Operator

Ladies and gentlemen, thank you for standing by. Good day, everyone, and welcome to The Boeing Company's first quarter 2016 earnings conference call. Today's call is being recorded. The management discussion and slide presentation plus the analyst 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 J. Lahr - Vice President-Investor Relations

Thank you and good morning. Welcome to Boeing's first 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 will 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 A. Muilenburg - Chairman, President & Chief Executive Officer

Thank you, Troy, and good morning. My comments today will focus on our first quarter results, the ongoing health of our business environment, and our growth plans going forward. After that, Greg will walk you through the details of our financial results and outlook.

Now let's move to slide two. Boeing delivered solid first quarter 2016 financial results that included higher revenue, increased operating cash flow, and core earnings per share that reflect the underlying operating strength of our company. We also continued to execute a balanced cash deployment strategy of investing in innovation, growth and our people, and returning cash to our shareholders. In the first quarter, we repurchased $3.5 billion of

Boeing stock and increased our dividend per share 20%, for a payout of $717 million.

Revenue in the first quarter grew to $22.6 billion. Core earnings per share of $1.74 were driven by continued strong operating performance across our core production programs, offset by an additional investment we made to maintain our schedule commitments on the KC-46 tanker program. Net of tanker, core EPS was strong. And as Greg will outline in more detail, our year-end guidance is reaffirmed, driven by our solid operating performance.

The $156 million after-tax charge on tanker primarily reflects the cost of incorporating engineering changes identified during testing into aircraft already built and in production, along with the certification of those changes. To meet our commitment to deliver this much-needed capability to U.S. war fighters and ramp up production on schedule, we are concurrently building production aircraft while we move through the remaining testing.

Overall, we continue to make progress through the late stages of development and ongoing flight testing, with all four development test aircraft now in the air, giving us confidence to make this investment. We have completed more than 500 flight test hours and have refueled an F-16, an F/A-18, and an AV-8B Harrier, and we've received fuel from a KC-10, all requirements on the path to achieve the Milestone C production approval from the U.S. Air Force, which we expect around the end of the second quarter.

Recognizing the risks inherent in any large-scale development program, including from start to finish of flight testing, we remain on path to meet the commitments we've made to our customer, and our team is keen to move forward with production and deliver the first 18 tankers by August of 2017. With a long-term market of up to 400 aircraft worth approximately $80 billion, the KC-46 remains a franchise program, and we expect to realize solid returns over decades of production and in-service support.

Now let's look at the first quarter operating performance for both of our businesses. At Boeing Commercial Airplanes [BCA], we delivered 176 new jetliners and added 121 net new orders worth $6 billion. First quarter revenue was $14.4 billion. Operating margins were 7.2%, reflecting overall solid core operating performance, offset by the impact of the tanker charge and planned R&D spending.

Key milestones in the quarter included the start of 737 MAX flight testing and major assembly of the 787-10 and the launch of the next-generation 737 freighter conversion program.

At Boeing Defense, Space & Security [BDS], first quarter revenue increased 19% to $8 billion. Operating margins were a healthy 10.3%, reflecting strong performance, offset by a portion of the tanker charge. Key new business awards included a contract with the U.S. Navy for 20 P-8A Poseidon aircraft and finalization of a U.S. Army contract for 117 AH-64 Apache helicopters.

Also during the quarter, our Puget Sound-based engineering union ratified a new six-year contract that will provide labor stability as we move through our slate of key development programs while rewarding our world-class engineering and technical workforce for their contributions to our success, and strengthening our balance sheet by completing our shift to defined contribution retirement plans for all employees.

In summary, we reported solid core operating performance, achieved critical milestones, and returned significant cash to shareholders, all of which Greg will cover in more detail in a moment.

With that, let's turn to the business environment on slide three. We continue to see a generally healthy commercial airplane marketplace, driven by improving airline profitability, strong passenger traffic growth, and meaningful replacement demand. According to the International Air Transport Association [IATA], passenger traffic is off to its strongest start in eight years, with traffic growing 8% in early 2016. Over the past three years, we have seen passenger traffic growth consistently outpace global GDP and airline capacity growth, a key indicator that the supply and demand dynamic remains positive.

Additionally, global airline load factors are at record levels of about 80% and daily airplane utilization at an all-time high of nine hours. Those figures attest to the airlines' efficient management of capacity and utilization of assets.

In contrast to the strength of passenger traffic, the global air cargo market is off to a slow start this year, with air freight traffic declining 2% over the first two months. However, we continue to expect approximately 3% growth for the full year. As always, we continue to keep a watchful eye on global market conditions for both passenger travel and cargo to ensure that supply and demand are balanced.

With regard to oil prices, while we have seen a rebound from the February lows, prices are still well below the 15-year average. With that said, our customers are telling us that current oil prices have not substantially changed their views on future fleet planning or their commitment to existing delivery schedules.

Airplane order activity is continuing at a moderated but healthy pace. Meanwhile, requests to change deliveries remain well below the historical average. As a matter of fact, in the past year, deferrals, accelerations, debookings, and cancellations combined for about 1% of our backlog. That is well below the 6% average over the last 15 years. We believe this speaks to the compelling and enduring value proposition that our airplanes provide to our customers. This ongoing market demand coupled with our sizeable and diverse backlog of more than 5,700 airplanes reinforces our planned production rate increases through the end of this decade as we ramp up annual deliveries to well above 900, and continues to position us for steady revenue, earnings, and cash growth in the years ahead.

Turning to individual airplane programs, demand remains strong for the 737, with a robust backlog of nearly 4,400 firm orders. To satisfy the demand, we remain on track to raise 737 production from the current 42 a month to 47 a month in 2017, followed by 52 a month in 2018, and then 57 a month in 2019. The production bridge between the current 737NG and the 737 MAX remains in an oversold position. To accommodate customers with nearer-term needs, we will continue to manage the 737 skyline in a manner that creates value for both us and them.

