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The Boeing Co. (BA)

Investor Day

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Thanks, Dave. Good morning, everyone. Thanks for being here. I'll share our financial projections in a moment. But first, I'd like to baseline everyone on 2022. Free cash flow, our primary financial metric it's been that for all of this year and as long as Dave's been here, super important for us. In the first half of this year, we used $3.7 billion of cash flow in line with what we expected. In the third quarter last week that we just announced the results, we generated $2.9 billion of free cash flow.

Embedded was a tax benefit. If you strip that out underlying performance was $1.4 billion. Now we go from the third quarter to the fourth quarter. We expect to do approximately $2.5 billion in the fourth quarter, about $1 billion better between the third quarter in line and the fourth quarter. That's all driven by volume and that's BCA and that's 787 deliveries. There will be more in the fourth quarter and third quarter that will drive that sequential improvement and then we'll land for the full year at around $1.5 billion to $2.0 billion of cash flow.

Now, importantly, the second half is better than the first half. It's positive and it starts as a baseline for momentum going into next year. Now I'll lay out what we intend to do next year. Operating cash flow for next year will be between $4.5 billion and $6.5 billion, we'll then reinvest $1.5 billion back into the business through CapEx to get us to free cash flow in the $3 billion to $5 billion range. Over the last year, feedback from all of you has been consistent and clear.

You want realistic and achievable financial metrics, and that is what we intend to do with that range. We believe that the low end is three. We're aiming at five. We also heard feedback that you want more visibility around the cash components. The upper right describes the operating cash flow by business. BDS is going to be a use of cash between a $0.5 billion and $1 billion driven by the third quarter year-to-date charges that were taken on the fixed price development programs.

BGS will be $2.5 billion to $3 billion of free cash flow, very steady, very consistent. And BCA will be between $2.5 billion to $3.5 billion. BCA will be underwritten by two very important assumptions and deliveries. The 37 deliveries will be somewhere between 400 and 450. Now, again, as we try to bound to the bottom and give you a high confident set of projections, 400 means that basically next year, all year, we're in the low-30s of deliveries. We don't expect that to happen. But that bound to the low end or aiming at is to be in the 425 to 450 range. And what that implies is that for the first six months of next year, we'll be in the low-30s and the back half will be the low-40s. And that will give us time to continue to stabilize the supply chain in the factory and even talk about getting ready for a rate ramp.

And the 87 Similarly, between 70 and 80, aiming at 75 to 80 as we head into next year with the low end of 70. Next year will all be about that BCA delivery volume. BGS continue to perform and righting the ship in BDS. Now I'll lay out for you what we intend to do in the 2025 to 2026 timeframe.

Again primary financial metric, very simple, free cash flow and $10 billion reflects our intention to get this place back to normal, post the turnaround back to normal, back to the pre-2019 representation. Underlying that assumption of $10 billion, a couple of important points. Revenue for the company will be approximately $100 billion and operating margins approximately 10%. And the key components start with BCA, around 800 deliveries, low double-digit margins and a return to the cash juggernaut you're all familiar with. On BGS, mid-single digit growth and mid-teens margins.

And finally BDS low single-digit growth in high single-digit margins. Importantly, I'll make a reminder that if you take the services benefit in our defense business and you apply to that BDS, that high single-digits gets better by about 100 basis points to get close to 10-ish and more in line with its competitive set. My point on the assumptions on the revenue margins, these aren't big unrealistic assumptions. These are things we're confident we can go execute on. And then we also, at the same time, want to continue to invest in the business, $3.5 billion of R&D and $2 billion of CapEx, very much in line with what the business has historically done.

We talk about 2025, 2026 timeframe. We can't be that precise in a calendar year, but it will be sometime in that timeframe of 2025, 2026, and that even might be we exit 2025 on that run rate, too hard to call, but it's going to be somewhere around 2025-2026. Double click a little bit on the $10 billion, $12 billion operating cash flow, $2 billion of the reinvestment in the business and CapEx get you to $10 billion and again, if you look at the upper right, the segment operating cash flow is on the chart there. BCA at around $9 billion, BGS at $3 billion, BDS at $2 billion and other is a drag of $2 billion. That's because we're going back to profitability and we're to start to pay cash taxes again and we're perfectly comfortable with that.

The key assumptions underlying the BCA production rates, you can see there the 737 in this forecast gets to 50 a month which we've done before. The 787 gets back to 10 a month and the 777/777X gets to 4 a month. If you bridge it, underlying the bridge between where we see 2023 and 2025, 2026, there's about $6 billion of improvement between these two points of time. And the underlying benefit really is productivity and it starts with BCA. BCA over this period of time will get $6 billion better. It's going to be driven by production ramp. It's going to be bigger and faster. A lot of productivity that Stan will talk about in a moment but remember, we are going to have to invest some of that cash back into the 777X production as that program begins to ramp.

On the BDS side, we see $2.7 billion improvement. Keep in mind, we're going to go from a usage of cash to a generation of cash and look a lot more normal for what you're used seeing, basically driven by the program transitions between development to mature as well as a big dose of productivity that Ted will talk about. BGS, volume driven. And then we've got some things that go the other way, largely investments, modest investments in R&D and CapEx, as well as higher tax payments, a little bit of benefit from interest expense, all that gets you to the $10 billion. As Dave mentioned, we see this as all within our control and now we'll take you through what we intend to do about the balance sheet.

On capital structure, the playbook for us is very straightforward, deliver airplanes, generate cash, pay down debt. And I reiterate what Dave said. There's no need, no plans to raise any kind of capital from either the debt or the equity markets. We don't need to. As we close this year, we expect to have around $17 billion of cash on hand, that's between $7 billion and $9 billion higher than historical baselines.

We then expect over the period to generate substantial free cash flow, that's more in excess of what our debt maturities are – our debt maturities over the next three years, around $14 billion. So in our view, we have sufficient liquidity with both the cash on hand, as well as access to over $12 billion of our untouched revolver, all while continuing to reinvest in the business.

We will continue to generate this cash flow. We'll address the debt maturities and then any excess cash we have, we will point towards accelerating debt paydown, because investment grade remains a priority for the company. And over this period of time, as we get through this 2025-2026 timeframe, our debt levels and our historical debt leverage ratios will look much more normal to you.

So we repair the balance sheet by one very simple thing, generate operating cash flow. We pull back a little bit longer term. What gets us excited is our backlog. Our backlog is big, it's diverse, it's over $380 billion across our three segments, commercial over $300 billion; defense $55 billion; services, almost $20 billion; big important. And to us, this really demonstrates our competitiveness but also demonstrates the confidence that our customers are putting in our products. And now it's up to us to deliver on their behalf.

And finally, the wrap. Our priorities are crystal clear. We have to stabilize the business with, of course, this turnaround. We have to drive productivity. We have to return value and return value primarily restore that balance sheet and ultimately return cash to all of you.

So with that, I'm happy to turn it over to Stan Deal, President of Boeing Commercial Airplanes. Over to you, Stan?