Airbus SE (OTCPK:EADSF) Q2 2024 Results Conference Call July 30, 2024 1:30 PM ET

Company Participants

Helene Le Gorgeu - Investor Relations
Guillaume Faury - Chief Executive Office
Thomas Toepfer - Chief Financial Office

Conference Call Participants

Ben Heelan - Bank of America
Milene Kerner - Barclays
Olivier Brochet - Redburn Atlantic
Tristan Sanson - BNP Paribas
Douglas Harned - Bernstein
David Perry - JPMorgan

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Airbus Half Year 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'll 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 half year 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. Hello, ladies and gentlemen, and thank you for joining us today for our 2024 results call. We are indeed here in Amsterdam with Thomas to run you through our results and it's been a month since we last talked.

Indeed, on this occasion, we addressed the increased financial exposure on our space activities as well as the degraded operating environment and the specific supply chain issues and challenges in our commercial aircraft business.

And that occasion, the Company updated its 2024 guidance and adjusted the trajectory of the A320 family ramp up, confirming the rate 75, but now for 2027. We will detail our H1 performance, and Thomas will come to the financials. But first, I want to provide more color on the two topics that triggered the guidance update.

Let me start with our space business and the charge we recorded in H1 2024, of which the nature of the scope and the trigger are unchanged as compared to the guidance update a month ago. And in particular, by clarifying why this charge was not identified already in 2023.

As decided last year as part of our transformation plan, our space transformation plan, we appointed a new management with relevant expertise both on the business and finance side, and I should say as well on the management side. The new Head of Space is a proven leader, it's [indiscernible] with various experiences at Airbus, I know him well, and he knows the space business on top.

The new Head of Finance led the cost containment exercise during COVID. And at the time, the transformation program in helicopters. So, I was with Bruno Trabel at that time in the turnaround of helicopters. The newly appointed management team launched as part of the plan we decided at that time, extensive technical reviews of our space programs, which consisted in full, what we call, bottom-up assessment or reassessment of the main critical programs with enhanced risk sizing and time lines evaluation.

And as said previously, there is one major program, which remains to be fully assessed and has only been provisioned using a top-level approach. The profound work done by the teams led to the technical findings and subsequent estimates at completion, EACs, so subsequent estimate at completion update. Main revised assumption has been, first and foremost, the project schedule, the time it will take to get there, the economical conditions, the reviewed risk assessment as well as cost overruns linked to both our own operations and also costs coming from the supply chain.

So, it's all about assessing the future of those programs. The amount booked in H1 stands at €989 million, consistent with the announcement made on the 24th of June and reflecting the closing and audit process. The charges are mainly contained to telecom and navigation with limited crossover to observation overruns. Let me also do a step back the space business went through a major shift.

The market conditions have changed as we have seen an increased competition with some disruptive new players and, in particular, on disruptive new player. We've not been properly balancing risks and rewards in the contract we signed between 2018 and 2021. This included, for example, contracting major development programs with significant technological gaps to bridge without the proper contractual conditions and the right organization setup in front of it.

Now on to the actions and the way forward. First and foremost, we are addressing the impacted programs and their challenges. So, we are on them. We've also implemented a highly selective bid-no-bid strategy, including the need for an increased technological maturity threshold and assessment prior to any firm proceedings.

This new approach has already started to be reflected in the average profitability of last year's binding offers. So, it's not brand new that's something we did last year. Also, we have redefined our internal organization, the governance and the control in particular, we've put in place what we call end-to-end integrated program teams over the whole value chain and leading engineering, procurement, operations and smaller organizations.

In addition, we have launched both a cost containment exercise that are short term, but also a midterm competitiveness plan. In parallel, as we said earlier, we are evaluating all strategic options given the nature of the situation, such as restructuring, actually, it's launched, portfolio review, cooperation and potential M&A, and that might be a combination of some of that. So that was for space.

Now let's turn to commercial aircraft and how we secure our ramp-up trajectory and the new assumption under current operations. First, we are ramping up, and we are supporting our suppliers since the pandemic. We're in the ramp-up. We have made our way from a situation with a large number of suppliers facing diverse issues in 2022 to a situation now where we see a small number of large suppliers facing some specific issues.

And I see 2023, I mean, the success of 2023 as a proof point of the progress we've made since we went out of COVID. But first, we enhanced our level of visibility of the supply chain, both in granularity and in-depth. We performed comprehensive supplier capacity assessment to tackle the bottlenecks, also targeting the critical indirect suppliers.

