

Bloomberg
Intelligence

Boeing Credit Research

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Team: Credit
BI Credit Analyst

Boeing Six-Part Offering May Fly High and Wide: Credit React

(Bloomberg Intelligence) -- **RECENT EVENT REACTION:**
Initial price talk (IPT) for Boeing's bond offering across the curve has spreads comparable to BB tier bonds, leaving room to tighten, even after factoring in about 25 bps of narrowing into launch from IPT, the average for high grade industrials in 2024. The proceeds support near-term funding as 1H cash burn could

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exceed \$6 billion and leaves unchanged our view that Boeing's bond spreads can compress toward BBB tier peers over the longer term. (04/29/24)

1. Time on Boeing's Side to Remedy \$4 Billion Pain: Credit Outlook

THESIS: Boeing's near-term reliance on debt markets to address cash needs after \$4 billion of 1Q burn doesn't alter our view that Boeing can shrink the discount its bonds trade at vs. BBB tier peers. Raters' negative outlooks for its Baa3/BBB-/BBB- ratings provide Boeing time improve its operations and prove its declared commitment to high grade ratings. (04/29/24)

Credit Considerations

Credit Checklist

2. Boeing's \$48 Billion Elevator Pitch: Deliver, Generate, Pay Down

Boeing burning down inventory and delivering 737-87s amid rising passenger air traffic are key catalysts to shrink the discount its bonds trade at vs. peers in the intermediate term. That's key to further pare \$48 billion of indebtedness pro forma for \$4 billion of 1Q maturities and deleveraging a balance sheet likely

exceeding 5x in 2024 as the OEM navigates labor-contract negotiations and the FAA's monthly production cap of 38. Still, we believe bondholders may look past leverage and plane defects. Instead they may focus on Boeing's backlog and duopoly with Airbus anchoring business-risk strength as well as management's confidence in hitting 2025-26 goals, including a \$10 billion cash-flow target. Policy should favor creditors for the foreseeable future as Boeing focuses on rehabilitating financial risk beyond mid-decade. (02/20/24)

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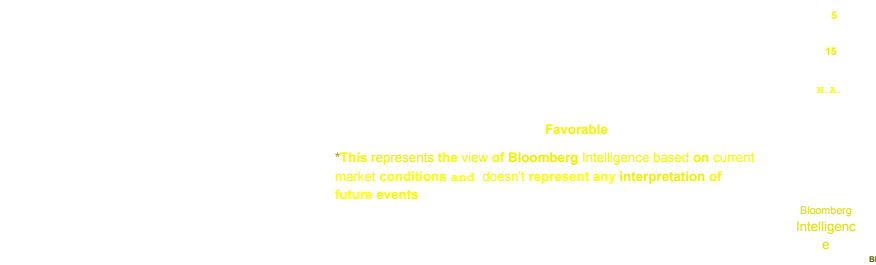
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Credit Checklist: Boeing

Credit Drivers			
Earnings & Cash Flow			
Leverage & Financial Policies			
Competitive Landscape			
M&A			
Event Risk			
Stock Performance			
Debt Maturities			
Valuation			
Unfavorable Neutral	Outlook	Outlook Trend	Weighting* (%)
			25
			25
			10
			10
			10



Credit Drivers

Source: Bloomberg Intelligence

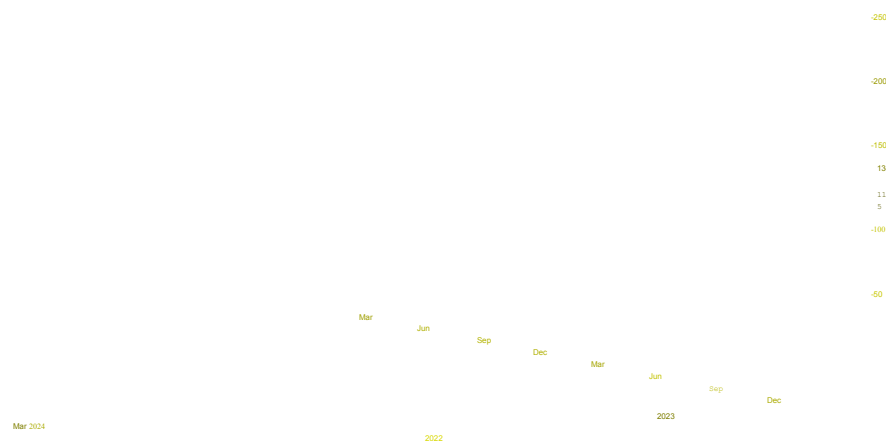
Over \$8 Billion of Boeing Burn Wearing High-Grade Patience Thin

