Airbus SE (OTCPK:EADSF) Q2 2023 Earnings Conference Call July 26, 2023 1:30 PM ET

Company Participants

Helene Le Gorgeu - Investor Relations
Guillaume Faury - Chief Executive Officer
Xavier Tardy - Chief Financial Officer

Conference Call Participants

Benjamin Heelan - Bank of America
Robert Stallard - Vertical Research
Daniela Costa - Goldman Sachs
Olivier Brochet - Redburn
Tristan Sanson - BNP Paribas
Doug Harned - Bernstein
Ross Law - Morgan Stanley

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Airbus Half Year 2023 Results Release Conference Call. I am Sharon, the operator for this conference. [Operator Instructions] At this time, I would like to turn the conference over to your host, Guillaume Faury, Xavier Tardy and Helene Le Gorgeu.

Helene Le Gorgeu

Thank you very much, Sharon and good evening, ladies and gentlemen. This is the Airbus half year 2023 results release conference call. Guillaume Faury, our CEO; and Xavier Tardy, our interim CFO, will be presenting our results and answering your questions. This call is planned to last around 1 hour. This includes Q&A which we will conduct after the presentation. This call is also webcast. It can be accessed via our homepage 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, ladies and gentlemen and thank you for joining us today for our H1 2023 results call. We are connecting on Amsterdam. And with Xavier Tardy and Helene, let me start by saying that I was very happy to see many of you, not that long ago at the Paris Air Show or just before and that was the first Paris Air Show after 4 years. Indeed, beyond the commercial success, I have to say it was a great Le Bourget, being able to meet customers, suppliers, partners, officials and all the people that make our industry one of the most advanced, the most innovative and exciting there is, was just fantastic.

We've all come out very energized from that week. For me, personally, it confirmed again the value of bringing people together in person and why aviation is so important. The event was also the occasion to share with you the latest insights of our ramp-up and the status of our supply chain during the Airbus business update.

In summary, we continue to execute on our plan in an environment that remains complex. The overall geopolitical and macroeconomic situation remains volatile. And on the supply side, our deliveries continue to be paced by a few critical suppliers.

On the topic of suppliers, I'd like to address the announcements from Arctics yesterday about the new issue affecting the Pratt & Whitney 1,100 engines, the engines that power the A320neo. We're, of course, aware and very much aware of the topic. We are working with Pratt & Whitney and our customers to best understand and assist with the implementation of all required inspection plans and minimize the disruption to the fleet of our customers.

Pratt & Whitney informed us that it affects parts produced between Q4 2015 to Q3 2021 and it does not impact engines currently being produced on the ones that are being in the production flow for the planes which are currently being produced. So we do not expect any impact on ongoing deliveries of our plans.

Talking about deliveries. In H1, we delivered 316 commercial aircrafts, in line with our plan. This is reflected in our H1 2023 financial results with an EBIT adjusted standing at €2.6 billion and the free cash flow before remaining customer financing at €1.6 billion. And on that basis, we maintain our 2023 guidance.

Let's now look at our commercial environment. Air traffic continued to grow in Q2, with domestic traffic now fully recovered and even exceeding pre-pandemic levels in many regions. International traffic is close to or above pre-pandemic levels in most regions, with traffic to and from China and Asia Pacific progressively catching up but not yet at pre-pandemic level. In this context and as reported during the latest IATA AGM, the airline industry is expected to return to profitability in 2023.

We observed strong demand for aircraft, driven both by growth and fleet replacement as airlines turn to more fuel-efficient aircraft to achieve their sustainability ambitions. This good momentum was on full display at Le Bourget, where we announced more than 300 [ph] orders and commitments, including 2 large orders for a total of 750 aircrafts. This order intake also includes 85 for our widebody aircraft.

Overall, in H1, we booked a total of 1,080 gross orders and recorded cancellations. As a result, net orders were positive at 1,044 aircraft and our backlog in units reached a record level of 7,967 aircrafts, so almost 8,000 aircraft at the end of June 2023, including 6,740 A320 Family aircraft.

In H1, we booked 131 net orders versus the 163 in H1 2022. These orders have been well spread across programs, including 19 H160s. In this quarter, we signed a firm contract with Air Corporate for 40 Light helicopters and 3 ACH160s -- corporate 160s. In addition, the H160 received its FAA type certificate in June, marking a significant milestone for the program and enabling us to deliver to the U.S. customers and serving this market. The H160 has previously entered service in Japan, Brazil, Saudi Arabia and Europe. Overall, we continue to see positive momentum in home countries for both civil and military markets.

