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Spirit AeroSystems Holdings, Inc. (SPR)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to Spirit AeroSystems Holdings, Incorporated's First Quarter 2021 Earnings Conference Call. My name is Jamie and I'll be your coordinator today. After today's prepared remarks, there will be an opportunity to ask questions. [Operator Instructions] Please also note today's event is being recorded.

At this time, I'd like to turn the presentation over to Aaron Hunt, Director of Investor Relations. Sir, please go ahead.

Aaron Hunt

Senior Leader-Sales and Marketing, Spirit AeroSystems Holdings, Inc.

Thank you, Jamie, and good morning, everyone. Welcome to Spirit's first quarter 2021 earnings call. I'm Aaron Hunt, Director of Investor Relations. And with me today are Spirit's President and Chief Executive Officer, Tom Gentile; Spirit's Senior Vice President and Chief Financial Officer, Mark Suchinski; and Spirit's Executive Vice President and Chief Operating Officer, Sam Marnick. After opening comments by Tom, Sam and Mark regarding our performance and outlook, we will take your questions.

Before we begin, I need to remind you that any projections or goals we may include in our discussion today are likely to involve risks, which are detailed in our earnings release, in our SEC filings and in the forward-looking statement at the end of this web presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of non-GAAP measures we use when discussing our results. And as a reminder, you can follow today's broadcast and slide presentation on our website at investor.spiritaero.com.

With that, I would 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.

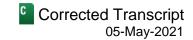
Thank you, Aaron, and good morning, everyone. Welcome to Spirit's first quarter results call. A year ago, we were contending with the unprecedented disruption and uncertainty from the continued 737 MAX grounding and COVID-19 pandemic. Since then, the FAA lifted the 737 MAX grounding order, and shortly after that, the aircraft resumed commercial service.

Today, the 737 MAX is certified in the US, UK, Europe and many other parts of the world. Additionally, Boeing has secured several new orders from airlines, including large orders from Southwest, Alaska Air [Airlines], and Ryanair who will take delivery of their first newly certified 737 MAX 8200 aircraft in the near future.

The COVID-19 pandemic has had a significant global impact. The aviation industry saw more than 19,000 aircraft grounded and air traffic down more than 95% at the worst point last April. Thanks to the tireless efforts of many to mitigate the severe impact of COVID-19, we believe we are now on the path to recovery. We continue to see encouraging news on the return to commercial air travel with domestic routes, primarily flown by narrowbody aircraft leading the way.

In the US, the TSA checkpoint travel numbers have been consistently staying above the 1 million mark since early March. And more recently, we have seen many days above 1.5 million travelers, including 1.6 million travelers

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last Sunday. We have observed a similar domestic recovery in China. We believe Spirit is well-positioned to benefit from this trend of recovering domestic air travel in the largest aviation markets given that 85% of our backlog is narrowbody aircraft.

In line with the improved narrowbody outlook, as we described in our 10-K, Spirit is planning to produce about 160 737 MAX aircraft in 2021. This plan allows for us to burn down the Boeing inventory of 737 MAX chipsets stored in Wichita and Tulsa. With the current outlook, we should be at our targeted number of a permanent buffer to cushion the production system toward the second half of 2022. We have regular conversations with Boeing on the current environment and we'll work closely with them to make any necessary rate adjustments as the year progresses.

As for our Airbus narrowbody programs, we have plans in place to support the A220 and the A320 Airbus schedule increases as the air traffic demand recovery continues.

International air traffic demand still remains at relatively low levels versus pre-pandemic times and is expected to take longer to recover. Consequently, we have experienced, and believe there will continue to be, pressure on our widebody programs. The widebody programs have created significant pressure on our overall performance as the OEMs have adjusted production rates on those programs downward.

On the A350, schedule changes this year and next year contributed to the forward loss of \$29 million that we announced this quarter. The forward loss also included some charges for tooling and build process improvements to improve product quality. We decided to implement the improvements at our Kinston facility during this period of lower production rates.

Over the last few months, we have also been working with Boeing on the 787 program. At Boeing's request, we conducted an extensive review and engineering analysis as a result of fit and finish issues that they had identified on other parts of the aircraft.

While there were no safety or flight issues, areas of rework were identified. We have started the rework and Boeing has reinitiated deliveries of the 787. The rework plan that we have put into place supports Boeing's 787 delivery schedule. The engineering analysis and the projected rework will drive a forward loss of \$29 million. Mark will provide more detail on the forward losses in his comments.

The uneven recovery from the pandemic created challenges during our first quarter. During 2021, we expected to see performance start to normalize as we get into the second half of the year, assuming air traffic recovery remains on track. Overall, our 2021 free cash flow usage is expected to be between \$200 million and \$300 million after considering the \$300 million cash tax benefit.

As we have previously indicated, we expect our cash flow to be positive in 2022 as production rates improve and we realize all the benefits of the cost reduction and productivity actions that we've taken.

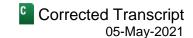
Now, I'd like to turn our focus to the integration process of our recently acquired Belfast, Casablanca, and Dallas sites. Our Chief Operating Officer, Sam Marnick, has joined us today and I would like to turn the call over to her to give you a few updates on the integration process as well as progress in our aftermarket business. Sam?

Samantha J. Marnick

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



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Thank you, Tom. The integration of our three newest sites is progressing to plan. To date, we have completed roughly 80% of the 450 tasks we have identified to capture synergies and integrate the operations into Spirit. Some of the remaining tasks such as exiting the information technology Transition Services Agreement will take longer by [ph] plan design (00:07:00).

A large part of our integration focus is capturing the synergies which we projected to be 6% of revenues. Based on 2021 revenues that are expected to be \$700 million, we estimate the synergies to be \$42 million.

The areas we are focusing on include A220 wing costs, supply chain, infrastructure, and engineering. We are on target to achieve the \$42 million and perhaps even exceed it by 2023. In the period beyond 2023, we are identifying additional productivity opportunities.

In addition, as part of our integration, we are evaluating the Belfast pension plan and are in formal consultation with the employees and the unions on this matter. The current plan is closed to new participants and we are evaluating closing the plan to future accrual and replacing it with a defined contribution benefit plan.

