, Helene, and hello everyone and thank you for joining us today for the nine month results call. We are indeed here in Amsterdam with Thomas to run you through our results. Before we get there, as I said in the previous call, I'm sure you've already read our press release about the leadership decisions and I guess you will have questions at a later stage, but let me share a few words about the topic. First, the Board of Directors has announced as I said, has decided that they will propose to the shareholders the renewal of my mandate as Airbus CEO and Executive Member of the Board at the next AGM. So most of you know me by now and very committed to the company, very engaged and I will continue to do so. I am both honored and humbled by the decision of our Board of Directors that's obviously important for the company and for myself.

Second, on commercial aircraft, we are announcing that Lars Wagner, who is the CEO of MTU Aero Engines, will join us at the end of his current mandate that will be completed by end of next year, by end of 2025 and join us so beginning of 2026 to then succeed Christian Scherer, who is today the CEO of Commercial Aircraft at Airbus. And I insist in saying that both Christian and I are very excited with the perspective of Lars joining and Lars succeeding Christian because we consider Lars is one of the very best leaders that we have in our industry. In the meantime, Christian and I will keep working together in a way that I consider and we consider a very efficient way in a very different [ph] manner as we've been doing so far to deliver on our objectives and manage our challenges. We'll then be happy to welcome Lars. Again I'm convinced that Lars' diverse experience in aerospace engineering, operations, business management, and which by the way includes more than 10 years already spent at Airbus, that Lars experience and talent will be a great addition to our Airbus executive committee. So that's it for that part.

And now going to our nine month results. We continue to operate in an environment that we qualify as complex and fast-changing the geopolitical uncertainties and some specific supply chain, what we call challenges or issues that have materialized in the course of this year, force us to adapt constantly. Against that backdrop, we remain focused on our priorities, which are the production ramp-up in commercial aircraft and the transformation of our Defense and Space divisions, two main priorities, short-term ramp-up and Defense and Space. We allocate our resources on what matters most, which means we are very focused on what we are doing and we want to be leveraging our core business activities to further drive operational efficiency, therefore meeting customers demand.

In this challenging operating environment and I'd like to say together with our suppliers, we are progressing on our plan, always keeping safety and quality at the core of what we do. I insist in that context I'm very pleased with the delivery of the first XLR to Iberia that took place yesterday. Having launched the XLR at the Paris Air Show in 2019 and seeing this milestone today is a great satisfaction because it's indeed a significant milestone. And I really want to thank all the teams at Airbus and beyond Airbus for the successful development and certification of this latest and innovative variant of our incredible A320 family.

In Q3, we delivered 174 commercial aircrafts, bringing our year-to-date deliveries to almost 500 at 497 aircrafts as compared to 488 last year. It leads us to a delivery profile for the remainder of 2024 that is more back loaded than we anticipated. So we have an ambitious year-end rally in front of us not the first time, but always an interesting situation. Our EBIT adjusted stood at €2.8 billion as of nine months 2024. This reflects the commercial aircraft deliveries and the solid performance at Airbus Helicopters, but it also includes the charges recorded in the first half of the year on our space business.

The free cash flow before customer financing was at minus €4.8 billion, notably reflecting the inventory buildup that supports the Q4 deliveries and the ramp-up. And on that basis, we maintain our 2024 guidance.

Let's look now at our commercial environment and starting with commercial aircraft. The demand remains strong if not very strong as of nine months and we booked 667 gross orders, including 340 in the third quarter. On the A220 we booked 10 orders from airBaltic, which is as you know, the largest A220 customer in Europe. On the A320 family we booked 457 gross orders. So again, a very strong order intake for the 320 family. So, 457 out of which 260 in the third quarter, bringing our backlog to 7,253 for this family of aircraft. And more than two thirds are for the A321.

Moving to the widebodies where we recorded 200 gross orders as of nine months and that includes 37 A330neos and 33 A350s, underpinning the good momentum for our widebody family. Nine months net orders amounted to 648 aircraft following 19 cancellations and our backlog in units stood at the end of September at the record level of 8,749 aircraft.

Looking at helicopters, in the nine months 2024 we booked 308 net orders to be compared with the 191 in the nine months 2023 and the 308 net orders include 43 225 aircraft. This confirms the positive dynamic for this family of aircraft, the so-called

Super Puma or H225 family. And in the third quarter we have signed a contract for 12 H225M, the military variant of a multi-role helicopters with the Republic of Iraq, which is not yet reflected in the order book.

Overall, I am pleased with this performance. We continue to see positive momentum in both civil and military markets and we remain focused on securing new business opportunities in both the home countries, but also on the export markets.