Turning to the twin-aisle market, with a strong foundation of 306 orders from six customers, interest and demand in our new 777X remains high. For the current generation 777, our backlog as of the end of the quarter stood at 205 airplanes. We are sold out of production slots in 2016 and more than 80% sold out in 2017. Building on our favorable existing base of sold firm slots, 2018 is a priority for us this year, as we work to ensure a smooth transition to the 777X while remaining flexible to respond to market dynamics. So far this year, we have added 11 new 777 orders, a solid first step towards our target of 40 to 50 orders a year to finish filling the 777 production bridge.

On the 787 program, our backlog of about 750 orders remains the foundation behind our planned production rate increases to 12 per month this year and 14 per month later this decade. In fact, during the quarter, we began final assembly on the 787 program at the 12 per month rate. To date, we have delivered more than 390 787s, including nearly 100 787-9s. And the airplane continues to excel at opening new routes and delivering profitability and performance in operation.

Finally, the air cargo market headwinds I mentioned earlier continue to pressure demand and pricing for the 747-8 Freighter. As you recall, in the fourth quarter of last year we made the necessary adjustments to align our 747 production rate to the current market environment. This past quarter, we also recognized an adjustment in market pricing, which Greg will cover in more detail. Thus far this year, we have captured four 747-8 Freighter orders and continue to work a number of sales campaigns to fill the 747 production skyline. That said, this segment of the market will remain challenging until the air cargo market fully recovers and we reach the 747-400 Freighter replacement cycle, expected to begin in 2019.

Overall, the outlook for our commercial airplane business remains strong as we continue to execute on our robust backlog with planned rate increases on the 737, 787, and 767, smoothly transition 737 production to the 737 MAX, and complete development of the 777X and 787-10.

Now turning to Defense, Space & Security, we continue to see solid demand for our major platforms amid a diverse global threat environment. Domestically, the President's budget request fiscal year 2017 advances key BDS programs, including the P-8 Poseidon, KC-46 tanker, V-22, ground-based missile defense, Apache and Chinook helicopters, as well as space programs like NASA's new space launch system. Internationally, demand for our offerings remains healthy as well, in particular for rotorcraft, commercial derivatives, fighters, satellites, and services. During the first quarter, international customers represented 37% of BDS revenue and 37% of the current backlog.

The strength of our Defense & Space business stems from our solid portfolio of products and services, our investments in innovation, along with our continued focus on affordability and productivity through our ongoing market-based affordability and Partnering for Success efforts. We continue to invest in organic growth areas that are priorities for our customers, such as commercial derivatives, space, services, unmanned systems, intelligence, surveillance, and reconnaissance. We are also investing in future franchise programs and leveraging capabilities and technologies across the enterprise for the T-X Trainer, JSTARS recapitalization, MQ-XX, formerly known as UCLASS, advanced weapons programs, and other important opportunities.

One last comment before I pass the mic to Greg; as an enterprise, we remain steadfast and confident about our position and future prospects, yet we also recognize that we cannot stand still and sustain our industry leadership in the face of intense competition. For Boeing to continue winning in our second century of business, it is imperative that we seize the initiative to get on and stay on a steep and steady glide path to lower cost performance. We intend to play offense and accelerate our efforts to drive quality, safety, productivity, and organizational improvements throughout the entire One Boeing enterprise and in our supply chain, enhancing affordability and our competitive position in the market, creating capacity to invest, increasing operating margins, and driving shareholder value.

In summary, our plans and strategies are aligned to the realities and opportunities of our markets, and our teams are focused on innovation, growth, and delivering solid operating performance.

Now, over to Greg for our financial results.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Thank you, Dennis, and good morning, everybody.

Let's turn to slide four and we'll discuss our first quarter results. First quarter revenue increased to $22.6 billion, driven by solid commercial deliveries and strong defense revenue growth. Core earnings per share of $1.74 was impacted by the $0.24 tanker charge and $0.07 747 charge, which is partially offset by improved execution and higher volumes. The 747 charge reflects a change in the estimated revenue on future 747-8 Freighter sales.

Let's now discuss commercial airplanes on slide five. For the first quarter, our Commercial Airplane business reported revenue of $14.4 billion on 176 airplane deliveries and operating margins of 7.2%. Operating margins in the quarter were primarily impacted by the $162 million pre-tax tanker charge and the $70 million pre-tax 747 charge, as well as higher planned R&D as we ramp up on the 777X.

Commercial Airplanes captured $6 billion of net orders during the first quarter. And the backlog remains very strong at $424 billion and over 5,700 aircraft, equating to more than seven years of production. Specifically on the 787 program, we've now delivered more than 390 aircraft, including approximately 100 787-9s. And as planned, the 787-9 deliveries will notably exceed 787-8 deliveries in 2016.

787 deferred production was better than planned and increased $141 million to $28.7 billion in the first quarter, reflecting the favorable mix towards more 787-9s as well as continued unit cost reductions. This reflects a 30% decline in quarter-over-quarter deferred production growth. We expect a similar rate of decline in deferred production growth in the second quarter. And for the full year, the deferred production balance should be flat year-over-year, again, no change to this fundamental milestone.

As Dennis indicated, we began final assembly on the 787 program at the 12 per month rate, and we expect to begin delivery at that rate by mid this year.

We continue to make progress on the 787 program, including successfully transitioning production of the 787-9, increasing deliveries, reducing production flow times, lowering unit cost, and improving overall aircraft reliability. However, more work ahead of us as we strive to further reduce unit costs and smoothly introduce the 787-10 into the production system, which is on track for later this year.

