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MANAGEMENT DISCUSSION SECTION

Cai von Rumohr
Analyst, Cowen and Company, LLC

Okay, great. Let's move on with our program. Next company is Spirit AeroSystems and we're delighted to have with us Tom Gentile, CEO; and Sanjay, CFO, and Sanjay is going to read a little statement before we start.

Sanjay Kapoor
Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

Thanks, Cai. The statement basically reads that Cai is not allowed to ask me any questions, but it's a Safe Harbor statement, and I think everybody knows. A quick reminder, any projection or goals that may include today in our discussion will likely involve risks, which are detailed in our filings. With that, over to you.

Sanjay Kapoor
Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

Okay. Well, Cai, maybe before we get started with questions, I can just give everybody a quick overview of Spirit in 2017, and 2017 was a very strong year for us. The highlight really was signing the long-term commercial deal with Boeing, and we did that, announced it in August, concluded it definitively in September. And what that did is establish pricing for all the programs that we're on with Boeing through 2022.

So when we split off from Boeing back in 2005, we put in place a life of program contract in all the programs for 10 years and that was a very good program. That's for all of the derivatives, all the rate increases, but the pricing expired after 2015, and there were some interim arrangements in place after that, but with the uncertainty we felt it was important to get the deal done and we did, and we were very pleased with it.

Obviously, in a complex deal like that a lot of puts and takes, but we felt overall it was a good solid deal, and it really strengthened and reset the relationship with Boeing, which is important as they're considering the NMA and their next-generation of aircraft. We want to make sure that we are there to compete for those, and that positions us very well to do that. So with that program now behind us and a strong relationship with Airbus, following the deal we did the previous year, we've really got a good outlook. We are on every program in the Boeing and Airbus backlog, all 12,800 units. We have significant work packages. We ended the year last year with a backlog of \$47 billion which is almost seven years of production. And as we go forward, the programs that we're on many of them, the big ones are all growing in rates so the 737, the 787, the A320, the A350. And so we've got a lot of embedded growth. In fact we're looking at 3% to 5% growth targets organically over the next several years.

And so, in addition to growing our Boeing content and our Airbus content, we also announced last year two other growth initiatives, one in fabrication and the other in defense. And we think we can make each of those \$1 billion businesses in the next three to five years. And we already have a big head start. In fabrication we're at about \$500 million. We make 38,000 different parts, and we see it as an opportunity to supply the OEMs directly, other Tier 1s even, as well as defense companies. And then, on the defense side, today we're about 5% defense and we see an opportunity to grow that to \$1 billion, and make it 10% to 15% of our business within a five year time period. So those things were very exciting.

And so in addition to having good long term positioning, 2017 was a good year financially. We grew revenues about 3%. Our earnings per share ended up at about \$5.36, which was up 28% or – 17%. And the cash was \$537 million, that was up 28%. So very solid financial performance in 2017. And as we look forward to 2018, again good outlook, with all of the rate increases and the embedded growth, we think the organic growth next year again on the revenue side will be about 3%. From a cash flow perspective, we said we would increase to \$550 million to \$600 million for next year, which is safely within the 7% to 9% that we have guided for our overall targets. And then on an EPS basis, we're at next year \$6.25 to \$6.50, which is a significant increase over this year, largely driven by some of the tax reform benefits as well as the change in revenue recognition and the impact that that has on our financial. So we have a very strong position on the right platforms that are growing, rates are increasing. We've got good growth prospects in fabrication and defense, cash flow is growing and so we've got a very solid position.

Last year also, just one final note, we returned about \$550 million of cash to shareholders. So about \$500 million of that in share repurchases, another \$50 million in dividends. And so the authorization we had to start there was \$1 billion, we spent \$500 million of that, but at our last board meeting we topped that back up to \$1 billion. So we feel very good about our share repurchases and our total shareholder return as well.

So with that Cai, maybe we could just turn it over to you for some questions.

QUESTION AND ANSWER SECTION

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right. So I was going to follow-up your target of \$1 billion for military and for fab. So, today, you are what about \$500 million in military. If you go to \$1 billion, how much of that is just organic growth if you're on the CH-53K, the B-21, the Tanker, the P8. You're on some of the programs...

Thomas C. Gentile III

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

A

Right.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

...on the right direction.

Thomas C. Gentile III

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

A

A lot of that to get to the \$1 billion is organic, it's on programs that we're already on. So if we win new programs, we will exceed that.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Good. So the existing programs get you to a \$1 billion by 2020?

Thomas C. Gentile III

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

A

Well, in five years. So from...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

In five years, okay.