And now on to order intake recorded at Defence and Space, here we continue to see a strong order momentum across our business and as of nine months ‘24 the division had an order intake of €11 billion, out of which €4.5 billion in this third quarter. So, very strong momentum in the quarter.

On our Space business, it includes in particular an important satellite called SATCOMBw the prime contract for the next generation of secure military satellite systems for the German armed forces, namely Bundeswehr. Let me stress that the contracts booked recently reflect our new selective bidding strategy as we call it.

However, despite the improvements we are making in the Space business, the environment remains competitive, highly competitive and somewhat disruptive. So, it's now about execution. More concretely, we are fixing our foundations while assessing strategic alternatives, rethinking the European landscape and evaluating potential consolidation options. Indeed, the space industry in Europe is undergoing major challenges in Europe and outside of Europe and needs to transform in order to remain competitive against other global players, including some new players.

We'll continue to explore ways to strengthen the European space sector by streamlining investments, creating scale and becoming more competitive in order to add value for our shareholders.

In parallel, we continue to work on enhancing the Defence and Space overall performance through our transformation plan. As you recall, at the end of last year we introduced a new organizational structure by moving engineering and operation functions to the three fully accountable business lines. And in October, last month – this month, we went one step further and informed our social partners about the plan to adapt the division's organization and workforce. This shall result in the transfer of some headquartered functions to the business lines in the course of next year, in the course of 2025 and in a reduction of up to 2,500 positions until mid of 2026. These measures contribute to seeking to restore competitiveness of the division and will contribute to securing its profitability trajectory.

So, that concludes my remarks at that stage and I hand over to Thomas, that will take you through our financials.

Thomas Toepfer

Well, thank you very much Guillaume. And a warm welcome to everybody on the call.

I am now on Page 6 of the presentation and I will take you through our financial performance.

So, let's start by our nine months 2024 revenues, which increased to €44.5 billion, which is up 5% year-on-year. And that's mainly reflecting the number of commercial aircraft deliveries and a higher volume in our Air Power business.

And on R&D, as you can see on the right-hand side on the chart, our expenses stood at €2.4 billion as of nine months 2024 versus €2.2 billion in the nine months of 2023. And while we continue to expect a slight increase at full year compared to last year, I would like to be transparent with you about the fact that we had to start earlier the capitalization of our development costs in the development process to align with accounting standards. And this anticipated capitalization results in a lower R&D expense in the range of a high double-digit number as of the first nine months of this year, with then, of course, the opposite effect on our CapEx. And you will find the full capitalized R&D expenses in our appendix exactly on [indiscernible].

Now onto our EBIT adjusted, I am on Page 7 of the presentation. Our nine months 2024 EBIT adjusted decreased to €2.8 billion from €3.6 billion in the nine months of 2023. And for your record, the nine months of 2023 benefited from the progress that we made on our compliance topics, allowing us to release provisions for an amount of €0.1 billion in Commercial Aircraft. But the 2023 numbers also contained updated assumptions on some long-term contracts in our space business, which resulted in a charge of €0.4 billion.

Now looking at 2024, the €989 million charges recorded on our space business as of the first half of this year are the main driver of the year-on-year decline, and there were no further charges recorded in Q3 2024. However, let me remind you that there is still one major space program under technical review, for which we currently expect the final assessment by year-end.

So as of nine months 2024, the higher commercial aircraft deliveries are offset by investments to prepare the future, such as R&D expenses and also the increase in workforce leading to temporary overstaffing as well as a slightly less favorable hedge rate. The level of EBIT adjustments, as you can see on the upper right-hand side of the chart, was slightly negative for the first nine months of this year, and they included minus €146 million impact from the dollar working capital mismatch and balance sheet revaluation, of which minus €165 million occurred in Q3.

The adjustments also contained plus €51 million related to the gain on the Airbus OneWeb satellite linked to the acquisition of the remaining 50% in the joint venture, which we recorded already in the first quarter, and they contain minus €13 million of other costs, including compliance costs, of which negative €8 million in Q3. So this takes our nine-month 2024 EBIT reported to €2.7 billion.

Now when it comes to the Airbus Defense and Space division's organization and workforce adaptation, which we announced in October, we are still in the early stage assessment of the potential financial impact, and a restructuring provision will be recognized once the necessary conditions are fulfilled.

Our financial result was negative €92 million and mainly reflects the interest result and the revaluation of financial instruments, partially offset by the positive impact of the revaluation of certain equity investments. The tax rate of the core business continues to be at around 27%. It excludes the potential French surtax, which could result in an impact of around of €300 million for the year 2024, however, which would, of course, only be payable in 2025.

