NEWSLETTER

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Boeing forecasts strong year for sales, 787 production progress

CEO Jim McNerney projected that Boeing will deliver 585 to 600 jets in 2012 — more than Airbus' announced goal of 570 deliveries.

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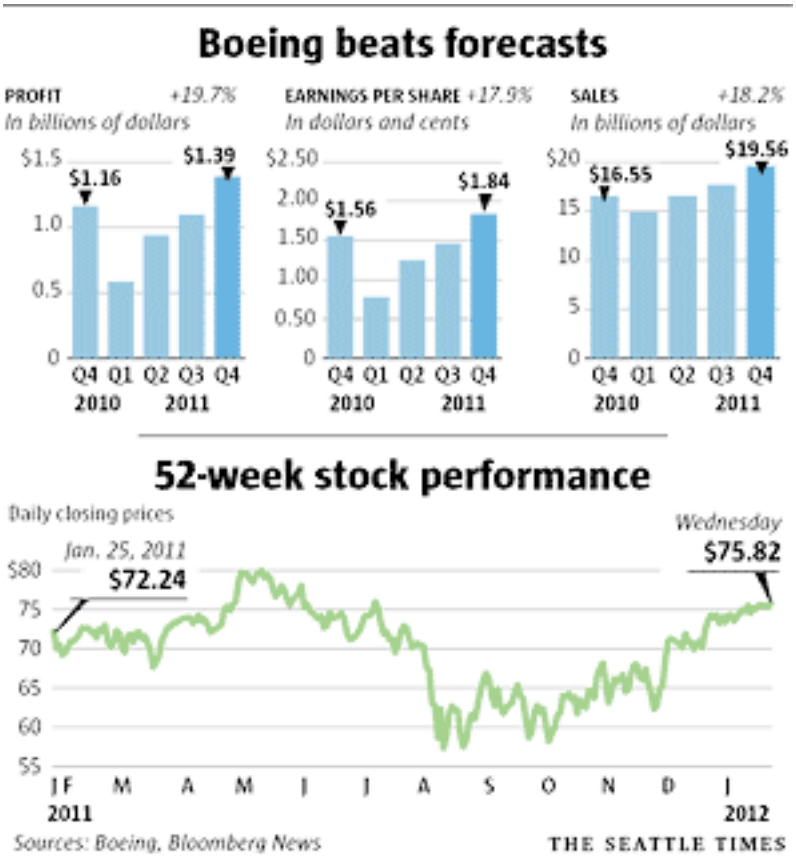

Related (Boeing earnings statement (PDF)

Boeing announced glowing year-end financials for 2011 Wednesday and expressed confidence that this year it will significantly clear the costly clutter of more than 40 partially completed 787 Dreamliners on the flight line at Paine Field in Everett.

"We'll get through a lot of that mountain this year," said Chief Executive Jim McNerney.

He projected that Boeing will deliver 585 to 600 jets in 2012 — more than Airbus' announced goal of 570 deliveries.

And McNerney said 2012 will be a big sales year, predicting that around 1,000 customer commitments to buy the 737 MAX will become firm orders.

Despite the staggering drag of development costs on two new airplane programs — the 787 and the 747-8 — Boeing recorded a 2011 profit of more than $5.8 billion and generated $4 billion of cash from operations. It ended the year with a cash hoard of more than $11 billion.

The cost of building the 787s is coming down, though very slowly, data released Wednesday indicates.

Analyst Carter Copeland of Barclays Capital calculates that the first 787 delivered last September cost just shy of $400 million to build; each of the next 45 or so cost Boeing an average $310 million; and the latest six or seven jets being built have an average cost of $250 million to $275 million.

(Aircraft-valuation firm Avitas estimates that all these planes were sold to customers for around $100 million or less.)

"We're pleased to see progress," said Copeland, who based his figures on Boeing's tally of so-called deferred production costs. "But we continue to believe it will be a long time before they are where they need to be to be making money."

McNerney said the defense side of the company will contract this year because of government budget cuts. Boeing expects to hire 11,000 people, but attrition, retirements and layoffs will balance that for an overall flat-employment year companywide.

Still, the Puget Sound area is likely to do better than that as the commercial-jet unit continues hiring for increased production.

The head of the Renton plant said recently she will hire 600 to 700 workers in 2012. And Boeing has previously told local government officials that it expects to hire 3,500 to 5,000 workers this year. It declined to confirm that number Wednesday.

Smoothing the quickening production of the 787 Dreamliner remains central to success.

Boeing managed to deliver only three Dreamliners by the end of 2011, adding two more this month.

McNerney said Boeing will deliver a total of 35 to 43 Dreamliners and a similar number of 747-8s in 2012. About two-thirds of the 787s will come off that "mountain" at Paine Field. Jets built earlier must undergo extensive modification before they can be delivered.

That work is required because of engineering changes that emerged from flight tests. But McNerney said the flow of such changes "has slowed to a trickle."

He said Boeing has "a high degree of confidence in being able to predict when (the planes) will be done."

Even as Boeing fixes those earlier Dreamliners, it is moving ahead with plans to ramp up production.

The Everett final-assembly line is rolling out 787s at a pace of 2.5 jets per month. That will increase to 3.5 jets per month in the second quarter and to five jets per month by the end of 2012, McNerney said.

Boeing's new Dreamliner assembly site in North Charleston, S.C., will soon begin contributing to that flow, with its first delivery scheduled for the second quarter.

McNerney said that by about Dreamliner No. 65, rolling out midyear, the need for post-assembly modifications should stop.

