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Spirit AeroSystems Holdings, Inc. (SPR)

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MANAGEMENT DISCUSSION SECTION

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

So it's a great pleasure to welcome Spirit AeroSystems and Sanjay Kapoor, Chief Financial Officer. I have a short statement to read before we begin. I need to remind you that any projections or goals...

Sanjay Kapoor

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

Or statements.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

...or statements, yeah, included today in our discussion are likely to involve risks, which are detailed in Spirit's news releases and SEC filings. That's pretty clear. Okay. Now you can give us guidance for the next decade. So, welcome.

Sanjay Kapoor

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

Thank you, Robert. Thank you.

Q&A 1

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Nice to see you here. Things have really changed in the past year for the company. And I think we won't go through all of it, because I think a lot of people know. And if they look at the stock price, they know something happened. So at a very high level, just to start, can you characterize how the relationship is evolving with your biggest customer? So that we ended up solving what appeared to those of us who sit on the sideline to be an unsolvable stalemate, that you're now both happy and moving forward in what looks like a win-win.

Sanjay Kapoor

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

Q

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Robert, thank you for letting me be here. Before I jump into this, I just want to also recognize in the audience I do have a board member with me today, Paul Fulchino is here. He's been with us on our board for – since the start actually. And I don't know whether he's here to keep an eye on me or to keep an eye on you.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Probably both.

Q

Sanjay Kapoor

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

We can decide that later.

A

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Welcome, Paul.

Q

Sanjay Kapoor

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

[ph] So great (01:46), thank you for being here, and I, of course, have some colleagues here. One other thing, Robert, before I jump in and I will answer your question, what I wanted to say upfront was, you're right, as a company we've reset ourselves in the last few years, and that's all been lots of hard work by the entire team and so on. But what we are now working on, and I've said this in a number of the one-on-one meetings I had today, what we've been now working on is we are blessed in our company to be on the right programs. And so, some of the things that we're working on today are all the rate increases that are, frankly, a good problem to have. But there are challenges in getting those rates and meeting those commitments and get good at that.

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The second thing that we're, obviously, working on a lot and I'm sure you'll ask me some questions about this is the supply chain, and it's the execution of that supply chain. And again, that's something that's a key focus for us. Obviously, cost and quality and delivery, that's always a focus for the company. But we're also starting, now that we've had the settlement, to start to focus on growth both organically and inorganically. And again, we can chat about that.

Now, to answer your question about what changed in the relationship, I will tell you since the start – and I've certainly been here for the last four years – since the start, the foundation of any settlement, whether it be with Boeing or with Airbus, has been – had to be, that we had to first perform. As a company, we had to make sure that our performance met our customers' expectation. Because without that, it's a very challenging discussion all the time that says, let's try and negotiate a deal, and the quick – the discussion quickly erodes into, well, we'll only do that if you start performing, [ph] both with this company (03:27).

The second thing that we had to work on was to make sure that we could justify to ourselves and to them that our cost structure is not best-in-class, but best as of today. And we had to justify that we've signed up for productivity improvements. We've made some investments in ourselves. We've worked in cost reduction in our factories, in our supply chain. That's the foundation. And from there, you migrate into facts and data-based discussions on what should be cost today and should be cost tomorrow.

If you can work your way into that, and then have a mature conversation with some good relationships, I think you can solve most problems. In a long cycle business like ours, as you know, particularly with Boeing, we are quite

married to each other. We have to live with each other. They are our largest customer. We are very responsive to their needs. And if you have the right inclinations and you have the right cost structure and you have a justifiably good performance, then, I think, you can find your way into a solution.

So we are quite happy with the solution that we have. We always talk about this as we are always striving to try and get a fair and equitable kind of an arrangement. At the end of the day, we've got a fair and equitable arrangement. Clearly, there are things that I wish we could have done, gotten better. I'm sure that if Greg or Kevin or whoever was here, he would say, [ph] he wishes (04:52). So, like in any compromise, it was a compromise, and I think it was a good win for them. It got them stability with one of their largest suppliers. And from our perspective, with our largest customer, it gave us stability. And it took a little bit of the sort of Boeing hangover out of the system. And you know I used to hate those Boeing questions, and I thought I'll never get another one again.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

Well, now they're generally positive.

Sanjay Kapoor

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

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Yes.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

I'm wondering, to the extent that you can answer this, how much did it factor in that you're primarily an original equipment supplier and you don't have a sizable aftermarket business? And I say that – you know why I'm saying that. I'm saying that because other suppliers have that situation. Therefore, their discussions with Boeing would be different.

