Q2 2023

1. Production rate stabilization

- **Narrative:** Management has outlined a clear strategy for stabilizing production rates, emphasizing a steady ramp-up in the production of key aircraft models. They highlighted the transition to increased monthly production rates, which is indicative of their efforts to stabilize and enhance operational performance. The focus is on achieving a stable supply chain and addressing any disruptions to ensure targets are met. The company aims to leverage productivity programs and lean manufacturing practices to reinforce this stabilization and improve margins.
- **Management's Guidance:**
- Management projects full-year 737 deliveries of 400 to 450 with sequential improvement in the second half. They plan to increase production to 38 per month and still aim to reach 50 per month in the 2025-2026 timeframe. They are steadily increasing their rate on each program with a focus on stability every step of the way. Management is happy to move the production rate to 38 and sees this as the first step. They expect to reach five per month by year-end for a particular model and see this as a significant milestone. Management maintains guidance for 2025-2026 at 50 deliveries a month on the MAX.
- **Actual Results:**

['Q1', '2024']:
- On the 737, we delivered 67 airplanes in the first quarter.

['Q2', '2023']:
- On the 737, we had 103 deliveries in the quarter, including 49 in June, a positive proof point that the production system is stabilizing.

['Q3', '2023']:
- We have kept our master schedule intact to get to that 38 a month.

['Q4', '2023']:
- Today, we're producing 737s at a rate of 38 per month. For the year, we delivered 396 airplanes, on the upper-end of the revised guidance range we provided in October. We've cycled 38 per month.

- **Evaluation:**
- **Expectations Met**: Boeing achieved a production rate of 38 737 aircraft per month by the end of 2023 and delivered 396 airplanes, which is within the upper end of the revised guidance, aligning with management's expectations for production rate stabilization and delivery targets.

2. Supply chain management

- **Narrative:** Management has placed significant emphasis on enhancing the supply chain's readiness to support increased production rates. This focus is part of a broader effort to improve operational performance and efficiency, with a particular goal of achieving a substantial rise in delivery output.
- **Management's Guidance:**
- Management is concentrating efforts on ensuring the supply chain is prepared for a target of 50 deliveries, aiming to reach this delivery rate in the 2025-2026 timeframe.
- **Actual Results:**

['Q3', '2023']:
- Data Not Available

['Q4', '2023']:
- Data Not Available

['Q1', '2024']:
- Data Not Available

['Q2', '2023']:
- Data Not Available

- **Evaluation:**
- Insufficient Info: Data not available.

3. Quality control improvements

- **Narrative:** Management has focused on addressing quality control issues with a commitment to remediate identified problems as they progress through the upcoming quarters. This highlights their strategic emphasis on improving operational performance and efficiency through enhanced quality control measures.
- **Management's Guidance:**
- Management indicated that all quality control issues have been contained and will be remedied by the end of the third quarter.
- **Actual Results:**

['Q4', '2023']:
- We ended the quarter with approximately 60 airplanes in inventory, about 50 of which require rework.

['Q3', '2023']:
- Data Not Available

['Q1', '2024']:
- Effective March 1, we moved inspection and rework teams to Wichita. Since then, we have only allowed fully-inspected fuselages to be shipped to Renton, which has dramatically reduced our non-conformances entering the Renton factory. We ended the quarter with about 60 airplanes in inventory, about 40 of which require rework. Full inspections are being performed in Wichita.

['Q2', '2023']:
- Data Not Available

- **Evaluation:**
- **Expectations Not Met: Management's guidance indicated that all quality control issues would be remedied by the end of Q3 2023, but by Q1 2024, there were still approximately 40 airplanes requiring rework, showing that the quality control improvements fell short of expectations.**

4. Workforce management

- **Narrative:** Management focused on improving operational performance and efficiency by strategically optimizing workforce deployment. There is an emphasis on stabilizing operations and effectively utilizing labor resources as they transition away from current shadow factory efforts. This transition is aimed at enhancing efficiency and preparing for anticipated production rate increases.
- **Management's Guidance:**