Another significant part of this acquisition was the strong aftermarket business. Our Belfast and Dallas sites are now key pieces of our aftermarket revenue growth plan. While we've seen some COVID-related headwinds to the aftermarket business in the near term, the combined team is working to transfer repairs between sites and strengthen customer relationships as air traffic recovers.

In the first quarter, some of our activities including moving tooling and rotables to Belfast to support Boeing programs. Our Belfast operations have recently completed their first Boeing 777 thrust reverser repair.

To grow the aftermarket business further, we recently announced that we acquired the assets of Dallas-based Applied Aerodynamics, which provides radome and flight control surface repairs. We also announced the signing of a new JV agreement in Asia with EGAT in Taiwan, which enables us to provide our full suite of expanded repairs to that region.

All of these actions are contributing to our target of building the Spirit aftermarket business to \$500 million in revenue at accretive margins by 2025.

Now, I'll turn it back over to Tom.

Thomas C. Gentile III

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

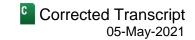
Thanks, Sam. In addition to diversifying into aftermarket, we've also been accelerating diversification into defense programs. After growing almost 20% in 2020, we expect our defense business revenue to grow 15% in 2021. The excess commercial capacity we have in our widebody factories, especially those that produce composite structures, provide us with immediate capacity that we can repurpose to defense programs.

We have been fortunate to win positions on several new classified defense projects. We believe we are on track to achieve \$1 billion of defense revenue by the mid-2020s with typical defense margins. The programs of record for where we have work content will generate approximately \$6 billion of future revenue.

In addition to diversifying our business, we've also been focused on delevering to reduce the additional debt we have accumulated during this pandemic period. One step we took was to repay \$300 million in floating rate notes in February. Our next debt maturity is \$300 million in 2023. We also have other pre-payable debt that could be



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retired as part of our objective to repay \$1 billion in the next three years as production rates recover and we start generating positive cash flow.

We believe these debt reduction actions, along with increased production rates, will help us regain our investment grade credit rating.

Our efforts to drive margins are also progressing well. In Wichita, the new automated floor beam assembly line that we discussed in the last call is now operational. And at our Prestwick site, we produced the first shipsets of A320 spoilers using a resin transfer molding process and we'll ship those to Airbus in mid-May. Both of these narrowbody manufacturing lines will help drive the margin improvement back to our target of 16.5% as production rates recover.

Now I'll turn the call over to Mark to take you through our detailed financial results. Mark?

Mark J. Suchinski

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

Thank you, Tom, and good morning, everyone. I hope everybody is doing well and staying healthy. We continue to see 2021 as a bridge year for our Spirit and commercial aviation industry. While the widebody programs will remain a headwind for the next few years, domestic air travel in many regions of the world is trending in the right direction, which is an encouraging sign especially for narrowbody aircraft.

During 2021 we have or are planning to increase production rates on our narrowbody programs in order to support our customer delivery of new aircraft. We expect the first half of the year to be the most challenging to our financial results and expect to see improvement in the back half of the year as the narrowbody production rates increase.

Now, let's move to our first quarter 2021 results. Please turn to slide 3. Revenue for the quarter was \$901 million, down 16% from the same quarter last year. The revenue decrease was primarily due to lower body rates which have been under pressure due to the reduced international air traffic resulting from the continued impacts of the COVID-19 pandemic. In addition, our A320 production rate was lower in the first quarter of this year compared to last year.

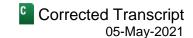
Revenue from our recently acquired Bombardier business jet programs and the A220 wing program helped to offset some of the widebody revenue decrease. Our defense programs continue to be a bright spot, up 41% as compared to the same quarter of last year.

Turning to deliveries, widebody program deliveries were 48, down from 91 in the first quarter of 2020, which is a 47% reduction. The narrowbody program deliveries in the first quarter of 2021 were also lower when compared to 2020 with 171 shipsets in the first quarter of 2021 compared to 221 in 2020. The main driver of the decrease was the A320 program with 58 less deliveries than the first quarter of 2020.

The first quarter 737 MAX deliveries have gradually increased to 29 compared to 18 shipsets delivered in the first quarter of last year. Overall, deliveries decreased to 269 shipsets compared to 324 shipsets in the same quarter of last year.

Let's now turn to earnings per share on slide 4. We reported earnings per share of negative \$1.65 compared to negative \$1.57 per share in the same period of 2020. Adjusted EPS was negative \$1.22 per share compared to

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negative EPS of \$0.79 in the first quarter of 2020. Adjusted EPS excludes the impacts of the acquisitions, restructuring costs, the noncash voluntary retirement plan charges, and the deferred tax valuation allowance.

Operating margin for the first quarter was negative 14% compared to negative 15.5% in the first quarter of 2020. The past actions we have taken have contributed to the improved first quarter of 2021 with lower costs and expenses including restructuring, excess capacity, abnormal COVID-19 and SG&A. This was partially offset by additional forward losses on the Boeing 787 and A350 programs compared to the same period last year.

Additionally, the increase in other income primarily reflects the absence of voluntary retirement expenses recognized in the first quarter of 2020 partially offset by a loss on foreign exchange rates. Interest expense and financing fee amortization in the first quarter of 2021 increased \$28 million driven by increased interest expense on debt and higher interest rates compared to the same period in the prior year.

In the first quarter, we recognized forward loss charges of \$72 million primarily driven by engineering analysis and rework to support Boeing's resumption of 787 deliveries and lower A350 production rates coupled with higher onetime costs for production system and quality improvements.

During the first quarter of 2021, an incremental \$42 million valuation allowance on deferred income tax assets was recorded. As a reminder, this is a noncash item.

Now, turning to free cash flow on slide 5. Free cash flow for the quarter was a use of \$198 million compared to a use of \$362 million in the same period of 2020. This year-over-year improvement is primarily due to favorable working capital management and cost reduction efforts partially offset by the absence of the \$215 million received last February as a result of the MOA with Boeing. Excluding the \$215 million of Boeing advance payments received in the first quarter of 2020, free cash flow improved by about \$380 million.

For the year, we expect free cash flow to be between negative \$200 million and \$300 million. This includes a cash tax benefit of approximately \$300 million. As mentioned previously, we believe that the first half of 2021 to be our most challenging and expect improvements as we progress into the latter half of the year due to planned single-out production rate increases.

