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CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Howard Alan Rubel
Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Howard Alan Rubel
Analyst, Jefferies LLC

Hi, I'm Howard Rubel with Jefferies, and I head the Aerospace and Defense Equity Research Group and it's a really great pleasure to have with us today Spirit AeroSystems. And representing Spirit AeroSystems is Tom Gentile, who's the President and CEO; and then also Sanjay Kapoor who's the CFO of Spirit. And then, before we get started, Ghassan Awwad has promised me that he's going to read a very brief Safe Harbor statement. And so, come on up and do that and then we can get started. And we can do Q&A together. Thanks.

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

Thank you, Howard. Just really quick, before we begin, I need to remind you that any projections or goals we may include today in our discussion are likely to involve risks, which are detailed in our news releases and our SEC filings. Thank you.

Howard Alan Rubel
Analyst, Jefferies LLC

I have a bunch of questions but maybe for a moment. If you could just talk for a second about how it was to walk into the bear den in Seattle and come out with at least a couple of claws and maybe a souvenir and then you might have left – it looks like it was a pretty fair trade for both parties. So, talk about a little bit of how you engaged Boeing and how you in the end walk away as maybe a stronger partnership than you had before?

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

Okay. Well, Howard, I actually have a couple of pages and I...

Howard Alan Rubel
Analyst, Jefferies LLC

Okay.

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

...think can address that question specifically as I jump to presentation.

Howard Alan Rubel
Analyst, Jefferies LLC

Oh sure, go ahead.

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

And – it was an interesting quarter because we had a strong operational quarter, but of course the announcement of the Boeing deal overshadowed that and really got all the attention. And we were absolutely fine with that, because this was an important milestone for us to get this issue resolved with our largest customer who still represents more than 80% of our revenue.

And it was an example of a win-win, and it definitely was not a zero sum because both parties got certain things and both parties gave certain things. But in the end, the outcome was good for both companies and certainly was good for Spirit. The first thing about it was that it resolved a lot of open commercial issues that existed between the two companies for a long time and that included the 737 and the MAX, as well as the 787.

Importantly, it kind of resets the relationship and the partnership with Boeing, and enables us to really engage on a much deeper level going forward on technological exchanges. And we agreed to develop aerostructures and manufacturing processes jointly. And so, we're very excited about that because as Boeing thinks about the future, we want to be a part of that and this enables us to have some very structured dialogues.

The other thing is it resolves pricing on the 787. We had always had pricing on the 787-8. There aren't many 787-8s left in the production queue. And so, we had some step downs agreed and this was early in the contract. We expected that there would be some cost reductions along the way.

But we never had agreed on the 787-9 and 787-10 pricing and that's going to be what the majority of the production is going forward. As part of this deal, we did agree to some modified step downs on the 787-9 and 787-10 pricing. But we also agreed with Boeing that we would jointly on cost reduction, so that we could minimize that.

Now as a result of the deal, we announced a $353 million forward loss. Much of that takes place in the later years after [ph] line unit 1003 (03:50). And so, we have some time to work on the cost reduction before we get there. And the joint cost reduction is going to certainly help because each of us have an incentive to try to reduce the cost. The other thing is that if Boeing does go to rate 14 on a 787, there'll be additional fixed-cost absorption that will be possible.

In addition, we established some discounts on the 737 tied to volume increases as rate goes up and so the fixed cost absorption helps us offset that, then for us, it really locks in the productivity that Boeing gets. So they know for certain what they get. But on the other hand, as we drive all of our productivity initiatives and I'll talk about some of those in a moment, we get to keep those and this [ph] desirability (04:33) to maintain margins is going to depend on our ability to execute and drive down our productivity initiatives.

We also agreed on what the rate investments would be on the 737 and 787 going forward, so we have some more certainty around that. We agreed that we'd return $235 million that Boeing had advanced us as part of the last negotiation. We had never included that in our cash or revenue and so this was just something that we agreed, once we got a deal on, we would return it. The deal is done, so we will return that.

In addition, we move to industry standard payment terms. And as I described on the call, this is a little bit like growing up. When a young adult gets their first job, they move out of their parents basement, they get their own apartment and that's kind of what we are doing here.

