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WAIR - Wesco Aircraft Holdings Inc at Citi Industrials Conference

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Jason Gursky *Citi - Analyst*

PRESENTATION

Jason Gursky - *Citi - Analyst*

My name is Jason Gursky. I'm the aerospace and defense analyst here at Citi. I have the pleasure of introducing Wesco Aircraft today. We have the pleasure of having Dave Castagnola, the CEO of the company; and Rick Weller, the CFO; and Jeff Misakian further to their right, who works as the Investor Relations Officer for the company. This is going to be a Q&A fireside chat experience. For those of you that have not had the opportunity to sit here in the room, please note that there is a microphone in front of you. You press the little red button in front of you if you want to ask a question so that those on the web can hear us all loud and clear. With that, I'll kick it off with a few questions here and then turn it over to the floor here shortly.

Dave, why don't we maybe just start with a soft ball question and have you walk us through the last 15 months or so. What you discovered at your first day of the job? What you after six months of being there, I think it was roughly you turn fiscal years and talk a little bit about your assessment of the company and where you wanted to take it, but maybe just kind of walk us through the last 15 months and where we have come from and where we're going?

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

Thank you, Jason. Good afternoon, everyone. So quite a soft ball question there Jason. So both Rick and I joined Wesco about 15 months ago. I think before we joined Wesco, we had looked at the Company in terms of its position, its value proposition, felt very, very good about that and I could tell you that since we've been on board, I think we've validated that in what we provide to our customers. I think we saw in Wesco two very successful family businesses in Legacy Wesco and Legacy Haas grown and come together about 13 to 15 months prior to that and we're struggling a little bit in terms of scalability and in terms of integration, in terms of positioning themselves for the future.

and I think part of Rick and I coming in with our experience coming out of large companies, myself Goodrich, UTC, Rick out of Textron, Ingersoll Rand was to really bring some experience in terms of business process disciplines, business practices and some experience to the Company and that's really where we've been focused in the last 15 months. Very fundamentally, we started with the basics, establishing a vision and goals one culture for our corporation. We've been through a lot of transformational change as we really position Wesco structurally for growth in the future.

We have realigned our organization to growth our market channels. We fully integrated the Company and we're going to market with a combined commodity of portfolio of all our products and services. We have changed our material acquisition strategies more along the lines of forecasted demand, demand planning materials management in order to more effectively manage our material acquisition for both our supply chain and also to align it to the way we go to market with large tier ones as 75% of our business is with the large tier 1 aerospace and defense industry.

And then we've been really focused on putting business process and disciplines in, did a major restructuring at the end of fiscal year 2015 in terms of sites and in supply alignment to be in line with our go-to-market, in terms of getting our SG&A costs aligned, and we talked about a $25 million to $30 million reduction in fiscal year 2016 and we're on track to do that. And then we've really been all about execution, stabilizing the Company, transitioning it and executing and putting in a disciplined execution as we transition the Company for future growth and that really brings us through Q2 of this year.

Revenue, we essentially hit our plan, EBITDA, essentially in plan, some timing on cash and we could take some questions on that for a second half story and reaffirmed our guidance and we've also recently in the last quarter presented a five-year strategic plan to our Board of Directors something Wesco had never done. So we've been quite busy frankly in the last 15 months, but remain very excited about the Company and we're very excited about the direction we're going. Rick, any comments you want to add?

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

I think that pretty much covers it.

Jason Gursky - *Citi - Analyst*

Well I know one of the strategies that you've talked about it pretty openly with investors has been the focus on some of your key accounts and cross-selling maybe a bad word or not the opportune word but further penetration of some of your key accounts. Can you talk a little bit more about what the goal here is? How are you going to measure success on that and what we should expect from that on the outside?

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

So in terms of our key customers, I mentioned earlier that 75% of our business is with large tier 1's. These are the largest aerospace and defense companies in the world. Our Top 20 customers drive 65% of our revenue and we're well positioned with them on everything that we provide whether that's a combined stake or whether it's influenced by chemicals or by hardware or electrical.

