

Exhibit 10

02-Aug-2023

Spirit AeroSystems Holdings, Inc. (SPR)

Q2 2023 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to Spirit AeroSystems Holdings Inc's second quarter 2023 earnings conference call. My name is Jordan and I'll be your coordinator today. [Operator Instructions]

I'd now like to turn the presentation over to Ryan Avey, Senior Director of Investor Relations and FP&A. Please proceed.

Ryan Avey

Director-Investor Relations, Spirit AeroSystems Holdings, Inc.

Thank you, Jordan, and good morning, everyone. I'm Ryan Avey, and with me today are Spirit's President and Chief Executive Officer, Tom Gentile; Senior Vice President and Chief Financial Officer, Mark Suchinski; and President of Commercial and Chief Operating Officer, Sam Marnick.

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, including those detailed in our earnings release and 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.

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 second quarter results call. I'll begin today by discussing the IAM contract and providing an update on the 737 vertical fin attach fitting progress. On the IAM contract, we are very pleased to have in place a four-year contract with our IAM represented employees which reflects the gratitude we have for their contributions. While the first vote resulted in a work stoppage, we quickly went back to the table with our union partners and reached a resolution.

Due to the work stoppage from the strike, we now expect to deliver between 370 and 390 737 fuselages this year. The front of our production line is starting to break to 42 airplanes per month in August, but we won't be able to fully recover the lost manufacturing days from the work stoppage and the subsequent resumption of full production at our Wichita site. Mark will walk you through some of the financial impacts related to the new contract and work stoppage in his comments.

On the vertical fin attach fittings, first, all the rework on the available 737 fuselages in Wichita was completed during the second quarter, which was ahead of the timeline we provided on our last call and within the financial estimates that we provided. We were quickly able to develop a repair process and prioritize the rework. I want to recognize our operations team for the incredible effort they made to develop the repair, implement it, and maintain the schedule and budget. With regards to the units at Boeing, we have also recorded a provisional liability in the second quarter related to a potential claim for the repair work performed to date at Boeing. Additionally, we do not expect a material financial impact associated with previously delivered airplanes in the fleet.

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Now turning to our Commercial business. Commercial air traffic demand continues to be strong and is approaching full recovery to pre-COVID levels. Based on May results, global air traffic is at 96% of 2019 levels, with domestic air traffic now exceeding 2019 levels by 5% and international improving to 91% of 2019 levels. This strong recovery in traffic, combined with robust airline demand for new airplanes with improved fuel efficiency and seating capacity, has fueled the recent large orders book from airlines. As a result of these orders, our backlog at Spirit grew from \$37 billion to \$41 billion in the second quarter, which includes work packages on all Commercial platforms in the Airbus and Boeing backlog.

We are focused on executing the upcoming rate increases to meet the strong recovery in demand. While we are making progress, there continues to be challenges in the supply chain which have destabilized our production lines. We still see examples of distressed suppliers, even smaller ones, which have significantly disrupted our operations because of shortages we've had to address. Over the last 18 months, we have incurred impacts approaching \$200 million from individual distressed suppliers and other supply chain pressures which have been reflected in our past earnings. These challenges in the supply chain also drove some of the forward losses recorded in the second quarter, primarily on the 787, the A350 and the A220 programs. Our priority for the second half of the year remains on execution within our factories, and managing these supply chain challenges to meet production rate increases.

While we continue to expect supply chain challenges, we have put plans in place to help mitigate the impacts. We have Spirit employees in the field working with suppliers regularly, addressing rate readiness, helping them buy material, extending contracts, and offloading work to relieve some of the pressure.

As we've mentioned previously, in our own factories, we are bringing in new employees earlier than we have in the past to help ensure a smoother transition on production rate breaks. Expectations for deliveries on our other programs through the year are as follows: 40 to 45 shipsets on 787; about 60 shipsets on the A350; 580 shipsets on the A320; and 75 to 80 shipsets on the A220.

Now let's move to an update of our defense and aftermarket businesses, which both continue to perform well toward our 2025 targets. Our Defense and Space business once again produced strong revenue growth, up 30% this quarter compared to the second quarter of 2022. The new business pipeline also remains robust, and we continue to make good inroads with the defense primes displaying our design-build capabilities and commercial best practices. Year-to-date to date, we have won 20 different contracts worth more than \$200 million in total. We continue to bid on large defense programs and are on track to reach our target of \$1 billion in Defense & Space revenue by 2025.

Our aftermarket business also had another quarter of solid revenue growth, up 15% compared to the same quarter last year, driven by increased MRO and spares volume with strong operating margins of 26%, helped by some one-time items. The aftermarket team also remains on plan to reach their 2025 revenue target of \$500 million.

I'll now turn the call over to Mark to take you through some more of the financials for our results. Over to you, Mark.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

Thanks, Tom, and good morning, everyone. I want to begin by discussing the two significant items that occurred during the second quarter, the 737 vertical fin attach fitting rework and the Wichita IAM negotiations. The teams worked diligently throughout the quarter on the 737 vertical fin attach fitting rework related to the quality issue that

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we explained in April. We're pleased to have resolved the required rework on available units in Wichita within the \$31 million cost estimate we discussed on the last earnings call. We recorded a contra revenue charge of \$23 million in the quarter to account for a potential claim from Boeing related to our estimate of the repair work to date at their facility, which we believe represents about half of the units. However, I want to emphasize that any potential claim we may receive from Boeing could be materially different from our estimate.

Now, as it relates to the IAM; the IAM negotiations and strike disruption affected all of our programs at the Wichita, Kansas site, which the 737 program was mostly impacted. Financial impacts during the quarter included \$28 million of charges in the estimates, primarily related to higher employee benefits, including wages from the new IAM contract as well as strike disruption charges of \$7 million and higher excess capacity costs. Additionally, as we look ahead over the life of the new union contract, we are forecasting labor costs to be approximately \$80 million more on an annual basis. This will put pressure on margins going forward in addition to the broader inflationary pressures we are experiencing. With the quality issue resolved in our factory and a new labor contract in place, our entire focus is directed towards executing on our customer commitments, including the upcoming production rate increases.

