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WAIR - Q2 2016 Wesco Aircraft Holdings Inc Earnings Call

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PRESENTATION

Operator

Welcome to the Wesco Aircraft Holding second-quarter fiscal year 2016 earnings call. My name is Anna and I will be your operator for today's call. (Operator Instructions) Please note that this call is being recorded. I will now turn the call over to Jeff Misakian. Jeff, you may begin.

Jeff Misakian - *Wesco Aircraft Holdings, Inc. - IR*

Thank you, Anna. Good afternoon, everyone, and thank you for participating in Wesco Aircraft's fiscal 2017 second-quarter earnings call and webcast. We have included slides with today's presentation to help illustrate some of the points being made and discussed during the call. These slides can be accessed by visiting our website at www.Wescoair.com and clicking on Investor Relations.

We are joined today by Dave Castagnola, President and Chief Operating Officer; and Rick Weller, Executive Vice President and Chief Financial Officer.

Please turn to slide 2. As a reminder, today's conference call includes forward-looking statements within the meaning of federal securities regulations. Although the company believes that such forward-looking statements are reasonable, we cannot assure you that any forward-looking statements will prove to be correct. Forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause actual results to differ materially from those anticipated at the time the forward-looking statements are made. Additional information relating to factors that may cause actual results to differ from our forward-looking statements can be found in the Company's filings with the Securities and Exchange Commission including the Company's annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

Wesco Aircraft undertakes no obligation to update or revise forward-looking statements except as required by law.

Now I would like to turn the call over to Dave Castagnola. Dave?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Thanks, Jeff. Good afternoon, good evening, everyone. Please turn to slide 3. We reported adjusted diluted earnings in the second quarter of fiscal 2016 of $0.29 per share, consistent with the same period last year. Revenue was impacted by the large commercial contract that we have discussed in the past and related sales in the second quarter, as well as currency movements. A decline in SG&A expenses and a lower effective tax rate offset the sales decrease in the quarter.

I will provide highlights of our second quarter. Rick will discuss the results in detail and then I will share my perspective on our first-half performance and fiscal 2016 outlook.

Please turn to slide 4. The fiscal 2016 second quarter represented consistent execution across our business as we positioned Wesco for future growth and sustained performance. Our focus on growing sales continued to be demonstrated by performance in long-term contracts, which reflected increased content, renewals and new business in the second quarter. This momentum is expected to drive growth in the second half of the year and into fiscal 2017 and 2018.

We continued to develop and implement enabling strategies and supply chain management and materials management, demand planning and strategic sourcing. We also drove costs lower while improving facility structure and flow. Through cash management strategies we were able to continue reducing our debt with paydowns of $25 million in the quarter. Free cash flow was impacted primarily by the timing of materials receipts and revenue, which Rick will discuss in his remarks.

Please turn to slide 5. I believe we are well-positioned in the aerospace and defense market, serving a diverse group of customers by providing a broad portfolio of products and services to multiple platforms. Sales in the second quarter were slightly higher than the same period last year, adjusted for the items I mentioned a moment ago. Ad hoc sales declined year over year, but this was more than offset by mid-single-digit growth in contract sales.

We continue to record wins with strategic customers including new business to provide hardware and chemical services to major tier 1 customers in North America, Europe and Asia. We also renewed agreements for chemical services with multiple OEMs in the quarter.

Our strategic customer sales pipeline continued to expand in the quarter with opportunities progressing at various stages. We further strengthened our MRO sales team, adding resources and improving sales activities with recent contract wins that include deals with airlines, an MRO provider and a defense OEM. As we mature our efforts, we are seeing an expansion of our sales pipeline opportunities. We are becoming more visible in the industry and our customers are pleased to see us more active in this market.

We are early in the process of expanding this $100 million sales contributor to our business, but I am encouraged by our progress.

Regional sales activities through our global network continue to target opportunities in the ad hoc market and support LTA contract expansion. Ad hoc sales were lower year over year and flat sequentially as some of our strategies have taken more time to develop than I expected. But orders did rise 5% compared to the year-ago quarter and more than 6% sequentially, supporting potential improvement in the second half of the year depending, of course, on the timing of those sales to our customers.

Please turn to slide 6. Supply chain management initiatives continue to be implemented. In February we announced the appointment of Dan Snow as Chief Supply Chain Officer, taking advantage of Dan's broad background and many years of aerospace and defense experience in supply chain and program management. Under Dan's leadership we are already executing at a faster pace, increasing our focus on process improvements, standard work and metrics, engaging suppliers in a more strategic level and improving communication, engagement and training.

