

Exhibit 9

Jefferies

USA | Aerospace & Defense Electronics

Spirit AeroSystems

Equity Research

May 7, 2023

Cash Continues to Spirit Away

Q1 was mixed as the impact of required rework on the MAX is expected to be just \$72MM on our ests in total, less than the ~\$200MM expected. The offset is our EPS falls to (\$1.10) from \$0.20 prior to reflect lower MAX and A320 deliveries and subdued margins, w/ FCF guidance cut as our estimates now factor in a usage of \$131MM. FCF should turn positive in 2024 at \$47MM w/ \$385MM by 2025, or 4.7% of sales vs. the 7-9% target.

Rework Costs Seem to Be Fairly Manageable. The significant area of focus coming into the quarter was the [MAX production issues](#) surrounding the vertical fin fittings. SPR expects just \$5MM of direct rework costs on the 40 fuselages needing work in Wichita, w/ current production units confirming to production standards. In aggregate across units in Wichita, undelivered MAX, and the current fleet, we estimate the total rework cost could be in the \$72MM range, better than the \$200MM we believe buyside expected.

Some Step-Back of Production Ramps. Near term, MAX deliveries are expected to be impacted by rework with expectations of 390-420 MAX deliveries vs. 420 prior, given production line disruptions and a near-term focus on rework. The positive is that rate breaks are largely unchanged with SPR ramping from 31/mo to 38/mo in August with a further break upward to 42/mo in October. We assume 410/504/504 deliveries in 2023/2024/2025. This is in addition to the A320 production rate ramp being tempered, with SPR now expecting 580 deliveries, 85 fewer than last Q, and a decline from 591 in 2022. A320 ramps to 713 (59/mo) by 2025. This supports Comm'l revenue growing at a 19% CAGR on an 11% delivery CAGR. The impact of a slower 2023 ramp / lower margins causes our 2023 EPS to fall to (\$1.10) from \$0.20 prior.

Segment Margins Ramp at a LDD Incremental Margin. SPR had previously stepped back from the 16.5% segment margin target when it reaches 42/mo. Underlying margins in the Q were 11.1%, up from 9.7% a year ago but down 50 bps sequentially. GAAP segment margins of 7.5% in 2023 improve to 11.5% in 2025 (Ex. 13).

FCF Sees Another Cut with Inflection Positive in 2024. SPR had previously guided to 2023 cash flow being slightly better than breakeven, w/ the expectation being a \$100-150MM usage. We forecast \$131MM of usage in 2023 as profitability remains subdued, along w/ w/c a \$55MM outflow and forward losses a \$347MM headwind (ex. \$111MM of new forward losses). Cash improves to \$47MM in 2024 and \$385MM in 2025 (4.6% of sales vs. 7-9% target). The largest driver of FCF is MAX rate ramps as each MAX contributes \$1.5MM of FCF.

Aftermarket and Defense FCF. We est Aftermarket generates \$97MM of EBIT and converts FCF at a 100% rate to \$97MM in 2025 while Defense generates \$121MM of EBIT and converts FCF at a 60% rate to \$73MM in 2025.

Execution Has Created Significant Disct. SPR currently trades at a 14.9% yield on our 2025E FCF of \$385MM, a 60% discount to the S&P vs. 30% pre-pandemic.

(FY Dec)	2022A	2023E	2024E	2025E
Rev. (MM)	5,030.0	6,409.0	7,627.0	8,320.0
P/Rev	0.5x	0.4x	0.3x	0.3x
EBITDA (MM)	68.0	506.0	863.0	972.0
Cons. EPS	(2.81)	0.00	1.79	3.68

TARGET | ESTIMATE CHANGE

RATING	BUY
PRICE	\$24.61 ^A
PRICE TARGET % TO PT	↓\$40.00 (\$45.00) +63%
52W HIGH-LOW	\$39.08 - \$21.14
FLOAT (%) ADV MM (USD)	99.7% 78.87
MARKET CAP	\$2.6B
TICKER	SPR

^APrior trading day's closing price unless otherwise noted.

	CHANGE TO JEF ^e		JEF vs CONS	
	2023	2024	2023	2024
REV	-2%	+3%	NA	NA
EPS	-650%	+3%	NaN%	-16%

2023 (\$)	Q1A	Q2	Q3	Q4	FY
EPS	↓(1.69)	↓(0.33)	0.22	↑0.69	↓(1.10)
PREV	(0.12)	(0.05)		0.16	0.20

Exhibit 1 - FCF as a % of Sales of 4.6% by 2025E vs. LT Target of 7-9%

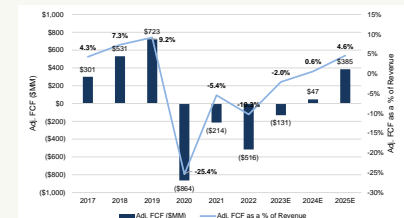


Exhibit 2 - Total Rework Cost Could be in the Range of \$72MM

Type	Count	Cost per Aircraft (\$K)	Total Cost (\$MM)
SPR Fuselages	40	\$125	\$5.0
BA Undelivered	170	\$175	\$29.8
Affected Fleet	500	\$75	\$37.5
Total	710	\$102	\$72.3

Source: Company data, Jefferies estimates

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The Long View: Spirit AeroSystems

Investment Thesis / Where We Differ

- As the low-cost producer of commercial aerostructures, SPR has the ability to take share and expand into adjacent markets, such as defense, with defense revenues expanding at a 17% CAGR through 2025.
- 737 can drive uncertainty near term, but SPR will emerge from the current headwinds a more diversified operator with a more efficient operation.
- SPR offers narrowbody exposure at 72% of 2023 Commercial revenues, while at the same time providing additional growth drivers in the Defense and Aftermarket segments, which expand at a 17% and 112% CAGR through 2025, respectively. Commercial expands at a 19% CAGR, driving a total 18% CAGR through 2025.

Risk/Reward - 12 Month View



Base Case, \$40, +63%

- 2024 revenues increase 19% from 2023 levels w/ 2025 increasing 9%, given a recovery in commercial production rates primarily driven by MAX and A320, as well as 787.
- Segment operating margins of 10.9% in 2024 vs 1.0% in 2022 and operating margins of 6.4% vs -5.6% in 2022.
- FCF of \$385MM in 2025 absorbing \$158MM of forward loss headwinds.
- PT \$40: 1) 7.7X EV/EBITDA (35% discount to S&P vs. 3-year average of 22% discount), and 2) 9.3% FCF Yield (45% discount to S&P vs. 3-year average of 37% discount).

Upside Scenario, \$60, +144%

- 2025 revenues increase 15%, with EBIT margins of 9.0% in 2025 vs our base case of an 9% increase and 7.0%.
- Acceleration of narrowbody recovery and better productivity, along with accelerating growth in aftermarket and program wins in Defense along with alleviation of supply chain headwinds
- The company drives further improvement across core programs, driving higher segment margins.
- No additional program charges; stock trading multiple moves to in line with peers.
- 2025 EBITDA: \$1.05BB; Target Multiple: ~9X; PT \$60

Downside Scenario, \$20, -19%

- 2025 revenue up LSD in 2025 with operating margins of 4.0% vs our base case of 9% increase and 7.0%, due to an extended downturn in commercial OE production, primarily on the MAX as supply chain continues to hamper the production ramp.
- The company takes additional forward losses, fails to gain traction in Defense.
- 2025 EBITDA: \$750MM; Target Multiple: ~7X; PT \$20

Sustainability Matters

Top Material Issue(s): 1) GHG Emissions: Spirit has committed to reducing GHG emissions by 30% between 2019 and 2030. In February 2022, SPR converted its 12 million square foot Wichita facility to 100% wind-generated electricity from local sources, coming from 62 wind turbines as part of the Flat Ridge 3 wind farm through an energy agreement with Evergy. The company's global renewable electricity percentage increased to 75% as a result, with plans to source 100% renewable electricity by 2030.

Company Target(s): 1) Reduce greenhouse gas emissions by 30% by 2030 vs. 2019 levels; **2)** generate 100% of electricity through renewable sources by 2030; **3)** annually reduce 5% of the weight of bulk solid hazardous waste generated per production unit; **4)** increase female representation within leadership roles to 30% by 2025.