Second, our dedicated organization of supply chain experts has been growing significantly in numbers and quantity and quality since 2021 to reinforce very strongly our on-site supplier support and through what we call dips, which are joint improvement plans with the critical suppliers.

Finally, we have cross-division task force fully in motion to leverage our supply chain intelligence and mitigate potential impact from the degraded geopolitical context. We've been able to contain and manage several crises. It includes, for example, the semiconductors and various logistic disruptions demonstrating our significantly improved resilience.

But when we hit like more recently by equipment that are reaching us that are going to Airbus at the end of the final assembly line or during the final assembly line, we have by far less ability to react and to compensate that's what's happening with engines. They can very late in the manufacturing process or landing gears that come also in the file or seats, which by nature are installed at the end of the customization.

So that's why we've been impacted short term with little notice and anticipation more recently. And regarding our own activities and in particular, our own aerostructure business, we have now two main areas of priority: raw materials and detailed parts shortfalls and on the other hand, integrating the remaining production units together.

Our efforts are paying off. Our recent decision to adjust the rate 75 to 2027 gives to the key suppliers the additional time they need to fulfill the requirements of our production planning and it relaxes the tension for most of the suppliers by giving them a bit more time. So, we will now look at these specific issues.

So as presented last month, we experienced a high level of missing parts, mainly on engines, on cabin and equipment and on Spirit AeroSystems work packages. On engines, the 2024 and 2025 volumes are aligned with our suppliers. To assess the performance issue of engine manufacturers, we have joint improvement plans going down to the elementary part bottleneck and encompassing both the line fit and the airlines in service demand with a high level of transparency.

It doesn't mean that we always get what we want on time, but at least we have this high level of transparency and cooperation with our engine manufacturers. On equipment, we saw the performance of some suppliers not at the level we were hoping for, and we have, again, JIPs, Joint Improvement Plans with top management attention with Safran and Honeywell.

On Cabin, the supply is largely managed directly by the airlines, but we created last year the cabin readiness organization to reinforce our support to both our customers and suppliers. To face the demand, the scope is now growing to continue facilitating the interfaces and securing the on-time integration of cabin elements in our funds in our final assembly lines.

And last but not least, regarding Spirit AeroSystems. We have signed a binding term sheet to secure the future of the major Airbus work packages that was earlier this month. We target to close the deal in early 2025, we're working together with Space to secure the critical ramp-up investments in medium and long term and to support the transition phase and secure the immediate operations, we have deployed an Airbus workforce of over 100 people, still the challenge remains high.

And before we go back to the normal course of our presentation, after these few comments on Space and Commercial, let me stress that this is an ambitious and continuous work and that our teams and partners are devoted to successfully deliver on the plan.

This being said, let's now look at our commercial environment, starting with commercial aircraft. The demand remains strong. We booked 327 gross orders in the first half of the year and recorded 17 cancellations. On the A320 family, we booked 197 gross orders, bringing our backlog to 7,128 aircraft, thereof more than 2/3 are for the A321 more than 2/3 for the A321.

Moving to the wide-bodies. We recorded 130 gross orders, including 33 from Korean Air and 30 from Indigo. We're also pleased with the recent announcement at the Farnborough Airshow, sorry, which confirmed in particular, the good momentum for our widebody family and which underpins once again, the trust in our products and our leading position in the long-haul air travel. As a result, our backlog in units amounted to 8,585 aircraft at the end of June 2024. We have some work ahead of us.

Looking at helicopters. In H1 '24, we booked 233 net orders compared to the 131 in H1 last year. In this quarter, we secured a record order to 38 H225 helicopters and six options with the German Ministry of the Interior for the Federal Police, the Bundespolizei.

We also signed orders for the H145 in both in civil and military versions, notably with Belgium, U.K. and Brunei and additional H175 orders placed by our lesser customers. So overall, good bookings. We continue to see positive momentum in the civil and military markets, and we remain focused on securing new business opportunities in both our home countries and the export market.

On to the order intake recorded at Defense and Space, it was €6.1 billion in H1 2024. On Air Power side, this notably reflects services contracts. Let me highlight that Eurodrone has passed the PDR, the preliminary design review, allowing it to proceed towards the next milestone, which is the CDR so critical design review.

And as announced in July, Saudi Arabia has signed a contract for four additional MRTTs to be recorded in the backlog once all administrative work or paper work is done. In our Space Systems business, Airbus will design and build two telecommunication satellites for Yahsat, allowing in-orbit reconfiguration of coverage area capacity and communication frequency.

