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Spirit AeroSystems Holdings, Inc. (SPR)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Spirit AeroSystems Holdings, Inc.'s Fourth Quarter and Full-Year 2018 Earnings Conference Call. My name is Brian and I'll be your coordinator today. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the presentation over to Ryan Avey, Director of Investor Relations. Please proceed.

Ryan Avey

Director-Investor Relations, Spirit AeroSystems Holdings, Inc.

Thank you and good morning, everyone. Welcome to Spirit's fourth quarter and full-year 2018 earnings call. I'm Ryan Avey, Director of Investor Relations, and with me today are Spirit's President and Chief Executive Officer, Tom Gentile; and Spirit's Senior Vice President and Chief Financial Officer, Jose Garcia.

After opening comments by Tom and Jose 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 yourself 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. And as a reminder, you can follow today's broadcast and slide presentation on our website at investor.spiritaero.com.

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

Thomas C. Gentile III

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

Thank you, Ryan, and good morning, everyone. Welcome to Spirit's 2018 fourth quarter and full-year earnings call. Before getting into our results and outlook, I'd like to take a moment to welcome our new Chief Financial Officer, Jose Garcia. Jose is a seasoned finance leader with more than 20 years of experience at GE. He has a strong track record of collaborating with operational teams to achieve targeted financial outcomes. His international experience and background in leading acquisitions and integrations will be particularly valuable to Spirit.

I'd also like to take the opportunity to thank our previous CFO, Sanjay Kapoor for his contributions to Spirit. Sanjay played a crucial role in shaping the company we are today, instilling financial discipline to drive consistent and predictable results. Jose is the right person to continue and build on the foundation Sanjay put in place.

A quick look at our 2018 financial results, the operations teams at Spirit worked extremely hard to recover schedule from disruptions early in 2018 and finished the year strong, meeting all of our commitments as we delivered a record 1,734 shipsets compared to 1,651 shipsets in the prior year. The number included 605 Boeing 737s, 143 Boeing 787s, 44 Boeing 777, 98 Airbus A350s, and 657 Airbus A320s, all meeting customer master schedule requirements.

We are back on schedule across all of our programs. This strong delivery performance helped us deliver solid financial results in 2018. We met our guidance for revenue, EPS and free cash flow, overcoming the challenge of increasing production rates and transitions to new models.

Importantly, as I mentioned in the last call, our emphasis in the fourth quarter was on driving productivity and recovering margins. Fourth quarter segment margins were solid at 16.3%, up from 14.9% in the third quarter, continuing the trend of sequential margin improvement. These results were a significant improvement and gave us confidence for 2019. While some one-offs boosted fourth quarter margins, the overall operational improvements will carry over to 2019.

And now, let's review some 2018 major accomplishments starting on slide 2. In the fourth quarter, we signed a new agreement with Boeing. This past week, we finalized the Definitive Documentation for that agreement. The agreement further strengthens the longstanding partnership between Boeing and Spirit.

I want to take a moment to highlight a few key takeaways from this new agreement. First, it establishes pricing through 2030 for certain programs including Boeing 737NG, Boeing 737 MAX, Boeing 767, Boeing 777 Freighters and the Boeing 777-9, and for the Boeing 787 through line unit 2205. The length of the agreement removes uncertainty well into the next decade. It contemplates Boeing 737 pricing based on production rates above and below currently announced rates and also the investment in tooling and capital for certain rate increases. The previous agreement only addressed rates up to 57 airplanes per month.

The agreement includes a suspension of advanced repayments on Boeing 787 for just under two years at the beginning of 2019 and then resuming at a lower rate of $450,000 per shipset. With the new Boeing 787 pricing now established in this agreement, we expect Boeing 787 price to exceed cost after line unit 1405.

This new agreement is now in place and we have some joint cost reduction programs with Boeing for the Boeing 737, Boeing 777X and Boeing 787. Boeing has also provided their consent to our planned acquisition of Asco.

Finally, both companies have agreed to the release of certain claims and liability, including those related to Boeing 737 disruption activity in 2018. Following the new agreement, we are maintaining our target of 7% to 9% conversion of revenue to free cash flow. We are excited to continue to build on our relationship and look forward to future opportunities with our largest customer.

In addition, during 2018, we also signed an agreement with Boeing, establishing long-term pricing for spare parts used for maintenance, repair and overhaul. In 2018, we also announced the planned acquisition of Asco. Asco remains a compelling strategic fit for Spirit as the acquisition expands our Airbus content, adds new Defense content and broadens our Fabrication business.

In the last three months, we've continued to work on closing this deal. We have made substantial progress in identifying the issues the European Commission raised concerning the Belairbus structure. This week, we were pleased to re-file our Form CO which is the formal notification required for merger review and clearance by the European Commission. Our goal is to close the deal in the first half of the year. We remain confident in this closing and don't anticipate any change to the original deal economics.

In addition, we made progress on our Fabrication and Defense growth initiatives. In 2018, Fabrication grew at about 12%. We officially unveiled our 3- and 4-axis Center of Excellence in McAlester, Oklahoma; and our 5-axis

Center of Excellence in Wichita. Both operations are now operating at high levels of efficiency to help us increase our production rates, drive productivity and expand our third-party revenue.

We also grow our Defense business in 2018 about 20%, driven by Sikorsky and strategic programs. We continue to get strong support from our Congressional delegation as we strengthened Spirit's relationship with the defense primes.

Another area of progress was in our efforts to achieve manufacturing efficiencies. We broke ground on a state-of-the-art 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 valuable space in our campus to enable higher rates of production and will open later this year.

We also began construction on our Aerospace Innovation Center in Prestwick, Scotland last year which will open in 2019. Innovation efforts will focus on infusion processes for composite materials, part handling, assembly automation, rapid prototyping, and virtual and augmented reality.

