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Spirit AeroSystems Holdings, Inc. (SPR)

Q2 2018 Earnings Call

CORPORATE PARTICIPANTS

Kailash Krishnaswamy

Vice President - IR, M&A and Strategy, Spirit AeroSystems Holdings, Inc.

Thomas C. Gentile

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OTHER PARTICIPANTS

Carter Copeland

Analyst, Melius Research LLC

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Analyst, Jefferies LLC

Lucy Guo

Analyst, Cowen & Co. LLC

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Analyst, JPMorgan Securities LLC

David Strauss

Analyst, Barclays Capital, Inc.

Kristine Tan Liwag

Analyst, Bank of America Merrill Lynch

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Krishna Sinha

Analyst, Vertical Research Partners LLC

Kenneth George Herbert

Analyst, Canaccord Genuity, Inc.



MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to Spirit AeroSystems Holdings, Incorporated Second Quarter 2018 Earnings Conference Call. My name is Chad, and I will be your coordinator today. All participants will be in listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the presentation over to Kailash, Vice President of Investor Relations, M&A and Strategy. Please proceed.

Kailash Krishnaswamy

Vice President - IR, M&A and Strategy, Spirit AeroSystems Holdings, Inc.

Thank you, Chad, and good morning, everyone. Welcome to Spirit's second quarter 2018 earnings call. I'm Kailash Krishnaswamy. And with me today are Spirit's President and Chief Executive Officer, Tom Gentile; and Spirit's Executive Vice President and Chief Financial Officer, Sanjay Kapoor.

After opening comments by Tom and Sanjay regarding our performance and outlook, we will take your questions. In order to allow everyone to participate in the question-and-answer segment, we ask that you limit yourselves to one question, please.

Before we begin, I need to remind you that any projections or goals we may include in our discussion today are likely to involve risks which are detailed in our earnings release, in our SEC filings, and in the forward-looking statement at the end of this web presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of non-GAAP measures we use when discussing our results.

As a reminder, you can follow today's broadcast and slide presentation on our website at investor.spiritaero.com.

With that, I would like to turn the call over to our Chief Executive Officer, Tom Gentile.

Thomas C. Gentile

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

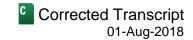
Thank you, Kailash, and good morning, everyone.

Welcome to Spirit's 2018 second quarter earnings call. I want to start off by providing updates of the key execution items we laid out in the first quarter earnings call, highlighting a few second quarter accomplishments, and outlining our primary focus areas for the second half of the year.

Last quarter, we announced plans to raise new debt in association with an agreement to acquire Asco and initiate a \$725 million accelerated share repurchase plan. Additionally, we detailed our efforts to improve execution across all programs. Thanks to the Spirit team's dedication and hard work, we made good progress on all of these key items during the quarter. We remain excited regarding the Asco acquisition as a compelling strategic and operational fit which will enable Spirit to accelerate our growth with Airbus, expand our military sales, grow our fabrication business, and strengthen our supply chain to support our execution on all programs.

The Asco acquisition is on track to close in the second half of 2018. On July 2, we received merger clearance from the U.S. Federal Trade Commission, and we're progressing through the other required approvals and

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consents. We are currently focused on detailed operational integration planning to ensure a smooth transition upon closing and enable us to capture all of the targeted synergies.

In line with the Asco acquisition, we completed \$1.3 billion of debt financing to lower our cost of borrowing and extend our maturities. By year-end, we expect our leverage to be approximately 2 times debt-to-EBITDA. Our new debt levels bring our leverage more in line with industry peers. Both S&P and Moody's reaffirm our investment-grade rating.

During Q2, we also successfully initiated a \$725 million ASR. Share repurchases are an important part of our overall capital deployment strategy and demonstrate our confidence in our long-term outlook. As previously communicated, we do not anticipate additional share repurchases beyond the ASR in 2018. Overall during Q2, Spirit had record deliveries of 453 shipsets. This included 169 737 shipsets representing a 32% increase compared to the first quarter.

Our operation teams are continuing to focus on execution and we are building buffers on all of our programs. We expect to continue improving in those areas over the second half of the year. While I'm pleased with the progress, we still need to continue to improve delivery consistency and efficiency to support our customers.

Turning to some additional accomplishments from the second quarter, we recently broke ground on a state-of-theart global digital logistics center in Wichita, supporting our strategy to improve production flow time by more accurately managing inventory. The new center will also free up space on our campus to enable higher rates of production.

We also celebrated the opening of our Malaysia phase 3 manufacturing center of excellence, supporting our strategy of increasing the capacity and capability at that site. Spirit Malaysia is a growing and important part of Spirit's global cost competitive strategy.

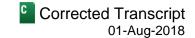
During the second quarter, we also announced a new collaboration agreement which establishes an innovative relationship for Spirit with Wichita State University through the National Institute for Aviation Research or NIAR and the Wichita State Campus of Applied Sciences and Technology. This agreement will accelerate our advanced research initiatives and improve workforce training services.

Also in the quarter, Spirit was honored to be recognized by Rolls-Royce as their supplier of the year for our commitment to delivery excellence on the BR725 program. This showcases our dedication to meet and exceed our customer's expectations.

In addition, we delivered the first two 777X test fuselages to Boeing in the quarter. We are excited and honored to be a partner on the 777X program. And we are committed to supporting our customer through the transition. Finally, we are pleased to win some new work packages in the quarter with existing customers, including new work statements in fabrication and defense. We're unable to announce details at this time due to some customer restrictions, but this highlights progress on our growth initiatives.

Also, we have just returned from Farnborough where customers had very strong showings. Total order, commitments and options at the air show were over 1,400 aircraft, the most since 2013. Spirit is proud to have work packages on all the Airbus and Boeing commercial programs. During the show, we also made announcements on our progress on robotics, automation, and additive manufacturing.

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Now, outlining our key focus areas for the second half of the year. We are focused on executing on delivery for all of our programs. Continued work with our supply chain to ensure timely delivery will be a key component to improving our efficiency. As I have described, we have made good progress, but still have some challenges with a small number of suppliers, and we expect ongoing improvements throughout the remainder of the year.

