

## UBS Investment Research

## UBS Business Jet Update

**Used Inventories Hold, Pricing Falls Further**

10 June 2009

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)David E. Strauss  
AnalystCristina Fernandez  
AnalystDarryl Genovesi  
Associate Analyst**■ Available inventories look to be stabilizing**

Available business jet inventories look to finally be stabilizing, albeit at record high levels both in absolute terms and at 18% of the installed base. While still 55% above prior year levels, available business jet inventories were roughly unchanged sequentially in May including a 1% decline in young available aircraft listings (less than 10 years in age). New delivery position inventories have declined sequentially in each of the past two months.

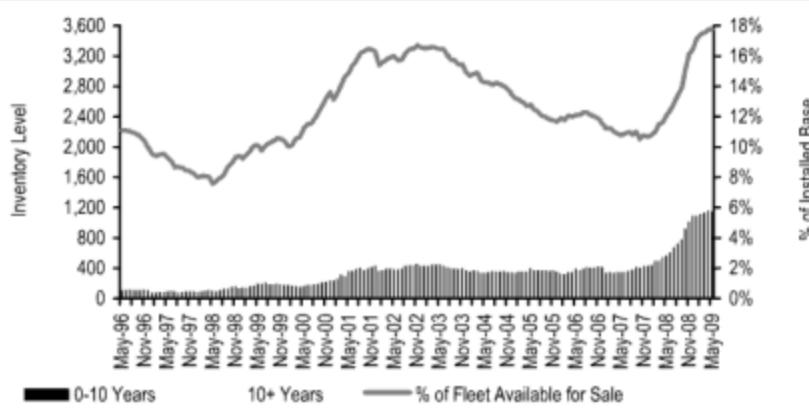
**■ Excess supply to pressure backlogs, force further production cuts**

We estimate average asking prices for most young aircraft models have now fallen 30-40% from peak levels, with pricing down another 3-4% in the past month. While our survey of industry professionals suggests some incremental interest at these levels, we think record high used available inventories will continue to overhang orders, pressure existing backlogs and force further production cuts.

**■ Expect weak orders & backlog risk to pressure valuations**

Overall, we think the current business jet market is characterized by significant oversupply, weak pricing and tight financing. While our key indicators and contacts indicate a bottom is near, we think the potential for further production cuts along with the risk of an extended downturn limits upside for most of the stocks. We think TXT can trade higher on an improved liquidity profile post its recent capital raise and is our preferred bizjet play over GD.

Chart 1: Total Available and Young (less than 10 years in age) Aircraft Listings



Source: JETNET and UBS estimates

This report has been prepared by UBS Securities LLC

**ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 10.**

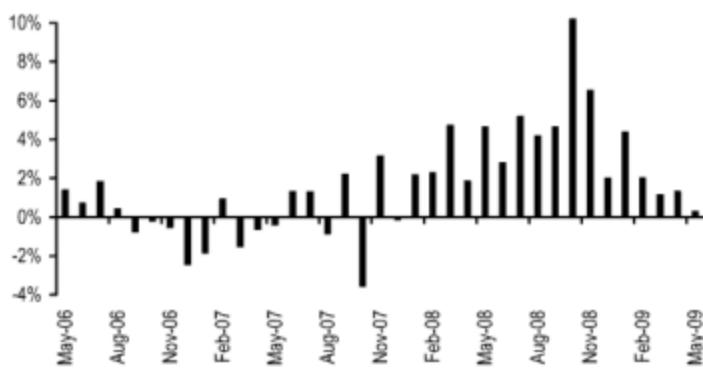
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## Used Business Jet Indicators

We believe the used business jet market serves as a leading indicator of the new business jet market. We closely monitor several key indicators of activity in the secondary market, including: 1) inventory of available for sale aircraft including new delivery positions listed for sale, 2) age distribution of available aircraft and 3) pricing of available for sale aircraft.

We estimate 3,057 business jet aircraft available for sale at the end of May (including 2,878 used aircraft and 179 new delivery positions), roughly in line with the prior month, although still 55% higher from the prior year. While total inventory levels remain at all time record highs both in absolute terms and at 18% of the in-service fleet, we think the slower growth rate over the past few months indicates that inventories are beginning to stabilize.