So, we keep moving forward also in space as we recover the situation. And let me congratulate ArianeGroup, the European Space Agency and all partners for the first Ariane 6 ESA, a resounding success, which allows Europe to regain its independence and sovereign access to space. That's good news in the space business sometimes.

But now, Thomas will take you through our financials.

Thomas Toepfer

So, thank you very much, Guillaume, and hello to everybody on the call. I'm now on Page 9, and I'll take you through our financial performance. So, as you can see, our H1 2024 revenues increased to €28.8 billion that is up 4% year-on-year, and it's mainly reflecting the number of commercial aircraft deliveries and also a higher volume in our air power business.

And on the right-hand side, you see that on R&D, our expenses increased versus the first half of last year and stood at €1.6 billion. However, for the full year, we continue to expect our full year R&D to only slightly increase compared to last year.

Now let's move to the next page, I'm on Page 10. And as you can see, our H1 2024 EBIT adjusted decreased to €1.4 billion from €2.6 billion in the first half of last year, and this decrease primarily reflects the charges recorded in our space business, and I shall come back to this in just one minute.

So, the higher commercial aircraft deliveries are offset by investments to prepare the future, such as R&D expenses and the increase in workforce leading to temporary overstaffing. And let me also recall that the planned impact from the increased Airbus employee share ownership plan, which we recorded in the first quarter and that impacts all divisions. Remember, it resulted in a year-on-year expense increase of just slightly above €0.1 billion.

And also, for your records to make the numbers comparable. Remember that the first half of 2023 benefited from the progress that we made on our compliance topics and which allowed us to release provisions for the amount of €0.1 billion in commercial aircraft but this first quarter also contained updated assumptions on some long-term contracts in our space business, resulting in a charge of €0.1 billion.

So now let me spend some time on the additional €989 million charge, which we recorded on our Space business. So first of all, as mentioned by Guillaume, it is consistent with the previous announcement, and it reflects the closing and the audit process. As we are on long-term contracts, we have revised the past, the present and also the future profitability and hence, only a portion of the charge actually relates to the current period.

So that means around 1/3 reflects the current period profitability, while the remainder is to adjust the past and the future profit. So that means 2/3 is probably the right order of magnitude to be normalized in your models. And this mechanic also explains why this charge only has a partial cash impact in 2024.

So, as you can see, the H1 2024 EBIT reported was €1.5 billion, and on the upper right-hand side, you see the level of EBIT adjustments. They were slightly positive, and they included €19 million impact from the dollar working capital mismatch and balance sheet revaluation, of which €32 million in Q2 and it also includes the €51 million related to the gain on the Airbus OneWeb Satellites, which is linked to the acquisition of the remaining 50% of the joint venture, and which we recorded in the first quarter and it also includes minus €5 million of other costs.

If you look at the financial results, it stood at minus €108 million and it mainly reflects a negative impact from the revaluation of certain equity investments and the tax rate on the core business continues to be around 27%.

However, as you will have noticed, the effective tax rate is 46%, including the impact from the net deferred tax asset impairment and also the tax effect on the revaluation of certain equity investments that I was referring to when we were talking about the financial results. So, the resulting net income is €0.8 billion with earnings per share reported of €1.04 and our H1 2024 EPS adjusted stood at €1.38 based on an average of 790 million shares.

So now let's move to the next page, Page 11 and have a look at our U.S. dollar exposure coverage. In the first half of this year, USD 10.4 billion of forwards matured with associated EBIT impact and euro conversion realized at a blended rate of $1.21 and versus the same rate in the first half of 2023.

And in the first half of 2024, we also implemented $9.5 billion of new coverage at a blended rate of $1.11. So as a result, our total U.S. dollar coverage portfolio in U.S. dollar stands at $90.9 billion with an average blended rate of $1.22 as compared to €91.7 billion at $1.23 at the end of 2023. And our portfolio is currently being adjusted by implementing some rollovers to reflect the latest ramp-up trajectory and also our delivery target for 2024.

So, with that, let's have a more detailed look at our free cash flow, I'm on Page 12. Our free cash flow before customer financing was negative €0.5 billion in the first half and this outflow was mainly driven by the change in working capital, including the planned inventory buildup resulting from the execution of our ramp-up plan.

The A400M continued to weigh negatively on our free cash flow and our first half 2024 CapEx was negative €1.3 billion, and this reflects the investment in enhancing and upgrading our industrial system and to support our ramp up, we expect our CapEx to continue to increase in 2024, however, at a somewhat lower pace.

