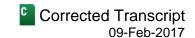


09-Feb-2017

# Spirit AeroSystems Holdings, Inc. (SPR)

Cowen Aerospace Defense & Industrials Conference



### CORPORATE PARTICIPANTS

#### Ghassan Awwad

Executive Director of Investor Relations and Corporate Strategy, Spirit AeroSystems Holdings, Inc.

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

### OTHER PARTICIPANTS

Cai von Rumohr

Analyst, Cowen & Co. LLC

### MANAGEMENT DISCUSSION SECTION

#### Cai von Rumohr

Analyst, Cowen & Co. LLC

I think if we're pretty well set, let's move on with our next program. We're delighted to have with us Spirit AeroSystems. Ghassan is about to read you kind of the disclaimer, but before he does I would say, that this has been sort of a trial in sense because of the weather. And if there is one certificate of award to be given, it's to Mr. Tom Gentile, the CEO, who basically took a flight in from Israel arriving this morning at 4:30 and he's being going straight through. So he gets the award of certificate from this conference. So Ghassan, go ahead.

#### Ghassan Awwad

Executive Director of Investor Relations and Corporate Strategy, Spirit AeroSystems Holdings, Inc.

Thank you, Cai. Just a reminder that any projections or goals we make within our discussion today are likely to involve risks which are detailed in our news releases and our SEC filings. Thank you.

### **QUESTION AND ANSWER SECTION**

Cai von Rumohr

Analyst, Cowen & Co. LLC

Terrific. So we have a new President. What impact – do you see any signs of any impact that will matter on your business or is it just too early to tell?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

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Well it certainly is early, Cai, but so far some encouraging signs in terms of what the new administration might mean, for example, to aerospace and defense industry in terms of demand. Particularly in the defense side, it appears that the administration has a focus and a priority on rebuilding the equipment and replenishing some of the stocks. So that seems to be an opportunity for the defense business to grow, and that's an area of emerging growth for Spirit. We have a lot of derivatives for our commercial aircraft, like the Tanker, which is a derivative of the 767, the P-8 which is a derivative of the 737, but we've recently been named to be one of the participants on the B21. So we're very encouraged about that and excited as that program grows. And we also supply the fuselage for the CH-53K, the heavy-lift helicopter for the marines. So as the defense business grows overall, that should be good for us as we translate our commercial capabilities into defense.

The other thing is as we see the administration; there is a focus on American manufacturing. And we think we're well-positioned for that. We are predominantly an American manufacturer. We do have overseas operations now, as we've expanded our Airbus business. We have some European operations and some operations in Asia, but most of our business is in the U.S. We buy more than 90% of our products and services from U.S. suppliers. So we're very well-positioned to grow in that and we're excited about the opportunities.

The other thing is tax reform, which could be something that is very beneficial to the overall aviation and defense sector. We do a fair amount of export from our Kinston operations in North Carolina to Airbus, but we supply quite a bit to Boeing. And Boeing is the biggest exporter in the U.S. And to the extent that the tax reforms favor exporters, that should be good for Boeing and overall for Spirit indirectly.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Got it. So if we'd focus kind of near-term fourth quarter, you amortize, I think it was \$1.1 million of deferred production cost per A350 unit that was up from about \$900,000 in the third quarter. Was this ahead of your plan and how much of that was attributable to one-time events, which you said was an issue.

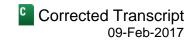
Thomas C. Gentile

Δ

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Right. Well, overall, we're on plan for the A350. Last year, we announced a comprehensive global settlement with Airbus on the A350 and that resulted in a forward loss of \$135 million. And that was on top of a previously announced forward loss of about \$115 million. So in total the forward loss was \$250 million. And we had built up a deferred inventory of about \$700 million, but – so if you take that away, it means that over the next roughly 700 units or so, we will collect basically \$450 million of cash. So, that was encouraging. It really eliminated a lot of risk and uncertainty about the program. It helped us strengthen our relationship with Airbus which should lead to some more organic work with Airbus and so we felt very good overall about the settlement.

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In terms of where we are, we're on track to meet the deliverables. We've got a lot of work and execution to do in terms of reducing our hours per aircraft as well as our cost per aircraft. And so that involves a lot of productivity. It involves implementing some new capital. It also involves taking a lot of cost out of our supply chain, working with our suppliers to bring the cost down. We were able to go positive on the deferred, which is what you saw in the fourth quarter. The \$1 million is on track overall in terms of execution. It's probably a little bit overstated, because there was some FX benefit. So about 30% to 40% of that was related to FX. The British pound really depreciated significantly against the dollar and that had an impact. So you're not going to see that level over the remaining 677 units or so.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Right.