In Wichita, we agreed to a partnership with the National Institute of Aviation Research, NIAR, and we will have laboratory space on Wichita state's new innovation campus. Additionally, we installed the first additive-manufactured titanium structural component on the Boeing 787 in collaboration with Norsk Titanium. Norsk's Rapid Plasma Deposition technology will be used to build parts to a near-net shape which can then be finished at Spirit, reducing waste, using less energy, and significantly reducing product costs. In effect, we will be substantially decreasing the buy-to-fly ratio.

Finally, we returned $848 million to shareholders with $800 million in share repurchases and $48 million in dividends. For each of the last three years, we have returned more than 100% of adjusted free cash flow to shareholders. As we enter 2019, our share repurchase program authorization stands at $1 billion.

And now turning to our 2019 outlook, for 2019, our guidance for revenue will be between $8 billion and $8.2 billion. Adjusted earnings per share guidance will be between $7.35 and $7.60. And guidance for adjusted free cash flow will be between $625 million and $675 million. None of these guidance numbers include the impact of the Asco integration which we will update after we close. We have, however, included the interest on the debt for the deal. We expect to remain on master schedule in the all production rate increases and deliveries. Also, as I discussed in the last earnings call, segment margin should recover to normalized 2016 levels of 16.5% in 2019.

Let's turn our focus to our 2019 strategic objectives on slide 4. Our two overall strategic objectives are execution and growth. Let's start with execution. Priority number one is to implement our production rate increases successfully across multiple programs. We are increasing to 57 aircraft per month in the Boeing 737, 14 aircraft per month in the Boeing 787 and 60 aircraft per month in the Airbus A320. Taking lessons learned from last year, we have been diligent in our detail planning and have proactively de-risked past areas of concern. Most head count required to execute these rates has already been hired, is currently in training and is getting valuable on-the-job experience. We have also increased our supplier diligence in-sourcing or dual-sourcing parts to protect against shortages.

Another tool we are using to prepare for rate increases are rehearsals. Just like you practice for a big game, we are practicing production at higher rates. These practice sessions give us insights into where we need to make improvements before the official rate breaks take place. These actions provide us with confidence in our ability to execute these rate increases.

The second priority within execution is to meet our margin commitments. Execution of performance targets for productivity, quality and safety are key areas of focus to the operations teams at Spirit in 2019. We will also build in our supply chain initiatives through our clean sheet process, working with suppliers to achieve world-class cost levels. Executing on these cost initiatives will help to offset headwinds of material labor escalation, volume-based discounts and customer price step downs. As I've frequently said, you have to run fast in this industry to standstill.

In our growth priorities, our first growth priority is to close the acquisition and integration of Asco. Detailed integration planning is already well underway to ensure a smooth transition. Second, we will continue to work to expand with Boeing and Airbus, our two largest customers. This includes expanding the content on existing programs and exploring participation on future programs. Spirit's experienced workforce, advanced technology and manufacturing techniques along with our competitive cost structure make us an attractive aerostructures partner.

The third growth priority is to expand our Defense and Fabrication businesses. We have made good initial progress in developing the relationships and internal capabilities for sustained growth. In Defense, we anticipate a 15% increase to about $600 million in 2019. Spirit has a strong value proposition for military customers, including competitive cost manufacturing, application of commercial best practices, and design build capabilities.

For our Fabrication business in 2019, we expect growth of 20% to over $800 million driven by higher internal production from production rate increases and increasing third-party fabrication sales. Once we close on ASCO, we will look to continue growing inorganically in order to meet our strategic and financial criteria. Our strategic criteria are Airbus content, military content, low cost country footprint and fabrication content. Our financial criteria are a return on investment of greater than 10% and a post-synergy multiple less than Spirit currently trades at. We will be disciplined and patient in looking for inorganic growth opportunities that meet these criteria. In the absence of suitable acquisition targets, we will continue to use our free cash flow to buy back our own shares, which we continue to see as undervalued.

With that, I'll ask Jose to lead you through the detailed financial results.

Jose Ignacio Garcia

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

Thank you, Tom, and good morning, everyone. I'm excited to be part of the team at Spirit. And I want to thank the board and Tom for their confidence in asking me to join this great company. I've only been here since the beginning of the year, but in that short time, I've had the chance to meet the global teams and tour the factory operations in Wichita. I'm looking forward to traveling to see [ph] Spirit and their (00:13:39) facilities around the world in the near future.

Given that I've only been here for three and a half weeks, I'm still learning the details of the businesses but I had the chance to review our financial results and outlook and will summarize that for you today. I'm also looking forward to meeting many of you next week when I'm in New York for the Cowen Conference.

Let me take you through the details of our 2018 financials and then our outlook for 2019. Let's just turn to slide 5. Revenue for the year was $7.2 billion, up 3% from the prior year. This was driven by higher recurring and non-recurring activity on the Boeing 737 program and increased Defense activity, partially offset by lower deliveries on the Boeing 777 and lower revenue recognized on the Boeing 787 as a result of the adoption of the new revenue standard, ASC 606.

Moving to slide 6 for earnings per share, we reported adjusted EPS of $6.26 per share compared to $5.35 in 2017. This represents a 17% increase year-over-year. 2018 adjusted EPS excludes expenses associated with the Asco acquisition. This includes transaction costs, interest on debt associated with the transaction and the impact of the FX derivative instrument. Also excluded are costs associated with the debt financing. As a reminder, 2017 adjusted EPS excluded the impact of the prior MOU with Boeing and the impact of the tax reform legislation in the U.S.

The adjusted EPS improvement year-over-year was driven by increased deliveries on the Boeing 737, profit recognized on the Airbus A350 as a result of the adoption of ASC 606, as well as a lower tax rate and a lower share count as we executed our share repurchase program, partially offset by lower deliveries on the Boeing 777 and lower margin rate on the Boeing 737.