Another focus area is planning for rate increases across our major programs for the coming year. The 737, 787, the A320 and the A350 are all increasing in rate. We are taking the lessons learned over the last year and are applying them internally and with our suppliers to ensure a smooth transition to higher production rates. We are increasing supplier due diligence and extending training time for new employees. Finally, we are intensely focused on cash for the second half of 2018. We are concentrating our efforts on cost reduction, working capital, and CapEx initiatives.

Turning to the second quarter financials, based on the record deliveries that I described before, we reported revenue of \$1.8 billion, earnings per share of \$1.31 or \$1.63 adjusted for the impact of one-time items, which is an increase of 5%, operating cash flow of \$231 million and strong adjusted free cash flow of \$171 million.

At this point, I'll turn it over to Sanjay to lead you through the detailed financial results. Sanjay?

Sanjay Kapoor

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

Thank you, Tom, and good morning, everybody. So let me take you through the details of our second quarter financials, as well as our outlook for 2018. With that, please turn to slide 3.

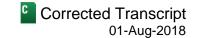
Revenue for the quarter was \$1.8 billion, up slightly from the same period of 2017, primarily driven by higher deliveries on the 737 program, partially offset by lower delivery on the 777, lower revenue recognized in the Boeing 787 program as a result of the adoption of ASC 606 and the absence of a litigation reserve which was robust in the second quarter of 2017. Backlog at the end of the second quarter was \$47 billion, demonstrating the long-term health of our business.

Moving to slide 4, second quarter adjusted earnings per share was \$1.63 compared to \$1.57 in the second quarter of 2017. Second quarter 2018 is adjusted for all the costs associated with the Asco acquisition. This includes transaction costs, interest on debt associated with the transaction, impact of the derivative instrument, and also excluded is all debt financing costs. On comparison, the second quarter of 2017 was adjusted for the impact of the MOU with Boeing.

I want to take a moment and explain the largest adjustment associated with the Asco acquisition. To reduce our exposure to the euro currency fluctuations, we entered into a foreign currency forward contract to protect the purchase price. The fair value of the contract on June 28, which was the second quarter end date, resulted in a noncash loss of \$22 million.

Upon closure of the deal, the purchase price will be adjusted with an offsetting amount in financing activities based on the fair value at that time. The 4% increase in adjusted earnings per share was driven by a reversal of forward loss in the 787 program, adoption of ASC 606 on the A350 program, and a lower share count and tax rate offset by a reduction in production delivery on the 777 program, and the absence of a litigation reserve which was reversed in the second quarter of 2017. As we discussed last quarter, Q2 2018 was also impacted by the 737 recovery costs. Now that delivery execution has improved, our focus is on cost improvement in the second half of the year.

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Now turning to free cash flow on slide 5. Adjusting for the impact of the Asco integration, adjusted free cash flow for the quarter was \$171 million compared to \$175 million in the same period last year, driven by lower 777 deliveries, higher cash tax, and timing of working capital, offset by increased deliveries on the 737, and lower advance payments. As we mentioned last quarter, we continue to reexamine our capital investments for efficiencies. And as a result, we have now reduced our CapEx forecast by \$25 million at the midpoint for this year.

Turning next to capital deployment on slide 6, as planned, we initiated the \$725 million ASR in the second quarter which will conclude by the end of the year. We took initial delivery of 7.3 million shares and we'll true up that number at the conclusion of the ASR. Spirit is committed to a balanced capital deployment strategy exemplified by the planned acquisition of Asco along with the ASR and dividend, showing the confidence we have in the long-term outlook for Spirit.

Now, let's look at our segment performance. For our Fuselage segment results, please turn to slide 7. Fuselage segment revenue in the quarter was \$1 billion, up 10% from \$938 million in the same period last year, primarily due to higher deliveries on the 737 program and increased defense work, partially offset by lower deliveries on the 777 program and lower revenue recognized in the 787 because of ASC 606.

Operating margin for the quarter was 15.8% as compared to negative 9% in the same period last year primarily due to the absence of the forward loss charges recognized in the second quarter of 2017. On a normalized basis, after reversing change in estimate impact, Fuselage segment margin was 14.3% compared to 14.1% in the first quarter, in line with our previous discussion that second quarter would be impacted by the 737 scheduled recovery costs, but beginning to show slight cost improvement over the first quarter.

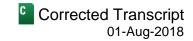
Turning to slide 8 for our Propulsion segment results. Propulsion segment revenue in the quarter was \$423 compared to \$437 million in the same period last year, primarily driven by lower deliveries on the 777 program and lower revenue recognized on the 787 program due to ASC 606, partially offset by higher deliveries on the 737 program. Operating margin for the quarter was 17.7% compared to 9% in the same period last year, again, primarily due to the absence of the forward-loss charges we recognized in the second quarter of 2017. On a normalized basis, after the reversing change in estimate impact, Propulsion segment margin was 15.9%.

And for our Wing segment results, let's turn to slide 9. Wing segment revenue in the quarter was \$383 million, down from \$451 million in the same period last year due to lower revenue recognized from the Boeing 787 program as a result of the adoption of ASC 606; lower revenue recognized on the A350 program due to pricing terms; and the impact from foreign-currency fluctuations on A320 program, partially offset by higher deliveries on the 737 program. Operating margin for the quarter was 14.8% compared to 6.4% in the same period last year. The absence of the forward-loss charge is recognized in the Boeing 787 program in the second quarter of 2017.

On a normalized basis after the reversing change in estimate impact, Wing segment margin was 14.4%. And turning to guidance on slide 10, our guidance for 2018, revenue to be between \$7.1 billion to \$7.2 billion, adjusted earnings per share to be between \$6.25 to \$6.50, adjusted free cash flow to be between \$550 million to \$600 million, and an effective tax rate of 21% to 22%.

So, we made good progress recovering 737 deliveries in the quarter. Our focus now will be on sustaining schedule and the efficient execution of the higher rate driving cost improvement in the second half of the year. As a reminder, our guidance does not include any impact of the Asco acquisition including transaction cost, interest expenses, impact from derivative instrument or the costs associated with the debt financing. And like we mentioned last quarter, our guidance does include the benefit of the ASR and we are absorbing the associated interest costs with that.

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Now, let me hand it back over to Tom for some closing comments.

