Operator

Good day, everyone, and welcome to The Boeing Company's Fourth 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

Thank you, and good morning. Welcome to Boeing's fourth 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 discussion 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 Muilenburg

Thank you, Troy, and good morning. Let me begin today with a brief overview of our 2016 operating performance, followed by an update on the business environment and our expectations going forward. After that, Greg will walk you through our financial results and outlook in greater detail. With that, let's move to Slide 2.

Throughout 2016, employees across our company worked to build on the strength that have positioned Boeing as the aerospace industry leader after 100 years in operation, and delivering on our customer commitments during the year and extending our broad market leadership, we generated strong revenue, solid core operating earnings and record cash. We redoubled our focus on profitable long-term growth strategies, disciplined execution of our production and development programs, growing our services business and driving further quality and productivity gains across the enterprise.

We also demonstrated our commitment to investing in our people and our business, while once again returning significant value to our shareholders. For the full-year, we returned nearly $10 billion to shareholders through the repurchase 55 million shares for $7 billion in dividend payments totaling $2.8 billion. In December, we deepened our commitment in this regard as our Board of Directors authorized a new $14 billion share repurchase program and a 30% increase in our quarterly dividend. The increases are part of our balance cash deployment strategy and reflect the confidence we have in our strong line up of products and services and our long-term outlook for the business.

Turning to our core operating performance for the year, Boeing commercial airplanes reported revenue of $65 billion driven by 748 deliveries, which further extended our market share leadership in airplane deliveries to a fifth consecutive year. Net new commercial airplane orders were healthy 668, which added to our robust backlog of approximately 5,700 airplanes, which is more than seven years of production at current rates.

Key milestones in 2016 included first flight of the 737 MAX in completion of the first eight production aircraft. We also began final assembly of the 787-10 in December, and we started manufacturing components for preproduction testing on the 777X.

Boeing Defense, Space & Security had a solid year as well with healthy revenue and margins and with team making progress on critical program milestones including first flight of our T-X trainer aircraft.

In the quarter, we also successfully completed boom envelope testing on the KC-46 tanker program, notwithstanding additional costs incurred for incorporating known changes into the initial production aircraft, which Greg will cover in more detail later. We continue to transition from development to production with testing tracking to plan and no new technical discoveries during the quarter.

Overall we continue to see the tanker programs a profitable long-term franchise program for the company with a need for approximately 400 aircraft worldwide. The $2.8 billion contract in 2016 from the U.S. Air Force for the first 19 KC-46 tankers highlights the demand and market opportunity we see for this program.

Other key contract awards and commitments for our Defense & Space business during the year included a contract from the U.S. Army for 117 remanufactured Apache helicopters and $2.5 billion award from the U.S. Navy for 20 P-8 Poseidon aircraft.

In summary, during what was an exciting and memorable centennial year, we delivered solid core operating performance, achieved record cash generation and strengthened our business for profitable long-term growth, while making strategic investments to accelerate into our second century and returning cash to shareholders as promised. With that, let's turn to the business environment on Slide 3.

We continued to see generally solid overall demand for our products and services across our Commercial, Defense & Space and Services businesses. In our commercial airplanes business, our global customers continue to recognize the compelling value proposition that our new more fuel-efficient product family brings to the market. Order deferral activity is approximately 2% of our backlog and remains well below the historical 15-year average of 6%.

New order activity is continuing at a moderated but healthy pace. For 2017, we expect our new order intake to be approximately the same as what we captured in 2016. In the narrow-body market, we are seeing continued strong demand as illustrated by the 550 orders we captured in 2016, including the December 737 MAX orders from GECAS for 75 aircrafts and the Spicejet order for 100 aircraft.

In the wide-body market, we are seeing varying levels of demand across aircraft models. For the full-year, we captured orders for 118 wide-body aircraft with 58 of those being orders for the 787. However on the 777, a near-term hesitation in order activities we discussed with you on previous calls resulted in total of 17 orders booked for the year. Over the long-term, we remain highly confident in our commercial market forecast that continues to project strong global demand, with customers expected to order more than 39,600 airplanes over the next 20 years. That forecast includes the need for more than 9,000 wide-body aircraft, underpinned by a large upcoming replacement cycle early in the next decade.

Our overall confidence in the long-term market outlook is based on solid ongoing replacement demand and traffic growth. Global passenger traffic continues to solidly outpace GDP with IATA reporting 6% growth in commercial passenger traffic and 3% growth in free traffic for 2016 through November.

Turning to individual airplane programs, as I previously mentioned, customer demand remains strong for the 737 with a robust backlog of more than 4,400 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 families positioned within it is solid.

Our confidence in the future of the 737 MAX is re-enforced by the fact that within our top 20 narrow-body customers, we continue to see a large capacity for additional orders when we compare existing order totals to their overall fleet size. For the current generation 777, our backlog at year-end was 136 airplanes. In December, we announced our decision to lower the 777 production to match supply with near-term demand. We have transitioned to the seven per month production rate this month before we lower to the production rate in August to five per month as previously announced.

Within the updated rate plan, delivery slots for the 777 are now nearly sold out for 2017. For 2018 and 2019, when we begin the phasing in 777X production, we are now approximately 90% sold out for both years, where as a reminder, we will be delivering at a rate of approximately 3.5 per month. This rate plan includes the recent agreement from Iran Air for 15 in 777-300 ERs and we continue to work a number of 777 sales campaigns throughout the remaining production slots.

Based on the current sales environment, we believe the rate plan we've put in place establishes a production floor for the 777 program. And we have a strong foundation of 320 777X orders and commitments that support our production plant for ramping up 777 deliveries.

Our 787 Dreamliner program also stands on a strong foundation for long-term production with 700 firm orders in our year-end backlog. Securing additional 787 orders to solidify the 14 per month production rate at the end of the decade remains a priority. We've booked several new orders in 2016, but there is still more work to do.

On the 747 program, we are encouraged by the modest recovery in the air cargo market and the October order from UPS for 14 747-8 Freighters with options for an additional 14. This order helps to fill the production skyline for the foreseeable future and significantly de-risks 747 program.

We continue to see the Commercial and Defense services market as a major growth opportunity for us. We are aggressively targeting this market as we strengthen our services in support areas, including our traditional parts, modifications and upgrade business, as well as expanding further into data analytics and information-based services.

Furthermore in December, we announced plans for Boeing Global Services, an integrated new business unit that we are forming from key elements of our commercial aviation services and global services and support groups. When this new business unit begins fully operating during the third quarter, we will leverage synergies across the company and further support our growth ambitions in this market. That market is expected to total $2.5 trillion over the next 10 years.

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, DOD and congressional support for our key BDS programs is firm, and we continue to anticipate modest defense spending growth over the next five years. International demand for our offerings remains healthy as well, in particular for rotorcraft, commercial derivatives, fighters, satellites and services. We are encouraged with the notification to Congress regarding the foreign military sale of 48 Chinooks to Saudi Arabia and 37 Apaches to the UAE, and we have cleared congressional notification for 36 F-15s to Qatar with options for 36 more and 28 F-18s to Kuwait with options for an additional 12.