When we split off from Boeing, we had favorable payment terms, now we go to industry standard. Boeing has offered to provide us with vendor financing. We can leverage their credit rating, so we'll get at very favorable terms.

Now finally, this is subject to detailed definitive documentation but we signed a very detailed MOU to make sure that there was complete agreement on all the major terms. And so, this is more of a perfunctory exercise. We don't anticipate any issues. We're quite confident we'll get it done by the end of this quarter. So, we've given ourselves till the end of September but I hope we get it done sooner.

So all-in-all, a good deal. It's one that reduces a lot of the uncertainty that existed in the relationship and gives us really a clear path for the next five years. And for us, that's a great opportunity to continue to think about our future.

Now, the other thing that we did in the last quarter is, after discussions with our board, is we increased our share repurchase authorization. Over the last three years, we've done over $1 billion of share repurchases. We initiated a dividend. In the first half of this year, we've done over $200 million of additional share repurchase. And we had a $600 million authorization in place. The board has increased that by $400 to $1 billion, and of that, we have about $800 million left to deploy.

And so, we're very confident, we still view our stock as undervalued. And we think, really one of the best investments is to buy back our shares and we now have some more capital to do that in terms of share repurchases.

Now, as we talked about it with our board in the last meeting, we went through our long-term strategy. And we agreed that we are a structures business. And there's quite a bit of growth opportunity in this segment of the market for us.

We are very good, we're world-class at large complex structures in terms of metallic and composite. And what we want to do is leverage our innovation and our manufacturing expertise and really become a leader in the aerostructures market.

And we agreed that in terms of where we want to compete, there are five big areas where we think we can grow. Certainly, much more growth opportunity with Boeing, especially now that we have this agreement in place. We want to expand with Airbus. In addition, we see a huge opportunity in third party fabrication. I'll talk about that in a moment, as well as defense. We're starting to grow in defense.

And then, also in MRO. There's not a lot of natural MRO in structures, but there's some. And we think we can expand there. And then in terms of how we compete, it's really several things in terms of execution requirements. Very importantly, it's supply chain execution. About 65% of our costs are in supply chain, and that's a big area. But we want to optimize our manufacturing footprint, drive R&D and innovation, continue to digitize our shop floor, as well as drive cost reduction initiatives across the business and build our team.

And in terms of metrics, clearly organic growth is important to us and we want to drive consistent organic growth while we expand margins. And we'll talk about some of the initiatives that we have to expand margins. But in addition to that, we want to drive consistent cash flow. And we have talked about increasing our 6% to 8% goal to 7% to 9%. And so, that's something that's going to be very important. And at the same time we do that, we want to focus on total shareholder return. We have a dividend, we want to grow that gradually over time and we want to continue our share repurchases.

But specifically I want to focus on three things, and just provide a little bit more color on those. The first is third-party fabrication, then defense, and then supply chain execution. So, before I get to that though, as part of our strategy, we've talked a lot at Spirit about fundamental values that we want to drive to help us become a better company. We focused on three that we're really driving across the business; transparency, collaboration, and inspiration. We think if we do better on these three areas, that will drive more trust, more teamwork and ultimately better execution.

And if we combine these three values with what we call and consider part of our fundamental DNA in terms of safety, quality, customer delivery and customer focus and delivery is we think we can become the trusted partner that's so important to us to grow our business into the future. So, it's values, it's fundamental DNA and that enables us to be a trusted partner.

Now, when I mentioned in terms of growth areas, one of the important ones is third-party fabrication. We are already one of the leading manufacturers of detailed parts, both metallic and composite in the world, over $500 million. But all of that is consumed internally today. We see a big opportunity to really expand and start to sell to third parties, to Boeing, and to Airbus, to the defense OEMs, even to other Tier 1s. And so what we have done recently and you've heard some announcements is we've announced a 5-axis machining center of excellence in Wichita, a 3-axis and 4-axis center of excellence in Oklahoma at our McAlester facility, chemical processing in Wichita, and we're expanding our Malaysia operations.