Turning now to Defense, Space & Security results on slide six; first quarter revenue at our Defense business increased 19% to $8 billion. And operating margins were solid at 10.3%, largely driven by strong performance that was offset by the BDS $81 million pre-tax tanker charge.

Boeing Military Aircraft first quarter revenue increased 34% to $3.7 billion, reflecting higher F-15 and C-17 deliveries. Operating margins of 9.1% reflect the impact of the tanker charge, partially offset by favorable delivery mix.

Network & Space Systems reported revenue of $1.7 billion. Operating margins of 8.5% reflect the timing of ULA launches.

Global Services & Support revenue increased 14% to $2.6 billion, reflecting higher volume in aircraft modernization and sustainment and training systems. Operating margins of 13.3% was driven by solid performance and favorable program mix.

Defense, Space & Security reported a solid backlog of $56 billion, with 37% of that business now from customers outside the United States.

Let's move to slide seven to discuss cash flow. Operating cash flow of $1.2 billion for the first quarter was better than planned and was primarily driven by solid operating performance and favorable timing of receipts and expenditures. We continue to expect 2016 operating cash flow to be approximately $10 billion, with the majority generated in the second half of the year.

With regards to capital deployment, as Dennis mentioned, we paid $717 million in dividends and repurchased 29 million shares for $3.5 billion in the first quarter, as we continue to deliver on our commitment to our shareholders. Furthermore, this reflects our ongoing confidence in the long-term outlook for our business. We continue to anticipate completing the remaining $10.5 billion repurchase authorization over approximately the next two years. Returning cash to shareholders along with continued invest to support future growth remains top priority for us.

Let's now move to cash and debt balances on slide eight. We ended the quarter with $8.4 billion of cash and marketable securities, and our cash balance continues to provide solid liquidity and positions us well going forward.

Let's now turn to slide nine, and we'll discuss our outlook for 2016. We are reaffirming our 2016 guidance for revenue, segment margins, core earnings, deliveries, and cash flow. The core operating engine continues to deliver strong results, and we remain focused on increasing production, driving productivity improvements, maximizing cash generation, and providing efficient deployment of that cash.

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

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Thank you, Greg.

With a solid first quarter behind us, we remain focused on growth, disciplined execution, quality and productivity improvements, and meeting our customer commitments. Our priorities going forward can be framed by two overarching objectives: first, to continue building strength on strength to deliver on our existing plans and commitments and improve them where needed; and second, to stretch beyond those plans and sharpen and accelerate our pace of progress on key enterprise growth and productivity efforts to achieve our full potential.

Achieving both objectives will require a clear and consistent focus on 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 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

And our first question is from Myles Walton with Deutsche Bank. Please go ahead.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

Thanks. Good morning, guys.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Good morning.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Hi, Myles.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

Dennis, there are certainly more and more press articles every day in terms of your interest or the company's interest in getting a larger presence in the aftermarket stream aside from some manufacturing and handing off aircraft from your sites. I was wondering. Can you talk a bit about initiatives you have in place there and maybe contextualize with where your non-manufacturing revenues are today at BCA and where you could go in the next few years? Thanks.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Myles, great question. And as we mentioned before, growing our services business across the Boeing enterprise is one of our top priorities going forward. We do see a significant opportunity there. If you look across the commercial and defense sectors over the next 20 years, that's about a $4 trillion market space, and we have significant opportunities to grow within that existing market space.

Our strategy includes organic investments in areas like parts streams and our ability to deliver high-value spares to our customers, low-cost modifications and upgrades to existing fleets that leverage our OEM knowledge. And we also see a growing opportunity in some of the information-based services markets and providing value-added services associated with the wealth of information in our new airplanes. So that deep OEM knowledge we believe differentiates us in the services marketplace, and we'd like to take some of the prowess that we have in the production capacity and move that into the lifecycle support element of the fleets. We're doing that in collaboration with our customers and in many cases in collaboration with our supply chain. But we do think that represents significant both top line and bottom line growth opportunity for us.

Similarly, in the defense space, we see opportunities to do that and cross-leverage in areas like our commercial derivative platforms. And I think somewhat uniquely when we look at our global industrial base and our global presence, our ability to service commercial and defense fleets around the world better than anybody else can be a differentiator for us.

So bottom line there, we see services as a big growth opportunity for us. It's primarily organic investment that we're making. And where we can complement that with selective inorganic investments, we will.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

Is there any metric that you can provide, Dennis or Greg, around where non-aircraft manufacturing is in BCA right now, where you want it to go on whatever metric you want us to look at?

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

I'm not going to give you specific target numbers, but what I will say is that if you take a look at our services business today and look at market growth opportunities, these are opportunities that are measured in 5% to 10% growth rates.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

Okay, thanks.

Operator

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

Cai von Rumohr - Cowen & Co. LLC

Yes, thank you very much. Could you comment on were there any changes in the block sizes, changes in the profit accrual rate, and the impact of price escalation on your profitability in the quarter and moving forward?

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Yes, thanks, Cai. On the 737, we had one block extension. Obviously, that was 200 units, all 737 MAX airplanes, and that was favorable to the overall block, Cai.

Escalation did impact us I'd say across the product lines slightly throughout the quarter. Just again, with the decline in oil prices that's taken place, we've had to adjust the revenue profile of that going forward, but not a big impact to the quarter but a slight impact.

Cai von Rumohr - Cowen & Co. LLC

Thank you.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

And on pricing, no change related to pricing there, Cai, overall.

Operator

And next we'll go to Jason Gursky with Citi. Please go ahead.

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

Hey, good morning.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Good morning, Jason.