Additionally we are pleased with the announcement of Canada's intent to purchase 18 F-18 fighters. We will remain engaged with the Canadian government as we work to finalize this sale. The F-18 has a proven track record of demonstrated results with unparalleled mission success for our war fighters, while providing the best value for our taxpayers. The Defense, Space & Security team remains focused on driving market based affordability of our products and services and increasing overall profitability.

During the quarter, we announced additional organizational streamlining and major facilities consolidations in support of these efforts. With these plans by the end of 2020, we expect to reduce facilities space by an additional 4.5 million square feet. Concurrent with the steps were taken to improve cost competitiveness and affordability, we also continue to invest in areas that are priorities for our customers, such as commercial derivatives, rotorcraft, satellites, services, human space exploration and autonomous systems. Much of that investment supports the priority we have placed on capturing future franchise programs, where we are leveraging capabilities and technologies across the enterprise.

For JSTARS recapitalization, ground-based strategic deterrent, advanced weapons programs and other important opportunities, such as the T-X trainer and the unmanned aircraft carrier-based MQ-25A.

In summary, our team is intent on building upon the strategic progress and business performance momentum established over the past several years to meet our commitments to our stakeholders and accelerate improvements and quality, safety and productivity, all to drive further innovation in our products and processes and deliver long-term growth and value creation for our company.

Now over to Greg for our financial results and our 2017 guidance. Greg?

Greg Smith

Thanks Dennis. Good morning everybody. Let's turn to Slide 4 and we'll discuss our full-year results.

Revenue for the year was strong $94.6 billion on solid commercial airplane deliveries and continued growth in our services business. Core earnings per share totaled $7.24 a share for the full-year, reflecting strong core operating performance across the company, that was offset by the charges on the tanker program as well as the second quarter 787 R&D reclassification and 747 charge.

Operating cash flow for the year was a record $10.5 billion. The robust cash generation was largely driven by solid core operating performance for the full-year and a slight impact from favorable timing of receipts and expenditures at year-end.

Moving now to our quarterly results on Slide 5. Fourth quarter revenue was $23.3 billion, driven largely by solid commercial airplane deliveries and healthy defense revenues. Core operating margins for the quarter were 8.9%, reflecting solid productivity gains in both businesses that were more than offset the fourth quarter after-tax charge on the tanker program. Fourth quarter core earnings per share was $2.47, again on solid core operating performance that again more than offset the $0.32 charge on tanker.

As Dennis mentioned, we have more work to do on the EMD program but we're making good progress on the test and certification efforts, as well as retiring risk. The tanker charge this quarter was primarily on the production phase of the contract as we incorporate changes on the airplane in the factory and make investments in our production system that will allow us to build future aircraft in a more efficient manner.

Let's discuss commercial airplanes now on Slide 6. For the fourth quarter, our commercial airplane revenue was $16.2 billion. Commercial airplane operating margins in the fourth quarter were 9.1%. Excluding the tanker charge at BCA generated operating margins of 10.6% on favorable delivery mix, lower R&D and improved overall performance.

Commercial airplanes captured $23 billion in net orders during the quarter, strengthening our backlog that now stands at $416 billion and more than 5,700 aircrafts. For the full year, we captured $49 billion on 668 net orders.

On the 787 program, the deferred production balance continued its downward trend declining another $215 billion in the quarter. The improvement was driven by the delivery mix, internal productivity efforts and supplier step-down pricing. Over the long-term, we continue to focus on 787 cash generation again driven by the favorable mix, internal productivity improvements and additional supplier step-down pricing.

Let's turn out to Defense, Space & Security results on Slide 7. Fourth quarter revenue at our defense business was $6.9 billion and operating margins were 11.8%, largely due to solid core performance and timing of deliveries. Apart from the tanker charge at BDS, the segment generated operating margins of 12.8%. Revenue at Boeing military aircraft decreased to $2.6 billion in the fourth quarter, resulting from timing of deliveries, and operating margins were 11% in the quarter.

Network & Space Systems' revenue declined $1.8 billion in the fourth quarter on lower planned satellite volume. NS&S generated operating margins of 8.7%. Global Services & Support reported revenue of $2.4 billion and generated strong operating margins of 14.9%, driven by performance and favorable contract mix.

Defense, Space & Security reported $8 billion of new business in the quarter and the backlogs now stands at $57 billion, of which 37% represents customers from outside the United States.

Turning now to Slide 8. Operating cash flow for the fourth quarter was better than planned at $2.8 billion. The strength of our cash flow was driven by solid performance across the company as well as slight impact from favorable timing of receipts and expenditures at year-end. Again operating cash flow for the year was a record $10.5 billion. The robust cash generation for the full-year was driven by solid deliveries, strong core operating performance and continued efforts on disciplined cash management.

With regard to capital deployment, we paid $672 million in dividends to shareholders and repurchased 4 million shares or $500 million in the fourth quarter, bringing our 2016 repurchase activity to 55 million shares or $7 billion.

As Dennis mentioned earlier, we announced in December that our Board of Directors increased the share repurchase authorization back up to the $14 billion and increased the dividend another 30%. We now have increased our dividend per share by more than 190% in four years, and over the same period, we have lowered our share count 18% through the repurchase of 174 million shares. Our capital deployment strategy demonstrates the strength of our backlog and our confidence in our marketplace and our business performance going forward. Returning cash to shareholders along with continued investment to support future growth remains top priority for us.

Moving now to cash and debt balances on Slide 9. We ended the quarter with $10 billion of cash and marketable securities. Our cash position continues to provide solid liquidity and positions us well going forward. This financial strength allows us to continue to invest in key growth areas of our business, return cash to shareholders and execute on our balance cash deployment strategy going forward.

So now turn to Slide 10, and we'll discuss our outlook for 2017. Our guidance for 2017 reflects solid core operating performance, planned productivity improvements, as we have long discussed growing cash flows. Operating cash for 2017 is forecasted to increase by approximately $250 million to $10.75 billion, largely driven by improvement 787 cash generation, higher 737 production rates and overall disciplined cash management efforts, all of which more than offset the cash impact from the lower 777 volume.

We expect 2017 pension funding to be approximately $500 million, which is an increase from $100 million of funding in 2016. As 777X investments peak in 2016, capital spending is forecasted to decline in 2017 by approximately $300 million to now be approximately $2.3 billion. Revenue for 2017 is forecasted to be between $90.5 billion and $92.5 billion, largely reflecting lower planned 777 production and military volume, which more than offset the planned higher 737 production and growth in Commercial and Defense services.

We continue to expect revenue growth over the remainder of the decade with additional commercial airplane rate increases planned, as we deliver on our robust backlog and execute our services growth strategy.

Core earnings per share guidance for 2017 is set to be between $9.10 and $9.30 per share. Our 2017 commercial airplane revenue guidance is between $62.5 billion and $63.5 billion. As we have previously discussed, this is largely based on deliveries ramping up on the 737 program offset by the lower 777 volume. In all, BCA is expected to deliver between 760 and 765 airplanes. Commercial airplanes operating margin guidance is between 9.5% and 10% on an improved operating performance that more than offset the impact of the lower 777 volume

We continue to assess the implementation of the next 787 rate increase that is currently scheduled to ramp up 14 per month at the end of the decade. A production decision could impact 2017 BCA margins but this is largely bounded within the guidance range we provided.

