Boeing: Clearer Skies Ahead?

The Boeing Company, an American household name and the pillar of the nation's aviation and industrial might, is a widely publicized cautionary tale of how reckless corporate greed to appease Wall Street can tarnish the legacy of a firm with more than 100 years of engineering excellence. The unfolding turnaround story of the iconic 747 "Jumbo Jet" manufacturer has been turbulent, and Boeing has plenty of work to do to cruise above the storm clouds once more. This article will briefly touch on what we will continue to monitor before we consider adding The Boeing Company to portfolios.

Daniel Reynard

SPEED READ

- **Boeing's decline stems from a decades-long cultural shift - from engineering excellence to finance-driven management after the 1997 McDonnell Douglas merger - resulting in quality issues, production missteps, and crises such as the 737-MAX grounding.**
- **The company is now undergoing a "back-to-basics" turnaround, with new CEO Kelly Ortberg relocating leadership back to Seattle and reintegrating Spirit AeroSystems to regain quality control and restore an engineering-first culture.**
- **Boeing's Global Services (BGS) division provides buoyant earnings, supporting the broader recovery. While Boeing's Defence, Space and Security (BDS) segment leverage the group's aeronautic engineering capabilities and can potentially benefit from the global trend of re-armaments.**
- **Our investment stance remains cautious, with Boeing on the watch list until it delivers consistent manufacturing stability, positive free cash flow, and a credible path to reducing its $54.1 billion debt burden, despite strong demand and a large order backlog.**

The Engineering Peak: The 1990s and the 777

To understand why Boeing is currently in a "fix-it" mode, one must first appreciate the heights from which it fell. In the early 1990s, Boeing reached its technical peak with the development of the 777, a masterclass in industrial execution as a brand-new airplane was designed, built and reached optimal production in record time and within budget.

This era was defined by a culture where engineers had a firm grip on the flight controls, prioritizing technical excellence, and not afraid to take big bets on developing new aircraft as they had done with the 747 "Jumbo Jet" in the 1970s, which almost bankrupt the business in "The Boeing Bust". The result was a twin-engine 777 jet that matched the performance of older, costlier three- and four-engine aircraft, cementing Boeing as the undisputed leader in global aviation at the time.

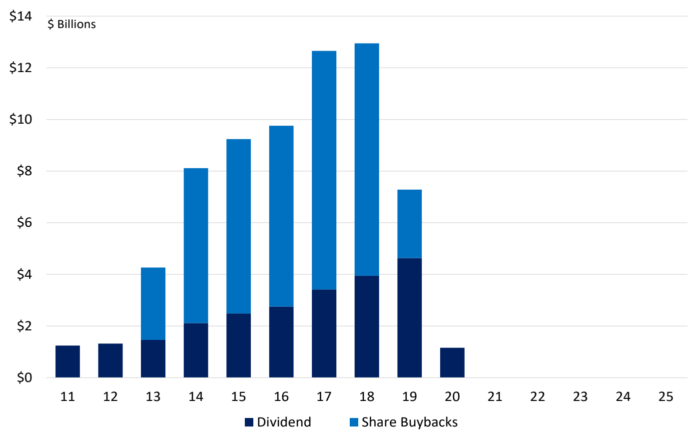
The launch of the Boeing's iconic 747 'Jumbo Jet', 1970. Boeing went on to deliver 1 574 Jumbo Jets before production ended in 2022

The Pivot to Finance: 1997 – 2018

The 1997 merger with McDonnell Douglas introduced a "new breed" of leadership that fundamentally traded engineering excellence for more aggressive business practices. This "finance-first" management style, heavily influenced by the General Electric (GE) school of value maximization, which was popular at the time in other industries, shifted the corporate focus from designing a new aircraft completely in-house to focusing on assembling outsourced modules as if it were Lego. Compounding this culture shift, management relocated its headquarters from Seatle to Chicago, to distance senior management from the day-to-day operations on the factory floor.