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

A

So we're still on track to get down to the \$250 million of previously announced forward loss and the teams are really executing on plan.

Cai von Rumohr

Analyst, Cowen & Co. LLC



But even if it's like 30%, so then you would be roughly 750 units, 800 units, like you're pretty close to the average number because as you said, you have 667 units still to go to basically suck up the \$400 million. So is it that – are there price step downs or is there a chance this thing goes into the profit column?

Thomas C. Gentile

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President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Yeah. [ph] Now there's (06:03) – as we negotiated with Airbus, there are some normal price step downs in productivity improvements as we go through. So we don't expect it necessarily to exceed the targets that we have. We're on track to meet those. They're fairly aggressive and the teams are working hard to make sure that

Cai von Rumohr

Analyst. Cowen & Co. LLC



Got it. Okay. And so it also looks like 787, other Boeing deferreds might have been down in the fourth quarter. Those programs on target?

we achieve them and deliver on the commitment. So at this point, we're not anticipating that we exceed them.

Thomas C. Gentile

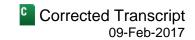


President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Yes. They are. What we see is on the 787, we've been working hard on cost reductions with Boeing and we've been able to get the cost down below the price for some initial units, but there's still uncertainty as you know around the Dash 9 pricing. And so we're being very, very tempered in terms of how we deal with that.

On the 777, again, a lot of effort on cost reductions. And so, we are in a positive state on that in terms of deferred, but the issue with the 777 is the rates now have declined from seven to five units. So we do expect that to offset in the latter part of the year. And that really has been a headwind for us. Boeing announced that the rates went

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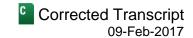


from seven per month to five per month that'll kick in later this year, but last year we really went from about 8.4 to 7 per month.

And if you look at year-over-year, it's really the number of units that we delivered last year will be more than 30 higher than the number of units we delivered in 2016. So if you think about it in terms of rate, two per month would be 24 per year. So we're going to really see more than the full year impact of rate reduction on the 777 in 2017. And so that was a little bit of headwind. We built that into our guidance though for next year, and normally in a full year as the 737 increases in rate, it will offset that.

Cai von Rumohr Analyst, Cowen & Co. LLC	Q
Right.	
Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.	A
So the 737 this year is going to go from 42 a month to 47, but that doe year. And so we're only going to see about half of a year of improvement of headwind on the 777.	• • • •
Cai von Rumohr Analyst, Cowen & Co. LLC	Q
So is there a big margin impact of going down from rate, or is it just les you go down and is there positive leverage as you go up on the 737 in	
Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.	A
On a yearly basis, the 737 will offset the 777, but because this year the full year impact on the 777	ere's the mismatch where we're seeing the
Cai von Rumohr Analyst, Cowen & Co. LLC	Q
Right, right.	
Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.	A
in only half a year, there is some negative mix.	
Cai von Rumohr Analyst, Cowen & Co. LLC	Q
Got it. Okay.	
Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.	A
Both on revenue and profit.	

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#### Cai von Rumohr

Analyst, Cowen & Co. LLC

So one of the things thing did confuse me. You said in the fourth quarter, you didn't buy any stock because of uncertainty around the presidential election window and the limited trading window. You reported Q3 on November the 1. The election was on the November 7 so you should have had at least half the quarter to buy all the stock you wanted and you didn't. How come?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Right. Well, look this was just, I think, a very unique circumstance because of the election. And as you said, we reported in early November and the election was on the November 8. So obviously we wanted to wait till after the election to see what happened. And to a lot of people, the result was unexpected. And for the aerospace and defense sector, really there was a very positive impact and stocks rose quite rapidly, including Spirit's. And so we had some threshold set. We thought we're very conservative and we've been buying in the mid-40s really throughout the year and we spent \$650 million last year on share repurchases, but there was such an appreciation of stocks in the fourth quarter that they shot right through our thresholds and we didn't really have a time to reset them, thinking well maybe there'll be a pullback and there wasn't in the quarter.

