

## Spirit AeroSystems (SPR)

**\$21.84** (As of 08/13/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 08/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

### Summary

Spirit AeroSystems ended the second quarter of 2020 with both earnings and revenues lagging their respective Zacks Consensus Estimate. It is one of the largest independent non-OEM aircraft parts designers. Both commercial and defense aerospace markets offer immense growth opportunities ahead. It strives to become more innovative by investing in technology and automation. These investments will be aimed at reducing costs and also allow the company to meet increasing production rates on many of its programs. However, the 737 MAX situation will continue to present challenges to its liquidity, at least in the near future. Some of its customers have temporarily suspended production, which has delayed its delivery schedules, thereby affecting revenue recognition timing. The stock has underperformed the industry over the past year.

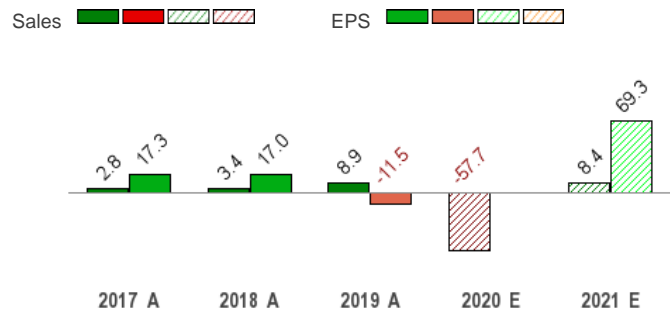
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$92.81 - \$13.69
20 Day Average Volume (sh)	4,741,649
Market Cap	\$2.3 B
YTD Price Change	-70.0%
Beta	1.39
Dividend / Div Yld	\$0.04 / 0.2%
Industry	<a href="#">Aerospace - Defense Equipment</a>
Zacks Industry Rank	Bottom 15% (215 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-91.6%
Last Sales Surprise	-20.1%
EPS F1 Est- 4 week change	-54.6%
Expected Report Date	10/29/2020
Earnings ESP	-16.3%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.4

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	660 E	647 E	855 E	916 E	3,604 E
2020	1,077 A	645 A	801 E	812 E	3,325 E
2019	1,968 A	2,016 A	1,920 A	1,959 A	7,863 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.43 E	-\$0.32 E	\$0.10 E	\$0.28 E	-\$1.25 E
2020	-\$0.79 A	-\$2.28 A	-\$0.75 E	-\$0.51 E	-\$4.07 E
2019	\$1.68 A	\$1.71 A	\$1.38 A	\$0.79 A	\$5.54 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 08/13/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/14/2020.

## Overview

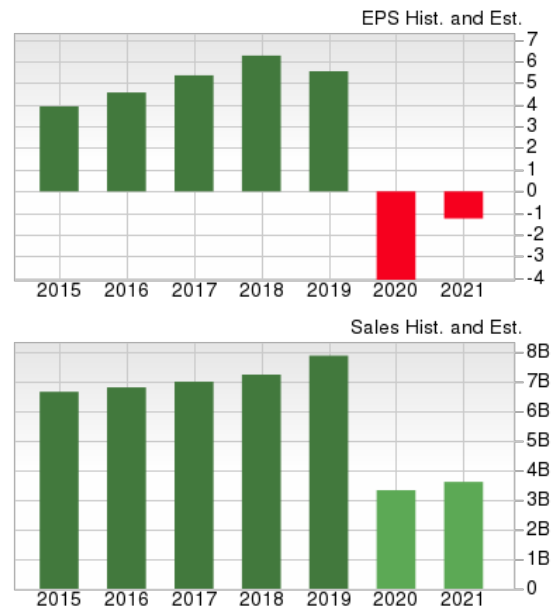
**Spirit AeroSystems Holdings, Inc.** is one of the largest independent non-OEM aircraft parts designers and manufacturers of commercial aerostructures in the world, in terms of annual revenues. The company's core products include fuselages, pylons, nacelles and wing components. It has long-term agreements in place with our largest customers, Boeing and Airbus. Other major customers include Bell Helicopter, Bombardier, Mitsubishi, Northrop Grumman, Rolls-Royce, and Sikorsky. Incorporated in 2005, it is also the largest independent supplier of aerostructures to Boeing and Airbus —the two largest aircraft OEMs — globally. Aerostructures are structural components such as fuselages, propulsion systems and wing systems for commercial and military aircraft. The company also provides aftermarket services, including MRO services, through its Global Customer Support & Services organization.

The company operates through three business segments namely — Fuselage Systems, Propulsion Systems and Wing Systems.

**Fuselage Systems** includes development, production and marketing of forward, mid and rear fuselage sections and systems, mainly aircraft OEMs, as well as related spares and MRO. The segment generated sales of \$4,206.2 million in 2019, representing 54% of total business sales.

