

UBS Investment Research
UBS Business Jet Survey
Gauging the Impact of Europe
■ Survey of bizjet contacts

We recently surveyed our business jet contacts to get a sense of European business jet market conditions and the potential impact of a stronger dollar. We estimate Europe accounts for roughly 25% of business jet demand (on deliveries) with Dassault most exposed to Europe and Gulfstream least exposed.

■ Europe looks to have weakened

The European market looks to have weakened from an already low level with half of our survey respondents indicating deterioration over the past couple of months. On currency, only a small fraction of our participants see the stronger dollar having a significant impact on demand with 75% calling for a moderate impact. Overall, our respondents overwhelmingly see weakness in the European economies as a much bigger risk factor than currency.

■ GD pricing Gulfstream at <10x

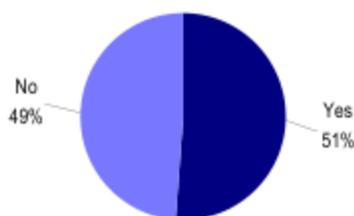
With GD off more than the market and current levels implying less than 10x EPS for Gulfstream, we think Europe risk is more than reflected. We continue to believe that GD's defense businesses, particularly Combat Systems, will hold up better than expected and despite European weakness think Gulfstream will grow on initial G650 deliveries and improvement at Jet. Our Neutral rating on TXT reflects concerns over the shape of the recovery at Cessna given significant oversupply, fractional weakness and increased competition at the low-mid end.

3 June 2010

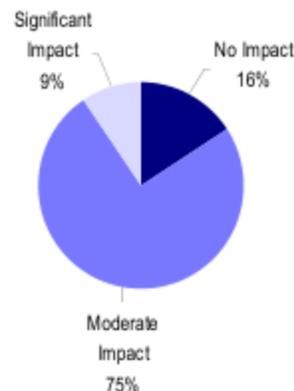
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Chart 1: Indication of Deterioration in European Bizjet Market


Source: UBS Business Jet Survey

Chart 2: Expected Impact from Stronger US Dollar


Source: UBS Business Jet Survey

This report has been prepared by UBS Securities LLC

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

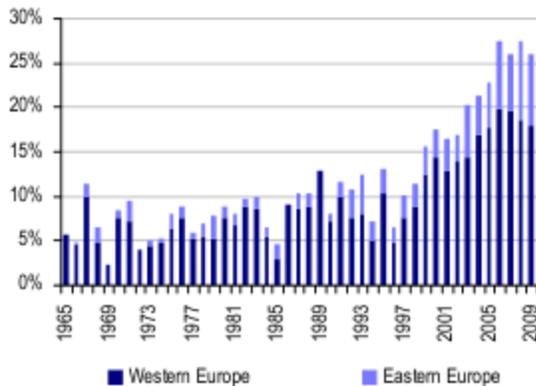
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Investment Summary

We recently surveyed our business jet contacts to get a sense of European business jet market conditions and the potential impact of a stronger dollar. We estimate Europe accounts for roughly 25% of business jet demand (on deliveries) with Dassault most exposed to Europe and Gulfstream least exposed.

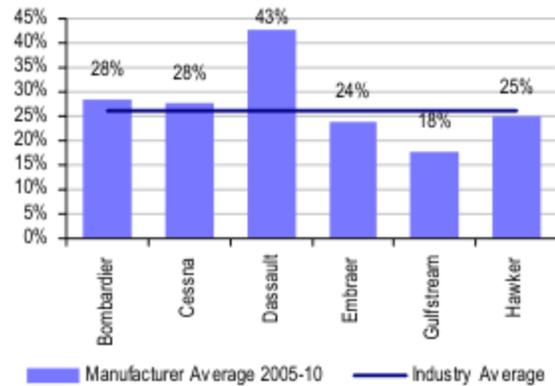
It would appear that the business jet market in Europe has weakened from an already low level with half of our survey respondents indicating that the European market has deteriorated over the past couple of months. We do expect economic weakness in Europe and a stronger dollar to negatively impact the shape of the business jet recovery. We continue to call for a more muted recovery than we have seen in prior upturns given all-time high levels of available for sale aircraft, tighter lending standards, excess inventory in the fractional fleets and the likelihood for continued low levels of order activity.

