Boeing (BA) Q2 2024 Earnings Call Transcript

By Motley Fool Transcribing – Jul 31, 2024 at 2:00PM

BA earnings call for the period ending June 30, 2024.

Boeing (BA 15.37%)

Q2 2024 Earnings Call

Jul 31, 2024, *10:30 a.m. ET*

Contents:

- Prepared Remarks
- Questions and Answers
- Call Participants

IMAGE SOURCE: THE MOTLEY FOOL.

Prepared Remarks:

Operator

Thank you for standing by. Good day, everyone, and welcome to the Boeing Company's second-quarter 2024 earnings conference call. Today's call is being recorded. The management discussion and the slide presentation plus the analyst question-and-answer session are being broadcast live over the Internet.

[Operator instructions] At this time, for opening remarks and introductions, I'm turning the call over to Mr. Matt Welch, vice president of investor relations for the Boeing Company. Mr. Welch, please go ahead.

Matt Welch -- *Vice President, Investor Relations*

Thank you, Lois, and good morning, everyone. Welcome to Boeing's quarterly earnings call. I am Matt Welch, and with me today are Dave Calhoun, Boeing's president and chief executive officer; and Brian West, Boeing's executive vice president and chief financial officer. As a reminder, you can follow today's broadcast and slide presentation at boeing.com.

Projections, estimates, and goals included in today's discussion involves risks, including those described in our SEC filings and in the forward-looking statement disclaimer at the beginning of the presentation. We also refer you to the additional disclaimers related to the Spirit AeroSystems transaction at the beginning of the presentation as well the disclosures relating to non-GAAP measures in our earnings release and presentation. Now, I will turn the call over to Dave Calhoun.

Dave Calhoun -- *President and Chief Executive Officer*

Thanks, Matt. Good morning to all, and thanks for joining us. First, you saw the news that the company has announced the appointment of Kelly Ortberg as my successor commencing August 8th of this calendar year. As you know, the Board conducted an extensive search process.

It was led by Steve Mollenkopf. I am incredibly grateful to the way in which he conducted it, the extent to which he conducted it. And I'm extremely confident in their selection of Kelly as the next leader for Boeing. He's had more than 35 years of experience in aerospace and is tremendously respected in the industry.

I look forward to working with him to ensure a smooth transition. I want to focus my upfront comments on the progress that we are making on our recovery as we strengthen our quality management systems and position the company in best possible way as we move forward. Brian will cover the financials following my remarks. As a company, we've been on a multiyear path to strengthen our safety a quality management systems.

We've stressed our commitment to transparency every step of the way. The January accident obviously sharpened this focus, leading us to take multiple additional steps to improve the stability of our operations, including major elements of our supply chain. First, among our actions was to slow things down and control travel work, allowing our supply chain to catch up and provide the buffer we need to improve quality and stabilize deliveries going forward. Our second-quarter financial results reflect the reality of that continuing recovery post the Alaska accident.

We're committed to doing all of the work necessary to ensure Boeing is the company the world needed to be, safe and predictable. Over the last seven months, we have made meaningful progress toward that goal. At the end of May, we provided our comprehensive safety and quality plan to the FAA, which continues to provide strong oversight of the delivery process. The planned notes are key performance indicators, by which we and our regulators will monitor the health and the quality of our production system.

These measures include employee proficiency, notice of escapes, supplier shortages, rework hours, travelers at factory rollout, and ticketing performance. All of these key performance indicators, KPIs, are established and operationalized across our BCA employee programs and they provide real-time insight to support stability, quality, and safety. We are seeing improved performance across the majority of the metrics and remain confident in our ability to meet these KPIs as we expand production. An important element of this plan is the control limits we've established by which the FAA and more importantly, our own team hold ourselves accountable.

Furthermore, our plan doubles down on four key investments; workforce training, simplification of manufacturing plan and processes, eliminating defects, and elevating our safety and quality culture. We continue to seek feedback from our employees, from our customers, our regulators, policymakers, shareholders, and many others as we move forward. One of the most important actions we took was the transfer of our rent in fuselage inspection process to Wichita. On-site Boeing inspectors at Spirit increased by almost three times, the number that we had befor January.

And defects we initially caught and reworked in Renton are now caught and reworked in Wichita. While this dramatically reduced the number of clean fuselages coming from Spirit in the first few months, we have seen steady improvement ever since. The improvements in quality have significantly improved our rent and flow times over that same period. While our focus remains on our factories to ensure we can meet our customer commitments, we are also making important progress on our development programs, including the 737-7, the -10, and our 777X.

