

The Krause Fund

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Boeing Company (BA)

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Industrials

Stock Rating

HOLD

Investment Thesis

We initiate coverage of Boeing with a HOLD rating. Boeing sits at a critical transition point: demand fundamentals are strong; however, operational inconsistency and regulatory oversight continue to cap profitability and near-term upside. While long-term value remains intact, we believe the current risk/reward is balanced until clearer execution trends emerge. Our blended DCF and peer valuation support a price of \$199.27 per share.

Drivers of Thesis

- **Operational Normalization:** Easing of prior disruptions (labor issues, production pauses, regulatory scrutiny, and quality concerns) should support more consistent delivery volumes and steadier revenue growth.
- **Backlog Conversion:** Deliveries tied to large existing orders, including Alaska Airlines, support the conversion of inventory into recognized revenue and cash flow.
- **Free Cash Flow Recovery:** As production stabilizes and rework costs decline, Boeing is positioned to improve cash generation and reduce balance sheet pressure.
- **Sustained Demand Environment:** Strong global travel demand and fleet replacement needs to provide long-term support for order activity and backlog visibility.

Risks to Thesis

- **Fixed Costs:** High fixed costs make margins highly sensitive to production shortfalls or delivery delays.
- **Management Execution:** Inconsistent execution on quality, production, or certification could delay recovery.
- **Geopolitical Risk:** Exposure to global markets and defense programs introduces risk from trade tensions, export limits, and shifting government priorities.
- **Regulatory Overhang:** Continued oversight from regulators may constrain production rates or delay program timelines.

Earnings Estimates

Year	2023	2024	2025	2026E	2027E
EPS	-3.67	\$-18.36	\$2.48	\$0.03	\$4.68
HF est. growth		-400.27%	113.42%	-98.73%	15,500%
			(NM)		(NM)

Target Price

\$200.00

Krause Fund DCF	\$199.27
Relative Multiple	1.38X

Price Data

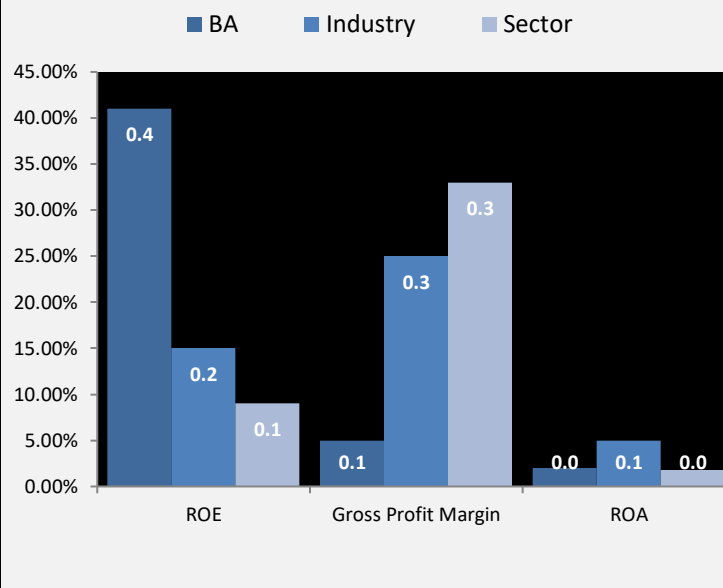
Current Price	<u>\$ 220.65</u>
52wk Range	\$137.40 – 254.35
Consensus 1yr Target	\$267.24

Key Statistics

Market Cap (B)	\$173.375B
Shares Outstanding (M)	790.0M
Institutional Ownership	65%
Beta	1.13
Est. 5yr Growth	17.5%
Price/Earnings (TTM)	87.62
Price/Earnings (FY1)	40-60X
Price/Sales (TTM)	1.82%
Price/Book (mrq)	2X

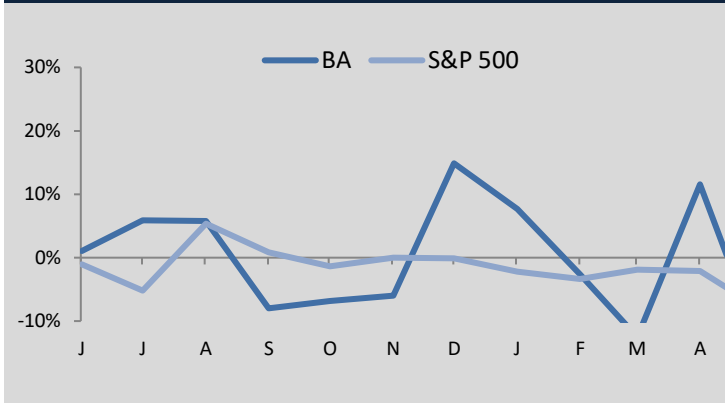
Profitability

Operating Margin	4.00%
Profit Margin	2.00%
Return on Assets (TTM)	1.00%
Return on Equity (TTM)	41.26%



Important disclosures appear on the last page of this report.