Thomas C. Gentile

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

Thanks, Sanjay. As the outcome from Farnborough clearly demonstrates, strong global passenger and cargo growth continues to support a robust environment for the global aviation industry. Our backlog remains strong at \$47 billion at the end of the second quarter which includes work on all the commercial platforms in the Boeing and Airbus backlogs.

During Q2, we made progress on the Asco acquisition, completed our debt financing, initiated the ASR and continue to improve on our program execution. During the quarter, we had record deliveries of 453 shipsets. We are maintaining our guidance on revenue, EPS and free cash flow, and are working to improve execution and delivery in the back half of the year.

With that, we'll be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin our question-and-answer session. [Operator Instructions] The first question will come from Carter Copeland with Melius Research. Please go ahead.

Carter Copeland

Analyst, Melius Research LLC

Hey. Good morning, gentlemen.

Thomas C. Gentile

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

Good morning, Carter.

Carter Copeland

Analyst, Melius Research LLC

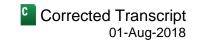
I'll stick to one and abide by the rules. So I want to ask a little bit about the narrow-body rate studies that both the OEMs have talked about lately and just what you guys would need from a capital investment standpoint maybe framed in two questions. One, how high could you go on the narrow-body rates without having to put in any incremental capital of significance? And if you were to put in that capital, what should we think the timeframe around that is? Is this a 2020 event for production rates thereafter or any update on your current thinking there will be helpful? Thanks.

Thomas C. Gentile

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

Great. Well, thanks, Carter. With regard to the rates, we obviously are looking to the OEMs to make their decision. And so, from our standpoint, we're focusing on preparation in the event that they do decide to go to higher rates. So we've looked at various different scenarios. We're comfortable both for the Airbus program and for the Boeing program that if we look at our brick and mortar in our footprint and our campuses is we have

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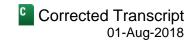


sufficient capacity to go up to whatever rates that they might be considering. So, from that standpoint, we're in pretty good shape.

These rate increases always do take a long time to plan and to execute. So, normally, it's about a 24-month period for us. So that's kind of what we would be looking for in terms of preparation. But as I said, we've been doing a lot of detailed planning for different scenarios that could evolve, so that we're ready if either of the OEMs decides to make a decision to increase rate in the future.

Carter Copeland Analyst, Melius Research LLC	Q
And what's the high end of your scenario, 70, 75?	
Thomas C. Gentile President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Well, each OEM has some different scenarios. And I think, they've talked about what their scenarios are leave it to them to speculate what their targets would be. But we've looked at the different scenarios that have discussed publicly and with us, and we're comfortable we could meet those in terms of the infrastit the bricks and mortar and the footprint that we have.	at they
Carter Copeland Analyst, Melius Research LLC	Q
All right. Great. Thanks, Tom.	
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	A
Carter, if you'll get back into the queue, just remember to take your mute button off at the end of it.	
Carter Copeland Analyst, Melius Research LLC	Q
Ouch, ouch. Shots fired. I got it.	
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	A
Okay. Okay. Next question.	
Operator: Our next question will come from Sheila Kahyaoglu with Jefferies. Please go ahead.	
Sheila Kahyaoglu Analyst, Jefferies LLC	Q
Good morning. Thank you.	
Thomas C. Gentile President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Good morning, Sheila.	

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Sheila	Kahyaog	lu
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Analyst, Jefferies LLC

Just one question. On the 737, nice recovery. And can you talk about where you are maybe on NG to MAX transition, what your mix is and where – what are risk items as we head into the second half?

Thomas C. Gentile

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

Right. Well, the MAX is obviously increasing and the NG is going through a corresponding decline. Overall, for the year, we expect about 50/50. And we're kind of right in the middle of that transition. The good news is that we're getting through the learning curve. We've been hiring more people and they've been learning as we go. And so, we're getting better. That said, we still have more work to do on consistency and in making sure that we are consistently delivering the units every night.

But I think as we as we look at the MAX, the one thing about it is that it's a different aircraft. And so, we have to think about different supply chain, also different training, but we're getting through that and we're very confident with where we are. I'm very pleased with the performance in terms of the delivery. Sanjay, anything else to add?

Sanjay Kapoor

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

No, no. I think that's absolutely right, Sheila. Again, as you know, next year, most of the deliveries will be MAX. This is the transition year and we have kind of literally halfway through that phase in. And as Tom mentioned, we're getting a lot more MAXs out there and we're getting better at doing it.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Thank you.

Operator: The next question will be from Cai von Rumohr with Cowen & Company. Please go ahead.

Lucy Guo

Analyst, Cowen & Co. LLC

Good morning. This is Lucy on for Cai.

Thomas C. Gentile

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

Good morning.

Sanjay Kapoor

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

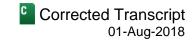
Good morning, Lucy.

Lucy Guo

Analyst, Cowen & Co. LLC

Good morning. So, a follow-up on Sheila's question, can you just help us think through what has potentially changed in your guidance even though you kind of reaffirmed the headline numbers given the FX potential

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headwind, and you had [indiscernible] (22:15) the forward contract in place, and then any sort of excess cost – residual excess [indiscernible] (22:22) in the second half with the pluses and minuses?

Thomas C. Gentile

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

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Right. Well, as we said in the first quarter, as we were working to improve on our deliveries and catch up a little because we were about 15 units behind. As we said, we were going to incur some additional costs in Q2 related to things like expedited freight and overtime and some contractors, and we did. The good news is that on the Airbus side, the A350 fuselages out of North Carolina really recovered. And so, after a few [indiscernible] (22:55) shipments in the early part of the quarter, we've returned to see shipments. And so we didn't incur any more expedited freight there.

On the 737 line, you can see from the units, we caught up on the unit deliveries, but we're still not getting consistently every day the fuselages out. So, we always deliver to Boeing at our plant in Wichita at midnight. And there have been instances where we find some quality issues right at the end and we are absolutely committed to not shipping anything where we know that there is an issue. And so, we might miss a midnight delay and that might result in some expedited freight.

We expect that to be reduced substantially in the second half as the operation continues to improve. We're very confident in the delivery for the year. We're extremely confident that we're going to make all the deliveries. But as I said, we have to improve the consistency and the efficiency of those deliveries.

