# Exhibit 12

EQUITY RESEARCH

RBC Capital Markets

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# Spirit AeroSystems Holdings, Inc.

## Capitulation on lower FCF and delivery outlook, increased 2024-2025 uncertainty; maintain SP, PT to $26

**Our view:** Spirit AeroSystems (SPR) reported lower than expected results in 2Q23, also lowering their FY23 delivery and FCF outlooks. The FCF outlook is now for a use of ($200M)-($250M) with deliveries on the 737 MAX expected between 370-390 aircraft (25 unit reduction in-line with expectations). The company remains squeezed on margins, as the new IAM contract and increased supply chain costs have put additional pressure on program margins. The results, and lower visibility on 2024-2025 FCF, contributed to the ~27% sell-off. We are not, however, buying on the pullback, and we maintain our SP rating, PT to $26 (from $32).

### Key points:

**Spirit reported a use of FCF of ($211M) in 2Q23. FCF in the quarter includes $50M in customer advances as well.** With FCF a use of ($280M) in 1H23, the updated FCF guidance assumes break-even FCF in 2H23, which we view as optimistic. The company took forward losses of $105M in the quarter associated with the new IAM contract and increased supply chain costs on the Boeing 787, Airbus A350, and Airbus A220 programs. Fundamentally, the company's business composition and margin profile is under pressure from investors, in our view. We believe the continued forward losses taken and the push to the right on FCF generation and debt repayment are a large part in today's stock move.

**SPR recorded $23M of contra revenue associated with a potential claim from Boeing (BA) on 737 vertical fin re-work.** SPR estimates that Boeing has completed about half of the rework associated with its MAX inventory (150 aircraft), which implies a cost over $300k/aircraft. SPR has indicated that it has completed the rework associated with the aircraft that it had in Wichita. However, there are still ~500 aircraft in the current fleet, and half of the inventory at Boeing's facility, that will still require re-work.

**The update to the MAX delivery guide assumes production of 35/month in 2H23.** The company reduced its MAX delivery guidance to 370-390 aircraft for FY23, as the IAM contract negotiation and work stoppage had an impact to the delivery schedule. SPR is currently transitioning to 38/month on the 737, and continues to see another move to 42/month by early 2024. Considering the higher costs at SPR and incremental disruption risk, we see greater risk now to the planned production rate increases.

**Sentiment on SPR has been improving into the results on the back of Boeing's strong 2Q23 results.** However, we believe the incremental uncertainty on the potential 2024-2025 FCF and margin improvement has been the most important headwind for sentiment on the stock. We would not be buying the dip until we had better confidence in the production rate increases and the 2024 FCF upside. The company is also facing greater credit pressure considering the upcoming maturities and lower FCF.

## Sector Perform

NYSE: SPR; USD 22.86

**Price Target USD 26.00 ↓ 32.00**

| WHAT'S INSIDE | |
|---|---|
| ☐ Rating/Risk Change | ☑ Price Target Change |
| ☐ In-Depth Report | ☑ Est. Change |
| ☐ Preview | ☑ News Analysis |

### Scenario Analysis*

| Downside Scenario | Current Price | Price Target | Upside Scenario |
|---|---|---|---|
| 20.00 | 22.86 | 26.00 | 55.00 |
| ↓ 12% | | ↑ 14% | ↑ 141% |

*Implied Total Returns

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 105.7 | Market Cap (MM): | 2,416 |
| Dividend: | 0.04 | Yield: | 0.2% |
| | | Avg. Daily Volume: | 2,208,255 |

### RBC Estimates

| FY Dec | 2021A | 2022A | 2023E | 2024E |
|---|---|---|---|---|
| Revenue | 3,953.0 | 5,029.6 | 5,889.1 | 6,975.3 |
| Prev. | | | 5,916.4 | 7,008.1 |
| EPS, Adj Diluted | (3.46) | (2.81) | (3.82) | 0.22 |
| Prev. | | | (2.86) | 0.50 |
| P/AEPS | NM | NM | NM | NM |
| EBITDA, Adj | 338.4 | 393.2 | 309.1 | 608.2 |
| Prev. | | | 387.6 | 645.0 |

| Revenue | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| 2022 | 1,174.7A | 1,257.9A | 1,276.9A | 1,320.1A |
| 2023 | 1,431.4A | 1,364.7A | 1,512.1E | 1,580.9E |
| Prev. | | 1,343.1E | 1,541.5E | 1,600.3E |
| 2024 | 1,630.1E | 1,823.3E | 1,720.9E | 1,801.0E |
| Prev. | | 1,799.6E | 1,754.9E | 1,823.5E |
| **EPS, Adj Diluted** | | | | |
| 2022 | 0.03A | (1.21)A | (0.15)A | (1.46)A |
| 2023 | (1.69)A | (1.46)A | (0.57)E | (0.10)E |
| Prev. | | (0.73)E | (0.34)E | (0.12)E |
| 2024 | (0.24)E | 0.07E | 0.09E | 0.30E |
| Prev. | (0.10)E | 0.08E | 0.14E | 0.38E |

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

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**For Required Conflicts Disclosures, see page 11**

## SPR 2Q23 highlights

Spirit AeroSystems (SPR) reported 2Q23 adjusted EPS of ($1.46) compared to our estimate of ($0.73) and consensus of ($0.91). Consolidated revenue was up 9% at $1.37B. Commercial grew 5% YoY with Defense & Space up 30% and Aftermarket up 15%. However, the focus in the quarter was the company's margin profile and its outlook on free cash flow. Cost of sales was ~$1.4B, exceeding revenue and pushing the margins negative. Net forward losses continue to build for the company, as the new IAM contract and increased supply chain costs pushed the 2Q23 charges to $105M.