Now the effective tax rate is 36%, and that includes impacts from the net deferred tax asset impairment. And so that the resulting net income, as you can see on the page, is €1.8 billion with earnings per share reported of €2.29 per share and our nine-month 2024 EPS adjusted stood at €2.71 based on an average number of 790 million shares.

Now with that, let me turn to our U.S. dollar exposure coverage, and I'm on Page 8 of the presentation. So in the nine months of 2024, US$16 billion of forwards matured with associated EBIT impact and euro conversions realized at a blended rate of $1.21 and versus $1.20 in the nine months of 2023. And in the first nine months of this year, we also implemented US$11 billion of new coverage at a blended rate of $1.12. So that, as a result, our total U.S. dollar coverage portfolio in U.S. dollar stands at US$86.7 billion, with an average blended rate of $1.22 as compared to $91.7 billion at $1.23 at the end of 2023.

So now let's have a more detailed look at our free cash flow on Page 9. Our free cash flow before customer financing was negative €0.8 billion in the first nine months of the year. And this outflow was mainly driven by the change in working capital, notably the inventory buildup that, of course, supports our Q4 deliveries and the ramp-up across all programs. The A400M continues to weigh negatively on our free cash flow, and our nine-month 2024 CapEx was negative €2.1 billion, and this reflects the investment in enhancing and upgrading our industrial system.

To support our ramp-up, we expect our CapEx to increase in 2024, also reflecting the change in development cost capitalization, which I highlighted earlier. So that the free cash flow was negative €0.9 billion with a minor impact from customer financing. In terms of customer financing, the aircraft financing environment remains solid, with currently sufficient liquidity in financial markets for product, and our net cash position to round it up stood at €7.2 billion at the end of September and our liquidity remains around €30 billion.

And with that, I would like to hand it back to Guillaume.

Guillaume Faury

Thank you, Thomas. And I'll start with the situation with Commercial Aircraft. In nine months 2024, we delivered 497 aircraft to 77 customers. If we look at the situation by aircraft family, first, on the A220, we delivered 45 aircraft. We continue towards a monthly production rate of 14 aircraft in 2026, so rate 14 2026, while still working on the financial performance of this program.

On the A320 family, we delivered 396 aircraft, of which 231 A321s, representing 58% of deliveries for the family. So a growing percentage of A321s. We continue to ramp-up towards a rate of 75 aircraft per month for 2027. We are very pleased that the first XLR has now been delivered to Iberia yesterday, and it will – Iberia will soon be using this aircraft to connect Spain with the U.S. East Coast.

We are now looking forward also to see this new product entering into service and bringing its unique capabilities in terms of range, economics and environmental efficiency with a lot of other customers.

When it comes to wide bodies, we delivered 56 out of which 20 A330neos and 36 A350s. We are now stabilizing monthly production of the A330neo at around rate 4. And on the A350, we continue to target the rate 12 in 2028, as we are also actively managing specific supply chain challenges that may have an impact on the ramp-up trajectory in particular next year, 2025.

Before moving to the financials, let me remind you that the engines for narrow-body that cabin and equipment and aerostructures continue to be what we call the pacing elements of our commercial aircraft ramp-up. We focus our efforts on these specific items, engaging at almost all levels of the value chain in a targeted manner. And I can tell you that our teams are – I don’t know how to say it, more than fully mobilized.

Now, let’s look at the financials. For the Commercial Aircraft business, the revenues increased by 4% year-on-year, mainly reflecting higher – slightly higher number of deliveries. The EBIT adjusted decreased to €3 billion from €3.2 billion in nine months 2023 with the increase in deliveries being offset by investments for preparing the future, notably the recruitments of skilled workforce that is temporally resulting in other staffing and also coming from the slight increase of R&D.

At Helicopters, in the nine months, we delivered 190 helicopters, which is seven less than in nine months of 2023. Still the revenues increased to €4.9 billion, reflecting a more favorable mix in programs and also a continued solid performance in services. And the EBIT adjusted stood at €420 million, again, reflecting services and programs mix despite this lower level of deliveries.

And to complete the review with the nine months 2024 Defense & Space, the revenues increased 7% year-on-year, mainly driven by the Air Power business and that's partly offset by the previous update of estimates and completion assumptions in Space Systems. The EBIT adjusted reflects the charges of €989 million that we announced in H1 of this year during the earnings release call.

For the record, the nine months 023 also included €0.4 billion of charges. Both impacts resulted mainly from the update of the estimate at completion assumptions in our space programs. Here, I'd like to echo what Thomas said under one major space program that is still under review, and we are progressing, and we expect the final assessments by year-end, slightly before year-end.

