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The Boeing Company (BA) CEO Dennis Muilenburg on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-23-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $1.45 misses by $-0.66 | Revenue of $19.98B (-20.54% Y/Y) beats by $18.42M

Earning Call Audio

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The Boeing Company (NYSE:BA) Q3 2019 Earnings Conference Call October 23, 2019 10:30 AM ET

Company Participants

Maurita Sutedja - Vice President, Investor Relations

Dennis Muilenburg - President & Chief Executive Officer

Greg Smith - Chief Financial Officer and Executive Vice President, Enterprise Performance & Strategy

Anne Toulouse - Senior Vice President, Communications

Conference Call Participants

Sheila Kahyaoglu - Jefferies

Doug Harned - Bernstein

Peter Arment - Baird

Myles Walton - UBS

Carter Copeland - Melius Research

Ron Epstein - Bank of America Merrill Lynch

Cai von Rumohr - Cowen & Company

Rajeev Lalwani - Morgan Stanley

Rob Spingarn - Crédit Suisse

Seth Seifman - JPMorgan

Hunter Keay - Wolfe Research

Jon Raviv - Citi

Eric Johnson - Reuters News

Julie Johnsson - Bloomberg

David Koenig - The Associated Press

Operator

Thank you for standing by. Good day everyone and welcome to the Boeing Company's Third Quarter 2019 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation plus the analysts and media question-and-answer sessions are being broadcast live over the Internet.

At this time for opening remarks and introductions, I'm turning the call over to Ms. Maurita Sutedja, Vice President of Investor Relations for The Boeing Company. Ms. Sutedja, please go ahead.

Maurita Sutedja

Thank you, John and good morning. Welcome to Boeing's third quarter 2019 earnings call. I'm Maurita Sutedja and with me today is Dennis Muilenburg, Boeing's President and Chief Executive officer; and Greg Smith, Boeing's Chief Financial Officer and Executive Vice President of Enterprise Performance & Strategy.

After management comments, we will take your questions. In fairness to others on the call, we ask that you please limit yourself to one question. As always, we have provided detailed financial information in our press release issued earlier today. And as a reminder you can follow today's broadcast and slide presentation through our website at boeing.com.

Before we begin I need to remind you that any projections estimates and goals we include in our discussion this morning are likely to involve risks which are detailed in our news release, in our various SEC filings, and in the forward-looking statement disclaimer at the end of this web presentation. In addition we refer you to our earnings release and presentation for disclosures and reconciliations of non-GAAP measures that we use when discussing our results and outlook.

Now, I will turn over to Dennis Muilenburg.

Dennis Muilenburg

Thank you, Maurita and good morning. This month marks the one year anniversary of the Lion Air Flight 610 accident. It's been roughly seven months since the Ethiopian Airlines' Flight 302 accident. Not a day goes by where my team and I don't think about these accidents. They weigh heavily on us and we will never forget the lives lost aboard those flights. We are sorry and we continue to extend the deepest sympathies to the families and loved ones.

These accidents affect all of us personally and reinforce the importance of the work we do. We know lives depend on it and nothing is more important to us than the safety of all those who fly on our airplanes.

Let me walk you through the latest developments regarding the 737 MAX on the next slide. Our priority remains supporting the safe return to service of the MAX and assisting our airline customers and operators through this difficult time. We are working daily with the FAA and global regulators on the process they have laid out for certifying the 737 MAX software and training updates and ungrounding the global fleet.

Again, I want to express our regret for the difficulties that the release of an instant message document on Friday has presented to the FAA and other regulators and we understand entirely the scrutiny it's receiving. We are committed to working with the investigative authorities and the U.S. Congress as they continue their investigations.

We are focused on going forward. As we have shared, we completed the MCAS software update earlier this year which addresses concerns found following the two MAX accidents and provides three additional layers of protection to prevent accident like these from ever happening again.

To-date we have conducted more than 800 tests and production flights totaling more than 1,500 hours with the updated software which incorporates feedback from across global regulators and MAX operators.

We are making steady progress on the second software update announced in June for additional flight control computer redundancy to eliminate the possibility of even extremely unlikely risks that are unrelated to the accidents.

In the upcoming days, Boeing will complete additional testing of this software update and conduct multiple simulator evaluations and reviews leading up to a certification flight with the FAA onboard.

Just last week, the company successfully conducted a dry run of the certification flight test. We're making daily progress on these important certification steps. We have brought the very best of Boeing to this effort dedicating all resources necessary to ensure that the improvements to the 737 MAX are comprehensive and thoroughly tested, that includes spending over 100,000 engineering and test hours on their development.

Looking forward, we target regulatory approval for the 737 MAX return to service to begin this quarter. As we've said before, however, it's the FAA and other regulatory authorities who will ultimately determine the timing and conditions of return to service in each relevant jurisdiction. This may include a phased approach and timing may vary by jurisdiction.

During this process, we have been working closely with the FAA and other regulators. We'll provide the documentation, have them fly the simulators, and help them understand our logic and the design for the new software. All of their questions are being answered. The process is dynamic and involves constant dialogue with government agencies that will continue in the days and weeks ahead.

In preparation for the safe return of the 737 MAX to service, we have worked to build the trust and confidence of our customers and regulators. We have partnered with customers and pilots from around the world as we've developed our solutions. We have welcomed and encouraged their questions and giving them opportunities to test those solutions first-hand in our simulators.

We have hosted 545 participants for more than 140 customers and regulators around the globe to experience the software updates in our simulator sessions. We have also conducted 20 global conferences with more than 1,100 participants from more than 250 organizations to help operators and financiers prepare for return to service and provide them the opportunity to ask questions for our teams.

In addition, we're conducting weekly technical calls with our customers worldwide to deliver the highest quality support and fully prepare the fleet to safely return to service when the grounding is lifted. This involves an entry-into-service approach augmented with advanced analytics. This also includes the proposed comprehensive package of training and educational resources.

With our first and foremost priority the safe return to the service of the MAX, we announced a change earlier this month that separates the Chairman and CEO roles to further enable me to center my attention on running the company as Boeing's President and CEO.

Dave Calhoun, our Board's Independent Lead Director is now serving as our Non-Executive Chairman. I'm fully supportive of this division of labor and look forward to continuing my close partnership with Dave, who has a deep knowledge of the aerospace industry and has been a strong and independent leader on Boeing's Board since 2009.

Together, we can be a force multiplier for this important work underway across the company and with our external stakeholders. This move is just the latest of several actions by our Board and senior company leaders to strengthen Boeing's governance and safety management processes, which I will discuss next.

Let's turn to slide 3. As part of our long-standing commitment to safety, last month I announced several actions we're taking to continuously improve. The actions followed recommendations from our Boeing Board of Directors that was a result of the five-month Independent Board Committee review that I've requested of our policies and processes for the design and development of our airplanes.