So that was really the issue. It was unique to that time, but we're really focused on disciplined and balanced capital allocation strategy. We have a \$600 million authorization from our Board of Directors, which is fully intact as we go into 2017. We're going to build on the \$650 million that we did last year. And this year it is going to be much more systematic. We don't need to be as opportunistic as we were last year. It'll be more systematic. We're focused on total shareholder return, but the other thing is last year we implemented a dividend for the first time. So, after 10 years as a public company, we initiated a dividend at \$0.10 per share and our expectation is we will grow that gradually over time and it really demonstrates the confidence that we have in our business and that our board has in our business.

Cai von Rumohr

Analyst, Cowen & Co. LLC

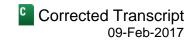
Got it. So one of the big issues is your negotiation with Boeing, the pricing. How you factor that uncertainty as you formulate guidance for 2017 for both EPS and for cash flow?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Right. So, the negotiations with Boeing have been open for some time and it really goes back to when we split off from Boeing back in 2005 is we signed agreements that were life of program for all of the Boeing aircrafts that were in existence then. And Spirit really supplies significant work packages to all of them. And we have those programs plus the derivatives. And the original contract was for 10 years which was obviously a long time. That 10 years has elapsed. And so now we've been in discussions about how do we extend those. And the issue is it gets complicated as all these things do, because it's not just a question of what work we do and how that's evolved. I mean there's escalation in material and labor and there is productivity and there is a number of factors which make up the overall cost, but also we had derivatives. So, for example, on the 737 MAX, there's a lot of changes to the NG. It's a bigger aircraft. The engines are bigger. It has more capability. So that means you have thicker gauges, you have more material. And so one of the things we had to do was establish what is the difference in cost to what we actually make?

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So for example, on the NG, there might be a part that's made of aluminum on the MAX because it's bigger with more load requirements, it might be made out of titanium. So there's a material difference. The part might be bigger on the MAX than it is on the NG, or there might be a part that's different on the MAX that isn't even on the NG. And so the teams really had to work through all of that engineering and we've got about 80% or 90% of that complete on the MAX now. So we can really move into some more commercial discussions.

Cai von Rumohr Analyst, Cowen & Co. LLC So you say 80% was done in terms of costing out the difference between A and B? Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc. Correct. Correct. And the thing is it's not just a homogeneous event. In other words, the MAX wasn't just developed, in that it's static. It's changing every month. There's 15 to 20 rather significant changes every month and so those have to be factored in, but the thing about the discussions with Boeing is we're their biggest supplier. They're obviously our biggest customer. And both of us would like to get to a deal. We have interim pricing arrangements in place. We don't want to do a deal that isn't mutually beneficial to both organizations. So we're not going to do a bad deal, but I think for both of us, we want to make sure we get to a deal. That said, we are focused on making sure that there aren't any disruptions to operations. I mean it is critical that we execute on cost, quality, and delivery for Boeing and that we meet the rate requirements and that we make sure that they're successful. Their success is our success. We don't want to, in any way, damage that. So the commercial discussions are going to happen. We will work hard to get to a good resolution, but we're going to make sure we continue to deliver operationally. Cai von Rumohr Analyst, Cowen & Co. LLC Right, but I mean just so in terms of what number will you have to make - if you're coming up with an estimate of earnings, you have to make an assumption. Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc. Yeah. Well, our assumption... Cai von Rumohr

Analyst, Cowen & Co. LLC

This is what we're going to get. I mean, did you use the middle estimate? Did you use the high? Is your estimate

one that encompasses the best case and the worst case of your outcome with Boeing?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

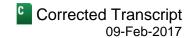
We think it's a likely and achievable case. And it should be no worse than...

Cai von Rumohr

Analyst, Cowen & Co. LLC

So it's a best estimate.

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#### Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

It is the best estimate that we have. So we haven't been wildly conservative. We haven't been wildly optimistic. We think it's something that is reasonably achievable and is consistent with the discussions. And we've had good dialog with our counterparts at Boeing at senior levels. The relationships are good. There's a lot of mutual respect. And as I said, their success is our success. So we want to do this in a way that's mutually done [indiscernible]

Cai von Rumohr

(14:56).

Analyst, Cowen & Co. LLC

Right but so as we look at this, this is your best estimate which means if they're really nasty, it could end up being worse and you have to take an adjustment or it could end up being better. I mean this is your – hopefully [ph] you've kind of right down the fairway (15:10), you have enough understanding where you are.

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

I think that's a good description.

Cai von Rumohr

Analyst, Cowen & Co. LLC

But so that when you ultimately do sign this thing, your visibility should be substantially better because right now you don't really know what your revenues are, but once you sign this, you'll have much greater clarity in terms of your revenue stream. Is that the...