Now let me take you through the details of our second quarter financial results. So let's move to slide 2. Revenue for the quarter was \$1.4 billion, up 8% from the second quarter of 2022. Second quarter 2023 revenue was impacted by disruption from the vertical fin attach fitting issue as well as the IAM work stoppage. The year-over-year improvement was primarily due to higher production on the 737 and 787 programs, and increased Defense & Space revenue, partially offset by lower production on the A220 program. The Defense & Space segment had a strong quarter with top line growth of 30%, increasing revenue by about \$45 million. Also, Aftermarket had a robust performance with 15% revenue growth and 26% margins. Overall deliveries for the quarter increased 8% on a year-over-year basis.

Now let's turn our attention to the EPS. We reported earnings per share of negative \$1.96 compared to negative \$1.17 in the second quarter of 2022. Excluding certain items, adjusted EPS was negative \$1.46 compared to negative \$1.21 in the prior year. Operating margin decreased slightly to negative 9%, compared to negative 8% in the same period of 2022, driven by higher changes in estimates, as well as the potential customer claim that I discussed in my opening remarks, partially offset by the absence of losses related to the Russian sanctions recognized during the second quarter of 2022 and increased aftermarket earnings.


Second quarter forward losses totaled \$105 million, and unfavorable cumulative catch-up adjustments were \$22 million. This is compared to \$64 million of forward losses and \$8 million of unfavorable cumulative catch-up adjustments in the second quarter of 2022. The current quarter forward losses relate primarily to the 787, A350 and A220 programs.

The 787 forward losses of \$38 million resulted from the new IAM union contract, as well as increased supply chain and other production related costs. The A350 charges of \$28 million were primarily due to increased costs related to production rate recovery efforts, including freight as well as unfavorable foreign currency movements. And the A220 loss of \$27 million was driven by higher estimates of supply chain costs and unfavorable foreign currency fluctuations. Additionally, the unfavorable cumulative catch-up adjustments relate primarily to the 737 program reflecting increased labor costs from the IAM union negotiations as well as higher supply chain costs.

Other expense in the second quarter of this year was \$10 million compared to other income of \$35 million in the prior year. This variance was due to gain recorded in the second quarter of 2022 of \$21 million related to the settlement of the repayable investment agreement with the UK Department of Business, Energy and Industrial

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Strategy (sic) [UK Department for Business, Energy and Industrial Strategy] (00:11:46), as well as lower pension income and higher foreign currency losses recognized in the quarter.

Now let's turn to free cash flow. Free cash flow usage for the quarter was \$211 million. Cash usage increased compared to the same period of 2022, largely driven by the negative impacts to working capital resulting from the rework and disruption related to the quality issue and the IAM work stoppage, as well as preparation for the third quarter 737 production rate increase. Second quarter 2023 cash from operations also included customer advances of \$50 million as well as an excise tax payment of \$36 million related to the termination of the pension value plan A.

Looking ahead, the new union contract was in line with our 2023 free cash flow expectations. However, the work stoppage resulting from the IAM work stoppage led to fewer 737 deliveries that will not be able to be made up in the back half of the year. We now expect full-year 737 deliveries to be in the range of 370 to 390 units.

Additionally, during these periods of disruption, we continued to receive materials and inventory to support our own supply chain, which caused additional pressure to free cash flows. These items, in combination with additional forward losses taken during the quarter, will negatively impact full year cash flows. Given these headwinds, we are now expecting our full-year free cash flow to be in the range of negative \$200 million to \$250 million. This updated range includes the benefit of \$100 million of customer advances, which I will explain in more detail on the next slide.

With that, let's now turn to our cash and debt balances on slide 3. We ended the quarter with \$526 million of cash and \$3.9 billion of debt. As I discussed in the last earnings call, as part of our subsequent event discussion, we entered into agreements during the second quarter with our customers to provide cash advances.

As a result, we will receive \$280 million this year, of which \$230 million was received in the second quarter and \$50 million will be received in the fourth quarter. We plan to repay these advances with payments of \$90 million in 2024 and \$190 million in 2025. \$180 million of these advances were received from Boeing and are categorized as other liabilities on the balance sheet, and reflected as cash from financing on the statement of cash flows. The remaining \$100 million is categorized as advances on the balance sheet and reflected as cash from operations and therefore included in free cash flow.

Receiving these advances will help provide additional cushion as we incur the near-term financial impacts from the lower 737 deliveries and the buildup of inventory for production rate increases. We continue to have access to public financing markets, and will be looking at all available financing options to address our 2025 debt maturities as well as our overall liquidity.

Next, let's discuss our segment performance, starting with Commercial segment on slide 4. In the second quarter of 2023, commercial revenue increased 5% over the same period of 2022 due to higher production volumes on the 737 and 787 programs, partially offset by lower A220 production. Commercial revenue was negatively impacted by disruptions from the vertical fin attach fitting issue and the IAM work stoppage. Quarterly operating margin decreased to negative 7% compared to negative 4% in the prior year, driven by higher unfavorable changes in estimates in the current period and the potential customer claim offset by the absence of losses related to the Russian sanctions recognized during the second quarter of 2022.

The changes in estimates during the second quarter, which I previously discussed, included forward losses of \$102 million and unfavorable cumulative catch-up adjustments of \$16 million. In comparison to the second quarter of 2022, the segment recorded charges of \$59 million of forward losses and \$8 million of unfavorable cumulative

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catch-up adjustments. Additionally, in the second quarter of 2022, in relation to the sanctioned Russian business activities, the segment recognized net losses of \$24 million.

Now let's turn to Defense & Space segment on slide 5. Defense & Space revenue grew to \$190 million, or 30% higher than the second quarter of last year due to higher development program activity and increased P-8 production. Operating margin for the quarter decreased to 6% compared to 9% in 2022, primarily due to increased costs on the P-8 and the KC-46 tanker resulting from the IAM union negotiations and higher supply chain costs as well as one-time charges on the Sikorsky CH-53K program. The segment recorded forward losses of \$3 million, unfavorable cumulative catch-up adjustments of \$6 million, and excess capacity costs of \$1 million, compared to forward losses of \$4 million and excess capacity costs of \$2 million in the second quarter of 2022.

