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WAIR - Q3 2016 Wesco Aircraft Holdings Inc Earnings Call

EVENT DATE/TIME: AUGUST 04, 2016 / 9:00PM GMT

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PRESENTATION

Operator

Welcome to the Wesco Aircraft Holdings third-quarter FY16 earnings conference call. My name is Anna, and I will be your operator for today's call.

(Operator Instructions)

I will turn the call over to Jeff Misakian, Vice President of Investor Relations.

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

Good afternoon, everyone, and thank you for participating in Wesco Aircraft's FY16 third-quarter earnings call and webcast. We've 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 Executive Officer, and Rick Weller, Executive Vice President and Chief Financial Officer. Please turn to slide two. As a reminder today's conference call contains 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 8K. Wesco Aircraft undertake no obligation to update or update or revise forward-looking statements except as required by law. Now I'd like to turn the call over to Dave Castagnola. Dave?

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

Thanks, Jeff. Please turn to slide three. We felt that FY16 third-quarter reflects steady progress across all areas of our business. Revenue in the quarter reflects growth in long term contracts, progress in MRO and stable ad hoc sales. Cost actions drove a reduction in SG&A, which more than offset a decline in gross profit and led to an 11% increase in operating income and an expanded operating margin. A net positive impact from currency and a lower tax rate also contributed to an increase in net income and earnings per share compared to the same period last year.

Please turn to slide four. Adjusted EBITDA was higher in the third quarter compared to the same period last year, reflecting the same factors that led to the improved operating profit and the net positive currency impact. Improvements in working capital drove stronger operating and free cash flow in the quarter which allowed us to further pay down long-term debt.

I'll provide you with an overview of our third quarter performance. Rick will discuss the results in more detail and then I'll share my perspective on year-to-date performance and full year outlook. Please turn to slide five. Revenue increased 3.4% in the third quarter excluding the effect of currency movements. Growth in long term contracts continued to be the primary driver of higher revenue.

Contract sales rose at a mid-single-digit pace reflecting increased customer production rates and content, renewals and new business wins. The pace of the new wins with large commercial and military customers continues to strengthen in FY16, reflecting their recognition of the value in our broad portfolio of hardware and chemical products and supply chain management services, as well as an expanding presence in the aftermarket. Business expansion with commercial and military customers was comprised of new wins, the addition of new sites and the expansion of the scope of products and services we provide.

Some of the major deals signed in the quarter included hardware and chemical services in the US for a major Tier 1 supplier and an engine manufacturer in the US and Europe; hardware and electrical services at multiple sites in the US for a major commercial OEM; hardware, chemical and electrical services in North America for an OEM; chemical services for a Tier 1 in the US; and hardware product in the US for a Tier 1.

In the first nine months of the fiscal year we have signed multiple new business, expansion and renewal agreements for all products and services with our major OEM and Tier 1 customers. We expect to see further sales growth from these deals in FY17 and FY18. The timing of this growth depends on customer needs and implementation schedules. With our MRO customers, increasing contract wins include agreements to provide products and services with airlines and MRO service providers globally. In addition, we continue to expand MRO pipeline opportunities.

It's still early to expect a material contribution from this component of our total revenue growth but we expect MRO expansion to continue in FY17 and FY18. Regional sales activities through our global branch network took advantages of opportunities in a relatively stable ad hoc market and continue to support existing LTA contract expansion. Ad hoc sales excluding currency increased sequentially in the mid-single-digit range, consistent with our expectation for improvement in the second half of the year.

Ad hoc orders in the third quarter were consistent with our second quarter pace. It is important to remember that at ad hoc orders by nature are subject to fluctuations, making them challenging to forecast. Please turn to slide six. Supply chain management initiatives are making progress. We have improved supplier delivery performance through increased performance metrics and visibility, order book alignment and prioritization, a daily cadence of interaction, on-site reviews with action plans, capacity assessments and greater accountability.

We also have improved our materials management processes to better align purchases to consumption, which improved working capital performance in the quarter. Commodity based strategic sourcing activities are securing longer term supplier agreements, leading to improved efficiency with our ordering processes and at critical suppliers.