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

We'll eliminate some uncertainty and there's been that overhang because the deal isn't done.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Right.

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

And that's created uncertainty. So getting to a deal will reduce uncertainty and it'll also reduce some disruption and that's, I think, in the interest of both organizations.

Cai von Rumohr

Analyst, Cowen & Co. LLC

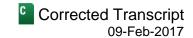
Right. And you know, Kevin McAllister quite well from GE?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Yes. We were joined at the hip for many years working together at GE Aviation. I was running the service business, back then he was Head of Sales. So that's good to have that relationship. Obviously, we're in different

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companies now. We both have to do what's in the best interest of our respective companies, but having a strong relationship that I can pick up the phone and talk to him that there's some mutual trust, that's important. That will definitely [ph] help (16:09).

Cai von Rumohr

Analyst, Cowen & Co. LLC

So what has to happen to get to -I guess you have to sort of finish the last 20% of kind of getting cost estimates on a lot of those things, but as you pointed out, we're in a dynamic environment where you finished these estimates and now you got 15 to 20 changes. I mean contractually how do you deal with that. Do you come up with a formula for adjusting them or...?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Right. Well, we have to address a number of issues. The thing about the relationship between Boeing and Spirit is it's very broad and very deep. And so we'll resolve these issues; some commercial issues related to pricing between the MAX and the NG and on the 787, but this is only a fraction of the relationship. We're literally negotiating and discussing and resolving issues every day across the myriad of different operations.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Right.

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

So that will continue, but these are a couple of important issues that need to be resolved and we're going to work to do that as quickly as possible.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Got it. So one of the things you'd been talking about is the supply chain strategy, which at one point, as I recall, was [ph] to pair (17:17) from 1,000 to 200 suppliers. What have you done in terms of supply chain and what's left to do? Where are you and all of that?

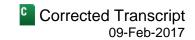
Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Well, the goal is not to consolidate the number of suppliers. That may be an output but that certainly is not the goal. The goal is really to get the optimal price with organizations that are able to deliver the quality that's required and able to meet the rate and delivery requirements and that's what we're focusing on.

The basic strategy that we've taken is a clean sheet approach. And we've described this in the past, but what it means is we basically reverse engineer all the parts that we buy and we look at what the should-be cost is. And so when I say reverse engineer, it means we take a look at the part, we say how much material is in it? How is it machine – how many machine hours are required, what type of machine, what is the removal rate for the metal, how many labor hours are required, what would be the ideal labor rate, what sort of overhead is involved, profit margin, so we can reverse engineer that and we've actually done that now on 50,000 different parts. We've done 50,000 clean sheets. So we have a very good idea of what the clean sheet is and what the should be cost is.

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And then we go out and work with the supplier to get as close to that clean sheet as possible. And we're able to do that in a variety of different ways. We're able to offer some incentives to extend contracts to combine it with new work as an incentive, but we're also able to work with the suppliers to identify where their cost differs from the clean sheet and that might be material. And they may be having difficulty with material.

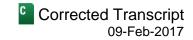
With our sourcing organization and the scale at which we buy, we're often able to help. It might be that they are having difficulty with their plate-cutting for their metal. And that's again an area where we can buy mill-direct and get best prices and we can cut it and provide material in the shapes that are required for some of the smaller suppliers. We can work with them on engineering, on machining. So there's a variety of ways that we can work with these suppliers to get to the levels that we need.

Now in some cases, the suppliers either can't or won't get to the levels we need. In those cases, we can transfer the work. We have very disciplined and structured ways, gated process with deliverables, operating mechanisms and dashboards where we can move the work to minimize any risk, we can also in-source the work. And one of the things that we've said is we are one of the leading fabrication companies in the world today. We have excess capacity. We're going to build more capacity. We think there's an opportunity to build third-party business, but at the same time there is an opportunity to shore up our supply chain and where there's a difficulty in achieving the clean sheet, we can in-source that work to meet the clean sheet.