For our Aftermarket segment results, let's turn to slide 6. Aftermarket revenues were \$92 million, up 15% compared to the second quarter of 2022, primarily due to higher spare parts sales and MRO activity. Aftermarket growth continues to be supported by the global recovery in air travel and is on track to meet the plan for the year. Operating margin was very strong for the quarter at 26%. However, don't expect it to continue at this level going forward. The increase compared to the same period of 2022 was primarily due to higher margins on increased activity, the absence of Russian sanction losses recognized during the second quarter of 2022, and a one-time benefit that will not repeat of \$2 million.

Despite the recent challenges, we believe we are moving in the right direction. Going forward, we are focused on the long-term trajectory of our business. Our top priority is on the execution and stability in our factories, with rate increases in the back half of this year as well as in 2024 and 2025. Supply chain remains very challenged, but we will continue our efforts to mitigate the impact, improve predictability as the industry continues to recover. There is work to do, but demand is strong, and we are working hard to restore our operational and financial strength.

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

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

Thanks, Mark. In summary, commercial aerospace demand is strong and we are on the best platforms to take advantage of this demand. We worked through two recent challenging issues in the second quarter with the IAM contract and the vertical fin attach rework in Wichita. We expect that there will be continued challenges associated with the supply chain and stabilizing our factories going forward. We are making prudent investments and applying resources in the right places to help mitigate these challenges. Our focus in the back half of the year is on executing our production rate increases across all programs. We expect these actions will help enable us to drive sustained improvement in cash flows going forward.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Myles Walton of Wolfe Research. Myles, the line is yours.

Myles Walton

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Hey, Mark, maybe you can start with the free cash flow. I think when I adjust for the advance, you've lowered it by about \$200 million and certainly have some discrete items. I guess I was thinking might add up to \$100 million as opposed to the \$200 million. So maybe you can just walk us through the maybe a little bit more discretely, the elements of that \$200 million revision?

Mark J. Suchinski

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

A

Sure, Myles. And hey, good morning. Good to hear from you. Yes. I think the big impacts really – I've tried to cover it, first and foremost, with the work stoppage in Wichita. It's had an impact on deliveries. And obviously 737 is the most significant program we have. But there are a few deliveries that will fall out of the year on our other programs as well. The work stoppage happened on essentially June 20, and so there's going to be some of the deliveries that we won't be able to make up. There's the cost of that disruption. We're taking on more inventory to support the rate increase in the back half of the year. And we continue to bring on more inventory as a mitigator for some of the challenges that we've seen in our supply chain.

I would also tell you that, if you look at our forward loss, additional forward loss charges that we booked both in the first and second quarter, that's going to put pressure on cash in the back half of the year. So really, I think to summarize it, lower Boeing deliveries led by 737, us taking on more inventory to protect the production system and then higher forward loss charges that we booked that will end up having a negative impact on cash. And I think those will put us within the new guide that we have here. And the goal really is to set this guidance for you, deliver on this and make sure that we meet the cash flow targets that we've provided to you.

Thomas C. Gentile III

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

A

And Myles, I'd just add one other way to look at it, which is where we are right now in the year, in Q1 we had a negative \$69 million; in Q2 it was negative \$211 million. So that put us at negative \$280 million. And our goal is to be essentially breakeven in Q3 and Q4. And as Mark said, the next \$50 million from the customer advance is going to be treated as cash flow. So that would put us at \$230 million, which is right in the middle of our range of negative \$200 million to \$250 million.

Operator: Our next question comes from Ken Herbert of RBC Capital Markets. Ken, please go ahead.

Stephen Strackhouse

Analyst, RBC Capital Markets LLC

Q

Good morning, Tom and Mark. This is Steve Strackhouse on for Ken Herbert. Last call...

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Morning, Ken (sic) [Steve] (00:23:04).

A

Stephen Strackhouse*Analyst, RBC Capital Markets LLC*

...we had discussed about 75% of the 250 aircraft in Boeing's inventory and potentially another 500 in the field. If Boeing has completed the rework on about half of those and the contra revenue amount is for \$23 million, this implies a cost of about \$67,000 per aircraft, which is about half of what you guys had said it was last quarter for yourselves. Is this a fair way to – is it fair for us to think that the \$23 million should effectively double? Or can you give us a little bit more color on the number of aircraft that the Boeing has identified or the cost to them?

Q

Stephen Strackhouse*Analyst, RBC Capital Markets LLC*

Yeah, no, that's – Ken, (sic) [Steve] (00:23:40) so there's a few things that – let me highlight and go through it. We think that they've repaired about half the units that they need to repair. So call it 73 or 74. So that is a little bit less than the 75% of the 250. So it's really the 73 that they've repaired, the \$23 million repair estimate aligns to that. And so we've tried to make some conservative estimates. And it's just based on the units that are at Boeing, nothing in the fleet.

Q

So our view is that, as our understanding of the current disposition in the fleet is, we don't expect any material impact for units in the fleet. So \$23 million only represents the units that are at Boeing. And yes, it represents half of what we think is going to need to be done eventually. But that was the best estimate we could make. And so we took the charge based on the low end of that estimate.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

Yeah. So I think if you do the math on that, you get a significantly different number than you quoted on the repair cost per unit.

A

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

Right. I think you had that wrong.

A

Operator: Our next question comes from David Strauss of Barclays. David, the line is yours.

David Strauss*Analyst, Barclays Capital, Inc.*

Thanks. Good morning. So the updated free cash flow forecast, I mean, you've got in terms of non-recurring positives, you got \$100 million of advances, you've got the \$180 million Q1 pension benefit. So, apples-to-apples, it's kind of a \$500 million burn this year. Is there any way to bridge still the positive free cash flow in 2024?