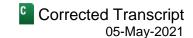
Let's now turn to cash and debt balances on slide 6. We ended the first quarter with approximately \$1.4 billion of cash and \$3.6 billion of debt. In February, we prepaid \$300 million floating rate notes that were due this year. As Tom mentioned, we are planning to repay \$1 billion in debt in the next three years, the timing of which will be in line with how air traffic and narrowbody production rates recover from the global pandemic.

We believe our cash on hand and cash flows generated from operations, coupled with our ability to vary our cost structure quickly will provide sufficient liquidity to address the challenges and opportunities of the current market. However, unevenness in the global recovery from the COVID-19 pandemic could result in fluctuations in our cash flows from period to period.

Now, let's to turn to our segment performance on slide 7. In the first quarter, fuselage segment revenues were \$437 million, down approximately \$115 million compared to 2020 primarily due to lower production volumes on the widebody programs partially offset by an increase in 737 MAX, defense, and the recently acquired Bombardier business jet program revenues.

Operating margin for the quarter was negative 14% compared to negative 16% in the same period last year. Increased 737 MAX production and higher defense revenues helped contribute to the gross profit improvement.

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We also recognized lower restructuring expenses, excess capacity costs and abnormal COVID-19 charges. The fuselage segment recorded \$2 million of favorable cumulative catch-up adjustments and \$55 million of net forward losses during the quarter primarily due to the Airbus A350 and Boeing 787 programs.

Propulsion revenue in the quarter improved to \$227 million, primarily due to higher revenue from the 737 MAX program and aftermarket revenues. Operating margin for the quarter was positive 7% compared to negative 2% in the same quarter of 2020. Lower restructuring expenses, excess capacity costs and abnormal COVID-19 charges were the main driver to the improvement in segment profitability. The segment recorded \$6 million of unfavorable cumulative catch-up adjustments and \$5 million of net forward losses.

Lower production volumes on the 787, A320 and A350 programs partially offset by revenue from the recently acquired A220 wing program were the main contributors to the reduction in wing revenue of \$224 million. Operating margins for the quarter was negative 8% compared to positive 5% in the first quarter of 2020.

The decreases in segment profitability and operating margin were primarily a result of forward losses recognized on the 787 and the A350 programs and lower margin recognized on the A320 and A220 programs due to increased excess capacity costs. The segment recorded \$13 million of net forward losses and \$2 million of unfavorable cumulative catch-up adjustments.

The first quarter of 2021 provided to be a very challenging start to the year. While uncertainty around the precise trajectory of the pandemic recovery remains, we are beginning to see positive signs in domestic air traffic demand. We are pleased to see the progress made over the past few months on our defense growth and aftermarket diversification efforts. Higher narrowbody rates in the back half of the year should create positive momentum into 2022.

Cash flow is a focal point this year and is a top priority for our team in our day-to-day activities. Our 2021 cash flow is dependent on the planned delivery of approximately 160 737 MAX shipsets. We are closely monitoring the remaining regulatory approvals needed for the 737 MAX return to service as well as the recovery from the global pandemic.

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

Thomas C. Gentile III

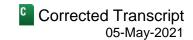
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

Thanks, Mark. First quarter of 2021 was challenging as we managed through the widebody rate reductions and investments that we have made to improve quality. As a result in the first quarter, we had a higher rate of cash usage than we expected. With domestic travel recovering faster in the US and China, we expect that narrowbody production rates will continue to improve. Spirit will benefit from this trend since 85% of our backlog is narrowbody aircraft.

In 2021, we are planning to deliver about 160 737 MAX shipsets as Mark just said, which is more than double what we delivered in 2020. We expect our free cash flow usage for the year will be between \$200 million and \$300 million. We also believe that we are still on course to be cash-flow-positive in 2020.

Our diversification efforts continue with growth in our aftermarket and defense businesses. The acquisition of the assets of Applied Aerodynamics and the establishment of the JV with EGAT in Taiwan will help accelerate the growth of the aftermarket business to \$500 million by 2025 at accretive margins.

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We believe our defense business revenue is on track to grow 15% this year after growing nearly 20% in 2020. We also continue to make good progress on our efforts to de-lever and to continue driving toward margins of 16.5%.

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

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time we'll begin the question-and-answer session. [Operator Instructions] Our first question today comes from Carter Copeland from Melius Research. Please go ahead with your question.

Carter Copeland Analyst, Melius Research LLC	Q
Hey. Good morning, team.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Morning, Carter.	
Samantha J. Marnick Chief Operating Officer & Executive Vice President, Spirit AeroSystems Holdings, Inc.	A
Morning.	
Carter Copeland Analyst, Melius Research LLC	Q
Just a question, Tom, over – just a clarification on this, on the 787 forward loss on these fit and you guys have any potential recourse there longer term? Can you kind of specify, are those you will be a superior of the s	our fit and finish

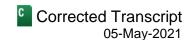
quality issues or are they simply schedule related to the broader problem? I'm just sort of wondering if you guys don't have those specific issues if there is any way to get recourse on that as it's a broader problem with Boeing.

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

These are our issues on our section, the Section 41 which is the forward fuselage. So, at Boeing's request we did an audit of the Section 41, all the different areas that we build and we identified some similar fit and finish issues that they had identified on other sections of the aircraft. And so, the rework and the forward loss related to that rework that we reported this quarter is related to us doing the rework on those units but on our section.

Carter Copeland Analyst, Melius Research LLC	Q
Okay. I want to make	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
So, there's no recourse per se in that sense.	

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Carter Copeland Analyst, Melius Research LLC	
Okay. Great. That's clear. Okay. I'll stick to one question. Thanks.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
All right. Thanks, Carter.	
Mark J. Suchinski Chint Financial Officer R. Senier Vice Precident Spirit New Systems Heldings Inc.	Δ

Thanks, Carter.

Operator: Our next question comes from Myles Walton from UBS. Please go ahead with your question.

Myles Walton

Analyst, UBS Securities LLC

Thanks. I'll pick up where Carter left off. On the A350, the charge you took there, I think you mentioned lower assumed production rate signals from Airbus. I'm just curious what the signal is and is it about the rate or about the duration of the rates? And also, can you just clarify on the \$1 billion debt pay-down over the next three years, is that inclusive of the \$300 million you just paid down or is it \$1.3 billion from 2021 onward?

