IT'S TIME FOR HARD QUESTIONS ON BOEING EARNINGS CALL

News / Manufacturer

Wednesday is Boeing BA -0.35%'s earnings call for the fourth quarter and full year of 2015.

There continue to be three of four prime issues that overhang each earnings call, and nothing has changed this week.

- **The production rate for the 777 Classic** and the bridge to the production of the 777X. Boeing has long asserted it can maintain a production rate similar to the current 8.3 per month, but this softened last year. In media briefings before the Paris Air Show last year, Boeing revealed it will bring rates down to seven per month and "shoot blanks" for the 777X, which will result in deliveries of less than seven per month. Analysts remain skeptical rate seven can be maintained.
- **The future of the 747-8** remains in question. Just about everyone except Boeing says this program is over, yet Boeing continues to predict world air cargo demand will recover and keep the 747 alive into the next decade. Skeptics aren't convinced.
- **A forward loss for the 787** hangs out there as a question for some. With deferred production costs approaching $30 billion, some analysts—notably Rob Spingarn of Credit

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Suisse—think the entire amount is not recoverable. In a December note, Spingarn believes only some $22bn will be recoverable. Spingarn didn't predict a forward loss, but Boeing has warned of this prospect in several consecutive SEC filings (as it also has for the 747-8).

- **Cash flow and funding stock repurchases** is another overhang despite record dividends and buybacks. It took a while for analysts to tumble to the fact Boeing was accelerating "advances" and pre-delivery payments for aircraft orders to fund these activities, but they did. David Strauss of UBS took a deep dive into this last year in a research note. The practice continues, taking money from future revenue streams and using it to fund today's activities.

It's a given within the analyst community that if analysts ask "hard" questions, Boeing Investor Relations is likely to ban them from future earnings calls questions and/or withhold Boeing participation from analyst-arranged client meetings or aerospace conferences.

Media historically has been more willing to ask tough questions, but even many of these are timid.

It's time for hard questions

With this as background, here are the questions that should be asked of Boeing CEO Dennis Muilenburg but probably won't be:

777 Production Gap GPS +0.00%: Boeing failed last year to achieve its long-stated goal of selling 40-60 777 Classics per year, and even some of the Classics in the backlog—such as those for freighters—don't deliver until beyond 2020. When you also consider the ramp up of the 777X and the feathering in of the Classics and the X, it appears Boeing still needs to sell about 200 more Classics. This seems an impossible task, especially given the continued weakness in the global air cargo market. You've announced a Classic rate cut to seven per month but it clearly looks like you have to go to six or five per month. When can we expect to see these additional rate cuts?

747-8 Program termination: The 747-8 program is in even worse shape than the 777 Classic. There are only 20 airplanes in backlog, with the last delivery scheduled in May of next year, according to Ascend data base. You have about a half dozen White Tails. It appears there are no orders new orders on the horizon. The world air cargo market is going backwards, not forward. The two aircraft for Air Force One are the only orders for 2018 or beyond, and even these aren't in contract. When are you going to terminate the program?

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