

## Used Inventories Continue to Decline

### ■ Third straight decline

We estimate available business jet inventories declined 2% in October and are now 6% below the May peak. Despite this third straight sequential decline, available for sale inventories are still 12% higher from the prior year and represent over 16% of the installed base. Young aircraft inventories (0-10 years old) declined 3% in October and are now 13% below the peak in April. New delivery position inventories declined 13% in October, the seventh straight sequential decline, and are now 17% below the prior year (ex Eclipse) and 36% below the January peak.

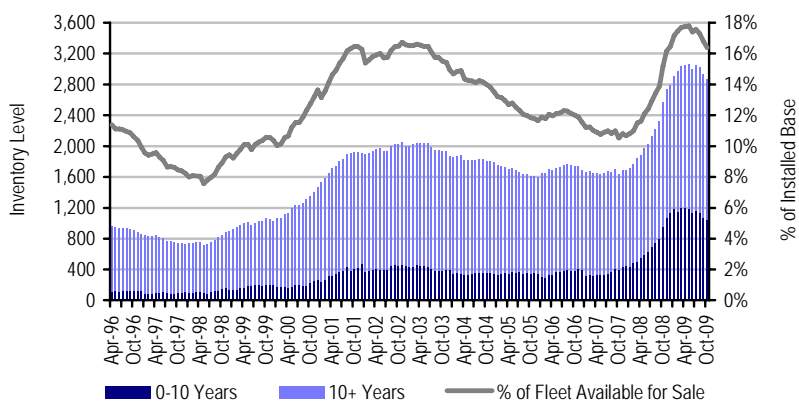
### ■ Pricing down slightly on young models

Of the five major manufacturers, Bombardier had the highest percentage of its respective fleet available for sale at 17%, followed by Cessna and Hawker Beechcraft both at 16%, Dassault at 15% and Gulfstream at 13% as the build up of large cabin business jet models is now reversing. We estimate average asking prices for most young aircraft models have fallen roughly 30% from peak levels, including on average another 1-2% decline this month.

### ■ Prefer BBD/COL

We still think the business jet market is characterized by significant oversupply, weak pricing and tight financing. While our key indicators point to a market that is stabilizing at lower levels, we still see risk of an extended downturn. Among the OE manufacturers, we prefer BBD as we estimate the transport segment is worth \$3 alone, and see the aero segment as well placed to weather the downturn from a liquidity/productivity perspective. We maintain Neutral ratings on TXT/GD. Of the suppliers, Buy rated COL is our preferred play on bizjets.

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



Source: JETNET and UBS estimates

5 November 2009

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)

**David E. Strauss**

Analyst

[david.strauss@ubs.com](mailto:david.strauss@ubs.com)

+1-212-713 6185

**Cristina Fernandez**

Analyst

[cristina.fernandez@ubs.com](mailto:cristina.fernandez@ubs.com)

+1-212-713 3321

**Darryl Genovesi**

Associate Analyst

[darryl.genovesi@ubs.com](mailto:darryl.genovesi@ubs.com)

+1-212-713 4016

**Fadi Chamoun, CFA**

Analyst

[fadi.chamoun@ubs.com](mailto:fadi.chamoun@ubs.com)

+1-416-350 4855

**Tasneem Azim**

Associate Analyst

[tasneem.azim@ubs.com](mailto:tasneem.azim@ubs.com)

+1-416-814 3678

This report has been prepared by UBS Securities LLC

**ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 9.**

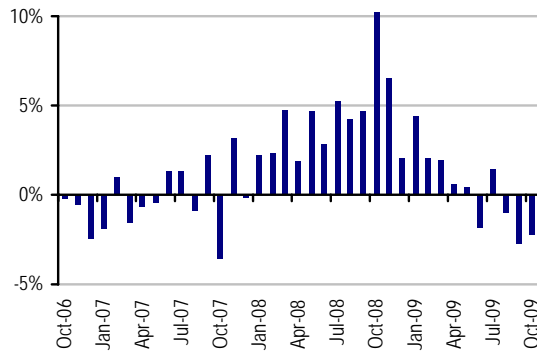
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## Investment Summary

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 available business jet inventories declined 2% in October, and are now 6% below the May peak. Despite this third straight sequential decline, available for sale inventories are still 12% higher from the prior year and represent over 16% of the installed base.