12 Month Performance



Data Source: [Yahoo Finance](#)

Highlights of Boeing

- One of the world's largest aerospace and defense companies, focused on designing, manufacturing, and servicing aircraft, space systems, and defense equipment for customers globally.
- Operates across three primary business areas: Commercial Airplanes, Defense, and Services
- Hired in 2024, President and CEO Kelly Ortberg is a University of Iowa alumnus.
- Headquartered in Arlington, Virginia, with major manufacturing operations in Washington state and across the United States.

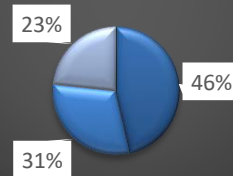
COMPANY DESCRIPTION

Boeing is a global aerospace and defense company that develops, manufactures, and services commercial aircraft, military systems, and space technologies. Boeing operates in over 150 countries, serving primarily commercial airlines, cargo carriers, and government agencies. Their business model is built on commercial aircraft sales and servicing revenues, with incremental contributions from space program technologies and emerging AI technologies as well. Rev. Coming off a 6-year period of underperformance (2019-2025), Boeing is currently in a recovery period. Safety issues within the 737-max program in 2019, followed by the coronavirus pandemic, and finally labor strikes in 2024, Boeing's lackluster financial performance is explained. If Boeing can return to, or even improve upon, margin levels from 2016-2018 of about 10-12% then they regain profitability.

Boeing will not be rolling out any new products for the foreseeable future. Instead, their primary R&D focus is streamlining manufacturing processes to mitigate any possible safety issues, as well as keeping up with the great incoming demand for commercial airliners. Success in doing so should help raise operating margins; failure could result in a large decline in ROIC.

Revenue % by Segment

- Commercial Airplanes
- Defense, Space & Security
- Global Services



Data Source: [FactSet](#)

Commercial Airplane Segment

Boeing's Commercial Airline Segment makes up 46% of its revenue and is also the company's largest driver of profitability. However, this segment is also Boeing's most volatile historically. Production disruptions (labor strike in 2024) as well as market downturns have caused major stress to commercial airline production and sales recently. We predict these issues to subside. Assuming minimal negative impacts from current conflicts in the Middle East, we are predicting sales of commercial aircraft to increase by about 12-15% over the next few years. Large orders from companies like Alaska Airlines and a massive backlog of over 6,700 airplanes to supply products for companies like United Airlines and Southwest Airlines (both with aging fleets) could create increased revenue inflows from the segment.

Defense, Space, & Security Segment

Boeing's Defense, Space, and Security Segment make up about 30% of its revenue. While being much less volatile than the Commercial Airline Segment, this Segment does still see volatility, mainly stemming from military spending on defense. Recently, Boeing signed a 7-year agreement

with the United States government to expand production of missile defense systems. This will grow this segment's revenue contributions in a very steady way in the future. With a current U.S. defense budget of about 1 trillion dollars, with proposals to raise this budget to 1.5 trillion dollars there is a strong outlook for this segment. This segment is a particularly high source of capital expenditure for Boeing, as there is always a need to build or design new technology, we are still forecasting this segment to grow by 5-7% over the coming years.

Global Services Segment

Boeing's Global Services Segment is its most consistent of all its revenue streams. Accounting for about 23% of their total revenue, this segment specializes in repair, maintenance, spare part manufacturing, training, and aviation solutions for airlines. This is Boeing's most consistent cash flow creator, as so long as Boeing aircraft are in use, there will be a need for maintenance throughout their lifetime. Assuming Commercial Airline sales increase as we expect, we expect this segment to grow to a steady 3-4% and continue to make up about 20% of Boeing's sales.