Initially, the change in strategy was a great success and Boeing funnelled over $43 billion into stock buybacks between 2013 and 2019 while maintaining an attractive dividend profile. The stock price soared to all-time highs of $405 at the end of 2018 as Boeing became a Wall Street darling. During this period, Boeing launched two new aircraft programs: the revolutionary 787 "Dreamliner" program, and in response from mounting competition from more modern Airbus aircraft, Boeing hastily refitted the aging 737 family with newer engines, branding it the 737-MAX.

BOEING'S RETURNS TO SHAREHOLDERS



Boeing distributed approximately 25% of operating free cash flow to shareholders through a combination of dividends and buybacks.

Boeing in Free Fall: 2019 – 2024

Unfortunately, the aggressive share buyback strategy and extensive delays in the development of the 787 "Dreamliner" program depleted the deep cash reserves needed to fund R&D for a truly next generation 737 replacement. Paired with the hasty development and poor oversight from senior management in Chicago, the infamous 737-MAX crisis occurred. After two fatal accidents in 2019, the 737-MAX was grounded, and Boeing was forced to pause production of its 737-MAX cash cow.

As Boeing began to recover from the pandemic, an incorrectly installed door plug on a 737-MAX blew out shortly after take-off. The Federal Aviation Administration (FAA) capped production output to force Boeing to address quality issues once more with a key supplier, Spirit AeroSystems.

Factory reset: 2024-Present

Following years of regulatory scrutiny and net debt ballooning 600% from $6.2 billion in 2016 to $43.2 billion in 2025, Boeing enters 2026 under a leadership

The Boeing 737 in various incarnations, is one of the world's most widely used aeroplanes and has become a stalwart of the global low cost airline industry.

team tasked with a "back-to-basics" restoration, aimed at rebuilding trust with its staff, airlines and customers. The new CEO, Kelly Ortberg, has relocated the CEO position back to Seattle to be closer to production lines. The 2025 acquisition of Spirit AeroSystems marks a definitive end to the outsourcing era, bringing fuselage manufacturing back under Boeing's direct control to ensure quality.

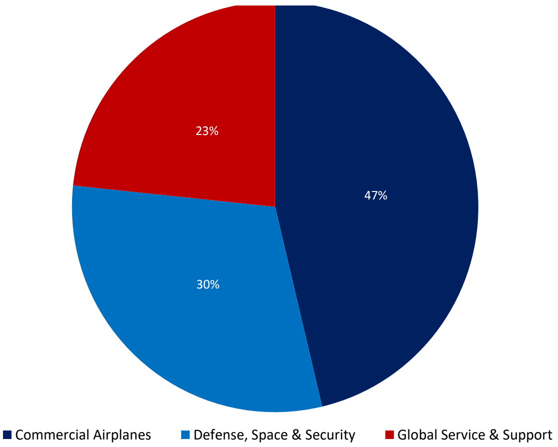
Boeing is still far from being dead and buried. Five major tailwinds are still present:

1. The first is that Boeing has still been able to secure mega-orders from loyal clients such as Emirates, Ryanair and Air India. The order backlog for Boeing aircraft has increased 68% since 2022 to $682 billion, with customers patiently waiting for Boeing to deliver more than 6,100 airplanes.
2. Boeing has announced progress in certification of its new 777X, expected to enter service next year after almost six years of delays. The plane's party trick is that it can fold the end of its wingtips up to fit in smaller parking bays in airports.
3. Production rates for the 737-MAX are set to rise in 2026, with management aiming to reach 47 units per month, up from the current 42.
4. Global air travel is still rapidly expanding. Boeing forecasts that air travel demand will grow 4.7% annually over the next 20 years. Airlines realistically only have Boeing and Airbus to choose from for widebody airplanes.
5. Boeing's competition faces their own difficulties. Airbus's successful A320neo is facing serious engine shortages while China's COMAC is still struggling to ramp up production of its own 737 competitor beyond 5 units a month.

