Boeing (BA) Q3 2024 Earnings Call Transcript

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

Boeing (BA 15.37%)
Q3 2024 Earnings Call
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Contents:

Prepared Remarks:

Operator

Thank you for standing by. Good day, everyone, and welcome to the Boeing Company's third quarter 2024 earnings conference call. Today's call is being recorded. The management discussion and 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 am 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, and good morning. Welcome to Boeing's quarterly earnings call. I am Matt Welch, and with me today are Kelly Ortberg, Boeing's president and chief executive officer; and Brian West, Boeing's executive vice president and chief financial officer. And as a reminder, you can follow today's broadcast and slide presentation at boeing.com.

Projections, estimates and goals included in today's discussion involve 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 disclosures relating to non-GAAP measures in our earnings release and presentation. Now I will turn the call over to Kelly Ortberg.

Kelly Ortberg -- *President and Chief Executive Officer*

Thanks, Matt, and thanks to everyone for joining today's call. Let me start by saying that it's an honor to be leading the Boeing company. I've spent my entire career in the aerospace and defense business and one constant has always been the critical role that Boeing plays, not just to the A&D industry, but to our national security and the overall global economy. But we're clearly at a crossroads.

The trust in our company has eroded or saddled with too much debt. We've had serious lapses in our performance across the company, which have disappointed many of our customers. But by the same token, we have great opportunities ahead. Our company backlog is roughly $0.5 trillion.

We have a customer base that wants us and needs us to succeed. We have employees who are thirsty to get back to the iconic company they know, setting the standard for the products that we deliver. So my mission here is pretty straightforward, turn this big ship in the right direction and restore Boeing to the leadership position that we all know and want. Now to do this is going to require changes in four particular areas.

And let me introduce them, and I'll come back and discuss each one. First, we ne a fundamental culture change in the company. Second, we must stabilize the business. Third, we need to improve our execution discipline on new platform commitments across the company.

And fourth, while doing the first three, we must build a new future for Boeing. So let me start with arguably the most important, changing the culture at Boeing. I spent the last two decades working with Boeing in the supply chain. So I have an outside-in view of Boeing, which is very helpful.

That experience, combined now with seeing things from the inside the company, has helped provide an informed view of some of the actions we need to take. Much has been written about how we got to where we are, but most also recognize that Boeing was once a benchmark for what good culture looks like. And I believe we can return to that legacy. I know culture change starts at the top.

Our leaders from me on down need to be closely integrated with our business and the people who are doing the design and production of our products. We need to be on the factory floors, in the back shops and in our engineering labs. We need to know what's going on, not only with our products, but with our people. And most importantly, we need to prevent the festering of issues and work better together to identify, fix and understand root cause.

I've already introduced a much more detailed business cadence to drive this across the organization, and this process of change is underway. Culture's driven by values and we'll redefine those for the company together. This has to be more than the poster on the wall. These values will be used to hold leaders accountable in how they lead our teams and delivering safe, high-quality products and services to our customers.

I recently had a meeting with our top executives in the company, and we talk specifically about this culture change. I see this more as a continuous process improvement rather than a milestone. We will be relentless in changing the Boeing culture through action, not just words on a page. Now let me shift to the second item, which is stabilizing the business.

This has been central to my focus since starting the job in August. We have some really big rocks that we need to get behind us to move the company forward. The first and foremost on everybody's mind today is ending the IAM strike. We've been feverishly working to find a solution that works for the company and meets our employees' needs.

I've met with the union leadership the first week on the job and let them know that I was committed to resetting the relationship. And I remain committed to getting the team back and improving our relationships, so we don't become so disconnected in the future. I'm very hopeful that the package we put forward will allow our employees to come back to work so we can immediately focus on restoring the company. Once we get back, we have the task of restarting the factories and the supply chain, and it's much harder to turn this on than it is to turn it off.

So it's critical -- absolutely critical that we do this right. Our safety and quality management system will guide us through the restart, and we have a detailed return to work plan in place, and I'm really looking forward to getting everybody back and getting to work on that plan. One additional area of focus that is critical to our stability is the implementation of the safety and quality plan. As you know, this is a plan that we have reviewed with the FAA and will be part of the criteria we use to measure stability of our production system, which is necessary to gain authority to increase 737 rates.

I'm encouraged with the progress we're making already, and we need to continue that momentum. Another big rock to stabilize the company is managing our balance sheet to best support retaining our investment-grade credit rating. We have a plan, and we're executing that plan. And I'm confident that we have a good path forward to manage the realities of our business and retain our investment-grade rating.

So I've talked about culture and stability. Third area is improving the execution discipline on our new platforms, whether this be the commercial derivatives of the 737 MAX and 777 or the series of programs in our BDS business. We have to be better at understanding and managing the risk on these projects more proactivel This includes disciplined program and risk management in all phases of the projec including the bid phase.

Again, this is an area where we need the management team much more focused on their programs and much more active working with their customers on ensuring success and anticipating risks before they happen. Supply chain management improvements will be critical to this effort. Clearly, we have some difficult contracts in our defense business, but we have to do a better job of executing on the things that we can control. So lastly, the fourth area to discuss is building a new future for Boeing.