On the A400M, we delivered five aircraft in the year 2024. We continue with the development activities towards achieving this so-called revised capability roadmap. Our air traffic activities keep progressing close alignment with our customers. There's no further net material impact that was recognized in the first nine months of 2024 and we still have risk remaining on the qualification of technical capabilities and so-called associated costs on the aircraft operational reliability and cost reduction and on securing the overall volume of aircraft as per the revised baseline.

Now, let me remind you of our guidance issued in June. And as the basis for that guidance for the 2024 guidance, the company assumes no additional disruptions to the world economy, air traffic, the supply chain, the company's internal operations, and the ability of the company to deliver products and services.

The company's 2024 guidance is before M&A, and consequently, before outcomes of the ongoing due diligence with Spirit AeroSystems. So on that basis, the company targets to achieve as issued in June, in 2024, around 770 commercial aircraft deliveries and EBIT adjusted of around €5.5 billion and a free cash flow before customer financing of around €3.5 billion.

To conclude, with the key priorities, quite steady. Our Commercial Aircraft ramp-up and the Defense & Space transformation, as I said earlier, are today the areas of focus and are the enablers also for our objective. On Defence & Space, I told you in July that I would not take my eyes off the case before it is fixed. I stick to this. We did reach an important milestone by initiating the workforce adaptation plan. And we have, as I said earlier, engaged with our social partners on that matter. So we are on our way.

On Commercial Aircraft, we are acting with focus, with determination and the focus being on what we believe is what matters most. The lead initiative at Commercial Aircraft has been designed exactly for this purpose. It's about prioritizing our activities, putting priorities on priorities, I call it, allocating our resources and upskilling our teams to further drive the operational efficiency that we need.

And on that note, and now, I believe, Helene, that I will hand over to you as we are ready to take your questions. Thank you.

Helene Le Gorgeu

Thank you, Guillaume. We will now start our Q&A session. Please introduce yourself and your company when asking a question. Please limit yourself to two questions at a time, and this includes a question.

Also, as usual, please remember to speak clearly and slowly in order to help all participants, particularly ourselves to understand your questions. So, Sharon, please go ahead and explain the procedure for the participants.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Ross Law from Morgan Stanley. Please go ahead.

Ross Law

Evening everyone. Thanks very much for taking my questions. I've got three, if I can. Firstly, on the delivery guidance, what's the range included in the term around 770? Is it 10 aircraft, 20 aircraft or more? And what's giving you the confidence that you can reach this level given that you're not building gliders? Second question on the A320. So you reiterated the rate 75 in 2027, but I believe in a recent media interview, Christian Scherer mentioned 2027-28, is this a softening of the message here? And lastly on space, how far are you now through the audit and what are the findings of this since the first half? Thank you.

Guillaume Faury

Thank you for the questions. Indeed, the around, in that case, 770 is what we used to take as a wording for around. So I don't know exactly what it means. I think within a plus or minus 20 we would fall into this around. Last year, we delivered 735 where the guidance was around 720. So you see that that falls into this range of plus, minus 20 aircraft that I would consider the order of magnitude of what around means in terms of number of deliveries. A320, rates 75 to be reached in 2027. So maybe Christian mentioned full year at rate 75 is 2028. Because we will reach the 75 in the year 2027 and obviously we are end of 2024. So there is, as you can imagine, a bit of flexibility of when that would mean exactly that we will reach 75 in 2027. And I mean, we are struggling with more pragmatic issues as we speak now in 2024 for reaching the 770 that we were discussing before.

Space audits, actually, well, audit is one thing. I think what is important here is the work that the team is conducting on the one program that has a major impact and whose analysis and audit is probably the word that we use sometime, which is the complete assessment of the program from the top to the bottom and the bottom from the top, with replanning with in depth analysis of each and every work package that makes the program and the time it takes, the supplier assessments, the level of resources, the ability to deliver and as well the profitability of each and every delivery. And therefore, having a full assessment of the EAC of that program, this will be completed before the end of this year. That's what I said, I think in the brief a bit earlier. And that's indeed the answer I want to give on that one. And I'm looking at Thomas, anything more?

Thomas Toepfer

I think we can say, we're making good progress in the assessment of the program, but as you can imagine, as Guillaume said, it's very complex because you have to assess the entire estimate at completion and that means the entire supply chain, that means our internal procedures, et cetera, et cetera, and also of course, the market perspective. So therefore it is simply not possible to give any intermediate results. But we are very certain that by the end of the year we will also have assessed this program. And that should then conclude the story around space with our assessments where we are.

Ross Law

Very clear. Thank you, Guillaume. Thank you, Thomas.

Operator

Thank you. Your next question comes from the line of Chloé Lemarié from Jefferies. Please go ahead.

