Operator

Good day everyone, and welcome to The Boeing Company's Third Quarter 2016 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation plus the analysts' and media question-and-answer sessions are being broadcast live over the Internet.

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

Troy Jeffrey Lahr - The Boeing Co.

Thank you, and good morning. Welcome to Boeing's third quarter 2016 earnings call. I'm Troy Lahr and with me today is Dennis Muilenburg, Boeing's Chairman, President and Chief Executive Officer, and Greg Smith, Boeing's Chief Financial Officer. After management comments, we'll take your questions. In fairness to others on the call, we ask that you limit yourself to one question. We have provided detailed financial information in today's press release and you can follow the broadcast and presentation through our website at boeing.com.

Before we begin, I need to remind you that any projections and goals in our discussions today are likely to involve risk which is detailed in our news release, various SEC filings and the forward-looking statement disclaimer in the presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of non-GAAP measures that we use when discussing our results and outlook.

Now I'll turn the call over to Dennis Muilenburg.

Dennis A. Muilenburg - The Boeing Co.

Thank you, Troy, and good morning. My comments today will focus on our third quarter results and our business environment. After that, Greg will walk you through the details and provide you a glimpse into 2017. With that, let's move to slide two.

Our third quarter financial results reflect continued solid performance at both businesses and strong operating cash flow. We generated $3.2 billion of operating cash and repurchased $1 billion of Boeing stock during the quarter as we continued to deliver on our commitment to return cash to shareholders while investing in innovation and our future growth. Through the first three quarters we repurchased 51 million shares totaling $6.5 billion.

Revenue in the third quarter was $23.9 billion reflecting slightly lower planned delivery volume as well as continued growth in both Commercial and Defense services. We reported core earnings per share of $3.51 on continued overall solid operating performance and favorable tax adjustments. Boeing Commercial Airplanes' third quarter revenue was $17 billion, on 188 deliveries, with a segment operating margin of 9.4%.

Key milestones in the quarter included completing testing to ensure the 737 MAX 8 is ready to enter service and starting 737 MAX 9 production. Furthermore, in October we began 787-10 mid-body integration and we rolled out of the factory our 500th 787 dream liner. At Boeing Defense Space & Security, third quarter revenue was $7.5 billion and operating margins were 10.4% reflecting solid performance on production and services programs offset by the Commercial Crew charge. Key contract awards for the defense side of the business included a $2.8 billion order for 19 KC-46 Tankers for the U.S. Air Force, an agreement with the UK Ministry of Defense to purchase 50 Apache attack helicopters and 9 P-8 Poseidon aircraft and a $1 billion award from the Defense Logistics Agency for F-18 spare parts. In summary, for the quarter, we delivered solid operating results in both businesses, drove further productivity across the enterprise, captured significant contract awards, and continued to return cash to shareholders.

With that, let's turn to the business environment on slide three. Our view of the business environment remains generally positive with solid overall demand for commercial airplanes, defense and space platforms, and services and support. In the commercial market, new order activity is continuing at a moderate but healthy pace. In particular, we're seeing strong demand for narrow body aircraft such as the 737 MAX. In the wide body segment we continue to see some near-term hesitation in certain regions and the order activity has been more measured. Over the long-term, however, our view remains highly positive with our 20-year commercial market outlook projecting demand for more than 39,600 aircraft valued at $6 trillion.

Specifically for the wide body market, we see demand over the next 20 years for more than 9,000 aircraft and see replacement demand starting to accelerate again early next decade and we're well positioned with the 777X and 787 families.

We also recently updated our outlook for the commercial market in China where we now see a $1 trillion market opportunity for more than 6,800 aircraft over the next 20 years. The continued strength of our overall market outlook is based on solid ongoing replacement demand and traffic growth. This year, passenger traffic growth is again outpacing GDP with AIADA reporting approximately 6% increase year to date. On the cargo side, the market is improved slightly, but year to date growth is modest at 1%. As always, we are keeping a consistent watchful eye on global market conditions for both passenger travel and cargo to ensure that supply and demand remain balanced.

Despite the relatively softening we've described for the wide body market, the strength and value of our offerings is illustrated by recent order activity for a total of 52 wide body planes. In October, Cutter Airways ordered 30 787-9s and 10 777-300ERs, and China Southern ordered 12 787-9s. In addition, we are pleased that the U.S. Treasury recently granted Boeing a license to sell 80 new airplanes to Iran Air including a mix of 34 wide body planes. There's more work to do to finalize the sale, but we are encouraged by the progress.

As we have noted on a number of occasions, the timing and outcome of several ongoing wide body sales campaigns will be the determining factors in final decisions on the 777 bridge production rate. We expect to have additional clarity on 777 production decisions in the next couple of months. On the 787 program, we have more time to further assess the implementation of the next production rate increase that is currency scheduled to ramp up to 14 per month at the end of the decade.

Also, as a reminder, even if we have to moderate our wide body production plans in the future, we continue to expect commercial aircraft deliveries to grow beyond 900 airplanes per year through the end of this decade, supporting our expectation that we will continue to grow cash flow year-over-year throughout this time period. Our production plan is built upon our large and diverse order backlog and underpinned by our fundamental belief in the long-term growth and replacement trends that have fueled increasing commercial airplane demand for the past several decades.

Turning to individual airplane programs, customer demand remains strong for the 737 with a robust backlog of more than 4300 firm orders for the NG and MAX models combined. We remain on track to raise the 737 production rate from the current 42 per month to 47 in the third quarter of 2017 followed by 52 per month in 2018 and then 57 per month in 2019. And importantly, even at the 57 per month rate, we continue to be oversold. Simply put, this is a big, attractive market, and the 737 family's position within it is solid.

For the current generation 777, our backlog now stands at more than 160 airplanes. So far in 2016, we have added 17 net new 777 orders. We're on track to transition to the seven per month production rate at the start of 2017 as previously announced. At that rate, and with the Qatar order I mentioned earlier, delivery slots for 777 are now about 85% sold out for 2017. For 2018, when we will begin phasing in production of 777X test aircraft, we are roughly 60% sold out at the planned delivery rate of approximately 5.5 per month.

To bounce some scenarios for you on the 777, when we consider the recent order additions and our ongoing campaigns to fill the remaining delivery slots, at this time we don't envision a situation where we would need to lower production more than one or two units per month below our current plan. If that were to occur, implementation would begin in late 2017 or early 2018. On the other end of the spectrum, should we see success on ongoing campaigns, we may not need to adjust our existing production plans at all. We have disciplined processes in place for making these decisions in a timely manner as campaigns are finalized and of course any steps we might take to further align production with demand will include the necessary adjustments to maximize profitability and ensure a smooth transition to the 777X.

For the 777X we have a strong foundation of 306 orders that supports our production plan of ramping up deliveries in 2020 and beyond. On the 787 program, our backlog consists of approximately 700 firm orders which provide a solid foundation for future production. As I alluded to before, securing additional orders to solidify the 14 per month production rate at the end of the decade remains a priority. And the recent orders for 42 aircraft from Qatar Airways and China Southern improves our position. But, there's still more work to do.