Q

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

A

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Well, I mean, the simple answer is rate increases primarily on the 737. And that's going to also help the back half of this year. As I mentioned, we're basically moving to 42 aircraft per month cycling in August, and we'll continue at that rate for the rest of this year. And then next year, that'll be our starting point. So the improvement in cash flow is really going to be delivering more aircraft, primarily the 737.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

A

And also then, David, we won't need to build as much inventory spare parts as the – and stores inventory as the supply chain continues to get healthy. So there's no doubt we're taking on a lot of inventory at this point in time to prepare for those higher production rates to drive stability. So as Tom said, I think the two primary drivers are higher deliveries, which will generate more gross profit, which generates cash. The higher production rates will help us absorb more excess cost, and that's cash cost that will be mitigated. And then the third component is getting to a much better place as it relates to inventory and getting past some of these one-off forward loss charges that are putting additional pressure on the current year cash flow.

David Strauss*Analyst, Barclays Capital, Inc.*

Q

Okay. Quick follow-up on the MAX rate, can you just reconcile? I think, Tom, you said you're still breaking the 42 here over the near term, but your implied second half of the year delivery guidance is, looks like it's averaging kind of 35 a month. So can you just reconcile that? And, does Boeing, or is there enough buffer stock at this point, given what looks like your shortfall relative to Boeing's rate to allow Boeing to hit the 38 a month that they're now trying to achieve? Thanks.

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

A

Right. So you're right. If you just do the math, if we're at 169 units delivered to date and you take the midpoint of our guidance on 370 to 390 at 380, that would imply 211 for the back half of the year for six months, which is 35 per month. But the way I would say it is we're cycling at 42. So we've got the head count in place, we've got two full lines, each producing 21 aircraft per month. So we are cycling at 42 per month. The reason it's a little bit less than 42 in the back half of the year is just unscheduled days. So M days that we are actually building. So you think about Labor Day, Thanksgiving, day after Thanksgiving and so forth. So there's several unscheduled days.

And then in addition to that, we'll be firing blanks through the production line as we normally do, to increase surge capacity and just provide some cushion into the production. So that's why the average is 35. But we are cycling now at 42 per month. We will end the year delivering at 42 per month and that'll be the starting point for next year.

In terms of the buffer, as you know, we built up buffer during the period of time when the MAX was grounded, and we were still building at 52 a month and delivering to Boeing at 42 per month. The good news is that that buffer came in very handy during both the vertical fin issue and the strike. We were able to deliver more units from buffer to help minimize the disruption to Boeing. And so the buffer has gone down, but we still have about 50 to 55 units in Wichita. And then there's some others that are held up in Seattle. Some of those units are for customers that aren't going to deliver in the near term, like for example, for China. But the buffer is still performing a very valuable function to ensure that we can meet Boeing's production rates as they go up and as we go up.

Operator: Our next question comes from Seth Seifman of JPMorgan. Seth, please go ahead.

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Hey, thanks very much. Good morning.

Q

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

Morning, Seth.

A

Seth M. Seifman*Analyst, JPMorgan Securities LLC*

Tom, when we look at the – morning. When we look at the continued forward loss charges on the A350 and the A220 and Spirit kind of having to absorb the supply chain challenges there, I guess when we think about Airbus as a customer, it seems like Spirit is losing money there, will continue to lose money there for a while. And, we know from what Airbus says that they plan to continue to make structures, a core internal capability for them. I mean, at some point is this not sustainable to continue working with them? Just to [indiscernible] (00:30:24)

Q

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

Airbus is the...

A

Seth M. Seifman*Analyst, JPMorgan Securities LLC*

[indiscernible] (00:30:26)

Q

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

Yeah, yeah. So thanks, Seth. I would say this, is Airbus is a valued customer. They are one of the two big commercial manufacturers of aircraft in the world. And it's very important that Spirit, as an aerostructures provider supports them as well as Boeing, and also expands into defense. So I would say Airbus is an important customer and we want to continue to develop and further that relationship.

A

But I'd also say that you're absolutely right. The A350 and the A220 have been very challenged programs and have been in forward losses. And as we look broadly in the industry, and air traffic is recovering, as I said in my remarks, there's obviously huge strong demand for aircraft. And we saw that at Paris, which was actually the third highest airshow ever in terms of orders. So very high demand for aircraft. And yet we're here in a very supply constrained environment. And it's really important for the entire aerospace industry value chain to be financially healthy during this period, particularly as we go up in production rates.

And so the way we see it is that suppliers, including Spirit, are experiencing inflation in materials, in logistics, in utilities, in labor. You just saw our increased labor costs, which are going to add about \$80 million of cost per year. And on top of that, there's heightened expectations on quality, on fluctuating schedules. So all of these things are driving higher costs and programs, including on our Airbus programs, the A350 and the A220, but also on our 787 program with Boeing. And these are important issues that the OEMs will need to address in the long-term. And these are important conversations that we are having right now with our customers.

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Great. Thanks. Thanks very much.

Q

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

Thank you.

A

Operator: Our next question comes from Robert Spingarn of Melius Research. Robert, please go ahead.**Robert Spingarn***Analyst, Melius Research LLC*

Hi. Good morning. Just a clarification and then a question on margins. But Tom, just in terms of the vertical fin issues in the installed fleet, I think you and Mark have said you haven't established that exposure. Is it because there isn't any, or we're not there yet because the inspections haven't occurred and you don't have a way to do that? So that's the clarification.

Q

And then, Mark, since March 2022, if we go back to the Investor Day back then, you talked about a 16.5% segment margin free cash conversion of 7% to 9% of sales when the 737 gets to 42. Tom, you just said you'll exit the year at that level, but a lot of things have changed since then. Interest rates higher, inflation, and now this new IAM deal that's \$80 million more expensive. So we bake all that in, how do we think about your margins, factoring those various things in?

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

Yeah. So on the vertical fin, let me say it this way so it's very clear, based on the disposition as we understand it for the fleet, we do not expect that there will be any material financial impact to Spirit based on that disposition. Okay. So we don't expect any financial...

A

Robert Spingarn*Analyst, Melius Research LLC*

Is it because aircraft don't...