If you just look at the math, 169 units in Q2 was about 57 per month. So, we know we can do it. That gives us a lot of confidence as we go into 57 rate next year, but we have to do it more efficiently by getting the overtime down, with reduced contractors, and with no expedited freight. And that's what we're focused on for the second half is to improve the consistency.

The one thing is if we get the units out, but they don't arrive in the right sequence, as that can disrupt Boeing. And so, our focus in the second half is to get to perfect, is to get everything there in the right sequence, in the right order consistently and so that the fuselages are there on time every day, and that's what we're really on track to do.

Lucy Guo

Analyst, Cowen & Co. LLC

That's helpful. And maybe you can give any early color. I know you have to get through the second half, but for 2019, the year-over-year comps will be easier, but any sort of levers that you can point to we should think about for 2019?

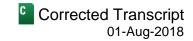
Thomas C. Gentile

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

Well, 2019 actually should be much better overall. For one thing, all of the 57 rate tooling is starting to arrive, and that's giving us more surge capacity. All the people that we've hired and trained are getting down the learning curve on the MAX and in general. And so, their realization and their productivity is improving. And so, that's why we – the margins are going improve in the back half of this year, and we're going to hit the ground next year with much improved margins and also with a system in the factory that is really performing much better and much more efficiently. So, those things are all on track. And it's because of the work that we've done in the first half of

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this year. We've got the people on. We're putting the tooling in place for 57. The factory is cycling better. We're going to get more consistent and more efficient as we get into next year.

Ironically, the break to 57 is going to be easier than 52 as the break to 52 was easier than 47. And it's because we're going down the learning curve, and we're getting new tooling in place, and we have more surge capacity than we have in the past.

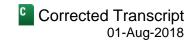
Operator: Our next question will come from Doug Harned with Bernstein. Please go ahead.	
Douglas Stuart Harned Analyst, Sanford C. Bernstein & Co. LLC Thank you. Good morning.	Q
Thomas C. Gentile President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc. Good morning, Doug.	A
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc. Good morning, Doug.	A
Douglas Stuart Harned Analyst, Sanford C. Bernstein & Co. LLC	Q
Can you discuss the Wing Systems revenues? Last year you had an unusually high revenue number fact, I think, it was the highest quarterly revenues ever. And in your comparison this year, you cited a changes on the 787 and pricing on the A350 as reasons for a lower number. But I want to make sure understand what's happening. Was Q2 2017 unusual for some reason? And how large are the chan associated with revenues on the 787 and the A350 pricing? How should we think about that going for	accounting e we ges
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	Д
Sure. Sure, Doug. That's great question, and then again I was trying to pull up my transcript from last a big impact last year in the second quarter of 2017 where with our customer we true up based on sucurrency agreements we have in our contract. And that was almost sort of a one-year true-up in that we took in the second quarter last year. So, that's a big part of the declines. It's unusual. I don't think terms of deliveries and the pricing impact, those are normal. The big one here was the foreign current fluctuation.	ome foreign t quarter that k, again, in
Thomas C. Gentile President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	Д
I think you also see a little bit of a headwind, Doug, if you look at the 777 deliveries.	
Douglas Stuart Harned Analyst, Sanford C. Bernstein & Co. LLC Yes.	Q

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Thomas C. Gentile President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
That really goes through all of our segments, but the 777 deliveries, while we're doing to down rather sharply from the previous year.	this transition to 777X, are
Douglas Stuart Harned Analyst, Sanford C. Bernstein & Co. LLC	Q
But is the 777 – is it – it's down in deliveries, but is there also any issue in terms of the $777X$? Is that something else that we should be factoring in here?	difference in content on the
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	А
No, no. No, you shouldn't. There is no change because of that. It's, again, like I said, m kind of a number, but little over \$25 million is the foreign-currency impact from last year	
Douglas Stuart Harned Analyst, Sanford C. Bernstein & Co. LLC	Q
Okay. And that was really the main issue?	
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	A
Right. Yeah, absolutely.	
Douglas Stuart Harned Analyst, Sanford C. Bernstein & Co. LLC	Q
Okay. Okay. Great. Thank you.	
Operator: The next question will be from Peter Arment of Baird. Please go ahead.	
Peter J. Arment Analyst, Robert W. Baird & Co., Inc.	Q
Yes. Good morning, Tom, Sanjay, Kailash.	
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	A
Good morning.	
Peter J. Arment Analyst, Robert W. Baird & Co., Inc.	Q
Hey, Tom, maybe just quickly. I'll stick to one. On the Asco deal, maybe you can updat from, I guess, either OEM or regulatory hurdles that you need to clear to close the transmentioned you got clearance from the U.S., but maybe just some thoughts around that	saction. I know you

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Thomas C. Gentile

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

Right. Well, we're working through all the customer consents, and we've got several of them. Just a few more to go. And those are on track.

The other major thing, though, is the European Commission. And so that's a rather involved process. We have submitted all of the required information. We've responded to the initial questions. The issue there, really, is that with the European holidays now being August, they're not going to really get started on it until September. And it's usually a 30-day process. So that's why it's getting pushed off into October, but that's really the big hole in the tent right now is to get the European regulatory approvals. And we're on track for that. It's just that we have to work through the European holidays.

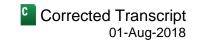
Peter J. Arment Analyst, Robert W. Baird & Co., Inc. It's great. I'll stick to one. Thanks.	Q
Thomas C. Gentile President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc. Thanks.	A
Operator: The next question will be from Sam Pearlstein with Wells Fargo.	
Samuel J. Pearlstein Analyst, Wells Fargo Securities LLC Good morning.	Q
Thomas C. Gentile President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc. Good morning, Sam.	A
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc. Good morning, Sam.	A
Samuel J. Pearlstein Analyst, Wells Fargo Securities LLC Will you talk a little bit more about supplier management and how you're measuring the perform suppliers right now and any changes you've made in terms of their — and what are you seeing in performance? You did say in the introductory comments about still a small number of suppliers but just where do things stand right now?	n terms of on-time

President, Chief Executive Officer & Director, Spirit Aero Systems Holdings, Inc.

Right. Well, we have a significant supply base, more than 600 direct suppliers. And they're a critical part of our ability to deliver to our customers. So we work very closely with them. One of the critical ways that we measure

Thomas C. Gentile

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them is really just are the parts on time and do we have adequate buffer stocks and inventory on hand. And so, those are some of the measures that we look at?