- Management anticipates that by the second half of next year, as shadow factory operations wind down, all labor resources will be redirected towards supporting increased production rates, thereby enhancing operational stability and efficiency.
- **Actual Results:**
['Q1', '2024']:
- Data Not Available
['Q2', '2023']:
- Data Not Available
['Q4', '2023']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

5. Cash flow optimization
- **Narrative:** During the Q2 2023 earnings call, Boeing's management discussed their cash flow optimization strategies, emphasizing the importance of managing advanced payment timing and maintaining a stable free cash flow outlook. Despite strong order activity in the quarter, which brought forward $2 billion of favorable advanced payment timing, the overall financial outlook for the year remains consistent with previous guidance. The management has reaffirmed their confidence in achieving substantial free cash flow targets in the upcoming years.
- **Management's Guidance:**
- Management expects over $2 billion of favorable advanced payment timing, initially anticipated for the third quarter, to have already occurred in the second quarter. The company remains confident in generating $10 billion of free cash flow in the years 2025-2026. The financial outlook for 2023 remains unchanged, with an expected free cash flow generation ranging from $3 billion to $5 billion. Anticipated operating cash flow for Boeing Commercial Airplanes (BCA) this year is projected to be between $2.5 billion and $3.5 billion.
- **Actual Results:**
['Q4', '2023']:
- Brian J. West [Free cash flow was $3 billion in the quarter, in line with prior year and up sequentially from the third quarter.]
['Q3', '2023']:
- Free cash flow was a usage of $310 million in the quarter.
['Q1', '2024']:
- Operating cash flow was reported as ($318) million, and free cash flow was ($786) million for Q1 2024, indicating a cash usage of $3.9 billion in the quarter, which was higher than the previous year.
['Q2', '2023']:
- Free Cash Flow $2.6B
- **Evaluation:**
- Expectations Met: Management's guidance for 2023 expected free cash flow generation between $3 billion and $5 billion, and the actual results for Q4 2023 showed free cash flow at $3 billion, aligning with their expectations.

6. Revenue growth analysis
- **Narrative:** Management expressed confidence in achieving significant financial targets, including substantial revenue and margin improvements over the coming years. The strategic focus is on enhancing business unit performance and achieving high single-digit to low double-digit margins by 2025-2026.
- **Management's Guidance:**
- Management is confident in reaching the $3 billion to $5 billion revenue target for the year. The company is focused on achieving high single-digit margins by 2025-2026. By the end of 2024, management aims for BCA margins to resemble past low double-digit levels, with further improvements targeted for 2025-2026. There are high expectations for business margins to reach the teens, with a long-term view of sustaining mid-teen levels, and efforts will continue to maximize performance. For the third quarter specifically, BCA margins are expected to improve sequentially but remain negative, with limited expectations for BDS profitability.
- **Actual Results:**
['Q3', '2023']:
- Third quarter revenue was reported at $18.1 billion, which represents a 13% year-over-year increase.
['Q4', '2023']:
- Data Not Available
['Q1', '2024']:
- Revenue for the first quarter of 2024 was $16.6 billion, down 8% compared to the previous year, primarily reflecting lower 737 delivery volume.
['Q2', '2023']:
- Q2 2023 Revenue $19.8B; Q2 2022 Revenue $16.7B. Revenues and Operating Margins $8.8B, Secured 460 net orders; backlog of $363B, Delivered 136 airplanes, Q2 2023 Op margin: (3.5)%.
- **Evaluation:**
- Expectations Not Met: Despite management's confidence in achieving significant revenue growth and margin improvements, the actual results showed revenue decline in Q1 2024 compared to the previous year, primarily due to lower delivery volumes, falling short of the high expectations set.