Chloé Lemarié

Yes, good evening. Thank you for taking my questions. I have two, if I may. So the first one is on Airbus Commercial Performance, if I could dig into this. On the lead initiative impact in Q3 and what you would see in Q4, but also on potential compensation impact, so whether you've been receiving compensation from some suppliers, whether you've been paying compensation to some of your customers, and how we should think about this impacting Q3 and maybe Q4. And the second one is still on space, I mean, we understand this is a challenged sector at the moment, but I mean, what could be done to help the sector if there's too much opposition to consolidation within Europe. Thank you.

Thomas Toepfer

You take the first one?

Guillaume Faury

Yes. Let me start with the lead program. And obviously we announced that in the summer with our H1 results and we're making good progress. So let me just remind you what it is. It's not a restructuring program, but it is a program where we refocus the entire organization on what matters most. And that is mainly the ramp up. And that of course also means that we deprioritize things and projects and initiatives that could simply distract the organization from exactly that ramp up in the focus on our supply chain.

So therefore, we're not laying off people. That would make absolutely no sense. Yes, we have pre-hired a lot of people in the last year, but that is necessary and sensible to do so because we do not want to create our own bottlenecks. So therefore, again, it's much more about revisiting a long list of projects and initiatives and refocusing the organization. What should be the impact of that for the full year? I would roughly quantify it with a couple of hundred million positive effects. However, let me very clearly say that is only to counterbalance other negatives which of course we have, namely a high level of staffing, also the inflation. And therefore to be very clear, it's counterbalancing negatives that otherwise we would have faced in 2024.

On Space, so there are many different ways of skinning the cut, if I may call it like this. Our space activity when it comes to satellites is a diverse one. We have telecoms, civil telecoms, we have MilSatCom, we have exploration, we have science, we have earth observation, so it's a set of different segments.

Ideally, we find solutions that cover all the segments, but we could also find solutions that are a bit subscale. Actually, it starts with ourselves. We have taken and we have onboarded in programs or in contracts where the level of risk that we have taken in those programs was significantly higher than what we've been able to digest. So that's also something we are working on. We are re-baselining the way we are going to market with much more discipline in the way we offer new bidding approach that goes for Defense and Space, but in particular, for Space.

It's fixing those programs. It's resizing and readapting the space business to what we can do in a profitable way. And it's obviously some downsizing that we are doing and especially cost reduction when it comes to what's impacting the profitability of our programs. And beyond what I said at the beginning, well, there is potential for consolidation in Europe. We have to stick to European rules. There is an appetite in Europe at the moment to look at sovereignty, to look at the ability to create in defense, in particular, but not only companies at the size that will enable – that will make competition outside of Europe with non-European players healthier ones.

So there are plenty of opportunities of moving forward. First and foremost, we are dealing with what is fully in our control. And then we are looking at other opportunities, including, but not limited to, consolidation in Europe.

Thomas Toepfer

Just quickly on your second question, we don't want to omit this one. You asked about compensation for suppliers. So as we said in our first half call. Yes, we are very strict asking for compensation. If supplier do not – suppliers do not honor the agreements that we have. But of course, that is a second best solution. What we want is the deliveries. But yes, I can tell you, we're very, very strict that we are asking for compensation if that is appropriate. In the end, of course, we're trying to find constructive solutions for Airbus, because what is much better is getting the deliveries than finding claims against your supply chain.

Chloé Lemarié

Thank you. Just going back on the compensation question. So we should not expect any material compensation paid out to your customer in Q4. That's how we should think about it?

Guillaume Faury

Whether we are in Q3, Q4 or next year, there's always when we relate discussion with customers, depending on the nature and the origin of the delays, they are in the same situation as the one described by Thomas towards us than we are with our supply chain. And we have a flow of compensation coming from suppliers as we move forward. We've been in a tough situation with few suppliers now for almost a year.

It got better last year, but this year is a difficult one. And it's a bit upsetting each other when we really receive from our suppliers part equipment late, then we are delivering late. And you can imagine that there is a set of compensation on both sides. So we're not leaving from compensation and there's no better business case of not delivering. It's always better for Airbus to be delivering net from what we have potentially to pay to our customers in LDs versus what we got from our suppliers.

Chloé Lemarié

Okay. Thank you very much.

Operator

Thank you. Your next question comes from the line of Victor Allard from Goldman Sachs. Please go ahead.

Victor Allard

Thank you for taking my questions and good evening everyone. First question, I was hoping if you could give us an update on how you see the shape of the ramp by platform in the coming years, considering the visibility that you have today. I guess where I'm coming from is hearing from you Guillaume and looking at the press release this evening, you have noted that specific challenges on the A350, which may have an impact on the trajectory for 2025. So any qualitative color that you have here would be helpful.

