Second-Quarter 2016
Financial Performance Review

<u>Title Slide (Slide 1)</u>

Operator -- Introduce Troy

Investor Relations VP – Troy Lahr

<u>Opening Comments and Introductions</u>

- **Thank you and good morning. Welcome to Boeing's second-quarter 2016 earnings call. I am 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 please limit yourself to one question. As always, we have provided detailed financial information in our press release issued earlier today. And as a reminder, you can follow today's broadcast and slide presentation through our website at Boeing-dot-com.**

- **Before we begin, I need to remind you that any projections and goals we include in our discussions this morning are likely to involve risk, which is detailed in our news release, in our various S.E.C. filings, and in the forward-looking statement disclaimer at the end of this web 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 will turn the call over to Dennis Muilenburg.**

Chief Executive Officer – Dennis Muilenburg

- **Thank you Troy and good morning.**

- **My comments today will focus on our second quarter results, the 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 2.**

<u>Second Quarter 2016 Summary (Slide 2)</u>

- **Our second quarter financial results included <u>both</u> the continued solid underlying operating execution and strong cash flow performance of our commercial and defense businesses, <u>and</u> a substantial impact to earnings from decisions we made on the 787 and 747 programs, and increased investment needed on the KC-46 tanker program.**

- **I’ll come back to explain each of those items in a moment, but let me say upfront, that we’re confident that the decisions we made on 787 cost reclassification and 747 production were the right proactive ones to reduce future financial risk and strengthen our position and focus going forward.**

- **The added investment on tanker, while not insignificant… enabled completion of important testing while sustaining our view of the long-term multi-decade value this program will generate for our customers and our shareholders.**

- **Excluding those items, both of our businesses produced double-digit margins in the quarter, and we continued to deliver on our commitments to invest in innovation while also returning cash to shareholders.**

- **We generated $3.2 billion of operating cash flow, repurchased $2 billion of Boeing stock and increased our dividend per share 20 percent over the prior year for a payout of $691 million in the quarter.**

- **Revenue in the second quarter increased to $24.8 billion on strong commercial airplane deliveries and growth in our services business. We reported a core earnings per share loss of $0.44 reflecting continued solid operating performance across our production programs that partially offset the 787 cost reclassification and the 747 and Tanker charges.**

- **On the 787 program, during the quarter we reached a decision point on whether to move forward and invest funds for the refurbishment and future sale of the two remaining initial flight test aircraft.**

- **We elected not to do so and subsequently we reclassified unit costs associated with those aircraft from program inventory to R&D expense, resulting in a non-cash $847 million after-tax earnings impact.**

- **On the 747 program, we decided to reduce future production expectations and revenue assumptions to account for current and anticipated weakness in the air cargo market.**

- **These program assumption changes drove the $814 million after-tax charge in the quarter. These charges also include the write-down of the remaining 747 deferred production costs which significantly de-risks the program going forward.**

- **Despite the ongoing challenges of the air cargo market, we continue to see the 747 as a unique and significant value creator for our customers over the long-term.**

- **The $393 million after-tax charge on the KC-46 Tanker program reflects our assessment of the cost to address previously announced program schedule and technical challenges, including implementation of the hardware solution to resolve the refueling boom axial load issue identified during flight testing, delays in the certification process, and concurrency between late-stage development testing and initial production.**

- **To the credit of our team working with the Air Force, the hardware solution to the boom issue worked as planned. With the aircraft's recent success in refueling an F-16, A-10 and C-17, we have now completed all required testing to receive the Milestone C production approval from our customer, which is expected next month.**

- **Recognizing the risks inherent in the remainder of the flight test program, our team is duly focused on the work ahead, on meeting our commitments under the revised program schedule, and providing our Air Force customer the best aerial refueling tanker ever built.**

- **While we are reducing Core EPS guidance for 2016 to reflect the impact of these three items I just covered, we are maintaining our revenue and cash flow guidance based on the underlying strength of our business. Greg will provide more details later.**

- **Now let's look at the second quarter operating performance for both of our businesses.**