What this gives us is an ability to insource to drive down costs, where we can do it cheaper because of our scale and expertise, but also to develop third-party revenue, incremental revenue. And we see an opportunity to develop anywhere from – hundreds of millions of dollars of revenue in the next several years.

This is a $12 billion market, about $8 billion of commercial and $4 billion of military and we can be a major player in it. The other thing is our supply chain strategy. As we think about costs, 65% of our costs, as I mentioned, is in supply chain and we have a very structured systematic way of going after it. And it starts with what we call clean sheets. This is essentially reverse engineering parts to understand what the should-be cost is.

And we've actually gone through over 50,000 parts and analyzed them in terms of engineering, machining, hours, labor, overhead, even profit rate to understand what they should cost. We then have a very systematic process, our strategic sourcing process, is where we go through a very detailed gate structure to understand how do we get to – from where to where we want to be in terms of those should cost from the clean sheets.

And this is eight gates, it's got over 221 deliverables. It's a very systematic way to go through it. And when we identify a should cost with a supplier, we're willing to offer help and support for how they can achieve that. So we can provide logistics support, manufacturing and engineering support, we can provide processing support, we can do a lot of things even in terms of material cutting and sourcing to help them get to those should costs.

Now, if they can't get there, we always have the option of insourcing. And with these new centers of excellence, we have been insourcing work to help drive down cost. And then, if that's not something that we want to do, we've used this process that we consider hyper negotiations, where we bring in a whole range of suppliers. And in the course of a week, we will go through bidding processes and award the work at the end of that week. So, we basically launch it on Monday, and we award the work on Friday. And we've done three of these waves, we've seen great results.

And where we do identify opportunities to transfer the work to lower cost providers. We have again a very systematically of doing that through gates and deliverables and to make sure that we don't have any slips and then we execute. But we see this as a prime way that we're going to be able to deliver on some of the productivity that we have promised to Boeing and other customers, is by driving down supply chain cost in a way that is going to provide a long-term stability for the business.

And then the last area is defense. Today, we are mostly commercial, but we've always done military derivatives of Boeing aircraft like the P-8, which is a navel reconnaissance aircraft, and the Tanker, which is a version of the 767, you can see our work scope on that. But as we've gotten better and particularly in composite fabrication, we started to expand in defense. We are the supplier of the fuselage, the forward fuselage for the CH-53K, a heavy-lift helicopter for the Marines, which is a big program.

Each unit is more than $100 million, which is actually a little bit more than the F-35 is today. And the Marines have said they're going to buy 200 of those, so it's a big program. We're also working with Bell on the V-280, which is the future vertical lift; and we're one of seven suppliers that the Air Force has named on the B21, the new bomber program and so we're very proud of that. So today, the military part of our business is quite small, but we see this in the double digits in the early to mid-20s. We'd like to see [ph] it at (13:40) 10% to 15% of the business by that time. So, this is going to be another leg of our growth.

So, we are, Howard, very excited about the new deal with Boeing because it gives us an opportunity, a lot of clarity and certainty so we can pursue our growth opportunities and drive down on some of these cost reduction initiatives so that we can maintain margins and even expand them as we go forward.

So, with that, I'll stop and we can take some more questions.

Howard Alan Rubel
Analyst, Jefferies LLC

Q

Well, let's see if the audience wants to ask some first. And if not, I have more than enough to keep you for the rest of the time. [indiscernible] (14:14) one more call. Is there somebody who has a hand up? All right, fine. So, these will be the rest of the questions I didn't ask on the earnings call which go to about eight. So, you had an evergreen contract on – the master contract on the – with Boeing before on everything but the 787, is it still an evergreen-type contract?

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

A

Yes. Contracts, even the 787 are for life of program. And that's great because we know that we'll be building these products for Boeing throughout their life. What it doesn't have is the pricing originally on the sustaining contracts, which is the 737 and the legacy programs, excluding the 787, went for 10 years. That expired now, we've renewed it through 2022. And on the 787, same thing, we're now renewed basically through line unit 1,405 which will take us into 2022.