On the 747 program, we are encouraged by the modest recovery in the air cargo market, and we continue to have a number of sales campaigns underway that will help to fill the production skyline. Regarding Commercial services, the market is an attractive opportunity that we are aggressively targeting by growing our services in support areas, including our traditional parts, mods, and upgrade business, as well as expanding further into data analytics and information-based services.

During the quarter, we entered into an agreement with Japan Airlines for a 10-year contract to provide spare parts under The Boeing GoldCare program. In addition, over the past few months, we won orders from Atlas Air to convert nine 767 passenger airplanes into Boeing converted freighters. Overall, the outlook for Boeing Commercial Airplanes remains positive due to our market-leading product lineup, large high-quality customer backlog, and a culture that continuously drives productivity across all aspects of the enterprise.

Turning to Defense Space & Security, we continue to see solid demand for our major platforms. While the fiscal year 2017 U.S. Federal budget is not yet finalized, congressional support for our key BDS programs is firm and we continue to anticipate modest defense spending growth over the next five years. Internationally, demand for our offerings remains healthy as well, in particular for rotorcraft, commercial derivatives, fighters, satellites, and services.

We are encouraged by the recent White House approval and the congressional notification authorizing the sale of 36 F-15s to Qatar, with options for 36 more, and the sale of 28 F-18s to Kuwait, with options for an additional 12. During the third quarter, international customers represented 27% of BDS revenue and 38% of the current backlog. Our team is continuing to reshape our defense business with a focus on dramatically improving our cost structure. This is further enhancing our competitive position and expanding profitability. The team has captured nearly $6 billion of operating cost savings, and we continue to target an additional $2 billion.

In addition to improving cost competitiveness and affordability, we're also focused on investing in areas that are priorities for our customers, such as commercial derivatives, rotorcraft, satellites, services, human space exploration, and autonomous systems. Capturing future franchise programs remains a priority for us, and we're leveraging capabilities and technologies across the enterprise for the T-X trainer, JSTARS recapitalization, Ground Based Strategic Deterrent, advanced weapons programs, and other important opportunities ,including the unmanned aircraft-carrier based MQ-25A, where we've recently won a U.S. Navy contract for risk reduction activities.

In summary, our overall business outlook is aligned to the realities and opportunities of our markets, and we are optimistic and motivated by our future prospects. Our dedicated and talented teams across the enterprise are focused on delivering on our customer commitments while accelerating improvements in quality, safety, and productivity, and driving further innovation in our products and processes. We continue to generate results and identify additional opportunities through implementation of lean plus, capturing the value of quality, partnering for success, and our second century design and manufacturing initiatives.

Now, over to Greg for our financial results.

Gregory D. Smith - The Boeing Co.

Thanks, Dennis, and good morning. Let's turn to slide four and we'll discuss our third quarter results. Third quarter revenue was $23.9 billion, driven by solid Commercial Airplane deliveries and healthy Defense revenue. Core earnings per share was $3.51, as solid operating performance and favorable tax adjustments totaled $0.98 more than offset the $0.16 impact on the Commercial Crew program. The $0.28 tax adjustment for the 2011-2012 settlement was expected and already factored into our full-year core EPS guidance; however, the $0.70 related to the tax basis adjustment booked in this quarter was not reflected in our annual guidance. Just to be mindful for next year, we expect to have a more normalized corporate tax rate of approximately 31% to 32%.

Let's now move to Commercial Airplanes on slide five. For the third quarter, our Commercial Airplane business reported revenue of $17 billion on 188 airplane deliveries. BCA reported operating margins of 9.4%, driven by solid operating performance and delivery mix. Commercial Airplanes captured $9 billion in net orders during the third quarter, and backlog remains very strong at $409 billion and more than 5600 aircraft, equating to approximately seven years of production. On the 787 program, the deferred production balance declined by $151 million in the quarter. This decrease was driven by delivery mix, internal productivity efforts, and supplier stepdown pricing. Over the long-term, we continue to focus on improving 787 cash generation and again driven by favorable mix, further internal productivity improvements, and again additional supplier stepdown pricing.

Now let's turn to Defense, Space & Security results on slide six. Third quarter revenue at our Defense business was $7.5 billion and operating margins were 10.4%, largely driven by strong performance at BMA and GS&S that was offset by results in network and space. Boeing military aircraft revenue was $3.3 billion, reflecting lower planned C-17 and F-15 volume. Operating margins of 13.3% reflect solid execution across the portfolio. Network & Space Systems reported revenue of $1.7 billion. Operating earnings were $35 million, reflecting the impact from the Commercial Crew program.

As a result of delays in completion of engineering and supply chain activities of the program, we recorded $124 million reversal of cumulative pre-tax earnings, and a $38 million pre-tax reach-forward loss. At our Global Services & Support business, revenue increased 17% to $2.5 billion, reflecting higher volume in aircraft modernization and sustainment. Operating margins were 12.4%, reflecting strong performance in program mix. Defense, Space & Security reported a solid backlog at $53 billion, with 38% of that business coming from customers outside the United States.

Next slide, please. Operating cash flow of $3.2 billion for the third quarter was driven by solid operating performance across the enterprise. With regards to capital deployment, as Dennis indicated earlier, we paid nearly $700 million in dividend and repurchased 7.6 million shares for $1 billion in the third quarter. Year to date, we've repurchased 51 million shares for a total of $6.5 billion. Again, returning cash to shareholders, along with continue to invest and support future growth remain a priority for us, and reflect our ongoing confidence in the long-term outlook for our business.

Let's move to cash and debt balance now on slide eight. We ended the quarter with $9.7 billion of cash and marketable securities and again, our cash balance continues to provide solid liquidity and positions us well going forward.

Let's turn now to slide nine and we'll discuss our outlook for 2016. We are increasing our full year revenue guidance by $500 million to now be between $93.5 billion and $95.5 billion on higher 747 and 787 Commercial Airplane deliveries. And guidance is increased five airplanes to now be between 745 and 750 deliveries for the year. Our core EPS guidance for 2016 is increased by $0.70 to now be between $6.80 and $7 a share reflecting the third quarter tax basis adjustment. While we haven't yet finalized our plans for 2017, we'd like to take a moment and provide you with some initial insight.

As Dennis previously mentioned back in September, we expect 2017 to be a year, another year of solid financial performance. So first and foremost, our view on cash flow growth is unchanged. We continue to forecast cash flow growth in 2017 and then 2018 and beyond. At our current production rates we expect higher BCA deliveries next year while revenue should be flat to slightly down largely driven by delivery mix as we increase 737 production, implement the transition from the 777 to the 777X and begin 787-10 production.

BDS revenue next year should be also flat to slightly down on fewer C-17 deliveries and lower F-15 volume due to milestone revenue that more than offset the higher services and tanker revenue. Regarding operating margins, we continue to target near-term double-digit margins for both BCA and BDS. Obviously any production rate adjustments could modestly impact near-term margin at BCA. Having said that, and as we have discussed before, we have numerous productivity activities in work that we'll continue to work and look for opportunities to accelerate these best we can.