Most notably, this month, we received type inspection authorization, TIA, for the 777-9 and began cert flight testing with FAA personnel on board the aircraft. Our team has put the 777-9 test fleet through more than 1,200 flights, 3,500 flight hours across a wide range of regions and climate condition. And the certification of flight testing will continue validating the airplane safety, reliability and performance. In addition, we've identified an engineering solution for the engine anti-ICE system for in-production aircraft that will be implemented and certified in 2025 to support the first delivery of our -7 and -10 in MAX family.

A comment on Boeing Defense, Space & Security performance. Clearly, the results this quarter are disappointing. Brian and I have mentioned before that we expected the fixed-price development programs to remain bumpy until we complete the development phase and transition to mature long-term franchise programs. Based on the lessons that we've learned in taking on these fixed-price development programs, we have maintained contracting discipline for all future opportunities.

We remain cautiously optimistic about the long-term prospects of our defense business, and we believe we can progress toward a more historical level of performance over time. Finally, Global Services remains a bright spot and continues to deliver solid results. We have a strong franchise and the team remains dedicated to supporting our commercial and defense customers. Before turning it over to Brian, let me touch on the recently announced agreement to acquire Spirit AeroSystems.

This is an important shift in strategic direction, and it would course correct as -- made decades ago. This planned acquisition is a very significant demonstration of our resolve to invest heavily in quality and safety and to take the additional actions needed to reshape our company. As we have said, we believe this proposed deal is in in the best interest of the flying public, the best interest of our airline customers and the employees of Spirit and Boeing, and the country more broadly. By bringing in critical manufacturing work back within our four walls, we can unify our safety and quality management systems and ensure our engineers mechanics are working together as one team day in and day out.

I'll close with a comment to our employees. Thank you for all that you do every single day. You care deeply about our mission, about our company and about each other. Your passion, your resilience, and commitment are inspiring.

This is a challenging period of time for all of us. There is no doubt, but I am confident, maybe more confident than I've ever been in our future because of you.

And thank you, and Brian, I'll turn it over to you.

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

Thanks, Dave, and good morning, everyone. Before jumping into the financial results, let me take a moment on our planned acquisition of Spirit AeroSystems. On July 1, we announced a definitive agreement to acquire Spirit in an all-stock transaction worth approximately $4.7 billion with a total enterprise value of approximately $8.3 billion. As our materials indicated, we expect the transaction to close mid-2025, subject to the satisfaction of customary closing conditions, including regulatory and Spirit shareholder approvals as well as the sale of Spirit operations related to certain Airbus commercial work packages.

This agreement contemplates us acquiring substantially all Boeing-related commercial operations primarily consisting of the Wichita, Kansas, Tulsa, Oklahoma, and Dallas, Texas facilities as well as other commercial, defense, and aftermarket operations that would further augment our capabilities and offerings across the portfolio. Regarding the defense programs, we're committed to working with Spirit, its customers, and the DoD to ensure continuity in order to support these critical missions. We continue to believe that this reintegration leverages and builds on our capabilities, support supply chain stability, integrates critical manufacturing and engineering workforces that allows for the ultimate unification of safety and quality management systems. Fully aligning to the same priorities, incentives, and -- centered on safety and quality is in the best interest of our customers, the aviation industry, and all stakeholders, including the flying public.

All of this demonstrates our ongoing commitment to aviation safety, quality, and stability. Turning to the next page, I'll cover the total company financial performance for the quarter. Revenue was $16.9 billion, primarily reflecting lower commercial delivery volume. The quarter loss per share was $2.90, reflecting lower commercial delivery volume and losses of $1 billion on fixed-price defense development programs, which I'll get into later.

Free cash flow was a usage of $4.3 billion in the quarter, which was generally in line with the expectations shared in May. Results impacted by lower commercial deliveries and unfavorable working capital timing. Turning to the next page, I'll cover Boeing Commercial Airplanes. BCA delivered 92 airplanes in the quarter.

Revenue was $6 billion, and operating margin was minus -- 11.9%, primarily reflecting lower deliveries and expected higher period costs, including R&D. The backlog in the quarter ended at $437 billion and includes more than 5,400 airplanes. Last week's Farnborough Airshow continue to highlight the robust demand for our product lineup as we announced orders and commitments for over 150 airplanes, including nearly 100 widebodies. Now I'll give more color on the key programs.

The 737 program delivered 70 airplanes in the second quarter, including a meaningful step up to 35 in June. July will be more or less in line with June levels despite normal seasonality. On production, we gradually increased during the quarter and still expect to be higher in the second half, as we move to 38 per mo by year-end. We've reactivated the third line in our rented factory and monthly production improvement from high single digits at the end of the first quarter to roughly 25 in June and July.

As Dave noted, the factory is currently operating within or near the KPI control limits laid out with the FAA as part of the safety and quality plan. The factory is operating with all fully inspected fuselages today and near-term production will continue to be paced by fuselages from Wichita. More broadly on the master schedule, we continue to make adjustments as needed and manage supplier by supplier based on inventory levels. Our objective remains to keep the supply chain paced ahead of final assembly to support stability and minimize traveled work.