And then coming out of that industry, I have a very good appreciation for the value proposition. And our value proposition is that we could aggregate demand and provide better pricing for material. We also act as the holder of the inventory and we work off been replenishment just in time pull systems. So we can effectively improve the working capital of our customers. We manage the supply chain. We manage the quality, which effectively reduces SG&A for our customers.

And so, if you think about the SG&A reduction, you think about the improvement in working capital, you think about the improvement of pricing by using a service provider such as Wesco, we provide them a better value proposition and allows them to focus on their core competency in what they're trying to do and coming out of that space, that is exactly the value proposition that I would have been looking for running a major business building a major tier 1 or major LRUs for the aerospace industry.

Jason Gursky - *Citi - Analyst*

Fair enough. Maybe you could talk a little bit about the competitive environment writ large and how this go-to-market strategy that you have differentiates from your competitors? I'd also be curious to know from your perspective and I know you weren't at this division within UTC, but why Pratt & Whitney has done what it has done with its supply chain around the engine builds. I think they were using UPS for some of their distribution and kitting as well.

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

Okay, I think in terms of competitive differentiation, certainly we have really a large combined portfolio position with our customers. We're very, very good at what we do in terms of being integrated into their production systems on our chemical management side. We have a TCMIS software that allows us to provide software's to our customers to allow them to actually use our software to manage their ordering and distribution of chemical into their production systems, which is a nice niche that we have and enjoy and we have multiple at multiple sites with all of our customers, which differentiates us from our competition.

In terms of different model utilization, you mentioned Pratt and UPS, I think in terms of what we're doing and where we would work with customers such as Pratt is really more along the lines of the commodities that we provide and the services we provide much along the lines of the value proposition I already outlined, which would be somewhat different than UPS in terms of the fact that we actually are an extension of the production systems. We actually hold, manage, and provide the inventory into the production systems of our customers and then I think back to your earlier question in terms of growth and why we're pursuing a strategy among the tier 1s.

An obvious strategy, tier 1s are a large portion of our gross. There is a pent up demand within that demand as the large companies continue to mature out their production systems and move to service providers such as Wesco. So it's a huge opportunity to continue to provide value and services into that market, so market within a market is the way we look at it. I think the other angle in terms of our go-to-market is associated on the MRO side. This is an area that we've been traditionally underrepresented. It's a great market, very fragmented. One of our competitors has a position in it. The balance of the market is very fragmented. Our customers are welcoming that. They are basically asking us, where have you been and I think for Legacy Wesco and Haas, it was just a market that they never needed to plan. So they didn't. That's an area that we've been very focused on. We've heavily resourced it on the sales side. We've brought in some significant and experienced talent to tackle that market and we feel very confident that over time probably not a 2016 story but a developing story in our fiscal 2017 and 2018 you'll hear us talk more about how we're growing in that market.

Jason Gursky - *Citi - Analyst*

I'm going to ask a few more and then I'll turn it over to those of you out here, so get ready. We just did the focus on the tier 1s and the growing demand there, but one of the things that we've seen with Boeing in particular is a bent towards vertical integration. Many times Boeing has taken a facility back in-house. It's generally not been great news for Wesco in that they are managing quite a bit of their own fastener supplier themselves. So I'm just trying to get a sense of big picture given your breadth of experience at other aerospace suppliers, where is the industry today on this insource, outsource, kind of make buy --

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

Okay, I think in terms of that question, I think separate from Boeing and their strategy really, which I think M&A would had a 787 material shortages back over a decade ago. And where they go long-term about buying and holding this material, which is a significant cost, the balance of the industry has not gone there. In fact, the balance in the industry has moved into the other direction. And I know that because I came from that industry and that's what we were doing.

We were looking at all our sites, all our disparate production systems, all the different ways we bought, where we bought direct, who we bought from service providers and we were looking to get that rationalized and that's where we were going. We weren't looking to do it ourselves. Why would we want to carry the SG&A? Why would we want to manage that supply chain? Why would we want to carry all that inventory when we could have somebody do it for us at a bigger value, at a more competitive value than we could do it ourselves? We wanted to focus on what we build and what we make and what our competencies were.