Defense, Space & Security revenue guidance for 2017 is between $28 billion and $29 billion, reflecting the defense spending environment and lower planned C-17 deliveries.

Operating margins guidance at our defense business is approximately 11.5% reflecting continued productivity efforts as our team work to offset the lower volume. We expect to research and development spending to be relatively flat year-over-year in 2017 at approximately $3.6 billion, with about 75% related to BCA, primarily driven by plan increases in 777X development, while BDS continues to invest in key strategic opportunities.

Consistent with prior years and given the seasonality of our business, as we look into the next quarter, we expect first quarter revenue to be the lowest of the year. Core EPS is estimated to be approximately 20% of our full-year earnings and 1Q cash flow is forecasted to be near breakeven, again driven by the timing of receipts and expenditures.

Turning to 2018, let me provide you some brief insight. We focused on delivering on our backlog and continue to aggressively drive productivity, which supports our outlook for 2018. We are expecting growth in key financial metrics for 2018; growth in revenue, deliveries, BCA and BDS operating margins, core earnings per share, and finally operating cash flow.

Furthermore as we discussed over the remainder of the decade, we continue to expect to see revenue earnings cash flow growth as we execute on the robust backlog, including the 787 production rate ramp, improve 787 cash generation, capture further working capital efficiencies, further implement our services growth strategy and deliver on enterprise-wide productivity efforts.

With that, I'll now turn it back over to Dennis for some final thoughts.

Dennis Muilenburg

Thanks Greg. In retrospect, with solid fourth quarter results and focus on meeting customer commitments, we now put 2016 in the books as a year of solid core operating performance, record cash flow and healthy return to our shareholders. Furthermore we continue to de-risk our business and our advance strategies for sustaining our leadership in the aerospace industry, and overall place as enduring global industrial champion.

As we look to 2017, we are intensely focused on profitable long-term growth, disciplined execution of production and development programs, expanding our services business and improving quality and productivity across the enterprise. Our priorities are to continue leveraging the unique competitive advantage we have in operating as one Boeing; building strength on strength to deliver on our existing plans and commitments; and to stretch beyond those plans by sharpening and accelerating our pace of progress on key enterprise growth and productivity efforts.

We are giving clear and consistent attention to the profitable ramp up in commercial airplane production, continuing to strengthen our Defense and Space business, growing services, 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.

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

Question-and-Answer Session

Operator

[Operator Instructions]. As a reminder in the interest of time, we are asking that you limit yourself to one single part question. [OperatorInstructions]. And we’ll go to Howard Rubel with Jefferies. Please go ahead.

Howard Rubel

Thank you very much. Good morning, Dennis and Greg.

Dennis Muilenburg

Good morning, Howard.

Howard Rubel

Dennis sometimes I might call you the chief salesman and sometimes I want to be always worried about risk. And so could you help us walk through a little bit of some of the opportunities you have to improve operating performance? We saw a little bit in commercial in Q4 with - excluding the charges, some very good operating numbers. But what more can you do going forward or can you provide a little bit more framework as to how we’re going to get to some of the longer term margin goals you’ve talked about?

Dennis Muilenburg

You bet. Howard thanks. That's a very keen focus for us as a team. We are committed as an enterprise, as I said, for the longer run towards the end of the decade getting to mid-teens margins for our business. You see us stepping in that direction as we head more deeply into double-digit margins in the coming year. Exclusive of the tanker charge that we took this past quarter, you'll see that reflected in the underlying performance as well. So we see signs of progress with more work to do.

We have a comprehensive program in place to drive productivity, quality and safety throughout the enterprise. This includes our Lean and Capturing the Value of Quality Initiative. It includes an initiative around our Partnering for Success effort with our suppliers. We anticipate additional investments and our development program excellence initiative will pay off, and albeit we took at tanker charge in the fourth quarter.

It's very clear that we are driving risk to closure on that program and our development program excellence efforts are paying off. We see that reflected for example in the 737 MAX program, which is delivering on schedule and on cost, actually a bit ahead of schedule. So that comprehensive investment in productivity efforts is really important to us. I can tell you we are committed to it at the leadership level and it's in the culture of our company, and our people are committed to it.

In addition to those initiatives, we are also driving longer term investments around things like second century design and manufacturing, bringing additional automation and technology capabilities into our manufacturing facilities. And also as we invest in services, we anticipate that our services business would be accretive to margins as we grow that business.

So look at this as a comprehensive well-defined program. It's across the enterprise. We are leveraging all of Boeing's capacity to do that and we are committed to driving productivity and quality in everything we do, and in the end you're going to see that show up at the bottom line. You'll see it in margins and you'll see it in earnings and cash performance.

Howard Rubel

Thank you.

Operator

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

Carter Copeland

Good morning guys.

Dennis Muilenburg

Good morning.

Carter Copeland

Greg, couple of accounting housekeeping, and a question for you, Dennis. On the accounting, Greg, when do you hit another 100 unit block on the 876 costs? Presumably that has an impact on the deferred production. And additionally with all this moving around, are we going to get program accounting disclosures on the 777 at some point? And then question for Dennis, I hate to put it so bluntly, but we've clearly had a series of charges on the tanker program at this point and I'm just sort of wondering are we to the point where you can draw line in the sand and say you think you’ve got it appropriately bounded, or I just want to get kind of take your temperature on, is the bad news fully behind you at this point? Thanks guys.

Dennis Muilenburg

Greg, you would take the first question?

Greg Smith

Yes, sure. Yes, we break into that next block in the summer timeframe, Carter, and obviously as we move forward, that's obviously helps our overall margin. There is mix obviously. There is supplier step-down and then there is learning curve. I would say with our - from an internal perspective, team is doing a great job. And when I say doing a great job, Charleston, Seattle working together focused on unit over unit improvement, sharing best practices. Teams are very engaged and really again on a daily cadence work package by work package, so certainly a lot of work to do, but they are doing a terrific job there. And then again we've got the other elements that will help overall, so kind of in that summer timeframe.

On the 777, we’ll go through that disclosure as we get closer to delivery and the accounting block size and so on, so we still got quite a bit of time before we get into that.

Dennis Muilenburg

Okay. And Carter to your second question on tanker, like you, we are disappointed with the tanker charge we took in the fourth quarter but it's well understood and defined. I will say that the nature of the risk on the program is clearly changing as expected and we moved now from the development program into the initial production program.

Last year we were talking about key development risks, flight test risks. And you'll recall that we had to work through some challenges on the refueling boom just to give you a sense of the progress there that new boom is now been flown clear throughout the envelope. We've completed all of the boom envelope testing as part of the development program and we've closed out that risk. We've got five aircraft in-flight test. We've completed more than 1,500 hours of flight testing and we are steadily knocking out test points every day. So while we still have flight testing to go, it's very clear now that we are not discovering new technical risks. It's now about getting the first 18 aircrafts delivered.