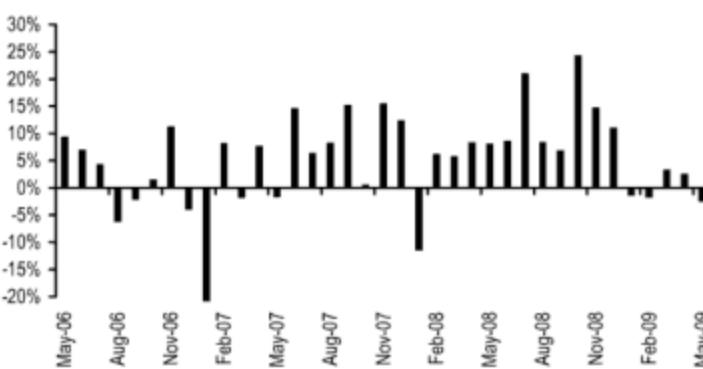
**Chart 2: Sequential Change in Used Aircraft Listings**



Source: UBS estimates

Young available aircraft inventories (less than 10 years in age), which had driven the recent inventory build, have also shown much lower sequential growth rates over the past few months and in May actually declined by 1%.

**Chart 3: Sequential Change in New and Almost New (0-5 Years) Aircraft Listings**



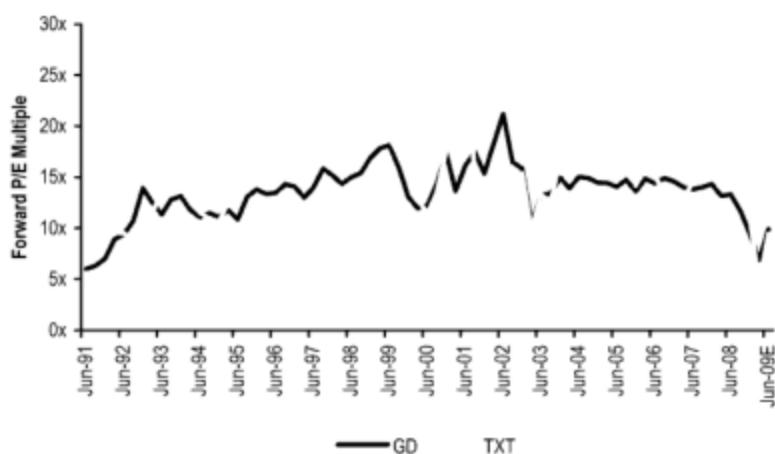
Source: UBS estimates

New delivery position inventories have declined sequentially in each of the past two months.

We estimate average asking prices for most young aircraft models have now fallen 30-40% from peak levels, with pricing down another 3-4% in the past month. While our survey of industry professionals suggests some incremental interest at these levels, we think record high used available inventories will continue to overhang orders, pressure existing backlog and force further production cuts.

Overall, we think the current business jet market is characterized by significant oversupply, weak pricing and tight financing. While our key indicators and contacts indicate a bottom is near, we think the potential for further production cuts along with the risk of an extended downturn limits upside for most of the stocks. We think TXT can trade higher on an improved liquidity profile post its recent capital raise and is our preferred bizjet play over GD.

Chart 4: GD and TXT Forward P/E Multiples



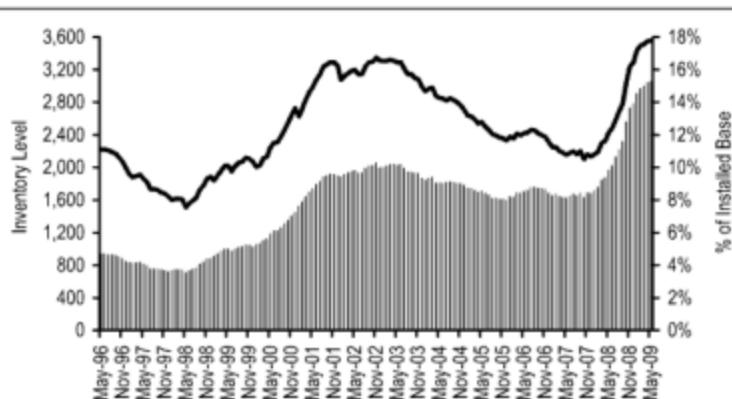
Note: Forward PE using rolling 12-month (actual) EPS through May 2009 and UBS estimates for future periods. TXT PE multiple for the current period reflects our 2010 estimate. Source: UBS estimates

## Available Inventory Levels

We estimate 3,057 business jet aircraft available for sale at the end of May (including 2,878 used aircraft and 179 new delivery positions), roughly in line with the prior month, although still 55% higher from the prior year. While total inventory levels remain at all time record highs both in absolute terms and at 18% of the in-service fleet, we think the slower growth rate over the past few months indicates that inventories are beginning to stabilize.