We also expect these agreements to improve inventory and delivery performance and reduce material acquisition costs over the long term. We're pleased with the progress the supply chain team has made to date.

Please turn to slide 7. We continue to execute operational initiatives, with SIOP improving our ability to plan more accurately and forecast material acquisitions based on demand that is closer to actual consumption. Site and supply activities continued in the quarter, with the closure of one additional facility bringing the total to 14 consolidations to date. We also consolidated a facility into the new multi commodity hub in North America that we told you about last quarter.

In addition our focus on continuous improvement is driving better logistics flow and delivery performance as we utilize lean principles throughout warehouse processes. Finally, customer implementations are running at a faster pace than Wesco experienced historically, a reflection of higher level of business wins. We have resourced a cross-functional team to manage more than 30 active implementations across multiple customer sites around the world.

I'll 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 & CFO*

Thanks, Dave. Please turn to slide 8. Net sales in the FY2016 third quarter of $375.2 million increased 2% compared to the same period last year. Foreign currency movements had a negative impact of approximately $6 million on FY16 third quarter sales, similar to what we experienced in the first two quarters of the fiscal year.

Net sales excluding currency effects were up 3% compared to the same period last year, led by mid-single-digit contract growth supporting major commercial and military customers. Growth was similar in hardware and chemicals. Ad hoc sales were flat year-over-year excluding currency impact, but increased at mid-single-digit pace from the second quarter.

Please turn to slide 9. Income from operations was $40 million in the FY16 third quarter, an increase of approximately 11% over the same period last year. Operating margin was 10.7% in the third quarter of FY16, compared to 9.8% in the same period last year. The increase in operating margin is primarily due to a decline in SG&A as a percentage of net sales, partially offset by lower gross margin.

SG&A as a percentage of sales was 15.8% for the FY16 third quarter, 240 basis points lower than the third quarter of last year, primarily due to a decline in people-related costs, bad debt expense, professional fees and currency. Our ongoing focus on cost management also led to a sequential decrease in SG&A.

Gross profit as a percentage of sales was 150 basis points lower in the FY16 third quarter compared to the same period last year, primarily due to currency effects of 50 basis points, inventory adjustments of 50 basis points, and a 40 basis-point impact from chemical commodity based index changes that we have discussed in previous quarters. The remaining 10 basis points of gross margin decline can be attributed to mix.

Inventory adjustments in the quarter were primarily related to physical count true-ups for site and supply moves and improvements in warehouse inventory accuracy. In FY15 most of the inventory count and related adjustments were made in the fourth quarter. The commodity-based index changes were primarily due to a decline in the underlying indices which had a negative impact on sales and particularly on gross margin.

Recent pricing and index adjustments are expected to have a net positive sequential impact on fourth quarter margins. Net income in FY16 third quarter rose 46% to $24 million from $16.5 million in the same period last year. In addition to the items that drove operating profit in the quarter, net income also benefited from a net currency gain in other income and a lower effective tax rate.

Other income net increased by $5.1 million primarily due to transactions that are denominated in currencies other than the functional currencies of our reporting subsidiaries. In the FY16 third quarter we recorded a gain of $2.6 million versus a loss of $2.6 million in the same period last year. Both periods were primarily impacted by the change in value of the British pound.

The foreign exchange transactional gain of $2.6 million in the FY16 third quarter was partially offset by net negative translational impact from currency movements of approximately $1 million in operating income. The transactional impact is related to timing differences that arise when net assets are booked and settled, primarily driven by receivables and payables.

The transactional impact in the third quarter is net of a financial hedge against the net asset exposure. The translational impact results when functional revenues and costs, primarily those in British pound sterling, or translated to US dollars at lower exchange rates. Our effective tax rate in FY16 third quarter was reduced by a favorable mix of taxable income across jurisdictions and discrete tax items.

We expect our effective tax rate for FY16 to be in the range of 29% to 30%, primarily due to the projected mix of taxable income across jurisdictions. Adjusted EBITDA was $50.9 million or 13.6% of sales in FY16 third quarter. This compares with $42.6 million or 11.6% of sales in the same quarter last year. Adjusted EBITDA margin also reflects the improvement in operating income and the net positive impact from foreign currency that I just described.