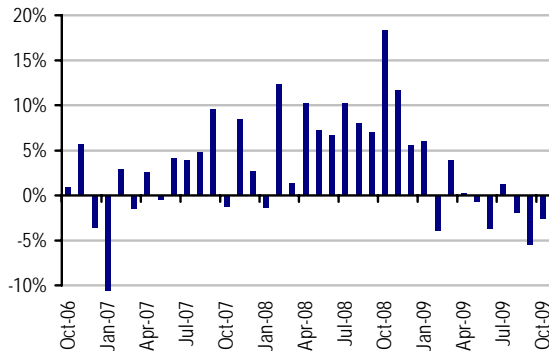
Chart 2: Sequential Change in Used Aircraft Listings



Source: JETNET and UBS estimates

Young available aircraft inventories (less than 10 years in age), which had driven the recent inventory build, have also declined in each of the past three months including a 3% decline in October.

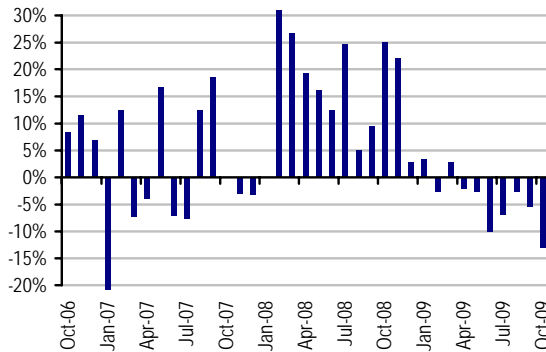
Chart 3: Sequential Change in Young (0-10 Years) Aircraft Listings



Source: JETNET and UBS estimates

October's decline in young aircraft inventories includes a 13% decline in new delivery position inventories, the seventh straight monthly decline.

Chart 4: Sequential Change in New Aircraft Delivery Position Listings

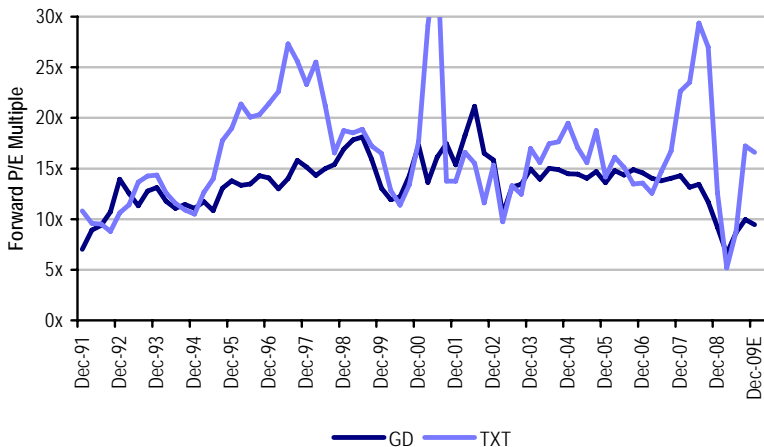


Source: JETNET and UBS estimates

We estimate average asking prices for most young aircraft models have fallen roughly 30% from peak levels, including on average another 1-2% decline this 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 and pressure backlogs.

Overall, we still think the business jet market is characterized by significant oversupply, weak pricing and tight financing. While our key indicators point to a market that is stabilizing at lower levels, we still see risk of an extended downturn. Among the OE manufacturers, we prefer BBD as we estimate the transport segment is worth \$3 alone, and see the aero segment as well placed to weather the downturn from a liquidity/productivity perspective. We maintain Neutral ratings on TXT/GD. Of the suppliers, Buy rated COL is our preferred play on bizjets.

Chart 5: GD and TXT Forward P/E Multiples



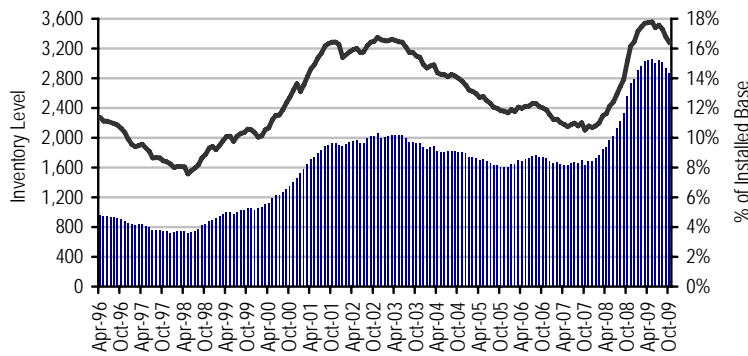
Note: Forward PE using rolling 12-month (actual) EPS through June 2009 and UBS estimates for future periods. TXT PE multiple for the current period reflects our 2010 estimate. Source: UBS estimates

## Available Inventory Levels

We estimate 2,867 business jets available for sale at the end of October (including 2,747 used aircraft and 120 new delivery positions), roughly 2% lower from the prior month and now 6% below the May peak. Despite this third straight sequential decline, available for sale inventories are still 12% higher from the prior year and represent over 16% of the installed base.