Finally, in Defence and Space. On orders, we continue to see a good momentum, especially in our Military Systems business. Overall, our order intake was €6 billion in H1. It includes the order by the government of Canada for 4 newly built and 5 converted A330 [ph] MRTT aircraft, strengthening Canada's defense capabilities.

In July, we signed a contract renewal with Germany for the A400M in-service support with a duration of 7.5 years, showing the long-term commitment of Germany to the [indiscernible].

In our Space business, the Airbus-built Arabsat Bader 8 telecommunication satellite was successfully launched end of May, featuring Airbus innovative optical communications payload Telio.

In July, Iron 5 has successfully completed its final flight, the 117th of a series which started in 1996, placing into orbit 2 satellites, including the Airbus and Thales Alenia built Circus 4B communications satellite. The priority is, obviously, now in completing the development and qualification of ION 6 and securing its successful ramp-up.

On FCAS, France, Germany and Spain are now fully engaged to successfully execute what we call the Phase Ib, while Belgium has joined as an observer, adding to Europe's commitment to stronger strategic autonomy, defense and security.

And before we move to financials, I'd like to mention the transformation that we've initiated in this division earlier this year, aiming at making our business simpler, more agile, more competitive and more customer oriented. We've just reached an important milestone with the start of consultation with our European and national social partners. The leadership has also started to communicate with the management. This transformation is necessary for the resilience and the competitiveness in this division.

Now, Xavier will take you through our financials. Xavier?

Xavier Tardy

Thank you, Guillaume and hello, ladies and gentlemen. Our H1 2023 revenues increased to €27.7 billion, up 11% year-on-year, mainly reflecting the higher number of commercial aircraft deliveries and a higher contribution from our Helicopter division. Our H1 2023 EBIT adjusted was broadly stable as compared to H1 2022 at €2.6 billion. This includes the higher commercial aircraft deliveries, a more favorable hedge rate versus H1 2022 but partly offset by investments for preparing the future.

H1 2022 included a net €0.3 billion positive impact from nonrecurring elements related to retirement obligations and to international sanctions against Russia. In 2023, we made further progress on our compliance-related topics which allowed us to release provisions for an amount of €0.1 billion.

On R&D, our expenses in H1 2023 stood at €1.4 billion versus €1.3 billion in H1 2022. We continue to expect our full year R&D to slightly increase compared to last year. Our H1 EPS adjusted stood at €2.47 based on an average of 788 million shares. Our H1 free cash flow before M&A and customer financing was €1.6 billion, mainly reflecting our deliveries but also a favorable phasing impact from working capital.

Now on to the next slide regarding our profitability. H1 2023 EBIT reported was €1.9 billion. The level of EBIT adjustments totaled a net negative, €0.7 billion, including €651 million negative impact from FX mismatch and balance sheet revaluation, mainly reflecting the mechanical impact coming from the difference between transaction date and delivery date, of which minus €291 million in Q2. It also included a negative €34 million related to the Aerostructures transformation, of which, minus €25 million in Q2. And last, it included €46 million of other costs, including compliance costs, of which €32 million in Q2.

EPS reported includes plus €102 million of financial results. It mainly reflects a positive impact from the revaluation of certain equity investments, partly offset by the net interest result and negative impacts coming from the revaluation of financial instruments.

The tax rate on the core business continues to be around 27%. The effective tax rate on net income is 27%, including the tax effect on the revaluation of certain equity investments and deferred tax asset impairment. The resulting net income is €1.5 billion, with earnings per share reported of €1.94.

Now regarding our USD exposure coverage. In H1 2023, $9.7 billion of forwards matured with associated EBIT impact and euro conversions realized at a blended rate of $1.21 versus $1.22 in H1 2022. In H1 2023, we also implemented $5.5 billion of new coverage at a blended rate of $1.11. As a result, our total USD coverage portfolio in USD stands at $89.7 billion, with an average blended rate of $1.24 as compared to $93.9 billion at $1.24 at the end of 2022.

Now on to a more detailed look at the free cash flow. Our free cash flow before M&A and customer financing was €1.6 billion in H1. This reflects, on one hand, the level of deliveries and on the other hand, the mechanical increase in inventory resulting from the execution of our ramp-up plan. But it also includes a favorable timing of receipts and payments, particularly in PDPs from orders placed at Le Bourget as well as from our divisions.