So I knew coming into Wesco that the value proposition for the industry as a service provider like us, because it really ticks off the mark of the things I needed when I was on the tier 1 side. Where Boeing goes long-term is really up to Boeing. Certainly when you look at the working capital and utilization, the cash use in order to do this, the logistics of making that happen, that's something that they'll look at on their own. They're a credibly important customer to us. We do a lot of work with them. We have a great relationship with them.

Jason Gursky - *Citi - Analyst*

So the net-net of that is we're not too worried about your Top 20 customers going through insourcing. They are continuing to move towards outsourcing. Are there more incremental outsourcing opportunities at this point or is the supply chain already there?

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

No, the supply chain has a long way to go relative to moving into our space. Right now, the industry listed the classy hardware about a $7.5 billion to $8 billion industry, about 70% of that industry. This includes Boeing and Airbus, use of service providers like Wesco and we're very, very large in this space. In fact, we're the leading distributor service provider in that space and that's growing at about a 4.2% rate and it's continuing to grow. As I mentioned earlier, a lot of the aerospace companies even over the last decade as we work to mature our production systems, a lot of haven't gone through major acquisitions.

They're going through a rationalization of getting standard factories in place, getting standard order in place and that's where we really fit them well because we bring a lot of those practices. So it's an incredibly growing market within a market and that is one of our fastest growing areas and we talk about better than market growth this year, it's really coming from our JIT LTA positions as we secure positions we have and then we also grow within those positions we have as we start to add more sites and more work as they continue to mature there processes along standard factories and service providers such as Wesco as they move forward there.

So we see that is a great opportunity I was mentioning to. I think it was one of the discussions I was having today, it's not surprisingly that we are really leveraging the biggest position we have to grow and we'll be the most oppressive where we are the biggest and have the best position and then you could also say, it's really not surprising that we're also going after a space in terms of the MRO where we don't have a strong position because another obvious market for us with nothing but upside potential.

Jason Gursky - *Citi - Analyst*

Okay. So the two pillars to growth are the Top 20, the MRO, anything else that we want to know before we move on to margins and open the floor to questions on revenues?

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

Well, we also have a pretty robust ad hoc market. It's about 25% of our sales. If you do the math, that's about $384 million of revenue last year. That's an area that we still plan, we still have a lot of opportunity. The market doesn't -- the market in terms of, you know flex points, in terms of disruption is a lot more stable than it was in the past. It's certainly not a growth vehicle in the industry, but it's certainly an area that we plan with our material management and forecasting strategies.

This is an area that we are becoming much more analytical and forthright in, in terms of forecasting demand and buying long against in order to continue to have a strong position and performance in that market as well. Those are really the three primary markets. We also have a number of product lines that have been basically incubating within Wesco on bearings, on tooling, electronic components and customer design products.

We've taken those products and we've brought them under leadership to look at how to leverage those into the current strategies we have for example tooling, which is something that we have a niche position in aligns well with servicing maintenance providers. So we're starting to see some natural combinations in dialogs with our customers in the MRO world of how to bring some of those commodities we've together in terms of growing sales where in the past, they were niche products within Wesco but not really growing.

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

Before we move on to margins, anybody have any questions they want to raise on [revenues growth outlook]?

QUESTIONS AND ANSWERS

Unidentified Audience Member

Please talk little bit about military going forward, surely that falls within your top core customer strategy, but some of the trends that are going on in terms of (multiple speakers) and then also the tendency to outsource more to save money for the end customer?

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

So in terms of military, military is about 40% of our business. Really strong position in the legacy Haas and the chemical business. The military business had moved to chemical management very thoughtfully over the last 10, 15, 20 years, and we have a very strong position there. We are suppliers into the marquee defense contractors in the world. By the nature of our product, we actually -- we deliver our product in and it goes on to everything that they do. So we do feel if there's demand inflections in the industry, if there's something going on in the world and different theaters, we feel that typically in a good way.