ROIC & Value Creation Analysis

Boeing historically was a high-return industrial driven by margins, but operational failures collapsed ROIC below its cost of capital. The investment case today depends on whether management can restore margins and asset efficiency enough to push ROIC back above WACC, turning growth from value-destructive to value-creating.

Cost Structure Analysis

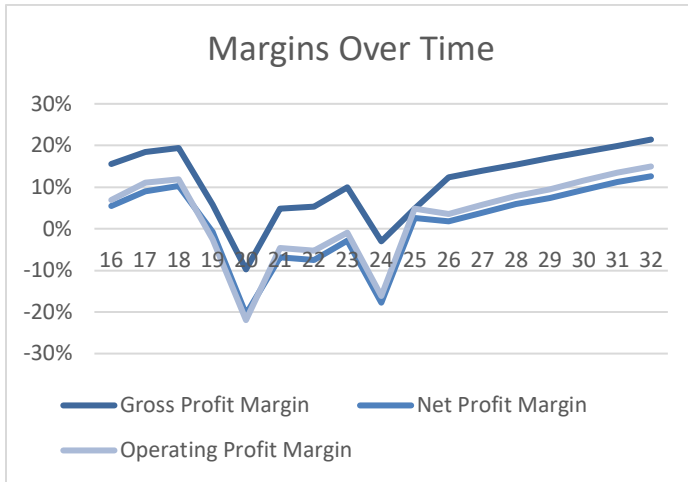
Boeing's cost structure reflects the inherent complexity and cyclicity of the aerospace industry, combining high fixed manufacturing costs with program-specific variability and ongoing investments. Historically, Boeing has demonstrated meaningful operating leverage, with gross margins expanding from the mid-teens in 2016–2018 (14–19%) alongside operating margins exceeding 10%. This performance was driven by strong commercial aircraft demand, efficient production scaling, and pricing power. However, this structure proved highly sensitive to disruptions, as seen during the Boeing 737 MAX grounding and global pandemic, when gross margins compressed to

low single digits or negative territory and operating margins fell as low as -16%, reflecting under-absorption of fixed costs and elevated production inefficiencies.

From a cost composition standpoint, Boeing's cost of goods sold is largely fixed in the short term, driven by labor, supplier contracts, and manufacturing overhead tied to long production cycles. This creates significant operating leverage as production volumes increase, unit costs decline, and margins expand. Conversely, when volumes fall or deliveries are delayed, fixed costs are spread over fewer units, sharply pressuring margins—as observed between 2019 and 2024. SG&A expenses, which have risen from roughly 7–8% of sales pre-2019 to over 10–13% in recent years, indicate reduced efficiency and ongoing investment in compliance, quality control, and administrative overhead. This suggests that while some overhead is variable, a meaningful portion remains sticky, limiting near-term margin recovery.

Looking forward, margin expansion is expected to be driven by three primary factors. First, COGS improvement should come from higher production rates and better program execution, particularly on key platforms like the Boeing 787 Dreamliner, where prior inefficiencies and deferred costs weighed heavily on profitability. Second, pricing benefits from a large backlog and normalization of commercial aerospace demand should support gross margin recovery. Third, operating leverage in SG&A should gradually materialize as revenue scales faster than overhead, although this may be partially offset by continued investment in safety, engineering, and regulatory costs.

We estimate that Boeing's margins will recover gradually rather than through rapid normalization. Gross margins are expected to expand steadily as production volumes increase and fixed costs are spread out, though they are likely to remain below prior to peak levels in the near term. Operating margins are projected to improve from low single-digit levels toward a normalized range of approximately 8–10% as operating leverage materializes and cost pressures ease.



These Inefficiencies have affected Boeing significantly, resulting in ROIC dropping from 38% in 2016 to -28% in 2024, and ultimately 4% in 2025. This transition represents their ROIC falling from well above their peers (~15%) to far below. Primarily driven by margin compression and a fall in invested capital turnover.

Looking forward, we project a gradual recovery as Boeings operations begin to normalize. We estimate total asset turnover to reach the ~0.55x–0.56x range and fixed asset turnover recovering toward ~2.74x in the later years, but still below historical peaks. Additionally, we estimate ROIC to return to nearly 30% by 2029.