7. Cost management strategies
- **Narrative:** Management at Boeing is focusing on realigning their cost structure in response to ongoing financial challenges. The strategy involves addressing abnormal costs while planning for resumed production and improved margins as the company progresses through the fiscal year. The emphasis is on achieving positive margins by year-end and mitigating production delays to control cost overruns.
- **Management's Guidance:**
- Management anticipates that margins will improve sequentially, turning positive by the end of the year or early next year. This improvement is driven by a focused effort from the team to meet these expectations. The company recorded $314 million in abnormal costs for the quarter, aligning with expectations, and foresees concluding the majority of these expenses by year-end. Abnormal costs have been reduced to $136 million, with a revised total estimate of $1 billion, down from $1.5 billion, due to plans to resume production later this year rather than early 2024.

- **Actual Results:**
['Q3', '2023']:
- Data Not Available
['Q4', '2023']:
- We've booked $71 million of abnormal costs in the quarter, which is now fully behind us after resuming production, in line with our expectations.
['Q1', '2024']:
- Data Not Available
['Q2', '2023']:
- We booked $314 million of abnormal costs in the quarter. Abnormal costs were $136 million as expected.
- **Evaluation:**
- Expectations Met: Management expected margins to improve and abnormal costs to be concluded by year-end. The Q4 results show $71 million of abnormal costs, aligned with expectations, with production resuming and costs fully addressed, meeting the guidance.

8. Commercial aircraft demand
- **Narrative:** Management highlighted their plans to increase production capacity, indicating a positive outlook on the demand for commercial aircraft. This move is part of their strategy to capture the growing market demand and strengthen their position in the aerospace sector.
- **Management's Guidance:**
- Management revealed plans to increase production to 38 airplanes, reflecting confidence in rising market demand and anticipated growth in the sector over the coming quarters.
- **Actual Results:**
['Q4', '2023']:
- We have over 5,600 airplanes in backlog valued at $441 billion.
['Q1', '2024']:
- Secured 125 net orders, including 85 737-10 for American Airlines and 28 777X airplanes. The backlog grew to $448 billion and includes more than 5,600 airplanes.
['Q2', '2023']:
- Data Not Available
['Q3', '2023']:
- We booked about 400 net orders in the quarter, including 150 737 MAX 10s for Ryanair, 50 787s for United Airlines and 39 787s for Saudi Arabian Airlines.
- **Evaluation:**
- Expectations Exceeded: Boeing's management planned to increase production to capture growing market demand, and the actual results showed robust order growth and a significant backlog increase, surpassing the initial expectations set by management.

9. New aircraft models
- **Narrative:** Management emphasized the need for the next airplane model to represent a significant advancement in performance, aiming for substantial improvements over current aircraft capabilities.
- **Management's Guidance:**
- Management anticipates that the new aircraft development will offer a 25% to 30% improvement over existing models.
- **Actual Results:**
['Q1', '2024']:
- Data Not Available
['Q2', '2023']:
- Data Not Available
['Q4', '2023']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

10. Defense sector contracts
- **Narrative:** Management highlighted the necessity of improving defense margins, emphasizing a strategic focus on enhancing operational efficiencies in the defense segment. This aligns with the company's broader objective to strengthen its competitive position and financial performance in the defense sector.
- **Management's Guidance:**
- Management stated their expectation for defense margins to improve in the coming years, specifically targeting enhancements by the 2025-2026 timeframe. This indicates a commitment to optimizing margins as part of their long-term strategic plan.
- **Actual Results:**
['Q4', '2023']:
- BDS booked $8 billion in orders during the quarter, including the Lot 10 award from the U.S. Air Force for 15 KC-46A tankers.
['Q3', '2023']:
- We delivered the first T-7A to the U.S. Air Force this quarter. We also captured a key award from the U.S. Army for 21 Apache helicopters. Received an award from the U.S. Navy for P-8 trainer upgrades.
['Q1', '2024']:
- BDS booked $9 billion in orders during the quarter, including awards for 17 P-8 aircraft for the Royal Canadian Air Force and the German Navy and securing the final F-18 new-build production contract from the US Navy.
['Q2', '2023']:
- In the quarter, we booked orders valued at $6 billion, including key contracts from the US Army for 19 Chinooks, and Germany also shared its plans to purchase 60 Chinooks.
- **Evaluation:**
- Insufficient Info: Data not available.