The quarter ended with approximately 90 737-8s built prior to 2023, the vast majority for customers in China and India. This is down 20 from last quarter's value, and we expect approximately 10 more delivered in the month of July. We still expect to deliver most of these airplanes by year-end as we work toward shutting down the shadow factory. Regarding the -7 and the -10 models, inventory levels remained stable at approximately 35 airplanes and the certification timelines remain unchanged.

On the 787, we delivered nine airplanes in the quarter, although the quarter was impacted by lower production, seat delays, and other delivery timing items noted previously. We're starting to work through these issues and delivered six airplanes in July. The program produced below five per month in the quarter as expected and still plans to return to five per month by year-end. We ended the quarter with around 35 airplanes of inventory built prior to 2023 that required rework, which continues to progress steadily.

We still expect to finish the rework and shut down the shadow factory by year-end with most of these airplanes delivering this year. Finally, on the 777X program, as Dave noted, we took a very important step on the certification timeline earlier this month as the program obtained type inspection authorization and began FAA certification flight testing. We'll continue to follow the lead of the FAA as we progress through the certification process and still expect first delivery in 2025. Inventory in the quarter grew approximately $800 million in line with recent quarte trends and will continue to grow as we move toward entry into service as we've previously contemplated.

Moving on to the next page, Boeing Defense & Space. BDS booked $4 billion in orders during quarter, including capturing an award from the U.S. Air Force for seven MH-139 helicopters and the backlog ended at $59 billion. Revenue was $6 billion, down 2%, driven by fixed price development losses and BDS delivered 28 aircraft in the quarter, including the first CH-47F Block 2 Chinook to the U.S.

Army. We took a $1 billion loss on certain fixed-price development contracts in the quarter and operating margin was minus 15.2%. In late May, we indicated that margins would take a step back and be negative due to a couple of things. First, the deliberate slowdown of the Puget Sound factories has impacted the derivative programs, specifically, a $391 million loss on the KC-46A Tanker, as well as margin compression on the profitable P8 program.

Second, we've seen additional fixed price development cost pressures, resulting in additional losses on T-7A, VC-25B, and commercial crew, primarily related to higher estimated engineering and manufacturing costs and inefficiencies associated with meeting certain technical requirements. Given the fixed-price nature of these contracts, we continue to be transparent about impacts as we work to stabilize and mature these programs. While acknowledging these are disappointing results, there's a complicated development programs, and we continue to put milestones behind us and remain focused on retiring risk each quarter and ultimately delivering these mission-critical commitments to our customers. Stepping back, the game plan to get BDS back to high single-digit margins in the medium to long term remains unchanged.

The core business remains solid, representing approximately 60% of our revenue and performing in the mid to high single-digit margin range. The demand for these products continue to be very strong, supported by the geopolitical threat environment confronting our nation and our allies. And the 25% of the portfolio primarily comprised of fighter and satellite programs, the quarter again saw improved margin trends as we continue to make important progress including delivering our eight F-15EX aircraft to the U.S. Air Force, which enabled the program to achieve its initial operating capability milestone in July.

We still expect to return strong historical performance level as we roll to new contracts with tighter underwriting standards. Overall, the defense portfolio is well-positioned for the long term. There's strong demand across the customer base, the products are performing well in the field, and we're confident that our efforts to drive execution and stability will return this business performance levels that our investors will recognize. Moving on to the next page, Boeing Global Services.

BGS continued to perform well in the second quarter, delivering very strong results across a globally deployed team that is focused on supporting its customers on both the defense and commercial sides. They received $4 billion in orders and the backlog ended at $19 billion. Revenue was $4.9 billion, up 3%, primarily on higher commercial volume. Operating margin was 17.8%, down slightly compared to last year, but still strong performance.

In the quarter, BGS secured an Apache performance-based logistics contract from the U.S. Army and captured FliteDeck Pro service contracts with Hainan Airlines and Ryanair. Importantly, BGS continued to deliver very strong operating margins for the first half of the year, matching the record levels from 2023. It's a terrific franchise that's set up for years to come.

The team is focused on profitable, capital-efficient high IP offerings, and we still expect it to grow at solid mid-single-digit revenue levels and throw off mid-teen margins with very high free cash flow conversion. Turning to the next page, I'll cover cash and cash and debt. On cash and marketable securities, we ended the quarter at $12.6 billion, reflecting the $10 billion issuance of new debt in May, partially offset by the use of free cash flow in the quarter. The debt balance increased to $57.9 billion driven by the new debt issuance.

We continue to maintain access to $10 billion of revolving credit facilities, all of which remain undrawn. The deliberate actions we're taking demonstrate our commitment to improve safety and quality, and we continue to manage the business with a long-term view. We acknowledge the impact these actions are having on calendar year cash flows. So let me provide some additional context on near-term expectations.