Members of the committee on airplane policies and processes rigorously explored these aspect of our business and made several recommendations focused on further improving safety throughout the company and the broader aerospace ecosystem. My team and I fully embraced our Board's recommendations and took immediate steps to implement them across the company.

With the committee's input, we established a new product and services safety organization that will review all aspects of product safety and maintain oversight of our accident investigation team and the company's safety review boards. Additionally, we're strengthening and elevating our engineering function through a direct reporting line to Boeing's Chief Engineer, who reports to me.

We're also establishing a formal design requirements program, enhancing our continued operation safety program, partnering with our airline customers on flight deck designs that continue to anticipate the needs of future pilot populations, and we're expanding the reach of our Boeing safety promotion center.

These actions are on top of the steps our Board already has taken to reaffirm its commitment to and oversight of safety, including establishing a permanent aerospace safety committee and adding safety-related experience as one of the criteria for future directors.

In addition to implementing the Board's recommendations, we are committed to reaching even higher. We're concurrently expanding our efforts to strengthen the way we manage safety across Boeing and our supply chain, for example, by broadening the use of a comprehensive safety management system and safety review boards. We're already driving a company-wide approach to safety, quality and integrity that strengthens our vision and serves to reinforce and improve our operational performance.

Additionally, investments in enhanced flight simulation and computing capabilities have increased our company's ability to proactively test a wide range of scenarios resulting in improved product safety. Advanced research and development efforts in future flight decks are also underway, leveraging leading-edge work in human factors, science and design.

Safety is our continual focus. Looking to the future, we'll be exploring ways we can strengthen global aviation safety in partnership with stakeholders across the aerospace community.

We also continue to invest in talent for the future. At this defining moment, Boeing has taken expanded leadership role with a heightened focus on safety. We'll keep learning from these recent accidents, we'll stay true to our values and we will come through this together as a company and industry.

As we keep safety at the forefront, we also remain focused on stability across our production systems and supply chain, as well as mitigating impacts to our customers. As I mentioned earlier, our best current estimate is return to service of the MAX that begins this quarter.

Based upon this estimate and other factors, we expect to maintain our current production rate of 42 deliveries per month with a focus on supply chain and production systems stability. This will be followed by incremental rate increases that would bring our production rate to 57 by late 2020.

After return to service, we expect the 737 MAX airplanes produced during the grounding and included within inventory will be delivered over several quarters with the majority of them delivering in the first year.

We will continue to assess our production plans as part of our scenario planning process. As mentioned before, the FAA and other regulatory authorities will ultimately determine the timing and conditions of return to service in each relevant jurisdiction.

Should our estimate of the anticipated return to service change, we might need to consider possible further rate reductions or other options including a temporary shutdown of the MAX production line.

I want to reiterate my personal thanks to everyone who continues to be our partner in this journey. We are mindful these are challenging times for many and we remain grateful for your support.

Now let me turn to an overview of our third quarter operating performance, followed by an update on the business environment and our expectations going forward. After that, Greg will walk you through the details of our financial results and how we are maintaining financial discipline and prudently managing our liquidity as we work through the safe return to service of the MAX.

With that, let's move to slide 4. During the quarter, we generated revenue of $20 billion and core earnings per share of $1.45, reflecting lower 737 deliveries partially offset by higher defense and services volume. We recorded negative $2.4 billion of operating cash due to the 737 impact. We paid $1.2 billion of dividends in the quarter.

Now let's look at the third quarter operating performance for our businesses. Commercial Airplanes generated revenue of $8.2 billion reflecting 62 deliveries. BCA ended the quarter with our backlog of nearly 5,500 airplanes worth $387 billion. As we discussed before, global trade tension is putting near-term pressure on our widebody production rates, especially the 787. I will discuss that in more detail later.

Now over to Defense Space & Security, BDS reported third quarter revenue of $7 billion and booked $5 billion of new orders, demonstrating the continued value we bring to our customers across our Defense Space & Security portfolio. Those orders included contracts for our fifth KC-46 Tanker production lot for the U.S. Air Force and nine AH-64E Apaches for the U.S. Army.

Key milestones for BDS included the MQ-25 unmanned aerial refueler first test flight. Also T-X trainer, now renamed the T-7A Red Hawk performed its 100th test flight. Other accomplishments in the quarter included the first flight of the inaugural P-8A Poseidon for the UK Royal Air Force, and final assembly of the Space Launch System core stage structure. Also noteworthy is the satellite launch services award received by our United Launch Alliance joint venture from the U.S. Air Force.

Moving on to tanker. As mentioned, Boeing received a $2.6 billion contract for production lot five covering 15 KC-46 aircraft spares and support equipment. We delivered nine tankers to the U.S. Air Force in the quarter and 23 year-to-date.

Turning to Global Services. BGS reported revenue of $4.7 billion, representing 14% growth year-on-year. BGS continues to win new business, highlighting the value we bring to our commercial and government customers and the strength of our One Boeing offerings.

In the quarter, BGS booked contracts for commercial modification, component and training services as well as contracts with the U.S. Air Force for F-15 training to Qatar, A-10 Thunderbolt II re-winging and KC-46 Tanker lot five services.

Also in the quarter, India-based carrier SpiceXpress took delivery of the first 737-800 Boeing-converted freighter to expand its air cargo operation. Progress continues towards our planned strategic partnership with Embraer. We're actively engaged with authorities and relevant jurisdictions and have obtained a number of regulatory approvals including clearance to close in the U.S. and Japan.

The European Commission earlier this month opened a Phase 2 assessment in its review of the transaction. We remain convinced that both the Commercial Aviation and the KC-390 joint ventures will increase competition in the market and create value for our customers and the traveling public as well as drive innovation in products and services. We now expect the transaction to close in early 2020.

In summary, our priority continues to be the safe return to service of the 737 MAX and we've continued to allocate additional resources and attention on this effort. At the same time, we are maintaining our focus on keeping the business strong and healthy, while focusing on operational performance.

As we announced yesterday, we made several leadership changes that will further strengthen our company during a challenging time. Stan Deal has succeeded Kevin McAllister as President and CEO of Boeing Commercial Airplanes and Ted Colbert has succeeded Stan Deal as President and CEO of Boeing Global Services effective immediately.

Stan brings extensive operational experience in commercial airplanes and trusted relationships with our airline customers and industry partners; and Ted brings to our Global Services business, an enterprise approach to customers and strong digital business expertise, a key component of our long-term growth plans.

We are also grateful to Kevin for his dedicated and tireless service to Boeing, our customers and our communities during a challenging time and for his commitment to support this transition.