Turning to free cash flow on slide 7, adjusted free cash flow for the year was $565 million compared to $537 million last year. This reflects a 5% increase year-over-year. 2018 adjusted free cash flow excludes $66 million which is the impact of the Asco acquisition. This includes transaction payments, interest paid on the portion of the no debt related to Asco, and the cash paid on the FX derivative instrument. As a reminder, 2017 adjusted free cash flow excluded $236 million returned to Boeing for the Boeing 787 interim pricing agreement.

The adjusted free cash flow growth in 2018 was driven by lower repayments of customer advances, working capital improvements, as well as receipt of customer funding for production rate increases, partially offset by higher cash tax payments, Boeing 787 price step-downs and re-sharing payment to Boeing, as well as lower production volumes on the Boeing 777.

Turning next to capital deployment on slide 8, in 2018, we repurchased 9.3 million shares for $800 million or approximately 8% of our share count. We also paid $48 million to shareholders through dividends. This marks the third year in a row we have returned more than 100% of our free cash flow to shareholders. Over the last five years, we have repurchased almost $2.4 billion and reduced our share count by 28%. At the end of 2018, our repurchase authorization was $1 billion, reflecting our commitment to total shareholder return.

In the absence of other uses of cash that meet our return target, we expect to continue to return our free cash flow to shareholders through share repurchases and dividends in 2019.

Now let's look at our segment performance and for Fuselage segment results, let's turn to slide 9. In 2018, Fuselage segment revenue was $4 billion, up 7% from $3.7 billion in 2017. This was due to higher deliveries on the Boeing 737 and increased Defense activity, partially offset by lower revenue on the Boeing 787 due to the ASC 606 transition and lower deliveries on the Boeing 777.

Operating margin for the year was 14.4% compared to 8.8% last year, primarily driven by the non-repeat of forward losses on the Boeing 787 program. On a normalized basis after reversing the impacts of change in estimates, Fuselage margin in the fourth quarter improved to 15.5% compared to 14.8% in the third quarter. This maintained a sequential margin improvement over the last few quarters, reflecting recovery in the Boeing 737 Fuselage product line.

Now, turning to slide 10 for our Propulsion segment results. In 2018, Propulsion revenue was $1.7 billion, up 2% compared to 2017, primarily driven by higher deliveries on the Boeing 737, partially offset by lower deliveries on the Boeing 777 and lower revenue on the Boeing 787 due to ASC 606. Operating margin for the year was 16.7% compared to 16.1% in 2017, primarily driven by the non-repeat of forward losses on the Boeing 787, partially offset by lower deliveries on the Boeing 777.

For our Wing segment results, let's turn to slide 11. In 2018, Wing revenue was $1.5 billion, down 4% compared to 2017. Driven by lower revenue on the Boeing 787 due to ASC 606, lower revenue on the Airbus A350 due to pricing terms, and partially offset by higher deliveries on the Boeing 737 and the Airbus A320. Operating margin for 2018 was 15% compared to 13% in 2017, primarily driven by the non-repeat of forward losses on the Boeing 787.

Turning now to slide 12; this year we're guiding revenue to be between $8 billion and $8.2 billion, adjusted EPS to be between $7.35 per share and $7.60, adjusted free cash flow to be between $625 million and $675 million. Our free cash flow guidance does not include capital expenditures or any production rate increases above currently announced rates. Our guidance is based on an effective tax rate of approximately 22%. As a reminder, our guidance does not include the impact of the Asco acquisition including transaction expenses or the impact of the FX derivative instrument.

With that, I'll turn it back to Tom for some closing comments.

Thomas C. Gentile III

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

Thanks, Jose. Spirit backlog remained at $48 billion at year end while achieving record deliveries. This strong backlog highlights the strength of the commercial aerospace market. Traffic growth is the most important demand driver of our industry, which remained above long term trends at 6.8% in 2018 through November. We are fortunate to have significant content and all the best commercial aerospace programs. We are also now building an emerging position on the best defense programs. To summarize, in 2018, we met all deliveries by year end, improved margins sequentially quarter-over-quarter, met guidance on revenue, adjusted EPS and adjusted free cash flow, closed the new Boeing agreement and made progress on the Asco acquisition refilling before the end of the month. As we begin 2019, our focus is on efficient execution of production rate increases, recovering margins to normalize historic levels. 16.5% is our target for 2019, continued growth with Boeing and Airbus as well as our Defense and Fabrication businesses, closure and integration of Asco and our continued commitment to total shareholder return.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Today's first question will come from Ronald Epstein with Bank of America Merrill Lynch. Please go ahead.

Kristine Tan Liwag
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning, everyone. This is Kristine Liwag calling in for Ron. Tom.

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

A

Good morning.

Kristine Tan Liwag
Analyst, Bank of America Merrill Lynch

Q

Strategically, how do you think about the Boeing and Embraer deal? It looks like Embraer's got significantly more vertical integration capabilities and they've got a fairly larger structures business. When you think about opportunities on new programs like the middle of the market aircraft or the replacements for the Boeing 737, how do you think about your competitive advantage before and after the deal?

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

A

Right. Well, we don't know much yet about what the impact of Embraer will be with Boeing. Its early days, so we'll continue to monitor that. But one of the things I would stress is that Spirit has literally decades of experience building large commercial aircraft, building the Fuselages, Propulsion as well as Wing segments in – for large complex shapes and metallic and composite and being able to industrialize at very high rates of production. So in Boeing 737, we're at 57 this year later in the year, and on Airbus A320 we're going to be up to 63 aircraft per month. So we have a lot of experience.