Thomas C. Gentile III

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

A

In five years.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So basically it's all organic growth, and...

Thomas C. Gentile III

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

A

Yes.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Okay.

Thomas C. Gentile III

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

A

Yeah. And that is one thing I didn't mention is, everything we've been talking about, the 3% to 5% growth, all the initiatives, all of that is organic. We do think that there is opportunity for inorganic growth. And what we have said is that strategically we would target things that give us more Airbus content, more military content and more low cost country footprint for our fabrication...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

...business so we could continue to drive down cost in our supply chain. And so, if we find organizations that meet those strategic criteria then it's a question of what's the price, and will it meet the return thresholds we have. And we've been pretty disciplined in the past. We haven't seen anything that has those strategic criteria, as well as return thresholds. And so we've just been investing in ourselves both in capital expenditures, R&D, as well as in our share repurchases.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it. So fab currently \$650 million, what's five years to get to \$1 billion?

Thomas C. Gentile III

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

A

Yeah. We think in the next actually three to five years, we'll be over \$1 billion.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Three to five years.

Thomas C. Gentile III

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

A

And most of that is going to be call it insourcing work, supply chain work that we're going to be doing. And there's a number of benefits we get from that. One is we get low cost, we get to control our own destiny. It's given us a good negotiating position with our supply chain because they know we can do it internally versus externally. And then there's also about 20% or 30% of that will be just external third party revenue.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So let me understand, if today you have \$650 million, how much of that – that's all internal?

Thomas C. Gentile III

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

A

Today the vast majority, yes. [indiscernible] (07:02)

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

And so then the incremental growth is \$350 million, and basically what \$70 million of it is external, so it's still predominantly an internal business?

Thomas C. Gentile III

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

A

Yes. It will be, but the other...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah.

Thomas C. Gentile III

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

A

The thing it gives us is two things. One is, you hear a lot about Airbus or Boeing thinking about insourcing more of the work on the next-generation of aircraft, and they might, but by having a Tier 2 capability we can hedge our bets so to speak and supply them on a Tier 2 basis if they decide to insource some of the Tier 1. Now we'll see how that goes, but it gives us the ability to do that.

The other thing is, as we look at our defense prospects, again Tier 2 fabrication detail parts are a great opportunity for us to expand our defense business as well.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So really if we look at military and fab, there's nothing, I mean, there's no real – you don't have to win any new programs to get there, but presumably you are looking at new programs, so...

Thomas C. Gentile III

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

A

We are indeed.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

...in terms of new wins, you know, what are the key things you're looking at and what's it going to take to win them?

Thomas C. Gentile III

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

A

Well, in terms of new wins, let's just start on the commercial side. Obviously, Airbus has been looking to dual source more as rates go up or to insource and then to offload some of the detail parts. So there's a lot of Airbus content that we think makes good sense. Boeing similarly as they look to grow in rate, they're looking at some Tier 2 parts that they're buying. They're also looking to balance in terms of the whole production system what they do versus what they have their suppliers do. And since we have such big work content with them that opens up some options. So in terms of the fabrication business, those are opportunities with Airbus and Boeing.

On the defense side, we're on the CH-53K. We're one of the seven suppliers that have been named to the B-21 with Northrop. We are building a few sites for the V-280, which is the Future Vertical Lift.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah.

Thomas C. Gentile III

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

A

And then we have our normal work package on the military derivatives for the Boeing commercial aircraft, the P8 for the navy...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right, right.

Thomas C. Gentile III

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

A

...and the KC-46 for the Air Force, it's the Tanker. So we have very good solid programs there. What we don't have for example though is, work on the F-35. That's the one big program that we don't have. There might be a chance for us to win it organically as Lockheed looks to lower their cost or dual source something. But that's a place where inorganic might be an opportunity. The other thing is the T-X is the next big program. We're not currently partnered with anybody on that yet. So that would still – that would be an opportunity for us. So there is a number of programs that we're not on that would be natural candidates. And those would be the ones.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it. So you mentioned the Boeing 797 where – so what's your strategy for getting on there?

Thomas C. Gentile III

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

A

Right. Well, one thing is, clearly to win work today you have to be low cost.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah.