- **At Boeing Commercial Airplanes, second quarter revenue increased 3 percent to $17.5 billion on 199 deliveries. Notwithstanding overall solid core operating performance, the charges and cost reclassification led to an operating earnings loss in the quarter.**

- **Key milestones in the quarter included successfully delivering the first 12 per month rate aircraft on the 787 program, declaring the 787 dash 10 production ready, opening the 777X composite wing center and completing high altitude flight testing on the 737 MAX, which continues to run ahead of schedule.**

- **At Boeing Defense, Space and Security, second quarter revenue was $7.2 billion. Operating margins were 8.3 percent, reflecting strong performance offset by a portion of the Tanker charge.**

- **Key contracts awards during the quarter included an order for 12 CH-47 Chinooks for the Royal Netherlands Air Force and 24 AH-64 Apache helicopters for the Qatar Air Force.**

- **In summary, notwithstanding the accounting charges and the cost reclassification in the quarter, we had solid underlying operating performance, achieved critical program milestones and returned significant cash to shareholders.**

- **With that, let's turn to the business environment on slide 3.**

Business Environment (Slide 3)

- **Our overall view of the business environment remains generally positive due to healthy industry fundamentals.**

- **We recently updated our 20-year commercial market outlook, and based on solid traffic growth and continued replacement demand, we now forecast nearly $6 trillion of demand for 39,620 commercial airplanes–an increase of nearly 1,600 from last year.**

- **Global passenger traffic continues to solidly outpace GDP, with IATA reporting 6 percent growth year-to-date.**

- **On the cargo side, the market remains sluggish with year-to-date freight traffic down approximately one percent.**

- **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 particular attention being paid to the widebody segment.**

- **While oil prices have meaningfully rebounded from lows earlier this year, our customers continue to tell us that movements in oil prices have not substantially changed their views on future fleet planning or their commitment to existing delivery schedules.**

- **As always, we see isolated pockets of market softness, such as Russia and Brazil, however, we will continue to manage our skylines to maintain production schedules and health.**

- **New order activity is continuing at a moderate but healthy pace. As indicated by the flow of announcements at the Farnborough Airshow.**

- **As a result of the compelling and enduring value proposition of our airplanes, requests to change deliveries are holding well below the historical average. Over the past 12 months, deferrals, accelerations, de-bookings and cancellations remain at about 1 percent of our backlog.**

- **We continue to expect commercial aircraft deliveries to ramp up beyond 900 aircraft per year through the end of this decade driven by ongoing market demand and our sizeable and diverse backlog.**

- **Turning to individual airplane programs, demand remains strong for the 737 with a robust backlog of nearly 4,400 firm orders.**

- **We remain on track to raise 737 production from the current 42 per month to 47 in 2017, followed by 52 per month in 2018 and then 57 per month in 2019. And importantly, even at the 57 per month rate, we continue to be oversold.**

- **Turning to the twin-aisle market, while long-term demand remains strong, we have seen some hesitation in near-term demand in recent months, varying by program.**

- **For the current-generation 777, our backlog as of the end of the quarter stood at 175 airplanes. So far in 2016, we have added 8 net new 777 orders and commitments. For the full year, we are targeting approximately 40 orders as we focus on ensuring a smooth, profitable transition to 777X production.**

- **Our 777 delivery slots are completely sold-out for 2016, and more than 80 percent sold out and for 2017. For 2018, when we will begin phasing in production of 777X test aircraft, we are nearly 60 percent sold out at the lower planned delivery rate of approximately five and a half per month.**

- **We are working an active customer pipeline to fill the remaining 2017 and 2018 delivery slots, but we clearly have more work to do over the next few months to hold to current 777 production plans.**

- **With a strong foundation of 306 orders from six customers, interest and demand in our new 777X remains high, and the development of this next game-changing wide-body remains on track.**

- **On the 787 program, our backlog of more than 700 orders remains the foundation behind our production rate plans. As we discussed at our investor conference, securing additional orders to solidify our end of decade 14 per month production rate plan remains a priority.**