The free cash flow was negative €0.6 billion with a minor impact from customer financing, and I can tell you the aircraft financing environment remains solid with currently sufficient liquidity in the financial markets for our products.

So, as you can see on the right-hand side, with those effects, our net cash position stood at €7.9 billion as at the end of June after the payment of a dividend and special dividend for a total of €2.2 billion and our liquidity remains at around €30 billion.

I should just say that our approach of shareholder returns has not changed, and we continue to believe that €10 billion is the right level of net cash for the group.

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

Guillaume Faury

Thank you, Thomas. So let's start with the review by business and with commercial aircraft. In H1, we delivered 323 aircraft to 65 customers and looking at the situation by aircraft family now. On the A220, we delivered 28 aircraft, and we continue towards monthly production rate target of 14 aircraft in 2026, while still working on the programs industrial maturity and its financial performance.

And here, let me mention that in line with agreements in place and as anticipated, the Company and investment in Quebec agreed to provide shareholder financing for the Airbus Canada Limited Partnership. On A320, we delivered 261 aircraft, of which 147 A321, representing now 56% of deliveries for the family.

As recently announced, we have adjusted our A320 ramp-up trajectory to reflect specific supply chain challenges in the production rate of 75 A320 aircraft a month is now expected in 2027, as I have explained at the beginning already. For the A321 XLR, we are pleased -- we are very pleased with the recent EASA type certification we received. This is for the CFM engine version. This is a key milestone, paving the way for the entry into service at the end of this summer.

It's an incredible aircraft really going in the direction of decarbonization as it means 30% lower fuel burn and two advantage per seat and per mile compared to previous generation competition across for the same segment. We delivered 34 widebodies in the period, of which 13 A330 and 21 A350. We continue to target rate for the A330 this year and rate 12 for the A350 in 2028.

Now let's look at the financials for our commercial aircraft business. Revenues increased 4% year-on-year, mainly reflecting slightly higher number of deliveries. The EBIT adjusted decreased to €2 billion from €2.3 billion in H1 2023, with increase in deliveries being offset by investments for our future, notably R&D and the recruitment of skilled workforce that is temporarily resulting in over staffing, even more than the ramp-up is slightly slower.

In view of the continued pressure in the supply chain and overall complex economic situation, we launched an improvement program in our commercial aircraft business, it's for lead to focus on core business activities ready to focus also on performance, on efficiency and to secure our industrial ramp-up without, of course, compromising on quality, safety, compliance, I mean, the very basics of what we do.

Looking at helicopters. In H1 2024, we delivered 124 helicopters. So that's 21 less than in the first half of last year. Revenues stood at €3.2 billion, broadly stable year-on-year despite lower deliveries and reflecting a solid performance in services. EBIT adjusted decreased to €230 million, reflecting these lower deliveries and somewhat on mix.

And let's complete the review of H1 with Defense & Space. The revenues increased 7% year-on-year, mainly driven by the air power business and partly offset by the recent updates of the estimated completion assumptions in Space Systems. The EBIT adjusted reflects the charges of €989 million detailed by Thomas earlier, mainly linked to the updated estimates at completion on telecommunication navigation and observation programs.

On the A400M, we delivered four aircraft in 2024. We continue with development activities towards achieving the revised capability road map. Retrofit activities are progressing in close alignment with the customer. No net material impact was recognized in the first half of 2024.

And risk remain on the qualification of technical capabilities and associated costs on aircraft operational reliability on cost reduction and on securing overall volume as per the revised baseline. And I think you must have heard those sentences already a few times. Now going to the guidance, and let me remind you of our guidance issued in June.

As the basis for the '21 guidance, the Company assumes no additional disruptions to the world economy, air traffic, the supply chain, the Company's internal operations and its ability to deliver products and services. And the Company's 2024 guidance is before M&A. And consequently, before outcomes of the ongoing due diligence with Spirit AeroSystems.

And on that basis, the Company targets to achieve in 2024, around 770 commercial aircraft deliveries and EBIT adjusted of around €5.5 billion and the free cash flow before customer financing of around €3.5 billion. So that's no change compared to the guidance we issued in June I think on the 24th of June, so slightly more than a month ago.

I will conclude with our key priorities on the Page 19. And I guess there's no surprise. All our key priorities are front and center to driving our business forward. Our teams remain focused on executing our plan to meet customers' demand, alongside with the transformation at Airbus Defense and Space. And let's be clear, on space, we won't take our eyes out of the case before it is fixed, and I will not take my eyes out of the case before it is fixed.