The A400M continued to weigh on our free cash flow before M&A but less so than in H1 2022. Our H1 2023 CapEx was around minus €1.1 billion versus minus €0.7 billion in H1 2022. We expect our CapEx to slightly increase in 2023, supporting our industrial ramp-up.

Free cash flow of €1.5 billion includes M&A activities for €58 million and customer financing for €42 million. The aircraft financing environment remains solid with sufficient liquidity in financial markets for our products. However, this low level of customer financing activity might not be sustainable. Our net cash position stood at €9.1 billion as of the end of June and our liquidity remains above €30 billion.

Now back to you, Guillaume.

Guillaume Faury

Thank you, Xavier. Now on to commercial aircraft. In H1, we delivered 316 aircraft to 73 customers, in line with our plan. Looking at the H1 '23 situation by aircraft family. First, on the A220, we delivered 25 aircraft and we continue to ramp up to reach rate 14 in the middle of the decade. July also marked the fifth anniversary of the A220 becoming a member of the Airbus Family of latest-generation airliners 5 years already.

On the A320, we delivered 256 aircraft, of which 147 A321s, representing 57% of deliveries for the family. Production is progressing well towards the previously announced rate of 75 aircraft per month in 2026. We will continue making what we call tactical adjustment to our production planning as required to meet this target rate which is now my key reference point, our key reference point for us and for the supply chain. The recent inauguration of a new A321-capable final assembly line in Toulouse is the latest concrete milestone in the development of our global industrial system. That will have gone from 8 assembly lines pre-COVID to 10 to support the rate 75, all of them being A321 capable.

On the XLR, the flight test program is progressing towards entry into service. That remains expected to take place in Q2 2024, Q2 next year. On widebodies, we delivered 35 aircraft, of which 14 A330 and 21 A350s. As expected, widebody deliveries have picked up this quarter with 24 aircraft in Q2 versus 11 in Q1. We continue to target rate 4 in 2024 on the A330 and rate 9 on the A350 at the end of 2025. And we recently celebrated the tenth anniversary of the first flight of the A350. And we're also making good progress on the developments of the freighter variant of the A350 for into service now running 2026.

Now let's look at Airbus commercial financials for H1 2023. Revenues increased 16% year-on-year, mainly reflecting a higher number of deliveries, 16%. The EBIT adjusted was broadly stable year-on-year at €2.3 billion. The positive effect from the increase in deliveries supported by a more favorable hedge rate is partially offset by the investments for preparing the future which is also reflected in our R&D expenses.

H1 2022 included a nonrecurring positive impact from retirement obligations, partly offset by the impact in resulting from international sanctions against Russia, while in H1 2023; we released provisions for €0.1 billion on compliance-related topics.

Moving on to Helicopters. In H1 2023, we delivered 145 helicopters, 30 more than in the first semester of 2022 and this was mainly driven by the Light segment. Revenues increased 16% year-on-year to €3.2 billion, mainly reflecting a solid performance across programs and services. As a result of this performance, EBIT adjusted increased to €274 million. Here also, H1 2022 included net positive nonrecurring elements for the reference.

And let's complete our review of the first half 2023 with Defence and Space. Revenues decreased 8% year-on-year, mainly driven by delays in Space Systems and delivery phasing in military systems. The decrease in EBIT adjusted also reflects the updated assumptions on some long-term contracts, consistent with the difficult environment of our space business.

H1 2022 also included net positive nonrecurring elements. On the A400M, we delivered 3 aircraft in the first half of the year. We continue with development activities towards achieving the revised capability road map. Retrofit activities are progressing in close alignment with the customers. No further net material impact was recognized in the first half of this year and risk remain on the qualification of technical capabilities and associated costs on aircraft operational reliability, on cost reductions and on securing overall volume as per the revised baseline.

Now turning on to the guidance. As the basis for its 2023 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. The company's 2023 guidance is before M&A. And on that basis, the company targets to achieve, in 2023, around 720 commercial aircraft deliveries, EBIT adjusted of around €6 billion and a free cash flow before M&A and customer financing of around €3 billion. So the guidance that we issued in February 2023 is maintained.

Let me now conclude with our key priorities. In the second half of the year, our focus remains on achieving our delivery target of around 720 commercial aircraft and on ramping up production across all our commercial aircraft programs, all at the same time. The pace of the ramp-up will continue to depend on our supply chain and its capability to perform. Our teams continue to work closely with our suppliers to jointly anticipate, prevent and mitigate potential disruptions.