Invested Capital Analysis

Boeings invested capital profile consists of extremely high fixed costs. Due to the nature of their business, the production of commercial aircraft and aerospace technology require an extraordinary amount of Net PPE, consisting mostly of factories and machinery. Historically, this has limited their ability to scale and made them very sensitive to changes in revenue. While Boeing once demonstrated strong capital efficiency (with invested capital turnover peaking near ~8.0x in 2018) and far outperforming their peers, several production halts and revenue disrupting events caused Invested Capital Turnover to drop significantly and reached -0.73 in the most recent fiscal year. This decline highlights a sharp disconnect between the capital deployed and the revenue generated. Unlike more variable-cost heavy businesses, Boeing’s dependence on physical production capacity makes scaling both expensive, operationally complex, and ultimately risky.

The primary drivers of this decline have been operational inefficiencies and its lengthening operating cycle. Days of inventory on hand increased dramatically from ~200 days in 2016 to over 500 days at its peak, before modestly improving but remaining elevated (~370 days in 2025). Additionally, receivables turnover declined from 10.40x in 2016 to 7.68x in 2025, signaling slower collections and further pressure on liquidity. All these contributed to an increase in the net operating cycle, which expanded from ~187 days in 2016 to over 500 days at its peak, before moderating to ~362 days in 2025. While payables provide some offset, they have not been sufficient to counterbalance the drag from inventory and receivables.

Our projections for increasing capital efficiencies are directly tied to the fact that the original drop was mostly tied to non-recurring disruptions, including the 737 MAX grounding, COVID-related production shutdowns, and broader supply chain constraints. As these pressures continue to ease, Boeing’s large backlog of aircraft orders should support a meaningful increase in deliveries and revenue, allowing the company to better leverage its existing asset base. This normalization in production and fulfillment should drive improvements in both asset turnover and overall capital efficiency, bringing returns closer to historical levels.

MARKETS AND COMPETITION

Within the Industrials sector, Boeing’s primary competitors include Airbus in commercial aircraft and Lockheed Martin in defense. Industry demand is supported by rising defense spending (35% of sales) and a recovery in commercial aircraft deliveries (528 aircraft delivered vs. 570 targets in 2025), both of which drive Boeing’s revenue growth (\$77B, +17% YoY). The demand environment between Boeing and Airbus is expected to support high levels of Capex (\$2.5B, 3.2% of revenue), as Boeing invests in stabilizing production and improving efficiency. Recent investments in digital manufacturing (AI) should help to reduce historical cost pressures, reflected in operating margins (2% EBIT margin vs. Airbus 10%) and cost of goods sold (90% of revenue). Improvements in production rates (31 units/month vs. prior to 25) are critical to spreading fixed costs and supporting margin recovery. For investors, the key

question is whether this investment translates into improved returns. Boeing's ROIC (-5%) remains below peers, driven by weaker margins and higher invested capital (\$100B). A successful ramp in production and cost control would support free cash flow recovery (\$3B FCF, 4% margin) and valuation upside in a DCF framework. However, if execution challenges continue, raising Capex and working capital needs (Δ NWC: \$1.7B) may continue to spend cash trying to generate FCF without meaningful improvement.

1. Boeing vs Airbus

Since 2018, Airbus has outperformed Boeing with far more stable operating margins (8–12% vs. Boeing -5–6%) and higher numbers of aircraft deliveries (735 vs. 528 aircraft), supporting its takeover of most of the aircraft market. This reflects stronger production execution and fewer disruption-related costs. Boeing's production delays and higher leverage (Net Debt: \$45B) have hurt revenues (\$77B) and margins, allowing Airbus to gain share within the duopoly. Geographically, Airbus is more internationally diversified (85% non-U.S.), while Boeing remains more concentrated in North America (55% U.S.). We forecast Boeing margins to recover to 10–12% by 2028, driven by higher production rates (50 units/month) and cost normalization. Successful execution would support share recovery; however, delays could continue to weigh margins and free cash flow (\$3B).

2. Boeing vs Lockheed Martin

Boeing and Lockheed Martin compete in the defense segment, where Lockheed's F-35 program drives scale and profitability (Defense Revenue: \$67B, 96% of total). Both firms rely heavily on U.S. Department of Defense contracts (Boeing: 30% of revenue; Lockheed: 70%), but Lockheed's much more consistent execution supports higher margins (EBIT: 11% vs. Boeing 6%). Boeing's production struggles and high costs (COGS: 90% of revenue) have pressured defense profitability, while Lockheed benefits from program stability and long-term contracts. As a result, Boeing falls behind in defense operating performance (5% margin gap). We expect this gap to continue over the next 3–5 years, as Lockheed maintains scale advantages and contract visibility (Backlog: \$160B vs. Boeing \$520B). Without sustained improvements in cost control and execution, Boeing is

unlikely to close the profitability gap, limiting upside to defense-driven margins and cash flow (FCF: \$3B).