Raters' patience with Boeing's protracted financial-risk recovery is wearing thin after over \$8 billion of 1Q cash outflows triggered negative outlooks on its Baa3/BBB- rankings. Yet the changes may not presage more negative rating activity, with tools still available to defend its high-grade status and outlooks giving at least 12 months of runway to show progress in normalizing operations and moving toward the FAA production limit. (04/29/24)

3. Reversing Stance May Provide Tool to Blunt Risk

Boeing's interest in selling some defense assets and softening a prior stance excluding equity from the funding mix for a potential Spirit AeroSystems deal could temper ratings risk. That's because all three raters assume debt, rather than equity, financing for a potential purchase under their base-cases. Re-acquiring Spirit could reduce event risk by improving operations long term, helping to enhance the outlook for financial-risk improvement after multiple quality issues triggered reworking and near-term reliance on debt markets for funding needs. Past commentary and significant 10 cash burn coincided with a rise in credit-default swaps, which are the worst performing among industrials in 2024, trailing Caterpillar, Schneider and Textron. (04/29/24)

Boeing Credit-Default Swaps



Source: Bloomberg Intelligence

4. Outlooks Leave Runway for Repair of at Least 12 Months

Boeing's potential for 1H cash outflows of \$10 billion or more given \$4.4 billion of maturities and burn may lead the OEM to tap debt markets to bring cash on hand back to the \$10 billion it seeks to run the business and pre-fund maturities amid low production levels. These are key factors

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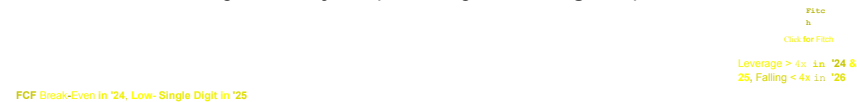
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contributing to all three raters' moves to a negative outlook. Though the changes are an acknowledgment of Boeing's protracted financial-risk recovery, we don't believe the moves are an imminent threat for further negative activity. Moody's allows at least 12 months of runway for Boeing to show sustained progress in addressing process and quality-control issues, while S&P and Fitch's horizons are longer. Production rates exiting the year closer to the FAA's imposed cap of 38 per month are a key watch item. (04/29/24)



5. Softening Tone May Keep Funding-Mix Dialogue Open



Half of Max and 787 inventories
Liquidated in '24, A.I.I. in '25

Debt Funded M&A
Keeping Leverage > 4x
After '24

FCF Margins <
2%

Higher Business Risk

(04/29/24)

[Click for Funding Commentary](#)

Bloomberg
Transcript

"...what we're looking at right now, working closely with the rating agencies, we believe we can do the move I described in the near-term with market access without that. As it pertains to Spirit, we talked about that this is a deal, where discussions are ongoing. It's complicated. There's other parties involved. And what this means is that once it does get signed, we expect it to, then it's going to take time to close. And in that time between signing and closing, we're going to explore the optimal financing for that transaction in order to maintain the investment credit rate -- credit rating. And that's important."

Brian West-CFO,
Boeing
18 Earnings Call, April 24, 2024

Source: Bloomberg Intelligence

Boeing-Spirit M&A Faces \$10 Billion Debt Snag; Equity Can Help

Boeing's leverage of more than 7x in 2024 limits potential debt funding for a Spirit AeroSystems acquisition, or would require raters to allow it to fall short of retiring \$8-\$10 billion of debt maturities early. Yet if Boeing uses equity to fund the deal, that could be palatable to raters, shareholders and bondholders alike.

(03/07/24)

6. Action Plan Needed to Address Quality-Control Issues

(03/07/24)

Website

"FAA Administrator Mike Whitaker informed top Boeing officials that the aircraft manufacturer must develop a comprehensive action plan to address its systemic quality-control issues to meet FAA's non-negotiable safety standards... Boeing also must integrate its SMS program with a Quality Management System, which will ensure the same level of rigor and oversight is applied to the company's suppliers and create a measurable, systemic shift in manufacturing quality control."