We don't see significant downside, we don't see significant upside. We think that's going to be relatively stable. We have seen some good momentum in this fiscal year on the military programs where we've got positions again felt really by world events, but we don't see any major declines or major changes in our mix or major increases in that going forward.

Jason Gursky - *Citi - Analyst*

Anybody from the floor? Perhaps shifting gears quickly to margins, where we've had kind of a good news, bad news story. The good news is that SG&A as a percentage of sales is heading in the right direction. We're going to get some OpEx leverage I think as revenues begin to grow. Bad news is that gross margins are still I think looking for a stable floor. Part of that I think is driven by mix right. You've got more long-term agreements coming into the fold, a little bit less on the ad hoc side where historically the industry has enjoyed better margins. Just maybe give us a sense of where we find our footing particularly on gross margins.

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

Okay, let me start with and then I'll turn it over to Rick. I think the business certainly the Wesco of today in terms of it's a mix is the new Wesco. So it's a combination of the JIT LTA business on both the hardware and chemical side and then we've been working real hard to stabilize those gross margins obviously as we leverage EBITDA. So we have a number of strategies primarily in materials management that allow us to do that.

We also understand pricing in the market. So we've got a lot of controls in place on what we win and at what price that we win in order to look at margins and I think our strategy has been really about stabilizing that as we work some of our longer term strategies to grow the margins. I'll turn it over to Rick to talk a little bit more about that.

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

Yes, maybe two other aspects of it. One is we talk about the aftermarket and ability to grow here, that helps our mix, helps buffer a little bit the ad hoc versus JIT and LTA. The other one did build on what Dave was saying about strategic sourcing really aligning our supply, you know, we've got 75% of our business is on a long-term contract with our suppliers. It allows them to be more efficient and productive in supplying us. It helps us in working capital management. It also helps us in terms of cost. So those would be a couple of other points in terms of how we think about the margin going forward.

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

I think the third element of that again as I mentioned in terms of the revenue growth is the MRO side, which has a little bit higher margins than the JIT LTA. So if you think about the two elements Rick mentioned and that third, those are really three principal strategies that we're pursuing relative to stabilization and growth of margins.

Jason Gursky - *Citi - Analyst*

Can you talk a little bit about the size of the MRO business today as a percentage of the overall company and how much better are those margins? Are they back like up to ad hoc margins and higher?

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

So first part of the question is in fiscal year 2015, MRO was about 7% of sales, about $111 million. Basically, if the phone rang and we had it, we'd provide it or we'd buy it from another distributor. So not a lot of focus, not a lot of effort there. So what we're doing now as I mentioned earlier is we've resourced that, brought in a lot of experience and that's an area that we see tremendous opportunity and just given our position. We see margins in that somewhere between JIT LTAs and ad hoc. There is a combination of ad hoc buys, LTA-type buys that come out of that space and obviously we're flexible to the needs and the demands of our customers as they want a contract, but we see margins somewhere in between.

Jason Gursky - *Citi - Analyst*

Okay and as far as the growth of that business is concerned, prior to your arrival at the company, Wesco began growing inorganically in that business. How do we get a good shot in the arm for growth in this business? Is it something that you can do organically or do we need to get engaged in some more M&A to get this really going?

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

So I think that again the principal of channels I talked about have really nice growth profiles for us. We think certainly in the JIT LTA's, we're already demonstrating we're growing at or above market just in that channel with our existing customers. That will give us the uplift this year as we lap the large commercial contract that Wesco has talked about for a number of years. Certainly the growth side relative to the MROs is there. I think longer term of course, we'll couple that with our materials management or SG&A strategies this year really on the EBITDA leverage near term. So I think that in terms of the growth in the business, longer term we're really looking to get our debt-to-equity ratio down around 3.5, 3.2 or just north of 4 now, Rick.