And the second question is on inflation. So – we've seen G-FAST and Banque de France report on the state of the French supply chain at least in Q3. There are still many suppliers struggling indeed. So is that something, which hold you back today to revise your view on inflation and to provide more color on its evolution looking into next year and beyond. Thank you.

Thomas Toepfer

May be – I can take the inflation question. So I would reiterate our assessment from earlier this year, which is, we are still expecting a couple of $100 million negative effect from inflation in 2024. And slightly less than what we had last year. So inflation clearly is coming down. It's not a big swing factor in our year-end projections.

And as I said earlier, we are counterbalancing those effects in terms of inflation, but also, of course, the high level of staffing that we're having with our efficiency program, the lead program where we are trying to focus on the projects and the things that matter most. But I would say there is no big news on inflation. Our assessment has not changed over the last three months.

Guillaume Faury

To complete maybe on your question, you referred to the Banque de France study, which we looked at in detail, actually at G-FAST. I find it quite interesting to compare 2023 with 2019, both for GEODIS [ph] company and smaller SMEs. And I think a lot of – the majority of the companies back to where they were in 2019 on the economic standpoint, but probably with degraded balance sheet and a more challenging financial situation. So that gives an indication of the type of problems that need to be tackled. And with the ongoing initiative to have a second so-called aero [ph] funds to be able to act, to intervene, to support with equity and reinforce the supply chain for the French supply chain.

Now when it comes to your question, your first question on the shape of ramp-up of products, well, that's not something we are doing in details. We'll give an indication probably beginning of next year on what we intend to do next year, the beginning of the year, potential guidance. That's what we like to be doing, but it's not yet there.

Indeed, I flagged the 350 because we see already that sort of linear ramp up from 2023, 2024 to 2028 is not what we will get. Actually, the start of the ramp up is challenged by some suppliers. I mentioned Spirit, which is the one that is causing the most concerns. It's a different situation for others on the 320. We keep ramping up. There's an ongoing challenge at the moment that I flagged earlier on engines, be them from Pratt, it's known, and more recently from CFM with the recent issues they faced with some of their parts.

So it's a bit of a moving picture, not month by month, but probably quarter by quarter. And we're not giving color on this because that doesn't reflect the underlying ramp up trajectory that we believe makes sense on the midterm.

Victor Allard

Thank you.

Operator

Thank you. Your next question comes from the line of Robert Stallard from Vertical Research Partners. Please go ahead.

Robert Stallard

Thanks so much. Good evening.

Guillaume Faury

Hi, good evening. We can hear you.

Robert Stallard

Okay, thank you. A couple of questions from me. First of all, following up on the prior question on the supply chain. I was wondering, Guillaume, if you could give us an update on the narrowbody engine situation, whether it has improved sequentially and whether you're getting better visibility on the ramp going forward from here. And then secondly, I was wondering if you've seen any indirect negative impact on Airbus suppliers from the ongoing Boeing strike? Thank you.

Guillaume Faury

Thank you. Maybe not the easier questions. So, on the narrowbody engines, and I take narrowbody as the A320, I guess, we have the existing and known situation with Pratt & Whitney on the GTF. There's nothing new on that front in the sense that we get from Pratt what we have agreed with them, they would give us on the way. So it's challenging because they have to do their best in supporting the fleet on the one hand, and that a lot of aircraft which are on the ground, AOGs, but also a number of engines to support the ramp-up, you might remember that we had agreed for 2023 and 2024 on a reduced number of Pratt engines to Airbus to cope with that tension between supporting the fleet and producing new planes. So basically we have from Pratt what they told us, what we had agreed they would give us.

But it's challenging because we have reduced our buffer stock to the very minimum. So we don't stock, we don't buffer stock engines that could have a better use in service. Now we have a more recent situation with CFM that has significantly degraded in the last months, which is causing I mean problems in service again with the fleet and to Airbus because they've been short of the engine deliveries they had committed to us. And the visibility is that it will continue to be the case for the weeks and months to come. Both GE and Safran have been quite specific during the third quarter results on what it means in general and more specifically for Airbus. And as you have understood, we will suffer from that situation at the back end of this year and beginning of next year.

When it comes to the Boeing strike, we don't have direct impact, but we have indirect impact in the sense of that strike weakening suppliers, which are common suppliers to both Boeing and Airbus and I don't want to name them, it's probably not appropriate here. But that's something we are monitoring very closely as we are indeed fearing [ph] those indirect impacts as additional challenges, as additional disruptions on an already tense supply chain. That's it on my side.

Robert Stallard

Okay, thank you very much.

Guillaume Faury

Thank you.

Operator

Thank you. We will now go to the next question. And your next question comes from the line of Christophe Menard from Deutsche Bank. Please go ahead.