With that let's turn to the business environment on Slide 5. We continue to see healthy global demand for our offerings in Commercial Defense Space & Services. These are sizable sectors that are growing and backed by strong fundamentals with a combined market opportunity of $8.7 trillion over the next 10 years.

In commercial aviation, while we have seen some moderation of traffic growth, global passenger volume continues to be resilient, building on nine straight years of above-trend growth. Passenger traffic this year is growing at a solid 4.5% through August, again outpacing global GDP and tracking with long-term growth rates.

Meanwhile, the air cargo sector is facing more headwinds, as overall volumes have contracted year-to-date amid a challenging trade environment. That said, we continue to see steady utilization of the global freighter fleet while carriers are placing incremental orders to support their fleet replacement needs.

Additionally, traffic data points to solid growth in air cargo intensive sectors, such as pharma, technology and express shipments. Improvements in industrial production and global trade will be key to a rebound in air cargo in 2020.

With an industry outlook for approximately 44,000 new airplanes over the next 20 years and an ecosystem of life cycle solutions needed to maintain and supported, we continue to see sustainable, long-term growth in commercial aviation. This is powered by mature and emerging economies, the growing middle class and continued innovations in business models and products.

We believe the evolution in key market dynamics in aggregate, continues to drive less cyclicality for our industry. These long-term demand fundamentals provide a solid foundation for our commercial business. We are well positioned in this market with a strong portfolio of airplanes, a large and diverse order backlog and a strong One Boeing team.

The narrowbody segment will command a larger share of new deliveries with expected demand for more than 32,000 single-aisle airplanes in the next 20 years. These new airplanes will continue to stimulate growth and provide required replacements for older, less-efficient airplanes. Our 737 program has a backlog of more than 4400 aircraft.

In the widebody segment, we have seen solid order activity this year for our market-leading 787 and 777 families. In the quarter, Korean Air and Air New Zealand placed follow-on orders for the 787 to replace aging aircraft, reflecting the start of the widebody replacement cycle that we expect to accelerate early next decade. We see the need for more than 1000 small to medium widebody aircraft to be replaced over the next decade.

In the near term, as we have shared, the U.S.-China trade situation has presented challenges for our widebody production plans, in particular for the 787 program. As part of our practice for a significant market such as China, we have forecasted orders from operators based on the country as part of our skyline assumptions. The lack of orders from China in the past couple of years has put pressure on the production rate.

We are in the planning window on the rate decision due to the production lead times. Therefore, as part of our disciplined rate management process, we believe it is appropriate to make a production rate adjustment to balance the supply and demand. So beginning in late 2020, we plan to transition the 787 production rate from 14 per month to 12 per month, for approximately two years.

We will maintain this disciplined rate management process going forward, taking into account a host of risks and opportunities. We will continue to assess the demand environment and make adjustments as appropriate in the future.

We'll also continue to monitor and inform the U.S.-China trade discussions. We value and maintain strong relationships with our customers and government stakeholders around the world, reinforcing the mutual economic benefits of a strong and prosperous aerospace industry. And we remain hopeful that airplanes will ultimately be part of the trade solution. At our planned rates, our 787 backlog of nearly 530 orders, provides a solid foundation and represents more than 3.5 years of production.

Moving to the 777 program. The current generation 777 continued its steady sales momentum with 14 new orders in the quarter. These provide further support for the 777 bridge.

On 777X development, we continue to progress in our preflight testing, focusing on final systems propulsion and airplane-level test. On the static airplane test results, our detailed analysis of the data is progressing well. What we've seen to-date reinforces our prior assessment that this will not have a significant impact on the design or on the preparations for first flight.

The GE9X engine remains the pacing item, as we work towards first flight of the 777X. GE our engine supplier has made good progress to address the durability challenges. GE has installed retrofit components in the certification test engines and testing has restarted. Once the engines become available, GE and Boeing will need to successfully complete additional testing before we are ready to fly.

We still expect first flight to take place in early 2020. We continue to explore opportunities to improve the time line, such as leveraging our system integration labs and additional airplane ground testing consistent with our commitment to safety.

That said, as we further assess the impact to the GE9X engine and associated risk, we now expect first delivery of the 777-9 to be in early 2021. The combined 777, 777X production rate is five per month. We continue to expect the 777 delivery rate to be approximately 3.5 aircraft per month in 2019. The delivery rate is expected to be at approximately three per month in 2020, as we mitigate some of the impact of the slide in 777X time line by producing more 777 current generation aircraft.

We are focused on further bolstering the 777X skyline. The 777X orders and commitments of 364 aircraft, provide a strong foundation that supports our plan for ramping up production and delivery of this new aircraft.

On the 767 program, we added 16 new orders in the quarter including 15 for the KC-46 production lot 5. As previously announced, we plan to increase the 767 production rate from 2.5 to three per month in 2020.

In Defense Space & Security, we continue to see solid demand for our major platforms and programs. Looking at the defense and space market for the next 10 years, we see $2.5 trillion of opportunities for our business with 40% of that from outside the U.S. The BDS portfolio remains well positioned with proven world-class platforms to address current needs and innovative capable and affordable new franchise programs to build the future.

We continue to see broad support for our products from the Pentagon, NASA and Congress including for procurement of Boeing F-15Ex and F-18 fighter jets, Apache and V-22 Osprey rotorcraft, JDAM weapons, satellite programs, the Space Launch System and key derivative programs like the KC-46 Tanker and the P-8. We also see robust support for our future franchise programs. We are maintaining a sharp focus on these future franchises.

The MQ-25 recently began test flights and we are humbled to honor the legacy of the Tuskegee Airmen with the T-7A Red Hawk. We also remain absolutely dedicated to Commercial Crew and the Space Launch System, which will maintain our nation's position as the leading edge of space exploration.

Turning to the services sector. We see the $3.1 trillion services market over the next 10 years as a significant opportunity for our company. We continue to see growth with expanded service offerings, across the supply chain portfolio and our global digital solutions.

New business in the quarter reflects our superior products both on and off platform with new digital agreements signed with Air Canada for our manpower planning software and with IndiGo for ops control and tail assignment digital solutions. In summary, with growing markets and opportunities ahead, our team remains committed to growth, innovation and accelerating productivity improvements to fuel our investments in the future.

So, with that, Greg over to you for our financial results.

Greg Smith

Thanks, Dennis. Good morning everyone. Let's move to slide 6 and we'll discuss our third quarter results. Revenue for the quarter was $20 billion with core earnings per share of $1.45 reflecting lower 737 deliveries, partially offset by higher defense and services volume.