The charge we took in the fourth quarter was around the previously defined configuration changes, the wiring changes that you'll recall from last year, now implementing those at the detail level in the initial production aircraft. That work is down. It's well-defined. We have some job categories that are just taking longer than planned in terms of hours per job, and that's what you see in the charge in the quarter. This is not new work. It's well understood. It's very clear to us that the risk is closing out and we are going to drive at the closure and begin delivering tankers this year.

So we are in the final stages of doing that. Then we'll move fully into the full production program. We're working very closely with an air force customer, very strong relationship. Their confident in the long-term strength of the program, and I think it's again important for us just to step back and understand while the development program has been challenging, this is a great long-term franchise program and we expect this to be 400-plus aircraft in the long run, and it will go for decades. It will be a great airplane for our customers and will be good business for Boeing.

Carter Copeland

Thanks for the color.

Operator

Our next question is from Cai Von Rumohr with Cowen & Company. Please go ahead.

Cai Von Rumohr

Yes, thank you very much. So your fourth quarter commercial margins, if we back out the tanker charge, really looked quite good. Could you give us a little bit more color regarding any block changes, any catch-up adjustments, so where were period expenses, all of those issues? Thanks.

Greg Smith

Yes. Sure, Cai. Look, there was no block extensions. There is actually a contraction on the 777 as we brought that rate down. So overall margins, there was improvement there and then taking into account of course again the 777 rate change. And we did have some favorable period expense. I would equate certainly not all of it, Cai, but a lot of it to a lot of affordability action taking place as we've talked about and some of that taken hold in the fourth quarter and us being able to bring that to the bottom line. So I wouldn't say it was one single thing. Again it was across the board on product as well as support, and even on G&A as well. So team did a great job with a very strong finish to the year.

Dennis Muilenburg

Cai, just adding a little color to that. As Greg said, this focus on driving competitiveness and affordability at the team level, really proud of the progress our team is making and our team understands the connection between driving affordability and margins and our ability to invest in the future and win in the marketplace. And we know we are in a competitive marketplace. Our team is focused on winning, and you can see all of the drive on competitiveness is showing up in increasing margin performance, that allow us to invest for the future. So that dynamic is clearly owned at the team level and that some of the energy you see in the numbers.

Cai Von Rumohr

Thank you.

Dennis Muilenburg

You're welcome.

Operator

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

Doug Harned

Thank you. Good morning.

Dennis Muilenburg

Good morning.

Greg Smith

Hi Doug.

Doug Harned

Dennis, in November you made two very important moves. One, naming the first outsider that I'm aware of to lead BCA, and then standing up the new services unit. First, can you point to things that Kevin McAllister may be doing that will be different for BCA? And then for these services unit, it's not in guidance, but how large do you expect that unit to be for our commercial in the sense and what kind of growth do you expect see over the next three to five years?

Dennis Muilenburg

Doug, thanks for the questions. On the first one regarding Kevin and we are very, very pleased to have Kevin on our team. And as you know, as I've told you many times, one of the most important investments we make is our investment in leadership and talent. Now I will say, although Kevin has come into us from outside of Boeing, he has been a very close partner for many, many years, understands Boeing well, great fit with our culture. He has been close partner during his time at GE, and that's been a seamless transition for us.

That said, I think it's also healthy for us as we build our team for the future to have both internal and external candidates and teammates. And Kevin coming in with some new lives and fresh views and new ideas, I think there is synergy to be had there and already we're seeing that in our team. The combination of some of the ideas we already had, some new ideas and approaches that Kevin is bringing to the table is going to make us better as a team, better as a company. So I'm pleased with that.

And then with Ray Conner's help, again the whole transition in ensuring that goes very smoothly with our customers and with Ray's mentorship further just accelerating Kevin's ramp up in the company. So I'm proud of that and we are going to continue to invest in our team.

To your point on services, yes, that was a big strategic move for us. As we said for some time, we are looking at and targeting services growth for the long run. And as we've valuated our options and the investments we're making, we thought one of the key strategic steps was to create an integrated services business whose number one job every day is to serve our customers and grow our services business. That's in combination with the other investments we're making in both organic and inorganic growth in growing our parts business, growing our mods and upgrades business and growing our data analytics business. It's all part of a holistic services growth strategy.

We'll have that unit fully up and operating in the third quarter of this year. At that point we'll begin showing you the integrated financials for that unit. But we expect that to be one of our fastest growing businesses going forward. And as we've told you, we've put a longer term target out here to make that $50 billion a year services business and we've got a lot of work to grow it to be that capacity, but we are focused on a strategy to enable that. We are putting the building blocks in place today. And you'll see when we roll that business out fully in the third quarter that it's already a healthy strong business but a lot of upside to grow.

We see services as a $2.5 trillion marketplace over the next 10 years. Today we have about 7% market share in commercial services and about 9% market share in defense services, so we believe there is plenty of market space to grow, and by attacking that market as a one Boeing entity and integrated services strategy with the right cost structure and the right capabilities to pursue it, we think we'll be successful in growing market share and growing within overall market that's also expanding.

Doug Harned

Okay, very good. Thank you.

Operator

Next question is from Ken Herbert with Canaccord. Please go ahead.

Ken Herbert

Hi, good morning.

Dennis Muilenburg

Good morning, Ken.

Ken Herbert

Hi, I wanted to ask Dennis about the defense market. It looks like when you back out C-17 revenues you had in '16, you're flat to down slightly in '17. Maybe clearly in the last couple of months both with the election, the backdrop seems to have improved. It seems like you're getting more traction with F-18 and some other programs. Two questions on it really. First, has the outlook changed post '17 for maybe the top line on the defense business and how are you thinking about growth of that business now? And then second, at what point do you start to feel a need to maybe start to accelerate investments in that side of the business to perhaps capture some of the more emerging opportunities?

Dennis Muilenburg

You bet. Well, first of all, we see our defense business as a healthy core business today and albeit our guidance for 2017 is down a bit on revenue based on planned delivery rates and see '17 coming down, longer term we still expect moderate - low to moderate top line growth in our defense business. That's been our projection previously, and we continue to see the defense business as a healthy moderate top line growth business.

We are also investing to continue to drive bottom line performance and you see that in the underlying margin performance in that business getting well into the double-digit margin range. So that's allowing us to invest for the future.

Now when we look ahead, I would say that we see some signs that are strengthening our prospects in the defense market. We think domestically we are seeing some additional strength on the underlying defense budget, alternatives to sequestration which we fully support. So we anticipate seeing some strengthening defense budget domestically. We also see continuing high demand internationally for our products and we believe the products that we have, both today and the ones we are investing in, provide a great capability cost match for our customers, leading edge capabilities at best value, and that spans commercial derivatives, satellites, fighters, helicopters, our services business and more broadly our human space exploration business.

We intend to lead in those business sectors and we are investing accordingly. To those future investments, as you alluded to, some key opportunities right in front of us including T-X and JSTARS as examples, places where we are investing and leveraging across the Boeing enterprise. So we see our defense and space business today as a healthy core business. It's got some upside potential. We see some strengthening signals in the market and we are investing for the future to both grow top and bottom line.

Ken Herbert

Thank you very much.