Qs to Mgmt: 1) What are SPR's plans for sourcing the remaining 25% of renewable electricity and in what facilities/regions is it needed? **2)** How has hiring and labor availability in the Wichita area trended post-COVID?

[The Five ESG Issues Investors Should Look At When Investing in A&D](#)

Catalysts

- Smooth transition for 737 MAX production ramp and milestones with rate increases. SPR is currently producing at 31/mo w/ planned breaks to 38/mo in Aug and 41/mo in October.
- New defense program wins and ramps (FVL, CH-53K, and B-21).
- Financial transactions that unlock value, including complementary M&A and debt paydown, in addition to accretion from BBD deal.

Investment Considerations

In this report we delve into the following key takeaways:

- 1) Total Revenues Expand at an 18% CAGR Through 2025 Off the 2022 Base
 - a) Commercial Segment - Relying on the MAX for Revenues to Ramp
 - b) Sensitivity to 737 MAX Production Rate
 - c) Expansion of Defense with a Goal of 15% of Normalized Revenue
 - d) Increasing Aftermarket Exposure but Still Fairly Low
- 2) Cost Efficiencies Aid in Margin Recovery but Walking Back the 16.5% Margin Target
- 3) FCF Below the Guide as Working Capital Remains a Usage into 2023
- 4) Price Target and Valuation

1) Total Revenues Expand at an 18% CAGR Through 2025 Off the 2022 Base

a) Commercial Segment - Relying on the MAX for Revenues to Ramp

In terms of production rates, several programs have moved around over the past several quarters. SPR delivered 346 shipsets in Q1, up from 321 in Q1:22, with the increase driven by the 737.

737 MAX (50% of 2023E Commercial Segment Revenue - \$6.8MM Shipset Content) - Production has continued to trend at a reduced rate compared to the 52/mo SPR produced in 2019. In Q1, SPR delivered 95 shipsets, or 32/mo vs. the stated production rate of 31/mo. SPR continues to produce at the stated 31/mo rate, but should see a drop in Q2 deliveries as resources shift to rework. We currently forecast 70 deliveries in Q2, with the balance made up in the second half.

SPR delivered 281 shipsets in 2022, or an average rate of 23/mo. SPR reduced its guide for shipset deliveries in 2023 to 390-420 from 420 prior, which reflects 35/mo at the upper end and 33/mo at the lower end. We forecast 410 fuselages are produced in 2023, with our estimates factoring in total fuselage inventory building to 140 by the end of 2023 from 107 today as SPR goes beyond BA to reach its full-year target. We assume 2024 and 2025 production is in the 42/mo range, which facilitates inventory burning to 158 in aggregate in the channel, which would likely require incremental rate breaks on the BA side above our estimate to keep SPR at elevated rates.

787 (5% of Revenue - \$7MM Shipset Content) - The 787 now has a clearer path to higher rates as BA began delivering the aircraft again in 2022. SPR delivered just 6 shipsets on the 787 in Q1, or a rate of ~2/mo, vs. 3 a year ago. Spirit guided to 40-45 deliveries in 2023, w/ our estimates factoring in 40 deliveries at the lower end of the guide. We factor in a return to the 5/mo rate with 60 in 2024. BA has pointed to a path to get to 10/mo in production by 2025, although we take the more conservative approach factoring in 72 deliveries, or 6/mo.

The lower production rates over the next two years will be a mix positive to the company, as SPR has negative cash flow on a unit-by-unit basis on the 787 program. The risk is that BA's rate continues to lag as it destocks the 100 aircraft left in inventory, which could last into 2024, resulting in future forward charges.

A220 (10% of Revenue - \$7.2MM Shipset Content) - SPR added significant A220 content through the acquisition of the BBD assets, with BBD producing both the wing and components of the fuselages for the A220 out of its Belfast facility. SPR now has \$7.2MM of content on the aircraft. SPR delivered 13 shipsets in Q1, down from 18 a year ago. Our forecast factors in deliveries of 60 in

2022 (5/mo), improving to 78 in 2023 (6.5/mo). There is long-term upside, we believe, as Airbus has pointed to the potential for 14/mo in the middle of the decade vs. our 2025 estimate of 115 (10/mo). During the quarter, SPR recognized \$81MM of forward losses on the program, with \$46MM tied to a supplier bankruptcy and the remaining \$35MM tied to schedule shifts in the out years.

A320 Family (11% of Revenue - \$1MM Shipset Content) - Airbus is in the process of continuing to ramp its rate with a target of 75/mo by the middle of the decade, with SPR delivering 142 shipsets to Airbus in Q1, or a 47/mo implied rate. SPR reduced the full-year guide for A320 shipsets to 580 from 660 prior, or a cut of ~80 aircraft. Deliveries were 591 in 2022, w/ our estimates factoring in deliveries falling to 580 (~48/mo) in 2023 given deliveries ahead of production in 2022 but ramps further to 713 by 2025 (59/mo).

777X/777 (6% of Revenue - \$12MM Shipset Content) - BA is currently producing the 777 at a rate of 3/mo. SPR delivered 7 shipsets in Q1, slightly below the announced rate. BA's plan on the 777 calls for the EIS for the 777X in 2025 w/ the 777F filling in the gap to support 3/mo production rates. Deliveries were 26 in 2022 while we forecast deliveries of 30 in 2023 and 36 in 2024 and 2025.

A350 (5% of Revenue - \$5.1MM Shipset Content) - Airbus is currently producing the A350 at an announced 5/mo rate. SPR delivered 12 shipsets in Q1 (~4/mo), with 48 deliveries in 2022 rising to 60 in 2023 and further acceleration to 70 in 2025.

In aggregate, given narrowbody production rates rising, total shipset deliveries stepped up to 1,297 in 2022, with our estimates factoring in 14% growth to 1,478 in 2023. We are factoring in shipset deliveries expanding at an 11% CAGR through 2025 to 1,797 shipsets, driven by a ramp in MAX, 787 moving up from the bottom, as well as A220 and A320.

Exhibit 3 - Commercial Revenue Build - 20% Growth in 2023 Revenue as MAX and A320 Deliveries Ramp

	Unit Deliveries							Program Revenue							
	2019	2020	2021	2022	2023E	2024E	2025E	2019	2020	2021	2022	2023E	2024E	2025E	
737	606	71	162	281	410	470	475	737	\$3,818	\$447	\$1,053	\$1,911	\$2,804	\$3,215	\$3,249
747	6	6	6	1	-	-	-	747	72	72	72	12	0	0	0
767	33	28	34	31	36	36	36	767	215	183	223	206	236	236	236
777	56	39	23	26	30	36	36	777	644	449	265	299	360	432	432
787	166	112	37	20	40	60	72	787	1,179	773	259	140	280	420	504
A220	40	43	50	60	78	85	110	A220	40	71	300	390	562	612	792
A320	682	466	467	591	580	655	713	A320	682	466	467	591	580	655	713
A330	35	20	20	27	24	24	24	A330	35	20	20	27	24	24	24
A350	111	62	42	48	60	70	82	A350	588	316	214	247	306	357	418
A380	1	-	-	-	-	-	-	A380	1	0	0	0	0	0	0
Biz Jet/RJ/Other	55	73	181	212	220	220	220	Biz Jet/RJ/Other	192	100	445	427	360	400	450
Program Deliveries	1,791	920	1,022	1,297	1,478	1,656	1,768	Program Revenue	\$7,465	\$2,898	\$3,317	\$4,250	\$5,512	\$6,351	\$6,818
Y-o-Y % change		-49%	11%	27%	14%	12%	7%	Eliminations	(295)	(186)	(189)	(181)	(187)	(173)	(173)
								Total Commercial	\$7,170	\$2,711	\$3,128	\$4,068	\$5,325	\$6,177	\$6,645