Of the five major manufacturers, Bombardier had the highest percentage of its respective fleet available for sale at 17%, followed by Cessna and Hawker Beechcraft both at 16%, Dassault at 15% and Gulfstream at 14% as the build up in large cabin business jet models is now reversing. We estimate a 4% decline in large cabin inventories this time, with midsize flat and small aircraft inventories 3% lower from last month.

**Chart 6: Business Jets Available for Sale and as a Percentage of the Installed Base**

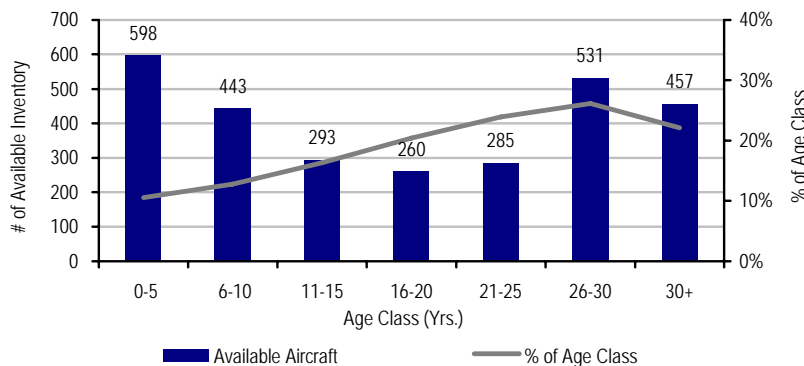


Available inventory levels are coming off record high levels

Source: JETNET and UBS estimates

By age class, we estimate the 0-5 and 6-10 year classes now have 11% (598) and 13% (443) of their respective fleets available for sale compared with the recent historical average of 7-8%. Meanwhile, business jets 20-30 years old now have roughly 25% of their fleets available for sale, above the 20% historical average.

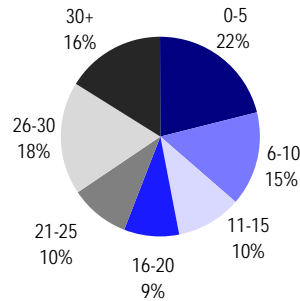
**Chart 7: Available Inventory by Age Class and as % of Fleet in Age Class**



Source: JETNET and UBS estimates

Young aircraft (less than 10 years in age) now constitute 37% of the total available inventory, well above the 20-25% average over the last several years.

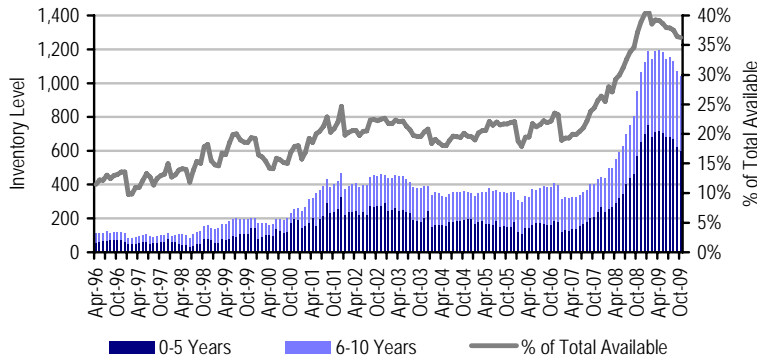
Chart 8: Available Inventory by Age Class (in years)



Source: JETNET and UBS estimates

Young available aircraft inventories (less than ten years) declined 3% in October and are 10% lower compared to the April peak.

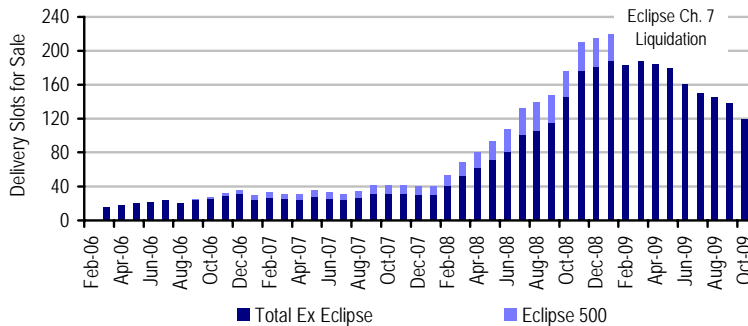
Chart 9: Young Aircraft Available for Sale (less than 10 years in age)



Source: JETNET and UBS estimates

Of the 598 0-5 year old aircraft available for sale, 120 are new delivery slots, 13% lower from September and 17% lower from the prior year (ex Eclipse).