Chart 3: Deliveries to Europe - % of Total Industry Deliveries



Source: JETNET

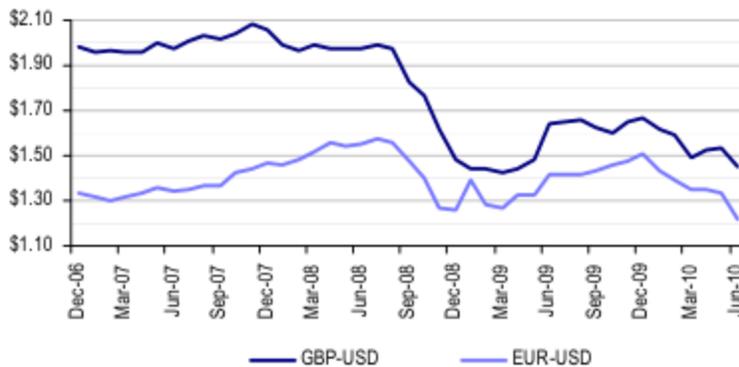
Chart 4: Deliveries to Europe - % of Total by Manufacturer



Source: JETNET

The dollar has strengthened by roughly 20% year to date relative to the Euro. The weaker Euro implies an effective purchase price that is 25% higher from the perspective of a potential European buyer since aircraft transactions are typically priced in US dollars.

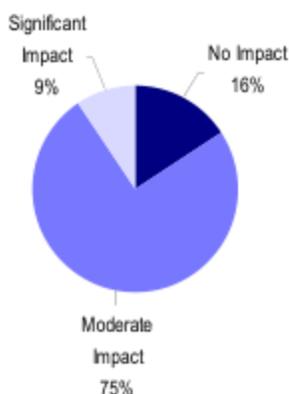
Chart 5: Pound and Euro Exchange Rates



Source: FactSet

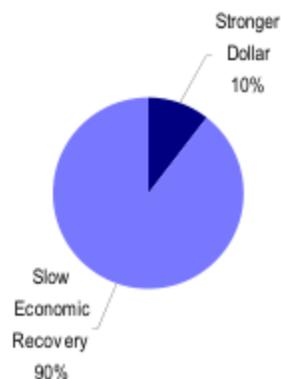
However, only a small fraction of our survey respondents see the stronger dollar having a significant negative impact on demand with 75% calling for a moderate impact. Overall our respondents overwhelmingly see weakness in the European economies as a much bigger risk factor than currency.

Chart 6: Expected Impact from Stronger US Dollar



Source: UBS Business Jet Survey

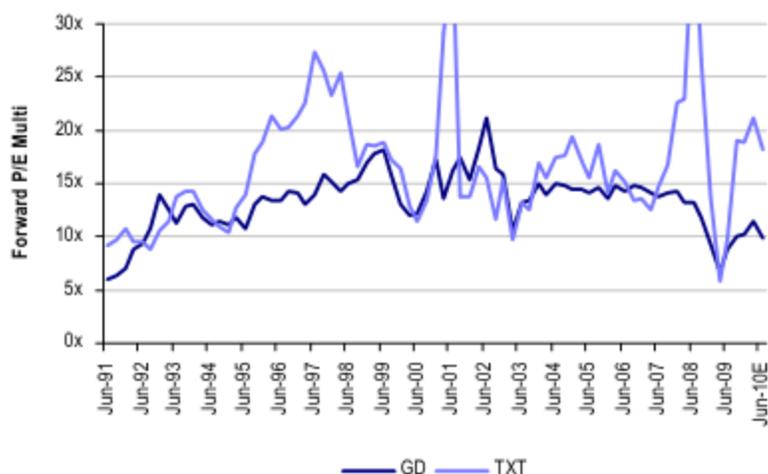
Chart 7: Bigger Risk to European Market



Source: UBS Business Jet Survey

With GD off more than the market and current levels implying less than 10x EPS for Gulfstream, we think Europe risk is more than reflected. We continue to believe that GD's defense businesses, particularly Combat Systems, will hold up better than expected and despite Europe weakness think Gulfstream will grow on initial G650 deliveries and improvement at Jet. Our Neutral rating on TXT reflects concerns over the shape of the recovery at Cessna, given significant oversupply, fractional weakness, and increased competition at the low-mid end (Embraer). Among the suppliers, Buy rated COL is our preferred play on business jets.