And I think Helene now ready to take the questions, right?

Helene Le Gorgeu

Yes. So, 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 sub questions. 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

[Operator Instructions] And your first question comes from the line of Ben Heelan from Bank of America. Please go ahead.

Ben Heelan

Yes. The first question I had was around these reports on restructuring and your comments about restructuring in the commercial business. Could you give us a little bit of color as to what you're actually trying to achieve with that? Are there any cost savings numbers that you can talk to? And what sort of benefit that that's going to have on the margin in the second half of the year? That would be the first one.

Thomas Toepfer

Well, Ben, quite frankly, this is completely in line with what I already indicated a quarter ago when I said the Company is completely focused on the efficiency and on the ramp-up and we have now put this into a more formal program for commercial. So, I would not call it a restructuring program. I would say it has two main areas of focus. The one is clearly making sure that everybody is laser-focused on the ramp-up because that, of course, is the single biggest factor of success for 2024, but also beyond.

And the second area is the efficiency. So, we're just focusing that we're not overspending that we keep our resources in line with our deliveries that we keep our cost base under control, and that we're not detracted by projects left and right, which are not really necessary to make sure that the Company is on a path of success. And therefore, it's not a restructuring program. There are also no specific costs associated with it. It is simply, I would say, refocusing our activities on what really matters. And the effect will be that this will help us to achieve our 2024 targets but also, of course, beyond that, be on the right trajectory with respect to the ramp-up and also the financial profitability.

Ben Heelan

Okay. Very clear. And then my second question was that there was clearly a lot of hiring that went on in the commercial business in Q2. I think it was over 4,000 people. And as a business, now you're up at 155,000 people. I mean, how can we think about head count from here? And my understanding was we kind of reached the level of scale that the business needs from a head count perspective to support the ramps you've talked about having a lot of excess costs while we wait for these ramps to come through. So, how should we think about the hiring, the head count from here?

Thomas Toepfer

Well, we told you when we talked about the full year 2023 head count numbers that we had probably over-hired relative to what we had in our plans because we under -- we overestimated the attrition rate. And we wanted to make absolutely sure that we're not creating our own bottlenecks. But we told you at the time that we would clearly decelerate the hiring in 2024.

Now if you look at the numbers, you will see that as of the half year, we had 154,549 FTEs as active workforce. So that is up some 6,600, relative to the year-end. That looks like a high number, but you should be aware that includes the first-time consolidation of our India business with 3,400 heads. And they were already included in our cost base through charges or recharging, so that they were essentially resources that we were already using, but they were not consolidated in our head count number.

So, if you strip that out, you will find it a very moderate increase of a little over 3,000 that, of course, still has some impact of contracts that we concluded at the end of 2023, but I think it clearly indicates you that we're decelerating and that we're very, very selective in terms of the head count to bring it and sync with our ramp-up targets.

Operator

Your next question comes from the line of Milene Kerner from Barclays. Please go ahead.

Milene Kerner

Yes. I have two, please. The first one is on your employee base two performance at the commercial aircraft. If I based on your guidance of €5.5 billion, the implied pre-R&D EBIT for the extra 28 airplane you will deliver in the second half compared to last year, we'll be north of 20 million per plane on an organic basis. Could you please comment on what will drive that? And related to this question, I wonder if there is a bit more detail that you can share with us on how your cost works out through Q3 and Q4, including the overhead cost and the productivity that you earlier mentioning following Ben's question.

And then my second question was on your delivery outlook beyond 2024. Obviously, I'm not expecting you to give a delivery guidance for next year 2026. But based on your current production rate and targeting a rate of 75% by 2027 on the A320 and 12 by 28 on the A350, that would imply an annual CAGR of low double digit based on the program delivery share that you had last year. So, based on this, is it fair to assume low double-digit delivery growth per annum after this year?

Thomas Toepfer

Your second question was a little bit difficult to understand, but let me maybe start with the first one. Essentially, what you're referring to is how to think about the remain to do for the second half of this year and what to plug in for the delivery. So, I think the -- I would say the bridge that I would give you is in the second half of 2023, we delivered an EBIT adjusted of €3.2 billion to get to the midpoint of our guidance for this year, we would have something like €4.1 billion.

So yes, we have like €0.9 billion more to do. What are the key building blocks. The one is the -- if you take the midpoint, again, delta of 28 aircraft that we will deliver more, I would say you can simply plug in the normal number that you have in your models. So, I would say there's no extra assumption of higher profitability, but you take the number that you have -- that you always have used.