And as I've mentioned in the last quarter, we had about 15 or so suppliers that we're struggling with deliveries and we had deployed SWAT teams and have done a lot of work to get them back on to track. And the good news is a lot of them have improved. And in fact, a lot of them are common suppliers with Boeing on the 737 program. And Boeing has been helping us quite a bit with that as well. But there are still a handful where they're experiencing disruptions, and they have been late with deliveries and that causes disruption in our factory which puts pressure on us.

So, with a lot of those, we help them get back on track with the SWAT teams. But, in some instances, to give them some relief, we actually offload work to other suppliers, so we dual source for the period of time until they can get their operations back under control. And in some cases, it might be 50% or 60% of the work at a particular supplier that we move elsewhere until they can get their operations under control.

But those are the sort of things that we're doing to improve the supply chain efficiency because when we have parts, our factory operates extremely well. But when we don't have parts, and we get disruption and travel at work, that's what drives the overtime and the increased head count and even some of the quality issues that require effort to fix up.

So, getting the supply chain right is an important priority, and I'm pleased that we've made a lot of progress over the last quarter. Still some work to do, but we have a very good line of sight, and we're working cooperatively with Boeing and our other OEM customers to ensure supply chain efficiency.

Samuel J. Pearlstein

Analyst, Wells Fargo Securities LLC

Is there any way to estimate how much excess inventory you may be carrying in terms of the buffer stock that would go away once you return to a normal operation?

Thomas C. Gentile

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

No, no. I maybe misspoke if I implied that we're going to carry excess inventory. The buffers are just our normal buffers that we carry. We use a min-max system. So, we look at safety stock and lead time and in potential risk to establish what those inventory levels are. So, when the suppliers get below those safety stock levels, that's when we would call them in shortage. So, we're not looking to hold any additional inventories. It's just making sure that they're at the inventory that our scientific calculations would indicate.

Samuel J. Pearlstein

Analyst, Wells Fargo Securities LLC

Great. Thank you.

Operator: The next question comes from Rob Spingarn with Credit Suisse. Please go ahead.

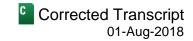
Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Hey, good morning.



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Thomas C. Gentile

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

А

Good morning, Rob.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Just given the – and maybe this is for Sanjay, but given the margins in the first half and the pressure from the ramp issues, et cetera, you've got these normalized margins, I guess, averaging around 14.3% in the first half. And I think you need to do about 17.5% in the second half or roughly that is the implied guide. So, I wanted to see if you could talk about whether you're going to shake off all of these issues you've talked about there.

And then separately, is there any benefit built into that guidance from supplier cost recoveries or one-time recoveries related to the supplier element of what happened with the ramp.

Sanjay Kapoor

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

that is included in our recovery for the second half of the year.

Sure, Rob. Second answer first, yes. Like we hold ourselves accountable to our customers, we hold our suppliers accountable to us. And if there has been some direct cost that we've incurred associated with their misperformance, including what Tom just talked about a moment ago when we have to shift work around associated with their lack of ability to do so, we do have [ph] assertions (34:04) back to our supplier. And, yes,

More importantly, though...

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Can you quantify that, Sanjay?

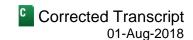
Sanjay Kapoor

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

No, I don't think so. I think you know this is normal course of business. Like anything, we – these are negotiations that happen. There are adjustments that happen to that based on – sometimes based on just the cost that we get, sometimes based on future discounts that we may apply. As an example, we try and make the best business decision as we conclude some of these negotiations with our suppliers.

But more importantly, Rob, I think you're right. I think our margins have to improve. Now here's the thing. I mean, it's not as if we are trying to shoot for something that we haven't done in the past. We are shooting for margins that we've demonstrated we can achieve when our lines are stable and our supply chain is performing. And so, clearly the teams are obviously very focused on this right now to make sure that in the second half we get back to it. And I will tell you, while we still – we've still got our nose to the grind and we're still sort of battling really hard, I will – we have started to see some of the disruption cost tapering down, so some of the transportation costs, or some of the sort of specialized mechanics that we have brought onboard to assist us in the surge, these costs have gone away. So, we are clearly focused in the second half to make this happen. It's not just our costs. It's also our supply chain needs to perform. But yes, we need to drag our efficiency, like Tom said, with which we execute our delivery, not only for our customers' interest, but also for our own margin performance to get us to where you highlighted we need to get to, to get to our guidance.

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Analyst, Credit Suisse Securities (USA) LLC

So, Sanjay...

Thomas C. Gentile

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

And I would say what gives us confidence is just our factories are cycling much better and much more efficient.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

So, on that, if I could ask you, you talk about the fact that you've had these margins, these implied second half margins in the past. But when I look at your normalized margins, historically, there is volatility to them. Last year was 17%, the prior year 16%. At one point, it was below that. And the quarterly volatility as well. What is a good normalized margin going forward without supplier recovery and any other noise? What is the normalized margin in this business going forward?

Sanjay Kapoor

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

So, again, in the past, Rob, as you know, we were operating under 605, so with cum catches and longer blocks, there was a little bit more sort of – that was under the different sort of a process. I think, one of the things we also talked about on the 606, as you know, we have shorter blocks and we have to perform inside that block and execute our risks and opportunities much tighter.

Going back to your question, I mean, at least last year, I should tell you that in the Fuselage segment, we're looking at 16%, 17% margins. And then Propulsion was usually a little bit higher than that and the Wing was 13%, 14%. So, Propulsion and Wing, I mean, clearly are performing. Fuselage, we've got some work to do right now which we are going to do. I can assure you that we are very focused on this. I mean, the teams, obviously, have that detailed plans to achieve that. That's what we baked in.

R	O	he	rt	M	Sn	ingarn

Analyst, Credit Suisse Securities (USA) LLC

Thank you.

Operator: The next question will come from Rajeev Lalwani with Morgan Stanley. Please go ahead.

Rajeev Lalwani

Analyst, Morgan Stanley & Co. LLC

Hi, Tom. Hi, Sanjay.

Sanjay Kapoor

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

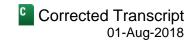
Good morning.

Thomas C. Gentile

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



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Hey, Rajeev.

