

## North America Leading the Way

### ■ Index at 49, up 21%

Our latest Business Jet Market Index came in at 49, 21% higher than our prior survey from January with all three market segment indices (small/mid/large) increasing to near 50. Our measure of absolute business conditions increased 12% to 4.5, as high as it has been since 2008.

### ■ Customer interest & 12 mo outlook lead survey

All five component scores moved higher with large increases in our customer interest, pricing and 12-month outlook scores driving the overall increase in our index. Our customer interest and 12-month outlook scores are both now well above 50, indicating incremental improvement, although still high inventory levels remain a drag on our index.

### ■ North America customer interest strongest

Our overall customer interest score increased 27% led by strength in North America (73), Latin America (68) and Asia (66), partially offset by relative weakness in Middle East (53) and Europe (40).

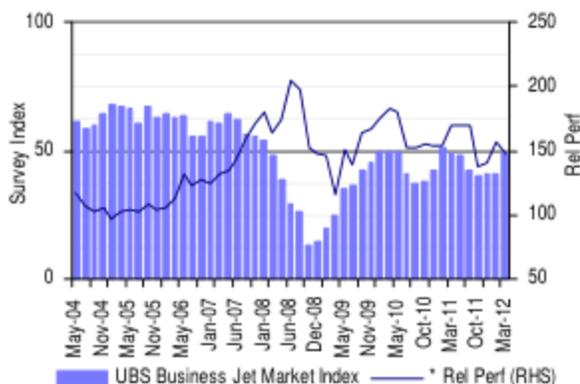
### ■ See positive risk-rewards for stocks

We believe North America bizjet is improving driven by replacement demand postponed during the downturn. While the bizjet stocks have moved higher, we still see positive risk-rewards as we don't think stocks incorporate much for bizjets at current levels including Buy rated TXT/COL/GD.

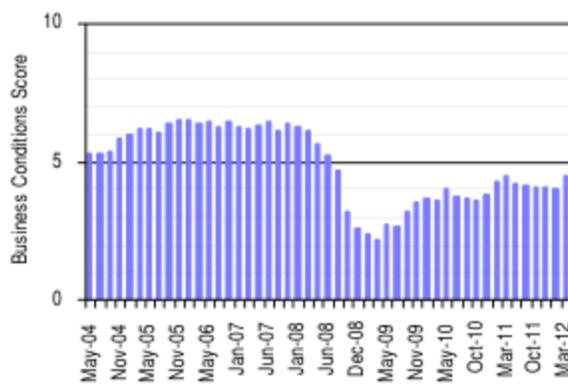
26 March 2012

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Analyst

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Analyst

**Chart 1: UBS Business Jet Market Index**


\* Simple average BBD/GD/TXT stock price performance index relative to S&P 500  
Source: UBS Business Jet Survey

**Chart 2: Overall Business Conditions Score**


Source: UBS Business Jet Survey

This report has been prepared by UBS Securities LLC

**ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 17.**

UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## Business Jet Market Survey

Our UBS Business Jet Market Survey is designed to provide timely market data supplied directly by industry professionals. We regularly survey a group of US domestic and international broker/dealers, manufacturers, fractional providers, financiers and others, from whom we recently received 172 responses.

### Investment Conclusion

Our latest Business Jet Market Index came in at 49, 21% higher than our prior survey from January with all three market segment indices (small/mid/large) near 50. Our measure of absolute business conditions increased 12% to 4.5, as high as it has been since 2008.

All five component scores moved higher with significant increases in our customer interest, pricing and 12-month outlook scores driving overall increase in our index. Our willingness score moved 16% higher to 51, slightly above 50, indicating improvement in participants' willingness to take on additional inventory. While all five components of our index moved higher this time, our inventory and pricing scores remain below 50 indicative of still high inventory levels and depressed used pricing.

Our young inventory score, not a component of our index, moved 4% higher this time to 42, still indicative of oversupply of high-quality young used aircraft. Our financing score, also not a component of our index, moved 14% higher to 61 and reflects continued improvement in financing availability.