And then please remember, we already had charges on space where, of course, the assumption is that they will not repeat. They were €0.6 billion, and we said please only normalize 0.4 million out of that. And if you take those two together, that already brings you to the €0.9 billion uplift that is required in the second half of the year.

Now there's a little bit up and down, of course. As I said, there will be somewhat higher R&D costs and probably a little bit of inflation. But on the other hand, the lead program that we have launched should be able to compensate for that. So, those things will be largely equaling out. And therefore, the two big building blocks are the ones that I gave you and that is essentially the bridge for the remainder of the second half.

Milene Kerner

Yes. My second question was just more to see, I mean, how we should think of your delivery, I mean, beyond this year. And if we actually take the CAGR implied by your production target on the A320 and on the A350, I mean the CAGR low double digit. So, is it a fair assumption that we should put in our model for the delivery growth next year and in 2026?

Guillaume Faury

Well, maybe I'll take that one. We don't want to be giving a guidance for 2025, as you can understand. So, it's -- I don't think it's very appropriate at this point in time end of July to yes, reflect on the growth per annum for 2025. But indeed, the number of deliveries that we have to reach with the rate 75 by 2027, A350 by 2028. The ramp-up on the 220 gives a number of deliveries that has to go from where it's going to be this year. Let's take 770 what you can compute for end of '27 or end of '28 if you take reasonable assumptions, and that gives an indication of the speed of growth.

And as far as I remember, the growth in number of deliveries last year was 11%, I think. It's not always double digit, but sometimes it is. So that gives an indication of what we have done already and where we are heading to. We spend a lot of money to invest in the ramp-up and the supply chain as well. So, it has to pay off in a way or the other and the ramp-up plans that we have are supported by deep analysis of the supply chain capabilities and ability to do the ramp-up. So, I would suggest that you look at past and present and extrapolate with what we have given in terms of objective per family to define your model of ramp-up.

Operator

Your next question comes from the line of Olivier Brochet from Redburn Atlantic. Please go ahead.

Olivier Brochet

Two questions. The first one on the A220 and the funding that you've just announced and realized part of it, what are you aiming for with it? Is it to cover the ramp-up and the investments needed? Or is it even for new program launches. And does it have any financial consequences for the consolidated group? And the second question is, is on tariffs. Are you concerned about potential changes in the U.S.? Or are your customers talking to you about what they can do concerns they have around that, especially on the suspended WTO ruling for 2026?

Thomas Toepfer

Yes. So let me start with the first question. So, I would say it is pretty easy. We've always said that the program is not yet breakeven until we reach the rate of 14 in 2026. And therefore, the program requires continued financial support exactly until that point. That is what is behind it. It will not have consequences on our consolidated numbers because so far, the cash need has been covered with a shareholder loan that will be essentially repaid by the equity injection that we're making. So, you will not notice it in our cash flows because the Company, of course, is 100% consolidated. And also, just to reconfirm, it is the normal ramp-up that this relates to. So, we're not financing any new project or program development. It's simply the trajectory towards rate 14.

Guillaume Faury

Thank you, Thomas. Maybe I'll take the second one. So, on the tariff side, we had tariffs on Airbus plan delivered from Europe to U.S. at a point in time. There was a rather specific situation at that time when Boeing was significantly impacted by the grounding of the MAX, hence Airbus by the ruling of the World Trade Organization. In the case U.S., against Europe, so was giving the ability to the U.S. to put tariffs on Airbus plan.

Even in those conditions, when we had 10 and then 50% of tariffs, the one suffering from this were primarily the airlines, the U.S. airlines because contracts were in place and to some extent as well the U.S. supply chain on a more longer term. Things have evolved in the meantime because the rolling of the WTO for the case, Europe against the U.S., I hope I didn't make a mistake previously by the way.

Europe against the U.S. gave the ability of -- for Europe to put tariffs on Boeing plans and therefore, rebalancing the situation. And in the meantime, Boeing has recovered its ability to deliver planes to European airlines to a large extent. So we are now in a balanced situation, both from the ability to deliver and the WTO rulings.

So, we are back into a situation where tariffs would really be lose-lose for both sides of the Atlantic. So, we tend to believe that it's rather, if not very unlikely, that we find ourselves in the situation we were in, in 2020, 2021. This being said, tariff by nature, volatile they can be decided one side and they have a number of potential objectives, which go beyond the simple effect that they have, I mean, directly.