Again, we continue to work several sales campaigns which will ultimately be the deciding factor of any potential rate adjustments. Longer term, we're aggressively driving productivity throughout the business to maximize profitability as we strive to achieve mid-teen operating margins at both BCA and BDS. These are aspirational goals and we certainly have a lot of work to do and hard decisions in front of us. However, we believe this is the right objective and goal for us and our teams.

Regarding our outlook for cash flow growth next year, as expected, wide body product rate decisions can modestly affect that rate of growth.

However, we still continue to see operating cash flow growing in 2017 and then again 2018 and beyond. Our confidence in this outlook is based on us delivering on our robust backlog, executing on our established development programs, driving additional productivity efforts, and finally improving the cash profile on the 787 program.

We have a strong foundation to grow cash flows over the remainder of the decade, and we are taking the necessary actions to de-risk the business while also more efficiently executing all elements of the business. Again, we still have some work to do to finalize our outlook for 2017, and as always, we'll provide more detail on the full year 2017 guidance on our call, on our January earnings call.

So with that, I'll turn it back over to Dennis for some closing comments.

Dennis A. Muilenburg - The Boeing Co.

All right. Thanks, Greg. To wrap up quickly here and move into your questions, working together as one Boeing, we are intensely focused on profitable, long-term growth, disciplined execution of our production and development programs, expanding our services business, and improving quality and productivity across the enterprise. Our priorities are to continue building strength on strength to deliver on our existing plans and to stretch beyond those plans by sharpening and accelerating our pace of progress on key enterprise growth and productivity efforts. We're giving clear and consistent attention to the profitable ramp-up in Commercial Airplane production, continuing to strengthen our Defense & Space business, delivering on our development programs, driving world-class levels of productivity and performance throughout the enterprise to fund our investments in innovation and growth, and to develop and maintain the best team and talent in the industry; all of which is to position Boeing for continued market leadership, sustained top and bottom line growth, and to create increasing value for our customers, shareholders, employees, and other stakeholders.

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

Question-and-Answer Session

Operator

Our first question's from the line of Jason Gursky with Citi. Please go ahead.

Jason Gursky - Citigroup Global Markets, Inc. (Broker)

Hey, good morning everyone.

Dennis A. Muilenburg - The Boeing Co.

Morning.

Gregory D. Smith - The Boeing Co.

Hey, Jason.

Jason Gursky - Citigroup Global Markets, Inc. (Broker)

Dennis, I wanted to follow up on some of the comments you made about the outlook for the wide body market as we move out into the 2020s. You've talked on a couple of different calls here over time about the replacement cycle that you view gets started out in that period. Can you talk a little bit about whether you think, at this point, that puts upward bias on wide body production or simply allows you to hold onto the production rates that you'll be enjoying as you exit the decade? And then perhaps put a little bit of color on that replacement cycle with regard to mix and what products you think are going to best address that replacement

cycle in the early 2020s. Thanks.

Dennis A. Muilenburg - The Boeing Co.

Yeah. Hey, great question, Jason. So if you take a look at that 20-year current market outlook, as I said, we see about 9,000 of those 39,000 plus aircraft being wide bodies. And much of that is fueled by that replacement cycle just looking at the existing fleets that starts early in the next decade, early 2020s. In particular, if we look at the 777 fleet and we look for opportunities there, we'll have a number of aircraft that'll be reaching ten-year life span at that point in our replacement cycles. That timing is very well aligned with when we'll be ramping up and beginning to deliver the 777X. And that's been one of the things that's been fueling our focus on delivering that development program.

In addition to that, the 787 is going to be very well positioned for that market. We're continuing to see market dynamics that are expanding route structures, leveraging the technology of that airplane. If you look at the 787 since we've introduced it, our customers have now introduced more than 130 new city pairs based on the unique capability that the 787 brings to the marketplace. So we see strong opportunity for replacement of existing fleets; we see growth opportunities as passenger traffic continues to grow at a clip of about 6% a year, and we see growth associated with new city pairs, new routes, that are being enabled by the technology. All three of those fuel our prospects for the future, and we see a solid mix of both the 787 family and the 777 family feeding right into that cycle.

That all said, we've got a couple of years near-term in front of us here where we're working through the transition to the 777, and we're being mindful of some of the local wide body market hesitation that we're all seeing right now. We're confident that we're going to be able to work our way through that in a profitable and effective manner, transition to the 777X, and then move into that replacement cycle, strong demand signals as we get into the next decade.

And through all of this, we're going to be very mindful about matching supply and demand. It's in all of our interest to make sure those stay balanced and that we take the right actions to ensure that we do things profitably and efficiently through the transition. So that's some color around it. But, again, if we look at the 20-year cycle here, wide body marketplace is a strong marketplace and it's both replacement and growth driven.

Jason Gursky - Citigroup Global Markets, Inc. (Broker)

Interestingly you didn't mention the 747 there, so maybe a little bit more of a follow-up there. And then just, do we see upward bias in the 2020s or are we just trying to hold onto the rates that we're going to be exiting this decade?

Dennis A. Muilenburg - The Boeing Co.

Yeah, if you take a look at the 747, the recent decision we made to go to half an aircraft a month production rate we think is a sustainable position. That very large aircraft segment we see as more of a niche, flatter segment. The 747 is well positioned there. It provides some very unique capabilities for that customer set. We don't see that as a large growth market for us, but a niche market that's sustainable. And we have the right product and we've made the right investment there for the long run. And customers that are operating in that space are giving us positive feedback on the 747-8.

We see more of the growth happening in 787 and 777, and of course we'll be ramping up 777X production nominally to the kind of production rates that we have on today's 777 line. 787 is where we're looking at that additional production step-up to 14 a month, and we'll be assessing that here over the next six months. So that longer-term profile will look flat to modest growth in production volume on our wide body lines overall.

Jason Gursky - Citigroup Global Markets, Inc. (Broker)

Great. That's helpful. Thank you.

Operator

Our next question's from Seth Seifman with JPMorgan. Please go ahead.

Seth M. Seifman - JPMorgan Securities LLC

Thanks very much and good morning. Greg, I wonder if you could...

Dennis A. Muilenburg - The Boeing Co.

Hi Seth.

Seth M. Seifman - JPMorgan Securities LLC

Morning. I wonder if you could tell us as a swing factor for cash flow, if you could talk a little bit about the tanker program since we have had some of the charges. Can you tell us what the cash burn was on the tanker program last year? You know, maybe roughly what it is this year and then what the improvement would be in 2017 if you deliver the tankers that you're supposed to in the second half of the year?

Gregory D. Smith - The Boeing Co.

