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Manufacturing

A Boeing buyout of Spirit AeroSystems might not mean a 'deluge of pink slips'





Image: Fernando Salazar

An acquisition of Spirit AeroSystems most likely would help Boeing "de-risk" the supply chain of its 737 Max program, which has been under increased scrutiny once again.

FERNANDO SALAZAR



By **Alice Mannette** – Reporter, Wichita Business Journal
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The Spirit AeroSystems workers making the planes should be able to keep their jobs in Wichita after an anticipated acquisition by The Boeing Co., aviation analysts say, but service-based jobs in areas such as marketing and accounting would be less likely to remain.

After months of mishaps and investigations, Boeing and Spirit AeroSystems said earlier this month they're in talks about a **possible reacquisition of Spirit**, which most likely would help Boeing "de-risk" the supply chain of its 737 Max program, AeroDynamic Advisory analyst Richard Aboulafia said. The 737 is Boeing's (NYSE: BA) best-seller commercially, and Spirit (NYSE: SPR) manufactures 70% of the plane's body.

By taking over Spirit, Boeing would most likely remain in Wichita, Aboulafia said.

Want more coverage of Boeing's potential buyout of Spirit AeroSystems? Sign up for the Business Journal's Breaking News emails.

"It's actually a mutually beneficial deal for both," said Usha Haley, who is the Barton School of Business' Distinguished Chair in International Business & Kansas Faculty of Distinction at Wichita State University. "But it's not a done deal yet."

Service-area employees in legal, purchasing, marketing, accounting and other areas would probably be moved outside Kansas, a mergers and acquisitions specialist said.

"Those people would be kind of redundant," Josh Tolley, chairman of Kingsbridge Brokers in Houston, said.

An acquisition, Tolley said, would most likely keep the machinists and engineers in Wichita, and add more to their ranks, as well as "hopefully" add a layer of quality control employees.

Brian Foley, aviation analyst at Brian Foley Associates, said there could be selective culling of the management herd at Spirit, but he "wouldn't expect a deluge of pink slips." For business to succeed, he said, it would need leadership in Wichita.

"This also does something to help with their pending cases and investigations to where they get to show to the investigators, (they're) taking this seriously," Tolley said.

Foley said he does not see the Spirit plant leaving Wichita after the sale.

"You never, ever, say never, but I don't see them leaving right now – they have the facility, they have the talented, skilled workforce, they have the business backlog and they have all the tooling," he said. "To pick up and go would be pretty destructive."

But he said the acquisition would help Boeing by showing the Federal Aviation Administration "they're investing to solve this unacceptable problem with quality control."

Last week, the **FAA concluded a six-week examination** of 737 Max production lines at both Boeing and Spirit – both under increased scrutiny in the wake of a Jan. 5 incident in which **a door plug blew off a Boeing 737 Max 9** in midair. Although the full reports were not released, the agency found multiple instances where both companies "**allegedly failed to comply with manufacturing quality control requirements.**"

In the report, seen by [The New York Times](#), Spirit AeroSystems failed 7 of 13 product audits conducted by the FAA. Boeing, according to the report, failed 33 of 89 product audits. The FAA said it also found 97 counts of noncompliance by Boeing.

"One of the problems that acquisitions such as this often have is a cultural problem, but that doesn't really exist between Spirit and Boeing," Haley, the professor at WSU, said. "The CEO of Spirit said that sometimes it's difficult to tell who is a Spirit employee and who's a Boeing employee."

She said both companies share similar goals.

"There is a very high chance that if this works out, it could be a great deal for all," she said.

Haley said she hopes Boeing does not make Spirit "bare bones."

"You do need some redundancies in the company in order to function properly," she said.

There's a limited number of people and resources to fix the issues, Foley said. And with Boeing having its own quality control issues and Spirit several states away, he said it could make things tricky.

Putting dividends before quality

Foley, Haley and Tolley said their hope is that [Boeing gets back to focusing on quality](#).

"When Spirit was sold off, the Boeing management's mentality back then was just to unlock value, sell off as much as they can to make money to pay shareholders to pay the senior executives by being more profitable," Foley said.

The spinoff, he said, gained Boeing a market share and "on-paper-only profit."

"Now you see an about face, and it seems they're willing to face up to the fact that that might have not been the right decision to let Spirit go," Foley said. "Boeing is putting its strategy for the long term ahead of its short-term financial gain and shareholder payouts and executive payout."

Part of the problem with spinoffs, Tolley said, when you have companies like Boeing, is they're trying to not produce the greatest product to the marketplace; they're trying to maximize shareholder value.

There's nothing wrong with that, he said, unless the company sacrifices quality control.

What's interesting, Tolley said, is [Spirit AeroSystems put out a statement](#) March 1 that said the board of directors and management team are committed to enhancing shareholder value. The statement read, "The Spirit Board of Directors and management team are committed to enhancing shareholder value and regularly review the Company's opportunities to further this objective."

"That is probably the worst statement to make when it was your quality of products that has led to a door falling off," he said. "That sort of mentality is kind of what led to the

problem."

In early February, meanwhile, Spirit said it remains "focused on working closely with Boeing and our regulators on continuous improvement in our processes and meeting the highest standards of safety, quality and reliability."

The hope, the analysts said, is once Boeing re-acquires Spirit, it can focus more on quality control ahead of shareholder value.

The future of Spirit's interim CEO

Former Spirit president and **CEO Tom Gentile resigned at the end of September**, and interim **CEO Patrick Shanahan, who had more** than three decades experience at Boeing, stepped into the role of interim CEO. **He was appointed to Spirit's board in 2021.**

Foley said he wouldn't be surprised if Shanahan might have been placed in his position for a possible merger.

"That he went in, under the premise of helping to fix things but at the same time, I think he had a second role, which was to prepare for a possible acquisition and get things lined up and to do what has to be done for a successful transaction," Foley said. "He might have just been put there to help set up this, and then he may disappear after that."

Ken Herbert, an analyst at RBC Capital Markets, wrote in a report he thought moving Shanahan into the top position at Spirit was the company's best option to improve quality. He does not see the acquisition as fixing the issue.

"We believe ... Shanahan represents as good of a near-term solution for Boeing as it can ask for," he wrote. "Every indication has been that Shanahan has been working very closely with Boeing to address current issues with the Max."

Calhoun has served as Boeing CEO for 4 years. Under his watch, **there were two supply chain issues last year**, and all **737 Max jets were grounded for 20 months** following crashes of the Max 8 in 2018 and 2019 that killed 346 people.

Aboulafia agrees Shanahan is the right person for Spirit at the time. But he is taking it one step further.

"He would be a great replacement CEO (for Boeing)," he said. "They simply have to realize they probably need a new CEO."

Shanahan, **an MIT-trained engineer, had a three-decade-long stint at Boeing**, with 20 years in leadership. He left in 2017 to become deputy secretary of Defense, eventually becoming acting secretary from January to June 2019.

During Spirit's year-end results call Feb. 6, Shanahan said he not only wants perfection or zero defects, but he expects to change the company's entrenched top-down management style by having on-the-floor mechanics and engineers have a larger say in the process.

When might Boeing purchase Spirit

Tolley said completing an acquisition could take from six months to a year, but it "should fly through pretty smoothly" since Spirit was spun off from Boeing in 2005.

Foley and Haley said they don't expect complications, either.

"They could rush this through, especially with so many inquiries by the FAA; even the DOJ is looking into Boeing now," Tolley said. "I think regulators would be equally as incentivized to kind of push this through and fast track the deal."