As I highlighted during our recent business update, the expansion and upgrading of our global industrial system is progressing well. Here, I just mentioned our new filings. In parallel, we are well on track to achieving our 2023 recruitment targets even slightly ahead of the plan, I would say. These recruitments are instrumental both for our ramp-up and for the long-term transformation of our company, particularly for the acquisition of new competencies to support our ambitions in digitalization automation and decarbonization.

Digitalization is making us more efficient today and will be absolutely essential to design, manufacture and support the next generation of Airbus products. For example, progressing towards the deployment of a fully digital end-to-end approach, we recently unveiled the first immersive remote collaboration solution for aircraft interior customization. This new concept will transform and boost the way Airbus defines aircraft cabins by enabling live and remote interactions with customers using what we call mixed reality; quite impressive.

On the decarbonization front, we are teaming up with Le Bourget to boost production of sustainable aviation fuel, the same as. For this growing partnership, we will support the acceleration of the alcohol-to-jet SaaS production pathway at scale using Londajet proven technology to produce drop in fuel fully compatible with existing aircraft and infrastructure.

Starting this summer, our customers will be offered an option to have 5% pure SaaS on board for their ferry flights from Toulouse and Hamburg, an option that is already available from Tianjin and Mobile. This is also the opportunity for me to welcome the political agreement found at European level on refuel EU Aviation which will provide a strong signal for the deployment of SAF in air transport.

In parallel, we are making progress in maturing the technologies we will need for our future hydrogen-powered aircraft. Most recently, we launched the high-power demonstrator by replacing the traditional APU auxiliary power unit by a hydrogen fuel cell. We aim to demonstrate the stable operation of this fuel cell in flight. Our expert teams at the Aircraft System Test House also recently achieved the exciting milestone of running our hydrogen fuel cell engine concept at full power, delivering 1.2 megawatts.

In May, on another note, ION Group has successfully tested the concept of a hydrogen conditioning system, capable of supplying an ironical gas turbine reusing equipment initially designed for space applications, a good example of crossover and synergies between divisions. So as you can see, we continue to be very active in preparing our future.

Our last word before taking your questions. Thomas Tupper [ph] will join us as our new Chief Financial Officer on the 1st of September. While there is still 1 month to go, I'd like to take this opportunity to very sincerely thank Xavier for his work as our interim CFO on top of his role as Head of Finance in our Defence and Space Division, very sincere. Thank you. And that closes my remarks.

Helene Le Gorgeu

So we will now start our Q&A session. Please introduce yourself and your company when asking a question. [Operator Instructions] So Sharon, please go ahead and explain the procedure for the participants.

Question-and-Answer Session

Operator

[Operator Instructions] We will now go to your first question. And your first question comes from the line of Ben Heelan from Bank of America.

Benjamin Heelan

The first one, Guillaume, I had was on these gear turbofan issues. When we look at the statement, it's pretty noticeable that you've removed the sentence around rate 65 in 2024. So how do we think about the issues to get turbofan is having and the impact that, that is going to have on 2024 and 2025 production?

Guillaume Faury

Yes. So the removal -- or removal of rate 65 has nothing to do with the announcement of RTX yesterday on the GTF and the quality escape, just to be very clear. It has to do with the fact that we've been using the rate 65 since we entered into COVID as 65 was roughly the rate that we had beginning of 2020. And it was the reference point to when do we come back to pre-COVID to pre-pandemic levels. In the meantime, life has changed very significantly as we've decided to ramp up to rate 75 as we are guiding and taking the supply chain with us to the rate 75. And that's the reference point that I want to be crystal clear with everyone, is what we are working against. And that's what we do as well on our own production system across the board, including with the final assembly lines, we were delivering rate 65 before COVID with 8 final assembly lines with only 4 of them being A321 capable.

And we are now moving forward to a situation where we will have 10 final assembly lines for the single line for the A320 Family, all of them being A321 capable. And you've seen that we've now delivered 57% of our planes in H1 in the A320 Family that were A321. So we've moved so much from this reference pre-COVID points that we wanted and I wanted to go directly to the rate 75 which is [indiscernible] a few days ago, yesterday, the Pratt & Whitney team exposed the situation on the GTF as a result of a big quality escape or quality escape that has big consequences but the 2 are totally independent and not related with each other. Now, when it comes to the rate 65 itself, well, actually, we are now middle of 2023. We are confirming our guidance for this year. The long lead time item [indiscernible] are already in place for production of 2024. So some of the rates 65 is already ordered to the supply chain today. So that's why it makes little sense for me to continue to comment on rate 65.