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

are from next year, it increased – it caused the forward loss in this quarter.

All right. Well, I'll take the first one. The A350, about half of the forward loss on the A350, about \$15 million, was related to schedule changes. And this is kind of an interesting point is, Airbus and even Boeing, when they talk about rates, they might not change the rate but it doesn't mean that the schedule doesn't change. And in this case on the A350, the stated rate stayed the same but Airbus did pull units out of the schedule both this year and next year, 9 or 10 out of our schedule. And because the program was in forward loss even though some of those units

And so, that's just – it's very common is the rates might not change but because of furloughs or vacation schedules or could be any number of things, they end up producing fewer aircraft and therefore the production rates change. So that's what happened on the A350. The rate didn't change but the amount of units that Airbus is asking from us did change this year and next year.

And then on the...

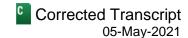
[indiscernible] (00:26:38)

Myles Walton

Analyst, UBS Securities LLC

Oh, sorry, Tom, just to kind of clarify, so, they're just floating blank through but there's no change to the rate and the duration of that rate? Is that fair?

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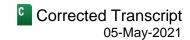


Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
The rate didn't change but they just are requesting fewer aircraft from us. So they might have a f three weeks spaced in. So, yes, it's essentially blank. That's exactly right. That's the way to think	•
Myles Walton Analyst, UBS Securities LLC	Q
Thanks.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
And then on the debt question, Mark, maybe you could just quickly	
Mark J. Suchinski Chief Financial Officer & Senior Vice President, Spirit AeroSystems Holdings, Inc.	А
Yeah, sure. Yeah, and Myles, just you've – historically at the higher production rates, the monthly was fairly consistent. With all the volatility with the pandemic and some of the airlines, you're see adjustments in the schedule that have an impact. And that's really what has been going on the A explained it quite well.	eing these small
As it relates to the debt, the \$1 billion, it starts with the \$300 million that we just prepaid here in the So that means over the next, call it, two-and-a-half years, we've got another \$700 million to go as our three-year plan to pay down \$1 billion of debt.	· ·
Myles Walton Analyst, UBS Securities LLC	Q
Thanks so much.	
Operator : And our next question comes from Sheila Kahyaoglu from Jefferies. Please go ahea question.	d with your
Sheila Kahyaoglu Analyst, Jefferies LLC	Q
Good morning, guys. Thank you.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc. Good morning.	A

Can we talk about free cash flow? In Q1, you used \$200 million. Your guidance is \$200 million to \$300 million for the year. You mentioned in your prepared remarks narrowbody rates are a lot to do with it. Is there a breakeven when we think about the 737 MAX in terms of production per month whether it's on the operating income side or free cash flow that helps you bridge to that free cash flow guidance?

Sheila Kahyaoglu Analyst, Jefferies LLC

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Mark J. Suchinski

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

A

Yeah. Good morning, Sheila. We've talked about this a few times on calls in the past and really when we look at where our cost structure is today and some of the factory improvements and efficiencies that we've built into the line, we're really thinking about breakeven, and obviously 737 MAX is a very helpful component to that. In the high-upper-20s, low-30s on the 737 MAX program, if we can get to a rate like that, that will definitely help us on the earnings and the cash flow side of things.

Sheila Kahyaoglu Analyst, Jefferies LLC	Q
Okay. Thank you.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	Α
Okay. Have a good day.	
Operator: Our next question comes from David Strauss from Barclays. Pl	ease go ahead with your question.
David Strauss Analyst, Barclays Capital, Inc.	Q
Good morning, everyone.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Morning.	
David Strauss Analyst Rarclays Capital Inc	Q

So, on the 737 MAX, Tom, just want to kind of reconcile this. So, you're seeing 160. So, if we had perfect visibility into what Boeing was actually producing that number would be around 220. I guess that's my first question given the burn-down you're talking to. Because in Q1 it doesn't look like you actually – any of the inventory was burned out. It looks like they produced about 30.

And then could you also just touch on 787 and the idea that you can hold rate there given I think over the course of last year Boeing's produced some – or you guys have produced something like 125 shipsets while Boeing's only delivered like 50 airplanes. Thanks.

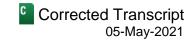
Thomas C. Gentile III

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

A

Right. So, on the 737 MAX, our plan that we have described, including the outlook for free cash flow of \$200 million to \$300 million, is really based on us producing 160 units this year. Now, we said in the past we're going to be producing over time for the next 18 months or so fewer units than Boeing as we burn down the inventory that's here in Wichita and in Tulsa. So, Boeing has said that their production rates are going to get up to 31 by early 2022. So, we will continue to lag them and burn down the buffer.

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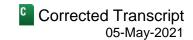
And as I said in my remarks, we will get that buffer down to the target level of about 20 units in a permanent buffer that we'll use as a cushion for the production system. So, that way, as we go forward, we will avoid disruptions. And so that's the way it lines up. But we just wanted to be clear with everybody that we're building our plan this year around a production delivery to Boeing of about 160 units. And that supports the \$200 million to \$300 million free cash flow.

On the 787, you asked about the production rates. And even though there was this engineering analysis and there's some rework, we have held to our schedules. So, the schedule was to deliver 15 units in Q1 and that's what we did deliver. And we are also holding to our schedule in Q2. So, on the new-build schedule, Boeing hasn't changed that schedule, and we are still on track to meet that schedule for this quarter and the remainder of the year.

David Strauss Analyst, Barclays Capital, Inc.	Q
Thanks very much.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Thank you.	
Operator: Our next question comes from Seth Seifman from JPMorgan. Please	go ahead with your question.
Seth M. Seifman Analyst, JPMorgan Securities LLC	Q
Thanks very much and good morning.	
Mark J. Suchinski Chief Financial Officer & Senior Vice President, Spirit AeroSystems Holdings, Inc.	A
Morning.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Good morning.	
Seth M. Seifman Analyst, JPMorgan Securities LLC	Q
Just following up on that last one with the 737 MAX, is your plan for 160, is that fit were changes at Boeing related to certification, timing and stuff like that, is that su	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A

Well, typically – and we're not in a typical time, any production schedule changes are relatively rare and there's significant lead time on those. Now, with the pandemic last year, there were lots of changes on all the programs. And so, the schedule could change still because it's a very dynamic environment. There's still uncertainty out there. Air traffic has not completely recovered but that's the schedule that we have right now. And we're in May already and so that's what we are working with and Boeing has indicated that that's what they're still planning.