Before we discuss the segment performance, let me also touch on the 737 MAX and explain how the grounding has impacted our financials, what we've done to mitigate some of that impact and what we're focused on today and going forward. For the purpose of our third quarter financial results, we have assumed the regulatory approval for the MAX return to service begins in the fourth quarter this year. While this assumption reflects our best estimate at this time, I just want to reiterate that the actual timing and condition of return to service will be determined by the regulatory authorities and could differ from this assumption and our estimate.

Our third quarter financial results also assume a gradual increase in the 737 production rate from the current 42 per month to 57 per month by late 2020. We also assume that after return to service of the MAX airplanes produced during the grounding and including within inventory will be delivered over several quarters with the majority of them being delivered within the first year. Any changes to these assumptions could require us to recognize additional financial impact.

We added $872 million of program costs on the 737 in the third quarter. This is primarily to reflect current assumptions regarding timing of return to service and the timing of planned production rate increases. These additional costs will be spread across the undelivered aircraft in the accounting block of approximately 3,100 units and therefore reduce the 737 program margin.

During the quarter, we reassessed our estimate of potential considerations and other in concessions for customers for disruptions related to the 737 MAX grounding and associated delivery delays. This reassessment included updated -- updating estimates to reflect revised return to service and production rate assumptions as well as latest information based on engagements with 737 MAX customers.

We have made no significant adjustments to the recorded liability in the quarter.

As we've mentioned, we're also addressing the impact individually customer-by-customer and we will look at various forms of economic value that we can provide. We expect any concessions or other considerations to be provided over a number of years. And therefore, you can expect the impact to our cash flow to affect 2019 and beyond. We continue to see this impact to be more front-end loaded in the first few years but of course will be dependent upon individual conversations with customers.

Looking forward, the key drivers of the financial impact related to the 737 continue to be the return-to-service time line and conditions; the delivery ramp-up, which is dependent on how fast we can deliver aircraft once the fleet returns to service and how fast our customers can accept the aircraft; also includes 737 production rate profile; and as discussed customers regarding potential concessions and considerations.

We expect our financial results to continue to be adversely impacted until we safely return the 737 MAX to service, resume deliveries to our customers and ramp-up production rates. We continue to perform detailed scenario planning around return to service and production rates, including analyzing the implications on our supply chain, customer fleet and deliveries to fully understand the range of financial outcomes.

We will continue to assess our current production plans and incorporate any new insights, such as return-to-service time line, storage capacity, and supply chain all in our analysis to help inform us on whether further rate reductions or other options including a temporary shutdown of the MAX production are needed. We've also taken actions to prudently manage our liquidity, increasing our balance sheet flexibility in managing our spending and laser-focused on productivity. We will continue to diligently review all levers available to minimize the financial impact

It's important to note that everything we do are focused on quality and safety are and always have been our highest priority. We do not compromise these values for cost or schedule. Returning the MAX safely to flight continues to be priority one for us. It's a team effort that leverages the best talent from across Boeing and outside experts. We will continue to apply whatever resources are required to return the 737 MAX safely into the fleet and take the time necessary to do so working hand in hand with our customers.

Let's now move to Commercial Airplanes on slide 7. Our Commercial Airplanes business revenue decreased to $8.2 billion during the quarter reflecting lower 737 deliveries. BCA operating margin declined to negative 0.5%, reflecting lower 737 delivery partially offset by higher 787 margin. BCA backlog includes nearly 5,500 airplanes valued at $387 billion equating to more than six years of production.

Let's now turn to Defense Space & Security results on slide 8. Third quarter revenue increased to $7 billion reflecting higher volume on satellites, weapons and new franchise programs T-7A in particular, partially offset by lower F-15 volume. BDS booked operating margin of 10.7% in the quarter reflecting improved performance. During the quarter BDS won key contract awards worth $5 billion and our backlog stands at $62 billion with 30% from outside the U.S.

Let's now turn to Boeing Global Services results on slide 9. In the third quarter, Global Services revenue increased to $4.7 billion reflecting the acquisition of KLX and higher government services volume. Year-over-year growth of 14% for the quarter continues to outpace the average services market growth rate of 3.5%. BGS booked operating margins of 14.4%. And as I mentioned before BGS margins quarter-to-quarter are subject to fluctuations due to factors such as mix, products and services as well as performance on individual contracts. During the quarter BGS won key contract awards worth approximately $6 billion bringing its backlog now to $21 billion.

Let's now turn to cash flow on slide 10. Operating cash flow for the third quarter was negative $2.4 billion driven by lower 737 deliveries, lower advance payments and timing of receipts and expenditures. We expect continued working capital pressure to adversely affect cash flow until MAX deliveries resume. Strong operating cash from other parts of the business, a strong balance sheet and further balance sheet levers will help provide adequate liquidity during this period.

In the third quarter we paid $1.2 billion in dividends. And as I previously mentioned, we have temporarily paused our share repurchase program. Our long-term balanced cash deployment strategy and commitment to returning cash to shareholders remains unchanged. However in the near term managing our liquidity and balance sheet leverage are top priorities and will continue to be so until the 737 MAX deliveries resume we execute the 737 production rate increases and see stability in the production system.

Let's move now took cash and debt balance on slide 11. We ended the quarter with $10.9 billion of cash and marketable securities. We raised additional debt in the quarter increasing the balance by $5.5 billion, primarily to fund the Embraer acquisition and also to help shore up liquidity position as we work through the current MAX challenges.

Our strategy of maintaining a strong balance sheet provides us with substantial borrowing capacity through capital markets access and unused credit facility of $6.6 billion. Our long-term goal and strategic objectives remain unchanged and we will continue to use our three business unit strategy as a key differentiator in the marketplace, make prudent investments and leverage talent and innovation from across the company.

As always we'll continue to keep a close eye on the geopolitical and macroeconomic developments prudently managing risk. As Dennis said, we maintain our disciplined rate management and continue to monitor the environment and make rate adjustments as appropriate in the future.

As a reminder in addition to the MAX, our financials particularly cash flow will also be impacted by the decrease in the 787 production rate and timing of 777X entry into service. Reduction in future deliveries create cash headwind due to lower cash from pre-delivery and delivery payments.

So in summary, while focusing on a very important priority of safe 737 MAX return to service and minimizing the significant impact on our customers and the flying public, our team keeps the core operating engine strong, delivering results and meeting customer commitments.

While we still have a lot of work in front of us, we're confident that we have the right focus, team and resources to navigate through. We're committed to providing you with additional updates on the MAX return to service, progress, production rate plans as we have more information.

We'll strive to continue to keep all of our stakeholders informed with the utmost transparency through our public statements and information posted on our website. Once we have further clarity, we will schedule a follow-up investor and media conference call to discuss financial impacts, provide financial guidance which will capture the puts and takes including the impacts from the recent widebody changes.

