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Spirit AeroSystems Holdings, Inc. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

[Operator Instructions]. Your first question comes from the line of David Strauss with UBS. Please proceed.

David Strauss - UBS

Good morning. Thank you. Rick, can you just give a little bit more color in terms of what you are thinking about margins as we go forward through the year? Obviously, did the 12.6 the quarter just include a small come adjustment? 787, while at a mid-low margin, is not going to be ramping up as we go through the year. We are just? if you can hold these kind of margins, it would imply much higher numbers than when you are talking about on the EPS side. So what are kind of the offsets as to why margins won't hold at these levels as we go through the year?

Rick Schmidt - Executive Vice President and Chief Financial Officer

Yeah, good question, David. A couple of things. I think, the first quarter is probably going to be the low point in the year for SG&A and R&D spending, with some of the new programs that we have announced and potentially some other things coming online. We would expect R&D spending to increase in the second half. I think, we would also expect some modest increases in SG&A. You mentioned the 787, that obviously the revenues that we do recognize in '08, will be at lower margins as we have said. We are also being cautious about the impact that the changes in 787 schedules are going to have on our business. And as Jeff mentioned, we have done extensive review of this. We believe we have the actions in place to mitigate the impact on all of our programs. But we are being cautious about how that plays out over the course of the next couple of quarters.

David Strauss - UBS

Okay. And then on the working capital side, the inventory build. Can you give us a little bit of color, is that going to slow as we go through the year? It seems like that's what you are implying, or is it going to, just kind of gauge that for us, obviously last year you had a pretty big build, is it going to be that big this year as well?

Rick Schmidt - Executive Vice President and Chief Financial Officer

Well, I think there again, the first quarter will probably be the high point for increase in working capital; because as you can appreciate with the recent changes, as of just a quarter or two ago, we were expecting to have much higher deliveries of 787s in 2008. So some of that working capital is (inaudible) now. But I do expect the first quarter will be the high point. You know, working capital was up about \$150 million in the first quarter. I would expect that the rest of the year, we will see some

working capital increase, but probably no more than that for the next three quarters, versus what we did in the first quarter.

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