Chart 8: GD and TXT Forward P/E Multiples

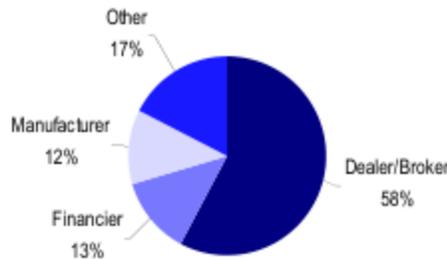


Note: Forward PE using rolling 12-month (actual) EPS through March 2010 and UBS estimates for future periods.
Source: UBS estimates

Survey Participant Profile

Of the 109 market professionals who responded to our survey, a majority (58%) are broker/dealers. Brokers/dealers are involved in the purchase and sale of both new (direct from manufacturer) and used aircraft, often purchasing on spec.

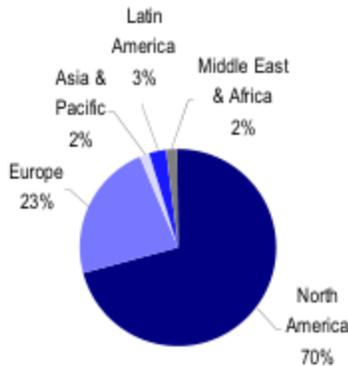
Chart 9: Business Jet Market Survey—Participant Role



Note: Other includes appraisers, fractional providers, management, charter, FBO and MRO service providers.
Source: UBS Business Jet Survey

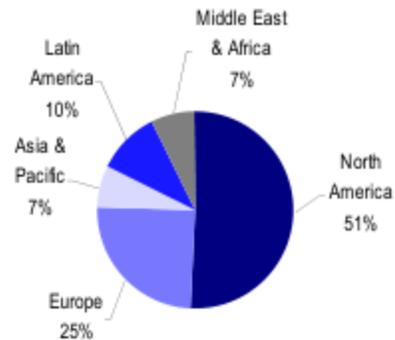
The majority of our participants are located in North America (70%), although most transact a significant proportion of their business with foreign customers. Roughly one fourth of our participants are located in Europe. Similarly, European customers represent roughly one fourth of our participants' business in line with recent proportion of total business jet deliveries.

Chart 10: Business Jet Market Survey—Participant Location



Source: UBS Business Jet Survey

Chart 11: Geographic Distribution of Participants' Customers



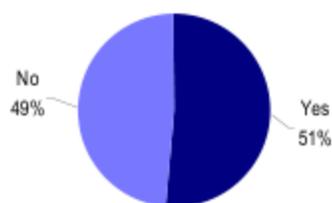
Source: UBS Business Jet Survey

Survey Results

Market Conditions in Europe

In the first question, we asked, "Has the European market deteriorated relative to a few months ago?" Of the 100 responses (nine participants did not respond to this question), 51% indicated that the European market has deteriorated over the past few months, while 49% indicated that it has not. Weighting the responses according to individual participants' exposure to the European market, the result was slightly more positive with 41% indicating that the European market has deteriorated and 59% indicating that it has not.