Please turn to slide 10. Sales in North America were up 2% in the third quarter, primarily due to increased production and content, new business wins, and scope expansion on commercial and military contracts. Operating income and margin in North America were relatively consistent year-over-year as lower SG&A largely offset a decline in gross profit.

Gross margin was impacted by the mix of ad hoc and contract revenue as well as the commodity based index change I mentioned earlier. SG&A reflects lower people-related costs, bad debt and professional fees. Turn to slide 11.

Sales in the Rest of World segment rose 2% in the third quarter and were up approximately 10% adjusted for currency. Operating income in the Rest of World was $10.8 million in the third quarter, or 14.5% of net sales compared with $7.1 million or 9.8% of net sales in the same period last year. Higher operating income and margin in Rest of World primarily reflects an increase in sales volume and mix. SG&A was lower, primarily due to currency.

Please turn to slide 12. As you know, Britain's recent decision to exit the European Union created some additional near-term uncertainty. While the decision could have negative ramifications for the regional economy and potential impact global financial markets, the actual implementation likely remains months or years away.

In the meantime, we'll continue to monitor developments in the region. We'll remain committed to our operations and providing service excellence to our customers in the UK and Europe. The principle near-term impact on the Company will likely come in the form of exchange rate movements, particularly changes in British pound. The Company has hedged a substantial portion of its transactional currency exposure in future periods which removes most of the transactional risk.

In addition, Wesco is establishing a new UK legal entity that combines legacy hardware and chemical entities. As a site and supply initiative, this will allow for operational efficiency, leverage and improved customer service across multiple commodities. The appropriate functional currency for the new entity is under review and will be determined prior to the establishment of the new legal entity, which is expected early in FY17.

Please turn to slide 13. Net inventory was $3 million higher at June 30 compared to March 31, 2016, primarily to support the increase in new business. However, the pace of inventory purchasing slowed in the FY16 third quarter consistent with our comments last quarter and reflects the improvement in materials management that Dave mentioned earlier. Accounts receivable declined $14 million in the third quarter, due to the timing of revenue and our focus on collections.

Total debt was $877 million at June 30, reflecting repayments of $46 million in the third quarter and $76 million year-to-date. We'd expect to pay down debt in the fourth quarter as cash generation continues to improve. Please turn to slide 14.

Cash from operations was $52 million in the FY16 third quarter, compared with $34 million in the same period last year. Free cash flow was $48 million compared to $33 million in last year's third quarter.

Increases in operating and free cash flow are primarily due to working capital improvements. We expect continued free cash flow generation in the fourth quarter as we further strengthen the alignment of inventory to demand through SIOP, higher revenue is collected and cash tax benefits are realized. Now I'll turn the call back over to Dave for closing remarks. Dave?

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

Thanks, Rick. Please turn to slide 15. Results in the first nine months of the year have shown steady progress throughout the business. While currency adjusted sales performance this year largely has been in line with our expectation, the mix has been a bit different. Our intent was to drive higher ad hoc sales while we worked to regain momentum in contract sales during the year. Actual sales results have been somewhat different.

In spite of the positive third quarter trends we mentioned earlier, ad hoc sales remain below our expectations year-to-date. However, contract sales have performed better than we anticipated due to the higher rate of new wins and expansion of existing agreements. While contract sales generally carry lower gross margins, their greater stability is beneficial to the Company over the long term. This mix shift relative to expectations has pressured EBITDA margins.

Cost management efforts have met our committed SG&A reductions, and we continue to focus on SG&A to drive further efficiencies. While we remain committed to our FY16 financial goals, the sales mix shift I just described coupled with increased pressure on the pound, creates challenges in the fourth quarter. We are taking actions to address these challenges, primarily through incremental cost savings as well as an expected benefit from the commodity index and pricing changes that Rick described.

Please turn to slide 16. Consistent with our progress to date, we expect higher sales in our contract business to support our full-year target of low single-digit growth in revenue. We continue to target $25 million to $30 million in cost savings this year, which we expect to be the primary driver of EBITDA margin improvement target of approximately 100 basis points. Finally, improvements in working capital have led to stronger free cash flow in the third quarter and we believe this performance has put us back on track to achieve our goal of 100% free cash flow conversion. I'll now turn the call over to Jeff to direct the Q&A period.