While commercial production and deliveries are improving, additional losses in BDS and working capital timing continue to weigh on near-term cash flow. Inventory will remain a near-term headwind as we prioritize supply chain stability to support future rate increases and advanced payments will take time to improve as we stabilize production and improve profitability of deliveries to our customers. Given these near-term working capital pressures, third quarter is expected to be another use of cash. We expect these working capital timing impacts will be -- unwind as deliveries and production stabilize later this year.

On the free cash flow outlook for the year, we are now expecting a larger use of cash than previously forecasted. As you know, operating leverage in our business is meaningful. And as we ramp up deliveries, free cash flow will grow. We are deliberately investing today and taking the time necessary to get it right to ensure we're positioned to ramp -- in a more predictable and stable fashion.

We remain committed to managing the balance sheet in a prudent manner with two main objectives: First, prioritize the investment grade rating; and second, allow the factory and supply chain to reset, both of which were supported by our decision to acquire Spirit with all stock financing. We'll continue to actively monitor our liquidity levels and as needed, we'll supplement our liquidity position with these two objectives in mind. We're confident that over time, the business performance and capital structure will return to levels fully aligned with an investment-grade profile. Looking forward, we're taking the time now to ensure that our BCA factories are positioned to ramp production in a stable fashion for years to come.

We'll also continue make progress on other important objectives, including shuttin down the shadow factories, maturing and derisking the defense fixed-price development programs, and building on the continued strong results and services. Entering 2025 will be in a much stronger position because of the work we're doing now. As noted in the commercial market outlook published this month, we continue to see robust demand, and the fundamentals are there for the next 20 years, where we expect the global fleet to almost double as nearly 44,000 new airplanes are delivered with about half of those full replacement demand. The commercial and defense markets we serve, along with our product portfolio underpin our confidence as we manage the business today with a long-term view built on safety, quality, and delivering for our customers.

With that, let's open it up for questions.

Questions & Answers:

Operator

[Operator instructions] And our first question will come from the line of Doug Harned from Bernstein. Please go ahead.

Douglas Harned -- *Analyst*

Good morning. Thank you. I wanted to understand a little bit about the -- so the process, the production process on the 787 and the 737 because you're saying this inventory build, and it appears both from suppliers supplying it 38 a month for the MAX and five to six a month for the 787. On that end, I expect you're having inventory build.

And then on the other end, difficulty with seats, so you would have things coming off the line and some of the inventory to China as well. It's difficult to get out of there. Can you talk about how you think of managing this inventory on both ends, given the production process or ramp that you're on right now?

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

Yes. Thanks, Doug. So the question, the inventory build is right in front of us as we make this investment for stability. The way I would think about going forward, we were on the 737 to start with.

Our delivery rates in April, May were in the mid-teens. June, we did 35. July, we'll do somewhere in that ZIP code. So we are seeing demonstrated progress as we continue to move forward and rent in to stabilize and get better.

So the progress evidence is there, and we expect that to continue as we move through the second half and, of course, then the inventory will begin to unwind. But it's really predicated on the continued progress. And as I mentioned, that third line in Renton is a very big deal for us to get moving as well resuming deliveries to China. So all those indications suggest that production is moving in the right direction, we're making progress and the inventory will unwind.

On the 87, similarly, as I mentioned, second quarter, we had nine deliveries. In July, we've already got about six. So again, good progress, despite having some real supply chain constraints, as you mentioned. Those constraints aren't going to go away immediately, but they're going to get better.

We've got a game plan in place. And we do believe that we'll get to that five per month as we get to the end of the year. And again, that inventory will liquidate as production performance improves.

Douglas Harned -- *Analyst*

If I can just follow up on that. The -- you all have talked about the bottleneck -- chief bottleneck, I believe, being the fuselage deliveries from Spirit. So as you bring that third line on, how does this work? It didn't seem like it was final assembly that was the bottleneck before. So how does that help you with Spirit at a point now where -- is your capacity that is limiting factor?

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

So Spirit has done a very nice job. We watch it very closely, but Dave had a nice steady improvement. They're ramping their way up. We've got confidence, Pat and the team.

And we believe that we will be able to fill that third line, and we believe that that we'll be able to get to 38 per month as we get to the back half of the year.

Dave Calhoun -- *President and Chief Executive Officer*

The only thing I would add, Doug, is the third line, it also helps us with unforeseen issues, because it gives us flexibility across three lines as opposed to having to close two if we end up the nonconformance somewhere. So we are simply trying to over-capacitize accommodate things that appear and steady our production.

Douglas Harned -- *Analyst*

OK. Very good. Thank you.

Operator

Thank you. Our next question is from Peter Arment from Baird. Please go ahead.