Thomas C. Gentile III

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

A

And Boeing and Airbus and the defense OEMs, they all want low cost. So, obviously we continue to work on that through digitization efforts, through our supply chain initiatives, through our normal cost cutting. But really to get on, you also we think have to have the best ideas. And we have to bring new ideas and concepts to structures that will improve aerodynamics, reduce weight, reduce time, ultimately reduce cost. And so to do that we've got to have more research and development. Now, if you look at our R&D compared to a lot of our peers, we've been lower historically. This year in particular with Boeing about to make their decision on the NMA, we thought it was the right time to ramp that up more than we have in the past, and so we talked about that in our earnings call. We've invested another \$25 million or so in R&D, because we want to be prepared as Boeing makes that decision to have our best ideas on the table. And similarly, whatever Boeing does with NMA, Airbus will counter somehow.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

And it's – they'll do it differently. They've been talking about the neo-plus and the neo-plus-plus.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

So we want to also make sure that we are positioned to compete for those programs as they come up. So this was a great year for us to invest more in R&D than we have historically as our two biggest customers are making those decisions.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So what type of work are you targeting on the 797? And secondly, I mean, you got huge share on the 737, you got big share on the 787, I assume your share will be smaller on the 797 or could it be comparable, not to the [indiscernible] (11:36).

Thomas C. Gentile III

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

A

Well, we don't want to presuppose anything. We have to compete and win for it.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

But we will compete hard and we will come with really great ideas that we think will add value to Boeing in terms of reducing weight, reducing cost, improving time and improving the overall performance of the aircraft. And so traditionally if you look at our Boeing programs, for all the programs, we make which is called the Section 41, which is the forward fuselage, the cockpit and basically say true first class.

We always make the pylons historically and we make a lot of the leading edges and the trailing edges on the different wings, flaps and slats. And then in the engine and in the cell, the casing around the engine, we make either the [ph] holding cell (12:20) including the inlet for tank house and the thrust reverser or sometimes just the thrust reverser.

So we have a variety of different packages. But normally speaking, we've produced the forward fuselage and the pylon and parts within the cell. So those would be the areas that would logically be in our sweet spot. But we've really been starting to talk to Boeing about our ideas across the entire aircraft, fuselage, wing and propulsion.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

You didn't mention or you did mention wing, but you didn't mention it prominently, is that because you expect them to take, I mean, they're going to take it in-house, I think, on the 797, and...

Thomas C. Gentile III

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

A

777X, they've built the composite wing center in Everett and so they have great capability in that. If it's a composite wing, which they're talking about, they certainly have plenty of capacity there. But there may be some parts, detail parts, ribs, slats, flaps, flap tracks, a lot of things that you don't necessarily think about that they will need to source. And again that's why having a fabrication strategy and a Tier 2 strategy makes sense.

You're, right, they've already made the decision they're going to in-source the Tier 1 part of the wing, but that doesn't mean that they're going to produce all of it themselves.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

There's lots of opportunity for us to compete on detail parts, and that's why we're building out our fabrication business.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So if we think of your penetration there, I assume your content on the 777X is less than on the 777?

Thomas C. Gentile III

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

A

No, by contract it's the same.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

It's the same? Okay, okay.

Thomas C. Gentile III

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

A

But – yeah, because that's the thing about our life of contracts program – our life of program contracts with Boeing is the content is the same for all the derivatives and for any rate increases.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Okay, okay. So in the fourth quarter you recognized the \$32 million reduction in forward loss on the 787 as a result of Boeing's decision to bump the rate to 14 aircraft a month. Do all of your programs have that sort of leverage that if the changes, if rates go up you're going to get a benefit?

Thomas C. Gentile III

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

A

Let me turn that one over to Sanjay. It's fixed cost absorption, and I think...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Okay.

Sanjay Kapoor

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

A

...he can give a good explanation.

Sanjay Kapoor

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

A

Well, Cai, yes we did. And if you remember even as early as our Investor Days and certainly in the third quarter, we have mentioned that, if there was a rate increase we see some fixed cost benefit from 787 particularly. And it's a decent size rate increase from 12 aircrafts to 14 aircrafts. So actually the forward loss, and you'll see this in our K, it was a little higher than the \$32 million, there were some offset. But we have kind of talked about that it's in the \$25 million to \$35 million range, it was around \$40 million. And that is directly related to the fixed cost absorption benefits we see as we ramp up on that program.

So to your second question, I mean, are they opportunities as rates go up. Sure, they are. And that's one of the things we're working really hard on our factories to make sure we have judicious application of CapEx, so that we can manage both the upside and the downside on rates much better.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So if we think about the opportunity, I mean, the recent UPS order, I mean, it looks like the 747, 767 maybe the 777 rates might have a little benefit from the strength in cargo. If that occurs, should we expect leverage to be potentially helpful in terms of profitability?

Sanjay Kapoor

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

A

Again, Cai, I got to tell you, I mean rates as long as they are stable in the long term are definitely beneficial. And you've been to our factories and our facilities, and I think we've over the last few years done a good job of not overextending ourselves in terms of brick and mortar. So anything that we can squeeze inside our footprint at a higher rate, we'll see some absorption benefits.