**Table 1: UBS Business Jet Survey Results and Comparison to Prior Survey**

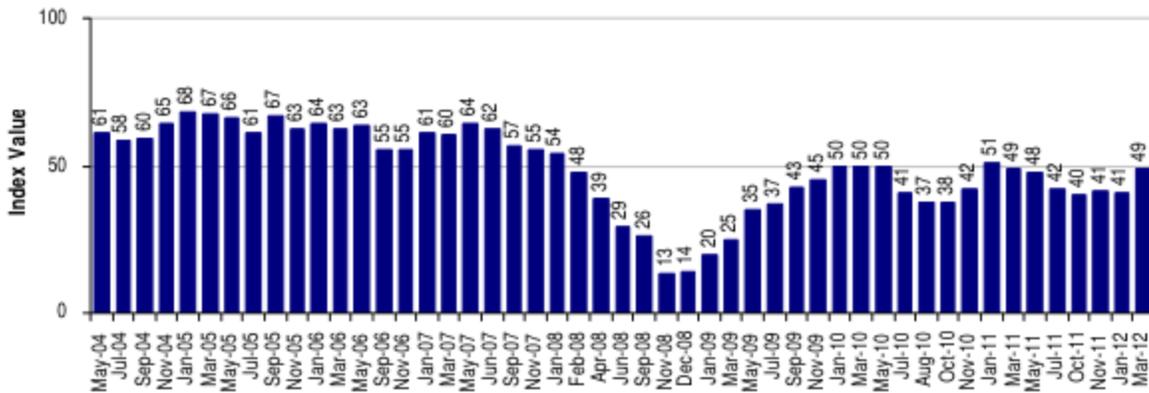
Component	Better	Same	Worse	Score	Last Time	Change
Customer Interest	48%	44%	8%	70	55	27%
Pricing	9%	66%	25%	42	33	26%
12 Month Outlook	56%	38%	6%	75	66	13%
Inventory Levels	3%	30%	67%	18	15	17%
Willingness	25%	53%	22%	51	44	16%
<b>Composite Index</b>	<b>25%</b>	<b>48%</b>	<b>27%</b>	<b>49</b>	<b>41</b>	<b>21%</b>
Young Inventory	20%	44%	36%	42	40	4%
Financing	25%	71%	4%	61	53	14%
<b>Business Conditions</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>4.5</b>	<b>4.0</b>	<b>12%</b>

Source: UBS Business Jet Survey

## UBS Business Jet Market Index

Our UBS Business Jet Market Index is a proprietary index designed to measure the total “value” of the responses to our survey questions. We have weighted each factor in our index based on our perception of its overall importance to the condition of the new business jet market. Our index is scored on a scale of zero to 100, with 51-100 representing incrementally strengthening market conditions, 50 incrementally stable, and 0-49 incrementally weakening market conditions. Our March Business Jet Market Index came in at 49, 21% higher than our prior survey in January.

**Chart 3: UBS Business Jet Market Index**

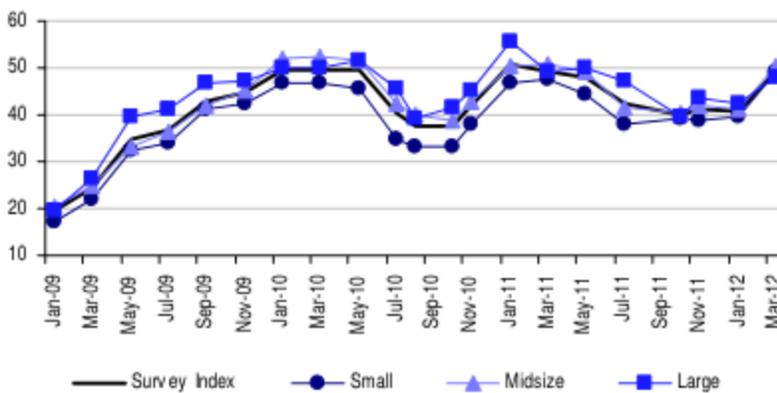


Source: UBS Business Jet Survey

## Market Segment Indices

All three of our market segment indices improved with our small cabin index increasing 25% to 49 (from 40), midsize increasing 23% to 51 (from 41) and large cabin increasing 13% to 48 (from 42).