SPR did highlight that it finished the re-work on the MAXs that they had in inventory in Wichita, adding that Boeing has completed about half of their respective re-work. The company announced $23M of contra revenue associated with a potential claim from Boeing on the 737 vertical fin. The $23M was suggested by company management as being at the low end of estimates, however it implies a cost per plane of over $300k. Notably, there are an additional ~500 aircraft currently in the fleet that could also need the re-work, creating additional FCF headwinds and uncertainty. We believe the strong stock reaction to the 2Q23 results illustrates that investor confidence in the FCF outlook has significantly diminished.

FCF in the quarter was a use of ($211M), which also included a $50M customer advance. Management lowered the FCF guidance for FY23 to a use of ($200M) – ($250M), down $100M from the 1Q23 expectations. With the increased cash burn, we anticipate further sentiment erosion on the stock as the debt paydown shift further to the right. FCF expectations for 3Q and 4Q are for roughly breakeven FCF per management's guidance, but we believe this guide could be optimistic. We have revised our 2023 and 2024 FCF estimates to now a use of ($256M) and ($17M) respectively.

### Exhibit 1 - SPR 2Q23 snapshot

| Spirit AeroSystems variance table | | | | | | | |
|---|---|---|---|---|---|---|---|
| In $M, excpet EPS | Reported 2Q22 | Reported 2Q23 | Consensus Est 2Q23 | RBC Est 2Q23 | Y-o-Y Change | Consensus vs. Actual % | RBC vs. Actual % |
| **Segment Revenues** | | | | | | | |
| Commercial | $1,031 | $1,083 | $1,034 | $1,083 | 5.0.% | 4.8.% | 0.0.% |
| Defense & Space | $146 | $190 | 177 | 164 | 29.5.% | 7.2.% | 15.6.% |
| Aftermarket | $80 | $92 | 95 | 96 | 14.6.% | (2.8%) | (4.5%) |
| **Total Segment Revenues** | **$1,258** | **$1,365** | **$1,305** | **$1,343** | **8.5.%** | **4.6.%** | **1.6.%** |
| **Adj. Segment Operating Income** | | | | | | | |
| Commercial | $22 | $39 | $2 | $27 | 74.3.% | 1,659.1.% | 43.0.% |
| Defense & Space | 18 | 21 | 20 | 18 | 15.0.% | 6.2.% | 14.8.% |
| Aftermarket | 12 | 24 | 20 | 19 | 105.9.% | 24.0.% | 25.9.% |
| **Total Segment Operating Income** | **$52** | **$84** | **$41** | **$64** | **61.0.%** | **102.7.%** | **30.0.%** |
| Unallocated costs | ($85) | ($84) | ($82) | ($81) | 1.5.% | 2.8.% | 3.5.% |
| **Total Operating Income** | **($33)** | **($0)** | **($42)** | **($17)** | **99.7.%** | **(99.8%)** | **99.4.%** |
| **Adj. Operating Margins** | | | | | | | |
| Commercial | 2.2% | 3.6% | 0.2% | 2.5% | 142 bps | 336 bps | 107 bps |
| Defense & Space | 12.3% | 10.9% | 11.0% | 11.0% | -138 bps | -11 bps | -8 bps |
| Aftermarket | 14.7% | 26.4% | 20.7% | 20.0% | 1171 bps | 571 bps | 638 bps |
| **Total Segment Operating Margin** | **4.1%** | **6.1%** | **3.2%** | **4.8%** | **200 bps** | **297 bps** | **134 bps** |
| **Earnings Per Share (adjusted)** | **($1.21)** | **($1.46)** | **($0.91)** | **($0.73)** | **(20.9%)** | **(60.6%)** | **(101.4%)** |

Source: Company reports, FactSet, and RBC Capital Markets estimates

The net forward losses continue to surround the Boeing 787, Airbus A350, and Airbus A220 programs. Respectively, they each saw net forward loses of $37.5M, $27.5M, and $27.4M. Much of the commentary on today's investor call focused on the profitability of these programs and whether Spirit could go to Boeing and Airbus to renegotiate pricing. Given the current supply chain environment and the company's fixed-price, life of program contracts, we do not believe they are likely to see near-term pricing relief. We instead believe Boeing and Airbus are likely to continue to contribute customer advances, allowing Spirit to benefit only as production rates improve.

The company delivered 342 total shipsets in the quarter – 100 for Boeing, 188 for Airbus, and 54 for business and regional jets. Notably, the company delivered 74 737s, 10 787s, and 152 A320s. Management mentioned that the company is transitioning to a rate of 38/month on the MAX and is expecting to climb to 42/month by early 2024.

With the delays and stoppage of work in their Wichita facility, SPR lowered the delivery guidance of the 737s to 370 – 390 aircraft for FY23. They have otherwise maintained the rest of their delivery outlook across the other programs. Given the recent disruptions in the quarter, we now see additional risk to the planned rate increases across the key aircraft programs.