- **Bargaining Power**

Commercial aircraft is Boeing's primary value driver, and within this segment, customers (airlines such as Southwest) hold the bargaining power. Weak execution and low brand trust force Boeing to discount pricing to sustain deliveries, shrinking margins (EBIT 2% vs. Airbus 10%) and keeping COGS elevated (90% of revenue). These dynamics drive Boeing's underperformance in ROIC (-5%) and limit near-term pricing power, though improvement will be as successful as production ramp-up. In Defense, bargaining power lies with the U.S. Department of Defense, resulting in stable but constrained, contract-driven margins. Compared to Lockheed Martin (EBIT 11%), Boeing (6%) faces a persistent margin disadvantage due to consistent execution inefficiencies. Overall, limited pricing power and high capital intensity (CapEx 3% of revenue) continue to pressure profitability across segments.

- **Industry Positioning and Structure**

Commercial Aerospace: Very cyclical, high volume, duopoly between Boeing and Airbus

Defense, Space, & Security: Low margin, yet extremely stable. High growth predicted

Global Services: Recurring revenue

The Industrial's industry is in a current state of growth alongside the GDP of the United States. Due to Boeing's historical production issues, we have growth forecasted at about 2.5%, which is slightly below industry average but also allows Boeing to return to a profitable business overtime.

- **Drivers of Differentiation**

Within the last 8 years, competition has been driven by brand trust and product quality. In 2019, a series of malfunctions created doubt alongside the Boeing brand. Production strikes in 2024 delayed order fulfillment, further creating brand mistrust. These issues have allowed Airbus to take over most of the duopoly. We do forecast Boeing to retake this portion and regain this customer

trust over time by smoothing production woes via an increase in capital expenditure increase in 2026.

- Connection to Thesis and Forecast

We forecast Boeing to regain its competitive advantage to a point. It will all be driven by production efficiency. If Boeing can regain its share in the commercial aerospace sector and leverage that as a major driver of free cash flow by fixing its supply chain issues without over investing for low level results. The industry should support this with the ever-growing demand for aeronautics and defense products, which Boeing manufactures both of.

Peer Comparisons

- Pricing Power and Cost Efficiencies

Peer comparison highlights Boeing's weaker underlying production in comparison to competitors. Pricing power is reflected in gross margins, where Boeing trails Airbus due to very high COGS (90% of revenue), which constrict margins. Regaining their majority stake in the commercial aircraft industry by regaining customer trust should allow Boeing to regain some level of pricing power. To execute this idea, Boeing needs to be much more capital efficient. These efficiency gaps are driven by operational and production factors. Boeing operates with a less efficient cost structure, including recent high rework costs (to attempt to fix production issues), production delays, and labor inefficiencies (strikes), which contribute to lower operating margins (EBIT 2% vs. Airbus 10% and Lockheed Martin 11%). Unionized employee strikes in 2024 and 2025 are great evidence of this poor usage of labor. On the capital side, Boeing's inventory buildup and slower production cycles reduce turnover, increasing invested capital and pressure returns (ROIC -5%). In contrast, peers benefit from more stable production, better inventory management, and higher asset utilization, supporting stronger margins and capital efficiency.

The overall implication coming from the data is that most Boeing struggles have come from within. Labor strikes and safety flaws are highly controllable issues, yet mismanagement has allowed these to slip through the cracks historically. In July of 2024, a new hire at CEO was made to try to correct these issues. Full effects of this hire remain to be seen, though Revenue and ROIC did improve by \$22B and 19% from 2024.