**Chart 4: Market Segment Indices, by Cabin Class**



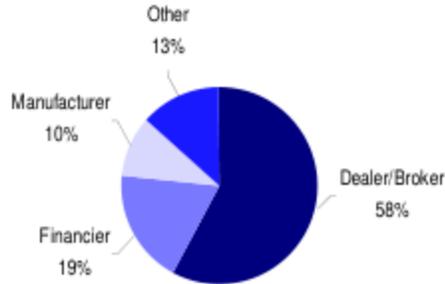
Source: UBS Business Jet Survey

## Survey Participant Profile

Of the 172 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 5: Business Jet Market Survey - Participant Role**

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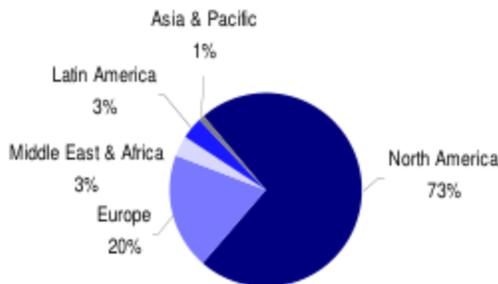
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Note: Other includes appraisers, fractional providers, management, charter, FBO and MRO service providers.  
Source: UBS Business Jet Survey

The majority of our participants are located in North America (73%) with an additional 20% in Europe.

**Chart 6: Business Jet Market Survey - Participant Location**

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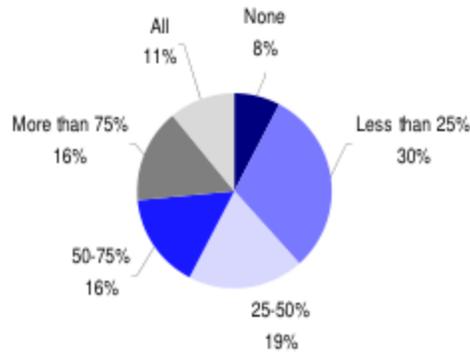
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Source: UBS Business Jet Survey

While the majority of our survey participants are located in the U.S., most transact a significant proportion of their business with foreign customers.

**Chart 7: Proportion of Business Transacted Outside the US**

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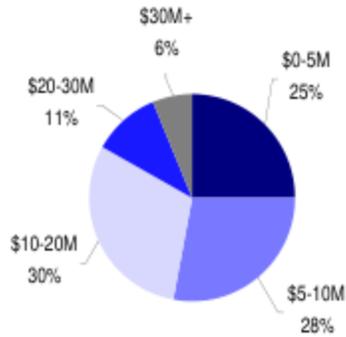
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Source: UBS Business Jet Survey

Respondents varied fairly uniformly in average transaction size with the majority in the \$5-20 million range.

**Chart 8: Business Jet Market Survey - Average Transaction Size**

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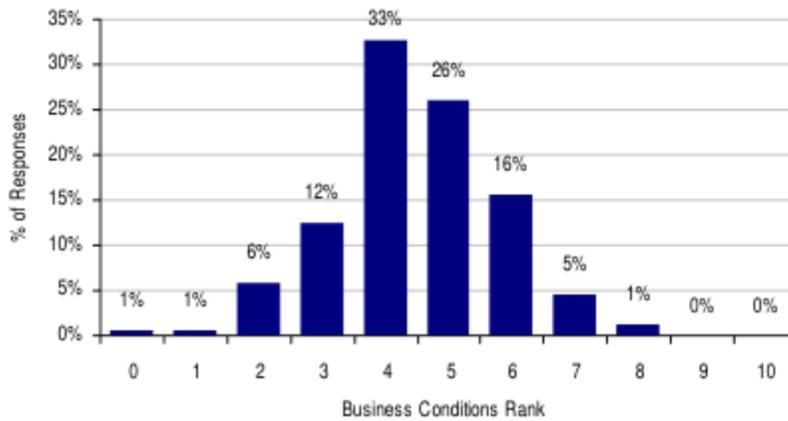
Source: UBS Business Jet Survey

## Survey Results

### Overall Business Conditions

In the first question, we asked, “On a scale of zero to 10, how would you characterize overall business conditions *after factoring typical seasonality* (0 = the worst ever, 5 = normal, 10 = the best ever)?” Note that while our Business Jet Market Index (discussed earlier) indicates *incremental change* from the prior period, this question is meant to measure the *absolute level* of business conditions. We received 161 responses (11 participants did not respond to this question) with scores ranging from zero to eight.