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But again, with all the uncertainty in terms of air traffic and recovery with the pandemic, it could change. Now, as we said in the opening remarks, we are seeing some encouraging signs of domestic travel in the US and in China which is good for narrowbodies. On the other hand, Europe still seems to be uneven. So, it could change but we have a reasonable degree of confidence at this point in the year that that's going to be the schedule that we hold to for the remainder of the year.

Seth M. Seifman Analyst, JPMorgan Securities LLC	C
Right. Okay. Thanks. Thanks very much.	
Operator : Our next question comes from Robert Spingarn from Credit Suisse. Please go ahead with your question.	
Robert Spingarn Analyst Condit Spinga Sequetties (USA) LLC	

Hey, Tom, just sticking with the 737 MAX, if I think about all the numbers you've given us, the 29 in Q1 and the 160 for the year, it would seem to me that if you ramp linearly, you can't really go up more than two or three aircraft per month per quarter and exit at about something less than 20, maybe close to that or you'd overproduce. You'd build more than 160. Am I thinking about that correctly?

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

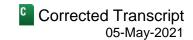
Well, I think what you're thinking about absolutely correctly is that a production system like ours has certain limitations about how fast it can go up in rate. And so typically, these things are all planned out years in advance. And in this case they are as well. We have a longer term schedule with Boeing that we've been working with and planning in terms of scenarios. But our production system is a complicated one. We've got a supply chain.

There are almost 40,000 different parts on a 737 MAX fuselage for example. So, quite complicated. And so for that reason, we have to plan these schedule breaks well in advance.

Now, one good thing ironically is that this buffer that we have here in Wichita actually provides a cushion that allows us to move the production schedule a little bit more than we would have been able to in the past. So, we have some flexibility and we will be able to go up in rate a little bit faster than before because of that.

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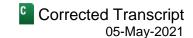
Okay. All right. Well, that's helpful. And just one other thing on this, are you sensitive in your plan to what happens with China recertification on 737 MAX? Or do we think about what Boeing said, which is they can get through this year with or without it, but the problem is after that? In other words, I assume that means they can move others into position for this year. And so, this year's plan is relatively protected regardless of China.

Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Yes. We heard the same thing from Boeing on their earnings call and that's what	we believe.
Robert Spingarn Analyst, Credit Suisse Securities (USA) LLC	Q
Okay. Thank you both.	
Mark J. Suchinski Chief Financial Officer & Senior Vice President, Spirit AeroSystems Holdings, Inc.	A
Thanks, Rob.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Thank you.	
Operator: Our next question comes from Ken Herbert from Canaccord. Please	go ahead with your question.
Ken Herbert Analyst, Canaccord Genuity LLC	Q
Yeah. Hi. Good morning.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Morning, Ken.	
Ken Herbert Analyst, Canaccord Genuity LLC	Q
Hey, Tom. I just wanted to follow up on some of your comments on defense. First capacity, how quickly can that be revenue generating on defense programs as your risks down the road that as widebody production eventually comes back you cour issues? I'm just trying to get a sense as part of your defense growth, how much uncremental work relative to what you've established in the programs of record?	ou win those? And is there any ld be looking at some capacity
Thomas C. Gentile III	Λ

Right. Well, in terms of the programs that we're winning, the classified programs, is they're still in the early stages of their development and then they'll go into a low-rate initial production. So, it's probably within about two years when they'll be revenue generating. It varies. But that's a good rule of thumb.

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

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And the good news is that one of the reasons we're able to win it is we have some of this equipment that's available now, things like automated body replacement machines, autoclaves, automated fastening, non-destructive inspection, these kinds of large pieces of capital.

So, that's in terms of how we're using it to win the defense work and it'll be revenue generating in say the next two years.

In terms of recovery in the future, we are protecting to the rates that we've committed to the OEMs and so we're taking that into account. We'll have plenty of lead time to make sure that if we do need to make any adjustments or expand any facilities, that we can do that.

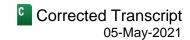
But as you know, with international traffic and business traffic still down, it's going to take a while for the international traffic to recover and therefore for widebody production to recover. And in some cases, it may not get up to the same levels that it was up at before the pandemic. And so that capacity could be permanently available. But regardless, if it does return to the same levels we will make sure that we are protected for that with the commercial OEMs.

Ken Herbert Analyst, Canaccord Genuity LLC	C
Great. Thank you.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Thank you.	
Operator: Our next question comes from Doug Harned from Bernstein. Please	go ahead with your question.
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.	
Mark J. Suchinski Chief Financial Officer & Senior Vice President, Spirit AeroSystems Holdings, Inc.	Д
[indiscernible] (00:38:16), Doug.	
Douglas S. Harned Analyst, Sanford C. Bernstein & Co. LLC	Q
I wanted to think back, if we go back to pre-pandemic, pre-grounding we were lo	ooking at production rates of 57 a

month on the 737 MAX, 14 a month on 787, 10 a month on the A350. So, when you talk about going longer term

and getting back to 16.5% type margins, what kind of a rate is that predicated on for these programs?

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Thomas C. Gentile III

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

that we see – the 737 MAX is our biggest

Yeah. That's a very good question, Doug. And one of the things that we see – the 737 MAX is our biggest program and so that's the biggest driver. And who knows what the future holds in terms of how high Boeing ends up going with that. But in terms of getting to the 16.5% margin, as Mark said, the breakeven point is a little bit lower in terms of what 737 MAX production would be.

And so if we get it back up to 42, which is where we were in 2016, we think that that would be a rate that would be high enough and we could achieve some stability that that would put us in a position to get back to the 16.5% margins overall.

Now, that takes into account the fact that there's headwinds on things like the 777. So back in 2016, 777 rate as you might recall was 8.3 aircraft per month. And 787 rate back then was 12 per month and A350 was 9 per month. Now on the widebody programs, you mentioned that 787 was at 14, A350 was at 10, and that's right. So today, 787 is at five and A350 is at about five or effectively a little bit less with some of the schedule changes.