While we're somewhat consumed with the challenges of today, we need to be setting the foundation of the future for Boeing. Boeing's an airplane company. And at the right time in the future, we need to develop a new airplane but we have a lot of work to do before them. This includes stabilizing our business, improving the execution on the development programs, streamlining the portfolio to do what we do well and restoring the balance sheet so that we do have a path to the next commercial aircraft.

We need to reset priorities and create a leaner, more focused organization. We've recently announced a workforce reduction, which will focus on consolidation of areas where we're not efficient, and we need to continue to focus on reducing nonessential activity. So before I hand it over to Brian, let me summarize by saying that we have a lot of work to do. We have a plan and changes already underway.

This is a big shift that will take some time to turn, but when it does, it has the capacity to be great again. This is a company that ushered in the new era of air travel and helped plan the first man on the moon. Getting back to the values that help define this legacy is what will define our future. I'm excited about the opportunity, and I look forward to working with all of you.

So with that, let me hand it off to Brian to cover the financials, and then we look forward to coming back and answering your questions. Brian?

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

Thanks, Kelly, and good morning, everyone. Let's start with the total company financial performance for the quarter. Revenue was $17.8 billion, down 1%, primarily driven by lower commercial widebody deliveries, including impacts of the IAM work stoppage. The core loss per share was $10.44, primarily reflecting impacts from the IAM work stoppage and previously announced charges across certain commercial and defense programs.

Free cash flow was a use of $2 billion in the quarter with results impacted by lower commercial widebody deliveries and unfavorable working capital timing, including impacts associated with the work stoppage. Improvement versus prior expectations was driven by better-than-expected BCA advanced payments. Turning to the next page, I'll cover Boeing Commercial Airplanes. BCA delivered 116 airplanes in the quarter.

Revenue was $7.4 billion and operating margin was minus 54%, primarily reflecting previously announced tax charges of $3 billion on the 777X and 767 programs, the IAM work stoppage and higher period costs, including R&D. Backlog in the quarter ended at $428 billion and includes more than 5,400 airplanes. Now I'll give more color on the key programs. The 737 program delivered 92 airplanes in the quarter.

As noted in mid-September, we had been making good progress on stabilizing production and preparing for 38 per month by year-end, but those objectives will now take longer due to the IAM work stoppage. Given the strike and our need to conserve cash, we've made near-term adjustments to broadly stop supplier shipments. We continue to manage supplier by supplier based on inventory levels and for certain suppliers, this will allow them to catch up. We maintain our objective to position the supply chain to support our ramp post strike.

The quarter ended with approximately 60 737-8s built prior to 2023, the vast majority for customers in China and India, down 30 from last quarter. Additional progress on shutting down the Shadow factory has been impacted by the work stoppage, which will now extend into next year. On the -7 and -10, inventory levels remained stable at approximately 35 airplanes and the certification time lines remain unchanged. On the 787 program, we delivered 14 airplanes in the quarter.

And as previously noted, we continue to work through production recovery plans on heat exchangers and delivery delays associated with seat certifications. The program is currently producing at four per month and still plans to return to five per month by year-end. We ended the quarter with 30 airplanes in inventory built prior to 2023 that required rework, down five from last quarter. Our ability to finish the rework and shut down the Shadow factory has also been impacted by the work stoppage and will now extend into next year.

Finally, on the 777X program. As previously announced, the $2.6 billion pre-tax charge primarily reflects our latest assessment of the certification time lines to address the delays in flight testing of the 777-9 as well as anticipated delays associated with the IAM work stoppage. We'll continue to follow the lead of the FAA as we progress through the certification process and now expect first delivery in 2026. Year to date, 777X inventory spend has averaged a bit below $800 million per quarter.

The cash profile will look similar to prior development programs with the year prior to first delivery, typically the largest use of cash driven by inventory build associated with the production ramp, which will unwind as deliveries commence. Moving on to the next page, Boeing Defense & Space. BDS booked $8 billion in orders during the quarter, including definitizing a $2.6 billion award from the U.S. Air Force for two rapid prototype E-7A Wedgetails aircraft and the backlog ended at $62 billion.

Revenue was $5.5 billion, stable year over year, and BDS delivered 34 aircraft in the quarter, including the first production MH-139A Grey Wolf, to the U.S. Air Force. As previously announced, BDS recognized $2 billion of pre-tax charges on the T-7A, KC-46A, commercial crew and MQ-25 programs in the third quarter, and operating margin was minus 43.1%. In September, we indicated that margins would again b negative due to two things.

First, on the 25% of the portfolio, primarily comprised of fighter and satellite programs. Our fighter programs recognized losses in third quarter due to disruption as the F-15EX ramps up on a shared production line as well as additional cost pressures and winding down F-18 production. Second, additional cost pressures on fixed price development programs. The magnitude of these losses expanded as we close the books, primarily reflecting higher estimated production costs on the T-7A program, mainly on contracts in 2026 and beyond and an updated assessment of impacts on the Case 46A program associated with the IAM work stoppage and the decision to conclude production on the 767 freighter.