Shipset Content	2019	2020	2021	2022	2023E	2024E	2025E	% of Program Revenue	2019	2020	2021	2022	2023E	2024E	2025E
737	\$6.3	\$6.3	\$6.5	\$6.8	\$6.8	\$6.8	\$6.8	737	51%	15%	32%	45%	51%	51%	48%
747	12.0	12.0	12.0	12.0	12.0	12.0	12.0	747	1%	2%	2%	0%	0%	0%	0%
767	6.5	6.6	6.6	6.6	6.6	6.6	6.6	767	3%	6%	7%	5%	4%	4%	3%
777	11.5	11.5	11.5	11.5	12.0	12.0	12.0	777	9%	15%	8%	7%	7%	7%	6%
787	7.1	6.9	7.0	7.0	7.0	7.0	7.0	787	16%	27%	8%	3%	5%	7%	7%
A220	1.0	1.7	6.0	6.5	7.2	7.2	7.2	A220	1%	2%	9%	9%	10%	10%	12%
A320	1.0	1.0	1.0	1.0	1.0	1.0	1.0	A320	9%	16%	14%	14%	11%	10%	10%
A330	1.0	1.0	1.0	1.0	1.0	1.0	1.0	A330	0%	1%	1%	1%	0%	0%	0%
A350	5.3	5.1	5.1	5.1	5.1	5.1	5.1	A350	8%	11%	6%	6%	6%	6%	6%
A380	1.0	1.0	1.0	1.0	1.0	1.0	1.0	A380	0%	0%	0%	0%	0%	0%	0%
Biz Jet/RJ/Other	3.5	1.4	2.5	2.0	1.6	1.8	2.0	Biz Jet/RJ/Other	3%	3%	13%	10%	7%	6%	7%
								Program Revenue	100%	100%	100%	100%	100%	100%	100%

Source: Company data, Jefferies estimates

SPR generated a -4.0% operating margin, falling y-o-y from the -0.4% operating margin in Q1:22, primarily driven by changes in estimates. SPR reported \$110MM of net forward losses across the A220, the 787, and A350, along with \$11MM of unfavorable cum catch-up adjustments, along with excess capacity costs of \$40.9MM, which were down from \$46.8MM in Q1:22 but stepped up

sequentially from \$29.7MM in Q4. If we strip out the one-time costs, SPR generated an underlying segment margin of 10.1%, w/ underlying segment earnings rising at a 19% incremental margin.

In 2022, SPR generated -2.0% margins or 10.2% of underlying margins, which incorporated \$150MM of excess capacity costs which we expect to fall to \$120MM in 2023. Into 2024, we are forecasting a 10.1% segment margin, or a 10.9% underlying segment margin which factors in earnings increasing at a LDD incremental margin. We see 2025 segment margins of 11.0% on an underlying basis.

Exhibit 4 - Commercial Underlying Segment Margin Expanding to 11.0% By 2025E on ~13% Incremental Margins

Commercial	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	\$7,169.6	\$2,711.3	\$3,128.1	\$4,068.4	\$5,324.9	\$6,177.4	\$6,644.8
Y-o-Y % Change		-62%	15%	30%	31%	16%	8%
Segment Earnings	\$968.4	(\$620.6)	(\$220.6)	(\$82.9)	\$319.5	\$623.9	\$714.3
% Margin	13.5%	-22.9%	-7.1%	-2.0%	6.0%	10.1%	10.8%
% Incremental		35.6%	96.0%	14.6%	32.0%	35.7%	19.3%
One-Time Items							
Forward Losses	63.5	366.8	227.3	243.9	109.9	-	-
Excess Capacity Costs	-	265.5	206.7	149.5	120.0	50.0	20.0
Unfavorable Cumulative Catch-Up Adjustments	4.5	28.9	5.7	99.5	11.0	-	-
Restructuring Expenses	-	64.0	6.8	-	-	-	-
Abnormal Costs Related to COVID-19	-	33.7	12.0	9.5	-	-	-
AMJP Income	-	-	(35.9)	(4.5)	-	-	-
Total One-Time Items	68.0	758.9	422.6	497.9	240.9	50.0	20.0
Underlying Segment Earnings	\$1,036.4	\$138.3	\$202.0	\$415.0	\$560.4	\$673.9	\$734.3
% Margin	14.5%	5.1%	6.5%	10.2%	10.5%	10.9%	11.1%
% Incremental		20.1%	15.3%	22.7%	11.6%	13.3%	12.9%

Source: Company data, Jefferies estimates

Despite underlying segment margin expansion, 4 programs are in a forward loss position and recognizing a total balance sheet liability of \$682MM, up sequentially from \$675MM to end-2022. Collectively, these 4 programs make up 26% of our 2024 estimated Commercial revenue. This has included moving pieces around \$248MM of forward loss charges taken in 2022, offset by \$339MM in 2022 of cash losses absorbed through the wind-down of the balance. In Q1, SPR took \$111MM of forward losses, offset by \$104MM of working capital work down. We assume \$347MM of forward loss outflows in 2023. We summarize the 3 key programs and the estimated size of the forward loss and the remaining block below:

- **787 (Est. \$397MM Forward Loss Over Remaining Block of 245 Aircraft)** - We estimate the largest portion of the forward loss is tied to the 787. The loss is likely front-loaded, with SPR incurring a higher loss per aircraft at lower production rates in the near term. We assume SPR added a \$15MM forward loss in the quarter tied to the 787. We assume 787s drive a \$116MM cash outflow in 2023.
- **A220 (Est. \$206MM Forward Loss on Remaining Block Size of 243 Aircraft)** - We estimate the A220 has a \$170MM forward loss remaining on the balance sheet. At the end of 2020 with the close of the BBD acquisition, SPR established a \$282MM forward loss liability. We estimate a remaining block size of 243 aircraft. The total forward loss provision stands at \$206MM on our estimate, which includes the \$81MM forward loss charge taken in the quarter. We assume the A220 drives a \$140MM cash headwind in 2023.
- **A350 (Est. \$125MM Forward Loss on Remaining Block Size of 189 Aircraft)** - We assume that the A350's forward loss position is comparatively smaller, with just \$125MM tied up as a liability on the balance sheet with an assumed \$15MM forward loss in the quarter. We assume a remaining block size of 189 aircraft, with our estimates factoring in a forward loss outflow of \$81MM in 2023.

The rest of the forward loss position is driven by other items, which included a charge taken in the quarter on the RB3070 biz jet engine program, as well as Defense headwinds, with the 767 the only other commercial aircraft program in a zero margin position.

The other factor is the total rework cost tied to the issue on the vertical fin of MAX. SPR disclosed that fuselages in storage in Wichita could be at a \$100-150K cost, which is likely higher for undelivered BA aircraft. In aggregate, we believe the undelivered aircraft could represent a cost of \$35MM to 2023. We estimate the total affected fleet could stand at 500 aircraft, with a lower cost per aircraft at \$75K as we expect the rework to be done during maintenance checks. That could add a further \$38MM over an extended period for a total cash cost of \$72MM.

Exhibit 5 - Total Rework Cost Could Be in the Range of \$72MM

Type	Count	Cost per Aircraft (\$K)	Total Cost (\$MM)
SPR Fuselages	40	\$125	\$5.0
BA Undelivered	170	\$175	\$29.8
Affected Fleet	500	\$75	\$37.5
Total	710	\$102	\$72.3

Source: Company data, Jefferies estimates

b) Sensitivity to 737 MAX Production Rate

We estimate SPR had 107 fuselages in inventory across both the Wichita facility and the production process at BA's Washington facility that, for accounting purposes, have been produced and delivered to BA. SPR "delivers" the fuselages to BA when they hit the back of the factory, although many of them remain in storage at SPR's Wichita facilities, rather than being shipped to BA. BA has taken a portion of the fuselages in inventory to its Washington facility as well. Inventory is fairly flat from the beginning of the year, as production has largely matched BA shipments, although we believe inventory built into the end of the year as SPR outpaced BA production.

In 2023, as we move into H2, we estimate SPR continues to outpace BA production, which leads to 140 fuselages remaining in inventory at the end of 2023, largely driven by BA not reaching 31/mo until H2 while SPR ramps to end the year closer to 40/mo. As a result, SPR ends 2023 with 140 fuselages in inventory, with a slight build continuing into 2024 to 188 fuselages.

SPR now does not burn down inventory until 2025, when we see SPR ending the year with 158 fuselages in inventory.