We are improving alignment of material acquisition to be in line with forecasted demand, and our activities in materials management, demand planning and strategic sourcing continue. Our SIOP process is beginning to mature, providing the ability to plan more accurately and forecast material acquisition based on period of supply with better alignment on receipts and disbursements, which should contribute to improved cash planning and support second-half cash management.

Please turn to slide 7. SG&A declined in the second quarter, primarily reflecting actions taken at the end of fiscal 2015 and our ongoing focus on cost management. We remain on track to achieve $25 million to $30 million in cost savings this year. Site consolidation continues with the closing of one additional facility in the quarter, bringing total closures to 13 facilities to date. We also opened a new multi-commodity hub facility supplying chemical and hardware services to a growing customer base in North America.

In addition, continuous improvement is being deployed across all functions and facilities to increase velocity and gain efficiencies.

I will now turn the call over to Rick for a review of the financial results, after which I will provide a few closing comments. Rick?

Rick Weller - *Wesco Aircraft Holdings, Inc. - EVP and CFO*

Thanks, Dave. Please turn to slide 8.

Sales in the fiscal 2016 second quarter of $376.7 million decreased 2% compared to the same period last year. Foreign currency movements had a negative impact of approximately $6 million on fiscal 2016 second-quarter sales, similar to what we have experienced in the first quarter of the year. Net sales, excluding currency effects, were down less than 1%, primarily due to the net impact of the large commercial hardware contract and related sales that Dave mentioned earlier.

Sales under the contract were $17.5 million in the second quarter of last year. We recorded related sales in the fiscal 2016 second quarter of $9.8 million. Excluding these sales from both periods, as well as the effects of currency, the rest of the portfolio was up approximately 1%.

The performance of our business was led by mid-single-digit commercial contract growth supporting tier 1 and OEM customers. This was offset by a mid-single-digit decline in ad hoc sales. However, ad hoc momentum improved in the second quarter, supporting a potentially better second half of the year. At the same time, it is important to remember that ad hoc orders by nature are subject to fluctuations, making them challenging to forecast.

Please turn to slide 9. Adjusted EBITDA was $50.8 million or 13.5% of sales in the fiscal 2016 second quarter. This compares with $54.8 million or 14.2% of sales in the same quarter last year. The most significant driver of the adjusted EBITDA margin decline was the impact of the large commercial contract and currency on gross margin partially offset by lower SG&A expense.

Gross profit as a percentage of sales was 110 basis points lower in the fiscal 2016 second quarter compared to the same period last year, primarily due to the net impact of a large contract of 70 basis points and currency effects of 50 basis points. Margins on long-term contracts in the rest of our portfolio partially offset these factors.

SG&A as a percentage of sales was 16.2% in the fiscal 2016 second-quarter, 60 basis points lower than the second quarter of last year, primarily due to declines in people costs, professional fees, facility costs, bad debt expense and currency. Adjusted diluted earnings per share was $0.29, consistent with last year's second quarter.

In addition to the items affecting adjusted EBITDA, adjusted net income and EPS benefited from lower income tax expense. Our effective tax rate for fiscal 2016 second quarter was reduced by a favorable mix of taxable income across jurisdictions and discrete tax items. We expect the effective tax rate for fiscal 2016 to be in the range of 31% to 32%, slightly lower than our previous outlook, primarily because of our projected mix of taxable income across jurisdictions.

Please turn to slide 10. Sales in North America were down 2% in the second quarter and approximately 1% lower when adjusted for the net impact of the large commercial contract last year of $13 million and a related sales in fiscal 2016 second quarter of $10 million. Shipments on the contract last year were made out of both segments, at the customer's request. Related sales in fiscal 2016 second quarter were recorded in North America. Adjusted EBITDA margin in North America reflects this impact and mix, offset by reduced SG&A expense.

Turn to slide 11. Sales in the rest of the world segment declined 4% in the second quarter but were up approximately 10% adjusted for currency and the large contract. The impact from the large contract accounted for about 6 percentage points, while the currency effect was approximately 8 points. Adjusted EBITDA margin in rest of the world was higher due to an increase in sales volume and mix as well as lower SG&A and E&O expense.

Please turn to slide 12. Net inventory was $9 million higher in the first six months of 2016, primarily due to higher material receipts supporting contract replenishment timing.