Given the fixed price nature for these contracts, we'll continue to be transparent about impact as we work to stabilize and mature these programs. While acknowledging these are disappointing results, these are complicated development programs, and we remain focused on retiring risk each quarter and ultimately delivering these mission-critical capabilities to our customers. The plan to improve

BDS margins in the medium to long term remains unchanged. Our core business remains solid, representing about 60% of our revenue and generally performing in the mid- to high single-digit margin range with commercial derivatives experiencing margin compression in 3Q due to the disruption in factories, including the work stoppage.

Broadly, the demand for our defense products remains very strong, supported by the threat environment contracting our nation and our allies. We still expect the business to return to historical performance levels as we stabilize production, execute on development programs and transition to new contracts with tighter underwriting standards. Moving on to the next page, Boeing Global Services. BGS continues to perform well in the quarter.

The business received $6 billion in orders and the backlog ended at $20 billion. Revenue was $4.9 billion, up 2%, primarily on higher commercial volume. Operating margin was 17%, up 70 basis points compared to last year on favorable volume and mix. In the quarter, BGS secured several key services agreements with ANA as well as a KC-135 spares contract from the U.S.

Air Force. It's a terrific long-term franchise focused on profitable, capital-efficient service offerings and executing well with mid-single-digit revenue growth, mid-teen margins and very high cash flow conversion. Turning to the next page, I'll cover cash and debt. On cash and marketable securities, we ended the quarter at $10.5 billion, primarily reflecting the $2 billion use of free cash flow in the quarter.

The debt balance remained stable, ending at $57.7 billion. Last week, we entered into a new $10 billion short-term credit facility and now have access to credit facilities totaling $20 billion, all of which remain undrawn. We expect 4Q free cash flow to be a usage driven by the timing of return to work, the pace of our production ramp and the unwind of inventory in the balance sheet. While we expect 2025 to be another use of cash, we anticipate a significant improvement over this year.

Importantly, we expect to exit next year with real momentum in the business as we return to normal production rates. We continue to take a tough but necessary actions to preserve cash and safeguard our future. We've worked across our supply chain partners to significantly reduce expenditures while balancing the associated trade-offs. We shared plans to reduce our workforce to align with our financial reality and a more focused set of priorities.

We're decisively implementing reductions to our discretionary spending across the company. As we move through this process, we'll maintain our steadfast focus on safety, quality and delivery for our customers. We remain committed to managing the balance sheet in a prudent manner with two main objectives: first, prioritize the investment-grade credit rating; and second, allowing the factory and supply chain to reset, which will take longer as a result of the work stoppage. We're constantly evaluating our capital structure and liquidity levels to ensure that we could satisfy our debt maturities over the next 18 months while keeping confidence in our credit rating as investment grade.

The actions we've recently taken, including establishing the universal shelf registration, which is now effective, directly support these priorities, and we have a plan to comprehensively address the balance sheet in the near term that could include an offering of equity and equity-linked securities. We're confident that over time, the business performance and capital structure will return to levels fully aligned with an investment-grade profile. Near term, we're focused on reaching an agreement with our representative workforce to allow our factories in the Puget Sound area to resume and then ramp production in a stable fashion for years to come. Stepping back, the markets we serve are significant, and our product portfolio is well positioned, demonstrated by our backlog of more than $0.5 trillion.

Long term, these fundamentals underpin our confidence as we manage the business with a long-term view built on safety, quality and delivering for our customers. With that, Matt, let's open up for questions.

Questions & Answers:

Operator

[Operator instructions] Your first question comes from the line of Myles Walton from Wolfe Research. Please go ahead.

Myles Walton -- *Analyst*

Thanks. Good morning. Nice to speak with you again, Kelly. In your remarks, you talked about Boeing as an airplane company.

And so I just want to understand what is core and noncore outside of Boeing Commercial Airplanes as you see it and specifically, significant portfolio shaping and simplifying the business is in your turnaround you're describing looking forward?

Kelly Ortberg -- *President and Chief Executive Officer*

Yeah. So first of all, good talking to you again, Myles. Look, as I look at the portfolio, and I've made this comment, I think that we're better off being -- doing less and doing it better than doing more and not doing it well. So we're in the process of taking an evaluation of the portfolio.

It's something a new CEO always does when you come into a business and looking at those things and asking in the filter of what do we want this company to look like five and 10 years from now? And do these things add value to the company or distract us? So I'm in the process of going through that. Clearly, our core of commercial airplanes and defense systems are going to stay with the Boeing Company for the long run. But there's probably some things on the fringe there that we can be more efficient with or that distract us from our main goal here. So more to come on that, Myles, but I don't have a specific list in my hand today, and I'd ask everybody don't get ahead of me on this I don't have a specific list of things that we're going to keep, and we're not going to keep.

That's something for us to evaluate and the process is underway to start that.

Myles Walton -- *Analyst*

OK, thank you.

Operator

Your next question comes from the line of David Strauss from Barclays. Please go ahead.

