

Boeing Q1 2024 Earnings Statement & Call Analysis Case Study

Truth Unlocked - Linguistic Analysis & Training



Report Date: 31st, April 2024

Ticker: NYSE:BA

Sector: Industrials (Aerospace & Defence)

Share Price: USD:164.33 (Market close 24.04.2024)

Earnings Call Date: Wednesday, 24th April 2024

Overall F.L.A.G. Rating: **RED** (remains at Red)

Conclusion:

Financial issues, specifically liquidity, are a major concern from our analysis of Boeing's Q1 2024 Earnings Call (See '5. Financials').

F.L.A.G. Rating risk upgrades to areas previously identified in the Financials and in Production Issues are now a serious concern, particularly in the financial arena for their commercial plane production (B.C.A. Division).

The issues and questions we flagged and highlighted from recent Earnings Calls have now been borne-out and present a current and continuing risk to Boeing and their Investors. We have highlighted specific areas of concern and specific areas for Research Analysts to question.

Our Case Study of Boeing's Q3 & Q4 2023 Earnings Calls can be found here (click on link);

<https://www.linkedin.com/pulse/truth-unlocked-company-earnings-analysis-case-study-boeing-chadda-y2tge/?trackingId=TZ7NNwfFT7wcAXjpTG6DcA%3D%3D>.

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1. Safety & Quality – F.L.A.G. Rating **AMBER** (previously Red)

Safety & Quality in our last report had a F.L.A.G. Rating of Red. The reasons for this are outlined in our analysis of Boeing's Q3 & Q4 Earnings Calls. In the Q1 2024 Earnings Call, our F.L.A.G. Rating has been reduced to an Amber Rating because of the involvement of the FAA (Federal Aviation Administration) and the NTSB (National Transportation Safety Board), following well-documented production issues and the door blow-out of the Boeing Alaskan Airlines plane, have resulted in more stringent oversight of Boeing, including Boeing having to submit a Control Plan to the FAA.

The Control Plan itself was sensitive within the language; was this plan unexpected and/or the timescale unwelcome?

The downgrade of risk to Amber reflects action taken by the Regulators, not by Boeing.

In the Q1 2024 Earnings Call, the Boeing Directors have implied that the measures have been implemented by them, but the underlying thread continuing from the Boeing Q3 & Q4 2023 Earnings Calls is the language of reactivity rather than proactivity.

Key Linguistic Markers – Examples

Despite the issues with the Alaskan Airlines safety issues with the door blow-out, Boeing's priority in their language leaves the flying public as their last priority.

The shift in the Q1 2024 Boeing Earnings Call is that Regulators have now 'replaced' their airline customers as the centre of focus. This is another reason why the Amber Rating reduction was considered as in the previous Q3 & Q4 Earnings Calls, Boeing's linguistic priority remained towards the airlines - and not the flying public, so plane production would be centric.

With regulation, we see a shift to the Regulators, so this is positive for the flying public. Consumer confidence in Boeing, given recent events, could affect airline orders if the public do not wish to fly on Boeing airplanes.

2. Transparency – F.L.A.G. Rating **AMBER** (previously Red)

We flagged 'transparency' as a potential issue in our analysis of Boeing's Q3 & Q4 2023 Earnings Calls. Their need to highlight this prominently and repeatedly was unexpected.

We have downgraded the F.L.A.G. Rating in this quarter's analysis to Amber as transparency has largely disappeared from Boeing's narrative.

Historical transparency was an area we highlighted as one for Research Analysts and Investors to be aware of and to scrutinise, particularly relating to transparency concerning production issues. In the last two quarterly Earnings Calls, Boeing's mentioning of their transparency was predominantly present-tense and future-tense; as such this was reactive and highlighted to us that historical transparency would be an area to probe, and one to flag to Research Analysts and Investors to be conscious of.

As with Safety & Quality, the oversight by Regulators has been the defining factor of the downgrade in risk profile to Amber. With inspectors working across the Commercial arm of Boeing (B.C.A.), the need to be transparent and for it to be declared has all but diminished by the Regulators' attendance.

Historical transparency remains a question, a key factor in why the F.L.A.G. Rating was not Green.