Yeah, I mean, you're right. So obviously we've been making investments in the tanker program in the last couple years. So as we start to deliver those, the cash profile will improve over time. Obviously next year, that's factored into – as we talk about our cash flow growing over time, that's factored into that. I think just kind of some of the bigger moving pieces in 2017 obviously, the 787 cash profile continuing to improve and the production rates we talked about. At the same time, as you mentioned, tanker slightly. But cash taxes will pay more of those as we improve the unit by unit improvement on the 787. And then as we talked about, we're building the 787-10 flight test airplanes. So those – and of course 777 rate going down to the planned seven a month. So those are really the bigger moving pieces as we look into 2017, but certainly, tanker is part of that but not as significant as some of these items. So we're continuing to execute there. And we'll expect positive cash flow next year.

Seth M. Seifman - JPMorgan Securities LLC

Great. Thank you

Gregory D. Smith - The Boeing Co.

You're welcome.

Operator

Next we'll go to Doug Harned with Bernstein. Please go ahead.

Douglas Stuart Harned - Sanford C. Bernstein & Co. LLC

Thank you. Good morning.

Gregory D. Smith - The Boeing Co.

Morning.

Dennis A. Muilenburg - The Boeing Co.

Hey, Doug.

Douglas Stuart Harned - Sanford C. Bernstein & Co. LLC

You know, you mentioned again the goal of mid-teens margins in 2020 for BCA and Defense as well, but if we look at the BCA, you're describing this as aspirational, but I'm not sure what it means. Do you believe this is a realistic target, and can you give us a sense of what internal milestones would look like that would make you confident and make us confident that you can actually get there to mid-teens margins?

Dennis A. Muilenburg - The Boeing Co.

Yeah, hey Doug, let me start on that one and I'll ask Greg to add in. Yes, it's a realistic target, but a challenging target. But it's not something that we just stated without an intent to pursue. We're very serious about pursuing that, and we see a path to getting there. It requires a lot of hard work. Key items there will include increasing profitability on the 787 program. So if you're looking for milestones and checkpoints there, you'll see as we burn down deferred production inventory, hopefully you saw a good sign there this quarter. As we continue to drive profitability on that line, you will see improved profitability, incremental pickups on margins in BCA. Also additional work on partnering for success as we work across our supply chain. You'll see incremental improvements as we both capture agreements that are already in place or additional cost reductions in our supply chain.

And we are relentless on our broader lean plus activities in capturing the value of quality activities that get into all of our production lines and incrementally, those will add to profitability over time. Also making sure we execute on our development programs and cleanly finishing up on 737 MAX, which as you know we're expecting to deliver ahead of schedule. We're executing well on 777X, but we're very focused on ensuring we get to the finish line cleanly on those developing programs. So at a very detailed level, we've worked that into our business plans and commitments. Our team is onboard and driving execution. We're very focused on getting to double-digit margins here in the near term and achieving those mid-teen margins towards the end of the decade. So it's a very real target, very serious target, but we also acknowledge the fact that it's going to require a lot of hard work. Greg, you want to add anything?

Gregory D. Smith - The Boeing Co.

Yeah, I think just the only thing I would add is the continued focus on de-risking the portfolio. So, combined with all the initiatives that we have in place across all aspects of the business and cost elements, at the same time a keen eye on, how do we de-risk anything, as you've seen from moderating the 747 rate, development program execution, the 737 MAX introduction, I think, is a good example of de-risking to ensure that we have long-term profitability over the portfolio.

Same thing with the moves we're making on 777 transition to 777X. So trying to be mindful of moderating and de-risking where, certainly that's been a challenge of the past, and that is also a contributor to this longer-term objective. But, as Dennis said, we think it's the right objective to have in place. We don't have all the answers today, but we have some solid plans in place around the attributes or elements that Dennis indicated. Some of those we're going to be successful on, some of them we may not. And we'll, I'll say, retool and look for further opportunities. But we think it's the right objective for us to focus on.

Dennis A. Muilenburg - The Boeing Co.

Yeah, and Doug, one additional thing from the broader enterprise, you see some of the results in our Defense business as well coming from our market-based affordability work, and we have our teams sharing those best practices across the enterprise to leverage that. And I think it's also worth noting, as we continue to invest in growing our services business, generally services will be accretive to our margins, and we're very serious about growing top line in service, as you see some of the results there as well. And over time, that will improve our overall enterprise margins.

Douglas Stuart Harned - Sanford C. Bernstein & Co. LLC

So should we expect – I mean, you've talked a little bit about getting to double digit margins next year as a possibility, and then, should we expect this to be a trajectory that moves steadily toward that level over the next four years?

Dennis A. Muilenburg - The Boeing Co.

Yes. This is a steady climbing trajectory, not one where we're going to be flat for four years and then a sudden step-up. This is a continuous, steady effort.

Douglas Stuart Harned - Sanford C. Bernstein & Co. LLC

Okay.

Dennis A. Muilenburg - The Boeing Co.

And you should expect to see that in the results.

Douglas Stuart Harned - Sanford C. Bernstein & Co. LLC

Okay, great. Thank you.

Operator

Our next question is from Pete Skibitski with Drexel Hamilton. Please go ahead.

Peter John Skibitski - Drexel Hamilton LLC

Good morning, guys. Nice quarter.

Dennis A. Muilenburg - The Boeing Co.

Thanks.

Gregory D. Smith - The Boeing Co.

Thanks, Pete.

Peter John Skibitski - Drexel Hamilton LLC

Hey, Greg, I guess, wanted to ask you what the remaining challenges you see here in the fourth quarter that are in front of you in order to hit that $10 billion in cash from ops guidance? It doesn't look like you have a huge hurdle for the quarter to hit that. You kind of had a blowout quarter last fourth quarter, of 2015. So just curious as to, do we have a chance here maybe to beat guidance? It's going to look like a pretty good free cash per share year if you just hit it. So, I'm just curious as to what the challenges are.

Gregory D. Smith - The Boeing Co.

Yeah, well, look, as you know, Pete, there's a lot of moving pieces quarter over quarter in this business, whether it's milestone payments or progress payments. So, we're comfortable with what we have in there for the guidance for the balance of the year. Certainly, we did a little better in this quarter than we originally had planned, and that's just again, solid execution and some favorable timing. So again, we're comfortable with what we got in there for the fourth quarter as we look at the delivery profiles and again, some of the progress payments that are planned between now and then. So stay tuned, and we're – again, it's obviously a big priority for us, key focus item. I think the results are demonstrating that and the focus going forward, you should expect that same discipline.

Peter John Skibitski - Drexel Hamilton LLC

Right. And then, last follow-up. Can you give us a sense how much you think 787 deferred can come down in 2017?

Gregory D. Smith - The Boeing Co.

Well, we expect it to continue to decline, and it's all around the elements that we laid out at the investor conference and a little bit this morning. It's just that day-to-day continued execution on the core – I'll say core production line, and the stepdown around the supply chain, and making our delivery. So we expect that to continue to go down. Like I said, it's all about cash flow focus on that program, unit by unit improvement, and I would tell you the team out there in Charleston and Everett have done a fantastic job. And they've got a lot of things still, I'll say in the hopper, to go try to mature and get into the production line. But great, great progress. Long way to go still to meet our expectations overall, but good, good progress, and so we should expect that the progress on deferred and overall cash improvement to continue.