- ROIC Analysis and Differentiation

As mentioned, prior, Boeing's struggles with their Return on Invested Capital all extend from their production line of inefficiencies. These inefficiencies create high costs for reworking systems, thus creating a high proportion of debt within the company. These are debts not possessed by companies like airbus and Lockheed Martin since they haven't encountered the same struggles as Boeing in the recent past. Assuming Boeing recovers from this, they can begin to differentiate themselves from their peers due to their massive backlog. As of 2025, Boeing's inventories make up about 50% of their total assets (about \$84B). Orders like the 15-billion-dollar deal with Alaskan Airlines allow for massive releases in the backlog, turning inventories into cash for the company's disposal. Boeing can also leverage their services sector as a steady form of cash. If they can increase the number of planes sold, they also will grow their revenue from sales in parallel, creating extra revenue with minimal capital needed to obtain. Leveraging AI is also a potential area for Boeing to differentiate itself. Though there are large barriers to entry in this field, Boeing could save on long run costs of labor assuming their AI networks are able to handle many requests for software service.

The largest risk in Boeing's recovery and possible outlook all come from within. Like Boeing's previous woes, if management cannot consolidate and improve performance, all speculation is useless, and the company will eventually be fully outcompeted by Airbus and Lockheed Martin who show no signs of these issues. Avoiding that outcome and leaning into an ever-growing demand for airline travel could allow Boeing to return to its once dominant state.

Boeing's true competitive advantage comes from two places, both with room to grow. The first being that Boeing has world renowned engineers at the helm of their aircraft creations. Boeing only hires world class engineers, so that has never been the reason for the poor quality of aircraft, rather than the poor quality of management and expectations created by management. With production lines improving as well as stronger management, Boeing can best leverage their quality of engineer/worker to return to being a driver in innovation within aeronautics. The second competitive advantage is Boeing's diversity of sources of cash. Having three separate segments allows for a greater level of diversification vs competitors. Ensuring cash flowing from more than one source helps Boeing create value.

Looking forward

Going forward, Airbus and Lockheed Martin are better positioned than Boeing because both pair stronger margins with better capital efficiency, but that's not to say that Boeing will not return to profitability. In 2025, Boeing posted a 4.8% gross margin, -6.0% operating margin, and 4.3% ROIC, versus Airbus at 14.9%, 7.1%, and 16.0%, and Lockheed Martin at 12.6%, 9.9%, and 18.3%. Boeing's current weak pricing power and cost inefficiencies remain clear in its 90% COGS burden, while Airbus benefits steadier commercial execution and Lockheed from stable defense contracts. Industry trends should help all three firms, but the benefits will be uneven. Rising aircraft demand and defense spending support revenue growth across the group, yet Airbus and Lockheed are better positioned to convert that demand into margins and cash flow because they operate with leaner cost structures and stronger turnover. Boeing's inventory turnover of 1.0x still trails Airbus at 1.6x and Lockheed at 18.8x, showing that production delays and inventory buildup continue to weigh on capital efficiency. For Boeing, this means future ROIC and valuation depend almost entirely on internal execution. If management can improve production stability, reduce rework and labor disruption, and convert backlog into deliveries, margins and invested capital turnover should recover, supporting ROIC expansion and DCF upside. If not, Boeing will likely remain below peers on returns, with weaker valuation support despite favorable industry demand.

RECENT DEVELOPMENTS

Recent Earnings Announcement

Boeing released its first quarter of 2026 report recently highlighting a 10% increase in aircraft deliveries over the first quarter of 2026 over the first quarter of 2025. Additionally, Revenue from the Defense, Space, and Security segment is up 23% since 2025. This increase is directly correlated with the geopolitical conflict in the Middle East leading to high governmental military

spending. First Quarter EPS coming at -\$0.20 makes sense for this time given Boeing's 2026 goal of recovery.

Recent Development #1

On December 8th, 2025, Boeing acquired Spirit Aerosystems for about \$8.3 billion dollars. This serves as a major attempt at fixing Boeing's largest issue. Spirit Aerosystems was Boeing's largest supplier for programs like 737, 767, 777, and 787. Obtaining the company allows for greater control of manufacturing processes as Boeing attempts to compete with Airbus and Lockheed Martin more consistently.

RISKS

Though as a whole, our valuation of Boeing is Bullish, with the belief that Boeing can rectify past production problems and regain value as a brand, there are many elements that have plagued Boeing in the past that pose strong risks to our model.

Sources of downside risk include the following:

- High fixed costs: Large specialized machinery, and many patents cause Boeing's business model to be heavily weighted towards fixed costs. These have almost no salvage value, so if production is not fixed, Boeing will continue to operate in a loss.
- New Management: Though in the first year and a half under Kelly Ortberg Boeing has shown signs of recovery, there is also the possibility that these efforts fail and result in no substantial change.
- Geopolitical Risks and Oil Prices: Elements like high oil prices which decrease spending have proven to cause financial struggles for Boeing (Covid Pandemic). A high productivity macro economy is necessary for Boeing's to succeed.
- Regulatory Oversight: 2018 plane crashes have caused Boeing to have much higher levels of FAA oversight to ensure safety. If any production issues persist and cause safety concerns, legal costs will be immense.