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

I wonder if you could – hey. Can we just step back for a second and talk about cancellations and deferrals? It's great that you provided a little bit more detail during the quarter on historic cancellations and deferrals. And as you noted, Dennis, in your prepared remarks, they're running well below average. So I think it would be helpful for everyone just to understand what happens to your announced production rates if for whatever reason we accelerate back up to those historic averages on cancellations and deferrals. Do planned production rates stick? Do we see a deceleration of the growth in the production rates? Do we need to see production rates decline? Just give us some context around cancellations and deferrals and what happens when they go back to historic norms.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

You bet. Hey, Jason, let me take that one on here. One of the reasons we're confident with the production rate adjustments and ramp-ups that we've already announced is that we factored in those historical trends. Now the fact that the current trends with cancellations and deferrals operating at about 1% of backlog are favorable compared to history just further strengthens our confidence. But the decisions we've made to ramp up 737 to 47 a month, 52 a month, and then 57 a month and the ramp-ups we have planned for 787 all take into context these historical factors. So if we were to see deferrals and cancellations begin to creep up, we wouldn't change our plans. We've in fact designed our plans to envelope those historical averages.

Now that all said, we're not seeing anything in the data right now nor would I speculate that we're going to see those deferrals and cancellations move back to those historical levels. We continue to see strong passenger growth. We are mindful of that quarter over quarter, and we continue to watch it closely. But the strength of passenger growth is consistent, so I said about 8% growth so far this year. Independent analysis is saying 6% to 7% globally growth year over year. And we're going to continue to watch that and be mindful of it. But all of the trends right now support the analysis that we've done. And even if we would see some creep back towards historical levels, we remain very confident in the production rate decisions we've made.

As you well know, when we go through these production rate decisions, these are not decisions we make lightly. We take a hard look at all of the historical factors, risks, and opportunities, and we believe the decisions we've made are well within the envelope of balanced supply and demand.

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

That's great, thank you.

Operator

Our next question is from Peter Arment with Sterne Agee CRT. Please go ahead.

Peter J. Arment - Sterne Agee CRT

Hey. Good morning, Dennis and Greg.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Good morning.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Hey, good morning.

Peter J. Arment - Sterne Agee CRT

Back on the 787, great progress on the deferred. Greg, can you walk us through or just remind us a little bit how the impact of the 787-10 is going to have, as I assume it would be similar to the 787-9 in terms of its commonality and yet it's higher priced? How should we be thinking about that as that enters the production block?

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

I think you hit it, Peter. That's exactly the way to think about it. On the commonality side, as you know, that was a key factor as we developed that airplane to get it into the production system and get the commonality to the 787-9. And we're well north of 95% with regards to commonality in the factory. So that's going extremely well. That will certainly help as we introduce that into the production system and start ramping rate up on that, and I'd say that's progressing well. And as you know, we'll start to deliver that airplane in 2018. So we're watching that progress through the system. And like I said, development has gone very well as is early assembly and fabrication efforts. So I think we're tracking well, but think of it just like you did, like you mentioned on the 787-9, very smooth, deliberate introduction into that system and then get the rate up...

Peter J. Arment - Sterne Agee CRT

Okay.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

...because that will become an important part of the mix within the overall profile of the 787.

Peter J. Arment - Sterne Agee CRT

And that's on existing final assembly lines, right, not on the side (30:43) anymore?

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Correct.

Peter J. Arment - Sterne Agee CRT

Great, thank you.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

You're welcome.

Operator

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

Seth M. Seifman - JPMorgan Securities LLC

Thanks very much and good morning.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Good morning.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Good morning, Seth.

Seth M. Seifman - JPMorgan Securities LLC

Thanks. On the defense side of the business, I wonder if you could talk about some of the opportunities that are particularly on the fighter side. There has been some news about potential orders for Kuwait and for Qatar and the potential of starting an F-18 line in India. And how you're thinking about the fighter franchises going forward, and whatever specificity you could provide about if those orders for Kuwait and Qatar were to come through, where that would take production on those programs in St. Louis?

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Hey, Seth. Thanks for the question. When you take a look at our fighter lines, it's both domestic and international opportunities. I think it's important to note that as you've seen in the fiscal year 2017 budget deliberations here in the U.S., some strong support from our U.S. Navy requesting additional F-18s for the domestic fleet. And we're hopeful that as part of the FY 2017 budget deliberations that there will be additional Super Hornets included in the budget. I think as you're aware, the U.S. Navy's request here has an unfunded request in the system for 14 additional aircraft plus two via OCO [Overseas Contingency Operations] funding. So there are domestic opportunities, and supporting our customer here in the U.S. to make sure that they have the right fighter fleets and capacity for the future I think is an important part of the equation. And we continue to see strong support for the Super Hornet as well as modifications and upgrades to the F-15 Eagles.

Internationally, as you alluded to, there are a number of opportunities and campaigns that are well underway. They are global, including opportunities in the Middle East. And while I can't comment on specific campaigns, I want to respect our customer's process here. We do see opportunities in the Middle East. The press reports you've seen around Qatar and Kuwait are certainly two very important customers for us. Remember, those are all governed by the foreign military sales process and are government-to-government arrangements. We're supporting those, but we do see opportunities for both the F-18 and the F-15 internationally, Middle East, Asia-Pacific, potential opportunities in Europe and Canada as well. And all of those give us some level of confidence that we'll be able to extend those fighter lines into the early 2020s.

And that presents an opportunity for us that's important and one that we continue to pursue. And that business base gives us the capacity to invest in future product lines as well that leverage our St. Louis workforce. So we're encouraged by some of the progress there. But again, those international deals are really government-to-government arrangements, and we'll continue to support those appropriately.

Seth M. Seifman - JPMorgan Securities LLC

Thank you.

Operator

Our next question is from Rob Spingarn with Credit Suisse. Please go ahead.

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

Good morning.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Good morning.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Good morning.