Peter John Skibitski - Drexel Hamilton LLC

Great. Thanks, guys.

Gregory D. Smith - The Boeing Co.

You're welcome.

Operator

Next we go to Carter Copeland with Barclays. Please go ahead.

Carter Copeland - Barclays Capital, Inc.

Hey. Good morning, gentlemen.

Gregory D. Smith - The Boeing Co.

Morning.

Dennis A. Muilenburg - The Boeing Co.

Hi, Carter.

Carter Copeland - Barclays Capital, Inc.

Just a quick clarification housekeeping for you, Greg, and a question for Dennis. The universe's program difference is about $150 million. Was there anything other than the 87 [787] there? And then usually you mention, Greg, if there's any program margin changes within BCA. I didn't know if you had any of those. And then – go ahead, sorry.

Gregory D. Smith - The Boeing Co.

No, I was just going to say, program margin, modest program margin change. Nothing really material there, Carter, in the program (38:40].

Carter Copeland - Barclays Capital, Inc.

On which program?

Gregory D. Smith - The Boeing Co.

Program versus unit was primarily 787, where we had some early build deliveries. I think we had two early build deliveries in the third quarter.

Carter Copeland - Barclays Capital, Inc.

Okay. And then a question for Dennis. It's about that time of year, and I know you don't want to get ahead of the board here, but where you evaluate on capital deployment and make a decision on the dividend. You've clearly bought back a lot of stock over the course of the last couple of quarters, last couple of years. But as you – what's your thought process around repurchases versus dividends at this point, as you come into that kind of year-end decision? Is there a chance you have a greater emphasis on the dividend as we look forward, or should we expect more of the same? Thanks.

Dennis A. Muilenburg - The Boeing Co.

Hey, Carter, you bet. First of all, it's important again to reiterate the principle that Greg mentioned, and that is, we're very focused on making sure we're returning to cash to shareholders and investing for the future. And that investment for the future, organic investment, continues to be important to us. Along with that, returning roughly 100% of free cash flow to our shareholders. And a balanced approach between share repurchase and dividends continues to be important to us. And as you said, you can see our track record on share repurchase and over the last three years, we've also increased dividends by a composite of 125%.

Now, as we're looking at the balance between both of those as we get into our year-end cycle, I can tell you our intent is to remain balanced in our approach. We understand that there's significant value associated with dividend, and we're going to be taking a hard look at that as part of our normal process. But you can rest assured that we're very committed to returning cash to our shareholders, and we consider dividends to be a very important part of that.

Carter Copeland - Barclays Capital, Inc.

Thanks, guys.

Dennis A. Muilenburg - The Boeing Co.

You bet.

Operator

And next we go to Rob Spingarn with Credit Suisse. Please go ahead.

Robert M. Spingarn - Credit Suisse Securities (USA) LLC (Broker)

Good morning.

Dennis A. Muilenburg - The Boeing Co.

Morning, Rob.

Robert M. Spingarn - Credit Suisse Securities (USA) LLC (Broker)

I just wanted to clarify and then ask a separate question. But on the margin, on the double digits by next year, looking at what's implied in the fourth quarter by the guidance, there's a fairly big range there, and I guess it's some of the same things that drive you to double digit next year. So what are the levers between a 4.5% and a 5% for the year, which implies something bigger than that for the quarter? And then separately, Dennis, we've seen some supplier consolidation, and maybe it's partially motivated by some of your efforts in the supply chain, and I wanted to ask how you feel about that, those changes.

Dennis A. Muilenburg - The Boeing Co.

I'll let Greg field the first one.

Gregory D. Smith - The Boeing Co.

Sure, yeah. I mean, some of the things in the fourth quarter, Rob, are – we've got some higher planned period expense. We've got mix I'll say coming into play in the fourth quarter. And then finally, as Dennis indicated, we're watching the wide body market in particularly around 777. So those are really the fundamentals that are taken into consideration for the full year guide and ultimately for fourth quarter.

Robert M. Spingarn - Credit Suisse Securities (USA) LLC (Broker)

Okay.

Dennis A. Muilenburg - The Boeing Co.

And then, hey Rob, to your second question, obviously our supply chain partners are a very important part of our overall enterprise, and so we keep a very close eye on supply chain consolidation in our networks, the health of our supply chain. That is a very important part of our overall partnering for success effort. Obviously in the news this week with Rockwell's acquisition of B/E, we're taking a close look at that. We don't have any specific comments on that one, but keeping a close eye on it to ensure that we retain a healthy and competitive supply chain.

Some of the consolidation pressures that you're seeing, I think it's signs that our supply chain is working with us to try to be competitive and optimize their operations and continuing to invest for the future. So I see this as a healthy dynamic. There's a lot of interest in the aerospace sector. We continue to think aerospace as an industrial sector will outpace others, much of that driven by the commercial airplane marketplace and growing passenger traffic which is outstripping GDP. So we're not surprised that there's a lot of interest in the aerospace sector. We think that's healthy, and we're going to make sure that we continue to have a robust supply chain for the future and our Partnering for Success effort is designed to do that, to find win-win solutions for Boeing and our supply chain partners.

Robert M. Spingarn - Credit Suisse Securities (USA) LLC (Broker)

Dennis, is there a natural tension between having fewer larger suppliers in order to manage that more easily versus having stronger suppliers and maybe unbalancing the competitive leverage between the two, between you and the supply base?

Dennis A. Muilenburg - The Boeing Co.

I think there's always pressures in all of the dimensions of the supply chain. But the number of suppliers is not an area of concern for us right now. We have the ability to span that Commercial and Defense enterprise to suppliers. Our teams are well integrated. So it's not something where we're trying to drive the numbers up or down. This is more about how do we work together, how do we most efficiently work as an integrated enterprise, and sharing best practices. And we're interested in having a healthy supply chain. It makes us healthier as a company. It allows us to do a better job of delivering for our customers. So I think you'll always see some of the natural dynamics in the supply chain networks as businesses evolve, but we're happy with the infrastructure that we have today, and we're very focused on working with our supply chain to achieve our long-term growth objectives.

Robert M. Spingarn - Credit Suisse Securities (USA) LLC (Broker)

Thank you for that color.

Dennis A. Muilenburg - The Boeing Co.

You bet.

Operator

Our next question's from David Strauss with UBS. Please go ahead.

David E. Strauss - UBS Securities LLC

Thanks for taking my question.

Dennis A. Muilenburg - The Boeing Co.

No problem.

David E. Strauss - UBS Securities LLC

Wanted to follow up on the comment on the 777 sensitivity. So just to clarify, Dennis, you're talking about potentially delivery rates going down to 3.5 a month once you get out to the period where you're transitioning to 777X? I wanted to make sure that that's what you were potentially implying. And even if that does happen that you think cash flow can continue to grow during that period.

Dennis A. Muilenburg - The Boeing Co.