Of the five major manufacturers, Bombardier had the highest percentage of its respective fleet available for sale at 19%, followed by Cessna at 18%, and Dassault, Gulfstream and Hawker Beechcraft all at 16%.

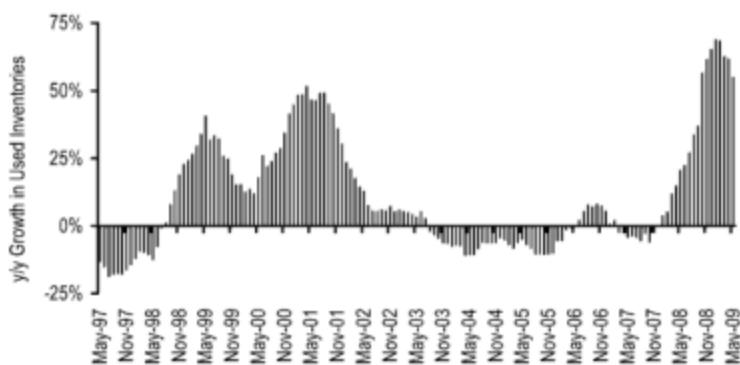
Chart 5: Business Jets Available for Sale and as a Percentage of the Installed Base



Available inventory levels are stabilizing at record high levels

Source: JETNET and UBS estimates

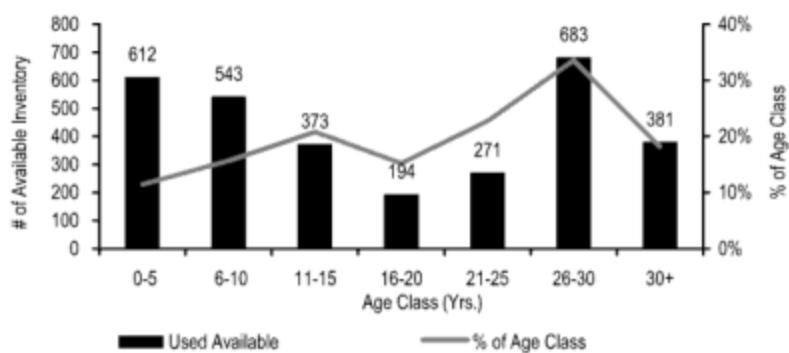
Chart 6: Absolute YoY Growth in Available For Sale Aircraft Listings



Source: JETNET and UBS estimates

By age class, we estimate the 0-5 and 6-10 year classes now have 11% (612) and 16% (543) of their respective fleets available for sale as compared to 5-10% a year ago. Meanwhile, business jets 20-30 years old now have roughly 30% of their fleets available for sale, above the recent average of 20%.

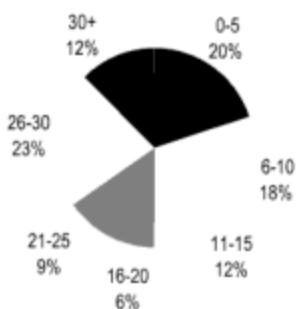
Chart 7: Available Inventory by Age Class and as % of Fleet in Age Class



Source: JETNET and UBS estimates

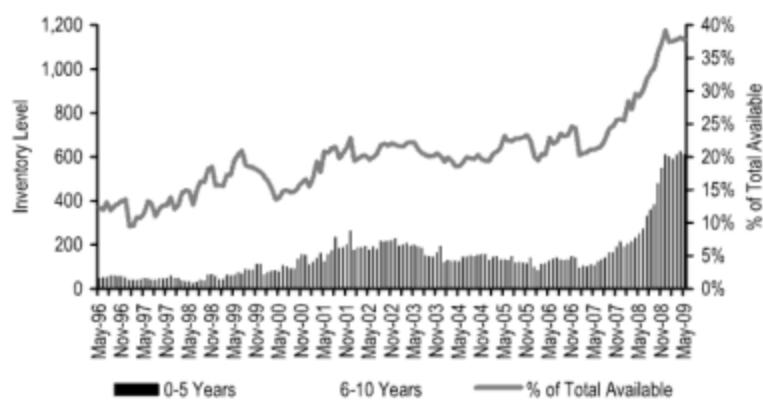
Currently, 38% of jets available for sale are less than 10 years in age, well above the 20-25% average over the last several years.