With that I'll turn it back over to Dennis for closing comments.

Dennis Muilenburg

All right. Thank you, Greg. These are challenging times first and foremost for the families and loved ones affected by these recent accidents. They will always be on our thoughts. This is also a defining moment for Boeing, and I can assure you that we have learned from this and we'll continue learning. We have changed from this and we will continue changing. And we're committed to coming through this challenging time better and stronger as a company.

We'll stay true to our enduring values of safety, quality and integrity while driving operational excellence across the enterprise. We will never waver in our commitment the importance of our work demands it.

Nothing is more important to us than the safety of our customers and the flying public. The safe return to service of the 737 MAX is our company's top priority. I want to thank my Boeing teammates who are delivering on this priority and on our other commitments of executing on our key priorities, driving growth and operational excellence across the business in close partnership with our customers, suppliers and regulatory agencies while returning value to our shareholders. With the changes we're making to the MAX software and training, we're confident that the MAX will be one of the safest airplanes ever to fly.

The long-term fundamentals of our businesses remain strong and our key priorities are unchanged. Our One Boeing advantage has never been more clear and we will leverage this unique strength to deliver and improve on our commitments to our customers and partners around the world.

With that we'd be happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Sheila Kahyaoglu with Jefferies. Please go ahead.

Sheila Kahyaoglu

Thanks. Good morning, Dennis and Greg.

Greg Smith

Good morning, Sheila.

Sheila Kahyaoglu

Greg, perhaps a question for you on cash. Given MAX production and changes in working capital associated with the aircraft as well as the recent widebody cut on the 87s, how are you thinking about the free cash flow profile of the company over the next few years?

Greg Smith

Yes. Yes. Well, look, considering the circumstances of where we are obviously the cash profile is more challenging than it was. But I'd say the long-term objective that we had in place continues to be in place. I'd say outside of MAX in the service and defense business we continue to see opportunities there. But as you mentioned between getting the 737 MAX back up that will be the single biggest driver safely return that back to service, deliver on our aircraft off the ramp and meeting those rate breaks that we talked about and maintaining stability will be the key driver in the cash flow profile going forward.

We've got more 777X inventory build as a result of the scheduled change so we see that use of cash now peeking in 2020. And obviously with the 787 rate decisions that we announced today and the associate advances that also will have an impact within that time frame. So lots of puts and takes but 737 MAX being the biggest driver through that period.

So when we have better clarity on that path forward and the stability we'll give you a further update of where we think we are over the long-term profile. But again that remains our objective and the underlying engine continues to perform well, but we've got to continue to execute. And like I said those key elements are really going to be the big drivers of cash going forward.

Sheila Kahyaoglu

All right. Thank you.

Operator

The next question is from Doug Harned with Bernstein. Please go ahead.

Doug Harned

Good morning. Thank you.

Greg Smith

Good morning, Doug.

Dennis Muilenburg

Good morning, Doug.

Doug Harned

If we go back a little ways you had previously said that you'd expected to have a completed fix for the MAX to the FAA by the end of September. So we're in mid-October now that appears to have slipped. But yesterday, Steve Dickson made - at the FAA made some statements that sounded fairly positive regarding software and documentation that Boeing has provided to the FAA. So I'm trying to understand where we stand now. Is there -- what constitutes the delivery of a final fix? And is there a milestone that we should be looking for ahead of an FAA certification flight?

Dennis Muilenburg

Yeah. Doug good question. And as you know we've been working this at a very detailed level, basically every hour, every day in close coordination with the FAA. And we are in the process of delivering those certification items and that includes the final software, the training products, the system description documents. And that has been an iterative process.

We did start that incremental process in September. The review cycles have taken a little longer than originally planned. But I think that's a good representation of the fact that we're diving deep into the documents, we're answering all the questions. And the FAA has taken the time to make sure we get it right. So I think that level of scrutiny is good.

We have -- now have the final software in our regression testing labs. As you heard from Administrator Dickson, yesterday the FAA has been involved in that final software delivery. You also heard from Administrator Dickson that we've now delivered the final system description document of the changes to the MAX. That's another important milestone. So there are tangible milestones being achieved, but we still have more work to do.

Last week we did complete an initial dry run of the certification test flight. We anticipate doing a couple more dry run kind of flights. But to a next big milestone that you might look forward Doug to your question when we get to the certification flight that will be a key weigh point on the way to the airworthiness directive.

And again that final decision around the airworthiness directed to un-ground the fleet and bring the MAX back up that will be the regulator's decision, that will be the FAA's decision. But we're going to lean forward and provide every piece of data we can. We're going to make sure the depth of analysis is complete. We're going to answer every single question.

And I can tell you we are making steady daily progress. We have a well-defined plan and we're performing against that plan. And the preeminent focus here is on safety. We're going to take the time to get it right, make sure it's safe. And we'll continue to share the milestone progress as we go.

Doug Harned

Okay. Thank you.

Operator

Next question is from Peter Arment with Baird. Please go ahead.

Peter Arment

Yes, good morning Dennis, Greg.

Dennis Muilenburg

Hey Peter.

Peter Arment

Dennis, maybe you could just talk about 787 decision. This is really, obviously, the first production cut for that program. It's been so successful. Maybe just on holding that rate at 12 a month kind of confidence levels around that just thoughts about in general the longer-term production profile for the 787? Thanks.

Dennis Muilenburg

Yeah. Peter it's a good question. Obviously not a decision that we take lightly. As Greg mentioned and as we've talked about before production rate discipline is one of our key management principles, something that will drive stable, long-term growth.

Our prospects for the long-term widebody market haven't changed. We still see that as positive. As I mentioned in my comments, we see a market for roughly 1,000 new small to medium-sized widebodies over the next decade. So that replacement wave cycle early in the next decade that we've talked about previously we still see that coming.

But in the near-term, our skyline has been dependent on orders from China. And now that we're within lead time on our production system and those orders from China have not materialized, we need to make a decision. And so that's what you see reflected here.

We think the decision to take the rate down to 12 for approximately two months is a good -- or excuse me for two years is a good disciplined decision and fits with the market signals that we're seeing. We're going to continue to monitor the U.S.-China trade policy discussions and then we'll continue to make our plans going forward.

We have a very disciplined process for looking at the market, our supply chain health, all of the other parameters that might affect our customers' decision making process. And the decision we're announcing today is something that's consistent with that disciplined approach. So bottom line here is our long-term prospects have not changed, but we need to make prudent decisions here in the near-term that match with the economic realities.

Operator

Next we'll go to Myles Walton with UBS. Please go ahead.