Exhibit 6 - Fuselage Inventory Faces Short-Term Build with >150 Fuselages Remaining in Inventory at the End of 2025 on our Ests

SPR	SPR Monthly Build Rate	Quarterly Production	BA Build Rate	BA Quarterly Production	Ending Inventory
Q1 2019	52	156	42	126	31
Q2 2019	52	156	42	126	61
Q3 2019	52	156	42	126	91
Q4 2019	50	150	42	126	115
Q1 2020	6	18	4	12	121
Q2 2020	6	19	4	12	128
Q3 2020	5	15	4	12	131
Q4 2020	6	19	4	12	138
Q1 2021	10	29	12	35	132
Q2 2021	12	35	14	42	125
Q3 2021	16	47	20	59	113
Q4 2021	17	51	19	58	106
Q1 2022	20	60	20	60	106
Q2 2022	24	71	25	76	101
Q3 2022	23	69	22	66	104
Q4 2022	27	81	29	87	98
Q1 2023	32	95	29	86	107
Q2 2023E	23	70	25	75	102
Q3 2023E	38	115	31	93	124
Q4 2023E	43	130	38	114	140

SPR produced 162 fuselage in 2021, relatively in line with the agreement with BA.

SPR began to work down inventory in Q2:21 with 35 produced vs. 42 shipped.

However in 2022, we estimate BA produced finished product at an average of 20/mo through the end of the year while SPR started the year at 20/mo finishing at 27/mo in Q4. This leads to total inventory in the channel (both in Wichita and WA) reaching 140 at the end of 2023.

	SPR Monthly Build Rate	Annual Production	BA Build Rate	BA Annual Production	Ending Inventory
2019	52	618	42	504	115
2020	6	71	0	0	138
2021	14	162	13	159	106
2022	23	281	24	289	98
2023E	34	410	31	368	140
2024E	42	504	38	456	188
2025E	42	504	45	534	158

We see SPR producing 410 fuselages in 2023 despite BA producing just 368 finished MAX. We see SPR ending 2023 w/ 140 fuselages remaining in inventory given continued production ahead of BA with 158 fuselages in inventory by 2025.

Source: Company data, Jefferies estimates

Based on these assumptions, we look at the sensitivity of the 737 production rate on EPS and what different scenarios for 2024 could mean for SPR's EPS. We assume that the program is a high-margin, if not the highest-margin, program for SPR at a normalized production rate, with margins potentially in the 20% range as the company reaches 42/mo on the aircraft. We assume SPR produces at 42/mo in 2024.

In our view, the risk to the downside is largely tied to supply chain hampering BA production leading to greater inventory buildup, which leads to a short-term blip in production. To the upside, the risk comes from accelerated inventory burn-down, which leads to SPR moving production faster than expected. Continued headwinds include vertical fin fittings, China, MAX-7, and MAX-10. Nonetheless, each 5/mo change to the MAX production rate is worth ~\$0.45 to 2024E EPS, with each 200 bps change in program margins worth ~\$0.50. For FCF, each 5/mo change is a ~\$50MM impact to cash, while each 200 bps of program margins are worth ~\$55MM to FCF.

Exhibit 7 - ~\$0.50 of 2024 EPS at Risk for Every 200 bps Decline in 737 MAX Program Margins

Program Margins	Monthly MAX Production				
	32	37	42	47	52
9.0%	(\$0.50)	(\$0.23)	\$0.05	\$0.33	\$0.60
11.0%	(\$0.11)	\$0.23	\$0.57	\$0.91	\$1.24
13.0%	\$0.28	\$0.68	\$1.08	\$1.48	\$1.88
15.0%	\$0.68	\$1.14	\$1.60	\$2.06	\$2.52
17.0%	\$1.07	\$1.59	\$2.12	\$2.64	\$3.16
19.0%	\$1.46	\$2.05	\$2.63	\$3.22	\$3.80

Source: Company data, Jefferies estimates

Exhibit 8 - 2024 FCF Sensitivity to 737 MAX - 5/mo Production Rate Worth ~\$50MM to 2023 FCF at 15% Program Margins

Program Margins	MAX Monthly Production				
	32	37	42	47	52
9.0%	(\$175)	(\$146)	(\$117)	(\$87)	(\$58)
11.0%	(\$133)	(\$98)	(\$62)	(\$26)	\$9
13.0%	(\$92)	(\$50)	(\$8)	\$34	\$77
15.0%	(\$50)	(\$2)	\$47	\$95	\$144
17.0%	(\$9)	\$46	\$101	\$156	\$212
19.0%	\$33	\$94	\$156	\$217	\$279

Source: Company data, Jefferies estimates

c) Expansion of Defense with a Goal of 15% of Normalized Revenue

In Q1, Defense revenues expanded 19% y-o-y to \$188MM, largely driven by higher volume on development programs and higher production on the P-8 program.

Notable developments in SPR Defense & Space business in 2022 (+11% growth to \$650MM of revenues, or 13% of total) included:

- **B-52 Commercial Engine Replacement Program (CERP):** BA has selected SPR to provide engine pylons and nacelles for the initial phase of the B-52 re-engining program. In September 2021, USAF selected Rolls-Royce-made F130 engine to replace the aging P&W engines by 2038 under the \$2.6BB contract. The program will seek to replace 608 engines on the current USAF B-52H fleet to extend the service life of the bomber through at least 2050.
- **Sierra Space Dream Chaser:** In May 2022, SPR announced strategic partnership with commercial space transportation company Sierra Space to assist in development of its Shooting Star Transport Vehicle. The Shooting Star is a cargo module that is attached to the aft end of the Dream Chaser lifting body vehicle. The program seeks to support future cargo missions to the International Space Station (ISS).
- **UK New Medium Helicopter (NMH):** Airbus selected SPR as a strategic partner for the H175M Task Force in July, which will offer its H175M helicopter for the UK's New Medium Helicopter (NMH) program. SPR will be responsible for extensive detailed design and manufacturing activities on the program.
- **KC-135 Stabilizers:** BA awarded SPR a contract to provide new horizontal stabilizers for the USAF's KC-135R Stratotankers, with the initial contract covering 34 horizontal stabilizer kits.

In March 2023, SPR announced a collaboration with Astranis to enhance future satellite launch capabilities from Prestwick Spaceport, which aims to be Europe's premier small satellite air-launch location. Later in the same month, SPR signed an MOU with Skyworks Aeronautics to apply material and structures in support of Skyworks' aircraft platforms, including its VertiJet VTOL program for military and commercial use.

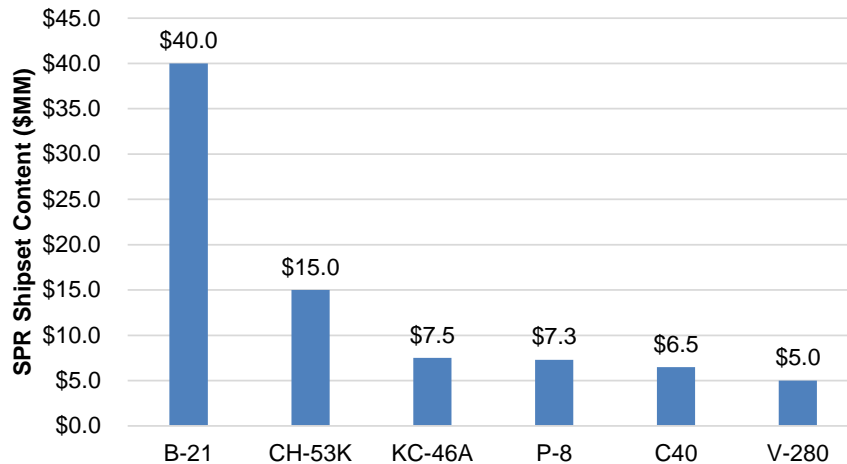
The Military business should be a continued source of revenue expansion over the next five years. Within defense, mgmt expects revenue on existing programs, excluding new wins, to reach \$1BB within the next three years, but this is likely ambitious given that the FVL is the largest opportunity and will not ramp production until the latter half of the decade, although the B-21 should contribute more meaningful revenue as it moves toward production. This takes into account recent classified wins, with total revenues coming from existing programs totaling \$6BB. The recent classified wins are in the early stages of development, and the current plan is for those programs to be revenue-generating within the next two years.

The opportunity set is weighted toward the Future Vertical Lift Program, as that begins to ramp following TXT's win. SPR is partnered with TXT Bell on FLRAA, with SPR manufacturing the fuselage for the V-280. Management has also called out future opportunities within the B-52 re-engine program and structures for hypersonic missiles, with further opportunities in the classified realm. Key areas of focus for the segment include: hypersonics, next-gen aircraft, unmanned aircraft, next-gen effects, and Space.