Chart 8: Available Inventory by Age Class (in years)



Source: JETNET and UBS estimates

Chart 9: Young Aircraft Available for Sale (less than 10 years in age)

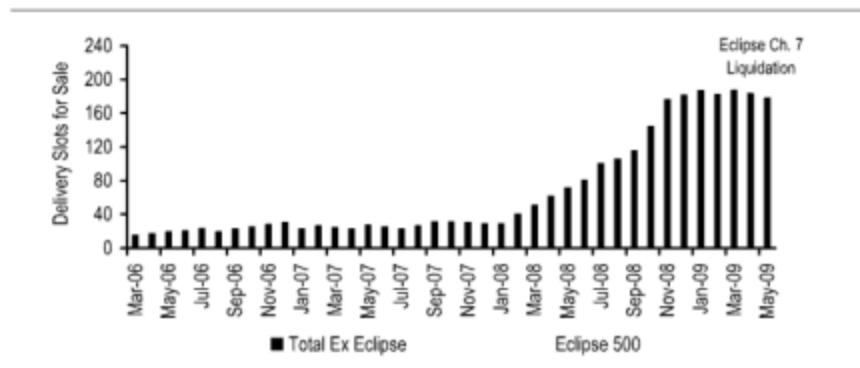


Source: JETNET and UBS estimates

We estimate the new/almost-new component of available aircraft inventories, including new delivery positions and used aircraft five years old or younger, declined by 3% in May to 612, roughly 2.5x prior-year levels.

Of the 612 0-5 year old aircraft available for sale, 179 are new delivery positions, 3% lower from April at 184, but still 2.5x higher from a year ago (ex Eclipse).

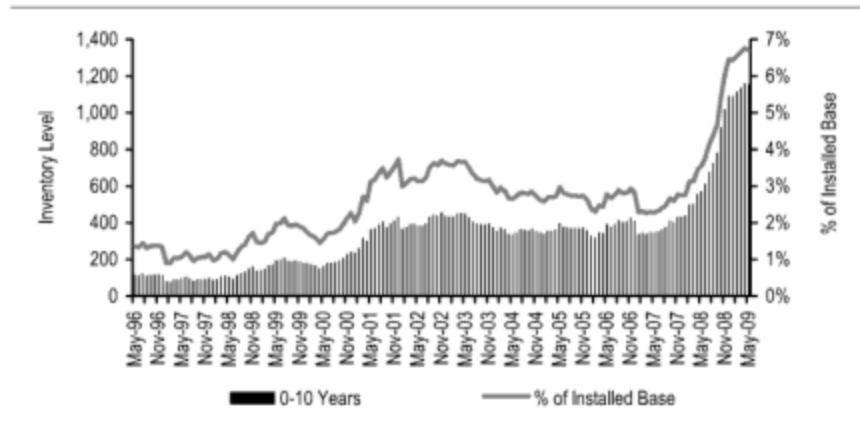
Chart 10: Historical New Aircraft Delivery Positions Listed for Sale



Source: JETNET and UBS estimates

We estimate young aircraft inventories (less than 10 years in age) declined by 1% in May, following steady increases over the past two years.

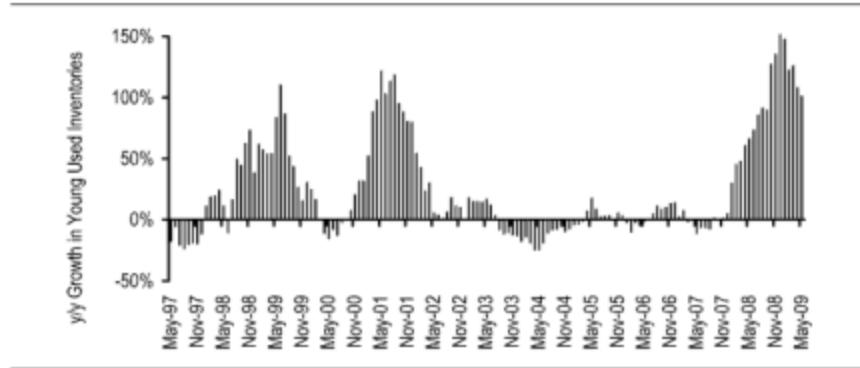
Chart 11: Young Aircraft (less than 10 years) Inventories as a % of Installed Base



Source: JETNET and UBS estimates

Despite the sequential decline this month, young aircraft inventories are still roughly double prior year levels.