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Key Linguistic Markers – Examples

Whereas in the Q3 & Q4 2023 Boeing Earnings Calls mentioned their transparency, we deemed this to be a need to persuade their audience that they were being transparent in various areas of the commercial airplane production and business.

In the Q1 2024 Boeing Earnings Call transparency is a sidenote, and there was a shift of emphasis to transparency towards the Regulators, which would come with the territory of being 'investigated'. Boeing have no option otherwise at this time, and this becomes a more self-serving statement.

3. Production Issues – F.L.A.G. Rating **RED** (previously Amber)

Production issues alongside the Financials were identified and flagged in our analysis of both the Q3 & Q4 2024 Boeing Earnings Calls, and both have had their F.L.A.G. Ratings moved up from Amber to Red, reflecting the high linguistic risk in the evaluation of the Q1 2024 Earnings Call.

Fuselages are the predominant flag and area of greatest sensitivity and remain an issue in the production process. Truth Unlocked believes that fuselage manufacturing numbers are uncertain, which suggests this stems from differing, rather than known, 'non-conformances'.

Whilst oversight was linguistically unwelcome, the passivity married to this was unexpected. It can be questioned whether this provides Boeing with 'plausible deniability' of the numbers of new planes being produced.

Our analysis of the Q3 & Q4 2023 Earnings Calls found that Boeing's linguistic priorities were towards what they term as 'rework', or repair, of the defective planes that had run through production lines and/or into active service.

Key Linguistic Markers – Examples

Our analysis of the Q1 2024 Earnings Call highlights a continuing thread of Boeing's reactive language which was prevalent in the Q3 & Q4 2023 Earnings Calls.

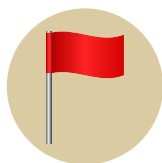
In engaging with the FAA investigation, Boeing cite that they immediately put in place a 90-day Quality Plan, which appears to have been at the behest of the FAA. They take ownership of the 90-day plan, but this disguises the fact that this was directed or forced onto them by the FAA.

The wider question for Investors and Research Analysts is why they immediately went to work on a 90-day Quality Plan to "drive improvements throughout our production system". We would firstly question whether Boeing went to work on putting together 'a' plan, rather than getting to work if they had in fact 'the' plan. We would question the presence of any plan and whether or not one was subsequently produced to meet the FAA-mandated requirements. Was this proactive or reactive?

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A question for Boeing is why it would take an FAA investigation and direction to set in place any plan to drive improvements throughout their production? Why didn't they do this themselves earlier?

This then leads us to question whether Boeing's focus is on production – which would underline our linguistic analysis from the Q3 & Q4 2023 Earnings Calls in which Truth Unlocked posited that production was not Boeing's priority at all.

Instead, our evaluation identified that that their priority was, in fact, the repairs and re-inspections of their previous builds to repair known issues [see 2. Transparency], and to check for potential unknown defects with internal and external suppliers.

It is our view that this was – and still is - Boeing's overriding priority, above new plane production. We flagged this as one of the key questions for Research Analysts and Investors to ask of Boeing.

It follows that our assertion would mean that resources and investment from cash reserves would be directed to the shadow factories, with higher cash-burn and lower production rates with new plane revenue being affected. The scale of the work being done at the shadow factories would be a question for Boeing, as the remit of that work may extend beyond what they have stated, and the timeframe for this work within the shadow factories should be further questioned as we mentioned in our previous report.

The biggest linguistic flag we identified and urged Research Analysts and Investors to question related to money being spent in these shadow factories.

It is essential to question how long precisely each of the shadow factories will remain open, as this may be longer than Boeing is reporting. It is also essential that any response from Boeing is not a collective factory timescale, but specifically the best estimate expiration of works for each.

This was Truth Unlocked's primary Red flag in the previous analysis for Research Analysts to question and remains a concern to be fleshed-out.

4. Supply Chain – F.L.A.G. Rating **AMBER** (remains at Amber)

Whilst production has now slowed due to inspections by the Regulators, Boeing continues to shift blame to suppliers in the Q1 2024 Earnings Call, whilst their communication relating to these issues remains passive, which is unexpected.

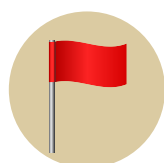
When someone talks or makes a written statement, they will typically use either active language or passive language. Passivity in language unintentionally tells us as trained analysts that the subject(s) lack conviction in what they are saying, which in turn makes us question whether they have or will commit to what they are saying.