**Propulsion Systems** includes development, production and marketing of struts/pylons, nacelles (including thrust reversers), and related engine structural components. This division generated sales of \$2,057.8 million in 2019, representing 26% of total sales.

**Wing Systems** segment includes development, production and marketing of wings and wing components (including flight control surfaces), and other miscellaneous structural parts. It generated sales of \$1,588.3 million in 2019, representing 20% of total sales.



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## Reasons To Buy:

- ▲ Spirit AeroSystems is currently focusing on executing its supply-chain strategy, improving productivity and meeting its customers' requirements for production rate changes. Additionally, it strives to become more innovative by investing in technology and automation. These investments will be aimed at reducing costs and also allow the company to meet increasing production rates on many of its programs as well as ensuring its competitiveness for the next generation of aircraft.

Strategic acquisitions and investments in technology are expected to benefit Spirit AeroSystems

Moreover, the novel coronavirus-led uncertainty has dealt a huge blow to the global aviation industry. Big house jet makers like Boeing and Airbus have reduced their production rates. Spirit AeroSystems continues to take full advantage of this period of reduced production to implement initiatives that are harder to achieve at full run rates and to improve quality and efficiency. These initiatives include optimizing product flows, streamlining factories, accelerating automation, digitizing projects and completing the transition to its Global Digital Logistics Center. These initiatives are projected to boost the company's future production rates with increased productivity and improved quality. In the long-term, the company believes that the aviation industry will return to robust growth, as projections for long-term air traffic are still strong and both Boeing and Airbus each is retaining a significant backlog. The company remains confident in the ultimate recovery of commercial air travel, thereby maintaining its position as a leading aerostructure supplier to both Boeing and Airbus.

- ▲ In January 2020, Spirit Aerosystems closed its purchase of Fiber Materials, an industry-leading technology company specializing in complex composite solutions that are primarily used in aerospace applications. Fiber materials also build high-temperature materials, which are used in priority programs such as hypersonics. The acquisition of Fiber Materials aligns with the company's strategic growth objectives to diversify its customer base and expand the current defense business. Fiber Materials' advanced capabilities in high-temperature materials, combined with Spirit Aerosystems' expertise in industrializing next-generation aerostructures, can be expected to create a critical capability to industrialize state-of-the-art defense technologies essential for the advancement of hypersonic weapons.
- ▲ Toward the end of October 2019, Spirit AeroSystems announced its plans to acquire select assets of Bombardier aerostructures and aftermarket services businesses in Belfast, Casablanca and Dallas. In spite of the negative impact of the COVID-19 pandemic on production rates, Spirit AeroSystems still plans to proceed with its acquisitions of Asco and Bombardier's aerostructures unit. These planned acquisitions align well with the company's priorities of capturing more business from aircraft manufacturing giant, Airbus, and expanding its low-cost country footprint and scaling aftermarket businesses with good long-term shareholder returns. The deal will also strengthen Spirit AeroSystems' relationship as a key supplier to Airbus through the A220 wing and the A320neo thrust reverser. The acquired business also brings in a world-class aftermarket business, which more than doubles Spirit's geographic reach on a global scale. Furthermore, the company expects to realize approximately \$60 million in synergies from the planned acquisition.

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## Reasons To Sell:

- ▼ The U.S. Aerospace giant, Boeing, temporarily suspended 737-production beginning this January. This has affected Spirit AeroSystems as well, as the company makes 70% of the structure for the 737 MAX aircraft. Before the suspension, Boeing had started to lower its production rate for the 737 program. This resulted in the company incurring disruption costs, along with costs associated with quality improvement in the last two quarters of 2019. While the company has taken actions to align its cost structure to the lower 2020 production rates, the benefit of such actions will be realized over time and the 737 MAX situation will continue to present challenges to Spirit AeroSystems' liquidity, at least in the near future. Unfortunately, these challenges are exacerbated by the COVID-19 pandemic as other programs that alleviate the strain of the lower B737 MAX production rate are now suspended or producing at lower rates.

Uncertainty revolving around Boeing's 737 Max may hamper the stock's growth. Its unfavorable financial ratios also pose risk

This must have resulted in the Spirit AeroSystems' stock underperforming the industry in the past twelve months. The stock has lost 69.6% compared with the industry's decline of 33.3% during this time period.

- ▼ The COVID-19 pandemic has created significant uncertainty for Spirit AeroSystems. Notably, aviation demand has deteriorated significantly due to the pandemic and responsive government preventative measures. As more and more aircraft were grounded following the virus spread, some of Spirit AeroSystems' customers have temporarily suspended production, which has delayed its delivery schedules, thereby affecting revenue recognition timing. Airlines have been deferring deliveries, given their economic position, which is weighing on production rates of all of the company's programs for both Boeing and Airbus.