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

I wanted to follow up a little bit, Dennis, on what you were talking about at the end of your monologue about playing offense and your greater attention to the total lifecycle opportunity. So while it's clear that you see something for Boeing here, to what extent is this effort being driven by the carriers? You did mention your customers, and it sounds like there's some thrust from them in this process.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

When we think about growing the services business, Rob, and more broadly lifecycle support, that starts with our customers because our objective here is to make sure that the airplanes we're delivering and the usage they're getting from those airplanes is profitable and productive and reliable. And our business thrives on reliable, productive fleets for our customers, and that's true in both our Commercial and Defense business. And we believe that our OEM knowledge and depth of detail on the airplane design can add value throughout the entire lifecycle.

I think as you're well aware, if you look at the installed commercial fleets, you could argue that we're about 50% of the installed fleet. Yet if you look at our market share in terms of services today, we're about 6% to 7% market share in services. And I believe it's reasonable for a company like Boeing with the OEM depth and knowledge we have to have a larger share of the services market, and I think that's to the advantage of our customers. And part of the value equation that we're bringing to bear here is Boeing, with our supply chain providing better capability, better efficiency, better profitability for our customers, it's adding value both for them and for Boeing. Those are the kind of business models we're pursuing.

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

So, Dennis, I guess the natural follow-on question here is this is a bit of a zero-sum game. We're talking a bit about a share shift toward Boeing. How do you manage that with your supply chain? Because if we're benefiting the airlines and if Boeing is going to take a larger share, how do we do this without disrupting the supply chain?

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Actually, Rob, I don't see this as a zero-sum game. This is a growing marketplace that we're operating in. As we've mentioned previously, we look at what's happening in global growth of commercial traffic, our market outlook for the next 20 years, 38,000 new aircraft needed by our customers, growing passenger base. This is a growing market and one in which we expect to gain market share in a growing market. That's good for our customers. And if done in partnership with our suppliers, with our supply chain, it can be good for them as well.

Now there may be some sectors where we will take market share, and where we can add value for our customers, we'll do that. But I prefer to look at this as a growing marketplace and one that the growth is accelerated when we provide efficient service. And when we can do that in partnership with our supply chain, it's good for all of the industry and it can be good for our customers.

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

Thank you.

Operator

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

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

Thank you and good morning.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Good morning.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Good morning, Doug.

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

You have talked about eventually getting to mid-teens margins at BCA, and that would be well above where you are right now. Can you talk about what needs to happen in terms of cost reduction and other initiatives to get there? And when should we see movement in that direction, and what's the approximate timing for reaching a mid-teens type goal?

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Doug, let me give you a top-level answer to that, and then I'll ask Greg to augment that. In working very closely with Ray and his team on this, we're all aligned on where we're trying to take the business and grow both top and bottom line in BCA. And as you heard our margin performance year-to-date with a couple of headwinds that we're dealing with in terms of R&D investments this year and mix, but if I look ahead to next year, we are pushing towards returning to double-digit margins in our Commercial Airplane business next year. And when we look at that mid-teens margin, the more aspirational target, this is something that we intend to focus on here over the next several years as we head towards the end of the decade. So this is within our planning view. This is not some aspirational target that's out beyond what we envision for the business. This is part of our planning effort. And driving that level of productivity and performance is important because it creates the capacity to invest in the future and it creates shareholder value, and we intend to accomplish all of those objectives.

Sub-elements of that include the strategy that you've seen us lay out. This is why we're working with our supply chain on Partnering for Success to drive bottom line performance. It's our Lean initiative, our capturing the value of quality effort, market-based affordability, and frankly, just a relentless pursuit of productivity. That's good business. It's the right way to run the business, and we are committed to that path. And that's a path that allows us to compete and win. It allows us to invest in innovation and it allows us to return value to shareholders. Now, Greg, do you want to add anything to that?

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

I think you hit all the big levers and the things we've been focused on. Certainly there are levels of maturity of each of those of where we are. But I would say the focus in each one of those categories, including the services that we just talked about with Rob and as well as the development efforts of trying to become more efficient and leveraging the enterprise around development efforts, those are all the major categories that I'd say are led by Dennis ultimately, but then by each one of us to try to look for more efficient ways to execute on those activities.

But as I said before, I would view it as no rock has been left unturned. It is an objective. It's an aspiration. But as you know, it's happening within our own business today, and that certainly gives us a clear understanding of the art of the possible here. And I think what Dennis said, it's competing to win. It's investing in our future and ultimately driving value for our shareholders and all of our stakeholders. So we're going to continue on this path. We're going to talk about it a little bit more at the investor conference here coming up. But it's a very consistent, I'll say, and high-priority task for all of us on the team.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

I also want to recognize Ray's and Leanne's [Caret] efforts on this at the business level. We are all aligned on the objective here and working this as an enterprise team. And Ray and Leanne have really been driving this at the business level. And I just want to acknowledge all the great work that they're doing.

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

Can you say that this is really a steady progression that you envision toward the aspiration as opposed to something where you see a turning point in the three years ahead, or this is something that we should see progress on, on a year-to-year basis?

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

You got it, Doug. Characterizing it as steady progression is exactly the way I'd look at it. And just as we said, we expect with the opportunity ahead of us, with the backlog we have and the long view that gives us, and the production ramp-up ahead of us in Commercial Airplanes headed to well north of 900 aircraft a year, we have the opportunity, both top and bottom line, to create this steady progression. It's revenue growth, it's cash growth, and it's margin and earnings growth. And that is our plan.

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

Okay, thank you.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

You bet.

Operator

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

Carter Copeland - Barclays Capital, Inc.

Good morning, gentlemen.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Good morning.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Hi, Carter.

Carter Copeland - Barclays Capital, Inc.