David E. Strauss -- *Analyst*

Thanks. Hello, again, colleagues.

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

Hey, David.

David E. Strauss -- *Analyst*

Hey. So wanted to ask you about the balance sheet and the plan there. So how you're thinking around the parameters in terms of the size and timing of a potentia capital raise? I'm sure this is a function of your discussions with the agencies as well as your ability to generate cash over the longer term. So maybe some color on what you're hearing from the credit -- from the rating agencies as well as your thoughts, maybe initial thoughts around the ability of the company to generate free cash flow in the future relative to that $10 billion target that's been out there? Thanks.

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

Thanks, David. I'll take a shot at that. We are in active engagement with the rating agencies, and it's a constructive dialogue, and they help inform the plan that we have. And we do have a plan to address the balance sheet.

From a timing perspective, we've done everything necessary to be in a position to raise capital, and we're monitoring events closely and we'll access the markets whenever we determine it's the right time. In terms of the size question, here's what's important to us on size. We're focused on maintaining $10 billion of cash in addition to our revolver capacity as we historically have. And we're anticipating our near-term cash flows to be usage driven mostly by timing, both in the fourth quarter and next year as we ramp production.

And the third piece of this is that we have debt maturities in the next couple of years. All of that is contextual for how we would think about a funding raise to address the capital needs and ensure sufficient liquidity as we execute our recovery game plan. So we have a plan. We're focused.

And again, it's all on the priority to protect our investment grade.

David E. Strauss -- *Analyst*

OK. And Kelly, maybe if you could take that question around the $10 billion target that's out there. Is that a realistic target to think about any time over the next several years for this company based on what you've seen so far?

Kelly Ortberg -- *President and Chief Executive Officer*

Yeah, it's too early for me to answer that. I would just say all the financial forecast, the long-term outlook are under review. And I need some time to assess that. And certainly, we need to see some stability in the business to be able to put any kind of target out there.

So I'm evaluating that. But today, I'm not ready today to provide any update to that.

David E. Strauss -- *Analyst*

OK. Fair enough. Thank you.

Operator

Your next question comes from the line of Sheila Kahyaoglu from Jefferies. Please go ahead.

Sheila Kahyaoglu -- *Analyst*

Thank you. Kelly, nice speaking with you again. And Brian, thanks as always. So Brian, you mentioned free cash flow usage in Q4 and in 2025 as a total.

Obviously, that assumes the vote is positive today. Can you talk about some of the drivers that were more positive in Q3? How do we think about the Q4 outflow? And what are you assuming for BCA delivery ranges in your free cash flow outflow next year in BDS losses? And does it become positive anytime in '25? Thank you.

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

Thanks, Sheila. So earlier in the third quarter, we had expected working capital to be a drag in line with the first two quarters. And as we closed the quarter, we had a timing benefit from BCA customer advances that cut the expected working capital about half -- working capital drag about in half. So as we look into the fourth quarter, a lot is going to depend upon the timing of the return to work and the pace the production ramp.

But you could see a fourth quarter working capital drag similar to the first two quarters as we've essentially had a shift of deliveries to the right as we're building inventory. So net-net, free cash flow for the fourth quarter could look similar to the second quarter depending on a lot of things coming together as we move through the course of the end of the year. As it pertains to 2025, 2025 free cash flow will be significantly better than 2024. And we expect the first half to be a cash usage and the second half to turn positive and then build real momentum as we exit the year and return to more stable production rates.

So the calendar year is likely to be usage, but the profile is important as we set ourselves up for the recovery and then for '26 and beyond. In terms of the divisions, there's no doubt that BCA will be driven by those production rate ramps, which is too early to call those as we stand today. And then BDS is going to be impacted by some of the cash implications of some of the charges that we've announced, but we've got a good handle on that and we'll be more descriptive as we get in toward the end of the year.

Sheila Kahyaoglu -- *Analyst*

Thank you.

Operator

Your next question comes from the line of Doug Harned from Bernstein. Please go ahead.

Douglas Harned -- *Analyst*

Good morning. Thank you. Kelly, you've referred to the idea that Boeing was once a benchmark for culture. And that was a long time ago.

I mean if you look over the last five years, Boeing's lost many experienced leaders from senior management to the factory floor, who were part of that culture. And you're also initiating a large headcount reduction. So how are you thinking about rebuilding leadership talent in this environment to make your goals for cultural change, stabilization of the business and execution achievable? And should this involve internal and external approaches. Yeah

Kelly Ortberg -- *President and Chief Executive Officer*

Yeah, Doug. So first of all, I'm still in the process of traveling around, meeting our people, particularly two and three levels down. My first impression is we've got great people in the Boeing Company. Fantastic people.

We just got to get everybody in the right position, running the right place, focused on the right things. And I think we've got some work to do there. Of course, I'll supplement the team as needed if we see that we need some additional resources from outside. I do think some outside view also helps us think a little bit when we're looking at culture change.

But you're right, the culture I'm referring to at Boeing, probably most of the folks who lived in that culture have retired or moved on. So our culture change here is really going to be for the entire company. We've got to come back and reevaluate the values that we have. This starts at the top.