Chart 10: Historical New Aircraft Delivery Positions Listed for Sale



Source: JETNET and UBS estimates

Table 1: New Delivery Positions Listed for Sale at Oct 31 and Sep 09

Model	Oct-09	Sep-09
Phenom 100	24	28
Citation Mustang	21	28
Phenom 300	11	12
Challenger 300	8	7
Citation CJ4	7	8
Challenger 850	7	7
Challenger 605	4	5
Citation XLS+	4	3
Airbus A318 Elite	3	3
Citation Sovereign	3	3
Global 5000	3	3
Global Express XRS	3	3
Gulfstream G-550	2	5
Boeing BBJ	2	3
Airbus A319CJ	2	2
Falcon 7x	2	2
Learjet 60XR	2	2
Lineage 1000	2	2
Boeing BBJ2	1	1
Boeing BBJ3	1	1
Citation CJ2+	1	1
Citation CJ3	1	1
Diamond D-JET	1	1
Envoy 328	1	1
Falcon 2000LX	1	1
Gulfstream G-450	1	1
HondaJet HA-420	1	1
Sino Swearingen SJ30-2	1	1
Hawker 900XP	-	1
Premier II	-	1
<b>Total</b>	<b>120</b>	<b>138</b>

Source: JETNET and UBS estimates

## A Look at the Newer Models

Of the 35 newer models that we track individually, 20 still have at least 10% of their installed fleets available for sale at the end of October, although slightly lower compared to 22 in the prior month. Of these 35 models, 19 showed sequential inventory declines in October, while seven were flat and nine increased. Compared with the prior year, 28 models had higher levels of available inventory with five flat and two declining.