Mike Whitaker - Administrator, Federal Aviation Administration
Updates on Boeing 737-9 MAX Aircraft, Feb. 28, 2024

[Click to view website](#)

7. Majority of Boeing's 2024 Maturity Cadence Due During 1Q

(11/22/23)

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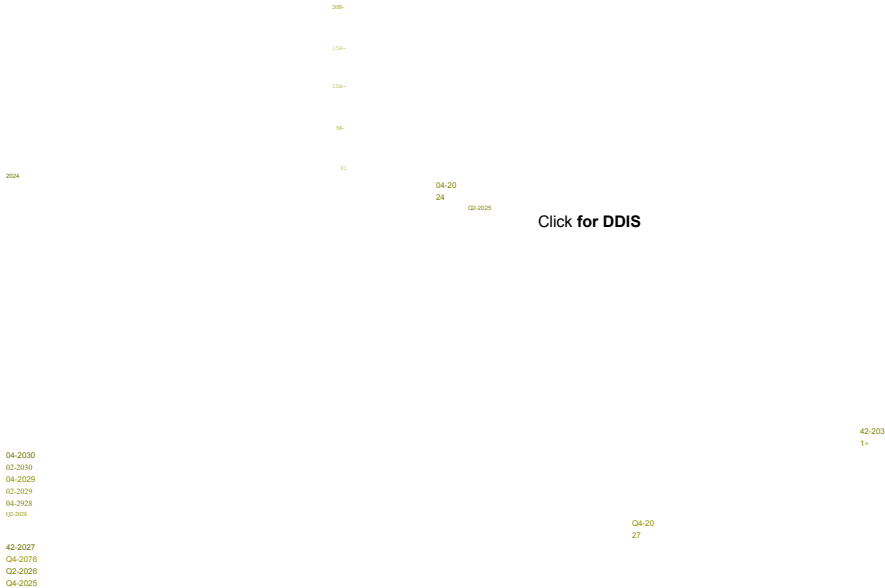
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8. Potential Spirit AeroSystems Purchase Excludes Equity

. (03/25/24)

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"And I will also say that one thing that I've commented previously is how important our investment grade rating is to us, and we work very closely with the rating agencies. And I will say that if a transaction were to occur, we would not use equity. We would fund it with a mix of cash and debt. But in terms of how that all plays out, can't comment, but the discussions are happening."

Brian West - CFO, Boeing
BoFA Global Industrials Conference, March 20, 2024 Quote
located on page 1, click to view entire transcript

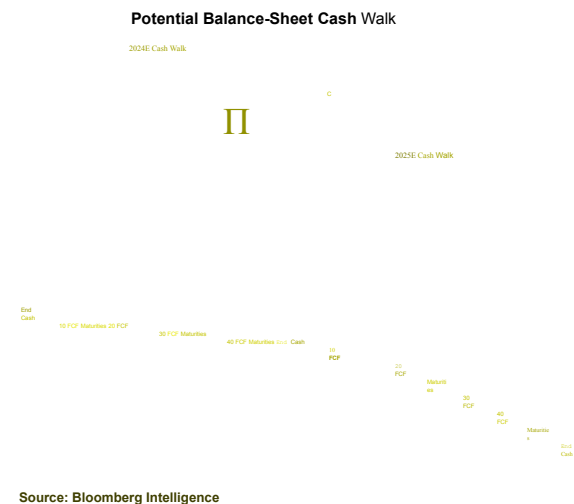
Liquidity

Boeing Cash Shrinking as Over \$8 Billion of Burn, Bonds Absorbed

Boeing's \$16 billion cash pile may shrink to \$7-\$8 billion as it absorbs higher-than-expected cash burn and \$4.4 billion of maturities in 1Q. That position may rebound toward levels the OEM typically operates with during 2H, with liquidity bolstered by access to \$10 billion of undrawn revolving credit facilities at year-end amid reported interest in some asset sales. (03/25/24)

9. Usage, \$4.4 Billion of Maturities Eating Into Cash

Boeing's outlook for higher-than-expected cash burn that may exceed \$4 billion is being driven by lower volume, inventory and mix, which could leave cash on hand between \$7-\$8 billion at end-1Q, all else equal. That includes absorbing \$4.4 billion of intra-quarter maturities, yet is a position that may grow to the \$10 billion at which the OEM typically operates the business in 2H, amid the company's expectations for "low-single-digit-billions" of free cash for the full year. Liquidity is supplemented by \$10 billion of unused borrowing capacity at year-end. That could be bolstered by proceeds if Boeing were to sell some defense assets, with news of the efforts pre-dating the Alaska Airlines midair door-plug blowout in January. A pending deal for Spirit AeroSystems is unlikely to include equity funding. (03/25/24)