Operator

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

Noah Poponak

Hi, good morning everyone.

Greg Smith

Good morning.

Dennis Muilenburg

Hi Noah.

Noah Poponak

I wanted to ask on 787 demand. The average annual new order number there has been - it's been 50 on average for, I guess, six or seven years now post financial crisis. And so I wonder if we should start to think of that as a trend or not, and with running deliveries closer to 140, if you were to have that gap for a few more years, the backlog that still looks sizable would wind down fairly quickly mathematically. And so I'm not asking if it's your base case, but I just wonder if there is any discussion in your internal scenario analysis about backing off that supply level or keeping a safer coverage in case demand stays here, or do you have a substantial reason to believe that order pace picks up pretty soon?

Dennis Muilenburg

Noah, first of all, I think it's important to note that operating at 12 a month - right now we're at record production rates for wide-body program and the program is running well and you see it showing up the numbers in terms of the efficiency of the program. We are very confident in the underlying operations of the program and confident that 12 per month rate structure

As you noted, we currently have a backlog at 700 787s. Now orders will vary year-to-year but we have 700 aircraft in backlog. And our confidence in being able to continue to operate at 12 a month is high. We are currently evaluating our decision around going to a 14 month rate towards the end of the decade. As always, we're going to be very disciplined on that decision. We are going to make sure that we match supply and demand. And while we've had some 787 sales, as I mentioned earlier, we still have more work to do to fill up the profile to 14 a month. But those are slots now what we are looking at filling towards the end of the decade. So we remain very confident in the 787 line and our current rate, and we'll make a disciplined decision on 14 a month towards the end of the decade.

The other thing to remember is longer term outlook is a 20-year market outlook. Within our 39,000 aircraft that we see in our current market outlook, 9,000 of those are wide bodies. That is a significant wide-body replacement cycle in the coming decade, early in the next decade and we had the 787 and the 777 families very well positioned for that upcoming replacement cycle.

So all of those lead us to a great confidence in the 787 line. We are going to continue to drive productivity and efficiency into that line that will further drive our competitiveness in the marketplace that we can win going forward.

Noah Poponak

I agree the 700 looks sizable for sure. I was just - just back on the envelope, if you thought about 150 deliveries depending on where you're between 12 and 14 and 50 orders, it's 100 unit annual gap, the 700 could come down pretty quickly. I guess do you have visibility into 50 - that 50 pace changing in the near to medium term?

Dennis Muilenburg

As I said that orders tend to move our around year-to-year and so don't take any one year and try to draw a trend line. Our customers will buy in cycles and you will see year-to-year variation in order volume on 787. On a wide-body production, 700 aircraft in backlog, at current production rates it’s more than four years of backlog. That is a very strong position to be in. And the 787, especially now as we are getting ready to roll out the dash 10 is extremely well-positioned in the marketplace. It is the most efficient airplane in the marketplace clearly in that seat range and we are very confident of our ability to compete and win in the marketplace, and we are going to continue to drive affordability progress again internally to make us even more competitive.

Noah Poponak

Terrific.

Greg Smith

I think when the dash 10 gets into the marketplace, that's even going to put more confidence in that product line.

Dennis Muilenburg

You got it.

Greg Smith

And I think the other thing that Dennis alluded to, this airplane has opened up 130 new markets either planned routes or ones that are already being executed. This thing is a differentiator obviously in the marketplace. Our job is to ensure that we invest in that program like we are in the dash 10 and continue to lead in this segment of the market as the 787 has, and I think that demonstrated in the 700 airplanes that are in backlog. So we got a great machine here and we are focused on the day-to-day execution getting the dash 10 up to rate, getting to the market, get in the hands of our customer and we think they are going to love it.

Noah Poponak

That's great. Hey Greg, would you tell us what's in the 2017 cash guide for change in working capital?

Greg Smith

Change in…

Noah Poponak

For change in total working capital?

Greg Smith

Improvements in working capital in '17, that's what we're expecting. It's modest.

Noah Poponak

It's modest?

Greg Smith

Yes.

Noah Poponak

Okay. Perfect. Thanks a lot.

Greg Smith

You're welcome.

Operator

Our next question is from Jason Gursky with Citi. Please go ahead.

Jason Gursky

Good morning. Greg, just a quick clarification on the tanker. Can you just let us know whether the cash burn on that is - the peak of that is still in front of us, or if it's now behind us given all the charges that you've taken? And then Dennis, can you just provide us maybe a comprehensive update on the 777X program? What milestones have you hit thus far? What's still in front of us, and how much of the risk on that program is retired at this point? Thanks guys.

Greg Smith

Yes, on the tanker cash, yes, '16 '17 is the primary burn and then we'll be cash flow positive later in '18.

Dennis Muilenburg

And then on 777X, we're continuing to march smartly through the development program. Development continues to be right on track. We are making the right capital investments upfront. As you are well aware, we recently opened a Composite Wing Center in Everett and getting ourselves in position to manufacture the fourth generation composite wing for that airplane. We are also pulling ahead some of the manufacturing technology to de-risk it in the current 777 line, again to get us ready for a smart and efficient ramp up of the 777X.

The development program itself is going well. We're right now working through a detailed design. We'll be completing our critical program review this year. We'll begin working our way through assembly. So you saw we're already beginning to build parts for the 777X. We'll get into final assembly in 2018 and we continue to be on track for entry into service in 2020, so feeling very good about the program. It's on track. Clearly we have work to do yet to get it to the finish line. But all signals here are the investments we've made in development program excellence are paying off and we are confident that when the airplane comes to the marketplace it's going to be high value airplane for our customers. We've seen very strong performance in all of the testing that's underway and then the production system preparation is also on track and we are confident that we'll be ready to ramp up.

Jason Gursky

Right. And the first flight is first half of '18 or second half? I mean...

Dennis Muilenburg

Yes, flight test is scheduled to begin in 2018.

Jason Gursky

Okay, so towards the tail end of the year. Okay, thanks guys.

Operator

Our next question is from Hunter Keay with Wolfe Research. Please go ahead.

Hunter Keay

Hi. Thanks. Little more on 777X. How are you thinking about - or are you thinking about maybe extending or even deepening some of the discounting to the extent maybe a little more stability in the backlog given you've got, I think it's almost 80% of your customers of the ME3 carriers whose results are obviously continue to weaken. So is there a concern maybe not just from the lack of order activity in general but a lack of diversification of the skyline. Are you willing to maybe buy a little bit of backlog and exchange for some longer term stability as you ramp?

Dennis Muilenburg

The key thing here is right now we are focused on filling the bridge from 777 to 777X. We do have 320 777Xs in our firm backlog and commitments with our customers. So our 777X skyline is in very good shape in terms of our production ramp up. Our key focus right now is at filling the bridge and that includes the finalizing those 777-300 ER sales through the bridge.

We are seeing the airplane pricing moving up recently low in the marketplace. It's competitive, but not unusual and we have a number of campaigns underway with our customers to fill those remaining bridge slots. We think we've made the right decisions to balance demand and supply. As we said, we are stepping down to a production rate of five per month in August of this year. That effectively sets the floor for the production program. Against that profile, we are about 90% sold out in 2018 and 2019.