Christophe Menard

Yes, good evening and thank you for taking my question. I had two. The first one is on helicopters. You had a strong performance in Q3, I understand services. The margin level is high. I mean, does it mean that we could consider a higher potential mid-term target that you presented about two years ago on that division? Or is it just a one off that we have in Q3?

Second question is on the – you mentioned when you reiterated guidance that it was excluding any impact of the Spirit acquisition on the financials. Can you give us an indication or a preliminary review of what type of impact it could have on your guidance when the Spirit acquisition is consolidated? Thank you.

Guillaume Faury

Thomas?

Thomas Toepfer

Yes, let me start with Spirit. So just to remind everybody what is the situation, we have signed a binding term sheet and a quite detailed binding term sheet with Spirit. So nevertheless, we have to get to a formal signing of a contract and that is where we currently are. And we’re expecting that to happen before the end of the year. Now, specifically to your question, we are hoping that signing will occur, but that would of course not have any material impact on our financials for this year.

And then I think in the outer years, as I said also in earlier calls, what will happen conceptually is that we will be taking over programs from Spirit that are currently loss making and we’re getting a compensation for that. And you've seen the numbers in our previous call. And my assessment was that the compensation that we're receiving for taking over those programs from Spirit should compensate the negative impact that we will then have with those programs before we turn them to being neutral, and that will be in effect over time.

So economically, it's essentially a wash, and we have to figure out exactly how that will be reflected in our financial statements. So I think that is still an open question whether a provision or as something similar could be built in order to smoothen the accounting impact, but the most important thing for us is that economically we have achieved an agreement with Spirit that puts us in a good position, which is essentially neutral.

Christophe Menard

Q3 of Helicopters.

Thomas Toepfer

For Q3 of helicopters, you've seen that they had lower deliveries, but still essentially a result at the same level as of last year. That is due to a very positive mix and also the good level of services that they had, but that would not lead me to the temptation to increase their results or to increase the guidance for the trajectory of helicopters, which is a very, very positive. And I would leave it here, so not to be over interpreted that Q3, indeed, despite relatively low deliveries, had a good result.

Christophe Menard

Thank you very much.

Operator

Thank you. Your next question comes from the line of Ken Herbert from RBC Capital Markets. Please go ahead.

Ken Herbert

Yes. Hi, good evening. Thanks for taking the question.

Two questions, if I could. The first, the full year reiterated guide, obviously implies a very significant ramp in the fourth quarter on both adjusted EBIT and in particular on free cash flow on just basically 25 to 26 more deliveries. The first question is, is there anything unusual in fourth quarter timing around the cash flow that we should keep in mind that could be – maybe incrementally positive or more positive than you've seen in prior years?

And then – and then maybe Guillaume, as a second question, obviously the supply chain continues to struggle on many levels. Is there anything you're looking at fundamentally to change the relationship with your supply chain now, either from an investment contract terms, is there anything you think you can do that maybe you haven't looked at to just broadly help with the supplier performance here for the next couple of years so that the longer term targets, we can increase confidence in the longer term targets? Thank you.

Guillaume Faury

And I start with the second one and then I hand over to you for the free cash flow part, Thomas?

Well, it's a very fair question and it's a question we have asked ourselves many, many times since we moved out of COVID. Actually we've done many, many new things in different ways. We had this famous watchtowers which have increased very significantly. The transparency that we get from our suppliers, the exchange of data, the visibility we have on problems coming. We have deployed very large, very, very large number of our own experts, employees to suppliers, and we are working with a scheme that we call JIP, joint improvement plans with some of our key suppliers where you need [indiscernible] and where they need us to get better, and we need them as well to get better. So that's what we are doing.

Now on the structure of the supply chain, it's something that is, I mean, almost impossible to change on ongoing programs. COVID has led to a lot of decisions of transfer of work packages, transfer of work as we call them, also layoff of people or teams being significantly reduced during COVID and without the ability for suppliers to find the same skills, the same competencies in numbers and in quality and then it takes a lot of time to train people. So I unfortunately believe that we are turning all stones that we reasonably can at the moment that it's a moment, a bad moment to digest. To be candid by mid end of last year we thought we had put the bulk of the problem is behind us, and now we're hit with new ones that are of different nature. They are with large suppliers, strong ones.

The problems with the smaller suppliers are mostly digested, at least that's what I want to believe based on what I see, but we have to get through it also with the large suppliers and not only, but I have to say, mainly the engine maker for the single aisle, which are the ones probably facing the most difficult situation because they're facing a ramp-up, which is with multipliers as they serve us in our own ramp-up but, they have as well to serve the fleet, which is a growing fleet with engines that have rather short time on wing and therefore, a very strong need for spare parts that pulls very much onto their own suppliers.