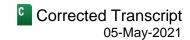
And so if those don't get back up to the same rates, one of the things that we are doing is using some of that capacity for defense work to offset the fixed cost absorption. So again, even if they don't get back up to those previous levels, we still think we'll be in a position to deliver that 16.5% margin with the narrowbody rates on the 737 MAX as an example being at the 42 range.

Douglas S. Harned Analyst, Sanford C. Bernstein & Co. LLC	Q
And if I can	
Mark J. Suchinski Chief Financial Officer & Senior Vice President, Spirit AeroSystems Holdings, Inc.	A
Hey, Doug	
Douglas S. Harned Analyst, Sanford C. Bernstein & Co. LLC	Q
Go ahead, yeah.	
Mark J. Suchinski Chief Financial Officer & Senior Vice President. Spirit AeroSystems Holdings, Inc.	A

Yeah, Doug, just real quick. I think the other difference that's really – although the widebodies are going to be a bit of a challenge over the next couple of years, the size of our defense and aftermarket business by the time we get to 2023, 2024 is substantially more significant than it was back in 2016. And so aftermarket is definitely going to be accretive to the margins above the target of 16.5%. Defense revenues will be very solid, significantly higher than it was back in 2016 and the normal defense margins will help as well.

So although the widebodies and the 777 will be a bit of a headwind and not contribute as much as it did back in 2016, I think the defense and aftermarket diversification and growth, along with stronger 737 MAX production rates and the A320 continue to go up, gives us a really good shot to hit those 16.5% margins. Sorry for interrupting.

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Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC

Q

So if I can – no, that's okay, it's very helpful because – if I can just clarify one thing. Back in normal times, you would – Spirit would share operating leverage, both the benefits – both sides of it, with the customer. And now we are obviously in very different times where rates are way down. And back then you probably would have gotten a benefit on pricing when rates came down.

Now, when you look at these lower rates as you go forward, do you see pricing as being different for the widebodies, for the 737 MAX than you might have before? In other words, can there be benefits at these lower rates for you?

Thomas C. Gentile III

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



Right, well, the pricing on all the programs for Boeing and Airbus is more or less set out into the future based on some of the negotiations that we did. So – but on the 737 MAX, one of the things that we did with Boeing is pricing goes out to 2033 but it is indexed to rate.

So at the lower rates, the price is higher for Spirit and then when the rates go up, then the rates get lower for Boeing. But at lower rates, obviously there would be a pricing benefit. That's just the way the pricing is tiered on the 737 MAX. On the other programs, it's more or less fixed and it's set out on the – for example on the 787 program, pricing goes out to line unit 1805. And...

Mark J. Suchinski

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



But we do get a step-up at 1405.

Thomas C. Gentile III

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



We do get a step-up at 1405. Correct. And on A350, the pricing goes out to line unit 1600. So those programs are all very well far out into the future and the 737 MAX pricing goes out to 2033 but it's indexed to rate.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Co. LLC



Okay, thank you very much.

Thomas C. Gentile III

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



Welcome.

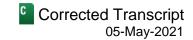
Operator: Our next question comes from Hunter Keay from Wolfe Research. Please go ahead with your question.

Hunter Keay

Analyst, Wolfe Research LLC



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Okay. Thanks. Just a follow up on that question; have you ever, Tom, renegotiated or opened up existing contracts as part of a broader negotiation when negotiating work on future contracts before and is that something you expect might happen again, if it has in the past?

Thomas C. Gentile III

A

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

Yeah, I mean I would say negotiations in our industry are dynamic and kind of continuous. And so there's always discussions on them. But as I said, on all of our programs, and this was a big accomplishment in 2017 and 2018, is we negotiated very long-term contracts with Boeing and Airbus on all the programs going out either to line units far into the future or to a specific time period like 2033 for the 737 MAX.

So those are locked in. And we are now driving all of our productivity improvements, things that I've talked about in the past about digitizing our factories, driving world-class competitiveness in our supply chain, continuing to lower our overhead and optimize our fixed costs. So, all those things are things that we're working on to improve our productivity now that we have our pricing locked in place with Boeing and Airbus on all the programs far out into the future.

Hunter Keay

Analyst, Wolfe Research LLC

Thank you.

Operator: Our next question comes from George Shapiro from Shapiro Research. Please go ahead with your question.

George D. Shapiro

Analyst, Shapiro Research LLC

Q

Yes. I wanted to know in the next several quarters how do you get effectively close to breakeven cash flow when you've got minus \$200 million in the first quarter here? And I think you still have like a \$130 million pension payment to Bombardier. I think the Boeing advance is actually deferred to 2022 but can you just kind of walk through a little bit of that?

Mark J. Suchinski

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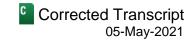
Chief Financial Officer & Senior Vice President, Spirit AeroSystems Holdings, Inc.

Sure, George. I think as we said, we're going to – we're forecasting cash flow usage in the year of somewhere between \$200 million to \$300 million and that includes the cash tax benefit. So, if you exclude the cash tax benefit that would suggest our cash flow usage from the year would be somewhere between \$500 million and \$600 million. The first quarter was a tough quarter for us, came off of lower deliveries in the fourth quarter, so some of our receipts were a tad bit lower than we're projecting for the rest of the year.

We're seeing narrowbody rates start to recover or increase here in the second quarter and into the back half of the year. And that will provide us some receipts left as well as kind of managing and destocking our inventory over the course of the next – over the next nine months here. So, we think that the first quarter is going to be our toughest quarter as it relates to cash flow usage.

Second quarter, at this stage of the game, we're seeing some good trends. We expect to continue to see improvement as we move into the third and fourth quarter. There is still with the pandemic some choppiness that

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are going out there, but we should see incremental improvements in our cash flow usage over the course of the next three months.

And then, as we talk about how do you get to cash-flow-positive, a lot of that is going to be highly dependent on the commitments by the OEMs, specifically on 737 MAX getting to 31 aircraft per month next year. And Airbus meeting their targets of 43 shipsets per month, 45 shipsets per month in the fourth quarter. And so, the narrowbody recovery as we move into 2022 we believe provides us the path to cash-flow-positive.

Thomas C. Gentile III

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

A

And I would add one other thing, George, which is on working capital, specifically inventory, last year, there were so many production rate changes and they happened so suddenly, we ended up accumulating a lot more inventory. Now, the positive to that is, of course, is that it helped the supply chain. They had cash flowing into them last year.