- **As always, aligning supply and demand to maximize profitability will guide our decisions on 777 and 787 production plans.**

- **On the 747 program as I mentioned earlier, air cargo market headwinds continue to pressure demand and pricing.**

- **So 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 remains challenging. We will continue to monitor it closely while aggressively driving productivity and cost reduction to win additional orders.**

- **On the commercial services side, we continue to deliver on our strategy to grow this element of our business. We recently announced agreements with six airlines from around the world to provide advanced analytics solutions to increase their efficiency in operating over 500 airplanes.**

- **Furthermore, in the largest commercial airplane services deal in Boeing history, Norwegian committed through 2034 to GoldCare coverage for both its 737 MAX fleet and to expanded coverage of the airline's entire 787 Dreamliner fleet.**

- **Our significant global scale and depth, intimate aircraft knowledge, and our substantial installed base combine to provide a meaningful opportunity to continue growing our services and support business, including our traditional parts, modifications and upgrade business, as well as expanding further into data analytics and information-based services.**

- **Overall, the outlook for Boeing Commercial Airplanes remains positive as we continue to execute on our robust backlog; smoothly transition 737 production to the MAX; and complete development of the 777X and 787-10.**

- **Turning to Defense, Space & Security, we continue to see solid demand for our major platforms.**

- **Domestically, the President's Budget Request for Fiscal Year 2017 advances key BDS programs, and we are anticipating a period of modest growth in defense spending over the next five years.**

- **Internationally, demand for our offerings remains healthy as well, particularly for rotorcraft, commercial derivatives, fighters, satellites and services.**

- **During the second quarter, international customers represented 29 percent of BDS revenue and 37 percent of the current backlog.**

- **The strength of our defense & space business stems from our solid portfolio of products and services, our investments in innovation and affordability, as well as leveraging our One-Boeing advantage.**

- **We continue to focus on areas that are priorities for our customers, such as commercial derivatives, rotorcraft, satellites, services, human space exploration and autonomous systems.**

- **We are investing in future franchise programs and leveraging capabilities and technologies across the enterprise for the T-X trainer, JSTARS recapitalization, MQ-25A (formerly known as UCLASS), advanced weapons programs and other important opportunities.**

- **We are also encouraged by the domestic and international opportunities for our proven, affordable and highly capable fighter aircraft.**

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

- **We remain confident about our position and future prospects. Our focus is on accelerating our efforts to drive quality, safety, productivity and organizational improvements through the implementation of Lean Plus, Capturing the Value of Quality, Partnering for Success and our Second Century Design and Manufacturing initiative.**

- **Now over to Greg for our financial results.**

Chief Financial Officer – Greg Smith

- **Thanks Dennis, and good morning. Let's turn to slide 4 to discuss our second quarter results.**

<u>2Q Financial Results (Slide 4)</u>

- **Second quarter revenue increased to $24.8 billion driven by commercial deliveries and solid defense revenue.**

- **Core earnings per share was a loss of $0.44 impacted by the previously announced $3.23 of charges and cost reclassification. The company had solid underlying operating performance in quarter.**

- **Let's discuss Commercial Airplanes on slide 5.**

<u>Commercial Airplanes (Slide 5)</u>

- **For the second quarter, our commercial airplane business reported revenue of $17.5 billion on 199 airplane deliveries.**

- **BCA operating earnings in the quarter were impacted by $2.8 billion relating to the 787 cost reclassification and the 747 and Tanker charges along with higher planned R&D spending as we ramp up on the 777X.**

- **Excluding the charges and cost reclassification, BCA operating margins were 10.3 percent.**

- **Commercial Airplanes captured $11 billion of net orders during the second quarter and the backlog remains very strong at $417 billion and nearly 5,700 aircraft — equating to approximately 7 years of production.**

- **787 deferred production declined by $1.0 billion in the quarter driven by the cost reclassification, bringing the balance at the end of the quarter to $27.7 billion. When normalizing for the cost reclassification, deferred was better than planned and increased $33 million.**