The acquisition of FMI, which adds to the defense portfolio, closed in early 2020 for \$120MM. The company has more than 200 employees and mainly offers solutions for thermal protection systems, re-entry vehicle nose tips, and rocket motor throats and nozzles. The company is particularly well-positioned in hypersonics, producing high-temperature materials for the missiles, as well as a

recent win with NASA to provide thermal protection systems supporting several missions under the Science Mission Directorate.

Exhibit 9 - Estimated Shipset Content per Military Program



Source: Company data, Jefferies estimates

Defense segment contributed about 13% of total revenue for 2022 or in the ~\$650MM range, with our estimate for 10% growth to \$717MM in 2023 (11% of total). Major defense programs include the Sikorsky CH-53K and NOC's B-21 bomber, along with military variants of Boeing aircraft such as the P-8 and the KC-46. The major driver of growth comes from the CH-53K tripling in revenues through 2024, which does put some margin pressure on the segment, as well as growth in classified tied to B-21 and hypersonics. SPR may have room to negotiate the B-21 LRIP contract, which does allow them more room to negotiate vs. NOC, which now expect B-21 LRIP to be zero margin. Management targets its military work to approach \$1BB by 2025, in-line with our estimate of \$1.0BB.

Exhibit 10 - Defense Revenue Build - Classified as Driver with Segment Rev Expanding to \$988MM by 2025E

	Unit Deliveries					
	2020	2021	2022	2023E	2024E	2025E
CH-53K	2	3	4	4	8	16
KC-46A	14	13	15	16	16	16
P-8	15	16	12	12	10	10
C40	1	-	-	-	-	-
Total Deliveries	32	32	31	32	34	42
y-o-y growth	-37%	0%	-3%	3%	6%	24%

Shipset Content	2020	2021	2022	2023E	2024E	2025E
CH-53K	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0
KC-46A	7.5	7.5	7.5	7.5	7.5	7.5
P-8	7.3	7.3	7.3	7.3	7.3	7.3
C40	6.5	6.5	6.5	6.5	6.5	6.5

	Program Revenue					
	2020	2021	2022	2023E	2024E	2025E
CH-53K	\$30	\$45	\$60	\$60	\$120	\$240
KC-46A	105	98	113	120	120	120
P-8	109	116	87	87	73	73
C40	7	0	0	0	0	0
Other/Classified	241	327	390	425	500	600
Total Revenue	\$491	\$585	\$650	\$692	\$813	\$1,033
y-o-y growth		19%	11%	6%	17%	27%

Source: Company data, Jefferies estimates

The Defense segment reported a Q1:23 segment margin of 10.2%, down 240 bps y-o-y tied to changes in current-period estimates and the absence of the \$2.3MM AMJP benefit a year ago. In the quarter, SPR recognized \$2.4MM of excess capacity costs (vs. \$3.0MM in Q1:22), \$0.1MM of net forward losses, and \$0.9MM of unfavorable catch-ups.

Excess capacity costs should alleviate through the year, with our estimate for \$5MM of headwind in 2023 from \$7.5MM in 2022. We forecast segment margin expands from 11.2% in 2022 to 11.5% in 2023 (12.4% underlying margin), which includes alleviating excess capacity costs and lower forward losses. We factor in a ~10% underlying incremental margin through 2025, with 2025 margins of 11.8%, below the company's target of 12-14% margins.

Exhibit 11 - Defense Segment Underlying Margin Stabilizing in the ~12% Range Through 2025

Defense	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	\$507.5	\$491.3	\$585.0	\$649.8	\$692.0	\$812.5	\$1,032.5
Y-o-Y % Change		-3%	19%	11%	6%	17%	27%
Segment Earnings	\$73.5	\$47.0	\$44.3	\$72.8	\$79.6	\$95.1	\$121.3
% Margin	14.5%	9.6%	7.6%	11.2%	11.5%	11.7%	11.8%
% Incremental		163.6%	-2.9%	44.0%	16.1%	12.8%	11.9%
One-Time Items							
Forward Losses	-	3.5	14.2	4.0	0.9	-	-
Excess Capacity Costs	-	13.4	10.8	7.5	4.8	-	-
Unfavorable Cumulative Catch-Up Adjustments	(2.5)	1.5	(0.7)	(1.9)	0.9	-	-
Restructuring Expenses	-	3.8	1.1	-	-	-	-
Abnormal Costs Related to COVID-19	-	-	-	-	-	-	-
AMJP Income	-	-	(3.0)	-	-	-	-
Total One-Time Items	(2.5)	22.2	22.4	9.6	6.6	-	-
Underlying Segment Earnings	\$71.0	\$69.2	\$66.7	\$82.4	\$86.2	\$95.1	\$121.3
% Margin	14.0%	14.1%	11.4%	12.7%	12.5%	11.7%	11.8%
% Incremental		11.1%	-2.7%	24.2%	9.0%	7.4%	11.9%

Source: Company data, Jefferies estimates

d) Increasing Aftermarket Exposure but Still Fairly Low

The acquisition of BBD added ~5-pts to aftermarket exposure in 2021 from the minimal legacy revenues. In Q1, the Aftermarket segment generated \$95MM of sales, up 21% y-o-y. We estimate 18% growth in 2023 to \$367MM of revenues (6% of total) following the 30% expansion in 2022 (6% of total).

The aftermarket outlook is further supported by recent key partnerships.

- **April 2022:** Boeing Global Services announced a new agreement with SPR to combine its aftermarket resources and expand its MRO footprint for nacelle and flight control repairs for the global 737 MAX fleet. BA expects this agreement to provide strong strategic positioning for BGS to assist all 737 MAX operators by providing lease and exchange programs in response to any unforeseen events.
- **April 2022:** SPR also announced a repair center agreement with Guangzhou Aircraft Maintenance Engineering Company (GAMECO). The agreement will establish a Spirit Authorized Repair Center in mainland China and will provide repair/replacement services for 757 RB211 inlet cowlings and A330 Trent inlet cowlings, with plans to expand into nacelle work.
- **September 2022:** SPR signed an MOU with Malaysia Airlines Berhad (MAB) to develop MRO services for the 737 NG in the Asia-Pacific market.
- **October 2022:** The Spirit Evergreen Aftermarket Solutions (SEAS) joint venture (established in 2021) opened in Taiwan for MRO support of nacelles and flight control surfaces in the Asia-Pacific region.
- **November 2022:** SPR agreed to an MOU with Joramco, the engineering arm of Dubai Aerospace Enterprise to build out composite and metallic services into the Middle East. Joramco became a Spirit Authorized MRO center in March 2023, initially providing nacelle repair services for the 737 and A320, with intentions to expand to other platforms including the 777.
- **February 2023:** SPR signed an agreement with GMR Aero Technic to be Spirit Authorized Repair Center in India, with initial repair services of nacelles, radomes and flight control services for narrowbodies including the 737 NG and MAX.
- **April 2023:** SPR signed an exclusive cooperating agreement with ST Engineering to support Middle Eastern customers with engine nacelle MRO solutions.

Management has a goal of reaching \$500MM of normalized aftermarket revenues by 2025, with some future M&A baked into that estimate and continued global expansion. We factor in \$445MM revenue in 2025, with upside stemming from further M&A and partnerships.

Total aftermarket segment margins were 20.3% in Q1, down from 23.1% in Q1:22, primarily due to the absence of \$1.9MM of AMJP income in the year-ago quarter. In 2022, the business generated 18.8% margins, or 19.5% excluding one-time items. We are factoring in margins expanding with 20% + incrementals to 21.5% margins in 2023 and reaching 21.9% by 2025 on higher volumes vs. SPR's target of 20%+ margins.

