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HEARD ON THE STREET

## Boeing's Troubles Go Far Beyond Cash Flow

Concerns about the company's culture of excessive cost-cutting are now front and center for investors



The MAX debacle has cast a spotlight on the Boeing's excessive emphasis on cost control and hitting short-term financial targets. PHOTO: DAVID RYDER/BLOOMBERG NEWS

*By Jon Sindreu*

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While the grounding of the 737 MAX keeps draining Boeing [BA +0.13%](#) of cash, investors have taken some solace from the company's expectation that the jet will gain regulatory approval this year. What should really concern them, however, is an emerging picture of a company culture of cutting too many corners.

On Wednesday, Boeing reported adjusted earnings of \$1.45 a share for the third quarter, 30% below analysts' average estimate. This comes one day after the Chicago-based plane maker announced the replacement of commercial-jet business head Kevin McAllister, the first high-profile ouster since regulators grounded the MAX in March.

Yet Boeing's shares rose almost 2% on the day—after falling 12% over the past month—because the company said its assumption is still for the MAX to be recertified in 2019.

Investors are also enticed by Boeing keeping quarterly dividends untouched at \$1.2 billion.

This is despite free cash flow—a measure of how much surplus money the company generates—coming in much worse than expected at a negative \$2.9 billion, as 42 MAX jets are still built every month without being delivered. Boeing has issued debt to replenish cash buffers. At the end of the third quarter, total debt was 70% higher than at the end of the first.

But investors should focus less on this quarter's number crunching—after all, all those parked planes will eventually be sold—and more on scrutinizing whether the company has truly learned from this debacle.

Over the past week, government investigators revealed worrisome findings about the MAX's development, which include a pilot raising concerns about it three years ago, as well as internal surveys taken during the same period showing that employees felt “potential undue pressure” about safety-related approvals.

As a result, analysts have turned sour on Boeing, with only 48% of them giving its shares a “buy” recommendation—the lowest since late 2017, according to data provider FactSet.

To be sure, they could be overreacting. But consider: Recent revelations create political pressure to push out the MAX's recertification process—particularly in Europe, where regulators have already said that they won't give the green light until at least January. Boeing has warned that further delays could lead to production shutdowns.

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And there are even bigger concerns, such as the possibility that Mr. McAllister, who wasn't at Boeing when the MAX was developed, is being used as a scapegoat to avoid deeper changes. His ousting does appear to have some specific reasons—his role

did include overseeing the fix for the MAX as well as the new 777X, which is now delayed—but few of Boeing's fundamental issues can be blamed on him.

The MAX debacle has cast a spotlight on the company's excessive emphasis on cost control and hitting short-term financial targets, which many also blame for the quality-control issues during the production of the 787 Dreamliner.

Responsibility for this must go all the way up to Chief Executive Officer Dennis Muilenburg, who has resisted pressure to resign. While he was recently stripped of his role as chairman, his

replacement David Calhoun was also part of the MAX's development.

The company has unveiled some changes that include more supervisory powers for engineers, but this is far from swinging back the pendulum from the bean counters in Chicago to the engineers in Seattle.

While Boeing's plane catalog has proven to be a winner and likely ensures long-term success, convincing investors that the company's culture can change is now necessary to win back trust.

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