Peter Arment -- *Analyst*

Yes. Good morning, Dave and Brian. Dave, thanks for calling out some of the KPIs that you were talking about. Obviously, they're all super important.

You said you're getting some real-time insights on some of these metrics. Maybe is there any color you can give us on what you're seeing so far on the progress, whether it's the notice of escapes or shortages, or you about employee proficiency? Just trying to get at ultimately what the metrics that -- is there anything that's a long pole in the tent that is holding back for rate increases and just the confidence around getting to that rate 38? Thanks.

Dave Calhoun -- *President and Chief Executive Officer*

Peter, thanks. Every metric gets better when you slow things down. So yes, I don't want to kid anybody. The step we took to slow things down, it was very deliberate, very straightforward, and every metric benefits from that moment.

So we've had a step change improvement, traveled work, of course, being the big one. And the way to measure traveled work in my view, I think the view of our production team is when we get a clean fuselage and we move it through less than half the float time it would have taken in its prior state that reduces everything. And the reason is you don't have traveled work, you don't have defects moving down the line, you don't have any of that stuff. So we've been a beneficiary of a step change on that front, and we're now at the stage where we're only getting clean fuselages where, as you know, in the first two quarters, we were managing a mix of the prior regime and what we're getting now.

So anyway, that's the big proxy for the way things are going to move forward and are moving forward. You'll know when we get out of kilt on any one of those metrics. I don't think any of them are going to stop us from the plans that we've announced and our expectations as we approach year-end. Probably the one we'll all just keep our eye on is the traveled work scenario where we cannot allow ourselves to get back into a scenario where we're traveling things too far down the line.

And we got a lot of controls in place. So that won't happen.

Peter Arment -- *Analyst*

Appreciate it. Thanks, Dave.

Operator

Thank you. Our next question is from Sheila Kahyaoglu from Jefferies. Please go ahead.

Sheila Kahyaoglu -- *Analyst*

Thank you, guys, and good morning, Dave and Brian. Brian, this one's for you. Maybe if we could just think about what's the buffer on free cash flow and the cash balance? How do we think about tapping that RC if cash falls below $10 billion, which is what you're suggesting in Q3? And do you think about Q4 as cash usage or generation? And what's the cadence of inventories and advances maybe over the next two to four quarters, if you can?

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

Yeah, sure. Thanks, Sheila, for the question. So the working capital drag has been pretty meaningful in the first and second quarter, and it's the inventory as well as the advances as deliveries have been lower. Now the third quarter is going to be a similar working capital drag as it was in the first and second quarter.

Inventory will still be a headwind, albeit a smaller one. And the advanced timing will be an additional headwind, which, again, that will gradually improve over time with deliveries. And we're seeing that customers are applying excess advances and lowering advanced payments as they want to see delivery performance improve. So we've just got to deal with that timing because once the factory moves and we start delivering, all of that will unwind on both the advances and the inventory.

But it is going to take us time to do that. Now, in the third quarter, deliveries will be better, but we still have these working capital headwinds. In the fourth quarter, we're going to have stronger deliveries. We're going to have real working capital improvement.

And I'd also mentioned that we're going to have tanker 11 that we expect. So the -- these cash flows can move fairly meaningful quarter to quarter and it's all predicated on our ability to deliver and get the factory stable and getting it improved. So that's the way we're thinking about the back half on cash.

Sheila Kahyaoglu -- *Analyst*

What's the cash balance you feel comfortable with?

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

So we've always said 10, but at any given moment, if that kind of moves a little bit given what's in front of us, we can be comfortable. I think there's a broader question around we're constantly looking at liquidity. You saw that with what we did in May. You saw that in how we treated the Spirit transaction.

So right now, we're comfortable with where we're at and how we get to the end of the year.

Sheila Kahyaoglu -- *Analyst*

Thank you.

Operator

Thank you. The next question is from Myles Walton from with Wolfe Research. Please go ahead.

Myles Walton -- *Analyst*

Thanks. Good morning. Maybe to follow up briefly on that. Brian, can you comment on the abnormality of those advanced payments? You mentioned some are applying previous prepayments to the current profile and some are basically deferring their payments until they see better performance.

Can you categorize where you are on advances? Have you over-collected in the past and therefore, we're in a divot? Or are you under-collecting now an actual beneficial recovery, if you will, at some point in the near term?

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

So both, to answer your question. We do have the excesses that people are applyi as well as people are withholding the PDPs until they get that delivery structure -- delivery schedule more stable. So it's both. I mean, what you saw in the quarter that we had a pullback of about $1 billion on the advance balance.

Those two things are both happening in that balance, and we expect that in the second half to continue. But when we start to deliver with predictability, all that will begin to unwind. So this really is timing. And it's timing over quarters is our best guess, and it's all, again, predicated on our ability to get deliveries in a different position.