Myles Walton

Thanks. Good morning. Dennis, you've had a mid-teen BCA margin target out there a while. I'm just curious with all the changes, I guess the 37s now 400 basis points maybe lowering the block program, looking forward the 87 rates and the 777, are we now looking more in the 10% to 12% range? And then Greg just a clarification on share repurchase. I was interpreting from your comments you mean you don't anticipate share repurchase until 2021 after everything is back up? Is that accurate?

Dennis Muilenburg

Greg you want to take the second question first?

Greg Smith

Sure. I think -- don't anticipate share repo until we've got return to service. We're executing on the production rates and reaching the stability that we expect. And once we get to that level then we'll reassess our cash deployment efforts. And, of course, as I mentioned we've got additional debt on the balance sheet and we plan to address that as well.

So we'll keep you up to speed, but those are the key milestones to watch for. And until we're satisfied with where we are and we're generating the cash that we would expect as a result of reaching those milestones, we'll re-execute on our cash deployment strategies. But as I said our long-term objective is certainly what it was, but we've got to get through that -- those milestones before we'll readdress repo.

Dennis Muilenburg

And Myles to your first question, similar thing on the operating margin side. Our long-term objectives and targets have not changed. We're still driving towards a mid-teen margins business. We haven't altered our plans for that. But again in the near-term, our laser focus is on the safe return to service of the MAX. That is the most important thing we can do and we're going to invest all of our resource and focus in making that happen.

The fundamentals of the business, the investments we're making in digitizing our enterprise, lean principles in our factories, a lot of these production rate discipline and efficiency we're continuing to drive during this interim time period. While we have had to make production rate reductions on the 737 line for good reasons, we're also using this as an opportunity to continue to invest in the line and maturing some of our advanced manufacturing processes. And that will make for a healthier production system for the long run and keep us on track for those long-term targets. But in the near term, no question, our focus is on the safe return to service of the MAX. And I can tell you without any question our preeminent focus every day going forward is on safety and quality.

Myles Walton

Thank you.

Operator

Our next question is from Carter Copeland with Melius Research. Please go ahead.

Carter Copeland

Hey, good morning, gentlemen.

Dennis Muilenburg

Good morning, Carter.

Carter Copeland

Greg, just a clarification on the cash. Are you no longer receiving MAX PPs and advances? I just -- I didn't quite catch that out on your earlier comment. And then on the 87 margin increase, I mean you've had several steps upward in that margin in the last several quarters. Are we to assume that this is similar in scale in terms of the increase? Or should it be significantly less because of the rate decision? Just wanted to dive in there just because you have good deferred production numbers there and so it looked like that might have been better?

Greg Smith

The team continues to do a great job in executing on their plans across not only the two sites, but within the supply chain with the partners as well in integrating the mix between 9s, 10s and 8s. The team has done a great job and you're seeing the results of that in the margin. The profile that you've seen, you should expect that to continue as we work through these blocks. As we talked about there are some key levers within those blocks our own productivity, supplier step-down as well as mix. That will be favorable to the margin as we work through the block. So that's all about executing on those fundamentals. And if we do that and do that as planned, you'll continue to see margin expansion associated with the program.

On advances, obviously the profile of advances in particular on the 737 has changed dramatically and appropriately so. So we are still getting some advances. But with the shutdown all of those have been rescheduled. And that profile again is very different than it would have been clearly if we were at full rate. So we continue to work with each of our customers on this. But again as we talk about cash flow going forward as we execute on the rates going up and do that and maintain stability through that period and the efficiencies, we'll start to see that advance stream picking up and associated back with a higher delivery. So obviously a key enabler for cash flow going forward. But as we're at this period right now, as I said, you're going to see continued pressure on cash -- on operating cash until we get back to service.

Carter Copeland

And so just to be clear on that 87 margin, the step-up was similar to what you've seen in some of the recent quarters?

Greg Smith

Yes. It varies from quarter-to-quarter Carter just depending on -- again depending on mix and delivery profile and just overall kind of again model mix plays into that pretty significantly as well.

Carter Copeland

Okay. Thanks, Greg.

Greg Smith

Okay. You're welcome.

Operator

Our next question is from Ron Epstein with Bank of America Merrill Lynch. Please go ahead.

Ron Epstein

Hey, good morning guys.

Greg Smith

Hey, Ron.

Dennis Muilenburg

Hey, Ron.

Ron Epstein

How do we think about -- in the backdrop with the change in leadership with Boeing commercial, how do we think about where NMA stands now, right? I mean the broader margin keeps moving right along, right? So how are you guys thinking about NMA? And how should we think about NMA? And is that still a project you guys are interested in so on and so forth?

Dennis Muilenburg

Yes. Ron first of all let me be really clear on our priorities. Our priority is safe return to service for the MAX and that's been clear to our team, clear to all of our suppliers, clear to all of our constituencies. And we've applied additional resources there. We put additional talent there. That is our focus. Now with that in mind, we are continuing to drive forward with our efforts evaluating NMA. We still are not at a decision point nor are we ready to be at a decision point yet. We're continuing to mature the business case.

We're continuing to invest in risk reduction around the production system of the future and that continues to be a productive effort for us. So we'll continue to leverage those investments. And when we're ready to make a decision we will. So still a project of interest. We're still looking at a middle of the next decade entry-into-service time frame as we talk to our customers. And we'll make a good prudent decision when we're ready. But let there be no question, our focus is on safe return to service for MAX.

Ron Epstein

Okay, great. Thank you.

Operator

Next, we'll go to Cai von Rumohr with Cowen & Company. Please go ahead.

Cai von Rumohr

Yes. Thank you very much. So maybe you can walk us through the milestones required to achieve your FAA airworthiness directive, the sequence of those milestones and then the milestones between receiving the AD and resumption of U.S. service, because most of your customers in the U.S. are talking about flying again in February not at year-end. Thanks so much.

Dennis Muilenburg

You bet. Cai, good question. Let me just walk you through that at the top level. And again, this is a very detailed plan that we've laid out with all of our teams and stakeholders and one that we're working together with the FAA and our regulators. In the near term, we're marching through the technical steps if you will and that includes finalizing the software. That will go into a series of simulation -- evaluations. There's a near-term milestone that we referred to as the line pilot evaluation that will take that final software and with external line pilots from airlines come in and evaluate the handling quality of the airplane.

We'll also have a external set of pilots coming in, again authorized by the regulators that will conduct what we call a Joint Operation Evaluation Board. And that set of pilots will evaluate the training materials. So over the near term those are two key milestones for us. One that evaluates the software update to the airplane; and the second that evaluates the training products.

In that same time frame, as those two milestones are completed, we'll roll into the certification flight that I mentioned earlier. That will be another key milestone for us. And then after all of the assessments are completed, those evaluations are done, that will roll into the Airworthiness Directive decision that the FAA will make and that other regulators will make.