Q

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

[indiscernible] (00:33:50)

A

Robert Spingarn*Analyst, Melius Research LLC*

Because they don't need to be fixed or...

Q

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

The way the disposition will work, we don't expect there to be a financial impact, a material financial impact for Spirit.

A

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Okay.

Q

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

And that disposition is still being finalized, but that is our understanding of it as of right now. And that's how we are communicating it.

A

Okay. So with regard to the second part of your question, the 16.5% margins and the 7% to 9% free cash flow conversion when we get to 42 aircraft per month. Obviously those were made before this hyperinflationary environment, before our new labor contract, before a lot of schedule changes, before a lot of different expectations in terms of how we build the aircraft. And so, what we would say now is, yes, there's more pressure. Once we get stabilized we'll revisit and determine what those projections will be for the future. But obviously, right now there's more pressure because those estimates were made before a lot of what we know today occurred.

Robert Spingarn*Analyst, Melius Research LLC*

Okay. And then just on the \$80 million, what size business does that contemplate? Is that where you are now? Is that a cost when things stabilize, what production volume reflects that \$80 million?

Q

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

It's based on what we are currently at and what we project over the next four years of the term of the contract.

A

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

Yeah. So Rob, it's an average. Obviously it's a little lower today.

A

Robert Spingarn*Analyst, Melius Research LLC*

Okay.

Q

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

We'll be hiring more people over the next couple years as rates go up, but that is an average over the four-year period. So little lower today...

A

Robert Spingarn*Analyst, Melius Research LLC*

Okay.

Q

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

...higher in year three, four.

A

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Okay. Thanks for clarifying. Appreciate it.

Q

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

Okay. Thanks, Rob.

A

Operator: Our next question comes from Sheila Kahyaoglu of Jefferies. Sheila, please go ahead.

Sheila Kahyaoglu*Analyst, Jefferies LLC*

Good morning, guys, and thank you. I just wanted to step back from the cash outflows today and maybe specifically focusing on the MAX contribution in 2023, 2024 and 2025. Obviously work stoppages, pauses, and IAM agreements changed the free cash flow profile of the MAX in 2023. How do you think about that in 2024 and 2025 and how does the rate and inventory depletion progress?

Q

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

Yeah, Sheila, I'll answer first and then let Mark provide a little bit of detail. But the first thing is, you're right. In 2023 the work stoppage did impact us and we lowered our guidance in terms of the deliveries for the MAXs as a result. But the good news is, is that we do now have our contract in place with the IAM and it's for four years. And we're satisfied with that. It's a very competitive contract and it reflects the gratitude that we have to our IAM colleagues for their contributions.

A

So it impacted 2023, but as we go into 2024 and 2025, we have stability now on that front and we will be able to execute on our rate increases and the rates that we expect to be delivering, and those will be higher. So as I said, we are already moving to 42 aircraft per month in terms of where we're cycling. We'll end the year at that and that will be the starting point for next year. And we do expect that we'll have at least one rate increase in 2024 as well, over the 42. So if you lay that out, because the MAX is our biggest program and deliveries are going to be going up, is that will drive more free cash flow. And now we have a more stable environment with the contract in our rearview mirror.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

Yeah. Sheila, good morning. I think the thing that I would add is the quality issue, the vertical fin, the work stoppage, that caused significant disruption to us, significant, right? And it was obviously not planned at the start of the year. Much lower deliveries in the second quarter. We've had to add more people. We're taking deliveries out of the plan. It had serious impact overall cash flow projections for the year. And as we move into 2024, we move past the work stoppage. As Tom said, we move past the quality issue. It's all about execution. It's about stabilizing supply chain and producing on time in our factories and meeting our delivery commitments on time, right? And so the positive cash flow is all 100% based on the further stabilization of supply chain and meeting our production commitments internally. And if we can go do that, we'll see a significant improvement in overall free cash flow. And that's what we have to do. Operationally we've got to execute, we got to execute better. And that will lead, with the higher production rates, to much better profitability and cash flow.

A

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Q

So how does that change, just like your free cash flow margin per aircraft on the MAX? Like, if it was close to 20% before, does it lower it 500 bps? So I'm thinking like instead of \$1.2 million per MAX, you're down to \$1 million with all these changes.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

A

Well, I'd say this, Sheila. I mean, we tried to be really, really granular as it relates to the IAM impact. And I would tell you, when you think about, as you just said, the cash per unit, the biggest driver, as we look forward on the 737, is the impacts of the IAM contract. You know that it's over 50% of our revenues as a company, but much higher than that as it relates to Wichita. And so I think that you can put some math to the negative impacts or the higher costs and the pressure that's going to put on our overall business. And a big portion of that's going to hit the 737.

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

A

And Sheila, the way I would also say it is, as we've said before, is you always have to run fast in this industry to stand still. We're always facing pressures. We knew the IAM contract was going to create additional financial pressure, and it did. And we need to continue to work to mitigate that through our productivity initiatives.

Sheila Kahyaoglu*Analyst, Jefferies LLC*

Q

Great. Thank you.

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

A

Thanks, Sheila.

Operator: Our next question comes from Doug Harned of Bernstein. Doug, please go ahead.

Douglas S. Harned*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Thank you. Good morning.

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

A

Morning, Doug.

Douglas S. Harned*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Morning. I wanted to go over to the wide bodies. And when you look at the 787 and the A350, and can you tell us what the rates are you're at now? And when you look forward, you have Airbus standing by producing nine a month at the end of 2025, Boeing on the 787, 10 a month in 2025, 2026. Where are you now and how do you get to those high numbers?

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A

Right. Well, as it sits right now, Doug, both on 787 and A350, we're really at about five per month right now in terms of what we're delivering at. And so, as I mentioned in my remarks, we're going to deliver between 40 and 45 787s this year and about 60 or so A350s. But the rate right now on both programs is about five. Now, Boeing has said they're going to go up to high as 10 at the end of 2024. And Airbus has said, I think, high as nine in 2025, which would include some freighters. And so the way we get up to those rates, we have already the capital because we've been up as high as 14 on 787.