So, we have a variety of different levers that we've been able to get as close to the clean sheets as possible. And we're probably about 40% through this process, and we're seeing 20% price reductions in the negotiations that we have closed so far. And the way I think of it is that our contracts typically are five years. So, roughly 20% are expiring each year and we're kind of a couple of years into it. So, we're 40% through the process. But I look at it is, is like painting a bridge, is once you finish painting it, you start over and do it again. So, this is going to be a continuous process. We're working very collaboratively with our supply chain to achieve these targets and we're seeing good results.

seeing good results.	
Cai von Rumohr Analyst, Cowen & Co. LLC	Q
Did you say, [ph] the catch (20:46), did you say on the 40% that you've done, what the	e average cost reduction is?
Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.	A
We're getting – of the deals that we've closed, we're seeing about a 20% reduction, a	little north of 20%.
Cai von Rumohr Analyst, Cowen & Co. LLC	Q
Got it. Okay.	
Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.	A
And that will overall in the long-term help us achieve some of the productivity targets values, but also help to enhance our margins.	we have with Boeing and
Cai von Rumohr	Q

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So, you've also talked about organic growth expanding into third-party fab work, possibly into Tier 2, Tier 3 aerostructures and defense. What have you done so far, what are you trying to do?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

A

Right. Well, we see a number of growth areas, and the one thing about our business is, we have a lot of embedded growth because we're on great programs with Boeing and Airbus. I mean, we maybe one of the only suppliers in all 12,600 aircraft in the Boeing and Airbus backlog. And so, as rates go up on the A350 and A320, 787 and the 737, we've got that embedded growth built-in.

But we've got to really start to demonstrate growth beyond that, and so that's point of my goals, is one of the things the board has chartered me with since I came on as CEO, is to drive a growth strategy. And we see a few key areas where that can happen. One is, core growth in commercial by expanding work with Boeing, there is opportunities to expand work with Boeing. Obviously, we have significant work, so that's more marginal, but some good opportunities that would benefit both organizations. The other thing is Airbus. Our footprint with Airbus is much smaller, and since we have resolved the agreement on the A350, we've been bidding on a lot of packages that they are looking to dual-source and will continue with that. And then there's opportunity inorganically to look at companies that are already on packages and so that will be a focus for our inorganic strategy.

But the other thing is the defense and military world. As I said, we're on the B-21, we're on the CH-53K, we're bidding on a lot of other packages in the military, and that is non-recurring research work as well as programs. And it's including not only fixed-wing and rotorcraft, but looking at UAVs and space and even missiles are opportunities, because they all use composite structures, and that's what we do.

And then the third area of growth is really the third-party fabrication. And I mentioned it a little bit before, but we're really one of the leading fabrication companies in the world. Today, internally we manufacture about \$500 million worth of components. It's more than 38,000 different parts. So, it's machining, it's cheap metal, it's skin fabrication, it's processing, it's grinding, and today though all of that's consumed internally. When we look at our Tier 1 competitors, many of them supply us, they supply other Tier 1s, they supply the OEMs directly with components, and we haven't done that. So, we have an opportunity to do that. We have excess capacity today, and so we can fill that for machining sheet metal processing, and immediately start to generate some incremental revenues. We've already signed some of the first deals. We're already generating revenue.

In this first year, it's not material, but it's a start. In the next few years that we see an opportunity between commercial and between military to have revenues of several hundred million dollars. So, this will become material over time, and a scenario which is fairly low-risk, because we already do it today, we're good at it, we have great capabilities, we have excess capacity, we will build capacity, and we will also look inorganically to buy companies that can expand our footprint.

Cai von Rumohr

Analyst, Cowen & Co. LLC

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Got it.

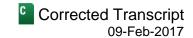
Thomas C. Gentile

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President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

In addition to the third-party aspect of it, there is a supply chain element that I mentioned earlier, which – it gives us the ability to in-source more to achieve clean sheets where we need to do that.

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#### Cai von Rumohr

Analyst, Cowen & Co. LLC

Right. And so, specifically, you mentioned military programs, so that like how are you going about that? How big could military per se in total or including what you have plus what you're going after?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Right. Today military is less than 5% of what we do. A big chunk of that is the commercial derivatives, the P8, which is reconnaissance aircraft and which is a derivative to 737 and then the Tanker which is the 767. And we have significant work packages on both of those. The B-21 Bomber is going to be a significant program in the CH-53K. We're also the partner with Bell on the V-280 which is a vertical lift, future-generation aircraft. The issue with those programs so is organically all of them are going to be large significant programs, but they're going to take many years to develop. And so, that's going to take some patience. And that's why inorganically, the targets that we're looking at, our military footprint is one of the things that we're looking for.