Exhibit 2 - SPR delivery model

| Spirit AeroSystems Ship Set Deliveries Model | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | | 2023E | | | | | 2024E | | | | |
| | Mar-22 | Jun-22 | Sep-22 | Dec-22 | FY22 | Mar-23 | Jun-23 | Sept-23E | Dec-23E | FY23E | Mar-24E | Jun-24E | Sept-24E | Dec-24E | FY24E |
| Delivery Analysis | | | | | | | | | | | | | | | |
| B737 | 60 | 71 | 69 | 81 | 281 | 95 | 74 | 100 | 115 | 384 | 110 | 120 | 125 | 140 | 495 |
| B747 | 1 | - | - | - | 1 | - | - | - | - | - | - | - | - | - | - |
| B767 | 8 | 8 | 7 | 8 | 31 | 8 | 9 | 10 | 9 | 36 | 8 | 8 | 8 | 8 | 32 |
| B777 | 5 | 6 | 8 | 7 | 26 | 7 | 7 | 6 | 7 | 27 | 6 | 6 | 7 | 7 | 26 |
| B787 | 3 | 4 | 6 | 7 | 20 | 6 | 10 | 12 | 15 | 43 | 12 | 16 | 18 | 20 | 66 |
| **Total Boeing** | **77** | **89** | **90** | **103** | **359** | **116** | **100** | **128** | **146** | **490** | **136** | **150** | **158** | **175** | **619** |
| A220 | 18 | 16 | 12 | 14 | 60 | 13 | 14 | 22 | 24 | 73 | 20 | 22 | 24 | 32 | 98 |
| A320 family | 155 | 147 | 145 | 144 | 591 | 142 | 152 | 135 | 154 | 583 | 158 | 178 | 170 | 188 | 694 |
| A330/340 | 6 | 6 | 8 | 8 | 28 | 9 | 9 | 8 | 12 | 38 | 8 | 8 | 6 | 10 | 32 |
| A350 | 15 | 11 | 11 | 11 | 48 | 12 | 13 | 15 | 18 | 58 | 14 | 18 | 16 | 22 | 70 |
| A380 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total Airbus** | **194** | **180** | **176** | **177** | **727** | **176** | **188** | **180** | **208** | **752** | **200** | **226** | **216** | **252** | **894** |
| **BizJets, Reg Jets** | 50 | 49 | 50 | 63 | 212 | 54 | 54 | 58 | 60 | 226 | 60 | 66 | 70 | 76 | 272 |
| Bombardier Acquisision | | | | | | | | | | | | | | | |
| **Total Spirit** | **321** | **318** | **316** | **343** | **1,298** | **346** | **342** | **366** | **414** | **1,468** | **396** | **442** | **444** | **503** | **1,785** |

Source: Company reports and RBC Capital Markets estimates

## Valuation

We are maintaining our Sector Perform rating and lowering our price target to $26. Our price target now reflects lower expectations post the 2Q23 earnings print with lower delivery and FCF expectations. Weighing on sentiment is the re-work on the MAXs, the FCF generation outlook, and the timing with which SPR will likely be able to pay down its debt in our view. Our price target is based on the blend of a 10.5x EBITDA and 32x EPS multiple applied to our updated 2024 estimates. With depressed earnings outlook on lower margins, we believe our multiples support our Sector Perform rating.

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## Spirit AeroSystems Income Statement Model, $M (December 31 Fiscal Year-end)