In June, Boeing directed Spirit AeroSystems to produce 72 units for 2020, drastically down from the previous rate of 125 for 2020 and the 606 units produced in 2019. As both Boeing and Airbus completely stopped all production for a period of time during the second quarter, Spirit AeroSystems' second-quarter deliveries decreased 88% from 2019 and 51% from the first quarter of 2020, which have had a negative impact on its financial condition. As the pandemic is still ongoing and its impacts are here to stay, the company expects to deliver poor operational performance in the remaining of 2020.

- ▼ Spirit AeroSystems had long-term debt of \$3,091 million as of Jun 30, 2020, while its current debt value was \$358 million. Both long-term debt and current debt witnessed a sequential rise. The company's cash and equivalents as of Jun 30 were \$1,947 million, considerably lower than its long-term debt value, although higher than its current debt. This indicates a weak solvency position for the stock.

Further, the company's debt-to-capital ratio at the end of second-quarter 2020 was 0.73, higher than the quarter-ago level of 0.68 and also the highest in the trailing eight quarters. Such unfavorable financial ratios are a concern for this stock amid the uncertainty caused by the COVID-19 pandemic. Further, the company fears that if Boeing is unable to return its 737 MAX to service in one or more jurisdictions and begin timely deliveries to customers, and if production levels of Boeing or Airbus are reduced beyond current expectations due to depressed demand on account of the COVID-19 pandemic, the company's liquidity position may further worsen.

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## Last Earnings Report

### Spirit AeroSystems Q2 Earnings Miss, Revenues Down Y/Y

Spirit AeroSystems Holdings, Inc. reported second-quarter 2020 adjusted loss of \$2.28 per share, wider than the Zacks Consensus Estimates of a loss of \$1.19. In the previous year's second quarter, the company reported adjusted earnings of \$1.71 per share.

Barring one-time adjustments, the company reported a GAAP loss of \$2.46 per share against the earnings of \$1.61 in the year-ago quarter.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	-20.05%
EPS Surprise	-91.60%
Quarterly EPS	-2.28
Annual EPS (TTM)	-0.90

### Highlights of the Release

Total revenues of \$644.6 million missed the Zacks Consensus Estimate of \$806 million by 20%.

Moreover, the top line plunged a massive 68% from \$2,016 million in the year-ago period. The decline in revenues was primarily due to the significantly lower 737 MAX production, resulting from the grounding of the program, and the impacts of COVID-19.

Backlog at the end of second-quarter 2020 was \$41 billion, lower than \$42 billion in the prior quarter.

### Segment Performance

**Fuselage Systems:** Revenues in the segment declined 70.2% to \$327.1 million from \$1,096.8 million registered in second-quarter 2019, primarily due to lower production volumes on the Boeing 737 and 787, and Airbus A350 programs.

**Propulsion Systems:** The segment recorded revenues of \$169.6 million in the reported quarter, down 67.3% from \$518.9 million a year ago. The downside can be attributed to lower production volumes on the Boeing 737 program.

**Wing Systems:** Revenues in the segment deteriorated 69.3% to \$122.5 million from \$398.5 million in the prior-year quarter. The downside was primarily due to lower production volumes on the Boeing 737 and Airbus A320 and A350 programs.

### Operational Highlights

Total operating costs and expenses declined 43.5% year over year to \$1,011.6 million on account of lower cost of sales; decreased selling, general and administrative expenses; and reduced research and development expenses.

The company incurred an operating loss of \$367 million in the second quarter of 2020 against operating earnings of \$226 million in the prior-year quarter.

### Financial Position

As of Jul 2, 2020, Spirit AeroSystems had \$1,947.1 million in cash and cash equivalents compared with \$2,350.5 million as of Dec 31, 2019.

At the end of the first six months of 2020, long-term debt totaled \$3,050.6 million compared with \$2,984.1 million at the end of 2019.

Net cash used in operating activities increased to \$559.7 million at the end of second-quarter 2020 against net cash inflow of \$471.7 million at the end of second-quarter 2019.

Capital expenditures summed \$20 million during the second quarter, down from \$37 million in the prior-year quarter.

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## Recent News

On **Jun 25, 2020**, Spirit AeroSystems joined in partnership with Virgin Hyperloop as it prepares to move towards a commercial product. The collaboration will help to solidify the hyperloop prototype utilizing Spirit Aerosystems engineers, fabricators, builders, supply chain and certification experts, and technicians.

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## Valuation

Spirit AeroSystems' shares are down 70.1% in the year-to-date period and 69.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 39.7% and 30.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 33.3% while the sector is down 30.1%.

The S&P 500 index is up 4.7% in the year-to-date period and 18.8% in the past year.

The stock is currently trading at 0.7X forward 12-month sales, which compares to 1.5X for the Zacks sub-industry, 1.7X for the Zacks sector and 3.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.6X and as low as 0.4X, with a 5-year median of 1X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$19 price target reflects 0.57X forward 12-month sales.