Chart 12: Absolute YoY Growth in Young Aircraft (less than 10 years) Listed for Sale



Source: JETNET and UBS estimates

Table 1: New Aircraft Delivery Positions Listed for Sale at May 31 and April 30

Model	May-09	Apr-09
Citation Mustang	34	32
Phenom 100	28	27
Phenom 300	10	10
Challenger 300	10	9
Challenger 605	9	11
Citation CJ4	9	9
Citation CJ3	8	10
Gulfstream G-550	8	9
Citation XLS+	7	10
Global Express 5000	6	7
Challenger 850	6	5
Global Express XRS	5	6
Gulfstream G-450	5	5
Citation Sovereign	3	5
Falcon 2000LX	3	3
Falcon 900EX EASy	3	3
Learjet 60XR	3	3
Lineage 1000	3	3
Airbus A318 Elite	3	1
Boeing BBJ	2	2
Airbus A319CJ	2	1
Learjet 45XR	1	2
Adam A700	1	1
Boeing BBJ2	1	1
Boeing BBJ3	1	1
Citation X	1	1
Diamond D-JET	1	1
Falcon 2000EX EASy	1	1
Falcon 7x	1	1
Hawker 900XP	1	1
HondaJet HA-420	1	1
Sino Swearingen SJ30-2	1	1
Premier II	1	-
Citation CJ2+	-	1
Gulfstream G-150	-	-
Legacy 600	-	-
<b>Total</b>	<b>179</b>	<b>184</b>

Source: JetNet and UBS estimates

## A Look at the Newer Models

Of the 26 newer models that we track individually, 21 had at least 10% of their installed fleets available for sale at the end of May. Seven of these 26 models had higher inventory levels in May compared to the prior month, while eight were flat and 11 declined. All 26 models had higher levels of available inventory compared to the prior year.