Now, there is some more pressure on the build process because things have changed. The fit and finish issue on 787 and the pull up force, it has resulted in some change in the build process, which puts some pressure on it. But we have a lot of the capital and tooling to get up to 14. And so it's really a question of adding the head count and making sure we adjust and take into account some of the changes in the build process. And that's how it will happen on 787. On A350, we're capitalized for 13 aircraft per month, and we've been as high as 10. And so obviously we're at much lower rate right now. There's some differences there in terms of build process as well, but it's really a question of hiring the people in our Kinston plant, and in our Saint-Nazaire plant, to increase the rates to what Airbus is expecting.

The other thing I would say though is, the freighter, which is in development right now, is going to be a substantially different aircraft. I mean, it's a derivative, but there's a lot of changes to it. And so that will also put a little bit of pressure on the system. And it's kind of a version of the 10, and so that creates another minor model mix, let's say. So some additional complexity. But the capital is in place to get up to rate nine as Airbus is expecting. And we just need to start hiring the people at the right time period so that they're ready to meet those rate increases.

Douglas S. Harned*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Well, should we expect then – we shouldn't expect then any additional capital investment requirements. But next year, just trying to dimension the pressure that this ramp-up from a staffing standpoint, what is that going to suggest in terms of just pressure on your margins and cash next year?

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

A

Yeah, well, since both of those programs are in forward loss, that's the normal type of pressure. We've built into our projections in the out years, the increase in head count to support higher rates. But you also get the benefit when you have higher rates, of course, of better fixed cost absorption. And so that will be an offsetting benefit. But I'll just get back to what I said a little bit earlier when Seth asked the question about the forward loss charges is, this is an industry-wide problem and in a kind of a very high demand environment, which also has supply constraints, it's important that all the suppliers are healthy and suppliers are incurring higher levels of cost on inflation and material, as well as labor, logistics and utilities. And these do have to be addressed in the long term, and these are the conversations that we're having with our OEM partners.

Douglas S. Harned*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. Thank you.

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A

Thanks, Doug.

Operator: Our next question comes from George Shapiro of Shapiro Research. George, the line is yours.**George David Shapiro***Analyst, Shapiro Research LLC*

Q

Yes. Good morning. Mark, just a clarification. The \$80 million you said was an average. I mean, if I look at the wage changes, they go up like 11% from 2023 to 2025. So do I just assume that that \$80 million was really like a 2024 number, forgetting the people you got to hire. That was just kind of an average wage per individual, right?

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

A

It's about right, George.

George David Shapiro*Analyst, Shapiro Research LLC*

Q

Okay. And then one other quick clarification. What is different between the agreement you have on the advance from Boeing versus Airbus that lets Airbus be counted as free cash flow and Boeing as financing?

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

A

Sure, George. So the main fundamental difference between the \$180 million advance we got from Boeing and \$100 million from another customer is the Boeing advance is paid to us. We've collected that money and we make a one-time payment to Boeing in the first quarter of 2024 of \$90 million, just a payment to them, like paying back a bank. And we do that in 2025.

The other customer wanted it structured differently, at the end of the day, for their own reasons. And so we're paying that one back in a per shipset quantity in 2025. So essentially we're paying it back in 2025. So I think the other way you can look at it, it's a prepayment that we received \$100 million against deliveries that we're making in 2025. And so from a ASC 606 accounting standpoint, that requires us to treat that as in cash from operations as an advance. And so again, it's really more of a technical accounting. At the end of the day, it's not operational. But technical accounting wise, it results in us having to have to treat it in 2023 as favorable to free cash flow. And in 2025 that will be a negative impact to free cash flow in 2025.

George David Shapiro*Analyst, Shapiro Research LLC*

Q

Okay, very clear. Thanks very much.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

A

Thanks, George.

Operator: Our next question comes from Cai von Rumohr of TD Cowen. Cai, please go ahead.

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Q

Yes, thanks so much. So two questions on cash flow. First, while 737 build is a big plus, the 787, A350, and A220 are basically losers. So as those rates build, what is the incremental build in terms of the forward loss burn off? And then secondly, because you have – the Boeing repayments are below the line, will you be able over the period 2024 and 2025 to reduce your debt?

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

A

Yeah. Well, let me just address the forward loss issue. As you said on 737, the impact will be positive on 787 and A220. In terms of the forward loss, we've taken into account the projections in terms of the schedules going forward going up. So, that has all been taking into account in terms of the forward loss.

In terms of the Boeing payment being below the line, that is how it is. But what was the second part of your question then, Cai? The second part?

Cai von Rumohr*Analyst, TD Cowen*

Q

Well, I mean, so with those three programs building, presumably the cash loss as you move forward increases. That's why you took a forward loss. And then you do have the Boeing payments and you have the cash payment to Airbus, at least sort of the cash that you don't get. So over the two-year period, will you be able to reduce your overall net debt?

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

A

Yeah.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

A

Yeah. Hey, Cai, let me jump in real quick. So I think first off, we do have loss-making programs. We talk about those. I would tell you that the amount of burn on those forward loss programs in 2023 will be higher than 2024, right? Even though we're going to produce more in 2024. We started the ramp-up on 787. We didn't restart production until August of last year, and we had a lot of units, as we slowly started to go from one to three to five, lot of higher costs, way up on the learning curve, the build process changed, so we're seeing an abnormally high cost-per-unit build on 787 in 2023. And you're seeing some of that reflected in additional forward losses that we booked in the first and second quarters.

Very similar on A350 as we recovered the production plan from an overstaffing standpoint to recover that expedited boats, that it's all putting additional pressure on what I would call cash per unit on the loss-making programs in 2023. And then as we move into 2024, what should happen is we're moving down. We've got more stability in those factories. The higher rates will help us absorb more fixed costs. Some of the pressure that we saw in 2023 will abate as we move into 2024.

They're still loss-making programs. A220 goes up in rate, a nice little tick-up in 2024, which will help. So I would say when you think about cash between 2023 and 2024, yes, there's cash consumption on the loss-making contracts in 2023 and there will be on 2024. But I would tell you, based on what we believe today, it will be less impactful in 2024 than 2023.