Chart 12: Indication of Deterioration in European Bizjet Market



Source: UBS Business Jet Survey

Chart 13: Weighted by Participants' Exposure to Europe

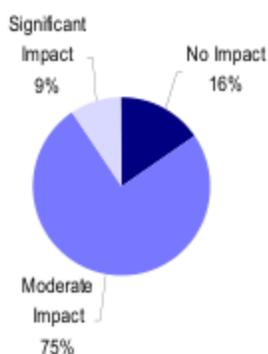


Source: UBS Business Jet Survey

Impact of Stronger Dollar

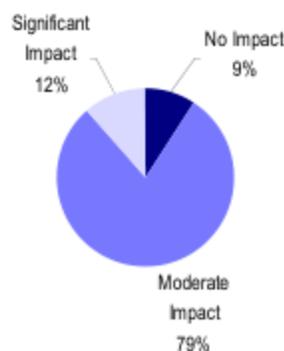
In the next question, we asked, “How big of a negative impact do you expect to see on international activity as a result of the strong dollar?” Of the 107 responses (two participants did not respond to this question), 16% indicated that they do not expect any impact, while 75% expect a moderate impact and 9% expect a significant negative impact. Weighting the responses according to individual participants’ exposure to the European market, the result was slightly more pessimistic with 9% indicating that they do not expect any impact, 79% indicating that they expect a moderate impact and 12% indicating that they expect a significant negative impact from the stronger dollar.

Chart 14: Impact Expected from Stronger US Dollar



Source: UBS Business Jet Survey

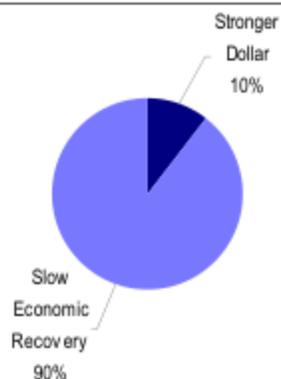
Chart 15: Weighted by Participants' Exposure to Europe



Source: UBS Business Jet Survey

In the next question, we asked, “Which of these two factors is a bigger risk to the European market?” Respondents were asked to choose between “Strengthening Dollar” and “Outlook for slower economic recovery.” Of the 105 responses (four participants did not respond to this question), 90% indicated “Outlook for slower economic recovery” as the bigger risk to the European business jet market, with only 10% indicating “Strengthening dollar”. Weighting the responses according to individual participants’ exposure to the European market, the results were roughly unchanged.

Chart 16: Bigger Risk Factor



Source: UBS Business Jet Survey

Chart 17: Weighted by Participants' Exposure to Europe



Source: UBS Business Jet Survey

Commentary

The following are selected comments from business jet professionals.

- I think the general concern of problems in Greece, Portugal and other areas is having an impact on potential sales activity on the European continent and in other markets as well.
- Only South America seems to remain relatively unaffected.
- Commercial operators are coming under pressure. Their payment schedules were extended last year and leases re-negotiated in the hope of an upturn in 2010. Now payment-day nears without a significant change in the market.
- There is oversupply on the Balkans and in Central Europe, especially in the light jet category.
- Buyers are concerned over the banking sector and possibility of a “double-dip” and more corporate failures.
- The strong US Dollar is a positive for sellers in Europe (and there are lots of sellers).
- This situation with the Greek bailout has caused uncertainty throughout the Euro-zone.
- Buyers are noticeably more cautious as they see a dark cloud on the horizon.
- The strong Dollar has a larger negative impact on new aircraft sales than it does on the used market.
- Currently the Eastern European market is the strongest in Europe with increasing demand in recent months.
- European banks seem more active right now than US banks (especially for European and Middle Eastern clients)
- Anecdotal signals from the top-end suggest buyers are well-hedged already against currency fallout. This may not be the case for medium and below purchasers.

- Aircraft markets abhor uncertainty, and there is risk that the current debt crisis could lead to an unravelling of pan-European monetary and economic policy coordination.
- The stronger dollar will have a significant effect on the European market.
- Potential buyers are concerned that serious issues in Europe will impact the rest of the world.
- The recent disruption has made American buyers as nervous as the Europeans for sure.
- We were expecting an LOI from a European buyer following detailed negotiations. However, the Greek debt crisis and ensuing weakening in the Euro have kept that LOI from coming to fruition.
- Buyers are fearful of the impact of the debt crisis in Greece, Portugal, Spain, etc. and that it might spread to other parts of Europe and even across the Atlantic to the U.S.

■ **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. A weak market for business jets could negatively affect General Dynamics, Textron, Bombardier, Embraer, Rockwell Collins, Honeywell, B/E Aerospace, Rolls-Royce and United Technologies.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	50%	39%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	11%	24%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	29%
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 31 March 2010.

