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EADS and Airbus CFO Harald Wilhelm

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"Airbus wants Suppliers to Consolidate"

By David Pearson and Daniel Michaels

Airbus wants some of its suppliers to consolidate, hoping such activity would boost their financial and technical strength and allow the aircraft maker to increase output more confidently.

Harald Wilhelm, the chief financial officer of European Aeronautic Defence & Space Co., made his comment after the company said it would miss its target for generating cash, partly because of concerns about weakness in its supply chain. Mr. Wilhelm said the company's Airbus and Eurocopter units are building parts inventories to avoid bottlenecks as production increases.

Consolidation would be particularly helpful among suppliers that build large structural elements, Mr. Wilhelm said in an interview Thursday. "This could help to create more robust suppliers in terms of operational capability, their own supply-chain management capability and, at the end of the day, also their balance-sheet quality."

Airbus in the past year has warned of stress among suppliers as plane makers have pushed production to unprecedented volumes and many parts makers have been squeezed financially. Airbus in May said it would shelve a planned production increase for its A320 single-aisle planes because of supplier problems. Airbus produces 42 of the planes monthly but had aimed to boost output to 44 a month. Canadian plane maker Bombardier Inc. said Wednesday that it would delay by six months the first flight of its new C-Series jetliner, citing unspecified supplier problems .

EADS has been helping Spanish supplier Alestis Aerospace SL, which is struggling as Spain's banking crisis has outweighed strong orders. EADS last year bought German supplier PFW Aerospace AG, which also had financial problems.

Mr. Wilhelm said EADS didn't want to buy its suppliers, preferring that they merge. "I would encourage them to talk to each other," Mr. Wilhelm said. He said some contractors for structural elements are under financial pressure because they took on projects that were delayed, pushing back the contractors' collections.

Mr. Wilhelm said EADS is building "buffers" into its inventories to ensure that aircraft deliveries aren't delayed if the supply chain is disrupted.

EADS reported that third-quarter net fell to € 309 million (\$394.6 million) from € 312 million a year earlier.

Revenue increased 15% to € 12.32 billion, and the company said full-year revenue growth likely would exceed 10%.

EADS said ensuring on-time delivery of new aircraft remains a challenge but that it expects to continue healthy growth, thanks to strong world-wide demand for passenger aircraft. That should offset weak economic activity in Europe and bleak prospects for military spending in industrialized countries.

The company's outlook followed the collapse last month of EADS's planned merger with U.K.-based BAE Systems , a deal that would have created the world's largest aerospace group by sales.

The failed deal left EADS under pressure to review its strategy because the company's defense business is small. Airbus contributes more than two-thirds of EADS's revenue, leaving the manufacturer vulnerable to the ups and downs of the civil-aviation market.

For now, however, EADS's lack of military heft appears to be an advantage. Rival Boeing Co. on Wednesday said it would cut executive jobs and consolidate several defense divisions in an effort to save \$1.6 billion over the next two years. Mounting concern over the U.S. budget deficit means Pentagon defense contractors such as Boeing and BAE could face more cuts and tighter contracts.

EADS's shares rose 4.2% to €26.10 in Paris on Thursday.