I want to stick with the profitability quickly. Greg, can you just clarify? If you were to look in BCA at period expenses excluding R&D in the quarter, was there any big variance versus last year? And maybe speak to any change in the cadence over the course of this year because I know that can weigh on the margins.

And then secondly, I wondered if you might hit on the unit versus program differences. $28 million (sic) [$28 billion], that's the smallest since before you began delivering the 787. But I would assume given where the deferred production has been running that the 787 was still a pretty big number there. That implies that you had some negative differences elsewhere. Was that 737 customer mix or 777? Any color there would be helpful.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

You got it, it's mix. It's narrow-body mix within the quarter. That's really the biggest driver there, Carter.

Carter Copeland - Barclays Capital, Inc.

So you have a couple hundred million dollar upper on the 787 and a couple hundred million dollar downer on the narrow-body?

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Yes, a little bit less than that on the 787.

Carter Copeland - Barclays Capital, Inc.

And on the period expenses?

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

They're not a big difference. I'd say relatively flat. When you look at the margin for the quarter, it's what you said. There's some mix in the quarter, a little bit on escalation, and then higher R&D, as we said, as we're ramping up the 777X. So as I look at the next three quarters ahead, we'll have more favorable mix in there, and the R&D profile will be a little bit different. So that's how we see the path to the guidance for the balance of the year.

Carter Copeland - Barclays Capital, Inc.

And on that 737 margin comment you made with the block extension, that's net of the escalation adjustment? You extended the block and had a favorable?

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Correct.

Carter Copeland - Barclays Capital, Inc.

Okay, thanks for the color.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Okay, thanks.

Operator

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

Hunter K. Keay - Wolfe Research LLC

Hi, thanks, appreciate it.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Hi, good morning.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Good morning.

Hunter K. Keay - Wolfe Research LLC

Hey, Dennis, do you still feel good about achieving book-to-bill about one this year? And if you want to, provide any color on what mix you might be assuming. As you mentioned, I think you said 40 to 50 777 orders annually. Obviously, a little bit of a change from (44:16), not surprising, obviously. But how should we think about the rate in terms of the mix of 777 orders this year and beyond, and then, of course, the book-to-bill question? Thanks a lot.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

You bet. On the overall book-to-bill, once again this year we're anticipating a book-to-bill of about one, so similar to last year. As you know, timing of orders is a little hard to predict. But generally when we look at order volume and energy in the marketplace, we'd say book-to-bill of about one; and continuing healthy opportunities around the globe, most of that again driven by passenger growth and replacement demand from our customers, the lesser of that driven by cargo. As I mentioned earlier, the cargo market remains flattish.

The prominent demand there is in the narrow-body arena. So 737 sales opportunities for the 737 MAX remain very robust globally. Wide-body demand not as hot as narrow-body demand but still strong, especially in areas where it's driven by passenger growth, Middle East and Asia-Pacific in particular. We're seeing that in continuing solid orders volume for 787 and for the 777. And as I said on 777 current generation, we're targeting 40 to 50 sales a year to fill the bridge. We still have work to go, but we've completed 11 or successfully sold 11 so far this year, so roughly on track. But we still have some work to do to fill the remainder of the bridge. We have about a dozen or so very significant campaigns underway for the 777. So while we have work do, we also see the opportunity to complete filling up that bridge.

On the other side of the bridge, the 777X remains in a very strong market differentiated place. And if we look out to the future on wide bodies between 787 and 777X in particular, we feel very strong about the product lineup that we have. So overall healthy, steady market demand, book-to-bill of about one this year, heavier weighted to the narrow-body side, but we're seeing reasonable demand in both narrow bodies and wide bodies.

Hunter K. Keay - Wolfe Research LLC

Thank you.

Operator

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

Howard Alan Rubel - Jefferies LLC

Thank you very much.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Good morning, Howard.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Good morning, Howard.

Howard Alan Rubel - Jefferies LLC

Good morning, gentlemen. Dennis, you've done – actually I should push Greg on this. You take a $0.24 charge and you don't change guidance. So something else must have worked out a little bit better as you go and look for the year.

But I also want to ask Dennis about the KC-46 for a moment. You still have a couple of milestones to complete, for example, C-17. And it appears as if the offer to the customer has been pushed a little bit to the right. So could you talk a little bit about what you're doing? I know you've invested a lot of money in this program and a lot of time and effort, but it's still proving to be a little bit more challenging than you addressed. So could you talk about what you've done to change it so that you put a nail in this thing so that it doesn't bite you anymore?

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

You bet. You bet. Hey, Howard, good questions. And just first of all on your overall margin question, Greg, I'll look back to you on the back end of tanker to comment on that.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Yes.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

But you saw in the first quarter that we did take the $0.24 charge on tanker. We were able to offset the majority of that with just good solid performance. And Greg can walk you through some of the offsets there. But one of the reasons that we've reaffirmed our year-end guidance is that the first quarter performance that we've seen broadly across the enterprise, some of the work we're doing do drive productivity that I talked about earlier, and our plans for the rest of the year give us confidence that we will overcome that $0.24 charge. And that's one of the reasons we're holding our year-end guidance. And I'll let Greg comment more on that later.

But specifically to tanker, you're right, a lot of focus on that. I can tell you that we have raised the level of enterprise focus on executing and delivering on that program. We've, as you've seen, made some personnel changes to provide some additional oversight and emphasis on the program. Leanne, as she has stepped into her new role, is playing a strong role there along with Scott Fancher and teaming up with Ray and the team on the Commercial Airplane side. So we've got the right people on the program.

Key milestones ahead of us is completing Milestone C testing, the production approval decision. We are about 80% complete on the flight testing that's required for Milestone C. And we are moving towards completion of that milestone and approval around the end of the second quarter. Again, that's subject to the normal U.S. government process. The next major milestone beyond that will be delivery of the first 18 tankers, and we remain on schedule to do that August of 2017.