Sanjay Kapoor

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

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So, it's a fair point. I think our contracts are fairly clean. Apart from sort [ph] life of (05:47) program nature of our contracts, our contracts are not complicated by the different business models between an aftermarket versus an OEM. So it's somewhat – it's a simpler model in that sense, and that's why – but I don't think that played a role. I mean, our aftermarket business is very nominal. And as everybody knows, we agreed with Boeing to basically sell all our aftermarket activity through them last year, but that wasn't the make or break for us. It was a cleaner model for us.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

The reason I asked, it's a little bit self-serving, is because as we sit here as observers of the industry covering a multitude of companies, many of which have aftermarket businesses, and we say, this new Boeing that's got an agenda and has a service segment and so forth, all of a sudden does a somewhat unexpected umbrella deal, if you will, with Spirit that covers everything, and is this a proxy for deals with other companies? And then I stop in my tracks and say, wait a minute, Boeing is not saying to Spirit I want a royalty on all your aftermarket. I want this, that, and the other. That's why I suggest maybe it's cleaner, and this isn't necessarily – it's not your issue, but maybe for others it's not necessarily a proxy for other deals.

Sanjay Kapoor

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

A

No, I agree. Having said that, I mean, clearly, it was clean. But at the same time, it's a large, complex deal. Inside our business – I don't think people realize this, but having signed a deal for about a five-year period, this is somewhere like \$30 billion, \$40 billion worth of negotiation at the end of the day. So it was methodical. It had to be thoughtful. It had to have the right balance between what we do and what we sign up for and what is good for our customers. So across the board, I think it was a good deal.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

To the extent that – I know it governs BCA and the commercial platforms you're already on, how might it handle any future defense business? Does that connect into this at all?

Sanjay Kapoor

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

A

So, Robert, I mean, there are two components of our defense business, obviously. I mean, there's something that's sort of a pure defense, whether that would be the sort of Sikorsky helicopters or the B-21 program. But we also, as you know, make the tankers and the P-8s, so these are sort of commercial derivative.

Obviously, this deal covers the commercial P-8s and the Boeing 767s, et cetera. As far as defense is concerned, this – by resolving some of these historical issues with our largest customer gives us and them the right and the obligations to play with each other and bring ideas and bring future bids into play. So, obviously, it didn't guarantee us any work on future defense business that Boeing has. But at least now we're kind of working together to try and see how we can help each other.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

Can I infer from that should Boeing, for example, win trainer, Spirit has a shot of participating in such a program?

Sanjay Kapoor

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

A

I think today I could say that we are working much better together in new programs. Of course, like anything, those new programs will be won and lost by Boeing on being competitive and us being competitive with them as well. So, they obviously have choices, but now we are actively helping each other and trying to participate.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

Maybe this is a good segue into defense and fabrication and some of the other businesses that the market has seen as new growth lanes as opposed to legacy core business. Could you talk a little bit about your efforts in defense? At a very high level we know you've got a position on the B-21, is limited what you can say, but what else – and the helicopters and so on.

Sanjay Kapoor

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

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Sure.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Let's talk about that first and then...

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Sanjay Kapoor

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

Sure. So I think our defense business could be an attractive growth area for us, and I say that having come out of the defense world and having worked at Raytheon and at UTC for a number of years. The challenges today, from my vantage point, on defense are that the defense companies and the primes are like anybody else, are required to do more for less.

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Now, at Spirit, we do – and I know this for a fact – enjoy a much better cost structure in the United States, both in terms of engineering, as well as in terms of manufacturing. I just know historically and through momentum, many of the primes in defense have supply chains and supplier bases on the East and the West Coast. We think in Wichita and in Tulsa, we can compete very aggressively in terms of that cost structure. So it makes economic sense for us.

The second thing I would tell you is now that we are on the B-21, it's given us some critical mass to go and work on defense programs, because, if you remember, today defense is a very small portion of our portfolio. And it takes some energy and effort to build up, whether it be classified engineers or a security system or DCMA accreditation, or earned value measurement systems, et cetera, it takes some energy and time to build up leadership, talent, infrastructure around this. And now that we've won that, we feel that between the cost structure and between this capability that we've developed in our facilities, we have some attractive propositions in defense. And that can be as sort of a Tier 2 supplier in fabrication. It can else be like stuff that we are doing on Sikorsky CH-53K, where we're building the entire forward fuselage.