Dave Calhoun -- *President and Chief Executive Officer*

And the overarching opportunity for us is still the shortage of airplanes and the demand scenario. So this isn't a soft spot in the market where people are trying to sort of get something, create a fundamental change. This is short-term management, which we all understand and we're trying to accommodate. But the demand is still so strong for airplanes that, that provides the incentive for everybody to want to get us money so they can get their plane.

Myles Walton -- *Analyst*

And on advances on 777X to offset that $800 million quarter inventory growth, is that a material offset to the $800 million? Or is it $800 million more or less the net 777X performance that we're seeing?

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

The $800 million is really the inventory specifically. The advance was not meaningful at this moment. It's the inventory that is the real one that we're dealing with, which, again, is the investment in the entry into service.

Myles Walton -- *Analyst*

OK. Thank you.

Operator

Thank you. The next question is from David Strauss from Barclays. Please go ahead.

David E. Strauss -- *Analyst*

Morning. Thanks for taking the question. Brian, I know it's difficult to put a fine point on the cash burn. But I guess for the full year, are you looking at a number closer to a $5 billion order burn or a $10 billion order burn? That's the first question.

And then, you've obviously said you're prioritizing your investment grade rating. To the extent that you need more funding, do expect the rating agency to allow you to issue debt again in key 5G? Or are you potentially thinking about having you to do an equity offering? Thank you.

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

Yes, David, I'm just not smart enough right at this moment to say whether it's 5 or 10. As you know, as we ramp deliveries, it's pretty meaningful movement in our cash balance. So I'm going to steer away from trying to get more specific. It will be a usage and we're working our way through it.

And as we work through the timing elements, we know as we move forward, that's going to go in the right direction. In terms of the question around rating agencies, we are in regular conversations with all three rating agencies. They like us, are all focused on the operating performance of the company, our ability to generate free cash flow and the absolute debt reduction. And we tell them what we consistently said to everyone, the investment grade is the No.

1 priority. And as we regularly monitor our liquidity, if we were able to bump up against maturities or do what it takes to protect that rating, period. And we've been consistent since April 2020 on that front and evidenced by the Spirit financing decision. So we stay ready, we stay agile.

That rating is the priority.

David E. Strauss -- *Analyst*

Thanks very much.

Operator

The next question is from Jason Gursky with Citigroup. Please go ahead.

Jason Gursky -- *Analyst*

Good morning, everyone. I just want to go back to the 777 for a minute. And Brian maybe ask you to talk a little bit about the expected future burn on that program from a cash flow perspective in the quarters leading up to certification and initial delivery. And then -- and I know a lot of that's being driven by inventory, of course.

So maybe as well, talk about what the inventory burn looks like on back side of that and kind of what you are expecting at this point from production and we get out in that '25, '26 time frame and kind of what you're thinking on deliveries out in that '26 time frame, given the backlog, assuming that you get the certification done there in 2025 and first deliveries get started? Thanks.

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

Well, the good news on the last part of the question is the backlog is pretty robust and we just had some terrific performance of the air show on the wide-body front. I would say, in general, 777X cash is going to look similar all of the other development programs. We used cash prior to the entry in service. You've seen that.

I talked about the $800 million this quarter. That's been consistent. And that is all driven by the natural inventory build as we prepare for that entry and service. Now, we also know that it will turn positive about a year after EIS as deliveries begin tc ramp.

And that will play out in a very normal way that most development programs play out. And yes, it's going to be underwritten by that robust backlog that we have a high confidence in and the customers love the airplane. So we feel pretty good, and these are just investments and timing. And over the long term, it's going to be a great payoff.

Jason Gursky -- *Analyst*

Thank you.

Operator

Thank you. And our next question is from Kristine Liwag from Morgan Stanley. Please go ahead.

Kristine T. Liwag -- *Analyst*

Hey, Dave, Brain. On the IAM labor negotiations, can you provide an update on where you are? How far apart are you in the union economics? And what operating contingencies are in place in case the union were to go on strike? Thank you.

Dave Calhoun -- *President and Chief Executive Officer*

Well, we're definitely not planning on a strike for starters. I can't really -- it's too early to call out a gap analysis with respect to the puts and takes, because we're too early in the process. And I like the framework. I like investments that we want to make with respect to training and development of people.

We know that ASKs will be big. We know wage ASKs will be big. We're not afraid to treat our employees well in this process. So we're just going to work as hard as we can, not to have a strike.

And anyway, I -- this will be in Kelly and Stephanie's backyard by the time we get to that negotiation. But as you know, as well I do until the last week is in play, don't know much. So I'll just leave it at that and try not to predict. Other than to tell you, we have an expressed intent to not have strike.

Kristine T. Liwag -- *Analyst*

Great. Thank you.

Dave Calhoun -- *President and Chief Executive Officer*

Thank you.