And you're right, we have invested some money to hold that schedule. We think it's the right thing to do. It delivers on our customer commitments. It delivers on an important program, and we're committed to hitting that schedule. And it allows us to accelerate our movement into the production program. Ultimately, we still see this in the long run as a franchise program, a market of around 400 aircraft, and one that will produce profitable growth for decades to come, both in terms of production and support to our customers. So without question, this is an investment worth making.

While we don't like taking a charge, we're confident that we're doing the right things here. We've got the right people on it. We are now in the final stages of the development program. And to your point about putting a nail in it, we are not now discovering new technical issues. Frankly, this is about the fact that we are concurrently finishing up development and ramping up production. We've got the first seven production aircraft flowing through our Everett factory now. In our supply chain, we're already out to airplane number 15. So you can see there's some concurrency cost. That is an intentional investment we're making to keep the program on schedule.

We are closing in on it. We're not done yet. We're going be very focused on getting to the finish line. But I'm confident we'll get there and also confident that this is going be a great program for our customers and our company for decades to come. Greg, do you want to provide any other color on...

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

I think you hit the high points, Dennis. Certainly, Howard, the balance of the year just got more challenging, and we've got a path forward to meet the guide even taking that into consideration. But we're accelerating our productivity efforts and focus in there to ensure that we do, and we're all committed to doing that. So we'll keep marching ahead quarter by quarter to make sure we achieve what we put out there.

Howard Alan Rubel - Jefferies LLC

Thank you very much. Yes, great.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

All right, thanks, Howard.

Troy J. Lahr - Vice President-Investor Relations

Operator, we have time for one more question.

Operator

And that will be from George Shapiro with Shapiro Research. Please go ahead.

George D. Shapiro - Shapiro Research LLC

Yes, a two-part question. One, Greg, with R&D, it was a little higher this quarter than I thought. If I just annualize that, you'll get to about where your expectation is. So do I assume that R&D is relatively flat in subsequent quarters?

And then for Dennis, if you could, just provide some color on some of the articles we've been seeing about potentially coming up with a different 737 derivative to stave off the Bombardier CSeries, as to what the status of that might be. Thanks.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

I think on the R&D, George, that's about right. There are obviously some moving pieces in there as 777X starts to ramp up and 787-10 profile turns down around with 737 MAX. But generally quarter by quarter, you're going to look at a similar trend right now.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

And, George, on your question about the 737 family, we continue to have a very good dialogue with our customers about their future needs. As you know, the 737 MAX 8 is now in the production system. We've got three aircraft in flight test. That airplane is looking very good, and we're confident that's going to add a lot of value for our customers. We're continuing to see strong sales of the 737 MAX family overall.

As we take a look at the 737 MAX 7, the lower seat end of that family of aircraft, that is an area where we're having active discussions with our customers. It's too early to give any specific details or decisions, but I think it's worth saying that that airplane is viewed very favorably by our customers. We have a very clear value proposition that will add value and operating cost reduction for them. And we also have the flexibility to design it to meet their needs. So we'll continue those discussions, and as we reach decision points, we'll make sure to make everybody aware, but we remain very confident on the 737 MAX introduction, the transition, and the value it will add to our customers.

George D. Shapiro - Shapiro Research LLC

Okay, thanks.

Operator

Ladies and gentlemen, that completes the analyst question-and-answer session. 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

Thomas J. Downey - Senior Vice President-Communications

Thank you. We will continue 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're ready for the first question. And in the interest of time, we ask that you limit everyone to just one question please.

Operator

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

Julie Johnsson - Bloomberg LP

Hi, everybody.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Hi, Julie.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Hi.

Julie Johnsson - Bloomberg LP

Hi. Just to follow up on some of the earlier questions about productivity initiatives, I'm wondering if you can give sort of us a target for companywide head count changes or reductions. And also, I know 4,000 jobs at BCA is a lot, but I mean these are job reductions coming through attrition and voluntary layoffs. And I'm wondering frankly if that's going get the job done, or if more meaningful restructuring is needed, especially given your margin goals for the unit.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Julie, let me give you a little context around this because when we pursue productivity and cost competitiveness, we look at all categories of costs. So, certainly direct labor cost, head count is one of those, but there are many other factors, in fact, other factors that are larger than direct head count, indirect costs, overhead, infrastructure, facilities, supply chain. As a reminder, a good portion of our cost is outside of Boeing, so that's where our Partnering for Success initiative comes in. So we have set cost reduction and productivity targets that span all of those cost categories.

In some cases, that does put pressure on head count, and you've seen that, but it's not something where we set a head count target or apply the same formula everywhere. It's really important that we give our business leaders and functional leaders the flexibility to tailor their cost structure to be competitive. So it's not one size fits all, and the business dynamics are very different in different parts of our businesses and different sites. So that's important from an overall context standpoint.

Now the reductions that we're making in Puget Sound that you've seen in the news, again, those are being done within this overall cost reduction effort and also being done in a way that's very mindful and respectful of our employees. We're starting first, as you noted, with voluntary layoff packages and/or attrition. I think it's a good reminder that in a company of about 160,000 people, normal annual attrition is about 4% to 5% just when you look at the workforce demographics. So that alone provides us some flexibility on how we can make head count reductions and do it in a way that's mindful and respectful of our employees. And so that's where we start. In some cases, we have had to do involuntary layoffs, but that tends to be on the margins and done very selectively where we don't have other options. So that's our game plan going forward.

I won't give you any specific head count targets because that's not the way we do our business. We set cost reduction productivity targets. We look at all elements of our cost structure. And if it comes down to direct head count, we deal with that in a way that's very respectful of our employees and trying to do our best to help them transition when that does become a necessity.