Exhibit 12 - Aftermarket Segment Build - Driving 20%+ Incremental Margins Through 2025

Aftermarket	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	\$186.0	\$202.2	\$239.9	\$311.4	\$358.1	\$393.9	\$433.3
Y-o-Y % Change		9%	19%	30%	15%	10%	10%
Segment Earnings	\$34.8	\$37.0	\$50.3	\$58.5	\$77.0	\$86.3	\$94.9
% Margin	18.7%	18.3%	21.0%	18.8%	21.5%	21.9%	21.9%
% Incremental		13.6%	35.3%	11.5%	39.6%	25.9%	21.9%
One-Time Items							
Forward Losses	-	-	-	-	-	-	-
Excess Capacity Costs	-	-	-	-	-	-	-
Unfavorable Cumulative Catch-Up Adjustments	-	-	-	-	-	-	-
Restructuring Expenses	-	5.2	0.3	-	-	-	-
Abnormal Costs Related to COVID-19	-	-	-	-	-	-	-
AMJP Income	-	-	(2.2)	2.3	-	-	-
Total One-Time Items	-	5.2	(1.9)	2.3	-	-	-
Underlying Segment Earnings	\$34.8	\$42.2	\$48.4	\$60.8	\$77.0	\$86.3	\$94.9
% Margin	18.7%	20.9%	20.2%	19.5%	21.5%	21.9%	21.9%
% Incremental		45.7%	16.4%	17.3%	34.7%	25.9%	21.9%

Source: Company data, Jefferies estimates

2) Cost Efficiencies Aid in Margin Recovery but Walking Back the 16.5% Margin Target

SPR's margins peaked in the mid-teens, compared to a 10-year average of ~13%. Segment margins of -0.5% in Q1 were down from 2.9% a year ago. Commercial margins of -4.0% in the quarter declined from -0.4% in Q1:22 on higher forward loss and unfavorable cumulative catch-up adjustments. Aftermarket margins declined to 20.3% from 23.1% a year ago, primarily on the absence of AMJP income (\$1.9MM). Defense margin also stepped down, by 240 bps to 10.2%.

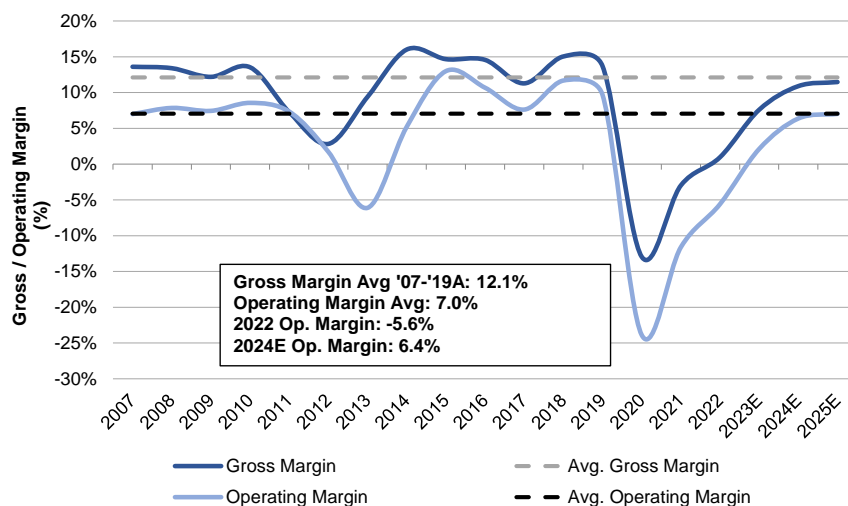
Operating margins of -6.6% in the quarter were down from -3.6% in the prior-year quarter. The weakness was primarily driven by forward loss/excess capacity costs, partially offset by higher production on the 737 MAX. Operating margins were -5.6% in 2022, as higher volumes helped offset greater forward losses in Commercial, particularly on the 787 and A350, improving from -11.6% in 2021 and -23.9% in 2020.

Related to the quality issue identified on the [vertical fin attach fittings on 737 MAX](#) fuselages, SPR anticipates disruptions and rework within its Wichita factory to negatively impact 2023 gross profit by \$31MM, with \$17MM recognized in Q1. Each unit of rework costs between \$100 and \$150K, with 19 of the 30 available units (65 total at Wichita with 35 unavailable due to customers such as China) requiring rework that extends through July. SPR could not reasonably assess the financial impact of previously delivered units to BA or for in-service aircraft, with the impact based on a unit-by-unit analysis. ~75% of the 250 units of BA-owned inventory are affected, and there are ~500 in-service aircraft that will require inspection once a frequency disposition is determined — only an identifiable issue will require rework.

We forecast operating margins improve by to 2.1% in 2023 on higher volume, w/ our estimates factoring in 7.0% margins in 2025.

SPR has noted inflation and supply chain disruptions as potential headwinds to the operation, as the supply chain remains fragile given ramp requirements and a challenging cash conversion cycle. SPR continues to see disruption across the supply chain, which is causing part shortages in the factories. The issues across the supply chain include shortages in skilled labor, attrition, part shortages, and inflation. In terms of material sourcing, SPR purchases ~90% of its titanium through BA and Airbus purchase consortiums. SPR will also have its union agreement with IAM expiring in June, which is factored into forecasts. Labor continues to represent ~20% of the company's COGS and is on track to support 42/mo later this year.

Exhibit 13 - SPR Gross and Operating Margins Ramping Off the Bottom



Source: Company data, Jefferies estimates

SPR's segment margin target of 16.5% was aggressive, as the 777 will be at ~3/mo on our estimate vs. the previous peak in 2015 when the 777 was at 8.3/mo. We sensitize our 2024 EPS and FCF estimates on MAX production and segment margins, as we've now seen SPR step away from that 16.5% margin target. Our base case factors in a 42/mo production rate on the 737 MAX remaining for full year 2024, with underlying segment margins in the 10.9% range, driven by alleviating excess capacity costs. Every ~300 bps of segment margin expansion would be worth ~\$1.70/sh to 2024 EPS and ~\$180MM to FCF, with every 5/mo of production worth ~\$0.30 to EPS and ~\$30MM to FCF.

In a scenario where SPR reaches ~47/mo in the 2024 time frame, with segment margins of closer to 13.9% vs. our base case of 10.9%, EPS could improve to the \$3.65 range.

Exhibit 14 - MAX Production and Segment Margin Sensitivity on 2024 EPS - Every 300 bps of Segment Margin Worth ~\$1.70 to EPS w/ 5/mo of Production Worth ~\$0.35

		MAX Monthly Production Rate				
		32	37	42	47	52
2024 Segment Margin	5.1%	(\$2.13)	(\$1.97)	(\$1.82)	(\$1.66)	(\$1.50)
	8.0%	(\$0.65)	(\$0.41)	(\$0.16)	\$0.09	\$0.33
	10.9%	\$0.83	\$1.16	\$1.50	\$1.83	\$2.17
	13.9%	\$2.36	\$2.78	\$3.21	\$3.64	\$4.06
	16.5%	\$3.68	\$4.19	\$4.70	\$5.20	\$5.71

Source: Company data, Jefferies estimates

Exhibit 15 - MAX Production and Segment Margin Sensitivity on 2024 FCF - Every 300 bps of Segment Margin Worth ~\$170MM to FCF w/ 5/mo of Production Worth \$35MM

		MAX Monthly Production Rate				
		32	37	42	47	52
2024 Segment Margin	5.1%	(\$336)	(\$319)	(\$303)	(\$286)	(\$270)
	8.0%	(\$180)	(\$154)	(\$128)	(\$102)	(\$76)
	10.9%	(\$24)	\$11	\$47	\$82	\$117
	13.9%	\$137	\$183	\$228	\$273	\$318
	16.5%	\$277	\$331	\$384	\$438	\$491

Source: Company data, Jefferies estimates

3) FCF Below the Guide as Working Capital Remains a Usage into 2023

In Q1, SPR used \$69MM of FCF, driven by continued forward loss charges and working capital, which was a \$97MM outflow excluding the \$180MM of PVP A pension cash, primarily driven by receivables outflow of \$117MM and inventory outflow of \$76MM, partially offset by an inflow of \$153MM for payables and accrued liabilities.

SPR entered agreements with customers for cash advances totaling \$280MM in the year. This includes \$230MM in Q2, of which \$180MM is from Boeing, with \$90MM to be repaid in 2024 and \$140MM in 2025. The remaining \$50MM of advances is in Q4 and requires repayment in 2025. The advances provide additional cash buffer.

As a result of the MAX rework and facility disruptions, SPR now expects to deliver 390-420 MAXs in the year, with 30-40 units coming out of Q2, which led the reduced FCF guidance to a use of \$100-\$150MM from breakeven prior. This does not include the advances given they will be treated as debt and flow-through cash flow from financing. Our estimate factors in a \$131MM FCF usage this year with working capital use of \$33MM excluding pension (net \$150MM benefit).