| | 2021 | 2022 | 2023E | | | | | 2024E | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY 21 | FY 22 | Mar-23 | Jun-23 | Sep-23E | Dec-23E | FY 23E | Mar-24E | Jun-24E | Sep-24E | Dec-24E | FY 24E |
| **NET SALES** | **$3,953** | **$5,030** | **$1,431** | **$1,365** | **$1,512** | **$1,581** | **$5,889** | **$1,630** | **$1,823** | **$1,721** | **$1,801** | **$6,975** |
| Cost of Sales | 4,071 | 4,981 | 1,432 | 1,396 | 1,482 | 1,496 | 5,805 | 1,518 | 1,675 | 1,572 | 1,631 | 6,396 |
| **GROSS PROFIT** | **(118)** | **49** | **($1)** | **($31)** | **$31** | **$85** | **84** | **$112** | **$148** | **$149** | **$170** | **579** |
| Operating Expenses | | | | | | | | | | | | |
| Selling, general and administrative | 280 | 279 | 77 | 71 | 65 | 65 | 278 | 65 | 60 | 60 | 60 | 245 |
| Severe weather, restructuring | 8 | 0 | 6 | 6 | - | - | 12 | | | | | - |
| Research and Development | 53 | 50 | 11 | 13 | 12 | 11 | 47 | 10 | 11 | 13 | 12 | 46 |
| **Total operating expenses** | **4,412** | **5,311** | **1,527** | **1,485** | **1,559** | **1,572** | **6,142** | **1,593** | **1,746** | **1,645** | **1,703** | **6,687** |
| **OPERATING INCOME** | **($459)** | **($281)** | **($95)** | **($120)** | **($46)** | **$9** | **($253)** | **$37** | **$77** | **$76** | **$98** | **$288** |
| Interest expense and fee amortization | (243) | (244) | (72) | (74) | (70) | (70) | (286) | (70) | (70) | (65) | (61) | (266) |
| Interest income | - | - | 0 | 0 | 0 | 0 | - | 0 | 0 | 0 | 0 | - |
| Other income, net | 147 | (14) | (117) | (10) | 10 | 15 | (102) | 2 | 2 | 1 | 2 | 7 |
| **INCOME BEFORE TAXES** | **($555)** | **($539)** | **(285)** | **(204)** | **(106)** | **(46)** | **($641)** | **(31)** | **9** | **12** | **39** | **$29** |
| Income tax benefit (provision) | 17 | (5) | 4 | (3) | 21 | 9 | 32 | 6 | (2) | (2) | (8) | (6) |
| **Income (loss) before equity in affiliate loss** | **($538)** | **($545)** | **(281)** | **(207)** | **(85)** | **(37)** | **($610)** | **(25)** | **7** | **9** | **31** | **$23** |
| Equity in affiliate net loss | (3) | (1) | (1) | 1 | (1) | (0) | (1) | 0 | 0 | 0 | 0 | - |
| **NET INCOME** | **(541)** | **(545)** | **(281)** | **(206)** | **(86)** | **(37)** | **(611)** | **(25)** | **7** | **9** | **31** | **23** |
| **NET EARNINGS PER SHARE** | | | | | | | | | | | | |
| Adjusted EPS (one-time items) | ($3.46) | ($2.81) | ($1.69) | ($1.46) | ($0.57) | ($0.10) | ($3.82) | ($0.24) | $0.07 | $0.09 | $0.30 | $0.22 |
| **Shares Outstanding** | | | | | | | | | | | | |
| Diluted | 104 | 105 | 105 | 105 | 105 | 105 | 105 | 105 | 105 | 106 | 106 | 105 |
| | FY 21 | FY 22 | Mar-23 | Jun-23 | Sep-23E | Dec-23E | FY 23E | Mar-24E | Jun-24E | Sep-24E | Dec-24E | FY 24E |
| Margin Analysis | | | | | | | | | | | | |
| Cost of sales | 103.0% | 99.0% | 100% | 102% | 98% | 95% | 98.6% | 93% | 92% | 91% | 91% | 91.7% |
| Gross profit | (3%) | 1% | (0%) | (2%) | 2% | 5% | 1% | 7% | 8% | 9% | 9% | 8% |
| SG&A | 7% | 6% | 5% | 5% | 4% | 4% | 5% | 4% | 3% | 3% | 3% | 4% |
| Operating profit | (12%) | (6%) | (7%) | (9%) | (3%) | 1% | (4%) | 2% | 4% | 4% | 5% | 4% |
| Incremental margin | 65% | 17% | 39% | 38% | 50% | 80% | 3% | 57% | 21% | 1% | 28% | 50% |
| Pretax | (14%) | (11%) | (20%) | (15%) | (7%) | (3%) | (11%) | (2%) | 1% | 1% | 2% | 0% |
| Effective tax rate | 3% | (1%) | 2% | (1%) | 20% | 20% | 5% | 20% | 20% | 20% | 20% | 20% |
| R&D as % of sales | 1.3% | 1.0% | 0.7% | 1.0% | 0.8% | 0.7% | 0.8% | 0.6% | 0.6% | 0.8% | 0.7% | 0.7% |
| Year-over-Year change (%) | | | | | | | | | | | | |
| Sales | 16% | 27% | 22% | 8% | 18% | 20% | 17% | 14% | 34% | 14% | 14% | 18% |
| Operating profit | (44%) | (39%) | 125% | 15% | (1,133%) | (106%) | (10%) | (139%) | (164%) | (263%) | 1,011% | (214%) |
| Net profit | (38%) | 1% | 433% | 69% | (32%) | (85%) | 12% | (91%) | (104%) | (111%) | (184%) | (104%) |
| Adjusted EBITDA calculation | | | | | | | | | | | | |
| Adjusted EBIT | ($4) | $44 | $27 | ($0) | ($46) | $9 | ($11) | $37 | $77 | $76 | $98 | $288 |
| D&A | $343 | $349 | $82 | $80 | $79 | $79 | $320 | $80 | $80 | $80 | $80 | $320 |
| **Adjusted EBITDA** | **$338** | **$393** | **$108.4** | **$80** | **$33** | **$88** | **$309** | **$117** | **$157** | **$156** | **$178** | **$608** |
| EBITDA Margin (%) | 8.6% | 7.8% | 7.6% | 5.8% | 2.2% | 5.6% | 5.2% | 7.2% | 8.6% | 9.0% | 9.9% | 8.7% |