Operator

Our next question is from Jon Ostrower with The Wall Street Journal. Please go ahead.

Jon Ostrower - The Wall Street Journal

Hey, good morning, guys.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Good morning.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Hi, Jon.

Jon Ostrower - The Wall Street Journal

Just a question on the strategic future of how you account for everything at Boeing. You've told your investors over the last five years or longer to really focus on cash, not earnings, as you go through the 787 process. Certainly the windfall that they expect really anchors a lot of their expectations for what they see as the future of Boeing. So you've got this Mason SEC (58:22) probe on the projections for 787. You've got downgrades that are causing volatility in your share price as a result of those projections. I just want to ask. Is program accounting still the right model for Boeing? Airbus uses IFRS, Bombardier and Embraer, and the analysts tend to expect a certain level of volatility in the cash that comes in during the development program. Is it still right for Boeing when you look at all that's transpired in the last few months?

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Well, Jon, I would say our accounting is compliant with GAAP. That's first and foremost, and that's what it is. And obviously, Airbus is under a different accounting standard, and they're adhering to that one. So that's our focus. That's our priority, and that's how we account for everything we do within the business.

As far as focus on cash, I think just like any business, it's about the bottom line at the end of the day no matter what accounting standard you're under. It's about how efficient you are with your cash and how effective you are with managing that and deploying it. So I wouldn't view our focus on cash frankly any different than any other business. At the end of the day, it's all about what's left over and what your costs were and what you sold your product for and then what do you do with it. And we're trying to keep it simple in that regard because ultimately we want to reinvest in the future and we want to return cash to those that are putting their trust in us through the shareholder base and invest in our people. And that's the priorities.

Operator

Our next question is from Dominic Gates with The Seattle Times. Please go ahead.

Dominic Gates - The Seattle Times Co.

Good morning.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Hey. Good morning, Dominic.

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Good morning.

Dominic Gates - The Seattle Times Co.

Hi, two things I'd like to ask about. First of all, just following up on the Puget Sound head count question, Boeing has projected that by midyear you'll have managed through attrition and voluntary buyouts to lower head count by about 4,000. Do you anticipate that you'll need more than that in the second half of the year?

And then second question, your push to get more out of the aftermarket in services, that's been talked about by Boeing for years and years and years. What's different now? How are you going about it more aggressively? Jon's recent article mentioned a change in what you're doing with Spirit. Are you actively taking steps that are different to take those services back? Headcount first, though.

Dennis A. Muilenburg - Chairman, President & Chief Executive Officer

Okay, Dominic, let me field both of those. First of all, on head count, as I said earlier, we have set some aggressive cost reduction and productivity targets for the year that are aligned with our overall business strategy, and we are looking at all categories of cost. And that includes beyond head count both in our internal indirect costs as well as in our supply chain. And I think it's important that we continue to keep that in mind. Our direct head count is one important category, but not the only one. And our business leaders are looking across all of those cost categories.

I will say the overall macro trend that we have for this year is that we expect employment will be net down moderately. I can't give you a specific number there, but we are on a moderate downward trend enterprise-wide this year as we drive productivity. As I said earlier, we're also doing that and trying to be very mindful of our employees. And as you know, I have a great deal of respect for our people. They are world-class. They're the best in the world at what they do. And where we can leverage attrition and the voluntary layoff programs that we've put in place, we will, and so far that approach has been very effective for us. And I think that's good for the business and good for our people, ultimately good for our customers. So that's our headset on that approach.

On your second question about services, you're right. It's something that we have talked about for some time. I can tell you that we are very serious about growing our services business. So as we've laid in our strategy for the next planning cycle and more broadly for the next decade, that is one of our focused growth areas. The market is large, as I said, about $4 trillion over the next 20 years. We have market share room to grow. But again, I want to emphasize that we are growing services in a growing marketplace. This is not about taking share from others or dividing up a fixed pie. This is clearly a growing marketplace. And with the right kind of business model, this can be good for our industry and our customers.

We are taking very specific actions on that. Our services business leaders, Stan Deal and Ed Dolanski, are teamed up. I think our One Boeing approach where we work across commercial and defense globally is a differentiator for us. In some cases, we are looking at specific parts inside of our aircraft, as you've seen in the days (1:03:43) where our unique OEM knowledge we think can provide value for our customers. In some cases, we're pursuing modification and upgrade businesses. The 737 freighter conversion program I think is a good specific example there. And then some of the work we're doing in information-based services like GoldCare and performance-based logistics, those are specific things that we're doing. So it is a focused high-priority strategy, and we have actions underway to support that strategy.

Troy J. Lahr - Vice President-Investor Relations

Operator, we have time for one last media question.

Operator

And that will be from Alwyn Scott with Reuters. Please go ahead.

Alwyn Scott - Thomson Reuters Corp.

Hi, thank you. Also on the productivity question, how worried are you about the significant change in the value of the dollar and the competitive edge that that potentially gives Airbus in coming years? And to what extent is that factoring into your cost containment and productivity efforts, cutting jobs and cutting other costs even as you produce more than ever?

Gregory D. Smith - Executive Vice President, Business Development & Strategy, Chief Financial Officer

Certainly it's a factor as we think about competing. And it goes really to just the broader objective that Dennis outlined on competing in the marketplace to win no matter what. Whether it's exchange rates or whether the competition being more efficient or inefficient, it's all about competing in the marketplace, as we've discussed, being able to invest going forward, and then rewarding all the stakeholders that have put their trust in us. That's fundamentally what's behind this.

But exchange rates are going to move around over time. We don't rely on exchange rates. But the fact is, there are some times where there's an advantage, there are some times with a disadvantage. And we have to have the flexibility in our own enterprise to be able to compete no matter what that exchange rate is. And that's the headset that we have across the team, and that's the focus that's going to continue to take place going forward.