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IB PERSPECTIVE

Industrials

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BOEING'S \$8.3 BILLION STRATEGIC RE- INTEGRATION OF SPIRIT AEROSYSTEMS

The end of a 20-year outsourcing experiment

JW

James Waller

Industrials Desk

\$8.3bn

ENTERPRISE VALUE

\$4.7bn

EQUITY VALUE

30%

PREMIUM

All-Stock

STRUCTURE

Dec 2025

CLOSED

Deal Overview

Acquirer: The Boeing Company (NYSE: BA)**Target:** Spirit AeroSystems Holdings, Inc. (NYSE: SPR)

Transaction Value: \$4.7 Billion Equity Value; \$8.3 Billion Enterprise Value + \$3.6 Billion Net Debt; All-stock; \$37.25/share, collared exchange ratio of 0.18–0.25x Boeing shares

Announcement Date: July 1, 2024

Closed: December 8, 2025

Acquirer Advisors: PJT Partners, Goldman Sachs, Consello (Financial); Sullivan & Cromwell (Legal)

Target Advisors: Morgan Stanley, Moelis & Company (Financial); Skadden, Arps, Slate, Meagher & Flom (Legal)

Executive Summary

On 1st July 2024, Boeing's \$8.3bn reacquisition of Spirit AeroSystems (its largest fuselage supplier) marks the pinnacle end of a 20-year experiment in large-scale aerospace outsourcing. Originally owned by Boeing, Spirit was spun off in 2005 to Onex Corporation to create an asset-light financial profile and cost-per-unit contracting. However, around the 2020 period, Boeing suffered from production issues and Spirit became one of the primary bottlenecks of these problems. Following a series of high-profile quality issues, such as the January 2024 mid-air door plug blowout on an Alaska Airlines 737 MAX 9, Boeing decided to bring back some of its suppliers in-house by reacquiring Spirit in an all-stock transaction. This decision is not seen as a strategic growth move; instead, it is seen as Boeing paying a hefty price to undo a structural decision that reduced quality on the safety-critical parts of its supply chain.

As a result of the incident on the Alaska Airlines flight, traced back to Spirit's fuselage production, the FAA responded by capping 737 MAX production at 38 aircraft per month and launching an audit into Boeing's production services. As

Boeing needed to retake command over its quality control methods while Spirit was simultaneously hemorrhaging cash, it would inevitably reacquire Spirit AeroSystems. Due to Spirit also producing Airbus parts, this transaction takes the form of a rare rescue merger, carving Spirit out in two ways. Boeing reabsorbed all Boeing-related areas of Spirit, while Airbus took control of its loss-making programmes for the A350 and A220 models. It is an unusual deal, as Boeing paid Airbus \$400mn–\$560mn to take control of their assets, highlighting the huge loss-making Airbus production areas under Spirit's management.

The deal's execution on the 8th December 2025 enables Boeing's new CEO, Kelly Ortberg, to better manage the quality of Boeing's production lines, especially across the entire fuselage production line. It also avoids further high-profile incidents for Boeing as a result of quality control issues that in the past have driven Boeing's share price down and reduced the confidence of Boeing's customers. As of recently, Boeing has successfully integrated over 15,000 employees from key sites in Kansas, Oklahoma, Scotland, and Northern Ireland.

Company Profiles

The Boeing Company (Acquirer)

Boeing in 2024 was, by most financial metrics, in distress. Its commercial division reported an operating margin of negative 43.9% in Q4 2024. This figure reflects the impact of not only the strike taking place during the quarter but the compounding effect of the January door plug incident and the FAA production cap. Cash outflows during the year of \$14.4bn forced a \$24bn equity capital raise near the end of 2024. This bought short-term liquidity but left the balance sheet with \$54.1bn of total debt and negative equity.

What drives Boeing as an acquirer here is not growth but control. Boeing has

approximately a \$521bn backlog in production demand, and so the demand is there; it is the supply issues that are in desperate need of amendment. The FAA's conditions to lift the production cap were that management would need direct accountability over the production variables of the 737 MAX. This is because it is problematic to use outsourcing for such a key part of the plane, as the quality management needs are simply too high. As there are no alternatives to Spirit, due to them holding irreplaceable tools and production knowledge in the medium term, Boeing's reacquisition eliminates the principal-agent problem in one of Boeing's most critical production processes.

Spirit AeroSystems Holdings, Inc.