Segment Health: BDS and BGS Performance

Boeing has become more than commercial aircraft manufacturer, with significant expansion in defence, space

BOEING'S REVENUE PER SEGMENT



The ECB has been the most aggressive in cutting rates this cycle. Despite the rising political pressure, the Federal Reserve hasn't cut yet this year but is expected to do so either at its September or December meetings.

and security and services since its merger with McDonnell Douglas.

The Boeing Defence, Space and Services segment manufactures the Apache and Chinook helicopter models, as well as the F-15 Eagle and F-18s. The US Air Force has awarded Boeing the contract to build their 6th generation fighter jet, the F-47, which is a big win for Boeing considering that Lockheed Martin built the previous fighters.

Boeing's Global Services segment remains the company's quiet but reliable cash cow, as customers need their Boeing products serviced and upgraded after their initial purchase. The financials have been pleasing as revenues have grown 50% since 2016, paired with stable margins averaging 15%.

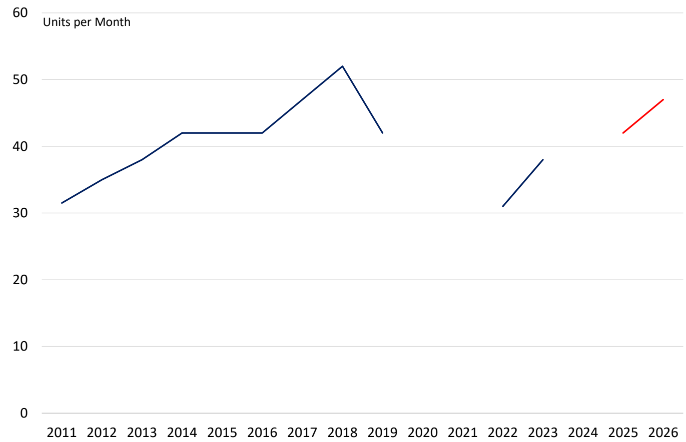
Investment Verdict: Monitoring the Inflection

We remain cautious and are keeping Boeing on our watch list as it navigates a "fix-it" story still in its opening chapters. While the company holds a massive $682 billion backlog and a global duopoly, operational execution remains high-risk, underscored by recent 777X engine performance issues. Under CEO Kelly Ortberg, management is making the right strategic moves - relocating the head office to Seattle and insourcing the supply chain - to return to the technical transparency of Boeing's golden era.

However, we believe it is more prudent to miss the initial recovery rally than to be caught in another drawn out engineering crisis. Consequently, we are specifically monitoring the following inflection points to confirm that an engineering-first culture has truly taken root before we consider an entry:

1. **Sustainable Manufacturing Levels:** Boeing must demonstrate steady, reliable production before we gain confidence in its recovery. Achieving the targeted rate of 47 aircraft per month - while maintaining strict quality standards - will be a key indicator that the "factory reset" and the reintegration of Spirit AeroSystems are successfully addressing the underlying quality issues.

737 PRODUCTION RATE"



Boeing aims to improve 737 production from 42 to 47 units per month in 2026, after the FAA capped production at 38. (Gaps represent very low or full pauses in production)

2. **Balance Sheet Repair** opening the door to future dividends: After accumulating $43.2 billion in net debt, Boeing must further reduce its leverage - particularly after supporting suppliers through multiple crises - before it can resume paying dividends. Achieving this will depend on generating consistently strong cash flow from operations.

The cockpit of a Boeing aircraft with the plane on the taxi way readying for take off.

The topic for our first Insight presentation for the year, to be held in March, is "The Trend is Your Friend". More detail will follow but we will explore trends across various topics

Topic: **The trend is your friend.**

Natal Midlands

Date:	12 March 2026
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	10 March 2026
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	n/a
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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