Table 2: Used Aircraft Listings and Average Asking Price for Newer Models

Aircraft Model	Manufacturer	Used Available as % of Model	Used Available (units)						Average Price (mil)					
			May-09	May-09	Apr-09	Change	May-08	Change	May-09	May-08	Change	Max <sup>3</sup>	Change	Max Date
<b>Long Range</b>														
Falcon 900EX	Dassault	11%	26	26	0%	10	160%	\$ 24.5	\$ 34.5	-29%	\$ 35.7	-32%	Oct-08	
Global Express <sup>1</sup>	Bombardier	10%	33	31	6%	15	120%	\$ 35.6	\$ 48.9	-27%	\$ 48.9	-27%	Jun-08	
Gulfstream G-V / G-500	Gulfstream	7%	13	12	8%	6	117%	\$ 30.6	\$ 45.0	-32%	\$ 45.0	-32%	Jul-08	
Gulfstream G-IV	Gulfstream	20%	42	40	5%	26	62%	\$ 14.3	\$ 19.1	-25%	\$ 20.1	-29%	Jan-08	
Gulfstream G-IVSP / G-400	Gulfstream	13%	40	40	0%	17	135%	\$ 18.4	\$ 26.0	-29%	\$ 31.5	-41%	Aug-08	
Gulfstream G-550	Gulfstream	7%	19	19	0%	4	375%	\$ 41.0	\$ 56.0	-27%	\$ 59.9	-32%	Jan-07	
<b>Large</b>														
Challenger 604	Bombardier	13%	48	48	0%	19	153%	\$ 16.2	\$ 20.4	-20%	\$ 22.3	-27%	Jan-08	
Falcon 2000	Dassault	13%	30	27	11%	12	150%	\$ 16.4	\$ 18.7	-12%	\$ 21.6	-24%	Feb-08	
Falcon 2000EX	Dassault	6%	11	12	-8%	3	267%	\$ 25.6	\$ 33.8	-24%	\$ 35.5	-28%	Mar-09	
Legacy 600	Embraer	13%	20	20	0%	2	900%	\$ 19.3	\$ 20.0	-4%	\$ 24.5	-21%	Dec-07	
<b>Medium Large</b>														
Challenger 300	Bombardier	8%	22	22	0%	7	214%	\$ 18.1	\$ 24.8	-27%	\$ 24.8	-27%	Aug-08	
Citation X	Cessna	10%	29	31	-6%	19	53%	\$ 10.9	\$ 13.3	-18%	\$ 18.8	-42%	Mar-06	
Falcon 50EX	Dassault	20%	20	21	-5%	6	233%	\$ 10.0	\$ 15.6	-36%	\$ 18.0	-45%	Aug-06	
Gulfstream G-200	Gulfstream	15%	34	35	-3%	19	79%	\$ 13.7	\$ 15.3	-10%	\$ 17.6	-22%	Mar-08	
<b>Medium</b>														
Gulfstream G-100 <sup>2</sup>	Gulfstream	19%	15	16	-6%	14	7%	\$ 5.9	\$ 7.0	-15%	\$ 11.0	-46%	Mar-06	
Hawker 800XP	Hawker Beechcraft	14%	65	65	0%	24	171%	\$ 6.7	\$ 9.0	-25%	\$ 9.7	-31%	Jan-08	
Learjet 60 / 60XR	Bombardier	23%	84	80	5%	39	115%	\$ 5.9	\$ 7.6	-22%	\$ 7.7	-23%	Jun-08	
<b>Super Light</b>														
Citation Excel / XLS <sup>3</sup>	Cessna	11%	80	78	3%	37	116%	\$ 6.0	\$ 8.5	-30%	\$ 9.5	-37%	May-06	
Learjet 45 / 45XR	Bombardier	12%	47	50	-6%	24	96%	\$ 5.4	\$ 7.2	-24%	\$ 7.8	-30%	May-07	
<b>Light</b>														
Beechjet 400A <sup>4</sup>	Hawker Beechcraft	16%	56	58	-3%	41	37%	\$ 2.1	\$ 3.2	-35%	\$ 3.5	-40%	Jan-06	
Citation CJ1 / CJ1+	Cessna	18%	53	56	-5%	34	56%	\$ 3.2	\$ 3.8	-17%	\$ 3.8	-17%	May-08	
Citation CJ2 / CJ2+	Cessna	15%	58	63	-8%	26	123%	\$ 4.6	\$ 5.0	-9%	\$ 5.3	-14%	Feb-08	
Citation Encore	Cessna	11%	25	25	0%	16	56%	\$ 5.9	\$ 7.1	-16%	\$ 7.4	-19%	Sep-07	
Learjet 40 / 40XR	Bombardier	10%	12	14	-14%	8	50%	\$ 6.1	n/a	n/a	\$ 8.6	-29%	Jul-06	
Premier	Hawker Beechcraft	13%	35	33	6%	26	35%	\$ 3.7	\$ 4.5	-17%	\$ 4.7	-22%	Jan-06	
Citation CJ3	Cessna	7%	23	26	-12%	11	109%	\$ 7.1	\$ 7.4	-4%	\$ 8.0	-11%	Jan-08	

1. Global Express also includes Express 5000 and Express XRS

2. Gulfstream G-100 also includes Astra 1125SPX.

3. Citation Excel also includes XLS / XLS+.

4. Beechjet 400A does not include Hawker 400XP, which had 15 aircraft available for sale this month

5. This column represents the maximum average price achieved since 2005 for each aircraft model.

Note: Analysis excludes new aircraft delivery positions.