I know that it starts at the top. I've had a meeting with the top leaders in the company, and we've talked explicitly about what we're going to do to change the culture. But it's going to take time, as I said in my prepared remarks. This isn't something that there's just a light switch that flips.

We'll continue to work this. It's a never-ending process. We got to get to a point where the organization itself holds itself accountable to the cultural aspects and the values of the company. And I know what that looks like.

I've been in a company where the values and the culture is very, very strong, and it becomes self-policing and self-developing as you bring new people in. So I think this is something that we can do. I think we may have to supplement in certain areas with some additional outside resources. But in the main, we need to turn the culture around with every employee here.

We've got a large employee base. Now let me come to the 100 -- or the announcement on the workforce reduction. Look, as I've commented, we're inefficient. And one of the things I've heard from a lot of employees is there's just too much overhead.

It slows them down in being able to get their work done. So we're going to really focus this workforce reduction in streamlining those overhead activities, consolidating things that can be consolidated. And I wouldn't think of it like we're going to take people off the production or out of the engineering labs. That's not our intent here.

It's about around getting ourselves more efficient and have a more lean and mean machine going forward. And I think that's going to be really important as we ramp up the production, as Brian talked about, over the next year.

Douglas Harned -- *Analyst*

Very good. Thank you.

Operator

Your next question comes from the line of Ron Epstein from Bank of America. Please go ahead.

Ronald Epstein -- *Analyst*

Yeah. Good morning. Kelly, nice to talk to you again. When you sit back and you think about where you want the Boeing company to be in five years, how do you think about that? I mean this kind of addresses some of the questions we've already hit.

Where do you think you could feather in a new airplane? And where -- really, wher could this company be? And as outsiders looking in, what should we expect that it will be?

Kelly Ortberg -- *President and Chief Executive Officer*

Well, look, I'm still -- as I said before, I'm still going through that process of, in detail, understanding what do we want to look like. But it's clear, I want to be the leader in the aerospace and defense market. I want to be setting the standard for the products that we deliver. I want our customers doing our marketing for us, not us doing our marketing.

And we've got to get to a point where our engineering capability and our production capability is actually -- is doing the talk. So execution is going to be extremely critical. I do think we need to focus on the things that we can be good at. This is not a situation where we have to figure out what market opportunities are we going to go pursue.

They're right in front of us. Our backlog is so strong. Our demand for our products is so strong. This is about getting ourselves focused on the things that we can do well and executing on those things.

And what comes out of that? You can run the numbers. I mean the demand is fantastic for our product lines. And if we're efficient as we deliver those into the market, the sky is the limit for us.

Ronald Epstein -- *Analyst*

Yeah, yeah. All right. Thank you.

Operator

Your next question comes from the line of Seth Seifman from J.P. Morgan. Please go ahead.

Seth Seifman -- *Analyst*

OK, thanks very much. Good morning. Good to speak with you, Kelly. Maybe if I could do a question and a clarification.

Kelly, I wonder if you could talk a little bit about the defense business. I think a lot of us have been surprised by the magnitude of the charges there in recent years. There's obviously some tough contract terms, but the fact that the charges are so persistent suggest that there's an estimating problem there as well. And so what do you see as kind of the core of the problem at BDS? And what does it take to get to an acceptable level there? And then maybe, Brian, you talked about the -- getting to an acceptable production rate by the -- or normal production rates by the end of next year.

What are those normal production rates?

Kelly Ortberg -- *President and Chief Executive Officer*

OK. Let me start with the BDS portfolio. So everything you said is true. We've got some tough contracts, and there's no magic bullet to that.

We're going to have to work our way through some of those tough contracts. Having said that, the discipline about what we can control on those contracts needs to get better. Our EAC process needs to get better. Our risk management -- this is the thing that I think is so important is that we're not admiring these risks, but we're acting on them.

So we've been carrying risks in these programs. And I don't think we've been doing enough work with our customers to figure out how to derisk these things before it turns into an EAC overrun. So that's what I've got the team focused on doing, a lot more deep dives, a lot deeper look at the programs, a lot more looking around the corner, not just dealing with what today's problem is going to be because as you pointed out, we've gone from today's problem to today's problem to today's problem, and that's because we're not looking around the quarter enough on these progra And some of that means that you've got to be better at working with your custome to define success on these programs going forward.

So look, it's going to take a lot of work. We're not going to be able to just wave a wand and clean up these troubled contracts. We signed up to some things that are problematic. But we're also, I will tell you, really focusing on our bid and proposal activity, putting discipline around that to make sure that we absolutely understand the risks that we're taking on as we enter into new contracts as well.

So burn down the tough ones, get better execution on the future, and I think the opportunities are there. We know how to run these programs. We just have lost a little bit of discipline. And I'll tell you, I don't think our people are close enough to the people in the labs, on the factory floor, identifying what's keeping us from being successful.

And so we've started -- we've made some changes in that regard, and there's more to come to focus on these EACs. We just got to get better.