Spirit was structurally faulty well before the door plug incident brought its faults to public focus. Its revenue base, consisting mainly of Boeing and Airbus at approximately 64% and 19% respectively in 2023, left it with little customer diversification. Furthermore, because of this, Spirit lacked negotiating power, leaving it with contractual pricing that was unfavourable. For example, the 737 fuselage contracts were written at rates reflecting Boeing's future production growth assumptions. So, when the MAX was grounded in 2019 and production demand declined as a result of this and the FAA production limit being imposed, Spirit could not fully utilise its full production scale as there was limited demand, even though Spirit had previously invested in a facility designed for 57 aircraft per month while operating well below that rate. This meant that by FY2023 it had accumulated losses of \$633mn on revenues of \$6.05bn.

Overall, this meant that Spirit was not selling by choice. Its balance sheet was technically insolvent; it was burning cash at an alarming rate and had lost the ability to raise extra funds on unsupported terms due to a loss of confidence by the capital markets. This meant that remaining independent would have required either Boeing to make more payments in advance, which it was already doing a lot of, or a capital restructuring under conditions of heightened uncertainty about its largest customer's production outlook. An IPO was not a credible alternative for a company with negative equity and increasing rates of losses. A sale to a third party is a

credible idea; however, this was complicated by Spirit's involvement in the defence programme, which was greatly helped by Spirit's CEO, Patrick Shanahan, who used to be the Secretary of Defence, and Boeing's implicit power to veto any transaction that would have given its competitors access to the 737 fuselage production. This meant that Boeing was in effect the only viable acquirer, and both parties knew it.

Strategic Rationale

Acquirer Motivations

The main driver is quality assurance and regulatory compliance, not a strategic move towards expansion. The FAA's January 2024 production cap was the main blockade, and to remove the cap Boeing had to demonstrate that Boeing's Safety and Quality Management System (SQMS) is integrated across the entire production process, including from suppliers. Under a contract arrangement, this meant Boeing could ask for quality directives but lacked the direct authority needed over Spirit's processes, such as its hiring, training, and machine investment decisions. The reacquisition limits the structural weaknesses within Boeing. As then-CEO Dave Calhoun stated at announcement: "By reintegrating Spirit, we can fully align our commercial production systems, including our Safety and Quality Management Systems, and our workforce to the same priorities, incentives and outcomes."

However, there is also an element of competitiveness to this decision. Airbus is operating at normal production rates substantially higher than the 737 and is not limited by the regulatory and quality issues such as the FAA production cap. Every month that Boeing is capped represents increased market share and revenue that Airbus gains. The fastest path to restoring competitiveness and thus production capacity is through Wichita.

The CH-53K (Lockheed/Sikorsky) and V-280 (Bell) represent programmes where

supply continuity is of national defence importance. This further solidifies Boeing's commitment to the US Department of Defence and thus makes it more likely to receive FTC approval conditional on continued defence supply obligations, which are normally always a strong, steady, and reliable source of revenue.

Target Motivations

Spirit received payment not in cash but in equity of Boeing in a transaction that valued it at a 30% premium on its pre-announcement price. For Spirit shareholders, this was one of the best possible outcomes under the circumstances. However, the premium seems great but is misguided, as it is a 30% premium to a share price that had already fallen approximately 60% from its 52-week high. The deal price of \$37.25 represents a fair value for a business that faced large capital raising and debt issues and disorderly restructuring.

The Airbus carve-out is also significant to the legacy of Spirit. The movement of the Airbus operations from Spirit's central control to Airbus ownership resolves a structural issue that had made Spirit incredibly challenging to manage. This is because Spirit was serving two competing companies with conflicting production schedules, price negotiations, and investment priorities — so in short, it was a nightmare to manage. Splitting the entity along customer lines was the superior solution and achieving it as a simultaneous transaction rather than a post-merger disposal was an efficient process.

Valuation Analysis

The 1.3x EV/Revenue multiple is a dramatic discount in comparison to other aerospace acquisitions, which is appropriate given Spirit's negative EBITDA, negative equity, and high customer concentration, making it economically dependent on its acquirer. The deal price of \$4.7bn equity was a fair deal where

Boeing paid approximately full recovery value for a distressed asset that it will need to invest in significantly to bring to profitability.