Source: Company reports, RBC Capital Markets estimates

## Spirit AeroSystems Holdings Balance Sheet Model, $M (December 31 Fiscal Year-end)

| | FY 2020 Dec-20 | FY 2021 Dec-21 | FY 2022 Dec-22 | FY 2023E Dec-23 | FY 2024E Dec-24 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | $1,873 | $1,479 | $659 | $647 | $371 |
| Restricted cash | 0 | 0 | 0 | - | - |
| Accounts receivable, net | 484 | 462 | 490 | 485 | 535 |
| Current portion of long-term receivable | - | - | - | - | - |
| Inventory, net | 1,422 | 1,383 | 1,471 | 1,476 | 1,481 |
| Contract assets | 368 | 443 | 501 | 526 | 576 |
| Other current assets | 336 | 40 | 38 | 23 | 8 |
| **Total current assets** | **$4,485** | **$3,806** | **$3,158** | **$3,167** | **$2,965** |
| Property, Plant, Equipment, net | 2,504 | 2,386 | 2,206 | 2,006 | 1,821 |
| Long-term receivable | - | - | - | - | - |
| Goodwill, intangibles, Other | 781 | 836 | 842 | 775 | 775 |
| Pension assets | 456 | 533 | 197 | 107 | 82 |
| Deferred tax aset, non current | 0 | 0 | 5 | 5 | 5 |
| Others | 159 | 177 | 258 | 203 | 253 |
| **Total Assets** | **8,384** | **7,737** | **6,666** | **6,263** | **5,901** |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | 559 | 720 | 920 | 945 | 905 |
| Accrued expenses | 366 | 376 | 412 | 412 | 412 |
| Profit sharing/deferred compensation | 57 | 64 | 41 | 41 | 41 |
| Current portion of LT debt | 341 | 50 | 54 | 20 | 20 |
| Deferred revenue | 22 | 73 | 22 | 22 | 22 |
| Deferred grant income liability - current | - | - | - | - | - |
| Advances short-term | 19 | 138 | 25 | 25 | 25 |
| Contract liabilities, short term | 98 | 98 | 111 | 100 | 100 |
| Forward loss provision, short term | 185 | 245 | 306 | 225 | 225 |
| Income taxes | - | - | - | - | - |
| Other-short term liabilities | 64 | 113 | 63 | 63 | 63 |
| **Total Current Liabilities** | **$1,709** | **$1,876** | **$1,953** | **$1,852** | **$1,812** |
| Long-Term Debt | 3,533 | 3,743 | 3,815 | 3,765 | 3,690 |
| Advance payments | 327 | 201 | 200 | 200 | 200 |
| Pension/OPEB obligation | 440 | 75 | 25 | 25 | 25 |
| Contract liabilities, long term | 372 | 289 | 245 | 220 | 170 |
| Forward loss provision, long term | 561 | 522 | 369 | 525 | 525 |
| Deferred grant income liability | 28 | 26 | 26 | 26 | 26 |
| Deferred revenue, other deferred credits | 39 | 32 | 49 | 49 | 49 |
| Other Non-Current Liabilities | 504 | 503 | 227 | 227 | 227 |
| Deferred tax liability, non-current | 13 | 22 | 1 | 10 | 10 |
| **Total Liabilities** | **7,527** | **7,289** | **6,910** | **6,899** | **6,734** |
| **STOCKHOLDERS EQUITY** | | | | | |
| **Total Shareholders Equity** | **857** | **449** | **(244)** | **(636)** | **(833)** |
| **Total Liabilities and Stockholders Equity** | **$8,384** | **$7,737** | **$6,666** | **$6,263** | **$5,901** |

| Financial Management Analysis | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 |
|---|---|---|---|---|---|
| Total debt | $3,874 | $3,792 | $3,869 | $3,785 | $3,710 |
| Total capital (equity + preferred + debt) | $4,731 | $4,241 | $3,625 | $3,149 | $2,877 |
| Total debt to capital | 81.9% | 89.4% | 106.7% | 120.2% | 128.9% |
| Net debt (debt - cash) | $2,000 | $2,314 | $3,210 | $3,138 | $3,339 |
| Net debt to total capital | 42.3% | 54.6% | 88.6% | 99.6% | 116.0% |
| Nebt debt to equity | 233.4% | 515.5% | -1316.7% | -493.4% | -401.1% |

Source: Company reports, RBC Capital Markets estimates

## Spirit AeroSystems Statement of Cash Flows Model, $M (December 31 Fiscal Year-end)

| | FY 2020 | FY 2021 | FY 2022 | FY 2023E | FY 2024E |
|---|---|---|---|---|---|
| | FY 20 | FY 21 | FY 22 | FY 23E | FY 24E |
| **OPERATING ACTIVITIES** | | | | | |
| **Net income** | **($870)** | **($541)** | **($546)** | **($611)** | **$23** |
| Adjustments to reconcile net income with cash from operations | | | | | |
| Depreciation expense | 278 | 328 | 337 | 305 | 305 |
| Amortization expense | 20 | 15 | 12 | 15 | 15 |
| **Total D & A** | **$298** | **$343** | **$349** | **320** | **$320** |
| Accretion of long-term receivable | 2 | 4 | 2 | - | - |
| Employee stock compensation expense | 24 | 26 | 37 | 15 | 15 |
| Gain from foreign currency transactions | 25 | (5) | (19) | 10 | - |
| Loss on disposition of assets | 26 | 4 | 1 | - | - |
| Deferred taxes | 94 | (5) | 9 | (10) | 15 |
| Long-term tax benefit | 2 | - | - | - | - |
| Pension and other post retirement benefits, net | 45 | (109) | 37 | 90 | 25 |
| Grant income | (4) | (2) | (2) | - | (15) |
| Other, net | 221 | (8) | (93) | 5 | (55) |
| Changes in assets and liablities, net of impact of acquis | - | - | - | - | - |
| Accounts receivable, net | 168 | 52 | (37) | 5 | (50) |
| Contract assets | 168 | (71) | (64) | (25) | (50) |
| Inventory, net | (40) | 31 | (118) | (5) | (5) |
| Other current assets | - | - | - | - | - |
| Accounts payable and accrued liablities | (593) | 160 | 221 | 25 | (40) |
| Profit sharing/deferred compensation | (28) | 6 | (23) | - | - |
| Customer advances | (21) | 3 | (133) | - | - |
| Income taxes payable | (246) | 302 | 10 | (10) | (15) |
| Deferred revenue and other deferred credits | (40) | (82) | - | - | - |
| Other | 24 | (172) | (25) | 55 | (50) |
| **Net cash provided by operating activities** | **($745)** | **($63)** | **($395)** | **($136)** | **$118** |
| **INVESTING ACTIVITIES** | | | | | |
| Purchase of PP&E | (119) | (151) | (122) | (120) | (135) |
| Proceeds from sales of assets | - | - | - | - | - |
| Acquisition of business, net of cash | (389) | (21) | (31) | - | - |
| Other | 5 | 8 | (3) | - | - |
| **Net cash used in investing activities** | **($502)** | **($164)** | **($156)** | **($120)** | **($135)** |
| **FINANCING ACTIVITIES** | | | | | |
| Proceeds from revolving credit facility | - | - | - | - | - |
| Payments on revolving credit facility | (800) | - | - | - | - |
| Customer financing | | | - | | |
| Proceeds from issuance of debt | 2,100 | 600 | 900 | - | - |
| Principal payments of debt | (32) | (42) | (337) | (50) | (75) |
| Payments on term loan | (440) | (402) | (6) | - | - |
| Payments on bonds | - | (300) | (779) | - | - |
| Proceeds from government grants | - | - | - | 280 | (180) |
| Taxes paid related to net share settlement awards | (15) | (5) | (7) | - | - |
| Excess tax benefit from share-based payment arrangen | 3 | - | 4 | - | - |
| Debt issuance and financing costs | (32) | (13) | (32) | - | - |
| Purchase of treasury stock | 0 | - | - | - | - |
| Pool of windfall tax benefits | - | - | - | - | - |
| Proceeds from equity issuance | - | 3 | - | - | - |
| Change in restricted cash | - | - | - | - | - |
| Dividends paid | (15) | (4) | (4) | (5) | (5) |
| Executive stock investments | (0) | - | 1 | - | - |
| **Net cash provided by (used in) financing activities** | **$770** | **($164)** | **($261)** | **$225** | **(260)** |
| FX | 3 | (4) | (9) | - | - |
| Change in cash | (474) | (395) | (820) | (31) | (277) |
| Beginning cash | **$2,367** | **$1,893** | **$1,498** | **$678** | **$647** |
| **Ending cash** | **$1,893** | **$1,498** | **$678** | **$647** | **$371** |