But this year, we've seen some destocking starting. So, we're now placing orders as rapidly this year because we're able to burn down that inventory. And so, our working capital efforts are very significant, very rigorous and that will also help us achieve cash flow improvements over the course of this year into next year.

Mark J. Suchinski

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

A

Hope that helps, George.

George D. Shapiro

Analyst, Shapiro Research LLC



Yeah. I thought you had – on that working capital number, Tom, I thought on the fourth quarter Mark had said somewhere you would expect \$400 million or \$500 hundred million of working capital liquidation. Is that a correct number here?

Mark J. Suchinski

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



I'm not quite sure we were that specific. I think what we said in 2020 that working capital consumed about \$500 million of cash in 2020. And we expect that from a working capital standpoint, as Tom just indicated, we're going to get some benefits from destocking the inventory. We're going to consume the inventory. We're not going to have to restock. We're managing our min/maxes very tightly.

Our very – our deterministic PO placement is all in alignment. We provided a lot of support to our suppliers last year, and this year, we're really going to get focused on days on hand, inventory turns, and a lot of that benefit will happen in the back half of the year as the single-aisle production rates increase that will help accelerate the destocking.

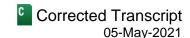
Obviously the – you saw that we delivered 29 units on the 737 MAX in the first quarter. We expect to deliver higher than that in the second, third and fourth quarter, and that will help us as we consume some of that extra inventory which will free up some cash as we move forward through the balance of the year.

Mark J. Suchinski

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



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Okay. Thanks a lot.

Thomas C. Gentile III

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

Okay. Sure, George.

Operator: And our next question comes from Kristine Liwag from Morgan Stanley. Please go ahead with your question.

Kristine Tan Liwag

Analyst, Morgan Stanley

Hey, good morning, guys.

Thomas C. Gentile III

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

Morning, Kristine.

Mark J. Suchinski

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

Morning, Kristine.

Kristine Tan Liwag

Analyst, Morgan Stanley

Tom, can you provide more details on the size of potential earnings upside through your joint venture agreement with Evergreen? And also how should we think about priorities for cash usage regarding debt pay-down versus pursuing more aftermarket either through partnerships like this or through M&A?

Thomas C. Gentile III

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

Right. Let me turn it over to Sam to talk about the EGAT JV and then I'll address the issue on capital allocation for M&A and debt.

Samantha J. Marnick

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

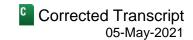
Right. In terms of the EGAT JV, we haven't talked about or disclosed expectations regarding revenue. Really what it's about at this point, Kristine, is building our scope and our bandwidths across regions. It's about taking our repair portfolio across to the Asia region. And that's what this JV primarily is about right now, and we're in the initial stages of forming the JV as well.

Thomas C. Gentile III

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

Yeah. But as Sam said, what it gives us now is the third leg to the stool is we have Boeing repairs, we have Airbus repairs; now with Applied Aerodynamics, we have radome repairs and cargo door repairs as well as flight control surfaces. And we have those in Europe. We have them in the US. And now with EGAT JV, we have them in Asia. And so it gives us a very nice balanced overall program.

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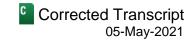
Now, with regard to our capital allocation in terms of debt versus inorganic growth, the primary focus as we have discussed is to de-lever and to use cash flow over the next couple of years and cash on hand to pay down our debt on the schedule that Mark talked about. So, another \$700 million over the next couple of years. That said, we continue to look opportunistically at opportunities that arise in aftermarket or in defense that could be interesting.

And if we see opportunities like we did with Applied Aerodynamics, we'll take advantage of those and we'll allocate the capital. But to do that, it would have to be obviously strategically fit with what we are looking for and have a good return profile. But we'll make those decisions on an opportunistic basis. But the primary goal and priority will be the debt delevering over the next couple of years.

Kristine Tan Liwag Analyst, Morgan Stanley	Q
Great. And then also when you look out a few years on aftermarket, do you have a target size that you want be as a percent of your overall portfolio?	it to
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Well, we said we want it to be the \$500 million by 2025. But if we think about our vision for Spirit in the future we think about diversifying into defense and aftermarket, in an ideal world we'd be 40% commercial, 40% defense, and 20% aftermarket. That would be a nice balanced portfolio for the future.	, as
Kristine Tan Liwag Analyst, Morgan Stanley	Q
Thanks.	
Operator: And our next question comes from Robert Stallard from Vertical Research Partners. Please go a with your question.	head
Robert Stallard Analyst, Vertical Research Partners LLC	Q
Thanks so much. Good morning.	
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A
Good morning.	
Mark J. Suchinski Chief Financial Officer & Senior Vice President, Spirit AeroSystems Holdings, Inc.	A
Good morning, Robert.	
Robert Stallard Analyst, Vertical Research Partners LLC	Q

Tom, on the Airbus call last week, the CEO is talking about their plan for a steep ramp-up in the narrowbody production next year and potentially the year after that. And I was just wondering how well-prepared is Spirit and

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your supply chain for such a steep ramp if it does occur especially when you are talking about sort of destocking some of your supplies this year? It's a pretty radical switch in trajectory for your supply chain.

Thomas C. Gentile III

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

A

Well, we feel very well-prepared. We've been working closely with Airbus. We very well understand what their plans are for rate increases this year and next year and beyond. And we are lined up with that. Now, of course that means we have to work with our supply chain and have to work very closely; 65% of our cost basis is with the supply chain and they are absolutely critical partners.

We have a very detailed methodology for rate readiness that we are working with our suppliers. It's gated. There are dashboards. We have regular operating mechanisms to monitor it but it looks at things like material orders.

For the most part infrastructure, capital, that's all in place. We have to make sure that they didn't mothball anything during this pandemic period. But those things for the most part are in place.

The keys are the raw material orders and then also rehiring some of the labor to make sure that that's in place. And so we have a pretty rigorous mechanism in place with the suppliers.

The other thing we've been doing is working closely with the suppliers to provide assistance. We've reached out and helped in a variety of ways almost 600 suppliers with close to \$1.9 billion of support.

And that support includes contract extensions, inventory purchases, vendor financing programs, a variety of different mechanisms to provide support to them. So, we are prepared for the Airbus rate increases and we believe our suppliers are prepared as well based on our rate readiness efforts.