Please turn to slide 13. Free cash flow was $8 million in fiscal 2016 year-to-date period compared with $47 million in the same period last year. Free cash flow was a use of $2 million in the fiscal 2016 second quarter, primarily due to the timing of inventory, revenue and, to a lesser extent, cash tax payments and capital expenditures.

We expect to see increased free cash flow generation for the rest of the year as we align inventory to demand and period of supply for SIOP, sequentially higher revenue is collected and cash tax benefits are realized.

Total debt was $923 million at March 31, reflecting debt paydown of $25 million in the second quarter and $30 million year-to-date. Through cash management strategies we were able to mobilize cash in the quarter through a settlement of intercompany trade and loan balances. This, along with tax planning, avoided a negative impact on income taxes. We expect to pay down debt further in fiscal 2016 as cash generation improves.

As previously announced, our debt covenants were amended in March to push out step downs in our leverage ratio test. The amendments provided us with some flexibility in the future as we examine options for debt that matures in 2017.

Now I will turn the call back over to Dave for closing remarks. Dave?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Thanks, Rick. So before we talk about our outlook for fiscal 2016 I thought it would be helpful to frame the discussion in the context of our performance in the first half of the year.

First-half sales performance met expectations overall net of currency effects, and this is encouraging since 25% of our business is ad hoc and difficult to predict. Our cost reduction efforts are on track, which you can see demonstrated in our results. Adjusted EBITDA margin in the first half of the year is slightly below where we thought it would be at this time of the year, primarily because of the ad hoc sales.

The timing of free cash flow is behind where we expected it to be. And as you heard today, this was primarily due to inventory purchases and revenue. So regarding the inventory, we bought what was required. But the timing of those receipts was earlier than we needed. Much of what we received in the first half of fiscal 2016 was ordered over a year ago, based on Wesco's historical practice and well before we put in place the new processes we have discussed in recent quarters.

In the second half of the year we expect to better align inventory purchases to demand forecast and period of supply -- in other words, do a better job buying what we need when we need it.

Regarding revenue, sequential growth is expected to drive greater collections in the second half of the year and increase cash flow, as Rick explained earlier. One variable we cannot control is currency, and this does create some risk. But we will manage this appropriately.

Please turn to slide 14. We continue to believe that we will achieve our fiscal 2016 goals. Momentum in our contract portfolio is expected to drive revenue expansion in the second half of the year, supporting our target of low single-digit growth in net sales net of currency. We are on track to achieve the $25 million to $30 million in cost savings this year, which we expect will be the primary driver of the improvement in EBITDA margin of approximately 100 basis points. Finally, based on the actions and timing changes I have just described, we anticipate converting more than 100% of net income into free cash flow this year.

Please turn to slide 15. Having joined Wesco one year ago, I would like to briefly reflect on the accomplishments of our organization. In a short period of time we have established Wesco's vision, goals and culture. We have integrated and aligned organization to better serve our markets. We restructured and streamlined our sites and improved our cost structure. We launched procurement and inventory management practices while deploying standard business processes and we are maturing our performance-based culture. Significant changes have been made in nearly every process and area within the Company, most of which may not be visible to the outside observer. We have taken an organization with great heritage, a solid market position, outstanding employees and a reputation for service excellence, and put in place processes intended to drive greater revenue growth, improve working capital utilization, position global logistics to support that future growth, a more efficient cost structure, sustainable earnings performance and greater shareholder value.

I am impressed with the ability of our employees to accept and implement change at a rapid pace, much faster than I have experienced in similar situations. While our progress to date is very encouraging, not all of this has come easily. And of course, given the scope, not everything has progressed as planned, nor was I expecting it to.

However, our business processes continue to mature, giving our team improved visibility to the issues that help us take quick action. Our results are starting to demonstrate steady, measurable progress in many areas. We remain committed to evolve as an organization, identifying more opportunities for improvement and closing performance gaps as they occur.

I believe we have a balanced strategy focused on execution while at the same time driving long-term shareholder value. We plan to continue to grow sales across our market channels, accelerate improved forecasting and material acquisition using SIOP, align our site and supply, execute strategic supply chain management, deliver enabling technology solutions and focus on developing our people and our culture.

I will now turn the call over to Jeff to direct the Q&A period. Jeff?