| | FY 20 | FY 21 | FY 22 | FY 23E | FY 24E |
|---|---|---|---|---|---|
| Cash Flow Analysis | | | 487.5 | | |
| CapEx to D&A | 0.40 | 0.44 | 0.35 | 0.38 | 0.42 |
| CapEx to sales | 3.5% | 3.8% | 2.4% | 2.0% | 1.9% |
| Free cash flow | ($863.8) | ($213.8) | ($516.2) | ($256.0) | ($16.6) |
| Free cash flow per share | ($8.32) | ($2.05) | ($4.93) | ($2.43) | ($0.16) |
| Free cash flow to sales | (25.4%) | (5.4%) | (10.3%) | (4.3%) | (0.2%) |
| FCF/NI | 99.3% | 39.5% | 94.5% | 41.9% | -71.0% |

Source: Company reports, RBC Capital Markets estimates

# Key fundamental questions

**Our view**

**What is the production outlook for the 737 MAX?**

SPR has been particularly hard hit by the reduction in MAX production rates. The company is currently stabilizing Boeing 737 MAX production at 31/month with a new push to 38/month. Even with the issues associated with the vertical fin re-work, the company has indicated that it plans to move production up to 38/month in August 2023, and then to 42/month in October 2023. SPR expects to have worked down the Boeing MAX inventory to ~20 aircraft by 2024. We expect SPR will look to move 737 MAX production rates closer to 52/month by late-2024. SPR was capitalized to produce at a rate of 57/month prior to the MAX grounding and subsequent COVID slowdown. We currently model ~375 MAX deliveries for SPR in 2023.

**What is the margin upside as volumes recover?**

Prior to the current downturn, SPR's adjusted operating margins were 16.2% in both 2016 and 2017. We see greater risk in 2023 as the company brings back costs to support the rate increases on most programs and faces ongoing supply chain and labor risks, but should benefit from its recent efficiency improvements, supplier cost actions and some cost discipline into 2023 and 2024. The work stoppage in June-July 2023 has added to the cost and schedule pressure. The company has previously indicated that at MAX rates of 42/month it will be in a position to hit or exceed its prior peak margins of 16.5%.

**Is there upside to the long-term 7%-9% of sales FCF guidance with the lower 2023 outlook?**

We believe the reduction in the 2023 FCF guidance was the most disappointing aspect of the 2Q23 results for investors. The company is now guiding to a use of ~$225M in 2023 FCF. Note the FCF guidance excludes the expected ~$280M in customer advances. SPR has taken an estimated ~$1B in costs out of its operations, which should contribute to the potential for longer-term FCF upside. As volumes continue to increase on commercial programs, the company should see substantial FCF growth in 2024-2025, and we currently model in positive FCF in 2024, which is consistent with company guidance. However, the recent quality issues on the Boeing 737 MAX, work stoppage, and other supply chain issues, have limited visibility on the long-term normalized FCF outlook.

**How successful has the company been with its diversification efforts?**

One of the primary headwinds for sentiment on SPR stock has been the company's revenue concentration with Boeing. There is a perception among investors that SPR has very little leverage in its relationship with Boeing. As a result, SPR has focused on diversifying its revenues. As the result of its re-segmentation efforts, the company is further trying to diversify into defense and the commercial aftermarket. Its recent Bombardier asset acquisition will also help it expand its presence in business jets. Eventually management hopes to get to a revenue mix of 40% commercial aero, 40% defense and 20% aftermarket.