And so you can see that the business was highly leveraged when we came in. I think it's important that we pay down that debt and we've been doing that as a primary working capital strategy. Somewhere along the timeframe of probably early 2018, we'll be in a position to be a little bit more thoughtful about what we want to do with working capital whether that's share buyback, whether that's M&A or other combination of investing into further growth in the business, but we don't see any M&A activity near term because our priorities are really down on deleveraging the business.

Jason Gursky - *Citi - Analyst*

And on the working capital, the materials management side of things, you guys don't holistically from a balance sheet perspective, you don't turn inventory very quickly. I know that there are some fast-moving parts and then some stuff that moves really, really slow, but the mix of it, I think it's one during a year or so. So it seems from the outside that this new strategy around material management is going to take some time to work its way through the system and really having a positive impact I suppose on margins. Can you talk a little bit about timing?

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

Sure, so what we're doing is we're aligning the way we buy to match the way we sell. So again a large portion of our business is to large aerospace companies, they're long-term contracts, are relatively stable and forecastable. And every aerospace company buys against that forecast and Wesco historically bought ad hoc, bought one at a time, bought a lot but one at a time. So, we're looking to align our buy with that demand, buy in commodity packages, buy big, buy large, buy long term. That will help our suppliers in terms of managing their production system efficiencies and there'll be some value in that proposition.

We've also in order to do that, not only understand the demand but also understand the categorization of that demand to period of supply. So we've categorized our inventory and we have hundreds of thousands of pieces of inventory along five categories, categories one through five and the first two or three categories turns seven or eight times a year. So we'll be working to optimize our buys in line with that period of supply, get closer to the demand pool, make sure we buy, having on order, suppliers know it's coming, its forecastable. When we see that delivery closer to when we need to replenish bins as opposed to getting it two years in advance and holding it and waiting for that day.

We'll also align our MRO and our ad hoc forecasted demand along those lines in those categories where we'll have those buy for speed and ease for MRO and also to grow the ad hoc business by having more product in hand because if you have it, you got a better chance of selling it. So all of that is designed to basically optimize our use of working capital. We should be able to buy more at a more effective utilization of working capital as we grow topline and that's the whole strategy. It's not easy. It's very, very hard actually. It's very different for Wesco. It's very difficult to do but when we come out the other side, we'll be formidable in the way that we buy our product and the way we go to market with our product.

Jason Gursky - *Citi - Analyst*

As far as the timing of -- seen the results from these efforts, do you think this is a multi-year from here?

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

So where we are right now is we've just started to go out -- it took us about six months to evaluate between the material management, which is what is our inventory and what is its period of supply and then another three months of demand planning of okay, how do we want to plan that and take those categorizations into ordering. That took about six months and now we're about 90 days to maybe 120 days into the deployment of [SAP] where we're starting to visually see what we have, what we don't have, where we need to fill gaps and whatnot on top of what we already have at Wesco.

In terms of the material management strategy, Jason, we've gone out with our initial packages and the results are pretty favorable. So we're seeing a value proposition better than Wesco has been able to do in the past and Wesco was very, very good at what they did in the past. We're just at the early stages of that. We are seeing some savings that will drop to our bottom line this year, but it's more of a 2017, 2018 story as well as those become more mature.

We have to go through really a whole cycle of inventory and we also have to be very thoughtful working with our partners about how to plan the commodity packages and make sure we're aligned much as efficiently as we can to their production systems. We work very closely with our suppliers. We know which parts they build where and where they have capacity and where they don't have capacity, who's doing well and who's not doing well and we want to be very, very thoughtful about how we partner with our suppliers to do that and that's as important as speed because if you get that right, everything delivers from there. So that's where we are probably again 120 days into SAP deployment but we're well on our way and we see and learn and do new things every day because we're starting to get the visibility in the business in order to take those kind of actions.

Unidentified Audience Member

If I understand correctly, it sounds as if the result of all this work is you can run your business with less working capital. So have you quantified or can you quantify at today's level of revenues and so forth, how much working capital you can extract out of the business without while at the same time of course keeping your service levels intact and so forth?