And just talking about that program for a minute, I think that program has some strong legs, particularly if the United States is successful in some significant foreign military sales. Our shipset content on the CH-53K is by far the largest compared to any of the other shipsets that we deliver, whether it be to Boeing or to Airbus, in monetary value. So it could be a nice growth platform for us. It's also something that we feel we are good at. This is the kind of composite fuselage manufacturing at a cost that we know how to do, and it's built right here in the United States in the great state of Kansas. So I think we have some strategic and competitive advantage in growing our defense business. And we have targeted – we want this business to grow 10% or 15%, or roughly \$1 billion, and we think we have some shots of doing that.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

To the extent that you're adding business, at least on this side, B-21, helicopter, fuselage type work, do you put new business in Wichita or in North Carolina? How do you decide where – Malaysia. How are you allocating the new capacity?

Q

Sanjay Kapoor

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

That's a great question. I think at the end of the day defense activity, it will be difficult on a classified program, as you know, to put it outside the United States. So then the question is, where inside the United States? It really depends on what stage that particular program is, because one of the lessons I've learned in my career is you

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want to have – early in a program where you are kind of doing concurrent design and manufacturing, you do need to have the engineering capability and the manufacturing capability fairly co-located.

Now, Wichita and Tulsa are fairly close, but it depends on the technology readiness of that particular program. And that's one of the things that I think Spirit brings to the table. It brings that engineering and manufacturing concurrency including in defense. And I think that's something that's very attractive to our customers. The other thing is that you also want to make sure that you have manufacturing capability and capacity. So those are the discussions that we go through when we decide where we're going to try and locate something.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

As we think about the machining side of the business, which is this sort of hidden gem that you've got. Those of us who've taken the tour of the facilities in Wichita have had the opportunity to get a look at this little bit of from a distance, from the golf cart path across the room. But let's talk about what the opportunities are with that. And then I'd like to segue from that into 3D printing.

Sanjay Kapoor

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

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Okay. So you're talking about our goals and objectives around what we say is our fabrication business.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

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That's right.

Sanjay Kapoor

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

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We would like that business to grow as well. Listen, we are probably one of the largest suppliers in the world or fabricators in the world in aerospace. And obviously, we do most of that activity historically for ourselves. And so, the real question for us was, can we leverage that scale and that size and that expertise and, to some extent, in some pockets, some latent capacity, some surge capabilities, some processing areas where we are good at, whether it be [indiscernible] (15:05) or metal or chemical processing, et cetera. Can we do that better than other people?

Now, one of the exercises that we did do for ourselves when we did our whole supply chain strategies was we did what we said are clean sheet exercises. We tried to benchmark what should it take to do 3-axis or 4-axis or 5-axis machining, what should be the cost in different parts of the world. And in that process, we also learned that there are certain areas where we think we can be competitive. And it's that area that we're trying to explore today and we're trying to grow some of that business. We also feel that we should be able to do some Tier 2 kind of fabrication for the OEMs. And we are early in that phase today. We are going through that process. It teaches us how to bid and win work rather than just sit on the phone and receive the orders from Boeing and Airbus. It teaches us commercial – how to win new commercial business, and that's the exercise that we're going through today.

So we see that business. It's about \$500 million today that we do. Now, inside that \$1 billion, I just want to make sure we are all clean on this. Some portion of that \$1 billion will not necessarily be incremental revenue, because it'll be work that we pull in from our suppliers. So what that means is that tomorrow if...

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

It's higher margin, but it's...

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Sanjay Kapoor

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

It's better margin, but it's something that is not a revenue generation, but it's great strategy, because, again, in any negotiation when we have our negotiations with our suppliers, if you think that it should cost us \$100 million and the supplier out of all the choices say that they'll only make it for \$120 million in a hypothetical example, but if you feel you can do it for \$110 million, it makes economic sense for you to bring it back home. And to that extent, we created our 3-, 4-, 5-axis centers of excellence to have the capability to put our money behind our words and allow that to happen.

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Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

So I don't mean to interrupt, but on that note, one of the things that I used to focus on after you first did the transaction, the spin from Boeing a decade ago, was the fact that they were taking a fixed cost and making it a variable cost. You are now talking about – what you just described is essentially the opposite.

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Sanjay Kapoor

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

Yes.

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Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

And so how do you address, if I can say it that way, the cyclical in doing so to protect yourselves?