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

Aircraft Model	Manufacturer	Installed Base	Used Available % of Model	Used Available (units)					Average Price (mil)					
				Oct-09	Sep-09	Change	Oct-08	Change	Oct-09	Oct-08	Change	Max	Change	Max Date
<b>Long Range</b>														
Global Express XRS	Bombardier	121	5%	6	8	-25%	3	100%	\$ 44.0	n/a	n/a	\$ 58.0	-24%	Nov-08
Global Express BD-700	Bombardier	150	15%	23	23	0%	12	92%	\$ 30.7	\$ 46.7	-34%	\$ 48.9	-37%	Jun-08
Gulfstream G-550	Gulfstream	266	4%	11	12	-8%	6	83%	\$ 39.0	\$ 55.4	-30%	\$ 59.9	-35%	Jan-07
Falcon 7x	Dassault	72	0%	-	-	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Super Large</b>														
Gulfstream G-V / G-500	Gulfstream	201	6%	13	11	18%	15	-13%	\$ 25.2	\$ 39.4	-36%	\$ 45.0	-44%	Jul-08
Gulfstream G-450	Gulfstream	187	5%	9	9	0%	8	13%	\$ 29.2	\$ 42.2	-31%	\$ 42.2	-31%	Oct-08
Gulfstream G-IVSP / G-400	Gulfstream	309	9%	28	28	0%	26	8%	\$ 15.4	\$ 26.8	-42%	\$ 31.5	-51%	Aug-08
Global 5000	Bombardier	87	7%	6	8	-25%	6	0%	\$ 39.5	n/a	n/a	\$ 51.4	-23%	Jul-08
Falcon 900EX	Dassault	232	12%	28	27	4%	15	87%	\$ 23.8	\$ 35.7	-33%	\$ 35.7	-33%	Oct-08
<b>Large</b>														
Gulfstream G-IV / G-300	Gulfstream	225	20%	46	44	5%	44	5%	\$ 11.8	\$ 18.0	-34%	\$ 20.1	-41%	Jan-08
Falcon 2000 EX	Dassault	197	7%	14	10	40%	5	180%	\$ 22.3	\$ 30.1	-26%	\$ 35.5	-37%	Mar-09
Challenger 800 / 850	Bombardier	54	15%	8	11	-27%	6	33%	n/a	n/a	n/a	n/a	n/a	n/a
Challenger 604 / 605	Bombardier	472	10%	46	46	0%	35	31%	\$ 14.8	\$ 21.1	-30%	\$ 22.3	-34%	Jan-08
Legacy 600	Embraer	164	15%	24	23	4%	11	118%	\$ 20.2	\$ 20.5	-1%	\$ 24.5	-18%	Dec-07
<b>Medium Large</b>														
Gulfstream G-200	Gulfstream	228	14%	31	34	-9%	23	35%	\$ 13.8	\$ 16.1	-14%	\$ 17.6	-21%	Mar-08
Falcon 2000	Dassault	231	10%	24	25	-4%	15	60%	\$ 13.8	\$ 19.0	-27%	\$ 21.6	-36%	Feb-08
Hawker 4000	Hawker Beechcraft	43	2%	1	1	0%	-	n/a	\$ 18.8	n/a	n/a	\$ 18.8	0%	Oct-09
Challenger 300	Bombardier	282	9%	26	29	-10%	18	44%	\$ 16.3	\$ 22.4	-27%	\$ 24.8	-34%	Aug-08
Citation X	Cessna	300	12%	36	31	16%	27	33%	\$ 9.9	\$ 13.1	-25%	\$ 18.8	-47%	Mar-06
<b>Medium</b>														
Citation Sovereign	Cessna	285	11%	30	28	7%	17	76%	\$ 14.2	\$ 16.2	-13%	\$ 16.6	-15%	Jul-08
Gulfstream G-150	Gulfstream	87	13%	11	10	10%	5	120%	\$ 11.6	n/a	n/a	\$ 13.8	-16%	Nov-08
Gulfstream G-100	Gulfstream	80	9%	7	10	-30%	15	-53%	\$ 4.9	\$ 6.5	-25%	\$ 11.0	-55%	Mar-06
Learjet 60 / 60XR	Bombardier	369	20%	73	76	-4%	47	55%	\$ 5.5	\$ 6.8	-19%	\$ 7.7	-28%	Jun-08
Hawker 900 XP	Hawker Beechcraft	130	5%	7	8	-13%	-	n/a	n/a	n/a	n/a	\$ 14.4	n/a	Jun-09
Hawker 750 / 800 / 850	Hawker Beechcraft	616	13%	78	81	-4%	63	24%	\$ 6.0	\$ 8.2	-27%	\$ 9.7	-38%	Jan-08
<b>Super Light</b>														
Citation XLS / XLS+	Cessna	376	5%	20	22	-9%	20	0%	\$ 8.3	\$ 11.1	-25%	\$ 11.1	-25%	Oct-08
Citation Excel	Cessna	372	12%	43	44	-2%	43	0%	\$ 5.7	\$ 7.9	-29%	\$ 9.5	-40%	May-06
Learjet 45 / 45XR	Bombardier	394	11%	45	43	5%	33	36%	\$ 4.7	\$ 6.3	-26%	\$ 7.8	-40%	May-07
<b>Light</b>														
Learjet 40 / 40XR	Bombardier	120	10%	12	14	-14%	11	9%	\$ 5.7	\$ 7.4	-23%	\$ 8.6	-34%	Jul-06
Hawker 400XP	Hawker Beechcraft	239	8%	19	20	-5%	14	36%	\$ 4.9	\$ 5.4	-10%	\$ 5.5	-11%	Sep-08
Citation Encore / Encore+	Cessna	226	10%	22	23	-4%	22	0%	\$ 5.4	\$ 6.6	-19%	\$ 7.4	-27%	Sep-07
Citation CJ3	Cessna	329	5%	16	18	-11%	15	7%	\$ 6.4	\$ 7.5	-14%	\$ 8.0	-20%	Jan-08
<b>Entry Level</b>														
Hawker Premier	Hawker Beechcraft	269	13%	36	38	-5%	32	13%	\$ 3.2	\$ 4.3	-26%	\$ 4.7	-33%	Jan-06
Citation CJ2 / CJ2+	Cessna	402	12%	50	56	-11%	42	19%	\$ 4.4	\$ 5.1	-12%	\$ 5.3	-16%	Feb-08
Citation CJ1 / CJ1+	Cessna	293	17%	51	51	0%	50	2%	\$ 3.0	\$ 3.5	-13%	\$ 3.8	-21%	May-08

Notes: Analysis excludes new aircraft delivery positions. Gulfstream G-100 also includes Astra 1125SPX. Max column represents the maximum average monthly listed asking price since 2005 for each aircraft model.