The table below shows summary valuation data for SPR

Valuation Multiples - SPR					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.66	1.46	1.72	3.7
	5-Year High	1.64	1.46	1.72	3.7
	5-Year Low	0.35	0.79	0.92	2.53
	5-Year Median	1.04	1.05	1.18	3.05
EV/EBITDA TTM	Current	23.97	9.59	16.53	12.78
	5-Year High	25.77	12.18	16.67	12.84
	5-Year Low	2.53	5.99	7.38	8.24
	5-Year Median	7.83	8.87	10.59	10.9
EV/SALES F 12M	Current	1.06	1.86	2.05	3.29
	5-Year High	1.72	1.88	2.06	3.52
	5-Year Low	0.49	1.06	0.99	2.28
	5-Year Median	1.11	1.34	1.42	2.85

As of 08/13/2020

## Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
AAR Corp. (AIR)	Neutral	4
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Neutral	3
CurtissWright Corporation (CW)	Neutral	3
Hexcel Corporation (HXL)	Neutral	4
Teledyne Technologies Incorporated (TDY)	Neutral	2
Triumph Group, Inc. (TGI)	Neutral	4
Astronics Corporation (ATRO)	Underperform	4
Heico Corporation (HEI)	Underperform	4

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	SPR	X Industry	S&P 500	ATRO	CW	HEI
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	4	3	4
VGM Score	C	-	-	A	B	C
Market Cap	2.31 B	686.94 M	23.58 B	312.79 M	4.45 B	14.28 B
# of Analysts	6	4	14	2	4	4
Dividend Yield	0.18%	0.00%	1.68%	0.00%	0.64%	0.15%
Value Score	B	-	-	B	A	D
Cash/Price	0.89	0.15	0.07	0.14	0.04	0.03
EV/EBITDA	3.41	8.64	13.34	4.09	9.92	27.02
PEG Ratio	NA	7.56	2.99	NA	NA	8.05
Price/Book (P/B)	1.82	2.42	3.20	1.07	2.60	7.56
Price/Cash Flow (P/CF)	2.74	7.87	12.83	5.03	11.00	35.67
P/E (F1)	NA	27.15	21.99	NA	15.72	51.06
Price/Sales (P/S)	0.41	1.36	2.53	0.48	1.84	6.97
Earnings Yield	-18.64%	2.78%	4.35%	-31.76%	6.36%	1.96%
Debt/Equity	2.43	0.39	0.77	0.59	0.57	0.39
Cash Flow (\$/share)	7.97	2.26	6.94	2.02	9.72	2.97
Growth Score	C	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	8.10%	10.59%	10.41%	-23.20%	18.25%	23.92%
Proj. EPS Growth (F1/F0)	-173.53%	-17.58%	-6.32%	-454.40%	-6.43%	-9.78%
Curr. Cash Flow Growth	-10.39%	12.73%	5.20%	-23.43%	7.60%	23.18%
Hist. Cash Flow Growth (3-5 yrs)	3.45%	5.32%	8.55%	-8.28%	7.51%	20.26%
Current Ratio	2.71	2.71	1.33	2.90	1.91	4.39
Debt/Capital	70.89%	33.12%	44.59%	37.18%	36.20%	33.12%
Net Margin	-3.93%	4.46%	10.13%	-18.79%	10.52%	17.78%
Return on Equity	-6.11%	8.92%	14.51%	-0.93%	16.75%	20.70%
Sales/Assets	0.79	0.73	0.51	0.86	0.67	0.66
Proj. Sales Growth (F1/F0)	-57.72%	0.00%	-1.43%	-36.85%	0.22%	-17.14%
Momentum Score	F	-	-	A	F	C
Daily Price Chg	-1.62%	-0.19%	-0.44%	0.39%	-0.87%	1.19%
1 Week Price Chg	6.39%	6.88%	2.30%	22.87%	15.61%	4.44%
4 Week Price Chg	-6.02%	4.84%	4.38%	6.94%	16.38%	9.59%
12 Week Price Chg	5.92%	14.59%	13.59%	9.12%	14.59%	13.80%
52 Week Price Chg	-69.57%	-19.96%	5.75%	-61.49%	-9.18%	-24.97%
20 Day Average Volume	4,741,649	146,629	1,984,154	259,503	310,638	304,569
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-3.49%
(F1) EPS Est 4 week change	-54.59%	1.75%	2.08%	15.07%	5.79%	4.90%
(F1) EPS Est 12 week change	-72.97%	-0.34%	2.66%	15.07%	5.59%	-0.34%
(Q1) EPS Est Mthly Chg	-91.51%	0.00%	0.94%	44.44%	-6.94%	-17.50%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>F</b>
VGM Score	<b>C</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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