And as we come close or closer to the rate 65, it's good to have the eyes on the rate 75. That is the target that we want everyone to focus on. So again, the short answer is the GTF announcement of yesterday and what we will have to face in terms of recall of engines, inspections that will have a lot of impact on in-service plans is unrelated to what we are doing on the production rate and the way we want to focus the energy to rate 75.

Benjamin Heelan

Okay, that's super clear. A quick follow-up. Can you talk a little bit about A320 production through the first half of the year? Are you seeing progress in the production increases kind of broadly in line with what you expected? And how have the bottlenecks evolved through the first half of the year?

Guillaume Faury

Yes. So we have delivered in H1 the number of planes we wanted to deliver. We are on track, exactly on track with our plan and that's very good. We see a good outlook for the third quarter and also a good level of confidence moving forward. So that's why we maintain the guidance for this year. And that includes the good progress on the A320 Family. So again, good progress on that side. And I think that was basically your question, right? Do I miss something? I don't think so. So we're on-track.

Operator

And your next question comes from the line of Robert Stallard from Vertical Research.

Robert Stallard

Just a couple from me. First of all, not to belabor this geared turbofan issue but there have been some suggestions that Pratt & Whitney may decide to prioritize selling spare engines or putting them in that MRO pool versus sending them to you. I'd like you to comment on that, if possible. And then secondly, on the A321XLR, again, some reports out there that the range on this aircraft may not be quite as long as you were hoping for. I was wondering if you could update us on that situation.

Guillaume Faury

Thank you. So when it comes to the production of A320s powered by the GTF by the Pratt & Whitney engine, the pipeline is unchanged and the production flow that comes from Pratt to Airbus for the deliveries is unchanged. It's unchanged compared to the recent plan. I'd like just to remind everyone that end of last year and several times in the past, we have revised our production planning, our demand to Pratt & Whitney to free up some capacity to support the fleet. So we have done a lot of work with Pratt & Whitney to find the right balance between fresh production. I mean the line fleet and the ability to support the fleet, acknowledging that the level of AOG linked to the durability issue of the engine was a critical one for our customers.

Now here, we face a different situation which is a quality escape that will require engines to be taken off wing, to go to an MRO shop, to be expected and to be analyzed, especially when it comes to the disc itself. This will be subject to more details being provided by Pratt & Whitney, by an FAA procedure on SB and not exactly the format it will take. It's on Pratt to comment. And then those engines will be inspected and they will be going back to the fleet. So we are in a very different type of situation versus the durability issue and the decisions that we have taken with Pratt to find the best balance. Here, we are on a different problem and I don't expect this to directly impact the number of engines that will be shipped from Pratt & Whitney to Airbus.

When it comes to the indirect consequences of the additional burden that it will put on the Pratt & Whitney teams and system, well, that's something we will have to discuss with Pratt & Whitney to better understand moving forward to what extent that might create disturbances and additional challenges for Pratt. But that's what I would call the indirect impact and that's something that would impact most probably potentially, if any impact, '24 and probably also 2025. But that's something we need to discuss. That's something we need to understand better. And again, this would be, in my view, with the information I have today, indirect impact, not direct impact.

I hope -- so the XLR. So on the XLR, the EASA and the certification authorities have put additional requirements, safety requirements on the way to certify the tank. The tank that is the big tank in the fuselage at the back of the aircraft. It took time to stabilize first the regulation itself, the new requirements and the way to respond to those requirements. Now that's behind us. We have a design that is frozen. We are industrializing the solution and we are in the phase of flight testing the plane.

The flight test campaign is making very good progress. From a weight standpoint, the way we have responded to the requirements with the headwind, it's adding additional weight. But we have as well some other opportunities and reasons to believe that we can partially; if not completely offset the consequences of the additional tanks. So we are working in the frame of the flight test phase to fully identify the performance that will lead to the flight manual and to the final certification. And we -- the XLR will remain an incredible aircraft with a very long range that will come close, if not at the expectation of our customers, the initial expectations. But that's something that is still a bit outstanding and we want to make more further progress on the flight test to come with something that will be final.