Source: JETNET and UBS estimates

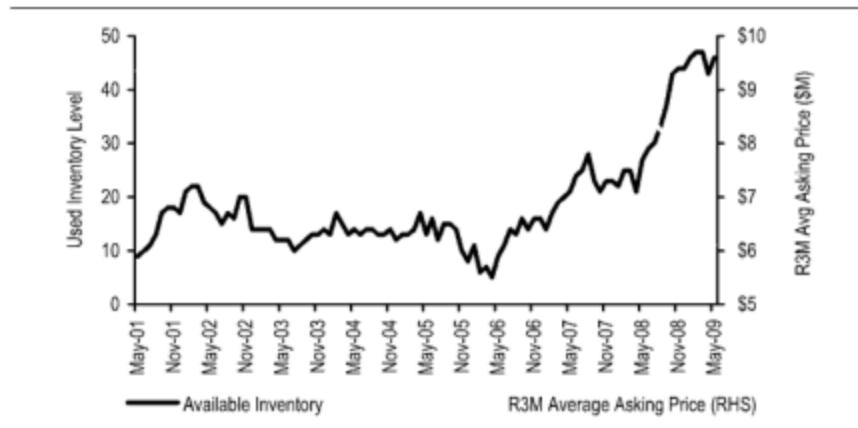
## Pricing Trends in the Secondary Market

Rather than look at average pricing for the entire population of available aircraft, which can be distorted by monthly changes in its composition, we monitor four models that we believe capture pricing trends in their respective categories.

### Super Light

We estimate the average asking price for a Citation Excel declined roughly 4% sequentially in May, and is now off 37% from its recent peak, while available for sale inventory increased by three aircraft.

Chart 13: Citation Excel Rolling Three-Month Average Asking Price

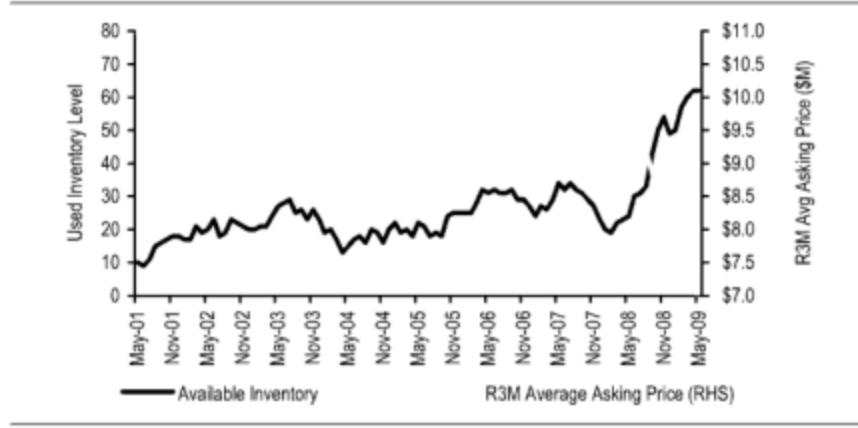


Source: JetNet and UBS estimates

### Medium

We estimate the average asking price for a Hawker 800XP declined roughly 3% sequentially in May, and is now off 31% from its recent peak, while available for sale inventory levels were unchanged from the prior month's all-time high.

Chart 14: Hawker 800XP Rolling Three-Month Average Asking Price



Source: JetNet and UBS estimates

**Medium Large**

We estimate the average asking price for a Citation X declined roughly 4% sequentially in May, and is now off 42% from its recent peak, while available for sale inventory declined by two aircraft from the prior month's all-time high.

Chart 15: Citation X Rolling Three-Month Average Asking Price



Source: JetNet and UBS estimates

**Large**

We estimate the average asking price for a G-IVSP declined roughly 4% sequentially in May, and is now off 41% from its recent peak, while available for sale inventory levels were unchanged from the prior month's all-time high.

Chart 16: Gulfstream G-IVSP Rolling Three-Month Average Asking Price



Source: JetNet and UBS estimates

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### ■ Statement of Risk

The business jet market is cyclical in nature, largely driven by the general economic environment. Business jet manufacturers' earnings and cash flow are dependent on end-user demand, availability of customer financing, program execution and inventory management.

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### ■ Analyst Certification

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	51%	36%
Neutral	Hold/Neutral	37%	31%
Sell	Sell	12%	22%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	43%
Sell	Sell	less than 1%	36%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2009.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

## KEY DEFINITIONS

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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**UBS Securities LLC:** David E. Strauss; Cristina Fernandez; Darryl Genovesi.

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### Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
General Dynamics Corp. <sup>16</sup>	GD.N	Neutral	N/A	US\$59.25	09 Jun 2009
Textron Inc. <sup>2, 4, 5, 6a, 6b, 6c, 7, 16, 18, 22</sup>	TXT.N	Neutral	N/A	US\$11.95	09 Jun 2009

Source: UBS. All prices as of local market close.