Howard Alan Rubel
Analyst, Jefferies LLC

Q

So, 1405 frankly, at some point, you'll have to go back and revisit that because Boeing's at 1,275 in terms of total contracts. So, I would suspect that we would not think there's only another 130 airplanes to go.

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

A

Right. I think it'll go beyond that. I mean, the thing about the 787 – have you flown on one?

Howard Alan Rubel
Analyst, Jefferies LLC

Q

Once.

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

A

Okay. It's a very comfortable aircraft, like the A350, but the composites enable better pressurization, better humidity, so it's very comfortable. And it is helping to redefine flight patterns because you can go more point to point. So, it certainly seems to have a lot of life left in it and we will expect it to go well beyond the 1,270 or so that they've currently booked.

Howard Alan Rubel
Analyst, Jefferies LLC

Q

Let's just stay for a moment on kind of the newer airplanes. So, we interpret this agreement to study new things with Boeing to mean that you're going to be involved in the NMA, and you have to earn your way on and I would expect nothing less from you. But how do you think about that trade, I mean, because you are, I think, probably one of the lowest cost producers for structure in the world. But somebody can always decide that they're smarter and bid lower. Boeing can say I want to be more vertical. How do you sell yourself, what's the pitch?

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

A

Well, there's a few things. First of all, you mentioned cost and it's always important to be a low cost producer and we think we are that. We can build with scale, we can build complex geometric shapes. We've always built the forward section of the fuselage for Boeing, and there's a lot of complication to that, but we're good at that, we can industrialize things.

But the thing is, is ultimately to win on the newer generation of aircraft, whether it's with Boeing or Airbus or one of the defense companies, it has to involve technology and innovation. We have to have great ideas for how the structures of the future will operate and behave. So, we want to have lighter weight, we want to have less drag. So to enable better fuel efficiency, we want to reduce rivets, streamline manufacturing processes and improve the overall manufacturability.

And so, as we think being on the next generation of aircraft with any of our customers, it's about innovation. And we are working very hard on that so that we become an indispensable partner in the future and that we have ideas that are going to be useful to our customers and enable them or insight them to want to have us on their aircraft.

Howard Alan Rubel
Analyst, Jefferies LLC

Q

Do you – go ahead.

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

A

If I might add, Howard, one of the things in every new program at least in the last few decades, there's always been time and cost increases. And going forward, and I think Boeing's talked about this, people who can concurrently design and manufacture and so have the right balance between engineering and manufacturing, I think will de-risk these new programs and that will be a factor in making the right choice to have partners on. And whether it be the bundled program that we won or some of the investments that we made in the Sikorsky programs, we've demonstrated our ability so far to do concurrent design and development at the same time. And that I think is also going to be quite important.

Howard Alan Rubel
Analyst, Jefferies LLC

Q

So, I mean, that's a very important part of it and materials you talked about being a very – I mean, I think that's a unique point you make in terms of, I'll call it, design and concurrent build. I mean, so even though these programs are mature, you're still spend – I mean, we see this very small R&D dollar amount. But in fact, somewhere in the cost structure is ongoing engineering to figure out how to do things better, smarter, cheaper.

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

A

Right. Well, we are working all the time in our core production lines to figure out how do we reduce slow days, how do we become more efficient, how do we take cost out of the process, the manufacturing process. And so, partly, when we think about our investments in infrastructure and capital, it's not R&D dollars, but we get a lot of benefit out of it from those investments and we spend $250 million to $300 million a year on that.

The other thing is that it's not captured in our R&D dollars per se, but we get a lot of leverage from third parties. And there's some contract research and development in those numbers, but we also get – we're working with a couple of government agencies around the world where they're co-investing with us. So, you don't see those dollars, but we're getting the benefit of them. And we've also joined a few consortiums where we put money in and we get access to a lot of research and development, which is very aligned with our priorities. So the money that you see in R&D that's in our books isn't reflective of the total investment, I would say, that's being driven.