Subsequent to the issuance of the Airworthiness Directive and the ungrounding of the airplane, then we would move into the phase of ungrounding the aircraft and incrementally bringing up fleet operations for our airline customers. And the reference points that you're seeing out there from our customers are perfectly aligned with the detailed technical plan that I just walked you through.

So they're very aware of that plan. And there is a time period between the airworthiness directive and when they can resume full operations, revenue-bearing operations. And that includes bringing each individual airplane up, making sure that each airplane is safe and ready to perform.

We've been working, as we've been storing airplanes to ensure the health of those vehicles, but we'll be working tail number by tail number with our customers to ensure they can bring the fleet up back successfully and then get back to full revenue-bearing operations.

And that's why you see a bit of a time lag between the Airworthiness Directive and what our customers are now quoting as going operational dates. So, hopefully that gives you a feel for the time phasing of the plan. And ultimately, bringing all of those grounded airplanes back up and all of those stored airplanes back up to fleet operations will be a multi-quarter operation.

Cai von Rumohr

Thank you.

Operator

The next question is from Rajeev Lalwani with Morgan Stanley. Please go ahead.

Rajeev Lalwani

Hi. Good morning. Dennis, Greg, staying on the 737, maybe moving at a slightly different direction. In terms of the backlog, it's obviously remained stable here over the last couple of quarters. But with the easing backdrop in some of the MAX issues, have you not seen a wave of interest in cancellations? Maybe just talk more about that dialogue with customers. I mean, at a minimum, it seems like advances are pushing out. Obviously, the orders aren't there, et cetera. So want some color.

Dennis Muilenburg

You bet, Rajeev. We've been having a good productive conversations with our customers around the world. We're engaged with them daily, keeping them abreast of the progress we're making on the safe return to service. We've seen continued strength in our backlog, stability in that backlog.

Our customers still, around the world, see the value of the 737 MAX and they know what it will ultimately bring to their operations. So that backlog of roughly 4,400 aircraft has remained solid and stable. We have had discussions with customers who, given time lines and fleet needs, may want to move skyline positions. In some cases, model differences or model trades are options.

So as we think through customer compensation models, as you know, we're having those discussions with our customers. There is some trade space around delivery profiles in skyline positions. But all of that within the context of what I think, overall, is a very stable backlog position and we continue to see strong customer commitment around the globe.

Rajeev Lalwani

Thank you.

Operator

Next we'll go to Rob Spingarn with Crédit Suisse. Please go ahead.

Rob Spingarn

Hi. Good morning.

Dennis Muilenburg

Hi. Rob.

Rob Spingarn

Greg, with regard to the concessions not changing ,no material change there, it does seem, and to the prior couple of questions, that we have slipped to the right for RTS, at least from October to likely December. So I wanted to see why we wouldn't see a change there, because it certainly adds a couple hundred delayed airplanes.

And then the other part of it is, how aligned are the customers on this concession figure? If I understood correctly last time, they had not necessarily endorsed the figures that were in the 5.9 billion.

Greg Smith

Yes.

Rob Spingarn

Those weren't necessarily based on agreements with them has that changed?

Greg Smith

Yes. No. So, Rob, I would say, there's a lot that goes in that. So multiple data points, obviously, going into that and we assess it on a regular basis and obviously go through that quarter-by-quarter. So that could change, obviously, with time. So our discussions with our customers, the methodology, their expectations and kind of working through customer-by-customer the impact on them and then ultimately a form of settlement continues to be a regular dialogue and it will be.

So we did not see a change in what we have for a liability this quarter. That does not mean that we won't -- could not see a change going forward. This is part of our regular, I'll say, closing process that we will go through every one of those in what's outstanding and assess what we believe is the liability, again, based on multiple data points including conversations and overall, I'll say, kind of impact that they have experienced. But we don't, again, expect significant change in that. But, again, we assess it every quarter.

Rob Spingarn

Thank you, Greg.

Greg Smith

You're welcome.

Operator

And next we'll go to Seth Seifman with JPMorgan. Please go ahead.

Seth Seifman

Thanks very much and good morning.

Dennis Muilenburg

Hi, Seth.

Seth Seifman

Greg, sorry, I definitely appreciate that you guys aren't giving guidance right now. But just in terms of thinking about the cash trajectory going forward, nearly $3 billion of cash burn in the quarter, plus $1 billion for the dividend. Do we think about something similar in Q4? And I would assume that Q1 will still have some challenges in it.

There's some cash on the balance sheet, but some of that is earmarked for Embraer. You talked about the potential maybe to still have additional balance sheet levers. Can you talk a little bit more, maybe even just in broad numbers, about the near-term liquidity and balance sheet profile and what you expect to do?

Greg Smith

Yes. Well, look, over the short term, as you know, on a quarterly basis, just through timing of expenditures and just through advances, that varies significantly or can vary significantly. So I would not take necessarily one quarter and apply it to the next, as you know.

So we've got key milestones in the fourth quarter around advances, around deliveries and of course within our defense business as well. So there's a lot of puts and takes in there Seth. But that RTS assumption and then that production rate increase in delivering those units, again off of our ramp, are real key drivers to cash going forward. So, if those assumptions and our estimates change, that profile obviously will change resulting in that.

So that's the near term, I'd say movements. Beyond that, if you went outside of MAX again, the services business, defense business is doing a nice job on their working capital. We're reprioritizing spending as we navigate through this.

And as I said, we do have additional balance sheet levers. If we need to pull additional levers, we'll do that. We don't see that over the short term. But we're again managing this prudently, best we can and running various scenarios to really kind of understand our banding around liquidity and taking some proactive actions internally as well as in the debt markets. And we'll continue to do that, again, until we have final RTS and then start delivering airplanes.

Seth Seifman

Operator

Next we'll go to Hunter Keay with Wolfe Research. Please go ahead.

Hunter Keay

Thanks for taking me on. Good morning guys. I'd like to talk a little bit about 777X certification process. If you decide -- I don't think you've said whether you're going to go derivative or new type yet, but how does that decision impact the -- not only the process itself, but the operating economics for the airline customers when they consider the benefit; like training costs and things like that of a derivative versus a new type? Thanks.

Dennis Muilenburg

Yes. Hunter on that point, we're continuing to work through the certification and development process and -- with the FAA. The key is going to be any process updates that we might learn from the 737 MAX, any revisions to the certification timelines or procedures, we're thinking through that and any lessons learned that we might have, any applications we might want to make to the 777X.

As I said we're continuing to march towards our first flight early in the coming year and then EIS now we're looking at first delivery early in 2021. And we'll be thinking through all the details of that certification plan with the regulators over the next many months. And again, if there are any updates to the plan or any of the requirements, we'll be sure to discuss those and factor those into the planning going forward.