We also, because of our scale, have very low cost and are competitive on a global basis. And in addition, we have extremely strong engineering talent. I mean, our talent is really equivalent in many respects to OEM caliber engineering talent because many of our engineers started their careers off in Boeing or Airbus or BAE Systems over in Prestwick. So we have a lot of advantages that we can bring to any of our customers both on the commercial side and the defense side and think we can be competitive for all the new programs. So we're very confident in that.

Kristine Tan Liwag
Analyst, Bank of America Merrill Lynch

Q

That's helpful. And then if I could do a follow up on the Boeing 787 repayments, I guess, when you look at the suspension of payments starting with unit or beginning with Boeing 818 and then not having any repayments for 2019 and 2020. I would have expected your free cash flow outlook in 2019 to be a little bit higher. Are there other headwinds to your free cash flow in 2019 aside from the price reduction from Boeing and the Boeing 787?

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

Right. Well that's a natural headwind. We've highlighted that before. So in part, the holiday on the advance payments offsets that. But the other thing to really keep in mind is that when you look at our performance in 2018, we obviously had a lot of challenges and we did a lot of work in various areas particularly in working capital with things like vendor financing and work on inventory. Some of those aren't going to repeat in 2019. And so in part, the Boeing 787 advanced holiday will offset some of those things that don't repeat.

Kristine Tan Liwag
Analyst, Bank of America Merrill Lynch
Q

Great. Thank you.

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

Welcome.

Operator: Next question will be from Greg Konrad with Jefferies. Please go ahead.

Greg Konrad
Analyst, Jefferies LLC
Q

Good morning.

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

Good morning.

Jose Ignacio Garcia
Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.
A

Good morning.

Greg Konrad
Analyst, Jefferies LLC
Q

One of the parts of the agreement with Boeing was the joint cost reduction. Can you maybe provide a little more detail around that and then maybe some of the focuses of the cost reduction? What's different from some of the supply chain initiatives that you undertook a year or so ago?

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

Right. So we have these programs now on three of the aircraft programs, the Boeing 737, Boeing 777 and the Boeing 787. And basically what it entails is that when we jointly identify an area where we want to reduce cost, we can then jointly fund it, but then both parties will share 50/50 in the benefit. And the reason it's important is because very often Boeing, as any OEM, controls a lot of the activity on a particular program. So, they own design control. They have a lot of influence over material and any changes and so, many of the programs for cost reduction do require Boeing engineering support. And if they are benefiting in the cost reduction, there's a bigger incentive for them to be a part.

So, we absolutely wanted to put these programs in place so that Boeing would benefit and would help drive the changes. And just to give you an example, if you look at the Boeing 787 program, there, a lot of the cost is in material and in design issues and engineering. And so, Boeing's help is absolutely critical. So, we want them to have skin in the game so that they benefit and will get a lot more done. So, that's really the whole basis of it. And we're very excited. We think that it will help drive productivity and it'll benefit both parties. And that's – so, it's a win-win and we thought it was an important part of what we called in the Collective Resolution 2.0 with Boeing.

Greg Konrad
Analyst, Jefferies LLC

Q

Thank you. And then just kind of to follow-up on that, you talked about having renewed confidence in Boeing 787, profitability after 1405. Can you maybe talk about the moving pieces there? What gets you there? What changes over those units?

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

A

Right. So, we're working right now to come down the learning curve on Boeing 787 and reduce costs. And so, as we look at our projection for when we hit line unit 1003 and then 1405, the cost or the price that we've negotiated with Boeing after line unit 1405 will exceed our projected cost. And so, the things that we're working on right now are material and labor, as well as infrastructure and overhead. So, on material, one example would be 3D printing. So, we just introduced the first 3D-printed part. It's a titanium part.

It's a bracket that holds together the door surround. And that will help reduce our buy-to-fly ratio. That's an example of a cost reduction initiative. We're also looking at ways that we can improve process and reduce flow. So for example, we've introduced a new manufacturing efficiency system that we are really tracking the duration of every activity in the production process on the Boeing 787 and we're comparing the duration across multiple units and looking at the variation and then focusing on how do we reduce that variation so that we reduce flow. And that's enabling us to take additional cost out of the system.

And then the last area we're looking at is material. I mean material makes up about two-thirds of the total cost. And we have a fairly comprehensive supply chain strategy starting with our clean sheets to address material costs. So when we say clean sheet what that means is we're reverse engineering a part to see how much it costs or should cost. And then we have a strategic sourcing process. We work with our suppliers to get them from where the cost is to the should cost and we provide them a lot of support. We can help them buy things because of our scale. We can help with engineering and machine programming, we can help with logistics, processing. So there's lots of ways we can help suppliers get down to those costs.

We've also introduced our 3- and 4-axis Center Of Excellence so we can in-source things to help drive down cost. In addition, we have a process that we call our hypercompetitive negotiations where we bring suppliers in and over the course of a week negotiate world-class pricing levels and then we have a very rigorous and disciplined transfer of work process in the event that we have to move work. So all of those things are helping us achieve world-class material cost. And those are the ways that we're driving down the cost curve on Boeing 787.

Greg Konrad
Analyst, Jefferies LLC

Q

Thank you.

Operator: Next question will be from Audrey Preston and Robert Spingam with Credit Suisse. Please go ahead.

Audrey Preston
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. This is Audrey.

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

A

Hi.

Audrey Preston
Analyst, Credit Suisse Securities (USA) LLC

Q

Nice job on the quarter. So just to touch on a little bit on some of the comments that you made in the call; so you called out the 50% growth in defense in 2019. So, in terms of that growth, how much are you considering just in terms of ramping volumes versus capturing new share on different platforms?

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

A

Yeah. So I said that we wanted to grow about 15%.

Audrey Preston
Analyst, Credit Suisse Securities (USA) LLC

Q

15%. All right.