Rajeev Lalwani

Analyst, Morgan Stanley & Co. LLC

Q

Hey, a two-part question on the 737. One, can you just tell us when you'll get to a place where you're pretty much 100% MAXs? And then the other part of it is, are you seeing any impacts with being able to deliver fuselages to Boeing just given delays on the engine side that they may be seeing or any other delays that they may be seeing that are sort of filtering over to you guys?

Thomas C. Gentile

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



Well, first question, in terms of the MAXs, as I said, this year we're going to be in the 50% range. And probably sometime next year we'll get to mostly MAXs. There'll always be a few NGs for P-8, things like that, but we expect next year that transition will be mostly complete.

In terms of our deliveries to Boeing on the fuselage, the other engine things don't really impact us. I mean, our focus is really getting the fuselages to Boeing every day consistently so they can plan their schedule and avoid any disruption. And we're getting that, we're not perfected at that yet. And so, we're continuing to work. But believe me, our interests are aligned with Boeing, and they're working with us very well. I'd say that the level of communication and operational best-practice sharing has never been higher.

We're working extremely well with them to get the fuselages there and to improve the quality. And so, they've been providing a lot of support on that, and clearly with our supply chain which is really critical, as I mentioned before. So our interests are completely aligned. Our goal is to hit all our deliveries for this year. We're on track to do that and to do that consistently and efficiently so that they show up in the right sequence on time and avoid any disruption at Boeing.

Operator: Our next question will come from George Shapiro with Shapiro Research. Please go ahead.

George D. Shapiro

Analyst, Shapiro Research LLC



Yes. Sanjay, I wanted to know it looks like maybe there's \$0.05 of interest expense there was left out this quarter because it wasn't associated with the ASR, but was going to be associated with Asco. I mean, is that going to be the run rate from an adjusted basis as to what you keep out in Q3 and Q4? And I had a follow-up on that.

Sanjay Kapoor

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



Go ahead ask your follow-up, too, George. I will get to both then.

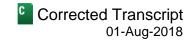
George D. Shapiro

Analyst, Shapiro Research LLC



Okay. It's a different angle. The contract liabilities and accounts payable, they've been up like \$248 million year-to-date, another \$100 million this quarter. Does that just reverse later on in the second half and become somewhat of a headwind to your cash flow or what's going on with that number?

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Sanjay Kapoor

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

Sure. Sure. So let's take the first question. They're two different questions. But, listen, we've tried to make sure that we keep everything very pure. Like I said in the first guarter call as well when we announced the Asco acquisition, George, that Asco acquisition was never contemplated inside our guidance. And so all costs associated with that Asco transaction, whether it be transaction cost, the interest cost associated with the financing that we put into place, as you saw in the second quarter in preparation for that transaction, those costs are all excluded from our guidance. And like - we have also not included any benefits from Asco in our guidance either, I mean, depending on whether they close in October or November or September, we never knew that. So that – we try to keep that completely clean. And that's how we plan to do that going forward.

In terms of contract liability, that's really the ASC 606 or the 787 program, George. And I'm sure that when you talk to the IR team, they'll take you all through the math on that. So, there's nothing going on there other than that ASC 606 effect.

George D. Shapiro

Analyst, Shapiro Research LLC

But in terms of the Asco, so how much interest expense is being left out from the adjusted number associated with that because it's - you said it's split. You're including the ASR, but not the Asco, so would I roughly figure half of it as being excluded?

Sanjay Kapoor

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

Yeah. So, I think your question is more about what it looks like going forward, George. So, again, in the second quarter, obviously, we excluded – we absorbed the cost of the interest because we executed \$725 million ASR. And theoretically, we borrowed that. And theoretically, the impact of a month of that, we've absorbed. Now, going forward, as you know, we'd always plan to do some level of share repurchases during the course of the year and all we really did because, again, this is a conversation we had with all of you that said that as we do an acquisition, we'd also reinvest in ourselves and do an accelerated share repurchase.

And what we did there was accelerate what we had planned to do over the course of the rest of the year anyway. So some level of our cash flow, we were going to spend towards dividends and share repurchases. The delta associated with the acceleration, we will exclude from our - we'll absorb that in our in our guidance. The Asco transaction obviously will be adjusted for.

George D. Shapiro

Analyst, Shapiro Research LLC

But I think – am I correct in assuming it's maybe half of the incremental interest associated with the \$1.3 billion that you borrowed?

Sanjay Kapoor

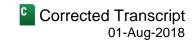
Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

No, it's not half, probably little less than that. So, because remember for the Asco transaction, we are borrowing about \$650 million to execute that transaction. When we explained our borrowing, we said \$350 million, this was sort of corporate and general purposes, \$50 million is roughly the cost of the transactions associated with





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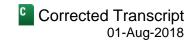


integration cost, fees and interests and things like that. So, really, \$300 million of the acceleration that we did to execute the ASR at the end of the year. So, that's how we're going to treat it.

George D. Shapiro Analyst, Shapiro Research LLC	Q
So, \$300 million of interest expense here, including and the balance is being excluded number?	as part of the adjusted
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	А
Yeah. It tapers like that. It's not exactly that, but it tapers like that. Each month, as we cash that we would have used to do share repurchase, we'll pay for that down towards	
George D. Shapiro Analyst, Shapiro Research LLC	Q
Okay. Thanks very much.	
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	A
Okay.	
Operator: The next question comes from Seth Seifman with JPMorgan. Please go al	nead.
Seth M. Seifman Analyst, JPMorgan Securities LLC	Q
Thanks very much and good morning, everyone.	
Thomas C. Gentile President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Good morning.	
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	A
Good morning.	
Seth M. Seifman Analyst, JPMorgan Securities LLC	Q
Sanjay, when we think about the price step-down that happened on the A350, is the p unit basis right now?	rogram still positive on a
Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	A
Yes, it is, Seth, Yes, it's a positive-margin program, and that's one of the tailwinds that	we have into 2018

absolutely.

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Seth M. Seifman

Analyst, JPMorgan Securities LLC

Great. Okay. And then – you've called out a couple of forward-loss reversals in this segment, and then there's an even bigger number in the cash flow statement as a use of cash presumably because of future expected cash recoveries. How do we think about where you are now versus the initial \$350 million that you expected to have as a loss through the rest of the 787 block, what you've been able to offset through planned cost reductions, and where you stand with regard to future opportunities on that front?