The other thing is, in the third-party fab business, supplying components as we build relationships with the defense OEMs, whether that's Northrop, or Raytheon or Lockheed, there is an opportunity to look at third-party fab as a shorter term way to get into the defense market. So, when we combine all those things, eventually we see it as being a 10% portion of the business, but it will take some time to get there organically through third-party fab and inorganically.

Cai von Rumohr

Analyst, Cowen & Co. LLC

And so, as you look at kind of M&A, what are you looking at, access, you're looking at scale, you're looking at technology?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Right. Well, the number one thing with M&A from a strategic standpoint is, it's a core business, so commercial structures, it's Airbus content, and content on other significant programs is obviously very interesting and attractive. Military content is something that's attractive. And then the third-party fab, so that it could expand our current capacity as well as give us more optionality in terms of our supply chain. So, those are the main target areas.

The way we'll look at M&A is that, it has to meet our return thresholds. I mean, we see ourselves as undervalued today, and so, a great investment for us with our excess free cash flow is to do share repurchases and obviously the dividend which we've just initiated. So, any M&A we do would have to have good solid returns, but we wanted to make sure, it's also accretive in terms of revenue and in terms of margin. And so, if we can find the crossover between strategically meeting our targets, meeting our return thresholds and being accretive in terms of revenue and margin, that's where we'll focus our M&A targets. And as we've looked it, and we've talked to some banking partners, there are definitely companies out there that would meet those criteria.

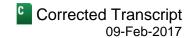
Cai von Rumohr

Analyst, Cowen & Co. LLC

How big are they?



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#### Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Well, they range in size. The good thing is our balance sheet right now is fairly conservative, we have a lot of dry powder. We have good cash flow, we have a lot of cash on hand, we have relatively low leverage. And so, we have a lot of capacity if we identify the right target to put together the funds to consummate it.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Got it. So when you say, I mean, people say accretive revenues and margins, I tend to think of accretion relative to your own enterprise value to EBITDA ratio, I mean, because if you pay 30 times for something that increases your margin, I mean, maybe it's not accretive to value. How do you think just when you - I guess the thing with revenues and margins, but just to be value accretive, what are the things you look at?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

We're looking at deploying capital, as I said, we're undervalued and we think that share repurchases are a great use of capital.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Right.

Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

But that's great in terms of shareholder return and improving EPS, because the shares go down, but there is some strategic objectives as well. We need to get revenue growth, we need to get on programs sooner rather than later that we're not on today, whether that's in the commercial world or in the military world. And that's where inorganic will play is to help get us onto those programs. And if we can identify companies where there is good cost synergies on engineering, on sourcing, on administrative costs, where we can get accretive margins and accretive revenue and strategically position ourselves for the long-term, those are the kind of M&A opportunities that we'll look for. And so, that's why they have to meet our return thresholds and has to add strategic value, or as you say, yes, we'd be better off just repurchasing our stock, but there's more to it than just that.

Cai von Rumohr

Analyst. Cowen & Co. LLC

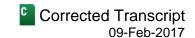
Right. Right. So, as you think about M&A, I mean, you said that there's different ranges on size. But, I would think that if you were considering a larger deal that you would not really consider it in front of the Boeing negotiation, because that would basically change, I mean, if I'm Boeing, I'm saying, why have they bought this company, they paid this, that kind of changes, you know, the way I look at them, either their cost basis is lower, or I don't know what. So, do you view getting - achieving and they got a settlement with Boeing as kind of a necessary precondition to any major M&A?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Getting a deal with Boeing is important, it's the priority. The board thinks it's a priority. I think it's a priority. So, we do want to get that done. But, we don't want to put on life on hold, while we're waiting for that. We can do things in

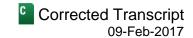
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parallel. So, getting the deals done with Boeing is a priority for us, it's very important. But, we're not going to completely ignore other opportunities that might present themselves in the meantime. We can do both.