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

Rick, you want to handle that one?

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

Sure, the optimization of the inventory that relates to our JIT and LTA portion of our business will allow us to be able to invest in forward purchase and demand management for aftermarket in JIT and LTA as well as allow us to be able to invest in converting existing customers over and taking that first bin of inventory stocks so we can continue to feed the revenue pipe there. So I don't think it's about reducing inventory overall, I think it's about just keeping inventory growing in line with our revenue growth and allow us to be able to stay on a track [and being] able to convert 100% of net income to cash. So that's really more -- it's more of an optimization story and really be thoughtful about where we invest in inventory and growth.

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

Yes, George, we've been very thoughtful. You've never heard us say reduce inventory. We've never put out any targets. We are not destocking. We're buying as much this year as we bought last year. We're just changing how we buy it and we plan to buy more as we grow.

Jason Gursky - *Citi - Analyst*

And one of the questions that comes up frequently when I am out speaking with investors about Wesco is and you touched on this little bit a few minutes ago, what is the capital structure of the company and the goals on it? So we're at a little over four, we're going to 3.5, but what do you think kind of optimally kind of where -- where we can get to and where should we be eventually I guess are two different things. So maybe talk little bit about what the optimal level is for a company this size given the fact that we are in theory a cyclical business.

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

Yes, I think optimal for us would be kind of in that three range that Dave was alluding to and I think we're little ways away from trying to get to that juncture, but the other thing is that we really got to look at our strategy and say where is it we think are our best sources of growth and let that help drive valuation, help drive what we do with capital allocation at Wesco, but right now, being highly leveraged, it really takes some of those options off the table, could be rolling out the financial flexibility to do that. So part of this is building back that flexibility. So as we grow and evolve the Company and become clear on where we want to invest, we have the flexibility and ability to do it.

Jason Gursky - *Citi - Analyst*

And maybe just do a little stress testing here, just so the people that are looking at the leverage can get comfortable, it's always been kind of the consensus thought that in a down environment, say cycle role was over, production rates are coming down, your revenue opportunity obviously begins to evaporate, EBITDA levels come under pressure, that doesn't make the credit worthiness of the company look all that great, but is it still the case or in that kind of environment that we can have a little bit of unwind on the working capital to generate some more cash.

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

I think in terms of the first part of your question, the way that we provide our product and the way that we're going to market regardless if there's perturbations in the industry, I don't see a change in how our customers want to use our service. So even if they have rates going down, they'll be under more cost pressure, which really fits Wesco really well because we take cost out. So we will position ourselves if there is a turn down like that, which I don't anticipate anything that severe but again, we'd be opportunistic in the fact that we help get cost out.

So if the Company's got -- if the tier 1s are facing revenue issues, they'll be looking to get cost out and we're there to help them go do that. So we don't worry too much about that. We're in an unprecedented growth industry, nothing I've ever seen before. I've been in the business a long time. I think it's an industry that's positioned incredibly well long term for macroeconomic trends in demographics whether that materializes in 2025 or 2030, it will materialize. Most of the major production aircraft were sold out through the rest of the decade and we came off unprecedented record ordering.

So it's not surprising that they've slowed down, I don't think the world's coming to an end. I think we're in a great industry. It's been a great industry and will continue to be and I think for us given our position in MRO, we're somewhat insulated for anything that happens there because we're so under-represented and I mentioned the fact that you can really leverage the opportunity if something severe like that happened on the fact that we take cost out.

Jason Gursky - *Citi - Analyst*

And then on the idea that there is a working capital unwind if whatever reason that there are?

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

Yes, I think for us. I don't think we look at the business along that line. I think Rick was alluding to it really in terms of we will work to find the optimum material management system to support our growth profile, there is an answer. It's never a perfect answer. We want the businesses always to be pressured to work towards optimizing that. So you've never heard us declare an inventory number because we're going to -- there's a right amount of inventory to support your customers and our strategies are going to drive to that right amount of inventory and that's everything we're doing relative to demand planning, materials management will allow us to optimize the perfect amount of inventory we need in order to support our customers and that's just like standard work in process with tier 1 who makes something exactly the same concept we're working towards. There's no magic number. It's always driving to get to the optimum level you can get to.