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And so when you think about cash flow over the next couple years, obviously the issues around the quality issue and the strike has moved the cash flow generation a bit to the right, and therefore we won't be able to generate significant cash flow in 2024 and 2025. There'll be some cash that we're able to generate, which we'll use to pay down debt as best we can as we move through that. And so really that's the game plan. I think more burn on the forward loss this year, a little bit less next year. And as we move into 2024 and 2025 and we move to cash flow positive, we will use that cash flow to pay down debt. And that's overall, when we think about our overall financing strategy and liquidity strategy on how we're addressing our debt and our cash balances.

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

A

Yeah, and Cai, what I would say about that is we will use the excess cash in 2024 and 2025 to start to pay down debt. But we have a big chunk that's due in April of 2025. We are not going to be able to generate enough cash to pay all of that off. So we are going to start to look at some refinancing options, and we'll consider all different types of options as Mark said in his comments, as we look to refinance that 2025 debt.

Cai von Rumohr*Analyst, TD Cowen*

Q

Very helpful. You mentioned price hikes. One of the messages from Paris was that pretty much everyone is asking for and most people aren't getting price hikes. Do your forecasts and your comments assume any price hikes?

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

A

No, they do not. Not at this time.

Cai von Rumohr*Analyst, TD Cowen*

Q

Thank you.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

A

Thanks, Cai.

Operator: Our next question comes from Kristine Liwag of Morgan Stanley. Kristine, the line is yours.

Kristine Tan Liwag*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks, guys. So in terms of a follow-up to Seth's question earlier, I mean, aerospace is still largely duopoly and therefore both Boeing and Airbus are important customers. But you've got programs like the 787 and the A350 that have been negative free cash flow for over a decade now. And you've got additional pressures with the A220 and even defense. With costs continuing to increase with labor and supply chain still kind of fragile in some spots, I mean, [ph] more pain (00:53:06) seems to be unsustainable. Like at what point do you go back to the customer? I mean, despite their importance and renegotiate pricing? And if they're not willing to negotiate, like what's your walk-away point of returning some of these programs back to your customers?

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02-Aug-2023**Thomas C. Gentile III***President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.*

A

Yeah, well, Kristine, you raise very good points, and it's a situation that exists both on the commercial side and on the defense side with the large primes, is the impact of inflation, especially when you have a fixed price contract, has, is an impact. And as I said, it's a broader industry issue in terms of the fact that there's a huge demand out there right now as air traffic recovers. But there's all these supply constraints. And there's pressures on the supply chain in terms of inflation, in material and labor, logistics and utilities, new build processes, fluctuating schedules. And so I would say the issue is we are under contract, and we are going to meet our contractual commitments to our customers. But really the OEMs and the US government, from a defense standpoint, do have to recognize the environment has changed and it's a highly inflationary environment. And these are very important conversations that we have to have with our customers.

Kristine Tan Liwag*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks, guys. And in terms of getting some of that pricing alleviation, I mean, we're hearing from your peers they're getting better pricing in maturation or even the jet engine supply chain. Is there something different specifically with your long-term agreements that make it more difficult for you to get that pricing increase?

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

A

Our long-term agreements are typical, I would say, of the industry. They're requirements, contracts. We are fortunate that we have these contracts, that our life of program usually sole source. And these are extremely unique contracts and they're on all the best programs. I mean, if you look at the 737, we make 70% of the structure on the 737 for Boeing, including the entire fuselage. On A320, we make about 60% of the structure for the wing with Airbus. We have a huge work package on the A350 with the center fuselage and the fixed leading edge. And on the A220, we make three sections of the center fuselage, the entire wing, including all the systems, and we make the pylon.

So, when you think about the industry and narrow-body aircraft being so important, we have the biggest work packages by far on the narrow-body programs. It's 85% of our backlog. So we feel very fortunate that we have those positions on those contracts. Yes thought, that there has been a big change in the environment with inflation, both in material and labor, utilities and logistics, different build processes, different rates that are still lower than we were overall back in 2019. And so, those are our realities. And the OEMs are fully aware of it. And as I said, these are discussions that we need to be having with the OEMs at this time.

Kristine Tan Liwag*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you very much.

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

A

Thank you.

Operator: Our next question comes from Michael Ciarmoli of Truist Securities. Michael, please go ahead.

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Q

Hey, good morning, guys. Thanks for the question. I guess just staying on Kristine's point with these contracts, I mean, and you're boasting you're on the best programs, but seemingly you're just not getting compensated or paid for the value you're providing. And I guess you're saying some of these things have to be addressed. How receptive are Boeing and Airbus and their sense of urgency? And I mean, do you think you can get something changed here in the shorter term to capture some pricing? And then, I guess, maybe even you still have, I guess, the price step-downs as you go up in volumes. I mean, is that something that you're looking very closely at? I think if you can remind us, I think 42 was sort of the optimal rate for the 737. But once you go above that, you're going to start getting price step-downs. It just seems like you're getting squeezed from all sides here and maybe there should be more urgency. And I get it, running fast to stay still. But that doesn't really sound like a good proposition for shareholders.

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

A

It's a challenging environment, and I think we all recognize that. It's much more inflationary in material and with these new labor contracts. Now you see that in labor as well. And as I've said, it's an industry-wide problem because demand is clearly there. The orders are coming in, production rates are going up, but all suppliers are facing challenges with these higher level of costs. And so it's an important systemic issue that the OEMs do need to address and it's important that we have these conversations with them, and I can't put any sort of timeframe on it. Discussions like these are always difficult and challenging, but it's something that we are prepared to have for the reasons that you just outlined.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

A

Yeah, Michael, I would just add to just try to be clear, there is a sense of urgency by the management team here. Okay? We hear you; we understand. We've got a lot of work to do on this end.

Michael Ciarmoli*Analyst, Truist Securities, Inc.*

Q

Got it. All right. Fair enough. Thanks.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

A

Thank you.