Debt Maturity Analysis

Boeing's largest risk when it comes to debt is the high level of debt due immediately this year. With over \$8 billion due

in 2026, combined with Boeing being in a period of recovery, we expect Boeing to be forced to refinance some of their debt as there is not a high chance that generated cash flows are going to be high enough to cover the debt itself. This created another level of risk for Boeing that hasn't yet been mentioned. Relying on external financing opens Boeing up to credit risks, including factors such as interest rates and investor demand for corporate debt levels. Assuming production issues subside, Boeing should be able to repay these debts over the next few years, allowing debt to subside at a high level and probably ease financial risks for the future.

Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment (\$mil)
2026	3.1%	\$8,250
2027	6.259%	\$4,300
2028	3.25%	\$2,370
2029	6.289%	\$2,500
2030	5.150%	\$5,250
Thereafter	6.528%	\$28,150
Total		\$50,820

Source: FactSet

VALUATION

Boeing's valuation is heavily dependent on its ability to successfully execute a multi-year recovery, normalize production, and improve profitability while managing a highly leveraged balance sheet. As a result, our assumptions are intentionally conservative in the near term and gradually improve as operations stabilize.

Revenue

Revenue growth in our model reflects a recovery-driven trajectory rather than traditional expansion. In the near term, Boeing's growth is primarily supported by increasing production rates for key programs such as the 737 and 787, along with the conversion of its significant backlog. However, this growth is constrained by ongoing supply chain challenges and regulatory oversight. Unlike more stable commercial aircraft, aerospace, and defense peers, Boeing is not positioned for immediate consistent growth, and therefore our projections assume a gradual ramp

rather than an aggressive rebound. Over the long term, revenue growth stabilizes at a lower and more sustainable rate as production normalizes, and the business transitions from recovery-driven expansion to cyclical growth. This assumption is critical, as the recovery of the production cycle is key to revenue growth and Boeing's overall valuation.

Operating expenses

Boeing's cost structure is one of the most important drivers in the valuation due to its extremely high fixed-cost base. Cost of goods sold (COGS) currently represents roughly ~90% of revenue, reflecting inefficiencies and underutilization of production capacity, largely driven by recent production halts, delays, and operational disruptions.

Given a significant portion of Boeing's expenses are fixed in the short term, they are subject to substantial operating leverage, where changes in production volume have an outsized impact on profitability.

Our model assumes that operating expenses improve gradually as production stabilizes.

- COGS declines as a percentage of revenue as production increases
- Fixed costs are spread over higher output levels
- SG&A declines modestly as a percentage of revenue due to operating leverage

SG&A expenses have increased from approximately 7–8% of sales pre-2019 to over 10–13% in recent years, reflecting ongoing investment in compliance, quality control, and administrative infrastructure. While some of these costs are expected to normalize over time, a portion is likely to remain elevated due to continued regulatory oversight and safety-related investments.

Overall, improvements in operating expenses are expected to be gradual and closely tied to Boeing's ability to execute production and reduce inefficiencies.

Margin Analysis

Boeing's margins over the past 10 years reflect both its historical strength and the impact of recent operational disruptions. Historically, the company generated gross margins of 14–19% and operating margins above 10%, supported by strong commercial aircraft demand and efficient production. However, this structure is highly sensitive to disruptions, with margins compressing significantly and, in some cases, turning negative during periods of production halts and reduced output.

At the operating margin level, Boeing's challenges remain. The company currently operates at approximately ~2% EBIT margins, significantly below major peers, highlighting a substantial execution gap. This compression is driven by both elevated COGS and higher SG&A expenses, reflecting inefficiencies across the cost structure.

Looking forward, we project margin expansion to occur gradually as operational conditions normalize. Operating margins are expected to improve toward a 8–10% range over time, driven by increased production volumes, improved supply chain execution, and the elimination of delays. However, we do not assume a full return to historical peak margins in the near term, as continued investment in safety, engineering, and regulatory compliance is likely to keep costs elevated.