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

A

That's pretty important. And you had – I mean, one of the things that always stood out to me was that the enterprise structure at – the enterprise Spirit AeroSystems, because you were separate from Seattle, ended up having a different relationship with the community and with the workforce and all of that. So you weren't always tied to the, I'll call it, the $15 an hour barista that you have to compete against that [indiscernible] (20:35), which is, I think, very important in terms of maintaining your cost. And of course people would also say that different work ethic in the Midwest versus Seattle, but I'm not going to throw too much there. But where am I going, is you have a labor contract that's coming up.

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

Right.

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

And you have to engage the workforce. It's a very attractive one. You pay well for the city, but everybody always wants more and you look around in Wichita after Spirit, there's nobody who comes close in terms of I think probably at the end of the weight scale. So, maybe you can talk about how you want to approach that?

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

Well, the contract expires in 2020 and it was a 10-year deal, so we formed it in 2010. And I think there was a lot of innovations in that contract back then. And so we, the formal process has not yet started, but we of course are always laying the groundwork with our employees to try to make sure that we understand what their needs are and their requirements.

One thing I would point out is just recently we had a process we went through in our Oklahoma facility, which is represented by different units, the UAW, in Wichita, it's the IAM. And with the UAW, we ended up actually renegotiating the contract and extending it for five years and repositioning some very important points that were really in line with what that workforce wanted.

There were some innovations in terms of healthcare, as well as some innovations in terms of the way we work with the staff and put work rules in place. And partly, that enabled us, for example, to create the 3-axis and 4-axis center of excellence in McAlester, Oklahoma, because going forward, we'll have instead of, say, one operator per machine, we'll have four or five machines per operator.

So, it really enables a lot of productivity and so – a lot of innovation. So we have some experience with that contract that we'll be able to use as we go into the negotiations with the IAM. But I think the important thing is with any contract and union labor negotiation is to listen, understand what the key issues are and then develop some innovative solutions. And it's always [indiscernible] (22:46) important. Healthcare is important, and jobs are important. And they're interested in those areas.

And I think the thing for us that's important is we're growing. We're adding workers. We're growing in our defense business, we're growing in our fabrication business, and rates are going up. And so, that gives us a great backdrop to have a union negotiation. I mean, we're fortunate in that sense. Because jobs is always the most important thing, and we're in a situation right now where we're adding jobs.

Howard Alan Rubel
Analyst, Jefferies LLC Q

I mean, can you give us any data in terms of what the head count is since the 1st of the year, have you grown? I mean, do you have...

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

A

We are growing. I mean, as we go up in rates...

Howard Alan Rubel
Analyst, Jefferies LLC

Q

...you don't happen to have those – I mean if you had those numbers that would be great. If not...

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

A

I don't have the specific numbers. I do want to say, but overall, our global head force is about 15,000 and we've got about 11,500 in Wichita. And we're growing really in all the areas because in Wichita, we do a lot of the Boeing work, a lot of 737 work. And we just went from [ph] rate 42 to 47 (23:42). That's a very big jump for an aerospace company. In other parts of our business, we do a lot of Airbus work, and we're on the A350 and the A320. Those are also going up in rate. And so, we've been adding heads for those.

Howard Alan Rubel
Analyst, Jefferies LLC

Q

It's always hard to start up a new operation and Kinston looks like you've found a pace and a – we haven't seen you really miss anything other than because of the hurricane in quite some time, meaning, can you share with us a little bit of how that – I mean, it's a different part of the world, it's not the same aerospace culture and so it took a while to probably create that same family.

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

A

Right. Well, we opened up a plant in Kinston, North Carolina, to produce some parts for the A350. We built the center part of the fuselage called the Section 15 and we also built the fixed leading edge of the wing. And so, when we did that deal, we got funds actually that originally came from the tobacco fund, the Golden LEAF Foundation and it was part of the settlement for tobacco funds. So, they had funding which helped offset the investment. But that was an area that wasn't, as you say, used to doing aerospace manufacturing. So, it took a while to recruit and train the staff, but we've overcome a lot of those hurdles and the staff is now producing at a very high level of quality and we're maintaining deliveries.

We did have a little bit of a disruption last October, Hurricane Matthew swept through. And while the storm itself didn't do much damage, the aftermath and the rainstorms wiped out all the roads and we had a lot of difficulty getting people into work.