Operator: Our next question comes from Ron Epstein of Bank of America. Ron, please go ahead.

Ronald J. Epstein*Analyst, BofA Securities, Inc.*

Q

Hey, good afternoon. Morning, guys.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*

A

Good morning, Ron.

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02-Aug-2023**Ronald J. Epstein***Analyst, BofA Securities, Inc.*

Q

Maybe the elephant in the room, I'll just bring it up. People have been sort of beating around it. Is there a fundamental change that you have to make in Spirit's business to make it less volatile and just more predictable? Because it always seems like you guys end up on the tail of the whip. A220, A320, 737 they're great programs, like Michael said. But they don't seem to be helping you right now, although they're helping the Oes. You must, I mean, if you can give us some feeling for how you're thinking about strategy and how you could change Spirit to make it a more, I don't want to say viable, but less volatile business that the public markets could view easier, right? Because with things swinging all over the place, it seems like you guys always end up with the short end of the stick and that just doesn't seem fair.

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

A

Yeah. So as I said, it's a challenging environment right now. And on our narrow-body contracts, we have sole-source life of program, and we have great work packages. And those rates are going up. The challenge has really been on some of the wider body contracts, and of the composite programs. So if you look at the three programs that are in forward loss, the 787, the A350 and the A220, those are all composite programs. And that has been more challenging. We've not come down the learning curve as fast as we all thought we would when they first started. And so we do need to have the conversations about how we address that, given the inflationary environment that we're in.

But let me see, you said what can we do to improve and change fundamental changes in Spirit? A lot of it is in our production system. And these are investments we've been making over the last three, four years during the pandemic to improve the flow of our factories, improve digitization and automation and robotics and drive quality in, in a much more fundamental way. And those are going to start to pay dividends as we go up in rate. So you will see that. The other broader thing I would say, you said about strategy is, when we went into the pandemic, we were too concentrated. We were 95% commercial, we were 98% original equipment, we were about 75% Boeing and 50% of our revenue came from MAX. We were too concentrated. And so we've made a concerted effort over the last four years, including during the pandemic, to start to diversify. And that diversification, a big part of it was the acquisition we made from Bombardier in Belfast, Morocco and Dallas to give us more Airbus content, to give us twice as much Aftermarket and 4 times as much business jet.

And so the diversification will start to pay dividends over time. As we've said, we want to be \$1 billion in defense by 2025. We want to be \$500 million in Aftermarket by 2025. And so those are some of the things that we're doing to fundamentally change Spirit, is improving the factory and delivering productivity through all of the different advanced manufacturing issues I said, having discussions with the OEMs about the composite programs and the material system and the challenges that we've incurred over time, and then continuing the diversification of Spirit so that we're less concentrated in the future with a broader exposure to Defense & Space as well as Aftermarket.

Ronald J. Epstein*Analyst, BofA Securities, Inc.*

Q

And I mean, if I may, as a follow-on, when we look at Belfast specifically, has that created any value, I mean to this point? And when would you expect it to do so?

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

A

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It's where we expected it to be. Rates are a little bit lower. And that's driven some of the forward losses. But when we did the program, we knew it was going to be a challenge. We took a purchase accounting charge of about \$375 million through 2025. And we expected that the rates would get up to 14 or 15 by the middle of 2025. Now, that could get pushed out, but that's still what Airbus is saying.

The A220, we think, is a great program. It is a 100 and a 300 right now; take it from about 100 passengers up to 150 passengers. It's got a brand new engine and a geared turbofan. It's a lightweight fuselage and it's a fully composite wing, all of which we make. And so it is a very efficient aircraft. The airlines do like it. I know it's had some operational challenges, which they're working through, and they'll get that right. But it's a great program and someday they might extend it up to a 500, which would take it up to 170 passengers, which would increase the rate even further.

So we made a big bet on the A220 program. We're happy with that bet. We think it's a great strategic program. It's taking a little bit longer to realize, but in the long term, it was a good strategic move. We're happy we did it. It's going to help diversify Spirit because in addition to the A220 program that we got out of Belfast, we also doubled our Aftermarket and we got four times the amount of business jet work. So we think it was a good deal and it'll pay off in the long term.

Ronald J. Epstein*Analyst, BofA Securities, Inc.*

Q

Got it. Thank you.

Operator: Our final question comes from Peter Arment of Baird. Peter, the line is yours.

Peter J. Arment*Analyst, Robert W. Baird & Co., Inc.*

Q

Yeah, thanks. Good afternoon, Tom and Mark. Hey, Mark, maybe I'll just try to end on a positive note. Aftermarket mix, or the margins, was very strong this quarter. Just any one-times to call out or was it just mix, and how sustainable is it? Thanks again, Mark.

Mark J. Suchinski*Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.*


A

Hey, thanks, Peter, and good to hear from you. We're really happy with Aftermarket. It continues to grow. It's hitting our revenue targets for the year. It's performing from an operational delivery performance margin perspective, and we've talked about it being a 20-plus-percent margin business. There are a couple of small things that happened in the second quarter that won't repeat when we think about the third and fourth quarter. But the team's executing. I want to congratulate our aftermarket team. They're hitting their big revenue goals for the year. They're performing well for the customers. We continue to grow geographically and expand our portfolio. And so we're really pleased with that. And as we move through the balance of the year, we're going to continue to drive execution and hit the 20-plus-percent margins.

And as Tom talked about, we're right on track, \$500 million, 20-plus-percent margins. And although it doesn't seem as large as our Commercial business, it's going to be a nice contributor as we grow over the next couple years. So, Peter, appreciate you asking the question. We're happy with the team. We're hitting the marks and we are very, very focused on continuing growing that business and making sure that it produces accretive margins.

Spirit AeroSystems Holdings, Inc. (SPR)

Q2 2023 Earnings Call

 Corrected Transcript
02-Aug-2023

Peter J. Arment

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

Thanks, Mark.

Q

Mark J. Suchinski

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

Thank you.

A

Operator: We have no further questions on the line. With that, this concludes today's call. Thank you for joining. You may now disconnect.

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