So that needs to be digested. We are not without hope. But we think the next two to three years we will continue to be challenging because we'll continue to ramp-up and as our suppliers keep doing better we will keep asking for more, and it's all about finding the sweet spot in terms of tension between demand and supply. And when we have big unexpected events, I mean, the Milton hurricane in the U.S., when was it, two weeks ago, three weeks ago has been an unexpected event having more dramatic consequences than what we would have expected in a normal year.

And at the end of the year and where – we are vulnerable to supply chain performance. So sorry, a long answer to your question because it's a very fair question. And I don't see today what we could be reasonably doing that we are not doing. And if you have good ideas, everybody is welcome because this is the top priority for us at the moment.

Thomas Toepfer

And the answer on your first question in country will be relatively short. I mean you asked if there's any special effect for the free cash flow development in the last quarter of the year, if you compare it to last year, other than the fact that, of course, the number of deliveries should be higher in order to reach the target of around 770. No, that is actually the main driver because the payment at delivery are, of course, a very, very important factor. And so with – with the deliveries that we expect until the end of the year, that should be the major factor to bring the cash flow to our target.

And if you look at it from a balance sheet perspective, you see that we're sitting on very high inventories. That is exactly the swing factor that should be translated into cash through the deliveries. Other than that, there is no specific one-off or any specific risk that I would see for the full year guidance in terms of cash flow.

Ken Herbert

Great. Thank you.

Operator

Thank you. We will now take our final question for today. Your final question comes from the line of Phil Buller from Berenberg. Please go ahead.

Phil Buller

Hi. Thank you for fitting me in. I've just got a couple of sure follow-ups, if I may. On the last topic we just discussed in terms of trying to navigate the ramp-up as best as possible. Your Q4 delivery push is very large, and it does seem to get bigger as time goes by. So I'm wondering if this is part of the problem in itself. I'm not suggesting that we don't deliver clients that are ready to go, but I'm wondering if perhaps that's one of those things that you can control, which would actually enable a more linear ramp? That's the first one.

Guillaume Faury

We need to take it one by one. While the plan was not designed to be that back loaded by the end of this year. We've been hit by problems that we were not expecting in the course of the year that are impacting actually the back end of the production process, meaning the file itself. On equipment and systems, meaning engines, seats, others landing gears that were already vulnerable because at a low level of buffer stocks for different reasons. And as they are at the end of the production process, end of the fall even for engines, we have very limited possibilities to react. So we have to adapt to those problems as they appear and the European, including what I said on the Milton hurricane very late in the year, so with limited resources to react in terms of deliveries.

Now the production process, the underlying production process is more linear. That's why we believe that we will reach the around 770 for this year. And unfortunately, I mentioned the situation of the 350, I mentioned the situation of the CFM engines, we see that we will have a difficult start of the year, which unfortunately suggests that we would be already with a backloaded year for 2025. So that sort of repeat.

Now when we were in a more stable situation and having no ramp-up in functioning supply chain, namely 20 – the second half of 2020, 2021, beginning of 2022, actually, that was quite linear. So we are not doom to be backloaded. There's a bit of a usual pattern that was back before COVID that we see coming again, but I have difficulties to look at it as a structural issue it's more one that is linked to circumstances. But when you are in ramp-up and we are in a significant ramp up, each and every delays, I mean leads to a big back loading at a certain point in time, and that's where we are. [Indiscernible] as trading, but that's what it is.

Phil Buller

Understood. And two very quick follow-ups, if I may. The Spirit due diligence process I understand it is binding. Is the compensation level also binding that's been disclosed? Or could that change?

And the second one, you talked about inflation earlier on the call. I just wanted to understand if there was a steer perhaps for how we should think about that into 2025. I think it's understood for 2024, but is that likely to remain kind of a mechanical headwind into 2025, please? Thanks very much.

Thomas Toepfer

Real quick. The compensation is a fixed amount that will not – that is not depending or contingent on any due diligence. And inflation, I don't want to guide on individual items before we have come out with the 2025 guidance. But directionally, we've seen inflation coming down from 2023 into 2024. And I would expect that that direction continues into 2025.

Phil Buller

Thank you very much.

Guillaume Faury

Thank you. Thank you, Thomas.

Operator

Thank you. I will now hand the call back to Helene for closing remarks.

Helene Le Gorgeu

Thank you, Sharon. This closes our conference call for today. If you have any further questions, please send an e-mail to Olivier and myself, and we will get back to you as soon as possible. Thank you, and we are looking forward to seeing you or speaking to you again very soon.

Operator

Thank you, ladies and gentlemen. The conference has now concluded, and you may disconnect your telephone. Thank you for joining, and have a pleasant day. Goodbye.