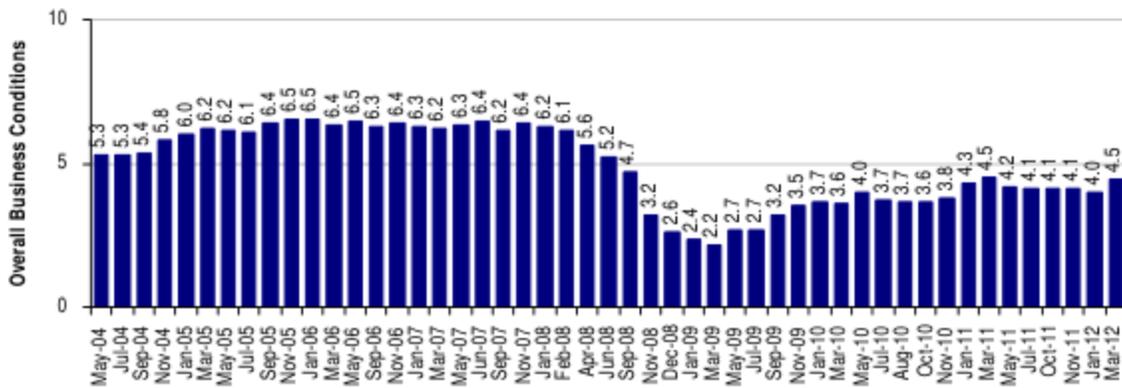
**Chart 9: Indication of Overall Business Conditions, March 2012**



Source: UBS Business Jet Survey

Overall, our average business conditions score came in at 4.5, 12% higher from our prior survey in January.

**Chart 10: Overall Business Conditions**

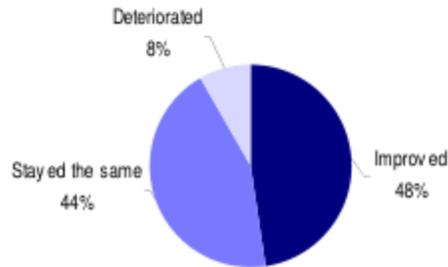


Source: UBS Business Jet Survey

## Customer Interest

In the next question, we asked, “Since our last survey in January, the level of customer interest improved, stayed the same or deteriorated?” Of the 170 responses (two participants did not respond to this question), 48% indicated that customer interest had improved, while 8% indicated that customer interest had deteriorated. The remaining 44% indicated that customer interest had stayed the same. This result is better than our prior survey, in which 29% indicated that customer interest had improved, 19% indicated customer interest had deteriorated and 52% indicated that customer interest had stayed the same.

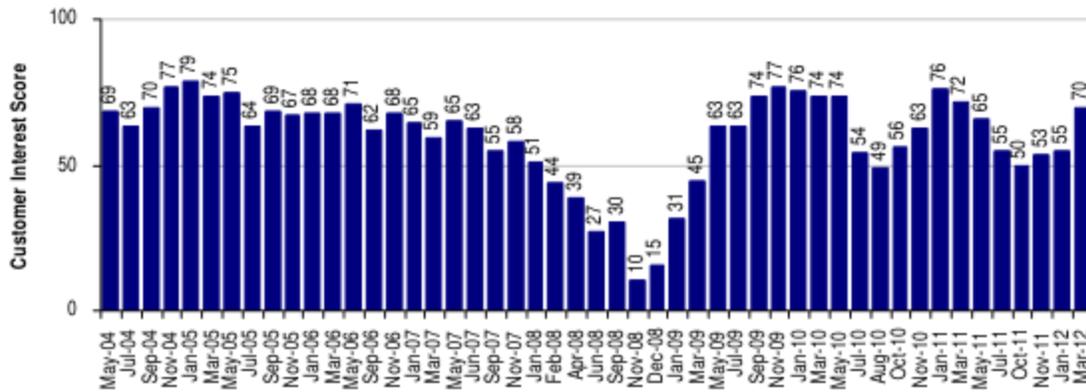
**Chart 11: Indication of Customer Interest, March 2012**