Cai von Rumohr  Analyst. Cowen & Co. LLC	Q
Okay. And to my further other question, your stock's currently at 6.4 times enterprise value to EBITDA, 7% ca flow yield. I mean, does an acquisition have to be pretty close to that? And I'm talking about, it may look like it more, but we'll do synergies [indiscernible] (30:57) comes into range, but with synergies, does it looks kind of close to those numbers?	
Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.	A
Well, again, it has to meet the return thresholds. But the good news is, we're going to look at companies where we can add value, or there are significant synergies. We're focusing on structures, because that's the business that we're in, that we're good at, that we bring expertise. And so, I mentioned in some of the areas that we think the synergies could be significant.	
Cai von Rumohr Analyst, Cowen & Co. LLC	Q
Right.	
Thomas C. Gentile  President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.	A
Sourcing and supply chain, engineering, administrative costs. So all those will play in. We don't necessarily he to buy companies that are just at our EBITDA	ave
Cai von Rumohr Analyst, Cowen & Co. LLC	Q
Got it.	
Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.	A
levels, because we're undervalued.	
Cai von Rumohr Analyst, Cowen & Co. LLC	Q
Right.	
Thomas C. Gentile President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.	A
But, the overall deal needs to meet the return thresholds and it needs to be accretive in terms of margin and revenue.	
Cai von Rumohr Analyst, Cowen & Co. LLC	Q

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Got it. So, on the fourth quarter call, talking about new business, you said you'd like to be on Boeing's middle-of-the-market plane, the engine makers have said they question whether the size of the market would justify the investment. What do you think?

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

A

Well, first of all, I listened to Dennis earlier, he described the middle-of-the-market, and he went through a very thoughtful process that Boeing is taking to evaluate the opportunity. They're talking to customers, they're evaluating route structures, they're doing a lot of detailed analysis to understand from the standpoint of the capacity for passengers and the range is what is the opportunity, how does that compare to the competition, and to the current aircraft they have, with the MAX and then the MAX-10 which is being considered as well as the 787.

It does appear that there is opportunity space. Anyway, the question is, is it a big enough market? But I've been around Boeing for over a decade. I've seen how they analyze these markets. They are absolutely world-class. They're going to do a good job. It would be a significant investment for them. So, they'll determine ultimately how big the opportunity is, and what's the best way to approach it. On the MAX-10, if that's going to be part of the equation, which they seem to be heading in that direction, obviously, that's something that we will contribute to significantly.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Right.

Thomas C. Gentile

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President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

If it's a middle-of-the-market, if it's a brand new aircraft, that's something that wouldn't fall under the original sustaining agreements that we signed at the split off.

Cai von Rumohr

Analyst, Cowen & Co. LLC

Right.

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Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

But, as Boeing is our biggest customer, we would certainly want to be on it. We have to demonstrate to them that we can perform and execute on our current commitments for cost, quality and delivery, but we also have to show that we can innovate and add value to the next-generation aircraft, that with new ideas on structures, whether it's wing, or fuselage, or propulsion, is that we can reduce weight, that we can reduce [indiscernible] (33:30), that we can reduce costs, that we can improve aerodynamics to improve fuel efficiency and those are some of the things that we are working on, we have ideas, we've told Boeing that we want to be involved in, we have to run our way on.

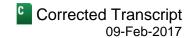
Cai von Rumohr

Analyst, Cowen & Co. LLC

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Got it. So, as you look at your business, what do you think the key execution challenges you've got over the next year or so?

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#### Thomas C. Gentile

here. So. that's first.

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

First and foremost, it's rate. It's making sure that we can meet the rate requirements. These are significant. We're going on 737 from 42 to 47, then to 52, then to 57. And when we split off from Boeing back in 2005, we were doing 21 737s a month. So, we more than doubled since then and we're going to be going up significantly from

And there is similar challenges on the Airbus side with the A350, as it goes from eight, to nine, to 10 up ultimately to 13. So, being able to deliver rate and getting our factors ready, getting our staff ready, the capital, the tooling, the training, the material orders is important, but we also have a supply chain. How do we get our supply chain ready? And we've got very detailed and rigorous processes to make sure that they have the capital, the tooling, the facilities, the training and the long-term material ordering in place. So, that's I'd say, first and foremost, is delivering on rate.

I'd say another challenge is to make sure we execute on our supply chain initiatives. So, we think about productivity, as we think about margin enhancement, two-thirds of our cost is in the supply chain, and so we have our clean sheet process, we have a lot of work that we're doing with the supply chain on a collaborative basis to achieve the targets, but making sure we execute on that and deliver and maintain that 20% savings as we go forward, that is going to be absolutely key.

And actually, the third area is really executing on our growth strategy. We have our embedded growth, and that's great. We are extremely fortunate to be on all 12,600 aircraft in the backlog for Boeing and Airbus. But how do we expand the revenue growth beyond that. And so, it's expanding in the core commercial aerostructures, it's expanding our military, it's expanding our third-party fab business, and those are also things that we have to execute on as we go forward.