You bet. Yeah, David, let me just paint that even more clearly because I think it's a very important question. So our current plan, as you know, is we're stepping down to seven a month production rate start of 2017, carrying that through the transition, and during 2018 when we're building 777X flight test aircraft, the effective delivery rate of airplanes is 5.5 per month, as you noted. That's our current baseline plan. At that plan, we are currently 85% sold out in 2017 and roughly 60% sold out in 2018. And we've painted a number of scenarios around that baseline for the future. And just to give you a feel for it, one of the scenarios would be to take that baseline plan and drop it by two aircraft a month in 2018 as you noted; and if we were to do that with no additional sales, we're already more than 90% sold out against that profile, that skyline in 2018. So I see that as a bounding case.

Now, we have a number of important campaigns still underway. We are encouraged by the positive result at a recent Qatar Airways decision. Great customer there and that order for ten 777s was one of those significant campaigns that we've been working on. We have others that we are still working on. So as we finalize those over the next couple of months, we'll be able to finalize our decisions for the 2018 production rate. But hopefully that gives you a sense of the bounding cases here, and across all of those scenarios that I just described, all of them, we see cash growing year-over-year in 2017 and then again in 2018. And I think that's an important thing to remember. This is a very robust cash growth business across all of those scenarios.

David E. Strauss - UBS Securities LLC

Thanks. That's helpful. And then just as a follow-up, can you talk about what kind of impact that might have on the BCA margin profile if you were to drop to 3.5 a month?

Dennis A. Muilenburg - The Boeing Co.

Yeah. If we need to reduce the production rate, it would have a negative impact on margins in the BCA business. But remember, we would also if that were a decision that we made, we'd take some offsetting actions. And it's important for us that we make sure that that line continues to be profitable, and we're confident that it will be. And that we also transition efficiently into the 777X. So while a reduced production rate would have a negative impact on margins, that would be somewhat offset by other actions we would take to drive profitability and transition.

David E. Strauss - UBS Securities LLC

Great. Thank you.

Dennis A. Muilenburg - The Boeing Co.

You bet.

Operator

Next we'll go to Howard Rubel with Jefferies. Please go ahead.

Howard Alan Rubel - Jefferies

Thank you very much. I wanted to address the matter of risk. I mean, Dennis on one hand, Boeing takes pride in doing hard things. On the other hand, sometimes your optimism proves to be greater than reality. On Commercial Crew as an example, KC46, as another, I mean, both of those in effect this year hurt what could have been really spectacular numbers. So how do you think about managing that risk? And then I have a follow-up. I'll just stop there for a moment.

Dennis A. Muilenburg - The Boeing Co.

You bet. Yeah, Howard, great question. And I appreciate the straightforward points you've made there. And the fixed price development programs have been challenging, and we've been transparent about some of the issues we've had on tanker and Commercial Crew, and confident in the recovery actions we've taken on those. But more broadly, we've learned those lessons about how to do development programs and do them in a way that still delivers breakthrough capability for our customers but deliver them in more incremental risk-managed steps.

And I think a great example of that, you now see some of that process improvement bearing fruit in our commercial developments; 737 MAX for example being delivered on time, actually a little ahead of schedule and on cost; 787-10, again, our ability to now incrementally, in a risk-managed way, bring breakthrough capability to our customers. That's part of our broader deployment of our development program excellence initiative.

Part of our focus on that, and hopefully you see our actions there recently elevating positions on my direct report EXCO (49:59), Scott Fancher with responsibility for development program excellence writ large so that we even more so deliver on some of those initiatives across the enterprise. So I think what you see here is that we're very focused on being world class at development programs. We've learned some tough lessons. We've addressed those. We've made some process improvements. You're seeing those beginning to pay off on programs like 737 MAX. And you can count on the fact that that's going to be our focus going forward. We must be able to deliver breakthrough innovation for our customers but deliver it in a step-wise risk-managed way. And that's how we're going to do business going forward.

Howard Alan Rubel - Jefferies

No, I appreciate that. And to follow up, if I back out the R&D and look at core profitability at Commercial, while you've done a lot of good things, it does look like margins have deteriorated a little bit sequentially and on a year-over-year basis. And so, again, the walk from where you are today where margins are a shade under pressure and where you want to go seems like a bit of a challenge. I mean, what else can we see? You talk about the development programs making a difference, and we've talked about that. But where else can we see it so that it translates into your goals?

Dennis A. Muilenburg - The Boeing Co.

You bet. And a bit of this goes back to the comments on Doug's question earlier. But when we look at development programs, a steady consistent performance on those programs translating into a consistent R&D profile over time is important to us. So you'll see that reflected. Whereas in the past we might have had peaks and valleys, we have a much more consistent, steady R&D profile going forward, thinking about the portfolio of development programs and clean execution.

But profitability more broadly is driven by the other actions we've talked about, specifically 787. And now that we've turned the corner as you saw in deferred production inventory as an example, we are driving productivity increases on that line and just spending some time with Ray and the team down there really making some very solid progress on driving profitability into 787. Over time, again that will incrementally increase overall company profitability. The work on partnering for success, the broader application of lean initiatives throughout our enterprise, the list of things I mentioned earlier in response to Doug's question, those are all factors that longer term will drive overall enterprise profitability and create our investment capacity for the future.

Howard Alan Rubel - Jefferies

Thank you very much.

Dennis A. Muilenburg - The Boeing Co.

You bet. Thanks, Howard.

Operator

And next we'll go to Myles Walton with Deutsche Bank. Please go ahead.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

Thanks. Good morning.

Dennis A. Muilenburg - The Boeing Co.

Morning.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

Dennis, you started talking about things on the horizon and planning things through the decade. And I'm curious on your narrow body lineup as it sits between the 737 and the 787, what do you think about as timing for filling that gap? I mean, Boeing's been open about obviously looking at that space, but in the next couple of years is that a realistic assumption of where your decision would be definitively made, and what would be the triggers to make it?

Dennis A. Muilenburg - The Boeing Co.

Yeah, Myles, we're continuing to have some very productive discussions with our customers in that space, and Ray and his team have been out having a very good dialogue, understanding customer needs and where they'd like to go in the future. And we have a number of options for satisfying those needs. Those include continuing to deliver on our current programs, so getting the 737 MAX and the full family the 7, 8, and 9 delivered and continuing to ramp up the 787 and satisfies customers' future needs with that family. That could be the end outcome here that we simply deliver on those two programs as currently defined.

We're also continuing to look at a potential additional stretch of the MAX. We have some very good options there that could create value for our customers, and we're marching through our assessment of that, making good progress there. That's a decision that's more in the near term that we'll work our way through. And then longer term, we're continuing to look at the so called middle of the market airplane, or options in that space. Again, having very productive dialogue with customer, firming up our opportunities there. If we were to go with that new airplane, that would be more in the 2024, 2025 entry into service range. On the other hand, an additional stretch of the MAX could be done more around the end of this decade just to give you a sense for the timing there. And it's a realistic possibility that we could do both. We have the capacity and the ability to do both and the timeline and phasing of those would allow us to do both. So we're looking across that whole range of solutions, and over the next several months, we'll work through our decision process.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

So you laid four pages on the table. Are each of those four able to be absorbed in your plan to grow cash flow through the end of the decade or the first three are and the last one is more of a tossup?