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

Thank you, Dave. With that, we'll open up the call to your questions. We ask that you limit your questions to one initially to allow everyone a chance to participate. We do appreciate your assistance with this process.

Operator

(Operator Instructions)

Carter Copeland, Barclays. Please go ahead.

Carter Copeland - *Barclays Capital - Analyst*

Hey, good afternoon, guys.

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

Hello, Carter.

Rick Weller - *Wesco Aircraft Holdings Inc. - EVP & CFO*

Hello, Carter.

Carter Copeland - *Barclays Capital - Analyst*

Just a clarification and a question on that commodity index change, can you just tell us what the biggest movers in terms of components of that index are? And then as questions go, on the implementation comment, can you maybe give us some color on, you know, how that may have differed for new customers versus new sites at existing customers? Thanks.

Rick Weller - *Wesco Aircraft Holdings Inc. - EVP & CFO*

All right. I'll take the commodity question. It is primarily for petroleum-based product that are index priced, and obviously as those indices have moved, our index has moved along with them. And some of the commodities that are not indexed were opportunities for us to go back and get some pricing and price impact poured on, so those were really the two areas there.

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

And then on the implementations, Carter, it's really a combination of a whole series of different approaches, one depending upon the win or the renewal with existing customers, it is expansion into existing sites, so we're leveraging that and growing that. We have some wins that are with brand new customers with brand new products, so we're starting from procurement and implementing sites, and then, you know, everything in between. So really a full gambit of how we're handling that.

Carter Copeland - *Barclays Capital - Analyst*

Would you say there's more growth in existing sites or more growth in new customers, I guess is the question I was trying to ask?

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

Yes, so we've got actually very good growth rate within existing customers, that is what is fueling basically our mid-single digit growth, huge demand pull from their -- as they work their production systems and move to large-scale service providers like us, that demand is there, it's being validated, and there is a lot of pull. And that's in growth and that is growing. We're very early on in the MRO stages, little bit different market implementation, but we have some of those that have started.

And then again in the renewals, most of those are along the former line I mentioned which is existing sites with some expansion. We have announced some renewals with expansion, and those are the ones where we will expand on additional sites, you know, from our position with them.

Rick Weller - *Wesco Aircraft Holdings Inc. - EVP & CFO*

One of the things that has been pretty good to see, too, is cross-selling commodities into existing customer sites, that's been a source of growth that has been good as well.

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

That is a good point. We have a good mix across our commodities selling for both -- for all three hardware, chemical and electrical, to Rick's point.

Carter Copeland - *Barclays Capital - Analyst*

Great. Thanks for the color, gentlemen.

Operator

Jason Gursky, Citi.

Jason Gursky - *Citigroup - Analyst*

Good afternoon, guys.

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

Hello, Jason.

Jason Gursky - *Citigroup - Analyst*

Quick question on the contract business, and the longer term contracts. Can you talk a little bit about the pricing environment and the gross margin opportunity? I know we're facing some mix because the ad hoc isn't coming in as strong as you had anticipated. But I also would love to get some color from you on the contracting business and how well the pricing and margins are up there.

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

Thank you, Jason. So our wins, you know, for Wesco and the way we evaluated, our wins have almost entirely been based on a total value assessment by our customers. It includes price, but it also includes inventory and scrap reduction, working capital improvement and SG&A reduction. Pricing pressures are not new and they vary really based on the customer needs and the marketplace demands.

But the way we are -- the way our service model is provided we actually, you know, touch those points very well. That's what we're really evaluated on. And in terms of, you know, competitiveness, the actions we've taken really allow us to compete very effectively there. So the bulk of our wins year-to-date have really been in the contract space and really been around that evaluation of the total value to the Tier 1s, because they're looking for all of those values as they make their decisions.

Jason Gursky - *Citigroup - Analyst*

Okay. Do you have any visibility at this point on when gross margins can stabilize or maybe even perhaps inflect higher at this point, given the book of business that you've gone out and successfully gotten here over the last 12 months or so?