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

Is that your BCA question? Prior to the work stoppage, we had a plan in place to get to 38 per month on the 737. We were making very nice progress. We were starting to bring up that third line in Renton and then the work stoppage happened. So our expectation is, once we get back to work, we ramp production and move through next year, we'll get back on track.

And then we'll be having discussions with the regulator about increasing beyond 38 per month. All that is not specific in timing, but those are kind of the milestones that we look forward to getting through as we go through next year.

Seth Seifman -- *Analyst*

Thank you.

Operator

Your next question comes from the line of Peter Arment from Baird. Please go ahead.

Peter Arment -- *Analyst*

Yeah. Thanks. Good morning. Nice to talk to you again, Kelly.

And Kelly, you spent a few decades in -- as a supplier and are very familiar with Boeing from the outside and now you're inside. Can you talk a little bit about -- you've got a -- Boeing has a deal to acquire Spirit and pull it in-house, how you're thinking about kind of that and being vertically integrated and what kind of capabilities? I know you've got a lot on your plate still evaluating lots of things in the portfolio and things, but could you maybe address that point? Thanks.

Kelly Ortberg -- *President and Chief Executive Officer*

Yeah. First of all, just to be clear, there's no change in our commitment to the Spirit acquisition and the integration. And that's clearly one of our major activities here in terms of stabilizing the business as they're a big part of the supply chain. Now the deal won't close until sometime next year.

So it's very important that we work closely with Spirit, and we are in improving their performance so that they support our ramp-up. And I like what I see there, Peter. We're making good progress pushing the defects back into the system to where they're originating and then getting that root cause to fix those. And prior to the strike, we were starting to see some pretty good improvement in the overall quality of the fuselages coming back in.

So no change in our strategy with Spirit. I think once we get that under our belt, it will be easier for us to integrate and tightly couple the improvements there. And I think that will be even a step change improvement from where we are today. But we've got a lot of work to do with Spirit.

We've got several hundred people on their site every day, helping them work throug some of their challenges. And that's going to be critical to our ramp-up.

Peter Arment -- *Analyst*

I appreciate the call. Thanks, Kelly.

Operator

Your next question comes from the line of Noah Poponak from Goldman Sachs. Please go ahead.

Noah Poponak -- *Analyst*

Hey. Good morning, everyone. Just to be 100% clear, you guys are saying you expect negative free cash flow for full year 2025?

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

Yes.

Noah Poponak -- *Analyst*

So Brian, can you talk maybe a little bit more about the pieces of that? Because I guess I would have thought if you could have a little bit of MAX production rate recovery momentum exiting '24 into '25, you could certainly get that to a cash flow positive place. Eight, seven, it sounds like is on pretty decent footing exiting the year. You still have a ton of inventory to unwind. I guess I don't know where you stand with the advances relative to being behind schedule.

And I guess, I don't know what you're assuming for defense? And maybe the MAX ramp back up post labor dispute takes -- is a lot tougher than I'm appreciating. But maybe you could just talk more about those moving pieces that roll up to that.

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

Sure. So first of all, it will be significantly better as our expectation versus 2024. Ar the moving pieces are exactly that you laid out in terms of the commercial side of our business, in addition to the 777X which is going to be at that cash flow, most investment as it gets ready for an EIS in 2026, which is going to put further pressure on the cash flows. But broadly speaking, we have to have a return to work.

We didn't have a ramp. We didn't have a ramp beyond 38, all things that we don't have clarity on as we sit here today, but one we're making some general forecast of what that might look like. And we know that the first thing we need to do is get back to work in the factory.So we'll get more specific as we move through the end of the year and into next year. and appreciate that all that is going to be that profile that I described, which is we typically have a first half cash usage clearly, first quarter but then it's going to turn in the second half, and then we're going to exit with more momentum as the production in the factories heal and recover.

In terms of BDS, we've got charges that have been announced. Some of those charges are going to be more near-term focused and we have to acknowledge and we look forward to that team operating a game plan to execute with a much different level of performance as we exit next year. So it's all in the mix. It's hard to call at this moment, and we'll keep you posted on how all these levers are going to move as we get toward the early part of the year.

Noah Poponak -- *Analyst*

I guess what's your best guess of number of months it takes to get the MAX back to what that first half of September was looking like once you have a labor resolution?

Kelly Ortberg -- *President and Chief Executive Officer*

Yeah. Noah, this is Kelly. Let me -- I'm not going to give you an exact month because I don't know what the exact month is going to be. Let me tell you kind of some of the steps that we have to take that we've got in our plan.

So first of all, it will probably be a couple of weeks to bring the members back. We have a recertification effort and a retraining effort that we're going to do. For those who haven't been -- who were trained on their job and didn't get enough time on an airplane before they went out on strike, we're going to go through a retraining activity. It is so much more important that we do this right than fast coming out of the chute.

As you know, we've got the supply chain right now that we've turned off in many cases. So I'm anticipating we're probably going to have a little bumpy return from the supply chain. We've tried to manage that as best we could and keep folks like Spirit, for example, on fuselage, keep them funded and moving forward. But there are some folks who had to stop and are going to start back up.