Dennis A. Muilenburg - The Boeing Co.

All four are consistent with that plan. So even if we were to take the upper scenario there, I'll say, and implement a stretch – an additional stretch of the MAX and launch a new middle of the market airplane, the time phasing of those relative to our current development programs fits with our planned R&D profile. The middle of the market airplane, for example, would be on the backside of the 777X development, so timeline there makes good sense. All of that is consistent with our long-term R&D planning. None of this would be a significant change to our R&D profile over the next five years, so steady from that standpoint. And all of that fully supports our plans to grow cash year-over-year.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

Thank you.

Dennis A. Muilenburg - The Boeing Co.

Our cash growth comments fully contemplate that range of possible development programs.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

Thanks, guys.

Troy Jeffrey Lahr - The Boeing Co.

Operator, we have time for one more analyst question.

Operator

And that'll be from Rajeev Lalwani with Morgan Stanley. Please go ahead.

Rajeev Lalwani - Morgan Stanley & Co. LLC

Hi. Thanks for squeezing me in there. Dennis, earlier you were talking about just dialogue with customers broadly. Can you provide some color just on how dialogue broadly has been going with the airline and the lessors just given what we're seeing around decelerating traffic growth, (57:04), I guess even rising fuel? And then just a quick clarification. As far as the commentary on revenue for next year, I think you said flat to slightly down. Is that consistent with what you said just about a month or two ago?

Dennis A. Muilenburg - The Boeing Co.

Yeah, let me field that first one. Then Greg and I will tag team on the second one. So first of all, in terms of customer dialogue, as we said, the overall market assessment today is a positive one if you take a long-term view. The 20-year market and the need for 39,600 new aircraft, that's slightly up compared to last year's current market outlook. So a robust long-term market. I'd say right now, in our customer conversations, certainly more positive in the narrow body arena than in wide bodies. As we said, there's hesitation in the wide body marketplace right now as we think through a number of factors around the world. Slow GDP growth around the world, hesitation in cargo traffic, geopolitical questions. There are a number of factors that are causing our customers to be somewhat hesitant in wide bodies in particular. So we're being mindful of that, and working with our customers as we plan for the future.

Narrow bodies, while again it's all in the context of some broad global economic concern, the ordering activity and the robustness of narrow body growth continues to be very clear, fueled by traffic growth. And as we said earlier, as we ramp up the 737 line to 57 a month, we continue to be oversold against that profile. And just as another data point, referrals and cancellations remain at historical lows, at about 1% of backlog. And load factors and utilization rates on aircraft fleets again remain generally very high compared to historical averages.

So that's a composite view of the marketplace. We're staying very close to our customers, making sure they get the support they need, maintaining a balanced view of the future. But there's more upside than downside in the overall marketplace, and we're going to make sure we have a balanced approach to how we run the business. This is a good, steady, long-term growth business.

Now, on your comments about revenue, so, all consistent with what we've talked about before. But Greg, give him a little more.

Gregory D. Smith - The Boeing Co.

Yeah, yeah. Just keep in mind, yeah, we raised our guide just recently, so that kind of comes into play with our flat to slightly down, Rajeev. And we've still got, obviously, some moving pieces in there, with services and a couple of airplanes moving around. But that's kind of how we see it right now. And obviously, with that, as we talked about, we'll be increasing production rates next year, getting this Dash 10 into the production system. And I think about that in a very, I'll say, de-risked approach, like we did with the Dash 9. So overall, that's kind of how we see next year, and everybody's focused on getting our – I'll say solidifying our plans to execute to that. And again, we'll give you more color on the next call about some of the moving pieces.

Rajeev Lalwani - Morgan Stanley & Co. LLC

Very helpful. Thank you.

Dennis A. Muilenburg - The Boeing Co.

You're welcome.

Presentation

Operator

Ladies and gentlemen, that completes the analyst question-and-answer session. . I will now return you to The Boeing Company for introductory remarks by Mr. Tom Downey, Senior Vice President of Corporate Communications. Mr. Downey, please go ahead.

Thomas J. Downey - The Boeing Co.

Thank you. We have a few minutes remaining for questions from the media for Dennis and Greg. If you have any questions following this part of the session, please call our media relations team at 312-544-2002.

Operator, we're ready for the first question and in the interest of time, we ask that you limit everyone to just one question, please.

Question-and-Answer Session

Operator

And we'll go to Julie Johnsson with Bloomberg News. Please go ahead.

Julie Johnsson - Bloomberg LP

Oh, hi. Good morning, everyone.

Gregory D. Smith - The Boeing Co.

Good morning.

Dennis A. Muilenburg - The Boeing Co.

Hi, Julie.

Julie Johnsson - Bloomberg LP

Hi. Could we just circle back to Commercial Crew, and could you walk me through some of the steps that have been taken to deal with the issues that have popped up with the CST-100? And how confident are you at this point that we won't see additional delays?

Dennis A. Muilenburg - The Boeing Co.

Yeah, Julie, we've taken a very deep look at that with our team. And as we recently announced, that delivery of the program has been delayed by about six months. We built in an additional month of reserve as part of that, and it's a matter of completing the engineering design work and working through a few supply chain issues that we've had on this first article. I think we have got our arms well around it. We still have some hard work to do. These development programs are complex, and it's a fixed-price structure. So we're being mindful of that. But I'm confident that we'll get this to the finish line and we'll deliver for our NASA customer. So this is straightforward work, but engineering and supply chain work that we need to finish up.

Operator

Next we'll go to Doug Cameron with The Wall Street Journal. Please go ahead.

Doug Cameron - The Wall Street Journal, Inc.

Hi, good morning, everyone.

Dennis A. Muilenburg - The Boeing Co.

Hi, Doug.

Doug Cameron - The Wall Street Journal, Inc.

(1:02:20) the Defense question. Dennis, the President of your Defense & Space business calls some of the big upcoming contract awards, be it GBDS (sic) [GBSD] (1:02:32) TX, et cetera, et cetera, characterizes them as can-wins rather than must-wins. How would you characterize them, and what happens if they become don't-wins?

Dennis A. Muilenburg - The Boeing Co.

Yeah, Leanne and I are completely on the same page here, along with our whole team. You know, the future of our Defense business is not dependent on any one program. We have an outstanding portfolio, existing portfolio, strong production lines, strong services lines. Broadly, we see opportunities in commercial derivatives, rotorcraft, satellites, space exploration services, all of which are long-term sustained businesses with growth opportunities.

Now, these few near-term key competitions like TX, JSTAR's recapitalization, GBSD, the items you mentioned, are very important to us. And they are things we're investing in. We're approaching them as a total enterprise supporting Leanne and her team. But we're going to be very focused on winning those, but our future is not dependent on any single program. And I think that's the value of the strength of the Boeing enterprise. So we're going to take the right approach. We're going to be appropriately aggressive to pursue winning these opportunities. But we're also going to make sure that we run a good, solid long-term business. And that's how I would frame it up, and very, very consistent with the strategy and approach that Leanne has described.