Given Boeing's high fixed-cost structure, margins are highly sensitive to production levels. Even modest increases in output can significantly expand profitability and free cash flow, while any delays or disruptions would have a similarly negative impact.

Capital Structure

Boeing's capital structure remains a major source of risk as the company begins to recover. They currently carry approximately \$45B in net debt and face significant debt repayments in the near future, including over \$8B due in 2026. This is especially impactful for being because of their history of production halts and inability to generate revenue due to a variety of factors. If they were to face another major disruption, they could face serious

pressure from creditors, amplified by only having \$10 billion in cash.

Valuation Results

Our valuation results are as follows:

- DCF Valuation: \$199.27
- Relative Valuation: 1.38x

Our valuation of Boeing is primarily based on a discounted cash flow model, as we believe best captures Boeings value, considering their unique position. Given Boeing's non-normalized earnings and ongoing operational challenges, the DCF framework allows us to directly model improvements in production, margins, and free cash flow over time. Our DCF produces an implied value of approximately \$199.27 per share, reflecting a gradual recovery in profitability and cash generation as operations stabilize.

We also completed a relative valuation using multiple derived peers such as Airbus, Lockheed Martin, RTX, and Northrop Grumman. This results in a multiple of approximately 1.38x, which provides a benchmark for how the market values comparable companies. However, this method is less reliable in Boeing's case, as it does not account for the company's unique situation

Given these differences, we place greater weight on the DCF valuation, which can more accurately capture our projected recovery of Boeing. Overall, our valuation supports a target price of approximately \$199 per share, indicating a cautiously optimistic outlook.

Conclusion

We initiate coverage of Boeing with a HOLD rating, reflecting a balanced risk/reward outlook. The company is at a critical inflection point where demand is strong and supported by a large backlog, but operational

inconsistency and elevated leverage continue to limit near-term upside.

Our valuation of approximately \$199 per share reflects a recovery scenario in which production stabilizes, margins improve, and free cash flow begins to normalize. While this outcome is achievable, it is highly dependent on execution. Boeing's high fixed-cost structure and recent history of production disruptions make profitability particularly sensitive to delays or inefficiencies and amplifies risk.

Looking forward, we believe Boeing will achieve recovery. The company previously demonstrated the ability to operate with double-digit margins, strong capital efficiency, and profitability, indicating that its current challenges are more cyclical and operational rather than structural. If Boeing can stabilize production, reduce inefficiencies, and convert its backlog into deliveries, it has the potential to return closer to those historical performance levels over time. However, the timing and consistency of this recovery remain uncertain. Although we do believe Boeing will ultimately recover, we recommend not adding the stock to the portfolio at this time, as it represents too great a risk relative to the expected return.

KEYS TO MONITOR

Though our model displays the bull case for Boeing's future, there are two possibilities for the company.

- Bull Case

The bull case that our model predicts is for a recovery story. Boeing can stabilize their production and regain its efficiency. Given the massive backlog and strong demand, this is very possible. The major driver here is operating leverages. The high levels of fixed costs mean that even subtle increases in outputs can greatly increase free cash flow for the firm, which can be used to pay off the high levels of debt coming to maturity. The acquisition of Spirit AeroSystems should help to do this by allowing for supplying its aircraft programs from within. More control could lead to higher quality, lower rework costs, and

shortening production cycles. A full recovery looks like the following:

- EBIT Margins of 8-10%
- ROIC returns levels like Airbus and Lockheed Martin – 12-15%
- Sustaining FCF \$8-12B

- Bear Case

The bear case for Boeing is that of irreconcilable damage being done to the company both inside and outside. The fixed cost burden and high levels of debt due soon combined with a tarnished company reputation are too much to handle for their recovery phase. A lack of pricing power in all industries also can hinder recovery. A failed recovery looks like the following:

- Inventories remain high, staying above 95% of total COGS
- ROIC is lower than WACC (~8%)
- Negative, or not improving FCF

Our recommendation will stay as a hold for the time being. Boeing needs more time to show if its recovery efforts will work or not. If Boeing begins to meet the three bullet points of the bull case, with stock prices staying below ~\$200-220, our recommendation shifts to a BUY. If these financials meet our bear case in contrast, while trading at levels of ~\$230-250, our recommendation shifts to a SELL.

REFERENCES

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7. [FactSet](#)
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11. [MarketWatch](#)

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