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.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
General Dynamics Corp. ¹⁶	GD.N	Buy	N/A	US\$67.92	02 Jun 2010
Rockwell Collins Inc. ^{4, 5, 6a, 6b, 6c, 7, 8, 16, 18a}	COL.N	Buy	N/A	US\$58.63	02 Jun 2010
Textron Inc. ^{4, 5, 6a, 6b, 6c, 7, 16, 18b}	TXT.N	Neutral	N/A	US\$20.47	02 Jun 2010

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

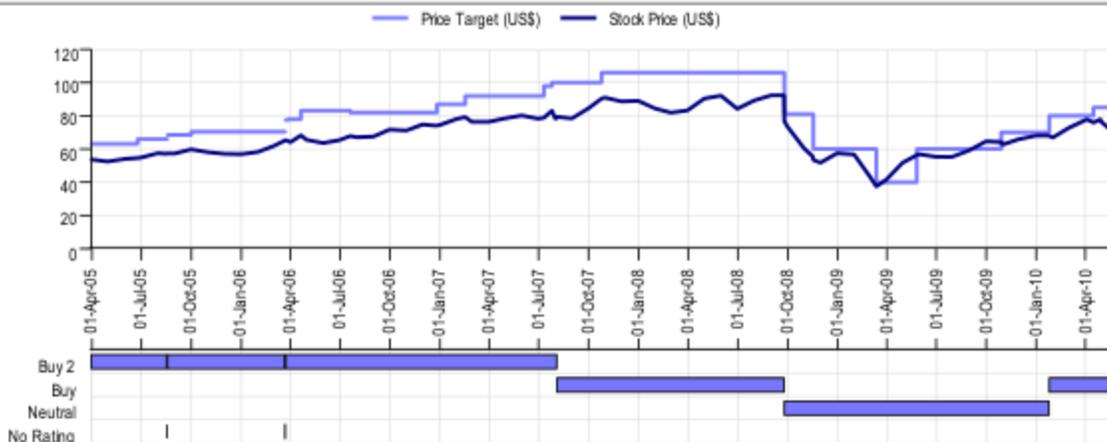
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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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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16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

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- 18b. 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.

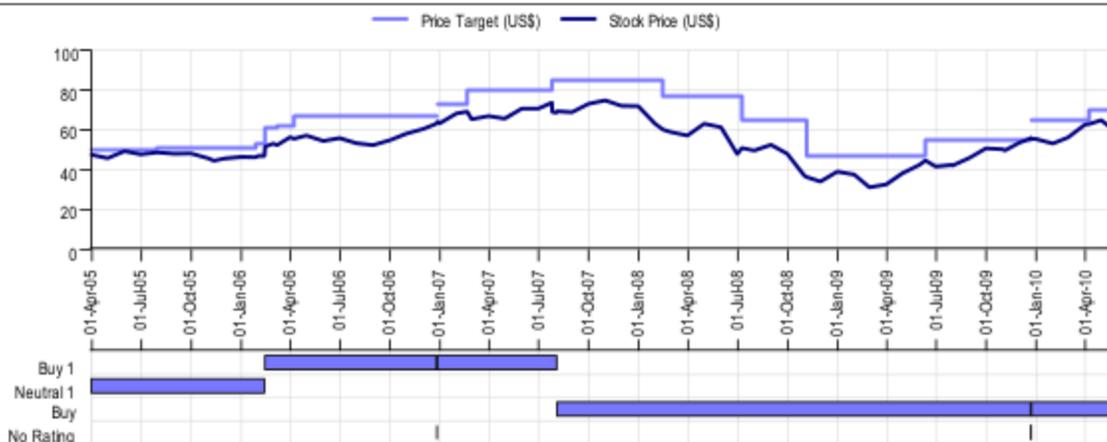
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

General Dynamics Corp. (US\$)



Source: UBS; as of 02 Jun 2010

Rockwell Collins Inc. (US\$)



Source: UBS; as of 02 Jun 2010

Textron Inc. (US\$)



Source: UBS; as of 02 Jun 2010

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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