- **Recovering the 787 deferred production over the remainder of the decade will be a significant driver to cash flows. Our confidence in this recovery and the cash generation comes from shifting the delivery mix to more 787-9s and 787-10s, improving pricing over the remaining 900 aircraft, supplier step-down pricing and internal productivity.**

- **The underlying fundamentals of the 787 program is unchanged and the growing cash profile remains significant.**

- **We continue to make progress on the 787 program including successfully transitioning to the 12 per month production rate and increasing production of the 787 dash 9, reducing production flow times and lowering unit costs while also introducing the 787 dash 10 into the production system.**

- **Now let's turn to Defense, Space and Security results on slide 6.**

<u>Defense, Space and Security (Slide 6)</u>

- **Second quarter revenue at our defense business was $7.2 billion and operating margin was 8.3 percent largely driven by strong performance that was offset by the BDS $219 million pre-tax Tanker charge.**

- **Boeing Military Aircraft second quarter revenue was $3 billion reflecting planned deliveries of C-17 and Chinook. Operating margins of 5.9 percent reflect the impact of the Tanker charge.**

- **Network & Space Systems reported revenue of $1.8 billion. Operating margins of 8.5 percent reflecting timing on United Launch Alliance launches**

- **Global Services and Support, revenue increased 12 percent to $2.4 billion reflecting higher volume in Aircraft Modernization & Sustainment. Operating margins were 11.1 percent reflecting program mix.**

- **Defense, Space and Security reported a solid backlog of $55 billion with 37 percent of that business from customers outside the United States.**

- **Next slide…**

Cash Flow (Slide 7)

- **Operating cash flow of $3.2 billion for the second quarter was primarily driven by solid operating performance.**

- **With regard to capital deployment, as Dennis mentioned, we paid $691 million in dividends and repurchased 15 million shares for $2 billion in the second quarter and year-to-date we have repurchased 44 million shares for a total of $5.5 billion, 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 $8.5 billion repurchase authorization approximately over the next two years.**

- **Returning cash to shareholders along with continued investments to support future growth remain priorities for us.**

- **Moving to cash and debt balance on slide 8.**

<u>Cash and Debt Balances (Slide 8)</u>

- **We ended the quarter with $9.3 billion of cash and marketable securities. Our cash balance continues to provide strong liquidity and positions us well going forward.**

- **Turning now to slide 9 to discuss our outlook for 2016.**

<u>Financial Guidance (Slide 9)</u>

- **We are reaffirming our 2016 guidance for revenue deliveries, and cash flow.**

- **Our Core EPS guidance for 2016 is lowered by $2.05 to between $6.10 and $6.30 reflecting the second quarter charges and cost reclassifications totaling $3.23 that more than offset improved core operating performance and tax benefits.**

- **The core operating engine continues to deliver strong results as we remain focused on increasing production, driving productivity improvements, maximizing cash generation, and efficient deployment while also de-risking our business to reduce future volatility.**

- **With that, I will turn it back to Dennis for closing comments.**

Chief Executive Officer – Dennis Muilenburg

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- **Thank you Greg…**

- **As we move into the second half of 2016 and begin Boeing's second century in operation, we know we cannot stand still if we are to further our industry leadership and honor the rich legacy of generations of talented, hard-working people that built this company.**

- **Our teams remain intensely focused on growth, disciplined execution, quality and productivity improvements, and meeting our customer commitments.**

- **Our priorities are to continue building strength-on-strength to deliver on our existing plans and to stretch beyond those plans by sharpening and accelerating our pace of progress on key enterprise growth and productivity efforts.**

- **Achieving these objectives will require a clear and consistent attention to…**

- **the profitable ramp up in commercial airplane production;**
- **continuing to strengthen our Defense and Space business;**
- **delivering on our development programs;**
- **driving world-class levels of productivity and performance throughout the enterprise to fund our investments in innovation and growth, and to develop and maintain the best team and talent in the industry.**
- **All of which is to position Boeing for the next 100 years and continued market leadership, sustained top- and bottom-line growth, and, to create increasing value for our customers, shareholders, employees and other stakeholders.**

- **Now, we would be happy to take your questions.**