And so we've got to be realistic about some schedule issues associated with bringing the supply chain back on. The other thing that I think is really important is you know we have this 38 a month cap with the FAA. We've got a safety and quality management plan in place. We've laid that flat with the FAA, and that monitors a lot of key metrics within our production system.

And those metrics have to be trending in the right direction and they have to be meeting certain thresholds for us to achieve a rate increase. And we actually won't take it to the FAA if we're not achieving those rate increases. We're going to make sure that we take care of that. But I'm anticipating the first rate increase.

This is going to be the first time that we've done it and the FAA has done it. And so I think the first one's probably going to be the hardest going beyond rate 38. And so we just can't be overly aggressive in how we're forecasting that because anything in aerospace, the first time you do it, it's hard. And this will be the first time.

There's a lot of dynamics around both the technical part of rate increases and the political dynamics around our rate increases. So we absolutely have to make sure that we're not increasing rate when we're not ready. And I'm direct lockstep with the FAA on that. So those are things -- I think the first rate increase is something for us all to watch.

I think they'll get easier for the sequential rate increases after that throughout the year. And as Brian said, we should exit next year in a much more, I'll call it, normal recovered fashion.

Noah Poponak -- *Analyst*

OK, thank you.

Operator

Your next question comes from the line of Scott Deuschle from Deutsche Bank. Please go ahead.

Scott Deuschle -- *Analyst*

Hey. Good morning.

Kelly Ortberg -- *President and Chief Executive Officer*

Good morning.

Scott Deuschle -- *Analyst*

Kelly, just following up on supply chain. Can you provide more detail on how you're managing supply chain through this work stoppage? And also what specific steps you're taking to ensure that supply chain remains in a position to ramp up once the strike is over? And I asked because last time, there was a broad-based work stoppage and getting things back on track was clearly a challenge and frankly, we're still seeing the ghost of that four years later. And so just looking for some more clarity here on how we kind of avoid mistakes of the past.

Kelly Ortberg -- *President and Chief Executive Officer*

Yeah, the answer to that is we have to work with every supplier on each commodity relative to what their current situation is. Now I think in some cases, we've kept people hot, as I've said, either because we felt that they were behind or there was a need for -- there was too much risk associated with turning them down. Some of th larger companies, they're going to use this time to actually get in a healthier positi themselves. So I think that will be OK.

It will be the ones or twosies things that we have to deal with. You need all the parts to build the airplane. So as we bring that on, I'm not expecting a major issue. It's not like we've been out on strike for a long period such that someone's decommissioned a factory or changed a foundry or shifted a balance of their workforce.

We have seen some furloughs but furloughs are temporary. That's why they furlough them because they want to be able to call those folks back. And we've done some furloughs ourselves. So we're managing that supplier by supplier, day in, day out, trying to keep close communication with all of our supply chain as we bring this back on.

Scott Deuschle -- *Analyst*

Thank you.

Operator

Your next question comes from the line of Jason Gursky from Citi. Please go ahead.

Jason Gursky -- *Analyst*

Yeah. And Kelly, welcome back to the fun of quarterly earnings calls.

Kelly Ortberg -- *President and Chief Executive Officer*

Thanks, Jason.

Jason Gursky -- *Analyst*

Yeah. Let's see here. I want to just talk a little bit about the bigger picture turnaround here and particularly as it relates to the balance sheet. It seems to me like you're getting ready here to deploy a pretty well thought out plan.

You've got some cost cutting that you're doing here. You've talked about you're going to look at the portfolio, there might be some divestitures potentially there. Brian's talked about the capital raise and you've talked about better execution. I think the one thing that may be missing from that list, I just wanted to try to get a sense from you on is the potential of just exiting some programs or some contracts that you've got absolutely no path to profitability or free cash flow on over the longer term.

And whether there's an opportunity for you all to get out of some of these contracts or get out of some of these programs and how you go about doing that. And just want to get a really good sense of whether that is kind of on the menu of options that you have because I think we're all looking for ways on how you can kind of increase the pace of this turnaround. I know you say it's going to take a long time, but just kind of what are some of the tools at your disposal here?

Kelly Ortberg -- *President and Chief Executive Officer*

Yeah. So look, I think if you're talking the big defense programs where we've got EAC problems, I don't think that's a viable option to us. I don't think we can just -- even if we wanted to, I don't think we can walk away from these contracts. These are our core customers that need this capability.

We've got long-term commitments to them. So walking away isn't an answer to this. In my prepared remarks and comment to an earlier, we do have to work with the customers and see if there's areas where we can trade things off with them and help us and help them too. And I don't think we've been doing enough of that in the trade space with the customers.

So we can come up with some win-wins and we don't sit here with these risks that are unmitigated going forward. So I think that's more the -- where I would focus on these things. Now there are some things that we can just stop doing that we're currently doing. And those are on the table in the streamlined effort that I'm talking about.

There are some areas where we may be at one contract phase and do we want to go to the next contract phase that will sit and evaluate. And we've got to get it -- we do have to get in a position where we've got a portfolio much more balanced with less risky programs and more profitable programs. And we're going to be working that. But again, I don't think a wholesale walk away is just in the cards.