Boeing's all-stock acquisition structure is an interesting decision. At the time, Boeing held \$12.5bn in cash while burning through approximately \$2–3bn every quarter. The all-stock deal was concerning, as it negatively affected Boeing's credit ratings. Issuing \$4.7bn of additional equity dilution on the balance sheet, which already carried around \$57bn, would almost certainly have triggered many firms to downgrade Boeing to below investment-grade stock. This would increase the costs of Boeing's debt, potentially triggering future financing issues and a further strain on cash flows. The additional \$24bn equity capital raise completed in Q4 2024 was unrelated to the Spirit acquisition directly but shows the constraints that Boeing is navigating, especially in a post-COVID-19 debt-ridden era for the industry.

Risks and Considerations

Firstly, There could be an issue with integration, as this is not a typical integration transaction. Boeing is not absorbing a new capability but instead a new liability; it is reabsorbing a workforce, tooling base, and facility it originated and knows well. However, Spirit has operated independently for 20 years and thus has developed its own management hierarchies, incentive structures, and general culture. The workforce, while highly skilled, has been subject to Spirit's production policies, which are often in contention with Boeing quality directives. Also, the industry is vulnerable to labour strikes such as the 2024 machinists' strike, which shut Boeing production for seven weeks. So, adding an additional 15,000 employees, many of whom are unionised, into a workforce that is already turbulent could prove problematic.

Quality and execution also need to be considered. The central rationale behind this idea is that reacquisition will solve Boeing's quality problems — this is not likely. The

FAA's and Boeing's internal reviews suggest that quality issues need to be addressed both in-house and at Spirit. This means that there is a lot of scepticism as to whether restructuring alone is sufficient. If quality issues persist after integration, Boeing will have taken on Spirit's liabilities without regulatory clearance to lift production caps and will be worse off. Also, the duration of the below-rate operation at 38 per month in late 2024 is still severely below the 57-per-month target that the company so desperately needed, which puts into question Spirit's acquisition cost and whether this transaction could generate or destroy value.

Finally, there is significant regulatory and financial risk that, combined, can pose a significant threat to Boeing's long-term success. The FTC and the UK's CMA approval came with conditions that Boeing had to continue supplying defence arms, which are monitored by ALCIS Advisors (an independent advisory firm), creating a permanent regulatory overhead. Furthermore, the fact that Boeing cannot switch production for defence companies to the greatly demanded commercial sector creates a capacity-constrained environment. This, combined with Boeing absorbing \$3.6bn of Spirit's debt at a point in time when its own balance sheet was looking negative, is concerning. Total post-acquisition debt was approximately \$27bn against an enterprise which had negative EBITDA in FY2024. This led to ratings agencies downgrading Boeing's outlook, increasing the cost of debt maintenance. While an all-stock deal reduces short-term cash pressure, the ongoing cash burn from Spirit's operations at \$150mn per quarter through 2025, combined with Boeing's already significant liquidity demands, could prove dangerous in the long term.

Our View

Our view is that this is a strategically unavoidable, necessary deal executed at a reasonably priced valuation. This deal was needed to rectify a chain of bad decisions that Boeing should never have made, leading to the company being in a position where reacquiring its former fuselage division was the greatest option available. The question is: has Boeing paid a reasonable

price to resolve its wrongdoings? The answer is mainly yes; the \$8.3bn enterprise valuation is consistent with our DCF model. However, shareholders and spectators should be under no illusion that this deal represents growth. It does not. This is damage control at a fair price, not opportunistic capture.

The most critical success factor of this deal is whether Boeing receives FAA clearance to increase production beyond 42 737 MAXs per month and demonstrates a successful ramp of fuselage production needed to meet the demand at the current maximum production level of 57 planes. Until that happens, no value will be created. Secondly, it depends also upon whether the Spirit culture is successfully integrated, as Boeing needs genuine alignment of quality management operations between the Spirit and Boeing divisions. If the quality failures were rooted in Boeing's production process rather than Spirit's, the acquisition will have solved the wrong problem, leaving Boeing financially worse off.

A final success factor is the risk of adding another 15,000 workers under Boeing management when Boeing is already trying to manage a tense post-strike environment. If another major strike were to take place, this could lead to Boeing having even worse financials.

Overall, the single question that determines whether this deal is successful depends upon whether Boeing receives clearance to ramp up production. If yes, Spirit's cost base becomes supportable, and the deal makes sense. However, if the cap persists, Boeing will have taken on over \$3.6bn in liabilities and 15,000 extra employees while remaining unable to generate cash flows.

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