Operator

And thank you. The next question is from Cai von Rumohr from TD Cowen. Please go ahead.

Cai von Rumohr -- *Analyst*

Yes. Thanks so much. So production in July looked like it remained pretty depressed. In August, you basically have vacations.

So how should we think about the recovery in terms of production and deliveries, because it looks like August isn't that great? And so the related a number of your suppliers who are going at higher rates than you are producing are talking about -- they're keeping on inventory there because you don't pull it yet and they're asking you for advances. So what are you having to do with your suppliers in terms of giving them a lifeline of some advances, so that they can continue to produce won't have to cut back and then ramp up later? So yes, so what -- maybe talk about those two issues.

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

So in terms of your question around the 737 rate ramps, keep in mind, beginning part of this year, we were very, very low production, like single digit. And now we'r getting to the point in June, July where we're kind of mid-20s. And August will likel be an improvement ahead of that. But then we're going to have a nice steady ramp through the back half of the year, again, predicated on a successful Line 3 being brought to bear and also the China resumption.

So everything we see, we've got the labor, we've got the inventory, we've got the fuselages, it's all lined up for us to continue to improve our delivery ramp. And that's on us to go execute it. So we feel good about the progress we've made, and we've got proof points that says, a real ability to hit our 38 per month as we exit the year. In terms of the discussion of the supply chain, they're all unique.

It's one by one. We're very careful to make sure that the way we're trying to protect stability in our own factory, we're trying to protect stability across the supply chain. And we do make certain moves here and there. Probably Spirit is the best example.

And we have to do that that so when we move through the course of this year and going forward, we do it in a very stable, predictable way with the supply chain that's right there with us. Nothing that we see gives us any pause or concern. We've got all the assets and resources. We just have to start working our way through and delivering these airplanes for our customers.

Cai von Rumohr -- *Analyst*

But -- so collectively, if you add all of your advances to suppliers, have those peaked? Or are they continuing to move up?

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

There's not really a material change, Cai. Here and there, there might be some differences, but nothing material and that's not contemplated in our forward look.

Cai von Rumohr -- *Analyst*

Thank you very much.

Operator

And our next question is from Seth Seifman from J.P. Morgan. Please go ahead.

Seth Seifman -- *Analyst*

Hi. Thanks very much. Good morning. Wanted to ask on Spirit, which you mentioned on the last question.

When you think about their ability to fund themselves through the close of this transaction in mid-2025, is that -- are you contemplating having to -- any additional action to fund Spirit through close? And then secondly, when you think about the investment plan for Boeing into Spirit when Spirit is part of Boeing, what can you tell us qualitatively or quantitatively to characterize that investment plan to prepare Spirit for the rate ramp ahead?

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

So I'd be careful not to speak for Spirit too much. On the other hand, they're performing well. We expect them to continue to perform well, and we've got confidence that we're going to get clean fuselages that helps coincide with our delivery schedule. So we feel pretty good about where they sit and their continued performance.

So nothing there gives us any concern at the moment. And in terms of investing, we look forward to closing this acquisition. We look forward toward bringing them into the Boeing world. And we will not be shy or bashful with any investments that are needed in order for long-term stability.

We feel really good about what is in front of us on that front, and we can't wait to close.

Seth Seifman -- *Analyst*

OK. Thanks very much.

Operator

Our next question is from Noah Poponak from Goldman Sachs. Please go ahead.

Noah Poponak -- *Analyst*

Hey. Good morning, everyone. Can you talk a little bit more about the leadership decisions that you've made? I know Kelly has had a lot of experience in the industry, but kind of out of an operating role for a bit. What's the potential -- hit the reset button on a lot of the transitions you're in middle of right now versus ability to hit the ground running? And how should we think about Pat, Stephanie, other roles as you move forward here?

Dave Calhoun -- *President and Chief Executive Officer*

Well, I'll take a crack, and I'm not going to divulge anything that I'm not perfectly aware of. The Board made this decision. Over the last nine months, when I think about the number of people they've called around the industry, the supply side, the buy side, side, the regulatory pretty remarkable, thorough discussions. And at the end of the day, a couple of names surfaced and they landed on Kelly and I could not be happier with the call because I know Kelly.

Kelly. I've been around He's a seasoned operator he's got experience. He knows what we do for a living and he'll bring that experience immediately to bear. So I wasn't really in the decision-making process, so I don't want to kid you about that.

On the other hand, where it ended up is, in my view, a very, very strong place. And then with respect to Kelly, Kelly was quite informed about everything going on at Boeing, leadership team, etc. And anyway, I don't think he's coming in with a notion he want to change a lot of folks. And my guess is he's going to put his arms around Stephanie and the rest of the team in a big way and just try to support their work.