Scott Deuschle -- *Analyst*

OK. That's helpful. Thank you.

Operator

Your next question comes from the line of Cai von Rumohr from TD Securities. Please go ahead.

Cai von Rumohr -- *Analyst*

Yes. Thanks so much and welcome back Kelly. So two questions for you. First, would you consider hiring from the outside to fill the BDS head slot because obviously, the folks there have really not been getting the job done? And secondly, if we look at your portfolio, you have several properties in Global Services on the commercial side that looked like they could be very highly valued, specifically Jeppesen, you could argue are not directly required to build planes successfully.

So would you consider divesting any of those because that would significantly reduce the amount you'd have to raise via equity?

Kelly Ortberg -- *President and Chief Executive Officer*

Yes. So Cai, I would say, I'm not going to specifically address the BDS position, but I'll just say generically, as I look at any of these positions and any changes we'll make, we'll take a look at internally. Do we have the right candidate? And if so, that's the way we'll head. If we need to supplement from the outside and bring some outside skills in, then we'll head that direction.

So as I said before, I'm certainly not averse to bringing in some additional resource to help the team. And I don't think the teams are averse to that as well. So we'll see where that heads on specific positions. The second part of his question, Jefferson...

Cai von Rumohr -- *Analyst*

Yes, on the properties in Global Services that you've got things like Jefferson that arguably could command a very high price and don't look like they're totally required to build planes successfully. Would you consider divesting any of those to supplement an equity raise?

Kelly Ortberg -- *President and Chief Executive Officer*

Yeah, I think that's what I'm talking about when I'm talking about looking at the portfolio and deciding what do we need for our future. I'm not going to specifically comment on Jefferson. But looking at all of our activities like that, whether it's in our services business or in either the core businesses, looking at what we're doing there and asking the question, does that really fit in our long-term strategy? Or would that property be better off somewhere else, and we could get more value -- we're destroying value by holding it in the Boeing company. So those are the things that we'll look at as we do this portfolio review.

And my guess is there'll be some things that we want to take action on. I just don't have that list to tell you right now what am I going to do?

Cai von Rumohr -- *Analyst*

Do you have any time frame to make that decision? Like are we talking three months? Are we talking nine months?

Kelly Ortberg -- *President and Chief Executive Officer*

Yeah, I want to have a good feeling internally by the end of the year as to what I wa that. We've got a process underway where we do our long-range planning, which w facilitate that. Now Cai, that some of these things can be actioned quickly. Some c these things are not actionable.

Some of these things take a long time. So it sort of depends on what the opportunities are, can things be separated? Can we just stop doing work? An example, just the 767 freighter. We looked at that and said, Hey, look, there's an incoming on the 767 freighter. It's coming soon.

Let's make the decision now and get that distraction out of the way. We'll finish the deliveries, been a fantastic airplane and we'll continue to support our customers and support the mil variants of that. But let's declutter our minds with some of this stuff and get our resources really focused on what's going to make a difference for us going forward. And that's the type of stuff I want to really focus on.

Cai von Rumohr -- *Analyst*

Terrific. Thank you very much.

Matt Welch -- *Vice President, Investor Relations*

And Greg, we have time for one final question.

Operator

OK. That question comes from the line of Richard Safran from Seaport Research Partners. Please go ahead.

Richard Safran -- *Analyst*

Thanks, Kelly, Bryant and Matt. Good morning, Kelly. Kelly, great to be speaking with you again. So I thought I'd ask also about Global Services, but I think you may have some better visibility. We've seen some modest growth this year.

We had about 70 basis points of margin improvement this quarter. I thought you might talk about your near- and long-term outlook for the segment, how you see sales and margins trending? And Kelly, is there any read-through to Global Services from your core part structure? Or you're pretty happy with the way things are going there?

Kelly Ortberg -- *President and Chief Executive Officer*

Well, let me just say that that's not my focus right now. They're doing really well. Chris Raymond and his team are executing. And the one thing I want to do right now is just help them make sure they get all the support from the corporation they need to continue to execute.

Having said that, absolutely, there's parts in this four-part strategy that flow through our global service, particularly the cultural aspects of this. So that's a companywide activity, and it has to permeate through our Global Services business as well. And there's areas in Global Services, they're doing well, but there's areas we could do better. There's areas we could get closer to our people and have better outcomes for our customers.

So they're in this together, but I would just say Chris' team is doing really well, and it's not my priority right now. We want them to continue with their head down and delivering the results that they're delivering.

Matt Welch -- *Vice President, Investor Relations*

And that concludes our call today. Thank you, everybody, for joining.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

Matt Welch -- *Vice President, Investor Relations*

Kelly Ortberg -- *President and Chief Executive Officer*

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

Myles Walton -- *Analyst*

David E. Strauss -- *Analyst*

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Scott Deuschle -- *Analyst*

Jason Gursky -- *Analyst*

Cai von Rumohr -- *Analyst*

Richard Safran -- *Analyst*

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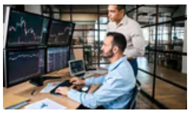
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