Working capital is broadly a usage, driven by ramping production rates on rate breaks higher, primarily on the 737 MAX. The other factor is forward losses, which we estimate ramp up to a \$237MM cash outflow in 2023 across the 787, the A220, and the A350. There is a potential headwind around cash bonus payments as the IAM agreement is renegotiated, which has been factored into the outlook.

Our estimate of \$131MM of usage in 2023 does have a number of one-time items in 2022 that create tailwinds to 2023:

- **\$150MM Tailwind** - SPR received \$180MM surplus cash from its pension termination in Q1:23, with the expected net cash inflow in the \$150MM range.
- **\$123MM Tailwind** - SPR paid the last of the \$123MM payments in Q4, which provide a \$123MM tailwind into 2023.
- **\$20MM Tailwind** - 2022 faced a \$20MM headwind from the payment of payroll taxes that were deferred during COVID, which is expected to normalize in 2023.
- **\$24MM Headwind** - In Q2:22, SPR received the remaining balance of the AMJP program grant that was awarded in 2021. The grant was a \$24MM inflow that will not repeat in 2023.
- **\$27MM Headwind** - In Q2:22, SPR received \$27MM of pension-related cash benefits, net of excise tax, which will create a headwind into 2023.

We see 2024 FCF improving to \$54MM and 2025 stepping up to \$392MM.

Exhibit 16 - FCF Usage at \$100-\$150MM from Breakeven Prior on ~30 Less 737 MAX Units Given Rework and Factory Disruption

	2019	2020	2021	2022	2023E	2024E	2025E
Net Income	\$530	(\$870)	(\$541)	(\$546)	(\$220)	\$158	\$243
Depreciation and Amortization	255	298	343	349	364	377	388
Advance Payments	121	(21)	3	(133)	(35)	(27)	(32)
Accounts Payable	35	(593)	160	221	(90)	58	97
787 Forward Loss	0	0	0	(137)	(116)	(75)	(60)
Other Forward Loss Provision	41	217	(10)	47	(121)	(70)	(98)
Pension Payments	0	0	(130)	0	0	0	0
Other NWC	(164)	6	66	(260)	242	(237)	(0)
Stock Comp/Deferred Taxes/Other	105	219	47	65	(7)	13	13
CFO	\$923	(\$745)	(\$63)	(\$395)	\$19	\$197	\$550
Acquisition Adjustment	32	0	0	0	0	0	0
Capex	(232)	(119)	(151)	(122)	(150)	(150)	(165)
Adj. FCF	\$723	(\$864)	(\$214)	(\$516)	(\$131)	\$47	\$385
Adj. FCF Per Share	\$6.90	-\$8.32	-\$2.05	-\$4.93	-\$1.25	\$0.44	\$3.64

Capital Deployment

Dividends	(\$50)	(\$15)	(\$4)	(\$4)	(\$4)	(\$4)	(\$4)
Share Repurchases	(76)	0	0	0	0	0	0
Debt Paydown	(13)	(32)	(42)	(48)	(50)	(140)	(2,020)
Debt Issuance	250	400	600	900	280	0	1,780
Acquisition	0	(389)	(21)	(31)	0	0	0
Total Deployment	\$110	(\$35)	\$533	\$817	\$226	(\$144)	(\$244)

Discretionary FCF (post dividends, and committed debt pay-down)

	\$659	(\$1,299)	(\$281)	\$301	\$94	(\$98)	\$140
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Ratios

FCF to Net Income Conversion	136%	99%	40%	95%	60%	30%	158%
FCF to Revenue Conversion	9.2%	-25.4%	-5.4%	-10.3%	-2.0%	0.6%	4.6%
FCF Yield (FCF / Mkt Cap.)	27.9%	-33.4%	-8.3%	-19.9%	-5.1%	1.8%	14.9%
Discretionary FCF Yield	25.4%	-50.2%	-10.9%	11.6%	3.6%	-3.8%	5.4%
Discretionary FCF % Change YoY	38%	-297%	-78%	-207%	-69%	-203%	-244%
Dividend as a % of Net Income	10%	-2%	-1%	-1%	-2%	3%	2%
Dividend Yield	1.9%	0.6%	0.2%	0.2%	0.2%	0.2%	0.2%
Share Repo as % of Mkt Cap	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% of Cash Returned to Shareholders	17%	-2%	-2%	-1%	-3%	9%	1%

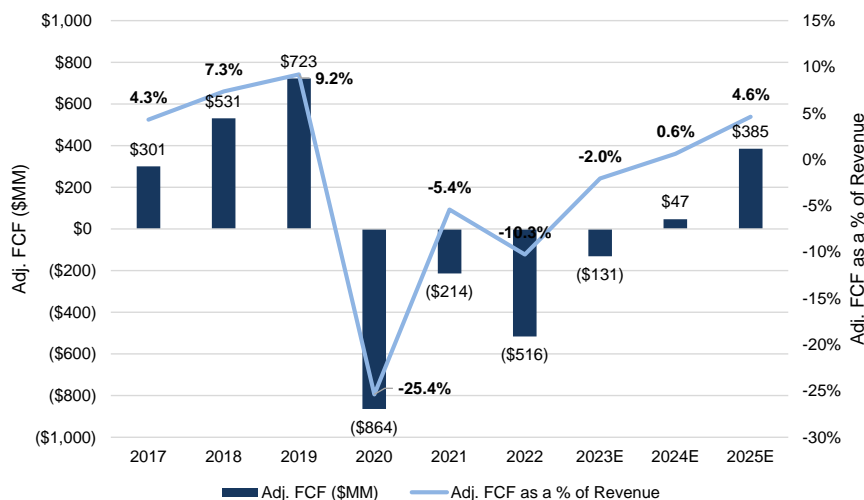
Source: Company data, Jefferies estimates

SPR ended Q1 with \$568MM in cash and \$3.9BB in debt. Despite management having in the past pointed to \$1BB of debt paydown through 2024, that has now been pushed to the right with SPR looking to refinance its debt maturities.

At its 2022 Investor Day, SPR reiterated its LT FCF target of 7-9% of revenues. Management previously had an internal target of 10%. SPR achieved this target in 2019 with \$723MM of FCF or 9.2% of revenue but witnessed a sharp decline in 2020 due to the pandemic. Growth in FCF will be driven by diversification of revenues, disciplined capital allocation, and lower interest expense from delevering.

We expect that SPR generates cash at a slower rate vs target through FY25, with SPR generating \$385MM of FCF in 2025, or 4.6% of sales.

Exhibit 17 - FCF as a % of Sales of 4.6% by 2025E vs. LT Target of 7-9%



Given the \$293MM payment to the UK Department of Business, Energy, and Industrial Strategy to settle the repayable investment agreement, SPR's net debt balance stepped up to \$3.2BB in 2022. It now stands at \$3.3BB as of Q1:23.

Equity has been taken off the table with the private offering, as SPR offered \$900MM in a private offering for debt. Using the proceeds, SPR funded a tender offering for \$500MM of its 5.5% outstanding senior secured notes due 2025 and redeemed the outstanding 3.950% senior notes due 2023. SPR also expects to receive \$280MM of customer advances in 2023, which will be paid back in 2024 and 2025 but shore up near-term liquidity.

We forecast SPR refinances all of its outstanding maturities through 2025, which leads to leverage remaining well above pre-COVID levels, reaching 3.0X by 2025 vs. 0.7X in 2019.

Exhibit 18 - Leverage Comes Down to 3.0X By the End of 2025

	2019	2020	2021	2022	2023E	2024E	2025E
Current Portion	\$50	\$341	\$50	\$350	\$50	\$1,780	\$299
Long-Term Debt	2,984	3,533	3,743	3,492	4,022	2,152	3,394
Total Debt	\$3,034	\$3,874	\$3,792	\$3,842	\$4,072	\$3,932	\$3,692
Cash and Cash Equivalents	(2,351)	(1,874)	(1,479)	(659)	(753)	(662)	(810)
Total Net Debt	\$684	\$2,000	\$2,313	\$3,183	\$3,319	\$3,270	\$2,882
Total Debt/EBITDA	3.0X	(9.2X)	(35.0X)	56.7X	8.0X	4.6X	3.8X
Net Debt/EBITDA	0.7X	(4.8X)	(21.4X)	47.0X	6.6X	3.8X	3.0X

Source: Company data, Jefferies estimates

4. Price Target and Valuation

a) Price Target Derivation

Our PT of \$40 is based on 1) 7.7X EV/EBITDA (35% discount to S&P vs. 3-year average of 22% discount) on 2025E adj. EBITDA of \$972MM and 2) 9.3% FCF yield (45% discount to S&P vs. 3-year average of 37% discount) on 2025E FCF of \$385MM.