Jeff Misakian - *Wesco Aircraft Holdings, Inc. - IR*

Thank you, Dave. With that we will open up the call to your questions. We ask that you limit your questions to one initially, to allow everyone a chance to participate.

Anna, may we have the first question, please?

QUESTIONS AND ANSWERS

Operator

Jason Gursky, Citi.

Jon Raviv - *Citigroup - Analyst*

It's actually Jon Raviv on for Jason. Dave, can you just comment on just some of the deltas between -- or just add some more color to some of the deltas between what you expected and what actually happened, especially as it regards ad hoc? I know it's tough to predict, but just thinking about what some of the drivers there are, and then same question for the inventory issue, if it was related to last year and orders only coming through now, just some help figuring out why first half was a little bit slower than you initially expected on both those counts.

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

So on the revenue side again, for the full year we are essentially right where we expected to be, so six months in, net of currency, which is pretty good for a business like Wesco that has a lot of demand that is not predictable such as ad hoc.

We did plan to grow ad hoc at a little faster pace than we realized. And that didn't materialize probably as fast as -- well, certainly as fast as I expected it to. But I am very encouraged that really under the leadership of our sales team we are starting to see some gains there. And I'm feeling pretty good about what we have accomplished over the last three months on ad hoc in terms of the nice improvement in orders.

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So I think for the second half of the year, again depending on that timing, I have a pretty good feeling there that our strategies are starting to take hold.

On the materials side, simply stated, we probably could have planned this better. I think we were new coming in, in our planning. We were looking at where we were relative to inventory, where we expected to be. And as we got into the first half of the year, we started to see some of those receipts coming in that were ordered well before Rick and I got here and well before we put in any of the processes we have in place to align the material acquisition to demand. So we got that, we understand that. And you can start to see now that we are turning the corner relative to the timing.

So, as Wesco always did, it ordered what it needed. But we are now focused on ordering what we need, when we need it. And that's really the big difference that we are seeing between the first half and the second half.

Operator

Myles Walton, Deutsche Bank.

Myles Walton - *Deutsche Bank - Analyst*

First, clarification -- Dave, you mentioned the ad hoc sales were sequentially flat. As a percent of sales, what was the contract revenue? Was it 75%?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Yes. On average really over the last couple years we have been about a 75%/25% commercial to ad hoc mix. I'm not sure how that was in the quarter but probably not too far off that even with coming in a little bit short.

Rick Weller - *Wesco Aircraft Holdings, Inc. - EVP and CFO*

Maybe I can comment on that, Myles. We were up in contract sales year-over-year mid-single digit, as I mentioned in my comments, and down in ad hoc year-over-year mid-single digits. So it might have been a little bit heavier in contract as a percentage of total revenue in the quarter and certainly in the year-over-year comparison.

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Just a little bit more color -- where we will end up -- I can't predict it, but typically the opportunities for ad hoc are still very strong. Our orders are up. So I expect no major changes to that ratio for Wesco this year.

Myles Walton - *Deutsche Bank - Analyst*

And leading to the other question, which is on the 100 basis points of EBITDA margin expansion from the 12.8 pro forma in 2015, so you did 13 in the first half, so obviously a pretty steep slope required for the second half. Aside from that assumed mix, more favorable mix toward ad hoc and slightly higher volume, is there anything else or do you still feel comfortable about doing what would be implied, 14 and change, in the second half?

Rick Weller - *Wesco Aircraft Holdings, Inc. - EVP and CFO*

I think that's about right, Myles. I would only add to that it's everything you said plus its SG&A leverage. So we're going to continue to see benefit from restructuring we took late last year and actions that we have been doing at site and supply earlier this year, so sequentially lower SG&A. We are going to get some leverage on that with a little bit of revenue hop in the second half of the year.

Myles Walton - *Deutsche Bank - Analyst*

And Dave, this is the last one. Is there any metric you guys can think about is giving us some sense of visibility or comfort into your forward contract sales visibility? Your tone and messaging is implying contract wins. But obviously, it's a short cycle business without a lot of backlog for us externally to see it. Is there anything you can think about as ways to put a stamp of confidence behind it?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Well, we have talked about -- and I think we confused folks a little bit about a little higher than market growth in contract wins, netting low single-digit growth for the year. We've taken that wording out, but that's essentially what we are seeing in terms of the contract sales.

We've got very good momentum there in the business. You can see it coming through in the results. You can see it offsetting the ad hoc piece. And I think the other piece of it, which we will talk more about in Q4 when we talk about 2017, is the benefit from some of the win activity we're seeing on the customer side, on the strategic customer side.