Valuation

Fallout From Boeing Blowout Repairable for \$48 Billion of Bonds

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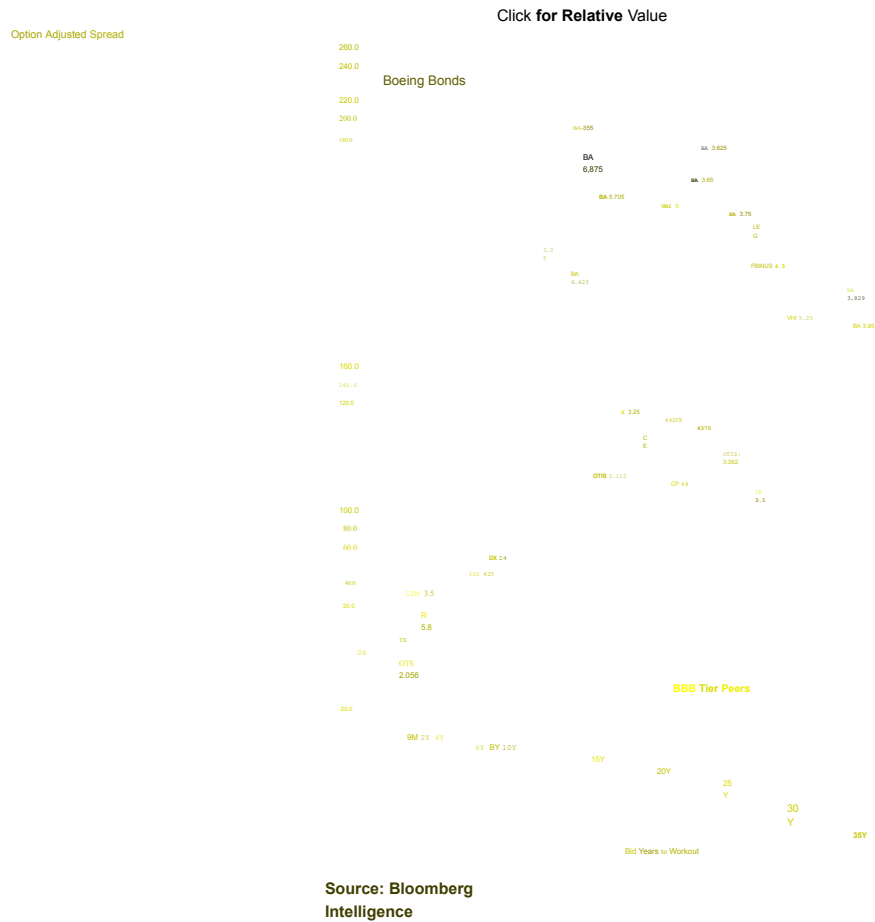
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The fallout from a door-plug blowout has pushed the curve for \$48 billion of Boeing bonds to the widest among peers, as expectations faded for cash flow and aggressive debt cuts. We believe this widening may be reversible in the long term as Boeing reportedly considers bringing Spirit Aero in-house and selling certain assets. In the near-term, however, a potential repurchasing could add a layer of technical pressure. (04/02/24)

10. Scrutiny Is Pushing Out Curve, But May Not Last Forever

Widening spreads on Boeing's \$48 billion of bonds since a door-plug blew out in early 2024 has pushed its curve wider than high-grade peers, but we aren't ruling out a turnaround. Boeing is reportedly interested in selling some defense assets and reacquiring Spirit AeroSystems, given the supplier's

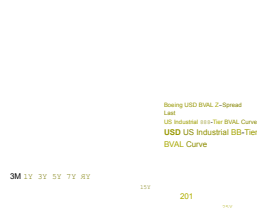
contributions to a string of quality lapses. While a potential purchase of Spirit may expose bondholders to near-term technical pressure, given expected debt funding, a deal in the long run could improve the oversight, continuity and safety-management needed to address the FAA's view of systemic quality-control issues. Boeing's curve trades 45 bps wider on average across benchmark tenors comprised of a large set of low- to mid-BBB tier industrial peers within the Bloomberg US Aggregate index. (04/02/24)