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

A

1-5, yes, and not 5-0. So, I think our defense leader just had a heart attack. But the way we're doing that, it's really – we're not anticipating any significant new programs. There are some new Fabrication business that we expect to win. But really what that is, is the continuation of the existing programs that we're on as they get through their development phase into low rate initial production and ongoing production. So it's really the existing programs continuing their growth augmented by some incremental fabrication work in the defense area.

Audrey Preston
Analyst, Credit Suisse Securities (USA) LLC

Q

All right, great. And then to touch a little bit more on the MoA that you signed with Boeing. To what extent would it cover development of a new platform or perhaps contemplate Boeing's proposed [indiscernible] (00:32:45)?

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

A

It doesn't specifically address that. What it does though is it stabilizes our relationship and it puts us in a good position to bid on that work. And it really, I think enhances the likelihood that we'll get a chance to bid. Now, there's no guarantees. We have to win our place on the work and we have to demonstrate that with our innovation, our manufacturing expertise and our cost competitiveness that we can be a valuable partner. And what this agreement really enables us to do is to be in a position where we can bid on that and have a chance to compete.

Audrey Preston
Analyst, Credit Suisse Securities (USA) LLC

Q

All right, great. Thank you.

Operator: Next question will be from Louis Raffetto with UBS. Please go ahead.

Louis Raffetto
Analyst, UBS Securities LLC

Q

Good morning, everyone.

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

A

Good morning.

Jose Ignacio Garcia
Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

A

Good morning.

Louis Raffetto
Analyst, UBS Securities LLC

Q

So just, I was wondering if we can get more color on the sales guidance. Looks really strong, up double digits, any additional color I guess you guys can provide there?

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

A

Well, the one thing about revenue for next year is we're the beneficiary of being on really all the best commercial aerospace programs in the industry. And so if you at the Boeing 737, we make 70% of the structure on the Boeing 737 including the fuselage, the flaps – and the flaps of the wings as well as the thrust reverser in the pylon. We're on the Boeing 787. We're on the Airbus A350, big package on the Boeing 777 as well as the Airbus A320. We make about 60% of the wing on the Airbus A320 the leading edge, the trailing edge and the spoilers.

So we're fortunate and you're well aware the fact that Boeing and Airbus have about 13,500 aircraft in backlog, and it's growing very rapidly. So if you look at our projections for next year, it's about a 14% revenue growth and a big chunk of it of course is Boeing 737. That's our largest program and it's going up. It's planned to go up in rate from 52 in 2018 to 57 at some point in 2019. In addition, the mix change will also benefit us, in other words going from about 50% MAXs in 2018 to about 92% MAXs in 2019. Then in addition Boeing 787 is going from 12 aircraft per month to 14, so that will drive some revenue despite the fact that there are some customer price step downs.

And then Boeing 777, during this period where Boeing is transitioning from the Boeing 777-300ER to the Boeing 777X the effective rate really, really declines. So if you look at the number of units delivered in 2017, it was about 70 units and it really dropped to 44 units in 2018. That will start to recover in 2019 and we'll see the benefit of that in our results. And then Airbus A350 should hold at about 10.5 units throughout the course of the year, which will exceed last year and so that drives some revenue. And then again Airbus A320 is going up in rate to 63 aircraft per month. So when you add up all those things, it's really that embedded organic growth which is driving our overall revenue growth from 2018 or 2019.

Louis Raffetto
Analyst, UBS Securities LLC
Q

Okay, great. Thank you. And just one other quick follow up. I know you had talked about having some supplier recovery in the fourth quarter. Is there anything like that built into 2019? And also any other – I think you've got $10 million to $30 million the severe weather came through. Anything – any additional built in for 2019?

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

No, we're not planning on any major supplier disruption in 2019. So we did a good job – I mean, everybody was very reasonable and practical last year. We were able to collect some funds from suppliers not always cash, but it was always in terms of trying to enhance the relationship. So we were very pleased with the effort our suppliers made to recover. We haven't built anything into this year if there are issues, we'll address those specifically with individual suppliers. On the issue of Hurricane Matthew, which actually goes back to 2016, as you know over the course of a year because of [indiscernible] (00:37:09) shipments for expedited freight, we probably incurred about $32 million of total cost. Now, we did submit an insurance claim and at the end of last year in the fourth quarter we settled with our insurance carriers for $10 million and so combined with some relief that Airbus gave us on other costs we felt we had – it was a fair settlement and we took it. We don't have anything built in for severe weather in 2019. And again, we'll address it if it occurs.

Louis Raffetto
Analyst, UBS Securities LLC
Q

All right, great. Thank you very much.

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

Q

Hey. Good morning, guys. It's actually [ph] Matt (00:37:47) on for David.

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

Okay, good morning.

Q

Just a couple of quick details on the balance sheet. So, if I look at – so both contract liabilities and forward loss balance, it looks like there was some shift between the short-term and the long-term portion of liability there? Can you explain what happened there? Is that related to the Boeing agreement?

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

So, why don't I turn that to Jose?

Jose Ignacio Garcia
Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

A

Yeah, [indiscernible] (00:38:13). As part of the CR 2.0, which is the settlement with Boeing at the end of last year, we shifted some of the liabilities from short-term to long-term. It really has no impact on the economics of the program. It's geography inside the balance sheet. Some of the repayments were delayed, as you know, in the Boeing 787 and that's part of it, and that's basically the story.

Q

Okay, got it. And I guess as a follow-up, I guess with the rate increases, Boeing 737 and Boeing 787, can you say what rate you guys are actually producing at now? Have you started to move up? I know you talked about sort of the trial practice runs. But is your actual production rate moving higher yet?

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

A

Not yet. We're still at 52 for Boeing 737 and Boeing will make the decision when to go above that. But we're practicing already. And so, for us that means delivering three units per day. Right now, we alternate, three one day, two the next, then three. But what we do is we practice with this – we call them rate rehearsals of what it's like to deliver three units a day. And we usually go about three days in a row and then we revert back to the normal cycle. But we're producing right now at 52 on Boeing 737. Boeing 787, we are starting to move into the 14 rate aircraft per month already.