Now again we still have work to do to fill those slots but the value proposition of the airplane is clear. Our customers recognize it, and we're just going to continue working on those campaigns to finish filling out those slots and move smartly into the 777X production ramp up.

Hunter Keay

Thank you.

Operator

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

Myles Walton

Thanks. Good morning. Quick one for Greg. Greg, I think the dash 10 start to fall into the production stream in the quarter. Just curious if you can size the drag that had on the deferred production improvement, which was pretty good in and of itself, so just curious if there was a drag? And then Dennis on the broader guidance, kind of got an accustom to a healthy dose of conservatism early in the year with unlock through the course of the year. Would you characterize this guidance in '17 as different than prior years? If so, is it because of the risk profile or am I mischaracterizing it?

Dennis Muilenburg

Greg, you would take first?

Greg Smith

Yes, dash 10 didn't have a significant impact on deferred in the quarter, Myles. Obviously team is doing a great job getting that thing implemented into production system and frankly it's coming together very well. So it hasn't been a big drag and I don't expect it to do have significant. Now quarter-over-quarter as you know that there is going to be ins and outs on the deferred, but overall we expect to continue to improve that going forward with the dash 10 ramping up as well.

Dennis Muilenburg

And Myles to your second question, our approach to our guidance is the same. Same process, same approach. We take a diligent look at our business plans in the marketplace and how we expect to perform, and you see that reflect in our numbers. So I would say our fundamental approach hasn't changed at all. That said, when you look at the numbers that we've guided to and you see the strength of those numbers both in terms of EPS and cash, I think that reflects the underlying confidence we have in the business.

As we've mentioned to all of you previously, we are on a solid growth trajectory in an aerospace sector that's healthy. We have the right plans and products in place, and we are prepared to ramp up our commercial airplane production as we delivered in the mid-700 aircraft this year, we are guiding to higher deliveries in the coming year and we still expect that towards the end of the decade, we are going to be well north of 900 aircraft per year.

On top of that, we are going our services business and we are selectively growing our defense business. So all of that gives us top line strength. We combine that with our backlog that's allowing us to make the investments to drive bottom-line performance. We see that reflected in our EPS guidance. You see it reflected in our cash guidance. And as we told you before, our expectation is that this is a year-over-year cash growth business and our guidance reflects that confidence.

Myles Walton

Thanks guys.

Operator

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

Rajeev Lalwani

Hi. Thanks for the time. Just a question on the 787 side. Greg, you made a comment about a production decision this year going to 14 a month and how that could impact that 9.5% to 10% margin in BCA. Just some color here on how to think about that? And then just relating to the 787. Any color on how to think about the deferred trajectory? Through the year you gave some good commentary before, I guess, last year, so just something similar there?

Greg Smith

Yes, quarter-over-quarter we expect the furred to improve and really again, Rajeev, falls into those again three major categories obviously improved unit performance in our factories but that supplier step-down I mentioned on a question earlier that we'll move into that next block in the summer timeframe and that will be favorable.

Quarter-over-quarter, again you're going to see delivery mix impacting there but all that will be more than offset of just continued improvement quarter-over-quarter on deferred. And then of course, as I mentioned, mix, so getting that dash 10 in smoothly as it has and replicating how we did that at dash 9 is exactly the game plan everybody is working to, so that’s key in there and we are assuming all that goes as it has been going per plan and that will all translate into deferred.

Now I would tell you stepping back from that, obviously big focus on cash improvement overall on the program and certainly deferred is a key part of that. So making our deliveries on all models on-time and ensuring that we are executing at that level on top of the overall productivity. The advances of associated with our current delivery rates at 12 a month and beyond, so all every element of, say, cash flow is being actively managed quarter-over-quarter, and obviously we broke - we're cash flow positive last year and we are going to be even more so this year. And that it's really all in those elements that are driving to that bottom line performance.

Rajeev Lalwani

I'm sorry, Greg, the other part to the question was just - you can correct me if I'm wrong, but I thought you made a comment about how making a decision on going 14 a month could impact on margins for this year. So just some color there?

Greg Smith

Yes. We put that in the range of the guide. Obviously we are assuming at this point that we go to 14 if the market supports that, going to 14. But as we - we don't have to make the formal decision yet, so as we get closer to that we'll continue to monitor the marketplace, filling those unsold positions and then look at, I'll say more over a longer term until may make that formal decision, so that's why we put a range in there to try to take that into account if we decided to hold that 12 a month at least for the near-term.

Dennis Muilenburg

It's founded in the guidance, and as always, we are going to make a very disciplined decision here. It's in our mutual interest to make sure we are aligning supply and demand and keeping the production system healthy while supporting our customers.

Troy Jeffrey Lahr

Operator, we have time for one more analyst question.

Operator

And that will be from Peter Arment with Baird. Please go ahead.

Peter Arment

Yes, good morning, Dennis, Greg. Thanks for squeezing me in.

Dennis Muilenburg

Good morning, Peter.

Peter Arment

First, just a clarification. Did you mention what the expectation is around MAX deliveries this year? And then second part of this question is just more - Greg, how you're thinking about the sensitivity in the backlog when you're thinking about in terms of customers, particularly I'm thinking EM with the move we've seen in the dollar and expectations with given the policies that are going to be going forward that we may see a further strengthening. How you think about that? Thanks Greg.

Dennis Muilenburg

Peter, maybe I'll take the first one, and Greg you take the second one.

Greg Smith

Sure.

Dennis Muilenburg

On MAX deliveries, as we said, the flight test program remains on track. We announced that we are going to begin delivering aircraft in the first half of this year and we are on track to deliver our first MAX in the second quarter of 2017. So we feel very confident and the airplane is performing well, and we are on track to begin deliveries this year.

For the remainder of the year as we ramp up the production system, the MAX will end up being about 10% to 15% of the total 737 deliveries this year, so a meaningful portion but a fraction as we begin ramping up. Our team is doing a great job in the factory and renting to make sure that we continue to deliver NGs while we ramp up the MAX. The production line preparation is on track. And again, you can see that in the underlying performance of the 737 program.

So we remain very confident in that program. The market is strong. The airplane is selling well. Flight test is on track and we'll begin delivering airplanes here in the first half of the year.

Greg Smith

Yes, and with regards to the backlog, Peter, certainly something that we look at and analyze from multiple, I'll say, angles as we assess the backlog and look for any potential areas that may be of softness and what mitigation plan. So we really try to get ahead of that if we have any of that and we'll get customers around within the skyline but certainly it's their first and foremost sustain really engage with your customer and understanding what their fleet plans are and specific timelines around deliveries. And we are going to continue to do that, and if we see any changes, then - well, I'll say we’ll change accordingly, but we are not seeing anything at this point that is, I'd say, anything outside the norm of what you all have seen of where we've got, as we talked about and particularly wide-body areas of softness. So we know where they are and we are deeply engaged and we'll make - back to Dennis’s point, we'll make the right decisions if we have to around supply and demand as we phase into those.

Peter Arment

I appreciate the color. Thanks.

Greg Smith

You're welcome.