Source: JETNET and UBS estimates

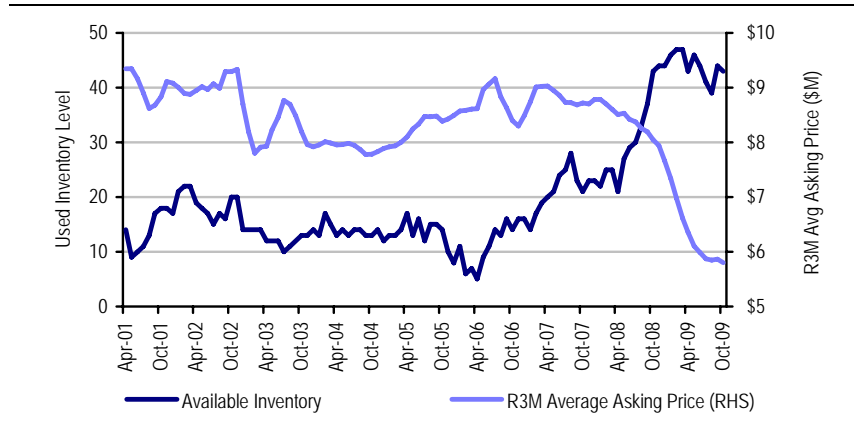
## Pricing Trends in the Secondary Market

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 by roughly 1% in October and is now off 40% from its recent peak, while available inventories are 9% below their recent peak including a 2% decline this month.

Chart 11: Citation Excel Rolling Three-Month Average Asking Price

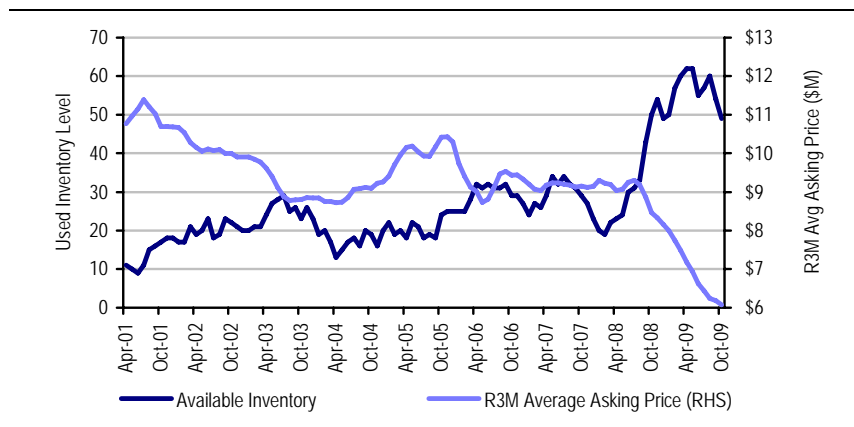


Source: JETNET and UBS estimates

### Medium

We estimate the average asking price for a Hawker 800XP declined by roughly 2% in October and is now off 38% from its recent peak, while available inventories are 21% below peak levels including a 9% decline this month.

Chart 12: Hawker 800XP Rolling Three-Month Average Asking Price

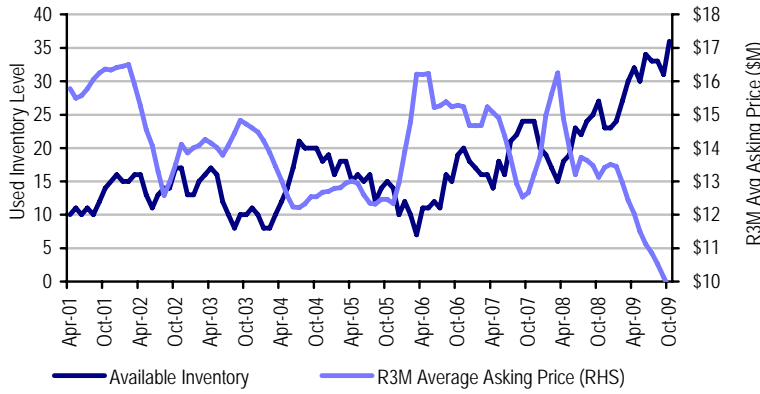


Source: JETNET and UBS estimates

Medium Large

We estimate the average asking price for a Citation X declined by roughly 3% in October and is now off 47% from its recent peak, while available inventories reached a new all time high following a 16% increase this month.