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Sanjay Kapoor

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

Right. So that's a great question. We do not struggle, but I tell you, we're very – lot of people, I'm sure you asked us a number of times, I mean, the full supply chain game plan and strategy internally amongst the management with our board of directors has been a very methodical, time consuming, almost a two-year exercise in terms of what should we make long term, what should we buy, what should we make where, including in our own facilities, the stuff moving from our own facilities, and what we buy from where. And it's a very thoughtful, methodical exercise to make sure that you find the right balance between capital investments and yourself. Capital investments or tooling investments in your supply chain and so on.

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Now, you're right, all of us make these bets based on rates that we work through with the OEMs and so on. So today, obviously, we are on rates of 42, 47, 52, and 57, and the underlying assumption is that those rates are intact. So your broad question about does this convert from a fixed to a variable, it's true, it gets into the fixed world. But we are quite convinced on the cycle, along with Boeing and Airbus, in terms of the rates that they have got laid out for the next at least five years.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

That's an interesting point, because I have this on the list somewhere, but we may as well go there now. How do you feel about the industry? I'm talking about commercial really, not so much military. Are we less cyclical now?

Sanjay Kapoor

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

A

I think just given the nature of the growth areas, whether it be in Asia, whether it would be in the Middle East, whether it would be in the intra regions, I use this example. I know lot of people have different ways to explain the cyclicity of the growth. Lot of people will tell you the number of airports being built in China, lot of people will tell you the number of people who are first time flyers, et cetera. I'll give you an interesting statistic coming from India.

There's only about 50 million Indians who've been on a plane out of 1.3 billion people. The more important thing for me is that 350 million Indians can't afford to go on a plane. It's easy to say only 50 out of 1.3 billion, but it would be meaningless if 1.2 billion can't afford to go. Seven times the number can afford and wants to jump on a plane. So when you look at that, then yeah, I think the cyclicity is dampened a little bit, because there are pockets of growth in different regions and a lot of that growth is inter-region, and a lot of that growth is casual travelers, first timers. And so, yeah, I think we feel that at least on the narrowbodies – and Boeing has talked about a lot and there is upward pressure even on the current rates, that these rates are here for some time.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

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So, given that we're stabilizing – I agree with you. I mean, we're – what, guys – 15 years into this cycle? This is a super cycle, stronger for longer, all that good stuff. I think the prior record was seven years or something like that. I'm looking over to our team who has all the data. So given that – and, believe me, I commend the company on reaching this agreement with Boeing, so I don't want this to come across the wrong way. Why only five years for the deal?

Sanjay Kapoor

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

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So it's a great question. But when you're trying to arrive at a deal, you're trying not to – the rates are just one factor in that negotiation. You also have to make assumptions in terms of escalations, whether it be labor and material. You also have to make some bets in terms of technology. And you also have to make some bets in terms of continuous productivity and so on. And it just becomes harder and harder. Remember, I told you, this is our primary customer and it's \$6 billion a year. When you're trying to make a bet six years out on some of these core areas, then you're playing a little bit with – little bit of a Russian roulette. And so, I think it's better for all companies to sit there and say, five years is a great window between technology and some of these things that I just talked about, and that's what I expect.

Now, I will also tell you one of the important things – and by the way, our agreements are now part of the public domain. We did file them with our Q, both the Boeing 787 and the Boeing 737, et cetera. So, you should all be able to read – you'll see some obviously the redactions in terms of one of the sensitive areas on price and et cetera, but you'll be able to read the nature of these contracts. And I think if you read them carefully, you will see that there's enough incentive on both sides to continue down these kind of quicker negotiations in the future. And as long as we are performing and as long as they're happy with our cost, et cetera, we expect to have a much better rolling actively going forward.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

And so, before I get to 3D printing, in that context, how should we feel about NMA?

Sanjay Kapoor

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

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Well, NMA is – clearly, you've got to first – I can only talk to you about what I know in the public domain about Boeing's announcements on the NMA, and clearly they're exploring all their options and the business cases and so on and so forth. I have said this all morning today, and number of people asked me this question, and this is a little bit of a personal response. In my personal opinion, when and if the NMA is announced, Boeing, logically, I would say, would view a supplier under three or four criteria.

The number one criteria for them would be, is the supplier a good – has a good cost structure. Now, that's going to be mandatory, because the NMA is a tough business case like any new program. The second, I think, thing that will be of value to any OEM will be, does the supplier have good engineering and manufacturing concurrency, because this is going to be a compressed program, all new programs are going to be compressed. And like any commercial program, those people that have the right balance between engineering and manufacturing and can do things together will have an edge.