11. Spreads Test Widest Levels Seen in 15 Months

Tenors for parts of Boeing's curve have widened more relative to others, compared with those seen prior to the Alaska Air midair incident, testing and even exceeding levels not seen since end-2022. Including these levels in the OEM's bonds in the regressed curve vs. BBB-tier peers drags the curve about 6 bps wider. Issues through the belly may offer 50-60 bps more spread relative to the regressed curve, and includes Boeing's 2.75%, 2.196%, 5.15% and 3.625% bonds. We expect a strong commercial aerospace environment to endure, a view shared by management teams including RTX, TransDigm, Howmet and Rolls-Royce. This could be a tailwind for future liability- management efforts to repair Boeing's balance sheet, which remains closely tied to demand for aircraft and the path of air travel. (04/02/24)

Boeing's Curve Before and After the Alaska Air Incident





Source: Bloomberg Intelligence

12. Boeing Bond Performance Goes From First to Worst

(04/02/24)



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	YTD			Last 1Y		
	Wgt	Total Rtn	Excess Rtn	Wgt	Total Rtn	Excess Rtn
▼ Total						
Aerospace/Defense						
Boeing Co/The	0.00	-0.85				
Lockheed Martin Corp	2.04	-2.67	0.63			
	-4.57	0.28				
		-3.71				
	0.78	100.00		8.52		4.55
	-0.74	2.04	8.88			5.10
	-2.80	0.66				7.82
	-0.68	0.26		11.70		
				9.04		5.64
Northrop Grumman Corp						
	0.19	-2.85				
				-0.45	0.18	
				7.97		4.16
General Dynamics						

Our midyear **aerospace & defense credit outlook webinar** focused on key themes, risks and assumptions through the lens of **S&P's aerospace & defense team**. The discussion included **S&P's views** of Boeing's **business-risk, accommodating a deleveraging path by repaying maturities** as they come due rather than more aggressive **liability** management, and the **role backlogs** could play in the event **passenger-traffic growth** falters. We also discussed circumstances around extending the **negative outlook for Raytheon's A- rating** as well as a **boosted shareholder-rewards** target. We then **delve** into the supplier **base** to **focus** on key factors for a potential crossover to investment grade at **Howmet**, followed by **outlooks** for **Spirit AeroSystems** and **Triumph**, before diving into relative-value views. (07/20/23)

VIRTUAL EVENT

Click Image to Watch Replay

BI-S&P Analyst Briefing: A&D Mid Year Credit Outlook

About

Start Date: 7/13/2023

Start Time: 10:00 AM EST

Duration: 60 Minutes

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Earnings Review

Earnings Review

15. Boeing's Cash Use Unsustainable as Builds Drop: Earnings Outlook

Contributing Analysts George Ferguson (Aerospace/Defense) & Melissa Balzano (Aerospace/Defense)

Post-1Q Earnings Outlook: Boeing's profit dived on **commercial-airplane results** as **quality issues** and **FAA reviews** slowed deliveries, with **2Q** likely to **see partial improvement**. Commercial-airplane operating margin fell **1,540 bps**. **Defense's \$151 million profit** reversed last year's **\$212 million loss**, yet **fixed-price contracts** remain challenging. **Global services results** were in the **high teens** on **favorable mix** and are

likely to **persist**.

Deliveries in 2Q could see 75 737s, 15 787s, two 777s and seven 767s, all below monthly build targets as quality inspections slow throughput. Commercial **operating profit** may be near **zero** on **\$6 billion** in sales. Defense **could** see a **\$260 million operating profit** and **\$6.5 billion** in **revenue**. Global services **might** be **\$5 billion**, with **\$880 million operating profit**. Free **cash flow use** may be **\$2 billion**. (04/25/24)

Highlights From Recent

Results:

- Commercial Aircraft Sees Loss on Fewer Deliveries, Quality

Concerns; 1Q Deliveries Slowed by Inspections

Defense Operating Margin Reaches 2.2%; Defense Programs Take More Charges on Fixed-Price Programs

- Global Services Remains Best Performer on Strong Maintenance, Sustainment Demand; 2Q Might Be Similar
- 1Q Adjusted Free Cash Flow Use of \$3.9 Billion, Reflecting Fewer Lower Commercial Deliveries, Inventory Build

Additional Resources:

- Analyzer | BI »

Earnings Release |

NSN >>

Earnings Call Transcript | DOCV »

Company Presentation | DOCC

»

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