However, the low number of deliveries expected for the year indicates that all the airplanes coming out of the factory until then will still require months of modification work.

Despite that continued cost burden, Boeing is flush with cash.

An analysis by Barclays' Copeland, published last month, concluded Boeing has garnered nearly $20 billion in nonoperational cash benefits over the last five years from deferred tax payments, selling jets in its leased-aircraft portfolio and raking in deposits and pre-delivery payments on sales. That money "offset about $18 billion in drag from the (787 and 747) programs, or more than $25 billion including R&D."

When Boeing reports earnings, it spreads airplane-program costs over future years — in the case of the 787, it spreads the costs over 1,100 airplanes — but its tax bill is based on current-year cash profits.

According to Copeland's analysis, every year since 2008, cash spent on the two programs has essentially wiped out operating profits from the other jet programs. The result, he said, is that Boeing has paid zero cash taxes on its commercial-airplane income in three of those four years, and close to zero in the fourth.

Copeland said Boeing's cash tax bill will mount in the years ahead as 787 and 747-8 costs come down. And the company's pension costs are also projected to rise.

Still, the profits showed up on the 2011 bottom line. Boeing reported an 8.5 percent profit margin on almost $69 billion in annual revenue, with earnings per share of $5.34.

And in the years ahead, even with higher taxes and budget cuts on the defense side, the prospect is for more cash rolling in.

As 787 and 747-8 costs go down and deliveries ramp up, Boeing is also significantly increasing production of its "cash cow" airplanes: 737s and 777s.

For 2012, Boeing projects revenue rising to between $78 billion and $80 billion, with earnings per share pegged at $4.05 to $4.25. It expects to generate more than $5 billion in operating cash flow.

Copeland said Wall Street is eager to see Boeing deploy its cash to the benefit of shareholders, from share buybacks to increased dividends.

Before the new chief financial officer spends any of it that way, however, Copeland said Boeing "better have good confidence" that it truly has 787 spending and production under control.

This year will be the test.

Boeing shares rose 46 cents, or 0.6 percent Wednesday, closing at $75.82.

Investors "want to be excited by Boeing," said Copeland. "The market concluded that things still look on track."

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MY COMMENTS . . . . **A very optimistic forecast considering the two new programs took significant "hits" since Christmas.** The AIRWORTHINESS DIRECTIVE requiring the decommissioning of the 747-8 passenger aircraft fuel horizontal stabilizer tank and the unexplained pause in the delivery of the 787s to ANA.

Almost all new aircraft programs have had hiccups . . . we will cover them in the next NEWSLETTER but *today* we are concerned about . . . **we have a question regarding the 787 TYPE CERTIFICATION. In our December 9, 2009 *NEWSLETTER* we suggested . . . . *the parties certifying the new 787 may have overlooked the following text!***

14 CFR § 25.867 Fire protection: other components.
(a) Surfaces to the rear of the nacelles, within one nacelle diameter of the nacelle centerline, must be at least fire resistant. (I estimate this would be approximately 10 feet either side of each engine.)
(b) Paragraph (a) of this section does not apply to tail surfaces to the rear of the nacelles that could not be readily affected by heat, flames, or sparks coming from a designated fire zone or engine compartment of any nacelle.
[Amdt. 25-23, 35 FR 5676, Apr. 8, 1970]

NOTE: This would be about 30 foot of the wing from the front spar to the wing trailing edge. the FAA has issued several Special Conditions because the CFRP can burn (and the photos of the B-2 bomber accident at Guam are irrefutable evidence). To make this area fire reesistant it would have to be fabricated from Aluminum or Titanium (like the wing-to-fuselage attach structure .

That issue if the *NEWSLETTER* was sent to approximately 500 people, including some staff at the FAA's Seattle Certification Office. We didn't hear any objections or denials so we had nothing to do but wait until the FAA Type Certification was Approved. Well, it has been and the Type Certificate Data Sheet (T00021SE) has been published stating aircraft conforms to 14 CFR Part 25, Airworthiness Standards, through Amendment 25-119 and Amendments 25-120, 25-124, 25-125 and 25-128 with exceptions as noted below. (*§ 25.867* was not listed.)

The *fly in the ointment! 14 CFR § 21.183 which requires . . .* § 21.183 Issue of standard airworthiness certificates for normal, utility, acrobatic, commuter, and transport category aircraft; manned free balloons; and special classes of aircraft.
(a) *New aircraft manufactured under a production certificate.* An applicant for a standard airworthiness certificate for a new aircraft manufactured under a production certificate is entitled to a standard airworthiness certificate without further showing, except that the FAA may inspect the aircraft to determine conformity to the type design and condition for safe operation.

The FAA person that issues the Airworthiness can inspect the aircraft and easily determine if the structure behind the nacelle is metallic or CFRP. If he overlooks it anyone that does note it can report the condition. Most likely no one will note it until there is an accident or incident that results in the burning of the CFRP material. The FAA would, perhaps, then issue an AD to correct the shortcoming!

Has that ever happened? YES . . . against the new passenger version of the 747-8 because of *flutter concerns*. The new restriction will prevent non-stop JFK to Auckland flights. (That AD was NOT noted in the *TIMES* article!.

If the FAA ignores the lack of Compliance and Conformity to *§ 25.867* the trial lawyers can sort it out! (The Federal Tort Claims Act shields the FAA and its employees but it doesn't protect any of the Designees!)

Next issue we will introduce you to some unique items on the TCDS.

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