Operator

Ladies and gentlemen, that completes the analyst question-and-answer session. [Operator Instructions]. I’ll 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.

Tom Downey

Thank you. We'll continue now with the questions 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 are ready for the first question. And in the interest of time, we ask again that you limit everyone to just one question please.

Operator

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

Julie Johnsson

Hi. Good morning, everyone.

Dennis Muilenburg

Hi Julie.

Greg Smith

Good morning.

Julie Johnsson

Dennis, could you discuss your strategy for China, especially with some of the rhetoric we've heard and the possibility of trade tensions rising. Trump last year on the campaign trail took a shot or two at the 737 finishing center and also warned potentially of hiring being affected in the U.S. Where do plans stand at this point and are you still committed to moving forward?

Dennis Muilenburg

Yes. Julie, great question. First of all, I think it's really important for all of us to understand that healthy trade relationships between the U.S. and China are important. I'm very confident that the incoming administration understands that. Mr. Trump - President Trump is very much engaged with business. We've had the privilege of having a very open dialogue with him on business issues, and all of the actions that are being taken around things like tax reform, regulatory reform, focus on trade policy, those are all things that are going to allow us to grow economically and ultimately allow us to grow and add manufacturing capacity in the U.S. So we are very supportive of those actions, very confident that those are headed in the right direction and being done with the right tone and tenor.

Now regarding China itself, that relationship continues to be very important. I know we all understand that a productive and healthy relationship with China is key. It will be grounded in principles of fair trade and a level-playing field for all competitors. If I look at the marketplace, it's a commercial airplane marketplace 39,000 plus aircraft over the next 20 years. About 6,800 of those are in China. And so it is important that we'd be able to compete and win in China and to be a partner there as they grow their aerospace industry. It's a highly competitive environment, and so actions that are being taken to ensure U.S. competitiveness are positive actions and we support those. So we are going to continue to work hard in that direction.

Regarding our China finishing center, again that's an important part of that partnership equation here. That finishing center is at location what will be able to add value in China but every airplane that goes to that finishing center is being built here in the U.S. and this is a great example of by making the right targeted investments in China with our partners there, we are able to add volume, increase sales in China. As we increase sales in China, we increase building airplanes here in the U.S. and that's U.S. manufacturing jobs. It's a great example of how growth in China creates growth in U.S. manufacturing jobs.

And if I could even more broadly on the aerospace front, if you look at global trade, the aerospace sector continues to be the strongest sector in the United States in terms of trade balance with a positive trade balance of more than $80 billion per year. Boeing is a big part of that. We're the U.S.'s biggest exporter, and within that, we in our supply chain have more than 13,000 companies in the United States create and sustain about 1.5 million aerospace jobs. So aerospace is a big important manufacturing sector for the U.S. Global competitiveness will help us drive that in the long run and a healthy U.S. China trade policy and relationship is an enabler for growing U.S. manufacturing jobs.

Operator

Our next question is from Doug Cameron with The Wall Street Journal. Please go ahead.

Doug Cameron

Good morning, everyone. I think I can support a theme developing amongst our questions this morning. Dennis given you're in the business of providing affordable solutions for the new administration as indeed as predecessor, how do you discuss the border security at all with the president, and do you think there is anything from good old days to be eying it [ph] from yester year that you can harvest for the current initiatives being discussed?

Dennis Muilenburg

That's not an area that we are currently actively pursuing. Again, when and if the government has some opportunities there where they need some assistance, we are happy to provide some technologies and capabilities. We do have some very low-cost affordable and effective autonomous system solutions, unmanned aircraft, things like the ScanEagle which have been used very effectively throughout the world for a variety of surveillance purposes. Those are the kind of capabilities that are available as we look to future solutions. And we are standing by the support where we can any U.S. government decisions that are made along that path.

Operator

Next question is from Patti Waldmeir with the Financial Times. Please go ahead.

Patti Waldmeir

Yes. You've spoken a little bit about what kind of changes we might expect in the Trump era, tax reform, et cetera. Can I ask you a little bit of what it's like to actually operate in this new environment where the Dow breaks 20,000 because there is optimism about what Mr. Trump would do for business environment, and at the same time we never know when the next suite is going to come out of Leftfield [ph]. What word or phrase would you choose to describe your mood in the current environment? This is for Dennis.

Dennis Muilenburg

Firstly, the Trump has clearly very focused on enacting policies that will grow the U.S. economy and grow our American jobs, and we are very supportive of that. So I'm encouraged by his engagement. His approach to engaging business, having an open dialogue, discussing the issues, finding solutions, finding ways to grow U.S. manufacturing jobs I think are all very positive. And that engagement is a productive approach. We welcome it. We've got a voice at the table. And as we move forward on things like tax reform, regulatory reform, defense budget strength, trade policy, creating jobs, investing in manufacturing for the future, things like the Exim Bank, all of those are big enablers for us. And I think the direct engagement and the open dialogue is very healthy. We very much support it and I'm encouraged about what it means for future economic growth and growth of the aerospace sector.

Operator

Next we'll go to Dan Catchpole with the Everett Herald. Please go ahead.

Dan Catchpole

Hey gentleman. Thanks for taking my call here or my question. I was wondering if [Technical Difficulty] your reliance on global supply chain, if America - Trump's focus on America first economics will affect your ability to procure components and materials, and if there is any changes that you're making in terms of procurement and supply chain relationships ahead of the potential effects.

Dennis Muilenburg

We don't see any big changes here. The key thing to understand in our business model while we have a global supply chain and those partnerships are very important to us and we'll continue to invest in those partnerships, in the end is our products come together and we do final assembly, 90% of our final products base is built here in the U.S. and then delivered around the world. And that's a very strong example of leveraging our global supply base while producing U.S.-based products. And that strength is going to continue going forward.

We see the aerospace sector as fundamentally having an advantage in that regard. We do have a global supply chain, but in the end, 90% of our Boeing employment is here in the U.S. and we deliver about 75% of our product base to customers outside of the U.S. That's a big reason we have a strong contribution to a trade balance in the aerospace sector, as I said before, north of $80 billion a year favorable trade balance and Boeing is a big part of that. We're the U.S.'s biggest exporter and we leverage those global supply chains to create the world's greatest airplanes and it's advantageous not only for our global partners. It's also advantageous for growing U.S. manufacturing jobs.

Operator

Our next question is from Alwyn Scott with Reuters. Please go ahead.

Alwyn Scott

Hi. Dennis and Greg, can you hear me all right?

Greg Smith

Yes.

Dennis Muilenburg

Yes.

Alwyn Scott

Great. So productivity gains you've made have clearly been very important in the results in operating performance you've shown, but since you've probably picked a lot of the low-hanging fruits, can you talk about what we can expect in terms of additional cost savings at this point, and where do you see that happening? Is it new processes? Is it automation? Is it labor reduction? Is it more supplier price cuts through Partnering for Success? What's your view on that going ahead? If you can pretty specific, that would be helpful.