So, I would remain prudent on the outlook and what could happen. But I can also share with you that at the time we had the tariffs, we found ways to continue to operate and minimize the impact on the Company indeed, the main impact, again, is on the airline side, on the U.S. airline that would book your planes from Europe.

I'd like also to remind you that with a stronger presence that we will have in the U.S. compared to 2020 and 2021, we will have a much larger degree of flexibility of capability to serve U.S. airlines from the U.S. and therefore, being less or not at all impacted by the tariffs. So long story short, it's a possibility.

I think it's by far less likely to happen than it used to be the case because the rationale for it has primarily disappeared in the meantime, but we cannot completely immune from those potential unilateral decisions. And then there will be probably a tit-for-tat response from Europe, if this would come from the U.S. And I don't think it will come from Europe in the first place.

Operator

Your next question comes from the line of Tristan Sanson from BNP Paribas. Your line is open.

Tristan Sanson

The first one will be on Defense & Space margin in Q2 back the €989 million charge you've taken is actually a quite good quarter in terms of profitability, especially if you consider that you have an increase in R&D to sales reflow of 140 bps year-over-year. So can you tell us whether there was anything exceptional or mobile how these other different businesses are behaving.

And the second question is actually pretty similar, but on commercial airports. You had quite a good performance compared to expectations on commercial aircraft EBIT. Can you tell us whether this is result of the early impact of your performance initiatives? Or was there anything else has been, I don't know, been more profitable than expected over that quarter?

Thomas Toepfer

So let me start with the first one on Defense and Space. So first of all, I mean, your calculation is true. I would say the margin, if you strip out the charge is attractive. Now however, what is the interpretation of that. As we said, we were pleased with how the business went in specifically Air Power. And namely in that business, we had positive mix effect towards services that carry obviously a higher margin than the product business.

So therefore, I would say while your calculation is correct, I would warn you not to take this and to extrapolate it over the next year. I think that will be probably too optimistic because there's, of course, always some variation between the services business and our product business over time. And therefore, I would say we're pleased with the business and with how the business is going. But the margin trajectory overall has not improved relative to our expectations that we had before.

So, on commercial, I would say, yes, there were maybe some first positive impact. But again, I would rather also here come back to the full year guidance that we have given from all that we can see we're on track but there is no, I would say, additional effects from the lead program as of today that you should add, as I have said, -- we have -- we are considering that the positive effects from the program will essentially compensate negative effects from inflation and from the increase in R&D, and that is what is baked in our full year guidance.

Operator

Your next question comes from the line Douglas Harned from Bernstein. Please go ahead.

Douglas Harned

After -- as you look back at the last three years, there have been a lot of issues with relatively small Tier 2 and 3 suppliers. And what I wanted to get at in the first question is, is that still the case, whether it is either directly to you or through larger suppliers like Spirit or Honeywell? And if it is still the case, what is the path to getting back to normal in a sense. Can you see the sort of the in line of dealing with the small suppliers? And that's my first question.

Thomas Toepfer

Well, if I -- let me try to take a crack on this one. So, I would say, yes, the situation has changed relative to three years ago as Guillaume tried to indicate. So, we moved away from a situation where we had issues with many small suppliers, and the entire supply chain was not able to keep pace with the ramp-up plans that we had.

We have moved to a situation today where it is much more specific. And as you said, yes, we're having issues with rather some big suppliers that are delivering critical components that are unfortunately very late in the supply chain. So, things like engines, the landing gear, et cetera, et cetera. So therefore, our ability to react to that is very limited, and that leads to I would also call it the surprise factor for 2024.

On the other hand, on a more positive note, the issues are very, very well located and they're not so broad based on a smaller supplier scale, but they're really more concentrated around a number of suppliers that we know very well, and therefore, the action plans are much more targeted than what we had two, three years ago. So, in that sense, yes, the situation has evolved, and we know where we have to work on.

Douglas Harned

Well -- and then to the second to follow on that. So, when you look at the issues you have today with some of these large structural suppliers, engines, interiors, and you look at the changes you've made to the delivery outlook, how has that affected your production outlook in a sense? Because as you've said, engines and seats, those come at the end of the file. Are you still producing at the same rate, bringing those airplanes out into inventory and then essentially keeping production going?

Guillaume Faury

Well, we keep production going, but we have to adapt to this situation. We had other disruptions than those ones which are more tactical. And therefore, we had to react to the short-term situation by sharing the updated scenario for 2024. So that's the change of guidance.

