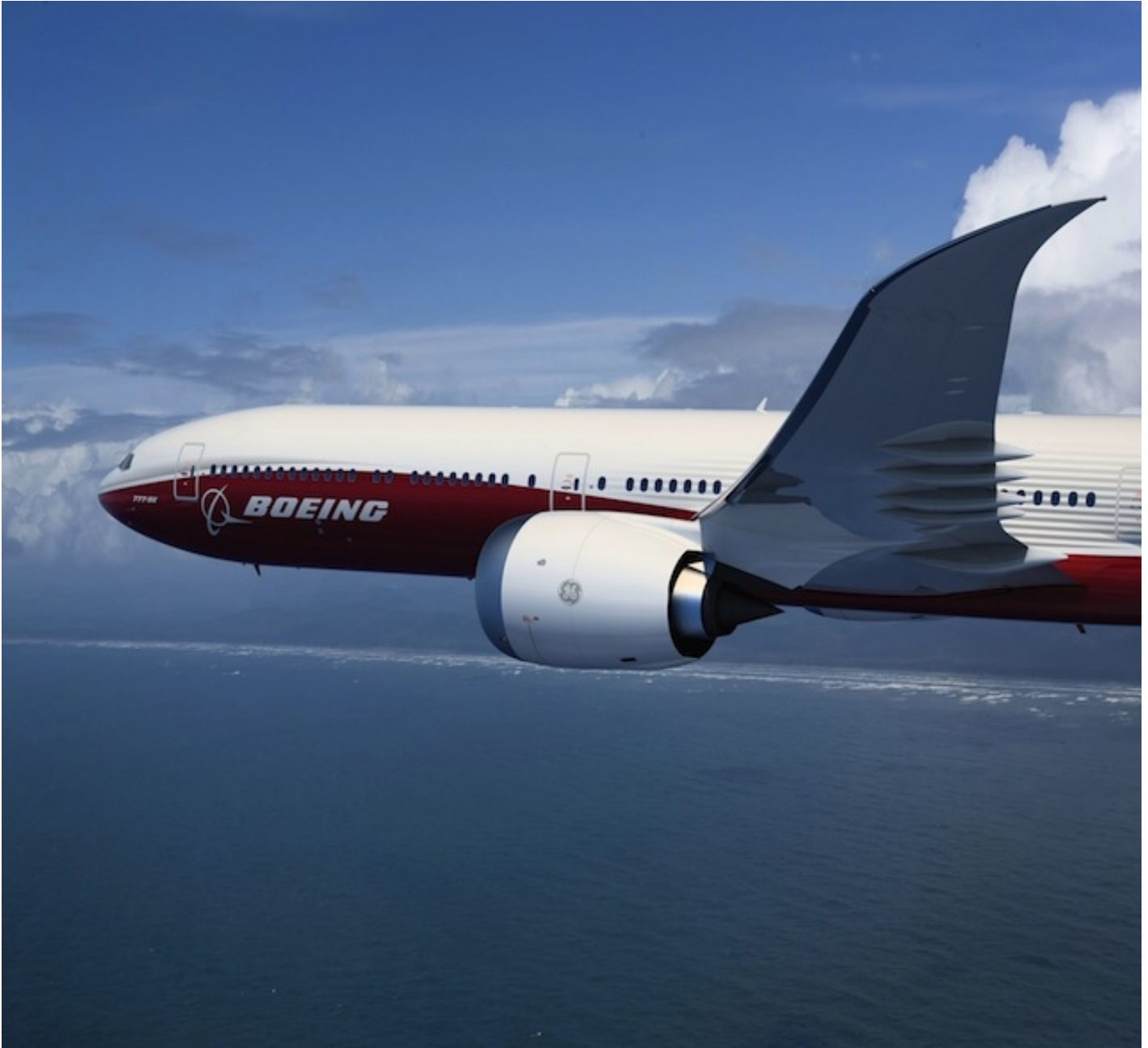




BOEING REVEALS JUST HOW FAR 777 OUTPUT IS POISED TO FALL

News / Manufacturer



In late 2013, Boeing formally launched the 777X -- the next-generation version of its popular 777 widebody jet. The 777X, which features updated engines and a new wing to boost range, payload, and fuel efficiency compared to the 777, is scheduled to enter service in early 2020.

Despite the fact that it has this 777 replacement in the works, Boeing insisted throughout most of 2014 and 2015 that it would be able to continue producing the original 777 at a record 8.3-per-month pace through the end of the decade.

Earlier this year, Boeing finally acknowledged that it will need to cut 777 output. At the company's analyst day last week, Boeing executives provided more details on just how low 777 deliveries will go in the next few years.

Boeing announces a production cut

In January, on Boeing's Q4 earnings call, CEO Dennis Muilenberg announced what many analysts had already concluded was inevitable: a 777 production rate cut. As of 2017, Boeing will reduce production to seven per month from the recent 8.3-per-month rate.

Boeing plans to maintain that seven-per-month rate through the transition to 777X production. To do this, it has said that it needs to bring in 40 to 50 orders for the current-generation 777 each year for the next few years.

Over the past year and a half, Boeing has been slightly behind this desired order pace. It received 38 firm orders for the current-generation 777 in 2015 and has secured another 12 firm orders so far in 2016.

A production rate isn't a delivery rate

It might seem obvious that with a production rate of seven per month, Boeing would be delivering about 84 777s annually starting next year. For 2017, that estimate may be roughly accurate. However, in 2018 and 2019, deliveries will be a good deal lower.

The main reason is that Boeing will start building some 777X models on the 777 production line in 2018. Some of these could be used in the flight-test campaign -- others will just be stored until the 777X is certified by regulators and can be delivered to customers. Either way, they won't be delivered in 2018 or 2019 (unless the 777X development schedule is accelerated).

Additionally, Boeing will include "blanks" on either side of the early 777X models it builds. That simply means that there will be empty positions where Boeing would usually be building airplanes. This will give workers more time to build the new and relatively unfamiliar 777X. But in practice it means that true output will be lower than seven per month.

How much lower? At its analyst day, Boeing executives opined that deliveries of current-generation 777s will actually slow to about 5.5 per month by late 2018 and remain at that rate in 2019.

What it means for Boeing

777 production cuts are bad for Boeing because this model has been a big cash cow over the past two decades, and especially in the last few years. By 2019, lower 777 production will negatively impact Boeing's cash flow by more than \$1 billion relative to 2016. (The cash flow decline could be even worse if Boeing has to cut 777 deliveries below 5.5 per month, as some analysts expect.)

However, the 787 Dreamliner program recently turned cash-positive after years of burning billions of dollars of cash annually. By 2019, higher cash flow from the 787 (and from the 737, which is scheduled for three production rate increases by 2019) will more than offset the impact of lower

777 deliveries.

When 777X deliveries start in 2020, cash flow from that program should start to rebound. Five years from now, all three of Boeing's main commercial aircraft programs should be churning out buckets of cash, sending free cash flow to a record high.

That's reason enough for Boeing shareholders to stick around, despite some potential turbulence related to 777 production and deliveries over the next few years.

16 MAY 2016

SOURCE: FOX BUSINESS

ARTICLE LINK:

<https://connect.50skyshades.com/news/manufacturer/boeing-reveals-just-how-far-777-output-is-poised-to-fall>