#### Cai von Rumohr

Analyst, Cowen & Co. LLC

Got it. And so, what are your long-term financial goals and financial metrics? I mean, you've talked about 6% to 8% cash flow return on revenues. Are there any others that you...

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Well, that's very important.

Cai von Rumohr

Analyst, Cowen & Co. LLC

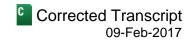
Yeah.

Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

In our business, particularly, the way things work with a long backlog is, generating cash is extremely important. And we've said that 6% to 8% of revenue is a good target for us, and something we can sort of – several years ago, we weren't generating any cash at all.

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Cai von Rumohr

Analyst, Cowen & Co. LLC

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Right.

Thomas C. Gentile

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President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

And the team has done a fantastic job of turning that around to the point we're generating cash. Last year we did 6%, this year we're targeting at the mid range of our guidance about 7%. So, that's making good progress.

The other one is revenue growth. I mentioned that revenue growth was important. We have the embedded growth. We want to make sure we deliver on that, and the rate. We have a \$47 billion backlog, which is seven years of production, but how do we expand beyond the embedded growth to grow in commercial, military, third-party fabrication.

And then the last thing is margin enhancement. We've got good strong margins for Tier 1 aerostructures company today, but as we execute on our supply chain strategy, as we work to achieve all of the other objectives that we've discussed, we want to make sure that we continue to enhance margins as well. So, it would be those three things; cash flow, revenue growth, margin enhancement.

Cai von Rumohr

Analyst, Cowen & Co. LLC

If you achieve number three, and your business matures, won't you exceed 8%?

Well, that would be great. But the first goal is to make sure we achieve basically 6% to 8%.

Thomas C. Gentile



President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

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Cai von Rumohr

Analyst, Cowen & Co. LLC

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And then, so financial leverage, what's the right financial leverage? I mean, you've got \$700 million in cash sitting around, that seems a little higher than you might need, what's the right number?

Thomas C. Gentile

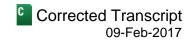


President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

It is. There's a couple of hundred million there of advance from Boeing that's related to interim pricing agreements, that we've never really included in our guidance, so we net that out typically, and we'll resolve that in the final negotiations with Boeing. But we think having \$400 million, \$500 million on hand is a good amount for a business of our size. We are under-levered, but in a very cyclical industry, having a lot of liquidity is not a bad thing.

The other thing is, with the amount of leverage that we have, we have a lot of dry powder to do M&A. And so, we're meeting all of our cash requirements and needs today. We're returning cash to shareholders through the share repurchase and the dividend. We're investing in capital to grow rates. We're putting in place capital for new programs. We're funding our productivity initiatives. So, we're meeting our cash needs today. And so, we don't see a need to preemptively lever up. But, when we see an M&A deal that makes sense, we have the capacity to do that.

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#### Cai von Rumohr

Analyst, Cowen & Co. LLC

Got it. And so, if things go better, or things are more challenging next year, what are the things that, you know, as you kind of sit here today that you really could do better than maybe people think this year? And what are one of the two things that could maybe have you caused you to fall short?

#### Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Right. Well, I think the opportunity – the biggest opportunity is our supply chain execution, is if we can continue to execute on that, that could be a positive for us. Another area of positive is working capital management. We've been working hard on accounts receivables, accounts payable, inventory management, the blocking and tackling. In 2016, we made some initial progress, more to do on that. So, that's another area that we're focusing on. And then, the growth side is an area where we have to continue to improve.

The challenges are going to be some of the rate issues. We've got to go up in rate on 737, the A350, the 787, when Boeing makes that decision, but we also have to manage the rate decreases on the 777 program, the 747, the A380. Some of the other, the widebody programs have gone through rate decreases. And 777 is a one that represents that most headwind. So, managing through that and bringing cost down appropriately, managing on the 777, the bridge until the 777X kicks in...

#### Cai von Rumohr

Analyst, Cowen & Co. LLC

Right.

#### Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

...that's going to be a key focus for us in terms of execution over the next year or two.

#### Cai von Rumohr

Analyst, Cowen & Co. LLC

Terrific. This has been great. Thank you very much. Good work.

### Thomas C. Gentile

President & Chief Executive Officer, Spirit AeroSystems Holdings, Inc.

Okay. Thank you very much.

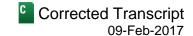
#### Cai von Rumohr

Analyst, Cowen & Co. LLC

That was great.



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