These are contracts that take a little time to develop and implement, but we are very encouraged about we are seeing there. And they are probably a 2017-2018 type play as we move forward, Myles.

Operator

Gautam Khanna, Cowen and Company.

Gautam Khanna - *Cowen and Company - Analyst*

I was wondering if you could comment on pricing trends you're seeing in the marketplace.

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Yes, so we get the question on pricing every time. What I can tell you, being here a while, is we really get evaluated on a total value proposition. And that's a real thing in what the Wesco value proposition is. We provide to tier 1's a reduction in SG&A. We could aggregate demand. We provide competitive pricing and material acquisition. We provide a reduction in scrap. We improve their working capital utilization.

So all of those elements hit a tier 1 value equation. So it's never just price. Now, price comes into play, sometimes more than others. But to be honest with you, all those other elements come into play as strongly when it comes down to being evaluated competitively.

Gautam Khanna - *Cowen and Company - Analyst*

And maybe just as a follow-up, as you change your sourcing strategy to align with the consumption, as opposed to the way things were, where you made opportunistic bulk buys, I was wondering how does that impact your input costs? Are you getting the same type of price from your fastener suppliers or are you seeing that actually creep up?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Well, we are at the very early stages of strategic sourcing. Wesco has always done a very, very good job with our supplier partners in terms of value equation. We do believe that with strategic sourcing where we are aggregating demand, we are moving into component part families, we are looking for long-term agreements where we can provide forecasts to our partners and provide them greater visibility, there is certainly going to be some synergy and value in the value chain associated with that. So yes, we expect that there will be a continuous improvement in value there in our value chain by changing to this approach in terms of sourcing.

Gautam Khanna - *Cowen and Company - Analyst*

Thank you.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

To elaborate on Myles's question a bit, can you give us an idea what your ad hoc order to revenue conversion is versus contract revenue conversion? Or maybe what percentage of the full-year revenue is currently in the order book? And then in terms of the contract revenue, you said you expect it to grow. Any ideas like the scope, the customer type or the contract type, if you could elaborate there?

Rick Weller - *Wesco Aircraft Holdings, Inc. - EVP and CFO*

Yes, Sheila. On the ad hoc, as you probably know, the way ad hoc flows and orders come to us, they are one-off buys. So the backlog to us is a matter of turning those into revenue, from in-stock orders to things that are placing orders on suppliers and moving through. So what we are really focused on is execution of order fulfillment, more than just conversion and backlog.

So for us the forward forecast challenges is really about the timing of bookings and predictability of how those orders turn to revenue in the future forecasts. So it's really more about that, so it's really not working off the backlog. We will have a different dynamic in contracts, and so I will let Dave comment about that.

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

On the contract side our wins have been at the tier 1 level with multiple customers, multiple tier 1s, multiple strategic customers, both across commercial and military focus with a very broad mix. So the nature of our business with those wins is we provide our products in and our products goes on everything. So very, very broad mix across multi-customers, across both the Military and Commercial segment.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Thanks. And then just one more -- in terms of Boeing taking some work back from suppliers, there any other long-term contracts that you are aware of that could be at risk as it relates to you?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

I'm not sure I heard all of that, Sheila. Can you -- I'm sorry, Sheila. You just cut out there. I'm sorry about that.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

No, no, it's okay. In terms of Boeing taking some work back from suppliers, are there any other contracts that you are aware of that would impact Wesco?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

No, we are not seeing any of that, Sheila. Certainly, there was some announcement with Triumph a couple of quarters ago. But we've worked through that. We understand what it is, and the material effect on us is very minimal because we have a growth strategy with that strategic customer. Beyond that, no; we are not seeing that.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Okay, great. Thanks.

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Not with our current position with our customers.

Operator

Kevin Ciabattoni, KeyBanc Capital Markets.

Kevin Ciabattoni - *KeyBanc Capital Markets - Analyst*

I was wondering if you guys could talk a bit about maybe some of the differences on the contract side between new platforms and legacy platforms and what you are seeing there. Are you seeing that new programs, new platforms are typically ramping slower than what you have seen historically? Indications that legacy platforms could be winding down? Just maybe your thoughts there?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Yes. Kevin, I think what we see in terms of the way we go to market really is with our customers in total. So, depending on where their needs are, where they are in converting to a full service integrator, we are some -- I don't want to say immune but we are really more focused on the customers' needs and where they are growing and where they want to go to our type of service as opposed to chasing or finding ourselves on one platform versus another startup versus one that's declining. By the nature of our business, again, we provide into our major tier 1's, our product goes on everything. So if they have a program that's in the later stages of its production cycle, we feel that. However, we are also in the programs that are in the front end of the production cycle. So we have this very unique position where we tend to balance out with most of our tier 1's.

