Spirit AeroSystems Holdings Q1 2009 Call Transcript

Question-and-Answer Session

Operator

Thank you, sir. (Operator Instructions). Our first question will come from the line of Howard Rubel of Jefferies.

Howard Rubel - Jefferies & Co.

Thank you. Good morning, gentlemen.

Jeff Turner

Good morning, Howard.

Rick Schmidt

Good morning, Howard.

Howard Rubel - Jefferies & Co.

I want to talk about gross margin a little bit. I mean, it's significantly better than the fourth, but not quite as good as you've done. Could you put it in context of what you'd like to see for the balance of the year. And I mean, there are a number of offsetting items you have at some point of 320 rate change of 737, you might want to be preparing for some change there. And then, the 787 obviously becomes a greater part of the mix.

So how should we think about what you're going to do with them, what you can do with gross margin to improve it from where it is and deal with some of the challenges?

Jeff Turner

Well I think Howard. First of all clearly margins do come under pressure in reducing volume environment. Also I'd remind you of the difference in margins as we shift to newer products, specifically the 787, we've talked about that in the past.

Clearly, we remained focused on working margins and productivity in our processes and so on. But I do think we're in a period of time where margin expansion is going to be difficult, and managing it to the right balance is appropriate for us, as we look to manage effectively through whatever downturn happens to be here, and prepare our self for the upside. Rick, you have anything to add to that?

Rick Schmidt

Yeah, I would add to that Jeff. If you just look at margins for the remainder of 2009, and I got you saw from the margin percentage standpoint in the first quarter is pretty much what you'll see for the rest of the year.

Now right now, all of our current contract locks largely extend through the end of this year. So, we're approaching to end of these locks and usually at the end of the blocks you don't have a lot in away of the prices or adjustments in your contract profitability, because most of it is driven by actual costs it's behind you.

So, pretty consistent margins in the second half, Jeff mentioned mix, certainly, 787 as we've talked about in prior calls has lower margin on a base business. So that picks up, that will generate some downward pressure on margins. But offsetting that is some revenue recognition and profit recognition on some of our newer programs, which have somewhat better margins than our legacy programs, and also our aftermarket business continues to do well. And it has somewhat better margins than our legacy business.