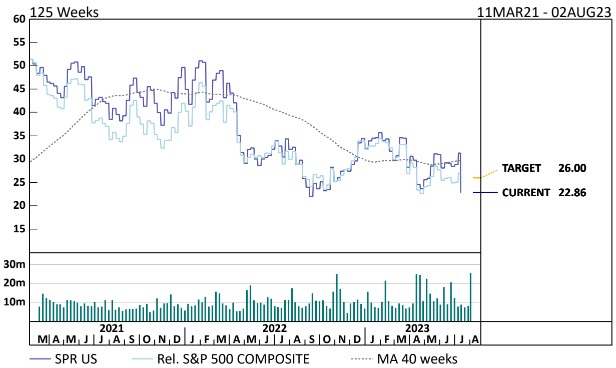
# Key ESG questions

*This section is intended to highlight key ESG discussion points relevant to this company, as well as our views on the outlook. Both the questions we highlight and our responses will evolve over time as the dialogue between management, analysts and investors continues to advance. We welcome any feedback on the topics.*

| | Our view |
|---|---|
| **What are the most material ESG issues facing Spirit AeroSystems?** | As a supplier primarily into the commercial aerospace market, the most important ESG issues faced by Spirit AeroSystems (SPR) include decarbonization of the aviation industry, energy and waste management, and issues associated with social capital and community involvement. Moreover, while SPR is not directly responsible for the issues associated with the MAX, or more recently, with the 787, it is important for the company to stress quality and product safety as part of its broader ESG strategy. SPR is also involved in promoting ESG initiatives at its global supply chain. |
| **Does Spirit AeroSystems integrate ESG considerations into its strategy?** | We believe SPR has demonstrated a stronger commitment to ESG than most other A&D suppliers. For example, we believe SPR's investment in composite manufacturing capabilities point to its efforts regarding decarbonization in the broader aviation market. SPR BoD's Governance committee has oversight for ESG related matters.<br><br>In terms of the environment, SPR provides detailed disclosures on its water, waste, emissions, energy, resource efficiency, and biodiversity. In areas where it has more direct control, SPR has been demonstrating a leadership position with its ESG strategy.<br><br>Through an agreement with Evergy, SPR is on track in 2021 to power its entire 12M square foot facility in Wichita entirely from wind power. SPR is also a very large recycler of water. Each 737 fuselage produced by SPR requires nearly one million gallons of water. Through its reverse osmosis systems, SPR can recycle up to 2 million gallons of water a day when at full production. As a final example, SPR hosted a household hazardous waste day in 2020 which allowed any local resident to drop off hazardous waste at SPR's facility free of charge.<br><br>SPR has published sustainability targets in terms of emissions, minority and female leadership, industrial and hazardous waste generation, and to have 100% of its employees covered by the ISO 45001 certification. |
| **What is diversity like at board / management level?** | In 2021, for all SPR employees 17% are women, and 24% of leadership is also represented by women. For SPR approximately 25% of total employees are minorities, and 16% of management are represented by minorities. SPR has published a goal of having 30% and 20% of its 2025 senior management represented by women and minorities, respectively. Of SPR's 10 member BoD, eight directors are classified as independent and two are women. |
| **How can the company expand upon its ESG framework?** | We anticipate the company to further its ability to reduce waste while continuing to focus on governmental and social aspects as well. |

## Target/Upside/Downside Scenarios

Spirit AeroSystems Holdings, Inc.




Source: Bloomberg and RBC Capital Markets estimates for Target

### Valuation

Our $26 price target is based on the blend of a 10.5x EBITDA multiple and a 32x EPS multiple, applied to our 2024 estimates. Our price objective is more weighted towards the EBITDA (80/20). We believe multiples at the upper end of historical ranges are appropriate as SPR recovers from the depressed earnings and FCF, and we believe is well positioned to exceed expectations. We believe sentiment on the stock should improve as the global aviation market continues to recover from the impact of COVID-19. We believe sentiment on the stock is troughing, and improvement on upside visibility will be very important for the stock. Moreover, SPR has a greater exposure to domestic travel through its position on the Boeing 737 MAX and the Airbus A220 and A320 programs. Our price target supports our Sector Perform rating.

### Upside scenario

We believe the revenue outlook for SPR will have the most impact on the potential upside. For example, if we model in a faster delivery schedule for key commercial programs, we see potential upside to ~$7.4B in revenues. An EBITDA margin of ~11% implies total EBITDA of ~$800M. An 11.5x multiple on this EBITDA and a 35x multiple on much-improved earnings implies a $55 upside scenario.

### Downside scenario

We believe the revenue outlook for SPR will have the most impact on the potential downside. For example, if we model in a slower delivery schedule for key commercial programs, which implies a slower ramp in the margin improvement, we see potential downside to ~$6.7B in revenues. An EBITDA margin of 8.5% implies total EBITDA of $570M. A ~9.5x multiple on the implied 2024 EBITDA implies a $20 downside scenario.

### Investment summary

SPR is perhaps best known as the supplier of the 737 fuselage. The company was part of Boeing until 2005, when Boeing divested the operations, and it has been public since 2006. The debate on SPR stock focuses on its cash generation and margin outlook as the commercial aerospace market recovers. Investors are also focused on the pace of its revenue growth considering the company's recent diversification efforts and greater exposure to Airbus, defense and business jet (bizjet) markets and its growing aftermarket business.

We believe SPR has demonstrated strong execution through the most recent downturn through its cost management actions and balance sheet work. The company provides investors with exposure to the fast growing narrowbody and bizjet markets with significant upside potential in both margins and FCF, in our view. For SPR, ~80% of its commercial backlog today is for narrowbody aircraft, the segment of the market expected to continue to lead the recovery.