So, we lost about two weeks of production, which was essentially our buffer to keep on sea shipments. And the only way we could maintain our deliveries to Airbus without missing a delivery, and we didn't miss a delivery, was to ship by air. And so, that resulted in about $30 million or so of additional cost which you've seen in the last three quarters.

The good news is, we're back on the boats. When they went on their summer break, we got enough leeway where we could catch up and we're now back on sea shipments. And so, the air shipments have stopped and we're no longer incurring those stuff. And we've filed insurance claims and we expect to get a settlement before the end of the year.

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

A

Howard just going back to your question, I mean one of the things that Tom has done is we've actually moved from senior managers from Wichita who had a lot of experience over to Kinston, operational folks, quality people et cetera. So, going back to your question, there's been a transfer our knowledge in terms of actually relocating folks with experience into our Kinston factory so that we can share best practices and incorporate some of the lessons learned out of Wichita.

Howard Alan Rubel
Analyst, Jefferies LLC

Q

You talked about aerospace terms and conditions for – excuse me, aerospace terms for receivables going forward and if I recall correctly it was either 15 or 30 days for some of the receivables. And now, all of a sudden, if you go to 60 which seems like it's fairly likely, we'll see over time a draw of close to $400 million in working capital. Is that sort of a rough order of magnitude of assessment?

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

A

Yeah. So, Howard, if you recall those numbers, then that's your recollection. We haven't disclosed those numbers, so maybe that's a trick question for me. But...

Howard Alan Rubel
Analyst, Jefferies LLC

Q

Me, do that?

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

A

What we have said is, like Tom said, we had generous terms when Spirit was born. And it was time now to move to industry standard. We've accepted moving to industry standard, and we are going to use supplier financing to fundamentally get back to similar terms.

And yes, there's going to be a cost associated with that but that was part of the transaction and the settlement that we had with Boeing. So it should not have an impact in terms of cash flow. But, yes, you're right. There will be some number. You can decide whatever number that is, that we will in effect be financing going forward rather than getting direct payments from Boeing going forward.

Howard Alan Rubel
Analyst, Jefferies LLC

Q

So, this happened beginning in the fourth quarter? Is that...?

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

A

So, since the MOU is part of the Q and the filing, you can see that all of these transactions and these terms take effect upon when the definitive agreement is signed. So I think if I was in your shoes, I might want to ask Greg that question tomorrow.

Howard Alan Rubel
Analyst, Jefferies LLC
Q

Oh, don't worry. [indiscernible] (28:08). He's going to have more questions than he knows how to answer. So as you manage down the 777 rate, to go back to that for a second. I mean, you've obviously thought about it a lot and you've probably – you have the beauty of managing a workforce again because part of it is going up and part if it is going down, so you can share the factory overheads. So should we get overly obsessed with, this rates up a little and this rates down a little bit?

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

You're absolutely right on that, Howard, is the 737 line is going up in rate. And so 777 going down, we are able to just move workers over because we needed to hire a lot and so it just offset some of the hiring that we are doing. And so, yes, so the fixed cost overall are the same and there's actually more volume flowing through even though the rates on some of the wide-bodies are down.

But it's interesting, if you into our plant right now, there's just a lot of activity because in our main plant, where the 737 line is. We also had some of the wide-bodies. What we're doing is moving those wide-bodies to other buildings to free up more space so that we can produce 737s in that building. It's amazing, this is a building that in parts of it date back to the 1940s, the B-29 was built there, Plant 2.

But when we split off from Boeing in 2005, we were building 21 737s a month. Today we're building 47 basically in the same footprint with about the same number of people. So, it just gives you a sense of the level of productivity that we've been able to achieve in the same footprint and with the same workforce.

Howard Alan Rubel
Analyst, Jefferies LLC
Q

So, it's like aerospace accounting confuses some because in some cases, Tom, we should think of the cash, and in some cases we should think about present value.