He knows full well that we're in a recovery mode. And he knows full well we got t complete the recovery mode, and we got to get this stable and move forward. So that's me talking. And anyway, I don't think Brian can add much to this.

But don't think this is intended to be a large leadership overhaul.

Noah Poponak -- *Analyst*

OK. Brian, just a quick one. Do you have a number whether billions of dollars or number of airplanes how much inventory you hold that specifically from having the supply chain stay ahead of you?

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

It's not a number that we disclose. It's not immaterial. The good news is, is that you see it right there in the cash flow statement total. That's a big driver, and the good news is that this is timing.

This will unwind as we deliver airplanes for our customers, which we look forward to being able to do more predictably.

Noah Poponak -- *Analyst*

OK. Thank you.

Matt Welch -- *Vice President, Investor Relations*

Lois, we have time for one final question.

Operator

Thank you. And that will come from Ken Herbert from RBC Capital Markets. Please go ahead.

Kenneth Herbert -- *Analyst*

Hey. Good morning, Dave and Brian. Thanks for squeezing me in. I just wondered, Dave, maybe if you can provide a little bit more color on certification timing on th 7 and -10.

I know it's now 2025 you're confident in the deicing certification, but can you give any more granularity on how we think about that timing and some of the next milestones for those two particular variants on MAX?

Dave Calhoun -- *President and Chief Executive Officer*

Well, really, the milestone is to complete the engineering work and make sure that it passes the certification tests, etc. And it literally is that one discrete item that is choke point. But high level of confidence that we're going to complete that and probably complete the engineering well before the end of the year. Then we've got to get through the test certification work and then we're off.

I don't think there are any other sort of issues that we have to contend with other than to get that done and prove it out.

Kenneth Herbert -- *Analyst*

So first-half '25 sounds realistic?

Dave Calhoun -- *President and Chief Executive Officer*

Sounds realistic to me. But they're in charge.

Matt Welch -- *Vice President, Investor Relations*

All right. Lois, everybody, that concludes our call. Thank you for joining.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

Matt Welch -- *Vice President, Investor Relations*

Dave Calhoun -- *President and Chief Executive Officer*

Brian J. West -- *Executive Vice President, Finance and Chief Financial Officer*

Douglas Harned -- *Analyst*

Brian West -- *Executive Vice President, Finance and Chief Financial Officer*

Doug Harned -- *Analyst*

Peter Arment -- *Analyst*

Sheila Kahyaoglu -- *Analyst*

Myles Walton -- *Analyst*

David E. Strauss -- *Analyst*

David Strauss -- *Analyst*

Jason Gursky -- *Analyst*

Kristine T. Liwag -- *Analyst*

Kristine Liwag -- *Analyst*

Cai von Rumohr -- *Analyst*

Seth Seifman -- *Analyst*

Noah Poponak -- *Analyst*

Kenneth Herbert -- *Analyst*

Ken Herbert -- *Analyst*

More BA analysis

All earnings call transcripts

This article is a transcript of this conference call produced for The Motley Fool. While we strive for our Foolish Best, there may be errors, omissions, or inaccuracies in this transcript. As with all our articles, The Motley Fool does not assume any responsibility for your use of this content, and we strongly encourage you to do your own research, including listening to the call yourself and reading the company's SEC filings. Please see our Terms and Conditions for additional details, including our Obligatory Capitalized Disclaimers of Liability.

The Motley Fool has no position in any of the stocks mentioned. The Motley Fool has a disclosure policy.

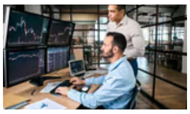
STOCKS MENTIONED

Boeing
BA
$160.81 (15.37%) $21.42

RELATED ARTICLES


Boeing Space Joint Venture to Launch 12 Times in 2025, and Double That in 2026


Why Shares in Boeing Slumped This Week


Boeing Wins Figher Jet Contract! Should Investors Buy Boeing Stock Instead of Lockhee Martin?


Is Boeing Stock Going to $204? 1 Wall Street Analyst Thinks So.


Boeing Beats Lockheed Martin, and This F-47 Fighter Jet Contract Could Be Worth Hundreds of Billions

MOTLEY FOOL RETURNS

The Motley Fool

Making the world smarter, happier, and richer.

ABOUT THE MOTLEY FOOL

About Us

Careers

Research

Newsroom

Contact

Advertise

OUR SERVICES

All Services

Stock Advisor

Epic

Epic Plus

Fool Portfolios

Fool One

Motley Fool Money

AROUND THE GLOBE

Fool UK

Fool Australia

Fool Canada

FREE TOOLS

CAPS Stock Ratings

Discussion Boards

Calculators

Financial Dictionary

AFFILIATES & FRIENDS

Motley Fool Asset Management

Motley Fool Wealth Management

Motley Fool Ventures

Motley Fool Foundation

Become an Affiliate Partner