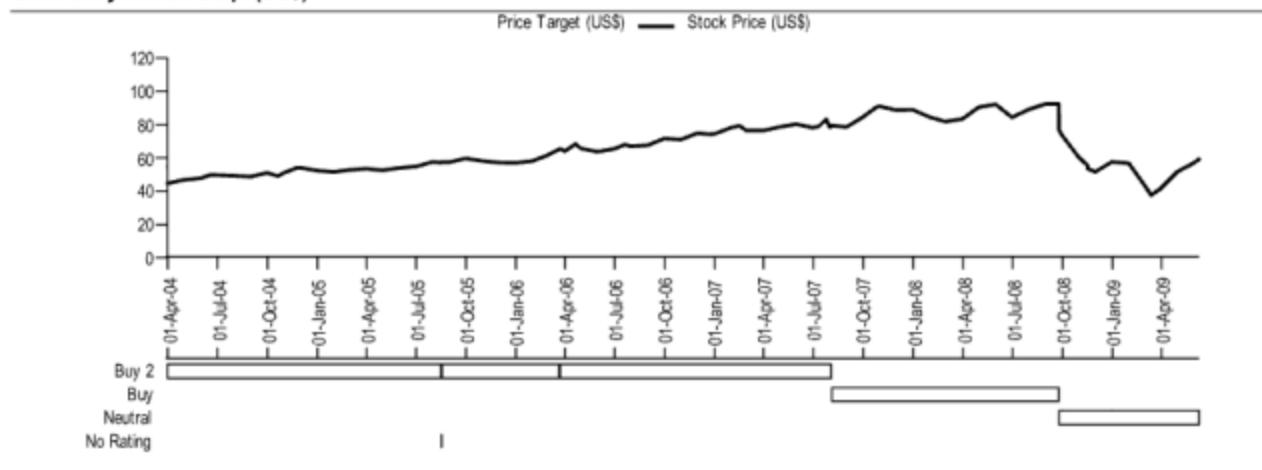
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.

4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
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- 6b. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-investment banking securities-related services are being, or have been, provided.
- 6c. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-securities services are being, or have been, provided.
7. Within the past 12 months, UBS Securities LLC has received compensation for products and services other than investment banking services from this company/entity.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.
18. The U.S. equity strategist, a member of his team, or one of their household members has a long common stock position in Textron Inc.
22. UBS AG, its affiliates or subsidiaries held other significant financial interests in this company/entity as of last month's end (or the prior month's end if this report is dated less than 10 working days after the most recent month's end).

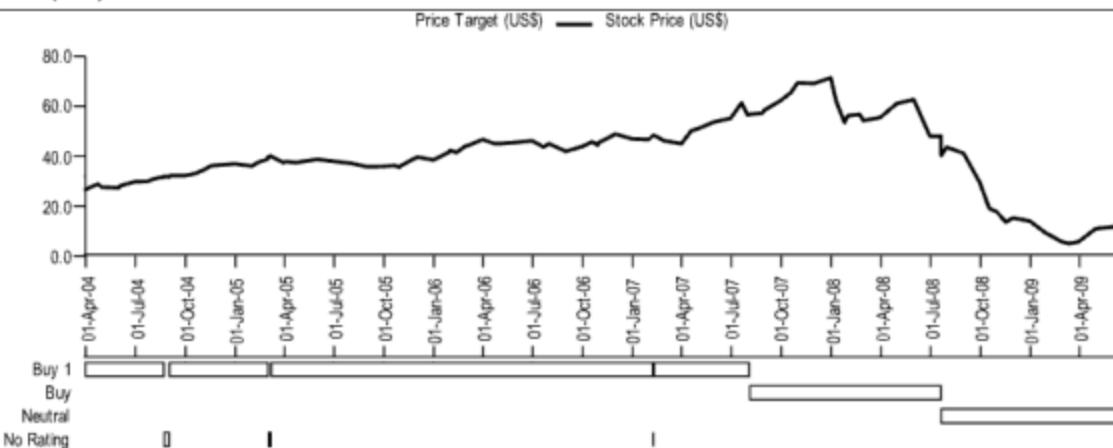
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

#### General Dynamics Corp. (US\$)



Source: UBS; as of 09 Jun 2009

## Textron Inc. (US\$)



Source: UBS; as of 09 Jun 2009

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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