And that's obviously something that we're discussing with our customers. But bottom line, it's not changing or it's not changing in a significant amount. The incredible performance and new features that the XLR is bringing to the market, being a long-range plane in single-aisle aircraft; so the combination of long range and single-line capacity.

Operator

And your next question comes from the line of Daniela Costa at Goldman Sachs.

Daniela Costa

Have to as well. The first one, I just wanted to ask for your help in terms of understanding sort of the cash movements that you expect in the second half, given you had very strong first half and you're not changing the guidance. What are sort of the headwinds that we should be looking for? It will be a pretty big down year-on-year. I know there's some comparability issues probably but if you could help us there. And then, in terms of the second question; I think you've said a few times in other -- in events, including like around the Air Show, that you're over staff sort of obviously to get to the rate 75. Can you help us understand how much of a headwind that was in these results? And then how much of -- until when that will be a headwind? And how should we think about it in terms of margin progression headwind from here in terms of that over hiring?

Guillaume Faury

Thank you very much. I will hand over to Xavier.

Xavier Tardy

Yes, thank you. Thank you, Guillaume. So I mean, you're right. We generated €1.6 billion of free cash flow in H1 and we are forecasting to generate €1.4 billion in H2 to go to the guidance of €3 billion. And it's true that with higher deliveries, you would expect better free cash flow in H2, at least free cash flow from operations. The thing to keep in mind is, number one, we have some costs which are more backloaded. I am thinking about CapEx. When we said there would be a slight increase year-on-year versus last year, we still don't see it in H1 and we think it's going to happen in H2. So first, CapEx backloaded.

The second payment which will be backloaded, is the tax. There was almost a very few cash out in H1. And most of the cash payment will happen in H2. But I guess the biggest one is that in H1, we benefited from the very positive order intake. You remember the order intake at Le Bourget, for instance, the Paris Air Show, it came with PDPs, pre-delivery payments. And this tailwind will not repeat in H2 '23. And that's why we want to maintain the guidance of €3 billion; [indiscernible] reasonable at this stage.

Now let me go to the question on headcount, the recruitment. In fact, it has a very low triple digit impact. It's visible in single layer. It's in SG&A, in R&D and in programs. I will not call it a big impact in terms of the financial importance.

Guillaume Faury

That's a bit of a phasing...

Xavier Tardy

It's mostly phasing exactly.

Guillaume Faury

We are a bit ahead of the plan and that's what we wanted to achieve, maybe ahead of what we wanted to achieve and it's something we will be looking at. It's a small headwind. I don't think it's really of significance at that stage. But that's something we will monitor going forward. But bottom line, we see that we are delivering the ramp-up. You might remember that in '18, '19, we were behind the curve in recruiting, training, onboarding people. And that was really of an issue, especially in '19. We are not in that situation now and I'm really happy that we've managed to be ahead of the curve on staff to enable the ramp-up as we are on the ramp-up on the 220, on the 320, on the 330 and on the 350 at the same time.

Operator

And your next question comes from the line of Olivier Brocher from Redburn.

Olivier Brochet

I have 2 questions. The first one on the GTF again, just to clarify and be completely clear there. Can you tell us whether RTX has confirmed to you since yesterday that it will have no impact on the production plan? That's the first question. And the second one, in Defence and Space, you flagged that you are not necessarily very satisfied. The profitability has been not particularly good for 4 years now [ph]. What is needed to sort the challenges? Is it a full blown reorganization of the business? Is it large M&A? Will -- what do we need to expect in there to go to something more attractive?

Guillaume Faury

Okay. I will comment on Defence and Space. So on the GTF, I mean we've been in touch with RTX with Pratt & Whitney for more than a day. We've been coordinating in the last 2 weeks or something like this as the information came to us. And indeed, Pratt & Whitney has confirmed that there is no impact for the delivery streams of engines from Pratt to Airbus for 2023, okay, for this year.

As I said earlier, there might be, what I call, indirect impact linked to the additional burden that this will put on Pratt to do all what they have to do, at the same time, including the program to recall engines and inspect them in MRO setup. That still remains to be determined. So I want to be prudent for beyond 2023. But yes, we have clarity for this year. And I would expect potentially some indirect impact but not direct impact of this quality issue on the ability and the intention of Pratt to deliver on their commitment to us. It's a very different situation than the durability issue, where we had to make some offsets when it comes availability of parts and equipment and systems of the engines between line fits to Airbus or support to the fleet.