The focus for SPR is on the pace of the 737 MAX inventory workdown and deliveries to Boeing. SPR is currently at 31/month on the 737 MAX. The company now expects to be transitioning to rate 38/month in 3Q23, with a move to 42/month on the 737 program by early 2024. The MAX is the most important source of margin and FCF upside for SPR. At rate 42/month, which we expect in 2024/2025, SPR should be on a 16.5% margin run rate, consistent with prior peak margins. We think a challenge for SPR is the lack of potential upside to the 2023 outlook and incremental supply chain costs, but sentiment on the MAX should continue to improve as delivery visibility on 2024 upside improves.

### Risks to rating and price target

The key risks to our investment thesis and price target objective include the following:

- Production schedules and successful rate breaks for key commercial transport programs
- The timing of the inventory work down at Boeing for the 737 MAX and the 787 and subsequent production schedules
- Airline and lessor financial health and their ability to take delivery of new aircraft
- Airline spending trends on the maintenance, repair and overhaul of aircraft
- The pace of the air travel recovery and the impact of COVID-19 variants on business and leisure air travel
- Business jet travel and the demand for new business jets
- Ability to hire and train the necessary human capital to achieve the growth objectives
- Potential supply chain disruptions and extended lead-times which could impact company, customer or supplier delivery schedules

- Raw material costs and availability
- M&A pipeline and the company's ability to successfully execute and integrate subsequent acquisitions
- The top-line level of defense spending and funding for specific company programs
- Timing of the FY24 defense budget completion and impact of a Continuing Resolution
- Future defense spending priorities and specifically the balance of funding for legacy programs and modernization efforts



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Capital Markets



## Company description

Spirit AeroSystems was incorporated in 2005 through an acquisition of three of Boeing's commercial aero structures operations, and it has been a stand-alone public company since 2006. The company is currently organized into three reporting segments (Fuselage Systems, Propulsion Systems, and Wing Systems) and serves commercial aviation, defense and business jet markets. Spirit AeroSystems is one of the largest manufacturers of aerostructures globally with core expertise in aluminum and advanced composite manufacturing. The company is a key supplier on the Boeing 737 MAX, and has recently broadened its defense, commercial aftermarket and Airbus exposure through acquisitions and organic business development efforts. Spirit AeroSystems is based in Wichita, Kansas. Starting in 4Q21, SPR will begin to report its results along operating segments based on markets: commercial, space and defense, and aftermarket.

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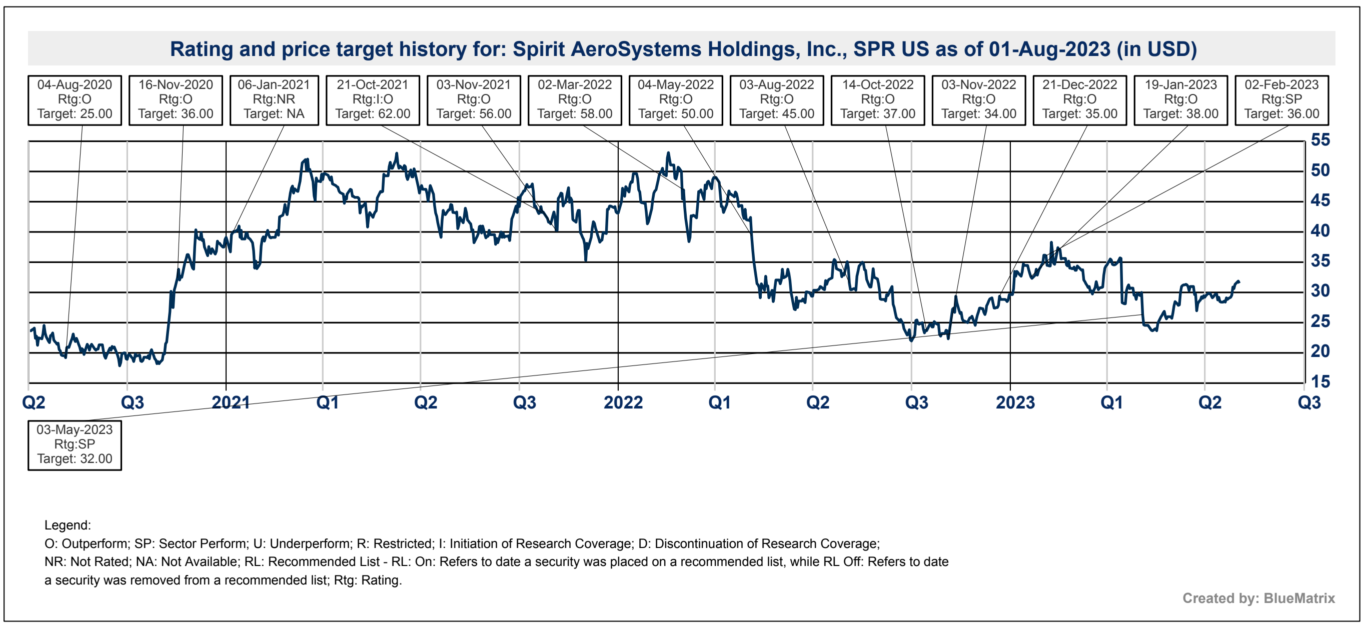
| | | | Investment Banking Serv./Past 12 Mos. | |
|---|---|---|---|---|
| **Rating** | **Count** | **Percent** | **Count** | **Percent** |
| **BUY [Outperform]** | **832** | **57.22** | **250** | **30.05** |
| **HOLD [Sector Perform]** | **573** | **39.41** | **138** | **24.08** |
| **SELL [Underperform]** | **49** | **3.37** | **3** | **6.12** |

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**Spirit AeroSystems Holdings, Inc.**

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