I think the third thing that will be important is, does the supplier have good balance sheets and fiscal capability to make appropriate investments in that business? And, again, I think Spirit does. And then, the fourth and the fifth thing is, don't forget things like logistics and the mechanics that are needed to produce this and all that infrastructure that has to be developed. So if you look at those rational criteria, we have to compete in the NMA, like anybody else. But I think we have a little bit of a leg up, and we'll compete and we'll see how it works.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

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And in that vein, what we've heard or surmised, in talking to industry is that, we think, Boeing wants to use NMA as a bit of a test bed for the next airplane. So NMA, as a market, is somewhere between 2,000 and 4,000 aircraft. And that's to the extent – and then there is a possibility that it could, in my mind, cannibalize a little bit of both ends, other airplanes. But it's a somewhat narrow application.

Having said that, though, I think there's a lot of technology that we've deferred for this aircraft, especially because we didn't clean sheet the current narrowbodies. And therefore, this may be a precursor to NSA, which could have a target unit market 10x what NMA would be, 20,000, 30,000 airplanes, God knows what. So, is this a must-win?

Sanjay Kapoor

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

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Well...

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

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NMA, in order to get on to NSA.

Sanjay Kapoor

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

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So, again, when I say – to me, in this aerospace market, because you don't know whether it's 2,000 or 3,000 or 30,000. I mean...

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Right.

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Sanjay Kapoor

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

...all of us play most of these long cycle businesses on a must win-basis. Having said that, the business cases have to make sense. And you're right, I should add to that list that I went through technology, because it can be and will be a differentiator, and there are two components of technology in our space. One is sort of engineering kind of technology, meaning new materials, et cetera. But more importantly, there's also manufacturing IP in how you bond structures and how you get stringers, monolithic with the skins, and how you do sort of Joule forming.

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When we were at our Investor Day earlier this year, we tried to showcase that a little bit as our sort of secret weapon, because we – Tom talked about it and I talked about it, we're trying to double and triple the investment, not just ourselves, but collaboratively with others, to get some of this technology at a readiness level, whether it be on the NMA or the NSA, and come forth with ideas both for Boeing and for Airbus to try and use some of these new technologies to lower the cost, compress the lead times and so on, because that will be, I think, at the end of the day, a good differentiator too.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

So that brings me back to additive manufacturing, and in particular your arrangement with Norsk Titanium, which room may not be familiar with. So maybe you could explain that a little bit and then talk about what the objectives might be.

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Sanjay Kapoor

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

Yeah. So at a very high level, obviously, 3D printing in our space today happens to be in smaller parts. Having said that, the real core advantage there is you get sort of near-net shape rather than a casting or a forging. And with that, you remove a tremendous amount of inefficient time machining a big block, and obviously a lot less scrap. And therefore, in many cases, you can say 30%, 40%, 50% and even up to 80% kind of cost. So it's a very exciting area for us. You are absolutely right, we have signed a collaboration with Norsk Titanium. We are working with them on a few parts right now. We see some benefits in that technology. But, again, it's at an early stage today and we have to get more and more technology readiness in that level as well.

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Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Is that application more appropriate for your core business or for the fabrication business?

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Sanjay Kapoor

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

I think it's both. I think, again, if you look at – we buy a lot of stuff, which are sub-assemblies today, and this Plasma Deposition, which is basically the arrangement we have with Norsk Titanium, is something that can be used for today's smaller structures, but can grow into bigger product. So, I think, it's exciting and it's between our fabrication business and it can grow even into our main core areas.

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Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah. It seems to – because I don't know, other than GE, who else is really talking about – GKN, I suppose, over in Europe.

Sanjay Kapoor

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

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A lot of people are experimenting with it. We think that Norsk Titanium is a little bit ahead, because they've actually demonstrated some product and we showcased a little bit of that at the Air Show. So you've actually seen some hard products that we've highlighted. So, again, it's early in its days and you have to play these bets. Because remember, again, going back to what I was saying, at the end of the day, in aerostructures, apart from scale and size and some of the things that we talked about in terms of – it's all about cost, and you have to find ways to try and get that cost structure down.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

Right. Just quickly wanted to touch on a couple more things before we wrap up. Just end-market-wise, we talked about defense. As far as your primary business, it's really a function of larger aerospace market. We talked about the cycle little bit. Any thoughts on bizjet?

Sanjay Kapoor

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

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Well, obviously, we've had some negative experiences on this.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

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Absolutely.

Sanjay Kapoor

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

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And so...

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

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But still.