Exhibit 19 - Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	40	7.7x EV/EBITDA on 2025 EBITDA of \$972MM
FCF Yield	39	9.3% FCF Yield on 2025 FCF of \$385MM
Average	\$40	

Source: Jefferies estimates

b) Valuation Relative to Peers: A Steep Discount on EV/EBITDA

SPR's valuation is undemanding relative to Aerospace peers, trading at a 53% discount to peers on 2025E EBITDA basis.

Exhibit 20 - Valuation Relative to Peers: A Steep Discount on EV/EBITDA (5/3/2023)

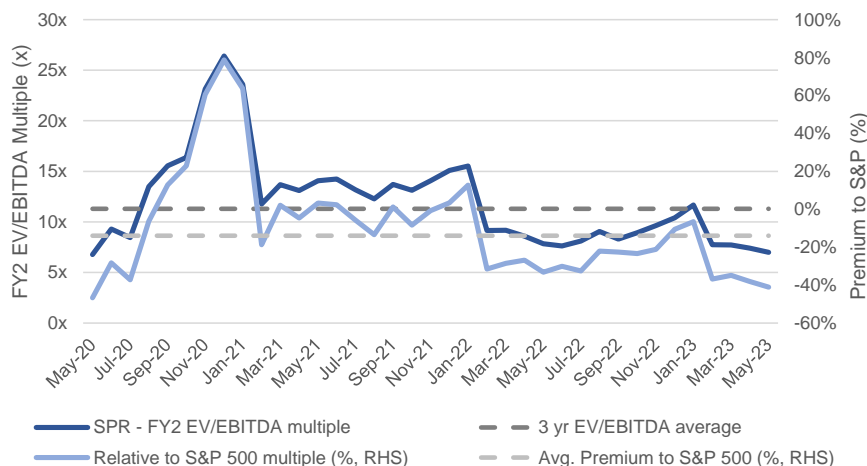
Commercial Aerospace Suppliers	JEF Ticker	JEF Rating	Stock Px 5/3/2023	Consensus BUY Rating	Market Cap	Enterprise Value	P/E			EV / SALES			EV / EBITDA			Yield	
							2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	Dividend	FCF
AAR Corp.	AIR	N/C	\$53.76	100%	1,866	2,044	16.0x	N/A	N/A	0.9x	N/A	N/A	9.4x	N/A	N/A	0.0%	5.0%
Hexcel	HXL	Hold	\$73.45	12%	6,197	6,943	37.8x	28.2x	22.9x	3.4x	3.1x	2.9x	18.5x	15.5x	13.8x	0.6%	4.0%
Honeywell	HON	Hold	\$197.86	54%	131,711	146,634	21.6x	19.6x	18.0x	3.6x	3.4x	3.2x	15.4x	14.4x	13.7x	2.0%	4.6%
Triumph	TGI	Buy	\$10.46	33%	680	2,207	18.7x	11.3x	9.3x	0.5x	0.5x	0.4x	10.9x	9.2x	8.8x	0.0%	6.3%
Transdigm	TDG	Buy	\$766.84	76%	41,868	60,566	34.3x	28.7x	24.8x	6.8x	6.2x	5.8x	19.5x	17.7x	16.3x	0.0%	3.8%
Raytheon Technologies	RTX	Hold	\$97.31	58%	142,184	176,942	19.4x	16.8x	14.4x	2.0x	1.8x	1.7x	14.5x	13.4x	12.1x	2.2%	4.6%
Woodward	WWD	Hold	\$110.39	17%	6,593	7,487	31.8x	26.1x	22.1x	2.4x	2.3x	2.1x	18.1x	15.4x	13.9x	0.7%	4.5%
Average				76%			25.7x	21.8x	18.6x	2.8x	2.9x	2.7x	15.2x	14.3x	13.1x	0.8%	4.7%
Spirit Aerosystems	SPR	Buy	\$26.05	59%	2,742	6,032	N/M	17.4x	11.3x	0.9x	0.7x	0.7x	5.4x	7.0x	6.2x	0.1%	7.0%
Discount / Premium								-20%	-39%	-66%	-75%	-73%	-64%	-51%	-53%		-49%

Source: Company data, Jefferies estimates

c) Valuation Relative to History: Trading at a Narrower Discount to History on Lower Estimates

SPR trades at FY2 EV/EBITDA of 7.0x, which is a 26% discount to its 3-year average of 9.4x. Relative to the market, SPR trades at a 41% discount vs. 3-year average 22% discount.

Exhibit 21 - Trading at 7.0x EV/EBITDA, 41% Disc't to Mkt vs. 22% Historical Disc't



Source: FactSet, Jefferies estimates

Company Description

Spirit AeroSystems

Spirit is the world's leading non-OEM designer and manufacturer of aerostructures, which are typically major components of an air frame such as the fuselage, nacelle and wing flap and slats. The company has enjoyed modest success broadening its base of business with wins on the Sikorsky CH-53K, the Bell V280. Spirit is the largest independent supplier of aerostructures to Boeing and one of the largest to Airbus. Spirit manufactures aerostructures for every Boeing commercial aircraft currently in production, including over 2/3rds of the airframe content for the Boeing B737. It also has a contract with Boeing to manufacture the forward fuselage, Section 41, of the B787. Furthermore, Spirit believes it is the leading content supplier for the wing of the Airbus A320 family and has become a meaningful supplier for Airbus's A350-XWB.

Company Valuation/Risks

Spirit AeroSystems

Our blended price target is based on: 1) EV/EBITDA; and 2) FCF yield. Key risks include disruption in the civil jet market and supply chain issues hampering production, primarily on the narrowbody side, as well as further charges from schedule changes.

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(Article 3(1)e and Article 7 of MAR)

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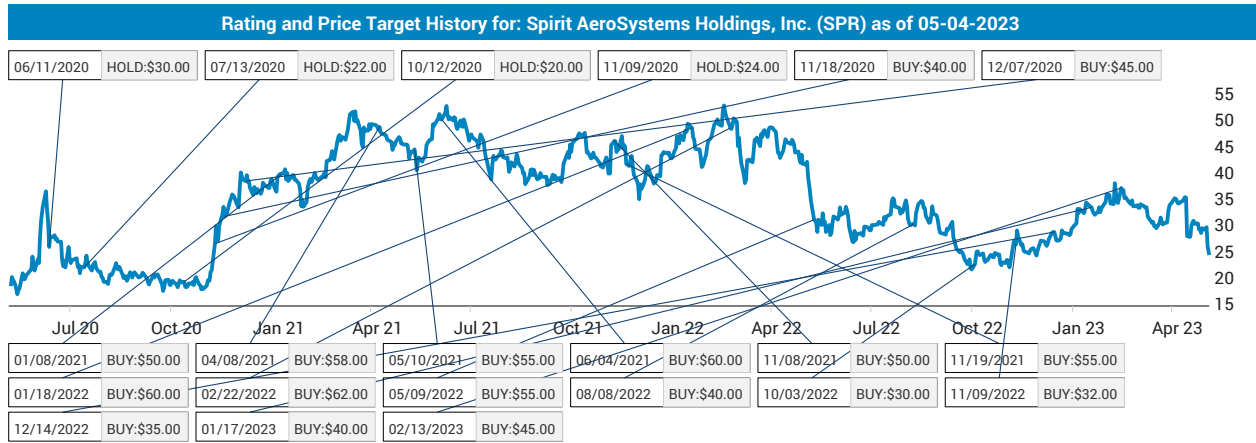
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- Honeywell International Inc. (HON: \$198.42, HOLD)
- Raytheon Technologies (RTX: \$96.58, HOLD)
- Spirit AeroSystems Holdings, Inc. (SPR: \$24.61, BUY)
- The Boeing Company (BA: \$198.34, BUY)
- TransDigm Group Incorporated (TDG: \$767.19, BUY)
- Triumph Group, Inc. (TGI: \$10.12, BUY)
- Woodward (WWD: \$108.88, HOLD)



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	Distribution of Ratings		IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
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