Q

That's helpful. Thanks.

Operator: Next question will be from Ken Herbert with Canaccord. Please go ahead.

Ken Herbert
Analyst, Canaccord Genuity LLC

Q

Hi. Good morning and welcome, Jose, to the company there.

A

Thank you.

Ken Herbert
Analyst, Canaccord Genuity LLC

Q

Tom, I just wanted to ask on Asco. Congratulations for sort of getting this re-applied. Just a two-part question and I'll keep it to one here. Did any of the terms that you outlined last year changed as part of the sort of the resubmission or sort of what you assumed to be the economics for the upside or contribution from Asco? And then as a second part to that, is it fair to say now that you've resubmitted, your – sort of your confidence level in the deal closing and the time you outlined is very high or are there still some risks or negotiations you need to go through?

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

A

Right. Well, first of all, in terms of the economics of the deal and the terms and conditions, nothing changed. The issue that the Commission raised had to do with this Belairbus structure that was established in the 1970s and it was really meant to be a consortium within each country, so that Airbus only had to deal with one entity as opposed to multiple. And so most of the work that we did was to just align individual partners within that Belairbus structure directly to Airbus, and it didn't change any of the economics or any of the terms and conditions of the underlying contracts.

And then in terms of the confidence, yes, I'd say our confidence level is higher now that we have re-filed. There was a lot of work to do between all the partners within Belairbus and with Airbus directly. We did that work. It was very collaborative. Airbus was extremely supportive and we were able to get everything in line to meet the requirements and concerns that the Commission raised and then to re-file. So, we have a higher level of confidence. What the Commission will do now is they have – it's about 35 days it will take them to evaluate it. They'll give us their decision and then at that point, we'll move forward. But given the work that we've done to date and the conversations that we've had, yes, my conference level is higher.

Ken Herbert
Analyst, Canaccord Genuity LLC

Q

Great. Thank you very much.

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

A

Thanks.

Operator: Next question is from Rajeev Lalwani with Morgan Stanley. Please go ahead.

Jonathan Morales
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thanks, gentlemen. This is actually Jonathan on for Rajeev. I was wondering if you could comment on margin progression in the quarter as you did almost 16.5%. Was that way down at the start of the quarter from contractors and over time, I guess, meaning was the [ph] X rate (00:42:18) better? And then how should we think about that as we progress through the year.

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

A

Right. Well, what drove margin in the first quarter was really continued focus on operational improvements. So, one of the things that we did is we did work our overtime down as we had fewer disruptions from our suppliers. That meant that we had less traveled work and we required less overtime. So that was one thing.

We also didn't have any expedited freight at all in the fourth quarter. So that was a help. And then we required fewer contractors because we had more direct staff as we got prepared for higher rates of production in the future.

So, those three things drove a lot of improvement and then we just batten down the hatches on all of our discretionary spending in Q4 and we're really efficient because the focus was really on deliveries and we pushed out a lot of other discretionary activities.

So, the margin on a normalized basis for Q4 was 16.1%, as Jose said, compared to 15.7% in Q3, which was a nice increase in kind of a continuation of the steady margin improvement through the course of the year. And as we said, our goal for next year is 16.5% and we're entering at 16.1%. There were some one-offs in Q4 related to overhead allocations, that won't repeat. But it's a good ending point and a very solid beginning to 2019 that we can build on in, and we're confident we can beat our 16.5% target in 2019. And that really puts us back to essentially the margin levels we were at in 2016 which was the last time we were at kind of a stable long-term production rate. And then we've also kind of built in some additional amounts for the impact of tax reform and ASC 606.

Jonathan Morales
Analyst, Morgan Stanley & Co. LLC

Q

Thanks, Tom. That helps. If I could just – one other quick one. Did you say the guide includes Asco-related interest?

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

A

Yes. So, last year, as you recall, we didn't include interest on the debt related to Asco.

Jonathan Morales
Analyst, Morgan Stanley & Co. LLC

Q

Right.

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

A

But this year, we have because we already have the debt. It's on the books. So, the interest on all the debt related to the Asco acquisition is included in our numbers this year.

Jonathan Morales
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you.

Operator: Next question will be from Seth Seifman with JPMorgan. Please go ahead.

Benjamin E. Arnstein
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. This is Ben on for Seth.

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

A

Hey, Ben. Good morning.

Benjamin E. Arnstein
Analyst, JPMorgan Securities LLC

Q

I was hoping if you could talk about the Airbus A350 for a little bit here. I mean, we've been reading in the press about higher rates. And I don't expect you to get in front of Airbus here. But as you think about moving above 10 a month, how should we think about the level of investment required and what that might change for your profitability profile?

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

A

Right. No incremental investment. We're capacitized to go up to the previously stated rates that Airbus has announced of 13 or even higher. So, we've invested the capital already. It's there. And so, there's no additional investment if they decided to go up. They're right now at 10.5 and we don't have any indication that it will go higher this year. But if it does, we have all the capital and infrastructure in place to do that.

Benjamin E. Arnstein
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks. And then just one more quick one. If you could kind of give us some color on how you're thinking about capital return for 2019, how kind of the Asco cost kind of fits into that?

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

A

Right. Well, the capital returns will be on par with what they've been in the past. What Asco will do is, it's going to – when we did the deal, the return was greater than 10%. That was our threshold. And so that's in place. We expect it to close, let's say, at the end of the first quarter, in which case we would have three quarters of results that we would include. So, Asco's, for example, annual revenue is $400 million and so we would get $300 million of that.