Thomas C. Gentile III

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

A

And I'd say the 747, while they got more orders, it's not clear that they're going to increase rates.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

No, no, I know that.

Thomas C. Gentile III

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

A

They may just go longer, which is fine.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah. No, no, no. I know. I certainly get that. But – so...

Thomas C. Gentile III

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

A

But by the way the 777, we'd love to see rates go up on that. But in this bridge period, as you know the 777 production has come down somewhat...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right, right, right.

Thomas C. Gentile III

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

A

...as they bridge to the 777X.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right, right. So is it more or less the same on all programs? And I ask that because, you know, on the master contract, initially there was a sort of a rheostat if you went up and down, they kind of helped you a little bit. Are any of these – you know, it's all on your nickel and where is the leverage greatest?

Sanjay Kapoor

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

A

Well, again, so if your question is, are there some sort of, you know, productivity kind of sharing or discounts or rates go up? No, I mean across – that is one of the good things that happened as part of the agreement that we had. We've set that in place. And from hereon, if there are improvements, then those improvements as long as we execute are to our credit.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

And so to flip that around...

Sanjay Kapoor

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

A

Sure.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

...if you know the rates go down...

Sanjay Kapoor

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

A

If the rates go...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

...that's all on your nickel.

Sanjay Kapoor

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

A

To the extent of the period of performance that we've agreed to, that's true.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right, right.

Sanjay Kapoor

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

A

Absolutely.

Sanjay Kapoor

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

A

But...

Sanjay Kapoor

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

A

But there are mechanisms in play to correct for that if there are some abnormal changes.

Thomas C. Gentile III

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

A

Yeah.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah.

Thomas C. Gentile III

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

A

For example on the 737 contract, a lot of their productivity discounts were linked to rate increases. Down the road if the rates start to come down, there's also links to that. So we have tied those things to rate.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

And so on the 737, if the rate goes to 60 or higher is that a benefit that you should be making?

Thomas C. Gentile III

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

A

Well, we have not talked to Boeing about anything above 57 at this point. And so obviously if the rates went up above that there'd be some additional fixed cost absorption, and that would be a huge benefit. Because I mean the way I look at it is 737 is our biggest program, it's our most mature program. And so we really understand it very well, we're way down the learning curve. In fact, later this week we're going to deliver our 10,000th unit of 737 shipset. So we're really proud about that. But if the rates keep going up that is the best news we could ever have.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it.

Thomas C. Gentile III

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

A

And you know the nice thing about that is last year, we were expecting orders to be slow so to speak in the aerospace industry. And when we looked at them at the end of the year, the book-to-bill rate overall was 1.3, but our narrow bodies was 1.6.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

And so, it was a very strong year for both of the major companies in terms of the narrow bodies.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

And so the backlog as you saw grew...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah.

Thomas C. Gentile III

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

A

...for everybody including us. And that's good news for us because the 737 is our biggest program.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

But so in fourth quarter you took a \$19 million negative cum catch on the 737 for cost to ramp to the rate of 52 aircraft. And I think a lot of us were kind of shocked because in the past like this was the gold standard, the program that always came through, that gave you the positive cum catches, and you'd absorb, I think, you said rate increases from 21 aircraft.

Thomas C. Gentile III

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

A

Right.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So like what's the difference going to 52 aircraft that all of a sudden you basically...

Thomas C. Gentile III

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

A

Well, I'd say the biggest difference is it's not simply going from 47 aircraft to 52 aircraft, because you've got in the middle of that rate increase, you also have a major model change. So the MAX is starting last year, I think ended up doing about 60 or 70 MAX units. And that's starting to grow materially this year. At the same time, the NG is going down. So you have today three versions of the MAX 7, the MAX 8 and the MAX 9, the MAX 10 is coming and you've got about five versions of the NG that are going down. So you've got a lot of complexity in the supply chain and in our factory.

The other thing is as the rates go up in the short term, we're very stretched. We don't have as much room, there's not as much buffer. And so if there is any disruption, that creates some short term issues. And I'd say throughout the supply chain, it was more of a challenge to get some parts and with 600 major suppliers, if 10 or 15 are struggling a little bit that does create some disruption in the factory.