Dennis Muilenburg

Yes, let me start and maybe Greg you can add onto that. I would say this is - this will be a relentless effort going forward. So our work on affordability and productivity while we've made some strong strides over the last couple of years, you see it reflected in the performance, we have much more ahead of us than what's behind us and I don't see this effort losing any steam any momentum. In fact I see a great deal of opportunities ahead of us. Those are both internal and external. Internally we are continuing to look at opportunities to lean out our operations both our factories and office spaces.

First-time quality is a key emphasis for us. Our working capital initiative is a key opportunity for us.

With our supply chain, working as partners under our Partnering for Success initiative, our value engineering work, where we are finding win-win solutions with our supply base still much more opportunity under Partnering for Success ahead of us than what's behind us. So while we've made some good initial strides, I would say those are initial steps with an expectation that there is much more still ahead of us, and that's what drives our expectation that we are headed towards those mid-teen double-digit margins towards the end of the decade and driving year-over-year cash performance.

Greg, anything you want to add?

Greg Smith

Yes, I think as part of that, obviously we are resetting the bar of where we want to be in near-term and long-term and going - getting some market-based of, say, affordability targets put in place that not only are in our markets but also looking at, what I would call or we would call, top quartile industrial and working on how can we learn from that whether its own program cost or even functions as we look across functions in Boeing, how do we compare with those companies sharing best practices. And all of that combined with a lot of things that Dennis said, that's what's going to fuel our - that's what's going to allow us to win the marketplace. That's what's going to fuel our investments. That's what's going to allow us to return cash to shareholders.

So that combination of efforts is definitely accelerated, but at the same time bringing an outside in perspective combined with our inside knowledge and how do we leverage the best not only at Boeing but even outside of Boeing and bring that rate to the bottom line and that's - again, that's what's going to allow us to win, be competitive in the market and that's what's going to allow us to continue to invest in this business and drive a lot of the employment numbers that Dennis talked about it. So it's a unique portfolio we have here with regards to what gets made here, and the technology and the amount of investments we make in technology here in the U.S. and exporting 75% of our product outside. And that would continue to be our focus going forward and we've got a big market to plan and we are focused on capturing all the shares that we can capture in that market and deliver value back to all of our stakeholders.

Operator

Our next question is from Glenn Farley with KING Television. Please go ahead.

Glenn Farley

So how are you guys doing this morning?

Dennis Muilenburg

Hi Glenn.

Glenn Farley

So my question is with all the push that we are getting from the new administration on buying American, do you fear a protection as backlash from countries like China that do want to build their own aerospace industry in other places?

Dennis Muilenburg

Glenn, again we take a look at the actions that are being taken here. This is all about helping business be successful, growing the economy and we know in the global business that we operate in, as we grow our business here in the U.S., it provides lift around the world as well. That's the nature of our aerospace business. And it is a bit of a unique business in terms of its structure, and the fact that - again as Greg and I had both said, with around 90% of our employment here in the U.S., yet we export 75% of our products, we create a tremendous volume and strength in our U.S. business base and economic value that we add here.

That said, as we deliver airplanes and we enable global travel and global cargo delivery, it drives overall economic growth around the globe as well. And the administration is very focused on ensuring that we are implementing pro-business actions and policies and implementing trade agreements that will be fair and ensure U.S, competitiveness. And that's what we look for in our trade agreements is our ability to compete around the world, compete on a level-playing field and when we can compete on the level-playing field, we'll win, and that will grow our business. It will be good for our customers. It will be good for global economy.

So we are going to continue to engage and work very closely with the administration. Again, we are encouraged by the pro-business agenda. We think it's going to be good for jobs growth. It's going to be good for the economy, and in the end, it's going to be good for the aerospace sector in Boeing.

Operator

Our next question is from Jon Ostrower with CNN. Please go ahead.

Jon Ostrower

Good morning guys.

Dennis Muilenburg

Good morning.

Greg Smith

Hey John.

Jon Ostrower

Just a question about DNA of Boeing right now. Dennis, you've been on the job for 18 months and you've had a chance to take the rates [ph] and really kind of dig deep into what Boeing is. Your 777 rate went up to 8.3 heading down 50% to 3.5 on deliveries. You've got, what looks like a very, very small, almost under-investment from an airline perspective on 737 MAX-10 with an expected huge investment coming on NMA. I'm really curious, as you look to again more huge production ramp ups on the 737 towards the end of the decade, how do you see the cyclicality of Boeing internally, and is expenses on keeping a stable business? And whether or not you've thought about how to engineer that out of your company and really whether or not there is any steps you're taking with Kevin in his new leadership role to think about cyclicality internally in a different way?

Dennis Muilenburg

Jon, the way I look at that is we are designing and implementing a long-term sustained growth business. We're in a fundamentally different position today than we've been in anywhere in the first century of Boeing. And today we have north of 5,700 aircraft in backlog and a composite level of six to seven years production rate. It's the most highly diversified backlog we've ever had with two-thirds of that backlog outside of the U.S. and Europe. We have a strong fundamental defense and space business as well with some increasing market prospects there. So that combination allows us to have a much longer term view and design the business to have sustained long-term growth rather than being a tight cyclical business. This is the longest term backlog that we've ever had by far, so we have a much longer term view of how we design our business.

We are also very mindful of the risks and now with this kind of backlog that we have in position, we can look out a little farther and think about our investments and make sure that we're matching supply and demand that's why we’ve been very diligent on our rate decisions, so that those are sustainable rate decisions.

And then making the right investments for the future rather than having a choppy profile in our R&D investments, we have a very well-defined smooth profile. So just as we are now ramping up the MAX and delivering it on schedule, we are getting to the heart of the 777X development program now feathered in very nicely on the backside of MAX. We are contemplating decisions on our next generation of product lines both defense and commercial, and those investments again will continue to dovetail very nicely on the backside of 777X.

So we have a long-term investment profile that will drive innovation and drive stability in our financial structure, combined that with a strong backlog and diligence on our production rate decisions, this is all designed to be a long-term sustained growth business top line and bottom line.

Tom Downey

Operator, we have time for one last question from the media.

Operator

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

David Koenig

Thanks. My question was asked and answered, but if I can set goal up something that Financial Times I think was asked, you had said Dennis that you were encouraged by President Trump’s engagement and what he wants to do on taxes and regulation. I’m still curious so what it was like to be the target of critical tweaks and comments about one of your programs, and aren’t you worried that that could happen again that your demand further cost reductions in some of your programs. Can you talk about that?

Dennis Muilenburg

As I said, I'm very encouraged by President Trump’s engagement. And as you noted, we had some targeted discussions, well publicized discussions on things like Air Force One and fighter aircraft. I think those were very productive discussions as well. This is all about making sure we are providing best capability for our government and our war fighters at best affordability best value for our taxpayers, and we are exactly on the same page there.

So whether it's those targeted discussions on programs which I think have been fairly productive or broader discussions on pro-business decisions around trade and tax reform and regulatory reform, those have all been excellent conversations, and I give a lot of credit here to reaching out and directly engaging. President Trump has to have business leaders at the table. He is listening. He is engaging and making decisions that will help us grow the economy and ultimately grow U.S. manufacturing jobs. So I'm encouraged by that dialogue, and I think having direct open dialogue is productive and very good for the future.