And so, as you look, and I think that's probably part of the reason why in the end you changed your free cash flow metric and raised it a little bit because measure me in the end on this bottom-line. And so, with some of the – I mean while you're going to give going back some productivity on the [indiscernible] (30:16), that's understandable. How do we know or when are we going to be able to see that you also kept some of it, and how maybe you even innovated further and was able to widen that?

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

Well, I think two things. One is look at the cash flow, and one of the things we did is we upped our targets from 6% to 8% to 7% to 9%, and so that's one thing. The other thing is margins. As we go forward and we offer productivity discounts to Boeing as rates go up, we have to offset that with our own productivity. And so, if we are successful you'll see margins stay the same and potentially expand. And that's how I would focus on.

Howard Alan Rubel
Analyst, Jefferies LLC
Q

I asked about Airbus opportunities I mean whether it – I don't know whether it would be at Kinston or whether it would be in Europe or whether it would be in the United States. My guess is they still want to dollarize some of their costs. So, that's probably where it's going to be. How close or – yeah, how close are you to being able to offer a value proposition that we could see benefit?

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

A

Right. We're in constant discussions with Airbus about expanding work. I mean that's an area where we would definitely like to expand. We've bid on a number of packages They haven't awarded any of those to us yet. Mostly they've stayed with their incumbents, so far. But we see more opportunities in the future. And so, we are having a lot of technological exchanges with them.

We specialize quite a bit on wing, worked [indiscernible] (31:45), that's the business that we acquired in Scotland. And so, the dialogs with them on wings have been very intensive and very comprehensive, but we would love to do more work on fuselage and even propulsion. So, those are areas where we continue to focus.

Howard Alan Rubel
Analyst, Jefferies LLC

Q

I mean, you are very good at manufacturing complex shapes, the forward fuselage, the propulsion package on the 737, and I think some of the other nacelle work that you do. I mean, is that, I mean it sounds like Sanjay would say this is like a distinct competitive advantage.

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

A

Well, again, just to amplify a little bit on what Tom was saying, I mean, I think the fact that we have these deals both with Airbus and with Boeing the last year, do demonstrate that in the very detailed discussions not only were we able to convince ourselves, but we were able to convince these very tough customers where our value proposition in our cost structure is good enough for them to actually do a deal with us that incorporates a certain amount of margin going forward. So, you saw that in the A350 arrangement for example.

Having said that, I think we bring tremendous value. We bring the right balance within quality, risk, affordability to invest and so on and so forth. But just to amplify, we are bidding these things on fair and equitable terms and conditions. So, we are not jumping in with some of the mistakes that may have happened in the past at the altar of diversification or things like that.

I think one of the things that we have done inside a company is get very disciplined about looking at this from a net present value or a business or a return on investment perspective. So, we have the capacity to invest if it requires it.

We have obviously good engineering, we have good cost structure. So, we're in good value. After that in the case of Airbus and with Boeing, sometimes other factors also play a role in how decisions are made. So, we think we will – we want to do more business with Airbus, we will do more business with Airbus eventually. But all things have to play in the right way for us to participate.

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

A

But I think Sanjay made the point that the deal we did last year with Airbus and the one that we just with Boeing really strengthen the relationship with both of those companies and give us the ability to compete for future work and enhance our ability to win it. So, I think that's one of the important things about both of those deals is that provides certainty for sure but it also helps strengthen the partnership and positions us to bid on new work packages.

Howard Alan Rubel
Analyst, Jefferies LLC

Q

So, what you're telling me is the sky is the limit?

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

A

We're very optimistic. I mean as I mentioned at the start of my presentation, we had a very strong quarter operationally. So, things are going well. We're on the best programs for Boeing and Airbus, we're on some great defense programs, rates are going up, we're expanding in areas like fabrication.

And so, now that we've taken some of the uncertainty out of our business with a collective agreement with Airbus last year and now with Boeing, we're very optimistic about Spirit's position going forward.

Howard Alan Rubel
Analyst, Jefferies LLC

Well, thank you very much, both of you.

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

Thank you Howard.

Howard Alan Rubel
Analyst, Jefferies LLC

It's a real pleasure to have you back [indiscernible] (34:49)