Jason Gursky - *Citi - Analyst*

Any questions from the floor at this point because I keep going here. One of the things that aerospace and defense analysts love to do is come up with unit volumes from aircraft that are [going to get] delivered, types chipset content, try to get to a revenue from a particular program and that always was a difficult question, I was hoping you guys have so many parts going to different programs and they are often times common parts, but I think that one of things you talked about was trying to get more visibility in your business you stepped in. So maybe you just walk us through on where we've come on that visibility and if you were sitting here from the outside, can we start to hone in on one program over another being more or less important?

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

Yes, I think there's three themes that came out of that, three questions that have might come out of that. One is the nature of our product, the way we deliver in, it does go on, it does go on everything. You're right. That's a good thing. So if you're in a customer and they've got 15 programs and we provide product and guess what, it goes on 15 programs. So if they have a start-up program, they have the sun setting program, they have a program in high rate production, we're on them all. So there is a balancing act. So we don't get too overwhelmed and too concerned about any one particular program.

Obviously we know the highest rate programs in the world. So when we talk about targeting customers and talking to them, we obviously want to talk about the high rate production programs because we understand those.

The third piece of it I think is the forecast in piece. We are getting a lot better at understanding our forecasting. We do a quarterly review now with Rick and Todd Renehan is our Chief Commercial Officer. We go through all our major platforms and we do a rebalancing every quarter and revalidate that our forecasting is right. These are things that Wesco did not do effectively in the past and these are some of the disciplines we're really bringing in terms of our business planning.

So again, it's got 25% of the business is ad hoc. So, by nature not predictable and then you've got -- there is an oscillation of our business because we're on replenishment. So it's not perfectly forecasted, but we should be good enough to have a pretty good idea what's happening quarter-to-quarter and we do pay attention and I could tell you I mentioned to John's question what we sell on the military side, I was able to answer that because we know what platforms we're on. We don't publicly talk about that too much.

I could tell you like on the business jet side, we're not seeing some of the major swings that maybe our competitors are seeing because of the nature of our product, we balance out if the sunset program was also on the startup program. So we don't see those major swings. We need to know what Wesco didn't do in the past was pay attention to what was happening in the market and then was surprised by that. Now, we're paying attention to market, it doesn't means things won't happen but at least we can see him and then take action against them, if things do happen in the market.

Jason Gursky - *Citi - Analyst*

Got about a minute left here. Just want to try to sum things up and give you an opportunity to comment as I kind of wrap my brain around all this. We've got from a topline growth perspective, we all kind of have an idea what DoD budgets are doing. We are going to get some growth out of there. So we got low level growth in 40% of your business perhaps.

You described it as stable for the near term, but I think as these investment account budgets begin propagating through the procurement system, we're going to see some tailwinds there. We have production rate growth overall for the commercial aerospace industry. It's in the low-single digits as well as we look out over the next several years. That's another nice tailwind for you guys. Little bit of potential growth on MRO I think. So if you were to try to characterize what your goals are for revenue growth, is it to grow some 100 basis points above the underlying markets that you're serving?

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

I think what we've stated is our goal is to grow stronger than market. We haven't stated exactly what that is in the business as we go through the stabilization of this. I think our priority has been to stabilize and demonstrate our ability to do that again. Certainly you're seeing with Q2 results there is an underlying growth in the business as we bring the revenue back in line to where it was before after losing a significantly large program in itself demonstrates that the business is growing at a pretty good clip. So certainly our near term goals are to grow a little bit better than market.

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

Okay, I've got a red flashing light, [I assume someone] has got a burning question, I think we're going to wrap up here.

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

Thank you everyone.

Jason Gursky - *Citi - Analyst*

Thanks.