Sanjay Kapoor

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

So, that's a good question, Seth. And as we explained when we – if you remember, the sad days when we took these forward losses, I think I told you that we will absolutely concentrate on improving our efficiencies of our supply chain. And we've also told you back then that if the rates increase from 12 to 14 aircraft per month, we should see a benefit and you saw that benefit that we took last year, about – that was about \$40 million. This particular forward loss reversal relates to some of the work that you've heard us say many times. We are working with our supply chain to drive more efficiencies, get better leverage there. So this roughly \$15 million is associated with that in the quarter and it's obviously on the 787.

Thomas C. Gentile

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

I would also add, though, that the other component of it is some of the cost reduction – the joint reduction programs that we're doing with Boeing. As you recall, when we announced the deal last year, we said on 787, we agreed that we would work together to drive down costs and the teams have been doing that and making a lot of progress. And so, yes the supply chain contracts contributed, but so did some of the value engineering projects that we did in collaboration with Boeing.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Great. Thank you very much.

Operator: The next question will be from David Strauss with Barclays. Please go ahead.

David Strauss

Analyst, Barclays Capital, Inc.

Thanks. Good morning.

Sanjay Kapoor

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

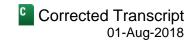
Good morning, David.

Thomas C. Gentile

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

Good morning.

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David Strauss

Analyst, Barclays Capital, Inc.

I wanted to ask about the change in the operating cash flow forecast, what moved around there, Sanjay? And then, on Asco, since a lot of things are moving around here, how much additional debt or how much additional financing do you plan to do when you actually close that transaction and how do you plan on reporting Asco, is it going to be excluding any impacts of purchase accounting?

Sanjay Kapoor

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

All right. So, great question, David. And again, like you, we are waiting to get – we're obviously working right now to make sure we get all the approvals, the consent. This is an acquisition. So, once that happens, we will – there's always the accounting aspects of the goodwill and the intangibles and so on. We're going through that entire process. And as we conclude that, we lay that out very transparently for you. Your question in terms of how we are going to intend to finance it? We basically went from \$1 billion of debt to about \$2 billion of debt by the end of this year. But we borrowed \$1.3 billion last quarter. We used \$300 million to extinguish one of our existing bonds. It's sitting on \$1 billion right out.

Our plan is to use that along with our line of credit to facilitate the purchase of Asco because again, between now and the end of the year, based on our guidance, as we also produce cash flow, we will use that as well. So, that's – we're fully financed at this stage to go and execute on the Asco acquisition. And, again, when we announce the closure on that, then we'll lay out our – the impact of that for 2019.

Overall, at this stage, what we're contemplating is most of the Asco activity will get reported into our Wing segment because that's where most of the work resides. That's how we are thinking about it right now.

David Strauss

Analyst, Barclays Capital, Inc.

And, sorry, on the operating cash flow, the change in the forecast there.

Sanjay Kapoor

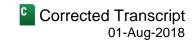
Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

Yeah. No, that's a good question. And it's fair. Listen, I think we said it last quarter as well that we're trying to look for efficiencies inside of our CapEx. We've kind of lowered the midpoint by about \$25 million. It's no secret. We haven't changed our free cash flow. And this is, again, we have incurred significant costs in Q1 and Q2 as we've recovered on the Boeing 737 line. What we're trying to make sure is we keep our commitments on our free cash flow that we gave you at the start of the year. We're looking for efficiencies, not just in supply chain or in our operations, but also in our capital expenditure areas.

I will also add that – and you may have seen some press announcements around this in the first and the second quarter both here in the United States and overseas, in Scotland, for example. We're taking advantage of some government initiatives and incentives that we have. So, I don't want anybody to walk away with an impression that we're not investing in ourselves. We are investing in ourselves. We're getting some benefits in terms of government subsidies.

And in some cases, we are also doing, where appropriate, whether it be information technology areas or others, we're taking advantage of the appropriate leasing activity as well. So we are investing. But overall we see through

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efficiencies an improvement in CapEx and we wanted to reflect that. And yes, by doing that and other things, we feel that we can maintain our cash flow guidance for the year.

Operator: The next question will come from Ronald Epstein with Bank of America Merrill Lynch. Please go ahead.

Kristine Tan Liwag

Analyst, Bank of America Merrill Lynch

Good morning, Tom and Sanjay. It's Kristine Liwag.

Sanjay Kapoor

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

Hi, Kristine.

Thomas C. Gentile

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

Good morning.

Kristine Tan Liwag

Analyst, Bank of America Merrill Lynch

Boeing and Embraer's partnership in commercial aviation seems to pave a way for Embraer to be a significant supplier to Boeing even in aircrafts larger than 150 seats. When you think about Embraer's in-house capability on complex aero structures, how do you expect this deal to change your possible role on the middle of the market aircraft? Is there anything you need to do in advance to remain competitive?

Thomas C. Gentile

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

Well, what we're doing right now is gathering all of our best thinking, all of our top engineers and putting together our proposals for not just the NMA, but for any of our customers as they think about their next-generation aircraft is what can we do in terms of advanced architectures, different materials, improved manufacturing processes, different tooling concepts, and across Fuselage, Wing and Propulsion segments. So, that's what we're doing. We think that we're going to be very competitive. We've got world-class engineers. We've got design capabilities that we think are second to none in the supplier industry, the tier 1 supplier industry. And so, we're putting together those ideas. We've done a lot of work on it. As you know at the beginning of the year, we increased our R&D budget by quite some amount. Taking advantage of the tax savings, but we did that because we want to make sure that we put our best ideas forward for next generation aircraft regardless of the customer.

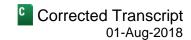
As Sanjay said, we're also getting a lot of leverage from governments and we're collaborating a lot with industry associations, universities and other research institutions around the world to get even more leverage on our R&D capabilities.

Kristine Tan Liwag

Analyst, Bank of America Merrill Lynch

Is it fair to say that the built in benefits from the programs you're working on right now would provide you with significant upside with the next generation airplanes meaning that you don't need to spend incremental R&D from here in order to be competitive?