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

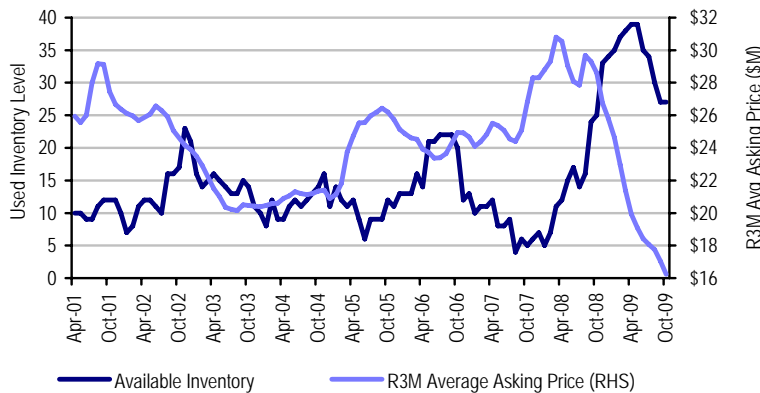


Source: JETNET and UBS estimates

Large

We estimate the average asking price for a G-IVSP declined by roughly 5% in October and is now off 51% from its recent peak, while available inventories were unchanged in October and remain 31% below peak levels.

Chart 14: Gulfstream G-IVSP Rolling Three-Month Average Asking Price



Source: JETNET and UBS estimates

## ■ 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. Our estimates, ratings and price targets for both General Dynamics and Textron are subject to additional risks including poor program execution and government funding related to their defense and security businesses. Additionally, Textron faces liquidity risks related to its asset based lending businesses.

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	44%	39%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	15%	27%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	0%

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 30 September 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.

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**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.

**Equity Price Targets** have an investment horizon of 12 months.

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## Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
<b>Bombardier Inc.</b> <sup>4b, 5b, 20</sup>	BBDb.TO	Buy (CBE)	N/A	C\$4.51	04 Nov 2009
<b>General Dynamics Corp.</b> <sup>16</sup>	GD.N	Neutral	N/A	US\$63.85	04 Nov 2009
<b>Rockwell Collins Inc.</b> <sup>2, 4a, 6a, 6b, 6c, 7, 8, 16, 18a</sup>	COL.N	Buy	N/A	US\$49.63	04 Nov 2009
<b>Textron Inc.</b> <sup>2, 4a, 5a, 6a, 6b, 6c, 7, 16, 18b, 22</sup>	TXT.N	Neutral	N/A	US\$18.75	04 Nov 2009

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

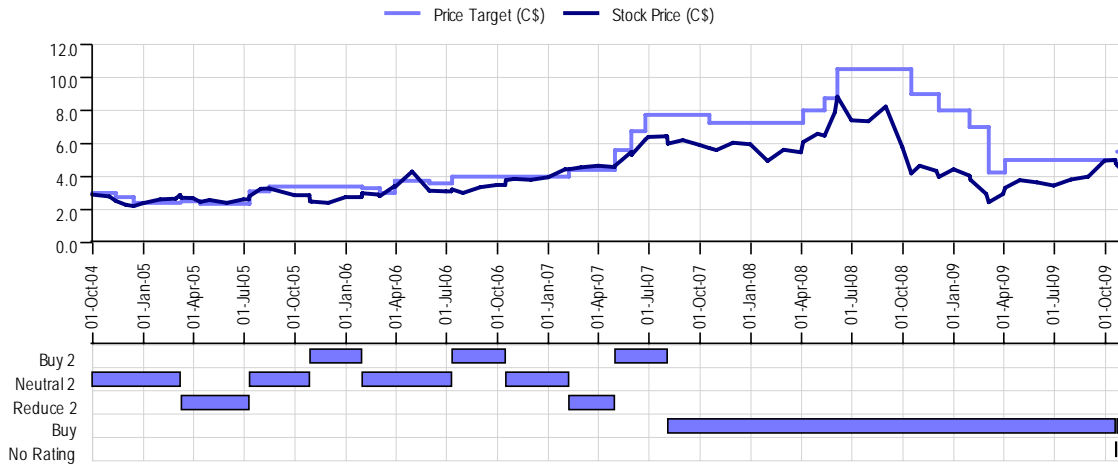
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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- 4b. Within the past 12 months, UBS Securities Canada Inc or an affiliate has received compensation for investment banking services from this company/entity.
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The analyst responsible for this report has reviewed the material operations of the issuer and/or met with senior management.