So one of the things we've done is we've really beefed up our supplier development. We've put more people on the field to work with our suppliers to help them through some of this rate ramp. I think, we're going to be in much better position as we get into this year, because we have hired ahead. We've put more front-line managers. We're putting more resources out in the field to work with our suppliers. We've in-sourced a lot more, so that we control our own destiny. So we've taken actions to manage the rate increases better in the future. But last year it did create some challenges for us and you saw it reflected, but I would say that's short-term.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Okay. So if we think about a potential rate lift to 57 aircraft, I mean, this year we should do 45% MAXs, and next year the number goes much higher. So should we assume that the move from 57 aircraft – to 52 aircraft to 57 aircraft, if it happens, I mean, it's not as big a percentage change as 47 aircraft to 52 aircraft, you don't have the additional complexity of kind of a major shift in mix, but then it sounds like you've done a fair amount, so that you're better prepared to deal with it, should we assume that that's – we shouldn't expect to up the risk of a negative cum catch, or certainly the risk would be much lower.

Thomas C. Gentile III

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

A

The risk is much lower, and we're much better prepared, we have more experience. And you're right, as that critical mass of MAXs develops, it becomes easier. We go down the learning curve very quickly. There were differences. And so that that just required some more learning, but you know, we're down the learning curve, we're in a much better position this year and we're very confident with the outlook.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Sanjay Kapoor

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

A

Right, but in fairness, I mean we are at unprecedented levels of production. There is you know these kinds of rate increases that have happened in the past, but you remember, they have not happened year after year after year, I mean, we're doing 52 aircrafts and then 57 aircrafts in incremental amounts each year. So, we do face challenges, but like Tom says, you know, we're confident.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right. Right.

Thomas C. Gentile III

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

A

And let me reiterate it...

Sanjay Kapoor

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

But we have to manage it.

A

Thomas C. Gentile III

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

We love the rate going up on the 737. That is the best news for our business, and we'd love to see it go up more. But executing on it is critically important to maintain quality and delivery in a safe environment.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

Well, really, this should be a good environment, because while the rate is going up, I mean, if it goes up 10% a year and then you have huge execution issues, you know, this 3% across your entire portfolio is really much more of a manageable number.

Q

Thomas C. Gentile III

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

I think Boeing has done a very nice job of putting it in increments, so that it is manageable.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

So, the A350 deferred amortization per unit was down in the fourth quarter, how common, what should we expect in the first quarter, I mean, ex the accounting change?

Q

Thomas C. Gentile III

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

Yeah. No. Listen, I think, in my prepared remarks during the call, I think I did mention that even though the deferred inventory increased slightly in the quarter. It mainly related to certain claims, certain settlements and one-time events. And if I took those out, we actually saw a decrease on a per shipset basis on our A350 program of about \$700,000 a shipset. So, it is actually an improvement. And again Cai we've talked about this many times...

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

But it wasn't – I thought, it was \$900,000 in the third quarter?

Q

Thomas C. Gentile III

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

\$700,000 per shipset.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

In the fourth quarter?

Q

Thomas C. Gentile III

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

A

In the fourth quarter.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right. But it was more – a bigger amortization in the third quarter?

Thomas C. Gentile III

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

A

In the third quarter, you're right, but that's the process of the learning curve, and the number of units that you ship out, you know, and the period of the quarter that you ship it out and so on. I was just trying to say it's not a perfect measure. I mean at the end of the day we set a plan two years ago almost about how we were going to generate the cash over the next 700 units. And I have to tell you, I mean, today we are on track to that plan.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

And we've had some hiccups in the Kinston factory associated with some weather related events, which we have overcome but on that overall plan, we are absolutely on track.

Sanjay Kapoor

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

A

And if you look at this year you see the benefit of the change in revenue recognition because we are now cash flow positive on each unit...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Sanjay Kapoor

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

A

...which translates into EPS.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right, right. But exiting that aside, I mean, so really there was you know disappointing execution on the 737, on the A350 wasn't as good as the third quarter. What should we look for kind of as we rollout on these two programs, is it going to be just linear improvement for getting the accounting change?

Sanjay Kapoor

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

A

Correct. Well, for one the accounting change is in place. So as we report our results, Cai.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Sanjay Kapoor

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

A

Good or bad, you will see some volatility because we're no longer looking at sort of margin profiles that are over a long period of time, and now you're sort of literally seeing what the difference between revenue and cost is on a unit-by-unit basis almost. So you will see some volatility, but again, we are on track. Sometimes in our factories you establish ideas for implementation to take your cost out. They're not completely linear, they're usually in some cases step changes, and they happen at – when they happen in the context of when the appropriate milestones are met, so you'll see a little bit of volatility.