On Defence and Space, no, I'm not speaking about M&A or things like this. It's really a reorganization of the way we do business in the division as it is today but it's a -- we are contemplating a significant change of organization, internal organization to make us more agile, more customer focused. And I think you will understand later what we mean by this, with more accountability on the business lines and also an organization that we think will deliver more competitiveness moving forward.

I think I explained that we have just started the process of communication to social partners and management. And we want, right after the summer break, to go to the workforce. And when we will have started to share with the workforce, that will be the time to explain outside what we intend to do but that's something we need to first share with the management and the employees to make sure we get the buy-in and the support and that we can move forward with everybody on board; so not linked to M&A divestment acquisition. We are speaking about an internal organization that would provide more competitiveness and agility for the business line themselves.

Operator

And your next question comes from the line of Tristan Sanson from BNP Paribas.

Tristan Sanson

The first one, I wanted to get a few from you of the flexibility that you have in the ramp-up to reallocate production in '24 and 2025, if you need a way from Pratt & Whitney to CFM. And so what the type of flexibility we have, you have with the engine supplier but also with other suppliers like Cabin. So the flexibility that you have with the airline customer at the same time. So to which extent can we expect in case we have difficulties at Pratt, this to be overall mitigated by a reorganization of the backlog.

And the second question, I wonder whether you could share with us a few KPIs on the progress of the supply chain performance evolution in Q2 in terms of either on-time delivery or progress on the buildup of safety inventories. I think sensible that would give us a feel for that -- the improvement you're talking about.

Guillaume Faury

So first, on the flexibility between the GTF and the LEAP for the A320 Family. That's something that we have already investigated, analyzed and used for the 2024 and 2025 but mainly 2024 production planning on the -- against the backdrop of the previous issue that we had to manage with Pratt which is the durability issue and the resulting AOGs in service. So that's something we have already triggered. It provided some flexibility. Some means double digit, low double-digit ability to reallocate. But again, that's something we've already triggered. So the new issue, that is the quality escape we're speaking about, is not at least at that stage and it's a preliminary answer for myself. But I don't see reasons why it would provide much more than what we have already looked at.

Tristan Sanson

I'm sorry, when you say low double digit, it's engine aircraft percentage or...

Guillaume Faury

No, it's aircraft. It's reallocation of aircraft from one entry to the other one. Reallocation of -- yes, aircraft that we are supposed to be with one engine that will actually be with the other engine. And indeed, that's something that needs to be coordinated with the customer, sometimes change of customer or with customers that have -- which have both versions of the A320 and where we need to do a deep investigation on everything that is customer related and beyond the engine linked to the engine installation like the pylon and other things like this. So we did the job. It provided some flexibility, not a lot and that's something we are already behind us, unfortunately. Well, high-level KPIs on supply chain is not necessarily something we have or we share. Actually, when you go into the supply chain, KPIs, they are super detailed and granular. I think what you're trying to access to is whether the supply chain is improving or not improving. And basically, it depends very much on how you look at it.

The way I look at it is, is it enabling an acceleration of production deliveries on the short, mid-term. And the answer is no. We continue to be paced by critical suppliers that are on their recovery plan. They are on recovery plan and we have now more guarantees, more transparency, more security on the fact that they will stick to those plans. And that's good because that enables the confirmation of the guidance moving forward. But I don't see reasons why they would do better or significantly better than what they have committed to us in terms of recovery planning. So we continue to be paced by some few critical suppliers that are the bottlenecks to our production. And this is not improving beyond what we had agreed with them beginning of this year but the good news is they deliver on those recovery plans.

Operator

Your next question comes from the line of Douglas Harned from Bernstein.

Douglas Harned

Two questions. The first one on the supply chain. So Tier 2 and 3 structural suppliers in Europe and in the U.S., for them, materials is a big part of their cost structure. Those costs have gone up. And so first question is, given where material prices have moved over the last couple of years, how do you ensure the financial health of your supply chain as you also try to maximize your own earnings and cash flow? And then second and somewhat related, on the A220, you've targeted that to be profitable when it reaches 14 a month? But your 2 largest suppliers, Raytheon and Spirit, they don't make money on the program now either. So it seems unlikely that either would be willing to accept lower pricing for their structures or components. So do you expect that all of you would be able to be profitable purely from operating leverage when you get out to that 14-a-month level?