We are expecting about 4% synergies or $15 million. The expectation is it will take us about 12 to 18 months to fully incorporate that. And so as we look at net income, net income will be – there's a little bit of headwind, a couple of million dollars, we'll try to offset that, and then some marginal accretive boost in cash flow based on when we finally close in 2019.

Benjamin E. Arnstein
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks.

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

A

Okay. The other thing I should just say is that from the standpoint of purchasing Asco, the purchase price as you may recall was $650 million. And the way we will finance it at this point is we have some additional cash on our balance sheet from the second half of last year. So you saw that our cash was about $776 million. We've already pre-funded some of the purchase price because of the hedge we had in place.

So, we'll use about $400 million of cash and then $250 million or so from our term loan to cover the cost of the acquisition itself. And then, we do expect to resume our share repurchases once the acquisition is complete. And that's why our board authorized basically $1 billion share repurchase authorization last year.

Benjamin E. Arnstein
Analyst, JPMorgan Securities LLC
Q

Thank you.

Operator: Next question will be from Cai von Rumohr with Cowen and Company. Please go ahead.

Cai von Rumohr
Analyst, Cowen & Co. LLC
Q

Yes. Thank you very much. So, as you probably saw, Boeing is predicting 890 to 900 deliveries this year, and you guys have a lead time versus Boeing but you only delivered 828 deliveries – shipsets to Boeing last year. So, can you give us like how many shipsets are you going to deliver? I assume the number has to be over 900 to get them home.

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

Yes. I mean, obviously, we are on all Boeing's programs and we will deliver our shipsets to them. It's all in the schedule. And the bigger driver, Cai, is going to be the Boeing 737. That's going to go up significantly this year if they go up to the 57 aircraft per month as they're planning. So, that's going to be the big driver of how we'll deliver. But we're absolutely going to be ahead of Boeing.

As you saw this year, we delivered 605 Boeing 737 shipsets and they delivered 580. So, we're always a little bit ahead of them just because of the fact that we're upstream.

Cai von Rumohr
Analyst, Cowen & Co. LLC
Q

Got it. Okay. And then, so, Jose, could you maybe walk us – [indiscernible] (00:49:11) I had another question on the revenues, what programs are going to drive the 15% Defense growth and you talked of 20% growth in Fab, how much of that is external customers?

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

Great. And the Defense growth is really our Sikorsky program, the CH-53K that's getting into low rate initial production and then it's our strategic programs also that are kicking in. Then with regard to Fab, to be honest with you, most of the growth in Fab to get up to the $800 million is going to come from essentially producing parts for our current production. And the reason for that is we did have a lot of supplier disruption last year, and we relied heavily on Fab to help us cover that and do it at a low cost. So while we would like to do more third-party revenue, the first priority is to make sure we can cover all of our current production, so most of that is going to be to help us get up to rate.

Then in terms of third-party, really the major focus is going to be on Defense. So, we've been talking to all the defense primes and looking to either supplement some of the programs that we're already on and start to produce some of the detail parts or get involved in new programs. And again, as somebody who's been mostly commercial in the past, we can bring a lot of new capabilities and expertise that they haven't seen before. And we're finding a lot of receptivity in the market for that.

Cai von Rumohr
Analyst, Cowen & Co. LLC

Q

Thank you very much. Jose, quickly slide 16, could you walk us through for each of the sectors the cum catches and forward loss adjustments, what they were?

Jose Ignacio Garcia
Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

A

Yeah. So, as you can see, they were – for the quarter, they were quite small in the Fuselage Systems. We had $3.9 million cum catch, which...

Cai von Rumohr
Analyst, Cowen & Co. LLC

Q

[ph] Didn't know (00:51:22), I mean, what programs and just the big ones, I mean, those two in Fuselage and then the ones in Wing, what programs were pluses or minuses?

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

A

Okay. Yeah, Cai, that's something we really haven't gone into the level of detail in the past. And so right now, I think we would refrain from trying to go into the detail. Ryan will be available after the call. He can provide some additional color, but I think for this quarter, the actual instance was the cum catches were essentially negligible. There was a little bit of headwind from Boeing 777 program, but in general it was kind of balanced out. So kind of negligible and Ryan can walk you through the specifics later.

Cai von Rumohr
Analyst, Cowen & Co. LLC

Q

Thank you very much.

Operator: Next question will be from Asher Carey with Baird. Please go ahead.

Asher Carey
Analyst, Robert W. Baird & Co., Inc.

Q

Hey. Good morning. I have a question about, well, there's been a discussion around out of sequence workflow in the Boeing 737 production line. Curious is that still occurring or no longer an issue at all and you've touched a little bit on practicing, moving up 57 per month. What's the early take on the efficiencies or improvements in moving that rate and specifically like what kind of metrics are you looking at or any sort of detailed insights what you're seeing would be helpful. Thanks.

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

A

Yeah. Well, we're caught up on all programs and executing efficiently. We always have the occasional issue that comes up with a quality that might make us ship something the next day as opposed to the current day. But the factory in general is operating at very good levels of efficiency. Our suppliers are delivering. We don't have much traveled work and things are operating relatively smoothly.

With regard to the rehearsals, what it's enabling us to do is stress the system at the higher rates of production to see where the shortfalls are. So, we can see if our labor productivity assumptions are right. And in fact, we've identified some areas where we're going to want to go and hire few more people. We've also identified some things, for example, like the number of dollies to move parts back and forth. When the production rates go up, obviously, you have more incoming material that you have to move around and we identified we'd like to have a few more dollies here, so that's another thing that we looked at.

We're also looking at, for example, hand tools with the higher level of employees, making sure that we have enough hand tools to go around.

So, what the rehearsals do is it gives us a chance to really see exactly what's required and then we can fix that, and then we relax back to the lower rates of production, catch our breath and then rehearse again. So, we're going to do at least six different rehearsals between now and the expected rate break so that we can stress the system, identify where the gaps are and fill those gaps before we make the official rate break to 57.