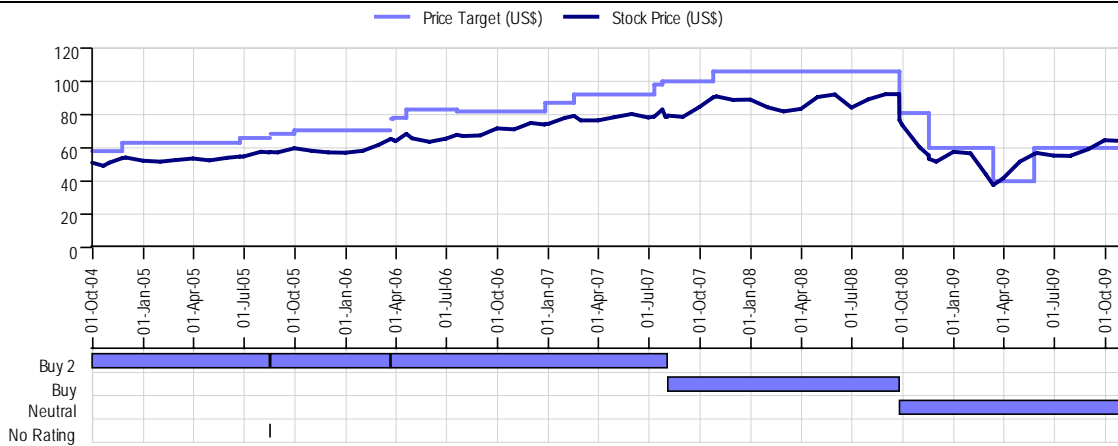
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

**Bombardier Inc. (C\$)**



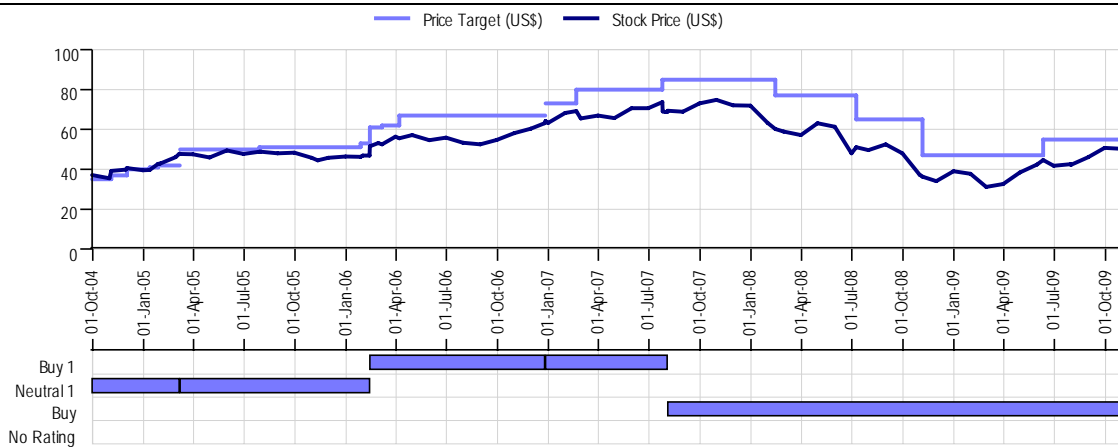
Source: UBS; as of 04 Nov 2009

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



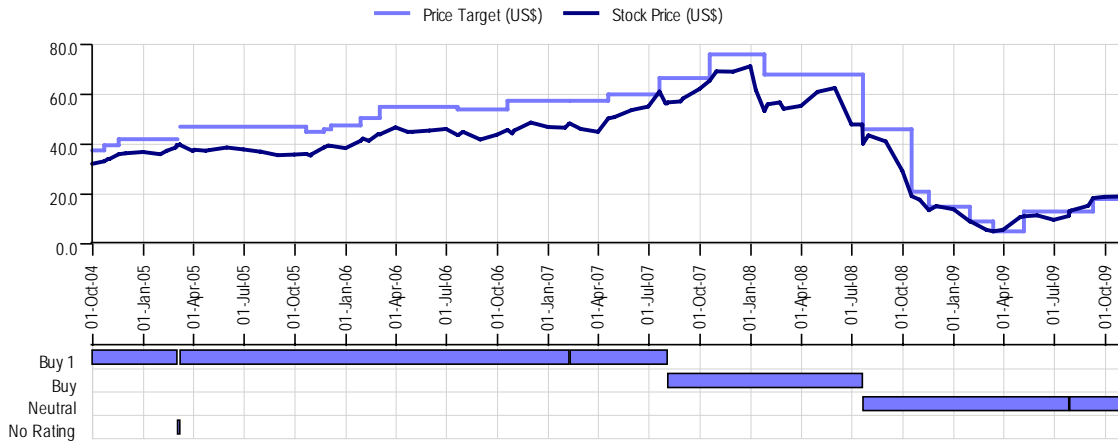
Source: UBS; as of 04 Nov 2009

**Rockwell Collins Inc. (US\$)**



Source: UBS; as of 04 Nov 2009

Textron Inc. (US\$)



Source: UBS; as of 04 Nov 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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