Rick Weller - *Wesco Aircraft Holdings Inc. - EVP & CFO*

Jason, I can say it like this. The sequential improvement we're seeing in the LTA contract business is pretty indicative that the business is being renewed and replaced as we move forward is that margins are a little bit higher than the businesses it's replacing. So that has been a pretty positive trend for the last several quarters.

Jason Gursky - *Citigroup - Analyst*

Okay. Thanks, guys.

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

Thanks, Jason.

Operator

Gautam Khanna, Cowen and Company.

Gautam Khanna - *Cowen and Company - Analyst*

I was wondering if you could comment on what you think explains the sluggish ad hoc environment?

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

So I think actually the ad hoc market has been relatively stable. We're flat year-over-year, we're sequentially up quarter-over-quarter. Our expectations coming into the year was to grow that a little bit faster as we worked through the transition of recovery and in transitioning the sales momentum in the contract business.

What we've done is we held our own. We expected -- we got in Q2 and Q3, we started to see the increase in bookings sequentially and then we started to see, again, in Q3 actually sequential growth in the ad hoc sales, so, you know, we had expected to get that a little bit earlier but the market has been relatively stable.

Gautam Khanna - *Cowen and Company - Analyst*

Can you comment on pricing within the ad hoc market, if you've seen any change, flexible or otherwise?

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

Not really. You know, given where we are in terms of, you know, really holding our margins, we understand the pricing in the market.

It is really speed and availability that is driving most of the sales and a lot of our strategies, which are starting to mature later in the year -- later in this year associated around forecasting ad hoc a little bit more and analytically, gets us ahead in terms of buying and having that product available for the market. That's what's really -- really the key into growing into that stable market is having the product and having the speed to support it.

Gautam Khanna - *Cowen and Company - Analyst*

Thank you.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Hello, good afternoon, thank you for taking my question. I am just following up on Gautam's question with regards to ad hoc. I understand the market seems to be flattish, but some of the suppliers noted, you know, a pull forward or just additional cost related to the A350 to meet ramp requirements. Are you guys not seeing that on that platform or is it just other platforms that are offsetting ad hoc sales?

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

Yes, I think in general and, you know, if you listen to some of the comments from the manufacturers, they talk about a number of things. They talk about distributor restocking, they talk about BASN driving inventory reductions, they talk about warehouse consolidations. So there is a number of things they're talking about that may be affecting their direct buy.

For us we actually haven't -- we haven't reduced our inventory. We're not destocking, we're really moving to align the materials receipt to demand using SIOP. And then as Rick said, we actually increased our inventory buys in Q3. So we haven't really seen a material trend -- a material change in industry, trends along those lines.

There is not a lot of disruption in the market. A350 is not creating a bunch of disruption. The disruption maybe comparatively speaking to three, four, five years ago when we had multiple development programs launched, the JSF start-up. The industry is relatively stable. The customers are, it's again, a very constant demand out there for ad hoc, but we work with our customers really to convert to LTAs and work with them long-term. It is a much better way for them to buy from us, and it secures us long-term and then in terms of supply.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

That is helpful. On the inventory adjustment of a few basis points you discussed were impacting margins in the quarter, can you elaborate on that?

Rick Weller - *Wesco Aircraft Holdings Inc. - EVP & CFO*

Sure, Sheila. The inventory adjustments are primarily related to physical inventory counts. Typically what we do at Wesco is we take statistical counts and physicals in the fourth quarter, but because we're consolidating a lot of locations and sites, we're taking inventory to coincide with that, a lot of that work was actually done in Q3.

The other thing is that I alluded to in my comments were what really we're laying out and making warehouses more efficient, as we do that we're counting bins and getting inventory accuracy trued up and not waiting for year-end count to get that adjusted. It is a timing thing and that's really why we saw it Q3 versus Q4.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Last question in terms offer the outlook in the press release you mentioned pricing improvement, but just a clarification, I'm guessing that is related to the commodity price index?

Rick Weller - *Wesco Aircraft Holdings Inc. - EVP & CFO*

Yes, it is. Same commodity index that came up in the earlier question is already been an adjustment for, the index has been reset and the prices are now set on the non-index commodities going into the fourth quarter.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Okay. Thanks.