Asher Carey Q
Analyst, Robert W. Baird & Co., Inc.

Got it. Thank you. And one more follow-up, if I may. I appreciate all the guidance that you've given. Are you able to give us a cadence for earnings, how back half weighted will it be given the increase in production rates?

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

Well, the production will actually accelerate over the course of the year because the rate increases start to take effect. So, when you think about Boeing 737 and Boeing 777, those will be more in the back half of the year. Boeing 787 is starting now but you'll see again a bigger impact in the back half of the year. So, that's certainly going to be a factor.

In terms of margins, margins will be a little bit tighter in the first quarter as we kind of ramp up inventory and do this rehearsing, that's going to stress the system. And so it'll balance out again in the back half of the year, the margins go up, just like they did in 2018. We saw a fairly significant increase in margins from the first quarter to the fourth quarter. So, in Q1, for example, margins were 14.1%. In Q4, they were 16.1%. And you'll see a similar pattern in 2019 is it will start up a little bit low and then start to gradually increase and again, expectation is it will average for the year at about 16.5%.

Asher Carey Q
Analyst, Robert W. Baird & Co., Inc.

Clear. Thanks, Tom.

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

Thanks.

Operator: Next question will be from Krishna Sinha with Vertical Research Partners. Please go ahead.

Krishna Sinha Q
Analyst, Vertical Research Partners LLC

Hi. Thanks for the question. On the Airbus rates that you mentioned, 10.5 for the Airbus A350 and above 60 for the Airbus A320, those are higher than the official published rates that Airbus has put out there. Can you just kind of square that with us like why are you producing 10.5 Airbus A350s a month when the official rate is only 10? Is there some spares or something that you're producing there?

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

A

Well, I think it's roughly what's been announced. But we're probably a little bit higher than the official rate because we do build up buffer to offset any weather delays and things like that. So we could be building at a slightly higher rate than Airbus during the course of the year. But we're pretty close. And I would just say that on Airbus A350 program, because we have had some weather delays and stoppages in the past, we've agreed with Airbus that it's prudent to have a few buffer units

And so that's built into the system and so that's why we're producing at the rate we are.

And on the Airbus A320, again, we're just at the stated rates of Airbus. Nothing different.

Krishna Sinha
Analyst, Vertical Research Partners LLC

Q

Okay. And then, obviously, there's been a lot of chat that rates will go higher on those programs. I mean, how far in advance or when will you guys know when you'll need to increase on the rates? And then how long will it take to flow through to the production plants to actually increase those rates?

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

A

Right. Well, both OEMs generally give us sufficient advance notice. Our lead time is a little bit longer on Boeing for Boeing 737 just because we have a bigger work package. And so, it's usually a 18-to-24-month lead time in the past. With Airbus, it's a little bit shorter because the operation is different. We have less things to do in Prestwick. But again, both OEMs always give us sufficient lead time to get up to rate. And we've already been doing trade studies. We've already been doing preparation in the event that they do make that decision, but we're confident that we'll have adequate lead time to meet whatever timetable that they give us.

Krishna Sinha
Analyst, Vertical Research Partners LLC

Q

And then a quick question on CH-53K. Obviously, you've got a good work package there. But can you just talk about the structure of that relative to legacy aerostructure-type material versus, I don't know, composites or new alloys and kind of the split between those two things? Because I think [indiscernible] (00:58:40) also has a big work package on that. So is CH-53K mostly composite? Is it mostly aluminum? Can you talk about the structure of that?

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

A

Right. Well, it's a composite fuselage and we build the forward part of the fuselage. The aft part of the fuselage is delivered to us and then we assemble it and deliver it to Sikorsky. But the basic material is composite, it's very similar to a commercial aircraft in that regard, similar kind of fabrication techniques, similar carbon fiber material. It's a hand lay-up process, and I think we're very good at it at Spirit, because we have a lot of capability from the work we do on Boeing 787 and Airbus A350. We've been able to apply that expertise to the CH-53K. And we're really proud to be on that program. The capabilities of that aircraft, it's a heavy lift helicopter for the Marines, are really astounding in terms of how much it can lift, how fast it can go, how many troops it can carry. And again, we're very proud to be on the program.

Krishna Sinha
Analyst, Vertical Research Partners LLC

Q

What's the ramp on that? Can you talk about that a little bit?

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

A

Well, we're in low initial rate of production right now, block one, we're just in the kind of the first couple of units for that. It'll ramp up over the course of the next several years. But we don't expect it to be in full rate production until the mid-2020s.

Krishna Sinha
Analyst, Vertical Research Partners LLC

Q

That's great. Thank you.

Operator: Today, last question will be from Josh Sullivan with Seaport Global. Please go ahead.

Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

Hey. Good morning.

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

A

Good morning.

Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

Just curious on your thoughts around budget discussions, the nuclear triad. There have been some public comments about the ability to afford all three legs of modernization. Just curious on your thoughts about the balance between the triad and the B-21 Spirit and just how that fits into the discussion from your end.

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

A

Well, I'm not an expert in that area. But the triad obviously is the missiles, the submarines and the bombers. If you look at the bomber fleet, the fact is, is that it's fairly limited. I mean, we're still flying B-52s which are 65 years old. Now, those were all built in Wichita, by the way. So we're very proud of them, but they certainly had a long life. And there's only about 20 B-2s and only about 79 or so B-1s. So it's a fairly limited fleet. And so the role of a new bomber for the triad looks very solid. And we're proud to be on the B-21 program. We're one of seven suppliers that were named along with the prime.

Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

Okay. Thank you.

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

A

Thank you.

Operator: At this time, this will conclude today's question-and-answer session as well as today's conference. We do want to thank everyone for attending today's presentation. And at this time, you may now disconnect. Thank you.