Robert Stallard Analyst, Vertical Research Partners LLC	Q			
That's great. Thank you very much.				
Operator: Our next question comes from Noah Poponak from Goldman Sachs. question.	Please go ahead with your			
Noah Poponak Analyst, Goldman Sachs & Co. LLC	Q			
Hi. Good morning, everyone.				
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	Α			
Morning, Noah.				
Mark J. Suchinski Chief Financial Officer & Senior Vice President, Spirit AeroSystems Holdings, Inc.	Α			
Good morning.				

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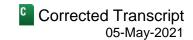
Noah Poponak Analyst, Goldman Sachs & Co. LLC	Q			
How many 737 MAX shipsets does your current plan have you deliver to Boeing in 2022?				
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A			
Well, at this point, it's too early really to project that. There's a lot of uncertainty in the market. We Boeing's lead and determine after we get through this year what next year is. But we'll wait to set It's still a very dynamic environment; 2022 seems like a long way out.				
Noah Poponak Analyst, Goldman Sachs & Co. LLC	Q			
Okay. And does the news that FAA is asking for more analysis, documentation on the electrical change your pace of 737 MAX shipset to Boeing in the near term here? Or is Boeing's latest affischedule to you with the knowledge of needing to do that?				
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.	A			
Well, of course, anything the FAA does could impact the 737 MAX situation. But we're not expect the current outlook. Boeing hasn't made any indication that it would, but it's a dynamic situation. But at this point, we have no reason to believe that it will.	-			
Noah Poponak Analyst, Goldman Sachs & Co. LLC	Q			
Okay. Thank you.				
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc. Thank you.	A			
Operator: Our next question comes from Michael Ciarmoli from SunTrust. Please go ahead wi	th your question.			
Michael Ciarmoli Analyst, Truist Securities, Inc. Hey. Good morning, guys. Thanks for taking the questions.	Q			
Thomas C. Gentile III President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc. Morning.	A			

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

Mark J. Suchinski

Morning, Michael.

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Michael Ciarmoli

Analyst, Truist Securities, Inc.

Just one – how are you guys? Just on the topic of excess capacity costs. It looks like there was a reasonable sequential step-up from the fourth quarter and I think you guys had been targeting to get those down 30% from that \$280 million level last year. What are the puts and takes there? I mean I'm imagining fewer A350s contributed to that. But how should we think about this excess capacity costs?

Mark J. Suchinski

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

Yeah. Michael, let me walk you through that. You're exactly right. Our excess capacity costs were a tad bit higher here in the first quarter compared to the fourth quarter. I would say a couple of things contributed to that. With the recent acquisition of the Belfast site, the A220 program will have excess capacity costs in addition to the A320 and the 737 MAX.

And one of the items that drove a little bit of pressure on excess costs specific to the 737 MAX program is we went through a bit of a rate break here in the first quarter, higher rate break, and we had to bring on resources ahead of the higher delivery profile. And that cost some additional excess costs to unload here in the first quarter.

We are still committed to the 30% reduction year-over-year. We've got a line of sight to that. We expect excess costs to continue to trend lower in the third quarter – or in the second quarter, third and fourth quarter. The excess costs came really right onto what our projection was for the first quarter. And we will expect to see significant improvement as we step up in rate on the 737 MAX over the course of the next nine months here.

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Analyst, Truist Securities, Inc.

Got it. Perfect. Thanks, guys. I'll keep it to one.

Mark J. Suchinski

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

Sure. Thank you.

Operator: Our next question comes from Peter Arment from Baird. Please go ahead with your question.

Peter J. Arment

Analyst, Baird Equity Research

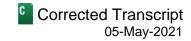
Yeah. Good morning, Tom and Mark. Hey Mark, just a quick one. First, if you have it, do you have the acquired revenues for the first quarter? And then just Tom, related to employment levels, I mean outside of the Bombardier acquisition, how are you – what kind of levels do you think you'll be adding back to this year? Any color you could give us on that and what you're seeing there. Thanks.

Thomas C. Gentile III

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

Okay.

Q1 2021 Earnings Call



Mark J. Suchinski

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

Peter, let me just jump on the revenue side of things. We're not going to specifically disclose the acquisition revenue but the revenues for the year continue to hold at roughly \$700 million. I would say that probably slightly on a run rate basis, slightly higher in the back half of the year. But I think that's pretty much how we see the acquired assets as we think about the business jet programs, the A220 wing and the aftermarket revenues that we acquired.

Peter J. Arment

Analyst, Baird Equity Research

Appreciate that, Mark.

Thomas C. Gentile III

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

Right, and I'll take the employment question. Yeah, I'll take the employment question. Last year was a difficult year for Spirit with the dual crises of the 737 MAX grounding and then the pandemic. We ended up having to reduce our commercial head count by 8,000 workers across the world. Very difficult.

Now, little bit of an offset, on defense we shifted about 800 people to defense including a lot of engineers as the defense program started to grow. As you may recall, we built ventilators last year. We built over 20,000 ventilators and that kept about 1,000 people employed during the course last year. But overall, the commercial programs lost 8,000 people.

Now, this year, as we got into the year, you saw that the A320 numbers actually went down from 188 to 130 and widebody programs went down in the first quarter as well. But that was offset by the narrowbody programs on the 737 MAX increasing. So we started to increase the production. So last year we were at 18. This year we were 29 and we're continuing to increase.

So, we've actually started to call back workers in Wichita. So, so far to date between hourly and some salaried employees, we've recalled about 600 employees back in Wichita and we expect to recall probably double that over the course of the year.

And the other thing is on 787 because the production rates went down, last year we were at 14, this year we were at 5, we were expecting initially to have to reduce that workforce. But ironically, and good for the workforce, the rework has required us to keep that workforce in place on the 787 and we'll keep that in place for some time.

So, some good news in terms of the recall of workers particularly in the Wichita area as the 737 MAX production rates start to recover.

Peter J. Arment

Analyst, Baird Equity Research

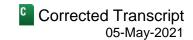
Good to hear. Thanks, Tom.

Thomas C. Gentile III

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

Thank you.

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Operator: And ladies and gentlemen, with that we're going to conclude today's question-and-answer session and conference call. We do thank you for attending today's presentation. You may now disconnect your lines.

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