Rick Weller - *Wesco Aircraft Holdings Inc. - EVP & CFO*

Sure.

Operator

Myles Walton, Deutsche Bank.

Myles Walton - *Deutsche Bank - Analyst*

I was hoping to touch on the outlook as well. I'm trying to understand on the revenue side, it seems like a pretty lofty Q4 expansion required to hit 1% growth year-on-year. And so is that where the biggest pressure is, or is the biggest pressure on the EBITDA implied in the fourth quarter, which I guess would be just under 15% to get 100 basis points year-on-year?

Rick Weller - *Wesco Aircraft Holdings Inc. - EVP & CFO*

Yes, Myles, I think it is some of both, right? I do think that we've got, you know, a line of sight to the revenue that we need in the fourth quarter. I think it is there for us to get. I think the EBITDA margins is a combination of, you know, the variable what currency might look like as the quarter plays out and really the traction that we're trying to get to overdrive SG&A efficiency in the quarter to be able to influence the EBITDA margin.

Myles Walton - *Deutsche Bank - Analyst*

What, in particular, do you see on the revenue side kind of having this reacceleration or acceleration? Is there something that you expected this quarter that didn't play out that you are expecting next quarter?

Rick Weller - *Wesco Aircraft Holdings Inc. - EVP & CFO*

I would characterize it as continued new business momentum, things we booked earlier in the year, continuing to get the sites up and running and being efficient and seeing that come through will help influence the revenue and of course the build rates we're seeing from our customers. Those are things primarily going to drive the contract side of the business.

Myles Walton - *Deutsche Bank - Analyst*

Okay. No inflection implied or needed on the ad hoc, you've kind of -- you've tempered that expectation, I imagine.

Rick Weller - *Wesco Aircraft Holdings Inc. - EVP & CFO*

Yes, we really have.

Myles Walton - *Deutsche Bank - Analyst*

Okay. Thanks.

Operator

Kevin Ciabattoni from KeyBanc.

Kevin Ciabattoni - *KeyBanc Capital Markets - Analyst*

When we look at the inventory maybe from the other side and get an update on what you're seeing in terms of inventory levels at your customers? And then maybe more specifically with some of the announced wide body rate cuts, how do you look those impacting the business over the next year or two?

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

As we see with our customers, we carry the inventory for most of our customers, particularly on the class C side and then to some extent as well on the chemical side. And so we're on replenishment systems with min-max agreements, agreements in terms of duration of inventory we carry, and in many cases we give daily replenishment and then we do reordering depending on whatever those min-maxes are.

So it is really us managing the inventory, and that's why we're very focused on, and moving our buying and material acquisition against consumption, just to be much more effective of our working capital use. So, you know, in terms of our customers, we carry the inventory.

I think I made comments earlier about what could be happening to the OEMs that are managing their inventory, and I made those comments earlier to another question I think. I think there is realization some of the manufacturers had mentioned relative to the OEMs maybe slowing down and taking a look at getting their inventory under control. But we don't feel that with the way we're contracted with our customers.

Kevin Ciabattoni - *KeyBanc Capital Markets - Analyst*

And on the wide body part of the question, I mean, any changes to kind of how you're looking at things there?

Dave Castagnola - *Wesco Aircraft Holdings Inc. - President & CEO*

No, not at this point. By the very nature of, you know, our business, we've got a very, very good mix of 60/40 commercial to military. By the nature of our product, it delivers into customers and goes on all of their platforms, so, you know, if they've got a start-up program, we're on that. If they're ramping up we're on that. If it is full production, we're on that. If it's sun-setting, we're on that. We have a very good balance and very good mix. And unless it's a major event or a business loss, you know, we've got puts and takes we look at, but they typically tend to balance out.

Kevin Ciabattoni - *KeyBanc Capital Markets - Analyst*

Great. Thanks.

Operator

(Operator Instructions)

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

Okay. Since there are no further questions, on behalf of everyone here at Wesco Aircraft I would like to thank you for participating today. We appreciate your interest in Wesco and look forward to speaking with you all again soon. Have a good evening.

Operator

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