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Thomas C. Gentile

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

Well, we're working on some of the best programs and some of the most complex pieces and we're industrializing at rates that are really unprecedented across those programs. So, we think we have a lot of embedded learning in what we're doing that gives us great capability. We have tremendous scale in our facilities. We've got a lot of capital. We've got engineering talent and all of those things we can leverage for the next generation aircraft. So, we think we have a huge head start over any potential competition anywhere in the world as you think about structures for the next generation aircraft.

Kristine Tan Liwag Analyst, Bank of America Merrill Lynch	Q
Thank you.	
Operator: The next question will come from Jon Raviv with Citi. Please go a	ahead.
Jon Raviv Analyst, Citigroup Global Markets, Inc.	Q
Hey, good morning.	
Thomas C. Gentile President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	А
Good morning.	
Jon Raviv Analyst, Citigroup Global Markets, Inc.	Q

[indiscernible] (53:06) On the CapEx, Sanjay, can you just sort of talk about something you've made some efficiencies? So, is \$250 million to \$300 million still the normalized range we should get down to eventually, or is there some push from 2018 and 2019 as a result of this change? And in related free cash flow margin, there's improvement within that range 7% to 9%, should we see improvement there on a linear basis, or could it bounce around here and there over the next couple of years?

Sanjay Kapoor

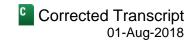
Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

Again, second question first. I mean, the 7% to 9% is our stated goal. And clearly we have been in that goal last year. We expect to be inside that goal this year and sustained goal going forward as well. And as our revenues grow by staying inside that goal, we expect to see good cash flow performance. So, we haven't changed that at all.

I think if I read a little hint in your question about, are we shifting from CapEx next year into this year? We're not. The efficiencies fundamentally are where we're again, whether it be with our supply chain or when we're buying capital or we are negotiating better deals, and we are being very careful about how we execute some of those programs. And so, it's really truly efficiencies inside our capital expenditure.

Again, we are investing in all the projects that we need to invest in, whether it be for rates or to try and improve our competitiveness or some of the investments that you naturally need to sort of refresh in our buildings and on our information technology and so on and so forth.

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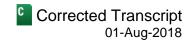


Your other question about, is it likely to remain in this kind of a range? Yes, it is. Again, remember, rates are going up this year; again, going up next year. That we've given you sort of indications about the fact that CapEx is expected to remain at these kinds of levels as we go and invest in our rates, as well as in some of our fabrication and our defense business growth areas. So, that's what we see going forward today.

Future rate increases that the OEMs are contemplating. Those will be discussions that, like Tom said, we're having with the OEMs associated with that. Depending on the outcome of those negotiations, that will obviously have an impact. But right now, the current rates are what's baked in and we see these levels of expenditure in the next couple of years.

Tiext couple of years.
Jon Raviv Analyst, Citigroup Global Markets, Inc.
Thank you.
Operator: The next question will be from Krishna Sinha with Vertical Research Partners. Please go ahead.
Krishna Sinha Analyst, Vertical Research Partners LLC
Hi. Thank you. So, on the CapEx again, just quickly on Asco, you mentioned on the last call that they've got four production facilities, but they also have a significant amount of new business, growth business on things like Embraer and the Joint Strike Fighter programs. So, can you just talk about what the incremental CapEx spend on that is going forward and the interplay between maybe the cost synergies you're going to get and the CapEx, growth CapEx you're going to have to spend in that business?
Thomas C. Gentile President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.
Right. Well, the economics for our pro forma financials with Asco take into account the capital required to support their growth programs. So, that's all built into the forward-looking projections. It is true though that we're going to look at that and see how we can optimize it based on the way we look at things and also, any sort of synergies that we can we can achieve based on capital that we already have in place. So, that's all built in but, we think, we can optimize it further as we get deeper into it based on the scale that Spirit already has and some of the capital that we already have deployed.
Krishna Sinha Analyst, Vertical Research Partners LLC
Great. Thank you.
Operator: The next question comes from Ken Herbert with Canaccord. Please go ahead.
Kenneth George Herbert Analyst, Canaccord Genuity, Inc.
Hi. Good morning, Tom and Sanjay.

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Sanjay Kapoor Executive Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.	A
Good morning, Ken.	
Thomas C. Gentile President Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	Α

Hey, Ken.

Kenneth George Herbert

Analyst, Canaccord Genuity, Inc.

Tom, I just wanted to ask you back to this, the NMA or the middle of the market opportunity. I mean I can appreciate you've made significant strides in improving your cost structure and competitiveness across the board. Can you just comment on how you're viewing or framing the business case for this opportunity as you talk to your potential customer on it? And to what extent is this sort of a need-to-have program for you and to what level or how do you think about that and the importance of the portfolio moving forward?

Thomas C. Gentile

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

Right. Well, as I mentioned, the focus right now is – in these early stages and this is before Boeing has made any decision and before they've really done a lot of engagement with suppliers. The focus for us is to collect all of our thoughts on what the best ideas are, what the best innovations are that could really add value to a next-generation aircraft.

And so, we've got a leader, one of our most senior leaders, assigned to that. We've got a lot of engineers assigned to it. And these are ideas that are going to be beneficial to Spirit with all of our customers for many years to come. But now is a great time to pull all that stuff together because there's a lot happening in the industry. And we bring a lot of advantages. We bring design engineering. We have a lot of capital. We have infrastructure. We have bricks and mortar. We have a trained workforce. So we have all of those ideas.

And then, of course, we think about, of course, what are the economics in the business case long term. And any program that we consider has to meet our business case criteria. There has to be a financial return on it. That, of course, will come into play. And so there's no program that is an absolute must-have if there's no financial return. So, that's something that we would look to do.

But based on our scale, based on a lot of the cost competitiveness we have here in Wichita, in our Oklahoma operations, in Malaysia, in Prestwick, we think we can bring great cost advantages. But again, any new program that we get on it obviously has to make financial sense for us and for the customer. So, that's how we're looking at it. Obviously, we always want to be on new programs, but it has to make financial sense and no program is a must have if it's at a loss.

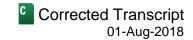
Kenneth George Herbert

Analyst, Canaccord Genuity, Inc.

Great. Thank you.



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Operator: Ladies and gentlemen, this concludes our question-and-answer session and thus concludes today's call. We thank you so much for joining today's presentation. You may now disconnect your lines at this time. Thank you.

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