Maurita Sutedja

Operator, we have time for one more question.

Operator

That will be from Jon Raviv with Citi. Please go ahead.

Jon Raviv

Thank you. On that topic Dennis, again, bigger picture it's been a while with the MAX grounding. You've seen what it takes to certify and we've seen some of the shortfalls in your previous processes. So just -- over the long term beyond 777X to what extent could the future aircraft development just essentially cost more whether it's engineering testing certification? And in the context and if there's some uncertainty around that, why does it make sense to maintain the current capital allocation priorities?

Dennis Muilenburg

Yes. Jon once again as we take a look at our development processes, we're always continuously learning and applying any lessons learned we might have from the previous programs. And certainly through the process of the MAX development and flight testing and everything that we're proceeding with right now to get to safe return to service, anything we're learning from that process is factoring into all of our development programs going forward.

We're taking a hard look at our safety review board processes our certification processes. We're going to take a look at flight deck designs for the future. All of those things will factor into our future development programs. But in terms of our priorities for capital allocation, those priorities haven't changed.

As we've always said, our number one use of cash is investment in organic growth and that continues to be the case. We think that is the best use of our capital. It's the way that we build our future. And we haven't seen anything here that would turn us in a different direction, so we're going to continue to invest in organic growth for the future.

Operator

Ladies and gentlemen that completes the analyst question-and-answer session. [Operator Instructions] I will now return you to the Boeing Company for introductory remarks by Ms. Anne Toulouse, Senior Vice President of Communications. Ms. Toulouse please go ahead.

Anne Toulouse

Good morning. We will continue the call with media questions for Dennis and Greg. And John we're ready for that first question. [Operator Instructions].

Operator

And first we'll go to Eric Johnson with Reuters News. Please go ahead.

Eric Johnson

Hi Dennis, hi Greg. Thank you very much.

Dennis Muilenburg

Hi Eric.

Eric Johnson

And so the comments you've made is focused on FAA approval, but I wonder how you see the risk of surprise and delays from overseas regulators as they take longer to or ask for more changes. And then separately, I wanted to get some details as you can on why -- on the decision to fire Kevin McAllister? Thank you.

Dennis Muilenburg

All right. Eric on your first question regarding international regulators, we've been working hand-in-hand with the FAA on those interfaces throughout this entire process. The FAA has convened something that they call the certification management team which includes

Transport Canada, ANAC out of Brazil, and EASA out of Europe.

We've been engaged with the regulators in China and -- frankly several dozen regulators around the world. So this is all a highly coordinated process with the FAA's lead regulator role.

We've taken some of the same deliverables that I mentioned earlier things like the system description document, things like other certification deliverables and with the FAA's approval have shared those with the international regulators. Those are also undergoing review. So all of this work is being done, concurrently.

Now until the reviews are complete, we may have additional actions additional questions from some of these international regulators. As I mentioned earlier, while the coordination is ongoing it could well be that approvals will vary by jurisdiction. And again the regulators will make that decision. Ultimately it will be their time line.

But we are and will continue to share the data consistently and transparently with all of the regulators. Our interest here is on the safe return to service of the MAX. That is our focus.

And we're working that hand-in-hand with the FAA. And we'll continue to support the other regulators, as well. To your second question on our leadership changes, again, our focus here is on ensuring that we continue to field the strongest team we can.

And these are decisions that we've made as a company, that are aligned with our leadership plans, our plans to have a strong and growing company for the future. And these changes are aligned with that plan. Our focus is on safety and quality, and performance, and delivering operational excellence.

Operator

Our next question is from Julie Johnsson with Bloomberg. Please go ahead.

Julie Johnsson

Hi. Good morning.

Dennis Muilenburg

Good morning. Hi, Julie.

Julie Johnsson

Hi. Hey, would you mind walking us through your expectations for trade ceasefire, between the U.S. and China? President Trump a few weeks ago, hinted at a mega-potential Boeing deal coming with a Phase one agreement.

We've been puzzling as to what he was referring to, when he mentioned $16 billion to $20 billion in orders. And I'm also wondering, how we should square that up with the 787 rate cut today.

Dennis Muilenburg

Yeah. Julie, good question and as I mentioned, we're continuing to engage with the constituencies in both the U.S. and China on the trade discussions. We've been continuing to inform those discussions.

We continue to see, benefit to both countries with a healthy aerospace ecosystem. Here in the U.S., as you know the aerospace industry is the largest exporter. We contribute about $80 billion of trade surplus per year to the U.S. economy.

And we are a heavy manufacturing industry. We generate strong manufacturing jobs here in the U.S. China, clearly needs the airlift capacity. Of those 44,000 new airplanes over the next 20 years, that I've mentioned about 7,700 of those are in China.

And so there's mutual interest in both countries that we continue to see. I think the recent trade discussions have been productive. They're moving in a good direction. But given the time line, and the fact that we don't have firm orders from China at this point, we're within production lead times.

And so we have to make the decision on the 787 line which is what you see reflected in our announcement today. We're going to continue to monitor and support the China trade discussions. Those are still very important for the future.

But for purposes of our company, we have to be, very disciplined in our production rate management. And we're going to continue to do that. And the decision that we're announcing today is consistent with that discipline.

Anne Toulouse

Hey, John, we have time for one last question please.

Operator

And that will be from David Koenig with The Associated Press. Please go ahead.

David Koenig

Yeah. Thank you very much. Mr. Muilenburg, looking ahead to your congressional testimony next week, I'm curious, how are you preparing for that? What kind of reception do you expect? And will you meet with any families of the passengers from the accident flights, who say they are going to be there?

Dennis Muilenburg

Yeah. David, we are preparing for those hearings. Of course, we've been supporting the document requests from the committees both the Senate and House. And we're going to continue to do that.

We welcome the discussion and the questions. And I'm looking forward to participating in those hearings. I anticipate there will be tough questions, challenging questions, a lot of scrutiny.

And frankly, we support the scrutiny on the work that we're doing. I think everybody here is aligned on, the objective of a safe aviation system for our country. And I know that's the interest of the committees. That is clearly the interest of our company.

And I look forward to participating in those hearings and talk about what we're doing, all again with a focus on safety. And that's our culture. That's what our company is about. And I hope to represent that, represent it well, at the hearings next week.

And as I mentioned earlier, our sympathies continue to go out to the families and loved ones of those that have been affected by these accidents. That will never go away. And I anticipate that some of those families will be represented next week. And I hope to be able to express my sympathies to them, as we're at the hearings.

Anne Toulouse

Okay. That concludes our earnings call. Thank you for joining us today. For members of the media, if you have further questions, please call our team at 312-544-2002. Thank you again.