Sanjay Kapoor

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

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Yeah. Again, I would say, Robert, that if a business case present itself that made sense to us, then we'd obviously look at that. Today, we do make the – we do work on the BR725, for example, and we're making good headway on that one and we work on the MRJs, et cetera, but there's nothing active right now that we're looking at on the business jet market.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah. And my guess is you don't really feel like you're missing out that much?

Sanjay Kapoor

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

A

Well, it's a different business. If you're getting into sort of a build-to-print, it's difficult to differentiate yourself. If you get into a design-to-build, then the volumes and the cyclicalities in that business are a little bit different than the one that we have. And to be honest with you, we have much higher and more important areas to focus on today between our rate increases and our supply chain, and we've articulated our defense and fabrication areas. So that's the area we're concentrating on now.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

So I really think we've got a couple of minutes left, and I want to go out to the room to see if anybody has a question. Do we have anything out there? Okay. So I'm going to – in the corner over there, and I'll repeat it.

Q

How do you feel about being active in M&A [indiscernible] (31:11)?

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

Well, there you go, M&A. The question is M&A, and why don't you just add capital deployment in general to that.

Sanjay Kapoor

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

A

Sure. So, in the last few years, our company, we've tried to de-risk our balance sheet. We've tried to historically clean up some of the issues that we've had with our OEMs. And today we feel that we certainly have the balance sheet to try and grow inorganically as well. What we've set forth are certain criteria that we are looking for. We, obviously, want to expand some of our Airbus business. That doesn't mean we don't want to grow our Boeing business, but it makes sense for us to try and look at M&A to try and grow Airbus, M&A maybe to try and grow our defense business, M&A maybe to try and look at some low cost country footprint, because today we do enjoy our facilities in Malaysia and we've got a fair amount of supply chain. But as a large global aerospace manufacturer, we will be also looking for that.

And we've also set some criteria that said that it must meet our return thresholds and be accretive and so on. What I would tell you is that management and the board is very methodical about this process. And, hopefully, you've gotten a sense when we were selling our Gulfstream business or when we were settling with our customers, the company and the management and the board have been very diligent, disciplined, time consuming, but at the end of the day, we think we've come up with good outcomes. It's that same mentality we are trying to apply to M&A.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

So, with regard to that and you talked a little bit before with the fabrication business being a Tier 2 business, most of the rest of your business is a Tier 1 business. Given the things that are happening amongst the primes in terms

of resetting how the supply chain works, do you want to move further upstream into a lower tier, if you can, if you have those opportunities? Is that more protected Tier 3, Tier 4, and so forth?

Sanjay Kapoor

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

A

I don't think so, Robert. I think at this stage, again, like I said, our concentration is we've got our rate increase at supply chain. So we're not necessarily trying to look at it from – try and grow Tier 2 or Tier 3 or anything like that. At the end of the day, in any company, you have to play by the comparative advantages that you bring to the table.

In our case, what we bring to the table in terms of expertise and scale and size and fabrication capability, those are the things that we want to leverage to try and find ways to grow our company. We don't look at it, let's target Tier 2 or Tier 3 or Tier 4, anything like that. If there's a good opportunity, it makes sense for technology, for contract, for intellectual property, low-cost country, military, et cetera, then we look at it. I think we don't allocate that we're trying to look at – we have a strategy we want to go deep down that. That's not what we're trying to do.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. I was thinking that at one point Tom – and I don't want to put words in his mouth. I thought at one point he might have been talking about getting a little more involved in the supply chain and being able to – I know you talked about it a bit before.

Sanjay Kapoor

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

A

Yeah.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Q

And that's where I was coming.

Sanjay Kapoor

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

A

If there's a supplier out there that we feel we can add value to and fits in better because we can leverage their capability, enhance their spare capacity, they happen to be in a low-cost part of a country or whatever, absolutely. I think we are being very methodical and opportunistic about these options. We're not trying to – and careful. And as you've seen in the last two years, and Tom has been with us for the last year. He has done a strategic review. And we've been methodical about it. Many things have come up and we've said, no, or others maybe we're going to look at.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Well, with that, we've run the clock to zero and we covered a lot of ground.

Sanjay Kapoor

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

Thank you.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

And I thank you for being here.

Sanjay Kapoor

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

Thank you, Robert.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Thank you so much.

Sanjay Kapoor

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

Thank you very much.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Thanks everybody else.

Robert M. Spingarn

Analyst, Credit Suisse Securities (USA) LLC

Thank you.

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