Thomas C. Gentile III

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

A

Yeah. I'd say the new accounting rules, it's more transparent. So you'll see all the ups and downs. But I would say that in terms of trajectory, the factory is operating very well. We've got our supply chain cost down. We've got a very good rhythm in terms of that. We're digitizing more, we're introducing more automation, we're putting in place Lean processes. So we're getting very good productivity and executing as these rate increases are happening.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

So, we're confident in the outlook, but it's completely transparent. So you'll see every bump in the road.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

But so you mentioned, Sanjay, that you can have step changes. Are there any visible step changes in the first couple of quarters?

Sanjay Kapoor

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

A

I think that's a fair question. Again, I think what you'll see on the A350 program, not that I'm suggesting we will declare to you program-by-program margins.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right. Right.

Sanjay Kapoor

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

A

But you'll see the impact in our Fuselage segment and on the A350 program like in any program that's sort of going down its learning curve. The learning curve suggests that there's lower cost in the latter half of the year...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right. Right.

Sanjay Kapoor

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

A

...than in the front half of the year. So correspondingly you'll see sort of lower margins in the first half of the year compared to the second half of the year.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it. Okay. And then – so you said on the fourth quarter, the tax act benefits are going to increase CapEx and R&D by a total of \$75 million. You mentioned that about \$25 million goes into R&D...

Sanjay Kapoor

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

A

Right.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

...targeted at the 797. And so \$50 million or so in CapEx, but that was really not rate related, but was efficiency related. So, give us some color in terms of the types of things you're doing to improve efficiency there?

Thomas C. Gentile III

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

A

Right. Well, if you look at our CapEx historically, a lot of it is embedded, tied to rate. And so it's kind of locked in. And so as we look at growing our fabrication business both for growth, but also for driving productivity in our supply chain, we saw some real opportunities. A, just in terms of some machining, five-axis machining in particular, inability to bring in some more machines so that we could do more internally to drive down costs. That was one set of initiatives.

A second major thing had to do with our material purchasing. So we've driven a lot of supply chain savings. But we have a lot of suppliers who are excellent in terms of quality and delivery. But they're too small to get the best rates on material. And so that was a conundrum for us. And so one of the ways we're going to solve it is because of our scale, we can buy mill direct. We can go direct to the mill and we can buy large quantities.

Now for ourselves, we're able to then cut it into the sizes we need and do the machining. But our smaller suppliers aren't able to do that as much. So one of the things that we're going to do is put a metal cutting COE in place. So we can buy mill direct, cut it to the shape and size that we need, have our smaller suppliers machine it, and then deliver it to us for a much lower cost. So that's a big opportunity.

Another opportunity just has to do with something as simple as warehousing. But as we are growing in rate, our need for warehousing and managing lean inventories has grown substantially. Our current footprint, our warehousing was scattered about our quite large footprint say in Wichita.

And so one of the things we're doing is we're going to consolidate that, put in place more automation for our warehousing, so that we can run leaner inventories and lower cost, as well as free up more space in our main plant areas that we can use for manufacturing because as rates go up, this will reduce the need for us to build new bricks and mortar, we'll be able to leverage existing space.

So those give you a couple of examples and those are initiatives we had on the books, but we decided again with the tax reform savings, now is a good time to pull those forward, implement them and then we get all the benefits not only in 2018, but 2019, 2020 and beyond.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

No, no, so those are great examples, but so like when do you spend the \$50 million and what sort of return would we get on the \$50 million on that?

Thomas C. Gentile III

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

A

Well, we're spending it now. I mean we have started those projects. The returns are all good. These are, I would say, among our top returning investments, even much more so than the rate investments that we make. And so that's why we felt very comfortable pulling them forward. I know that wasn't necessarily the most popular thing, but when we look at the return profile and the benefits that we get long-term, we felt this was the right decision. And as I mentioned before on the R&D, again, this is the year Boeing is going to be making their decision. Airbus is going to be countering. We wanted to put our best foot forward and we felt we needed to put more into R&D in order to be ready.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right, right. But again, so of the \$50 million, do we spend most of it in the first half?

Thomas C. Gentile III

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

A

It'll be over the course of the year, because some of it is new buildings and machines...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

...that come in over the course of...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So I assume you don't get much P&L benefit, we get more of it next year?

Thomas C. Gentile III

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

A

Correct, correct.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

And then you will get to keep it all, yes?

Thomas C. Gentile III

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

A

Yes.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

And on annualized basis if you're spending \$50 million, you are going to take \$10 million out of your cost next year or \$20 million?

Sanjay Kapoor

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

A

So if you're asking me for a payback, I mean these are typical, yes.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah. I'm asking you.