Kevin Ciabattoni - *KeyBanc Capital Markets - Analyst*

Thanks, that's helpful. And then just last one from me -- you guys obviously have a pretty big free cash flow bogie for the back half here to get to that 100% conversion. Can you maybe talk a little bit about the puts and takes of that and maybe the cadence there for the next couple quarters?

Rick Weller - *Wesco Aircraft Holdings, Inc. - EVP and CFO*

Sure, Kevin. That -- really point to three things. First is that -- related to inventory, and I think really having a better understanding and alignment between what product we need and what the customer demand is that's driving us to buy that. So a lot of scheduling and a lot of focus on what that really looks like in terms of cash and disbursements and receipts of inventory.

The second piece as it relates to revenue, so sequentially higher revenue and really focus on being able to collect that. It's a bigger pool that we are collecting from going forward into the next two quarters, so that's the timing thing that will help us from that standpoint. And the third one is that we've got a pretty good line of sight now to cash tax benefit in the back half of the year that's also going to give us sequential cash in the second half versus the first half.

But those three are the primary drivers.

Kevin Ciabattoni - *KeyBanc Capital Markets - Analyst*

Is it going to be pretty evenly spread out between 3Q and 4Q, or should we expect to see a bigger quarter between those two?

Rick Weller - *Wesco Aircraft Holdings, Inc. - EVP and CFO*

Pretty even, yes.

Kevin Ciabattoni - *KeyBanc Capital Markets - Analyst*

Okay. Thanks.

Operator

Jason Gursky, Citi.

Jon Raviv - *Citigroup - Analyst*

Can you just give us an update on what you are seeing in military and some other suppliers -- and then some other companies have talked about benefit from a higher op tempo. So if you could touch on that? And then as a related item, on F-35 ramp, what kind of timing are you expecting there and what that opportunity could represent over the next few years?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

So yes; we've got, again, by the nature of our business we are well-positioned with the top military OEMs in the world. And again, we are on everything they do. So if there is an ops somewhere in the world and we are supplying in, we feel that a little bit. And I think we have seen some of that year-to-date, although we don't see big changes in the percent distribution of between commercial and military in our business. Certainly, we are well-positioned in support of the F-35 as well. So whatever happens there, we will feel that.

Jon Raviv - *Citigroup - Analyst*

Okay, and then just a quick follow-up on a sales question again. Is it fair to think that starting in FY -- really starting in the next fiscal year we will see that above-market average growth without having to exclude any particular contract, that we will see the clean numbers?

Rick Weller - *Wesco Aircraft Holdings, Inc. - EVP and CFO*

Yes, John. The comparison will be cleaner next year, once we lap the large commercial contract. A little early for us to be looking into next year and really calling our position against the market, by going back to some things Dave was saying that giving visibility to contracts and contract wins and timing going into next year for both renewals and expansions of new business, probably will give us a better insight and a better position to talk to you about that when we get to the end of the year.

Jon Raviv - *Citigroup - Analyst*

Okay. And then just one last one -- just any commentary on your perception thus far of Boeing's efforts to capture more supply chain and some disintermediation, to the extent that -- has it been performing? And does lack of performance there open the door up for you guys to reenter if some of the folks involved in that program are not as happy as they may have thought?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Well, I think that's a question probably better asked of Boeing. In terms of what we're doing, we feel, again, that we provide a very, very good value proposition to our customers, including Boeing, who is one of our top customers. So we still do a lot of work for Boeing and provide a very good value add for a lot of services they need in both of their businesses, in commercial and military, all over the world.

So where Boeing goes long term I don't know. I do know that from the tier 1 perspective our value proposition fits very, very well. So I think that's just something that probably Boeing is best asked where they are going to go long term. But our relationship with Boeing is strong. We do a lot of work with them and they are a very good partner.

Operator

Chris Olin, Rosenblatt Securities.