Guillaume Faury

Okay. So on the supply chain and the suppliers, we all see an evolution on the price of raw material with up and downs as well, just to be clear on the price of energy. And indeed, we've seen as well on energy, in particular, in Europe against the backdrop of Ukraine, price of electricity and gas sky rocketing and then going down. We see inflation as well in the cost of labor and that's something that goes into the industries and not only through aviation.

And then we go to the suppliers on a case-by-case basis, because it depends very much on where they are in the cycles. Sometimes, you find solutions that are based on a 1-year or 2-year support when it's linked to the short-term energy situations. When it comes to procuring the raw materials, you might know that we have what we call candid which means bundling of procurement for titanium and aluminum for all our suppliers, except the ones that are related to engines; so we cover, we organize and we do the procurement. So again, it's a very complex environment. That's what we say in our papers because actually, we have to manage those situations. And it's complex because each and every supplier has a different exposure to those situations but also different ways to react and sometimes to drive change, to drive improvement. And that's something we want to make sure that it is completely exhausted before we come to rescue or to support. Each and every part of the supply chain has to take its share.

When it comes to the 220 -- well, actually, you're making a good point. But this being said, we have long-term contracts on our programs as we embark on programs with partners. And the 2 names you mentioned are more than suppliers. They are big partners in the program. And we all commit to a cost trajectory with the ambition to come to breakeven. Obviously, the volumes help. And that's why it's really important to ramp up and to reach that rate 14, at least for Airbus. That's when we start to become profitable. And this equipment or the equipment, the systems, the wings, the sections which are provided by the suppliers you mentioned, are also subject to high fixed costs linked to the production system. And you need to exploit your production system with a certain rate to go to the breakeven and go to profitability.

So what we consider important on the 220 is to keep moving forward and ramping up to reach levels where the marginal -- or the overall balance in the year is reached for everyone. Now the environment is complex. The environment is challenging. The companies you mentioned are going through difficulties. And they have to digest, overcome and solve their problems to be back to normal territories where you make money by delivering your equipment, your goods and supporting them over the lifetime of the program.

Operator

We will now take our last question for today. And your last question comes from the line of Ross Law from Morgan Stanley.

Ross Law

First one on the A320 ramp-up. Can you just confirm for us what rate you're currently producing at? And given the walk back from the 65-per-month target, can you maybe just give us some more details about the number and the timing of rate breaks on your journey up to 75 a month [ph] over the next 2 years? That's the first one. And secondly, another ramp-up question. Just where you are with negotiations with engine suppliers for 2025 rates? And whether you're still on track to agree those rates by the end of this year? And how this could potentially be impacted by the recent GTF issue?

Guillaume Faury

Okay. So on the ramp-up, you're asking the monthly production rate and I tried to explain that I want to move away from a monthly production rate because that's not very meaningful. And indeed, it's very meaningful for suppliers because we order parts with a certain rate. But when it comes to planes going out of assembly line at Airbus, that's something that we want to communicate based on the yearly guidance and the reference point of the 75. So no, I will not give a monthly rate that goes up and down and slightly up again and that will really be not meaningful and more disturbing than bringing a positive substance to the discussion.

We have done 316 deliveries in H1. We confirm the guidance for this year and we continue to target rate 75 when it comes to the single aisle for 2026. So that's basically the journey that we embark on with all our suppliers for the 320. When it comes to the engines, that's a very important question, the answer is yes. We are on a very positive situation and notes in the volume negotiation for 2025 with the caveat that we have not started to discuss the potential, what I call indirect impact of the GTF quality issue. That was explained yesterday by RTX for the years to come. So this year, there's no impact. But what we need to discuss with them, sit down, have a better understanding of the challenges and the best allocation of resources at their end. And therefore, having some potential, what I would call indirect impact linked to the overall allocation of resources at Pratt.

When it comes to the procurement of parts, of equipment, of systems to produce GTF engines for the line fit for Airbus, I don't see reasons why things would change. So it's why I call it the potential indirect impact. And I'm not suggesting there will be some. I'm just suggesting that we have not started to discuss this.

Operator

Thank you. I will now hand the call back to Helene Le Gorgeu.

Helene Le Gorgeu

Thank you, Sharon and thank you, Guillaume, thank you, Xavier, for participating to this call. This closes our conference call for today. If you have any further questions, please send an e-mail to Philippe Gastar or myself and we will get back to you as soon as possible. Thank you again and see you soon.

Guillaume Faury

Thank you, everyone. Bye, bye. And thanks again, Xavier.

Xavier Tardy

Thank you. Bye, bye.

End of Q&A

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.