Sanjay Kapoor

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

A

Cai. Like Tom discussed, these are good paybacks and like anything they are bookended. Some of these are three years, some of these are four years, some of these are five years. But you also got to remember these are the right things for our business from a long term competitive position.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Sanjay Kapoor

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

A

I'll also tell you that some amount of CapEx is going in that's R&D related, okay, because you have to invest certain things in your laboratories to take the engineering ideas and convert them to a readiness level that will be acceptable as Boeing or Airbus makes decisions on a new product. So some of these things are related to those kinds of initiatives as well.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So, you said I guess on the call you reset contract for 20,000 parts last year. What percent of your purchases do these represent and what sort of price cuts did you get roughly?

Thomas C. Gentile III

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

A

Right. What we said is that we have roughly five-year contracts. And so each year 20% of them come due.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

So last year the 20,000 parts was a little bit more than the 20% in one year. So we felt very good about that, and we are getting very good results from our supply chain initiatives.

I'd say the way we look at it is, there was kind of six legs to it. The first is we do clean sheets, which is we reverse engineer every part, we figure out what they should cost or should be. And we know then what the amount is that we should be paying. We compare that to what we're actually paying and we see the opportunities. So we have then a very structured process to capture those savings. We call it our strategic sourcing process and it's got five gates, it's got over 200 deliverables, but we systematically work through it, we meet every week, we have dashboards, we really manage it very thoroughly.

We work with our suppliers to support them to get the savings. So it's material buying, and logistics and engineering, and processing. We have a whole series of things we can do to help them get to the right price. If they can't get there, that's when we can insource. And so we've been insourcing quite a bit.

At the same time, if we can't insource it to get to the lowest cost, then we can do a bid, and we have these things we call them hypercompetitive negotiations, but effectively what it is, is we will pick a series of parts and we will pull in 20 or 30 suppliers and in the course of a week, we'll go through multiple rounds of bidding, by the end of the week we award the contracts.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

And then we have a very structured process to transfer the work.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

Again with gates, and dashboards and operating rhythm. So with that process we've made huge results and a lot of progress. But as I've always said, in our industry, you have to run very fast just to stand still. Because while all this is happening, we've got productivity discounts, we've got step downs, we've got escalation in material and labor.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

And so if we did nothing, our margins will be [ph] greater (33:59). But what all these initiatives on the supply chain are helping us offset all those headwinds so that we are maintaining margins and even trying to improve them.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

But when we announced last year the big deal with Boeing, we said on 737 there were some productivity discounts as rates went up. That's true. We also announced that there's some step-downs on price for the 787.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

That's true. The way we're offsetting that is through all these supplier initiatives. And that's why we're confident that we could maintain and even try to grow margins in spite of some of those changes and the other headwinds that we face.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right. So if you look at your 2018 guidance, what are you assuming about insurance recovery, you had the severe weather impact last year...

Thomas C. Gentile III

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

A

Right.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

...you didn't get a recovery in the fourth quarter. You were looking for something.

Thomas C. Gentile III

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

A

Right. Well, we spent probably about \$30 million and that was our claim, but we only built in about a third of that into the plan for next year.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Okay.

Thomas C. Gentile III

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

A

So, if it's more, which we think it could reasonably be, then it would be upside, but that's about what we – so we did – we assumed that we'd get some recovery.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah.

Thomas C. Gentile III

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

A

But we're not counting on necessarily getting all of it.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

And what have [ph] you assumed for (35:11) average share count?

Sanjay Kapoor

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

A

Cai, listen whether it be insurance recovery, and I know these are things that you know about and you can ask me, but there are good things and bad things that are all baked in into that guidance and that book encompasses, I mean every year I think we've gone into a rhythm where we've given you the best guidance we can based on old information and the puts and the takes we can do. And then as the course of the year goes through, and performance, and some of these one-time things get handled, then we'll update the guidance accordingly. So we baked in some level of recovery on insurance, we assume some level of modest share repurchases.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Okay.

Sanjay Kapoor

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

A

And we'll see how we do in the course of the year and then...

Thomas C. Gentile III

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

A

As I mentioned earlier in my opening remarks, last few years in a row we've delivered more than 100% of our free cash flow back to shareholders.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III

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

A

Last year we began the year with \$1 billion repurchase authorization. We spent \$500 million, but at our last board meeting we topped that back up to \$1 billion. So we have plenty of capacity for share repurchases as we head into the year.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So, Sanjay, you mentioned that cash taxes were low in 2017, but they'll increase this year despite the tax act. How come?