When it comes to pushing out from '26 to '27. It was more on the view that the shortcomings of this year have more longer-term impact when it comes to the time it takes to recover to the nature of the components, landing gears, engines and the tension that is existing for those components anyway moving forward to next year and therefore, coming to the view that we have to have a ramp-up plan, a trajectory that has to remain manageable.

So, when we are impacted on the short term, this has an impact on the midterm. That's basically the rationale for taking stock of the current situation, the time it takes to recover the impact on '24, but also in '25 and therefore, on the overall.

Douglas Harned

So, if I have that right, in the short term, you'll still take the airplanes off through the file, even if you need seats, engines, but long term, you've got to adjust these rates to be consistent with those suppliers. Is that right?

Guillaume Faury

No, I don't think that's what I said. We have impact on the short term. We have impact on the number of airplanes going through the file because of missing landing gears because of missing equipment that prevent the file to run normally. We are not parking a lot of planes here and there with completion work and hospital lines. That's not what we are doing. So, we are slightly slower on the short term that leads to the 770 guidance for this year. And still, we are end of July.

So, there's still a lot of work to be done and some potential opportunities or more difficult situations. But still, -- but this short-term situation means that we have to start from that lower point in '24 to build '25 and then go to '26. And therefore, the short-term situation, the short-term impact has some repercussions on '25, '26, '27, and therefore, the slower trajectory that we have decided, slightly slower that creates the spillover from '26 to '27.

Operator

We will now take our final question for today. And your final question today comes from David Perry from JPMorgan. Please go ahead.

Unidentified Analyst

[indiscernible]. Two questions, please. One, could you just -- I was a bit surprised by how much LEAP deliveries were below expectations. So, I just wanted you to comment a little bit on your confidence level there that GE and Safran will get back on track for this year and next year?

And secondly, just picking up on the comment earlier where I think you broadly endorsed what Milene said about a 10% CAGR in deliveries. It's interesting, the consensus probably has a 20% CAGR in EBIT through '27, '28. Would you think that's the right framework, Thomas, that 10% growth in deliveries could give you 20% CAGR in EBIT?

Guillaume Faury

Thomas, I will maybe answer to the first one, giving you a bit of time to reflect an answer for the second one. David, thank you for the question. Yes. On the PS, we've been surprised. I think we said it previously, that was not factored in our ramp-up plan, but CSM has been surprised themselves. They the quality issue that they have difficulties to manage it's taking more time, having more impact than what we thought initially.

And therefore, that's really unexpected and we've been blindsided by this one. So that's what it is. And then it takes time to recover. The engines that have been lost because of the parts missing and the quality issues, they will never exist. These engines are lost for a long period of time, and that's also part of the reasons why it is impacting '25 and therefore, the other years. Can I stop here, Thomas?

Thomas Toepfer

Yes. And to the second question, so first of all, with respect to the CAGR of the deliveries, I can only reiterate what Guillaume said. I don't want to give a precise guidance for the next years. But of course, if you retranslate our production rate that we're targeting for 2026, '27 into a ramp-up I agree that you will come to double-digit growth rates in certain years. And that is what we have done, by the way, in 2023. So therefore, I clearly think that is in the cards and realistic.

Second question, does that mean that our EBIT should grow over proportionately? I would clearly say, yes, there's two factors. One is that if we grow our output, the fixed cost absorption, of course, will increase. And as I said, you also told you also earlier, once we have achieved a stable production rate, the second factor is that we will be able to drive out what I would call acceleration cost that we're currently still having.

So, I would say there's at least two factors that speak for an EBIT increase that should exceed the delivery increase. But I don't want to be more precise for guidance. because that, of course, will come when we come with the guidance for 2025.

Operator

That concludes the Q&A for today. I will now hand back to Helene for closing remarks.

Helene Le Gorgeu

Thank you. Before we close, I would like to inform you about some changes in the IR team. As you know already, Philippe Gossard is retiring this summer.

So please join me in wishing him all the best for his new chapter. Philip has been a privilege to work with you, not only over the last three years in IR, but also over the last 23 years at Airbus, has always crossed several times, and on behalf of the team, thank you for all you brought to us, your knowledge, your skills, your incredible memory and your friendship. You will be missed by this community.

And so, I changed my last sentence. If you have any further questions, please hand an e-mail to Olivier or myself, and we will get back to you as soon as possible. Thank you, everyone, and we are looking forward to seeing or speaking to you again very soon.

Guillaume Faury

Thank you. Helen. Thank you. Bye-bye, everyone. Bye-bye.

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 evening. Goodbye.