Operator

Next we go to Alwyn Scott with Reuters. Please go ahead.

Alwyn Scott - Thomson Reuters Corp.

Hi, Dennis and Greg. Thank you for taking my call.

Dennis A. Muilenburg - The Boeing Co.

You're welcome.

Alwyn Scott - Thomson Reuters Corp.

The business jet market is very weak. Should investors be concerned that the slowdown in production there will make it harder for aerospace suppliers to offer further price cuts to Boeing through partnering for success, or does it help Boeing because they need the business? I'm just curious how you think about that part of the supply chain and the weakness there, reading (1:04:37).

Dennis A. Muilenburg - The Boeing Co.

Well, Alwyn, let me take a crack that and Greg, you may want to add in here. But as we look at our supply chain, I'd say, yeah, there's some elements of our supply chain that play both in the RJ and general aviation marketplace, as well as our narrow body and wide body production lines. But we're not seeing a lot of feed-over between that regional jet market or general aviation market and our narrow body market. In our narrow body marketplace, the demand signals remain very strong. As I said, traffic growth looks very positive, sustaining at about 6% a year. The fact that our market is strong, our backlog is built out, that we're oversold against the production rate ramp-up on 737 that I described earlier, that just adds strength to our supply chain in that marketplace. So whether that attracts more participation from suppliers or they're more eager to participate in a robust growing marketplace, I think that's good for Boeing. It's good for our suppliers. But I'm not seeing a lot of ripple effect between those two markets that you're describing.

Gregory D. Smith - The Boeing Co.

Yeah, I think the only thing I would add to that is just obviously as you – as we talked earlier, when you look at just even the backlog and you see – you can envision out seven years, I think that's a big advantage for us and our supply chain to have that kind of a horizon and make some investments around productivity and capture those as you see kind of, I'll say, a steady production rate or in some cases growing. And I think where we have been spending more time on the Partnering for Success to help the suppliers is taking some of the initiatives that have been proven to be successful on lines like F-18, on the 737, and some of the recent frankly breakthroughs on the 787 and taking those back into the supply chain. And I think as Dennis indicated, that makes the supply chain healthier, which I think we all will all benefit from. And so if there is any tradeoffs or any challenges that they may be having around the business jet, this is a great opportunity to take some of these productivity working capital type initiatives and partner together and really make overall operations more efficient. So that's where we're spending, like I say, more time in the next generation of partnering for success, and we think there's great opportunity there for all parties involved.

Operator

Our next question's from David Koenig with The Associated Press. Please go ahead.

David Koenig - The Associated Press

Yeah, hi. Thanks. Greg, could you explain the change in the tax line on your report? You're going from a $783 million expense to a $76 million benefit. And on the call if I heard you correctly, you mentioned a $124 million reversal of some earlier earnings and a $38 million forward loss but that obviously doesn't cover that whole difference, so what am I missing here?

Gregory D. Smith - The Boeing Co.

Yeah, no. I'm happy to clarify, David. What I talked about on the earnings adjustment, the reach-forward loss was on the Commercial Crew program. And then with regards to taxes, we had two benefits within the quarter adjustments, one of which is a settlement we had in our 2011 and 2012 audit that we booked as well as some basis restoration that we have booked within the quarter. So those are the big moving pieces within tax for this quarter. But as you look forward into next year, you're going to see more of a I'll say normalized tax rate of about 31% to 32%.

Operator

Our next question's from Dan Catchpole with The Everett Herald (sic) [The Daily Herald} (1:08:26). Please go ahead.

Dan Catchpole - The Daily Herald Co.

Hi, gentlemen. Thanks for taking my question here.

Dennis A. Muilenburg - The Boeing Co.

Hey Dan.

Dan Catchpole - The Daily Herald Co.

How are you doing this morning?

Dennis A. Muilenburg - The Boeing Co.

Good.

Dan Catchpole - The Daily Herald Co.

I wanted to kind of piggy back on something that Howard Rubel mentioned earlier with some of the skepticism that's around the difference between program outlooks in the past and realities on the ground as they've come up. And looking at the 777X, some of the issues that you've been working through on the Bob – build process and engineering layoffs, most of the contractors, but directs online for layoffs, minimal layoffs but still layoffs later this year, what can you tell us to reassure us that there's not going to be a difference between your optimistic outlook for developments and the reality of the program as it proceeds? And related to that, where are you guys with head count? Are you good, or do you expect further trends?

Dennis A. Muilenburg - The Boeing Co.

Yeah, let me address the first part of your question there. And, Dan, if you take a look at 777X and the FAUB example, the fuselage upright build, this represents exactly the risk mitigation approach that I talked about earlier; the fact that we're not waiting for the 777X production ramp-up to test out the new production automation system. We actually pulled it ahead, implemented it on the existing 777 line to de-risk it. Now, that de-risking process hasn't been completely clean, as you well know. We've had some challenges ramping it up. But our ability to pull it ahead into the existing 777 line has dramatically reduced our risk. It's allowed us to ring out the automation systems, and we've now delivered more than 20 units using that process. So that's a great example of accelerating innovation, de-risking it for the future, and adds to our confidence that 777X will be delivered as planned.

Now, your broader comment about head count and jobs, course we're always very mindful about what we're doing on this front. We put a lot of value into our employees and our team. And we've got a great team, I'd say the best team in the world. At the same time, we're dealing with market realities around competitiveness and challenging market environments. So we'll continue to take the right actions to make sure we're a profitable business that can invest in the future, and we're going to continue to invest in our team. But head count variations are a natural part of our business, and we're very diligent about handling those in a balanced way, in a way that's very respectful of our team.

Troy Jeffrey Lahr - The Boeing Co.

Operator, we have time for one remaining question please.

Operator

And we'll go to Stephen Trimble with Flightglobal. Please go ahead.

Stephen Trimble - Flightglobal

Yeah, hi. I was calling about the – or wanted to ask about the 777 and what you think might be the ideal production rate to go efficiently into the ramp-up of the 777-9 in 2020 and then how that affects how you make this decision on the production rate in 2018, 2019.

Dennis A. Muilenburg - The Boeing Co.

Yeah, hey Steven, on that front, go back to the scenarios I described to you earlier. Our current baseline plan again is to step down to 7 a month here at the start of 2017. That gives us a very effective transition plan as we go into 2018 and begin building 777X flight test aircraft and also prepare the production lines to slot over to the new aircraft. As we paint through other scenarios, I mentioned earlier a scenario where if we had to come down two per month to keep production and demand in balance, we can also effectively transition at that level. So all of the scenarios we're looking at allow us to transition effectively. And that just adds again confidence to our ability to not only deliver 777 but to ramp up 777X. Keep the line profitable while we do that and makes sure the whole enterprise production line stays healthy.