Conversely, 'active voice' within language clearly expresses their conviction and/or commitment to what they are saying.

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Key Linguistic Markers – Examples

Language relating to the Supply Chain has become more passive, which dovetails with the oversight by regulators, which in turn, slows down production and eases tensions in the Supply Chain.

However, issues in production remain, with the blame again left firmly at the feet of suppliers in the Q1 2024 Earnings Call. Detail is lacking about any actions taken or how Boeing propose to mitigate Supply Chain issues

5. Financials – F.L.A.G. Rating **RED** (previously Amber)

Financials should be of the highest concern to Research Analysts and Investors.

Boeing’s financials were F.L.A.G. rated as Amber in our previous analysis. Our analysis of the Q1 2024 Earnings Call, however, highlighted extreme sensitivities relating to financials above any other of the areas previously covered and identified.

We highly recommend that Research Analysts and Investors look at the areas identified. The highest linguistic markers within Boeing’s Q1 2024 Earnings Call relates to their liquidity and their investment grade rating.

Subsequent to the Earnings Call, Boeing tapped the capital markets with a USD10Bn bond issue.

Key Linguistic Markers – Examples

Questions must be directed at the company regarding their liquidity, specifically on their anticipated Cash Burn Rate over the next 5 quarters relating to the operation of their shadow factories.

When asked about their liquidity, Boeing did not answer the question directly. Brian West, CFO, said that the funds that they hoped for could be available to them, in part, through credit facilities. The amount of cash to-hand is likely to remain low pre any possible future capital raising.

This sensitivity around liquidity was anticipated here in the Q1 2024 earnings Call, as the biggest flag we raised on the cost of the shadow factory work. This raised questions to us about whether further funds need to be accessed through credit lines and Truth Unlocked cannot discount the need for future equity issuance. This issue remains an unanswered question and is a dominant issue for Boeing and their Investors.

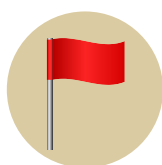
We also recommend that Investors question the issue of cash advances relating to the large Boeing P-8 plane contract mentioned in this Earnings Call to determine if cash advances were made or not. This area raised potential flags and should be explored. With the opportunity to report rare positive news, Boeing chose not to discuss it, and we would question why.

Finances and financing are the very highest flags here, with substantive linguistic markers demonstrating a serious escalation of concern to Boeing and to Research Analysts and Investors.

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6. Additional Commentary from the Boeing Q1 2024 Earnings Call

We were encouraged to see Research Analysts questioning liquidity and cash-usage, but we had recommended this be done previously. Since then, Boeing's share price has taken a substantial hit.

Aside from the key areas (above) that we flagged in the Q3 & Q4 2023 Earnings Calls and have now reassessed through the filter of this latest Earnings Call, we identified these other notable areas for consideration:

737 Production

Douglas Stuart Harned, MD at Bernstein, questioned production and Boeing's pathway to getting to 50 x 737's a month within the next two years.

There was a notable down-shift in linguistic commitment throughout the Q1 2024 Earnings Call to virtually every issue and to production across the commercial airplane aspect of Boeing's business.

Boeing, by their own admission during the Call, are gambling on a number of factors – one of which being the acquisition of Spirit AeroSystems, to hit 50 planes a month within two years. Their language suggests great doubt. It is a 'bet' which is not based on solid foundations. The production process is unstable, despite their assurances, and these are weak assertions linguistically.




CEO David Calhoun & His Successor

David Calhoun's comments regarding big development programs suggest that he got these long-term programs wrong, and Boeing will pay the price for these mistakes for a long time. We recommend that Research Analysts investigate the long terms costs of each of these development programs.

David Calhoun also talks about his successor and an internal candidate that he has recommended to the Board. Our analysis suggests that his succession plan may not align with that of the Board, and that he has doubt that his suggestions will be adopted.

Disclaimer:

Without prejudice, we do not represent, warrant, undertake or guarantee that the use of this analysis will lead to any particular outcome or result. We will not be liable in respect of any business losses, including without limitation loss of or damage to profits, income, revenue, use, production, anticipated savings, business, contracts, commercial opportunities, reputation or goodwill.

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