Sanjay Kapoor

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

A

Well, there are really, I guess, three big reasons, Cai. Firstly, rightfully so our profit before tax increases. Secondly, I would tell you that in 2017, if you remember, not that we want to remember these things, but we took a fairly sizable \$350 million charge on the 787 that depressed taxes, and most of that benefit was in 2017. And on the 737 MAX, that's another program that crosses a certain threshold of milestone, where it triggers cash tax calculations. And so that stops happening in 2018 as well. So, overall, and you'll see this, our cash taxes that we paid in 2017 versus 2018, the 2018 is a headwind.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

All right. So you're sort of like Boeing where if you kind of wrote-off the expense of what the cost of spend, you have to pay the taxes later as you amortize it. So how big in terms of cash impact is the tax act for you if we think about 2018?

Sanjay Kapoor

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

A

In 2018 versus 2017?

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Yeah. How much of is...

Sanjay Kapoor

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

A

It's sizeable. Again, I'm not going to give you cash tax guidance here, Cai. But it's sizable and that's why even on the call, I was trying to explain firstly, we delivered in the \$500 million to \$550 million range last year with \$536 million and we're guiding you in the \$550 million to \$600 million. So that's a growth. Like we always told you in the last few years. And there are some tailwinds and there are some headwinds inside that number.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right, right.

Sanjay Kapoor

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

A

Cash tax is a headwind, there are tailwinds and I think you know those on the 737. 777 is a significant headwind. So I know you're focused on cash tax but the 777 is a high number as well...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right.

Sanjay Kapoor

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

A

...just because the volume on the 777 is significantly lower during this bridge period.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right, right.

Sanjay Kapoor

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

A

So...

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it, got it. So you're looking at potential M&A. So what size deals would you consider, what are the financial metrics that have to work for you?

Thomas C. Gentile III

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

A

Right. Well, as we said, M&A, our strategic focus is more Airbus content, more military content, more low cost country footprint for fabrication business. But within the guidelines of those strategic criteria, we're also looking for things that have a good return. So we'd have to exceed our weighted average cost of capital, have a very good return on invested capital in the 9%, 10% at a minimum. So those are the criteria at a very high level that we discuss with our board.

And in terms of capacity, we're looking with a quite broad net for bolt-ons, there are a lot of bolt-ons that would meet any one or two of those criteria. But we also have a lot of capacity on our balance sheet. If you look at our current debt ratios are quite low. So we're investment grade. We have the ability to get that to make a bigger deal if there were one available that met those strategic criteria and also the return criteria. And in the absence of that, we'll continue to invest in ourselves through share repurchases and in our capital expenditures.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

So another way of thinking about that is what is the right financial leverage net debt-to-EBITDA for Spirit and how much cash do you need on hand to feel comfortable running your business?

Sanjay Kapoor

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

A

Cai, as we said in the past, I mean somewhere between \$400 million, \$500 million is plenty of cash given our working capital needs and our investment requirements, and the way we transact our activity, and we have that, and we've stayed steady at those kinds of numbers and we certainly have that on our balance sheet. We've also said in the past that absent any sort of M&A requirement, we see getting back into a peer group level of 2 times leverage is an acceptable leverage. Again, given the de-risk balance sheet that we have, the very solid backlog that we enjoy, and the performance that we have, and the need for that performance in our business. So absent any M&A, that's where we see ourselves.

Thomas C. Gentile III

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

A

But that said, I'd say an M&A deal would be a great catalyst to get to that kind of leverage.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Right. Right.

Thomas C. Gentile III

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

A

And so we're not in a hurry, we're being very patient and deliberate. We're thinking about the strategic criteria, the return thresholds. But also thinking about what we want our long-term capital structure to look like.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Q

Got it. So last sort of as you look at the whole picture, what are the one or two things, like if you did better or if you did worse that would get you to a better or worse outcome in 2018?

Thomas C. Gentile III

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

A

Well, clearly we have to execute on rate. That's the biggest thing in front of us and it's a big opportunity, but it's also something we have to execute. We've talked about our fabrication business and executing on that, that's very important. And I'd say our supply chain. Our suppliers are critical partners in our success, and we've got to make sure that they can go up and rate with us and we've got to work with them on that. We've got to continue to identify opportunities to ensure we have globally competitive supply rates. And that is a big part of our execution.

And then, as we look forward to the future, we want to win new business. So whether it's fabrication or defense, more Airbus content, more Boeing content, those will be the things that really pays us. And with the seven-year effectively backlog we are in a good position. But we're thinking for the future, we're very well-positioned. We think we can win new work and our intention is to go and do it.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Terrific.

Q

Thomas C. Gentile III

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

For 2018.

A

Cai von Rumohr

Analyst, Cowen and Company, LLC

Thank you very much.

Thomas C. Gentile III

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

Thank you, Cai.

Sanjay Kapoor

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

Thank you, Cai.

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