Chris Olin - *Rosenblatt Securities - Analyst*

Just wanted to ask, and I apologize if I missed it, if you have seen a change in your mix related to the aftermarket demand, and maybe a little bit on anything -- are you seeing anything change in terms of underlying demand? Are dollars starting to flow back from this marketplace?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

We are not seeing anything like that. We, every quarter, will look at our strategic contracts. We look at mix. And it's really more volume-related, where we are and what's happening with the platforms, within a customer. Again, for a lot of our product that we provide into tier 1's, it doesn't distinguish whether it's going into their aftermarket or it's going into their OEM side, so we don't really track that. We don't have that line of sight. Where we really track aftermarket is primarily on the MRO side, which we talked about. So we captured that way. But no, we are not seeing anything like that.

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Chris Olin - *Rosenblatt Securities - Analyst*

Okay. And then lastly, do you get the sense that your customer inventories are in better shape right now?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

I don't know. When you say our customers -- we pull the inventory for our customers. And we are on pull, so for, again, 75% of our business, the bulk of that is really on a pull signal, and we are on a bin replenishment. And all the inventory management is up to us. So I kind of answered the question as how well are we doing on inventory management, and that's all what we've been talking about. And I really can't speak to the OEMs who buy direct. Again, a question you've got to ask from them.

Chris Olin - *Rosenblatt Securities - Analyst*

Okay, thanks.

Operator

Myles Walton, Deutsche Bank.

Myles Walton - *Deutsche Bank - Analyst*

I just had a question on the balance sheet. In particular, you mentioned the 2017 debt and positioning for that. Would you plan to try and refi that in your fiscal 2017? And if you think about it, Rick, what should we be thinking about as a new interest rate if you were to roll over the remaining principal, the 450?

Rick Weller - *Wesco Aircraft Holdings, Inc. - EVP and CFO*

Two things, Myles. First is that we're going to continue to delever and get that down. As we evaluate options for refinancing that we don't have a definitive timetable set yet to do that, and we are converging on the strategy and an approach to go refinance that. Obviously, interest rates are a little bit higher today prevailing than they are in our current term loan A. But, all things all in, deleveraging debt, and doing refinancing, is really not going to be a big encumbrance in terms of the interest expense forward in the business. And the key for us is to generate cash and continue to delever as we look at financing.

Myles Walton - *Deutsche Bank - Analyst*

Are you looking at a couple hundred spread versus your term loan A?

Rick Weller - *Wesco Aircraft Holdings, Inc. - EVP and CFO*

Depending on how we approach the market, it could be at 150 range. But it really depends on how we approach it.

Myles Walton - *Deutsche Bank - Analyst*

Okay, great. Thanks.

Operator

Gautam Khanna, Cowen and Company.

Gautam Khanna - *Cowen and Company - Analyst*

Just wanted to ask if you've seen any -- how far along you think the BASN program is actually implemented. Do you think there's a lot more to go or do you think it's fairly mature at this point, in terms of new subcontract manufacturers being folded in?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

Yes, we are not seeing any impact from BASN. And again, it's hard for me to gauge what Boeing's long-term view is here of the program. But we are not -- I think most of that in terms of Wesco is behind this business. Most of our focus is on growth for areas that BASN doesn't affect. And as I said earlier, we do an awful lot of work with Boeing that is non-BASN related.

Gautam Khanna - *Cowen and Company - Analyst*

Okay. And I wanted to ask just a follow-up to my earlier question. In terms of the sourcing and as you transition to buying what you need, why shouldn't we worry that pricing that you pay for these -- to the suppliers won't rise with what we understand, you know the industry standard used to be, they would come to distributors and say, hey, buy three years of part X; and we will give you a great deal.

Won't that -- the economics of that kind of purchase decision change such that they will charge you more per unit as you are buying just what you need?

Dave Castagnola - *Wesco Aircraft Holdings, Inc. - President and CEO*

No; the reality of it is that we are going to buy an awful lot like that, except in large, large commodity-like packages over the same long-term type range. So in essence we will be buying larger, more organized, which will have the opposite impact of what you said.

Gautam Khanna - *Cowen and Company - Analyst*

Okay, thank you very much.

Operator

And we have no further questions at this time.

Jeff Misakian - *Wesco Aircraft Holdings, Inc. - IR*

Okay, good. Thanks, Anna. On behalf of everyone at Wesco Aircraft I would like to thank you for your participation today. We appreciate your interest and look forward to speaking with you all again soon. Have a good day.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.