

Rating Action

Moody's Ratings downgrades Boeing's senior unsecured rating to Baa3, outlook negative

New York, April 24, 2024 -- Moody's Ratings ("Moody's") downgraded the senior unsecured debt rating of The Boeing Company ("Boeing") to Baa3 from Baa2. Moody's also downgraded the company's short-term rating to P-3 from P-2. The long-term backed revenue bond and backed short-term revenue bond issued by Miami-Dade County Industrial Development Authority, FL, were also downgraded, to Baa3 from Baa2 and to VMIG 3 from VMIG 2, respectively. The rating outlook is negative. Today's actions conclude the review for downgrade initiated on March 26, 2024.

The downgrades reflect the inadequate performance of Boeing's Commercial Airplanes segment ("Commercial Airplanes"), which has prevented free cash flow generation from reaching the levels Moody's had previously expected. The negative outlook incorporates Moody's view that the headwinds buffeting Commercial Airplanes will now persist at least through 2026. Annual free cash flow will fall short of the \$4.3 billion of debt coming due in 2025 and also the \$8.0 billion coming due in 2026. Moody's anticipates that Boeing will issue new debt to fund these shortfalls. The pace at which Commercial Airplanes improves will dictate how much of any new debt will be used for funding the upcoming debt maturities versus being available for operations should free cash flow generation remain tempered. New debt issuance will also further delay credit metric's multi-year march toward levels commensurate with a low investment grade rating.

RATINGS RATIONALE

Moody's had maintained the Baa2 senior unsecured rating since April 2020 until today because of the company's strong business profile and its belief that the financial performance of the Commercial Airplanes segment was going to be well along its path to recovery by now. The duopoly in large commercial aircraft manufacturing, diversification benefits of the defense and services segments and the importance of Boeing to the U.S. Department of Defense as a prime contractor will continue to support the strong business profile. However, there have been a number of documented shortcomings, including poor quality on the 737's tail fittings and rivets and fasteners on the rear pressure bulkhead by key supplier Spirit AeroSystems, Inc. ("Spirit") and the door plug blowout on a 737-9 since March 2023. These events and their related consequences have prevented the increases in the 737 monthly production rate that would have driven stronger free cash flow generation.

The Baa3 rating reflects the still strong business profile, which continues to mitigate the ongoing weak performance in Commercial Airplanes that Moody's expects will constrain free cash flow generation for 2024 and 2025. Backlog was \$529 billion on March 31, 2024, up from \$520 billion coming into 2024. The Baa3 rating contemplates that credit metrics will remain weak for an investment grade rating through 2026. Timely remediation of the findings of the Federal Aviation Administration ("FAA") audit completed in January 2024 should lead the way to eventually higher production rates. Current 737 monthly production trails the current FAA cap of 38 as Boeing takes actions to improve the quality of its 737 assembly operations. Internal investments in training, digitization of assembly procedures and increased inspections among other actions have slowed the 737 line's flow and productivity. No longer allowing Spirit to ship 737 fuselages with defects as of March 1, 2024 has also contributed to the slow down in production. Approval by the FAA of updated assembly documentation procedures and compliance therewith will be the key gating item for expanding production above 38 per month. At that time, the supply chain will need to be functioning effectively to support future rate increases. This will remain a key watch item.

The negative outlook captures the material degree of execution risk in Boeing's plan to restore compliance and higher quality to its commercial aircraft assembly operations.

Moody's expects that liquidity will remain sufficient. Because the March 31, 2024 cash balance of \$7.5 billion fell below \$10 billion, Moody's anticipates that Boeing will issue new debt to maintain a desired stronger cash position near \$10 billion and de-risk its maturity profile through 2026 in the event free cash flow falls short of its expectations.

In the Baa3 rating, Moody's contemplates a debt-funded acquisition of Spirit AeroSystems, Inc. As such, Moody's does not expect that it would initiate a review for downgrade of Boeing's ratings should an agreement be announced. However, a purchase price of Spirit's equity that is substantially higher than its recent peak of near \$36 per share would be unexpected and could have negative implications for the Baa3 rating.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The ratings could be downgraded if performance and financial results for the Commercial Airplanes segment do not materially improve over the next 12 months. Expectations for less than \$2.5 billion of free cash flow in 2025 could lead to a downgrade. An increasing likelihood of recurring reliance on the debt markets for refinancing debt maturities occurring after 2026 could also lead to a ratings downgrade. Insufficient growth of annual deliveries of commercial aircraft or recurring material charges and cash costs for contracts in the defense segment would be the likely impediments to generating sufficient free cash flow. Weakened liquidity, possibly indicated by cash sustained below \$10 billion and/or drawings on the \$10 billion of revolving credit facilities, could also lead to a downgrade. There will be little upward ratings pressure before adjusted debt nears \$30 billion and annual free cash flow has been sustained above \$8 billion. This likely remains years away. An upgrade would also depend on Boeing improving execution across its programs and maintaining strong corporate governance practices and conservative financial policies.

The principal methodology used in these ratings was Aerospace and Defense published in October 2021 and available at <https://ratings.moodys.com/rmc-documents/75735>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The Boeing Company, headquartered in Arlington, Virginia, is a leading large commercial airplane manufacturer and one of the largest prime contractors for aircraft and related systems to the US Department of Defense. The company operates in three principal business segments: Commercial Airplanes; Defense, Space & Security; and Global Services. Revenue was \$77.8 billion in 2023.

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