Source: UBS Business Jet Survey

Our customer interest score increased 27% to 70, well above the 50 mark indicating incremental improvement.

**Chart 12: UBS Business Jet Survey Score - Customer Interest**

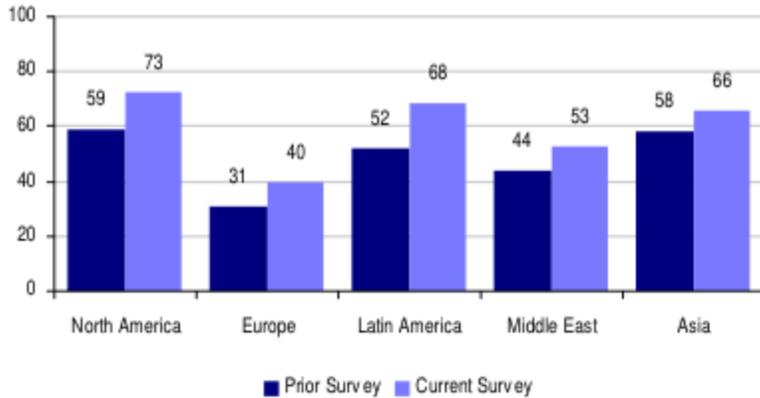


Source: UBS Business Jet Survey

## Customer Interest by Region

The improvement in customer interest was led by strength in North America (73), Latin America (68), Asia (66), partially offset by relative weakness in Middle East (53) and Europe (40).

**Chart 13: Customer Interest Score by Region and Comparison to Prior Survey**

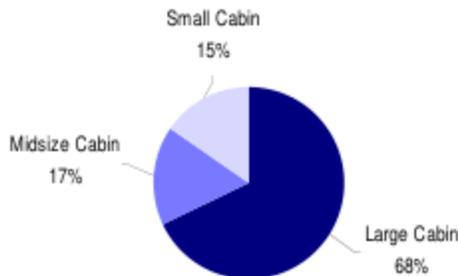


Source: UBS Business Jet Survey

## Customer Interest by Cabin Class

In the next question, our participants were asked to indicate the class of aircraft in which they were seeing the most interest from potential buyers. Respondents were asked to choose from Large Cabin, Midsize Cabin or Small Cabin. Of the 124 responses (48 participants did not respond to this question), 68% indicated they were seeing the strongest interest in large cabin aircraft, with 17% indicating midsize and 15% indicating small cabin. Compared to our prior survey, this reflects slightly higher interest in small and midsize relative to large cabin.

**Chart 14: Cabin Class with Most Buyer Interest, March 2012**

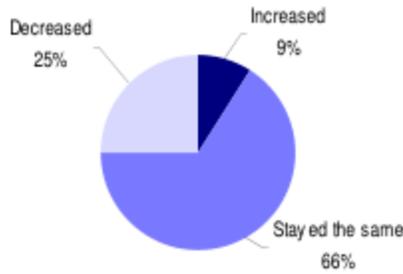


Source: UBS Business Jet Survey

## Pricing

In the next question, we asked, “Since our last survey in January, overall pricing levels increased, stayed the same, or decreased?” Of the 160 responses (12 participants did not respond to this question), 9% indicated that pricing levels had increased, while 25% indicated that pricing levels had decreased. The remaining 66% indicated that pricing levels had stayed the same. These results are improved from our prior survey in January in which 3% indicated that pricing levels had increased, 37% indicated that pricing levels had decreased, and the remaining 60% indicated that pricing levels had stayed the same.

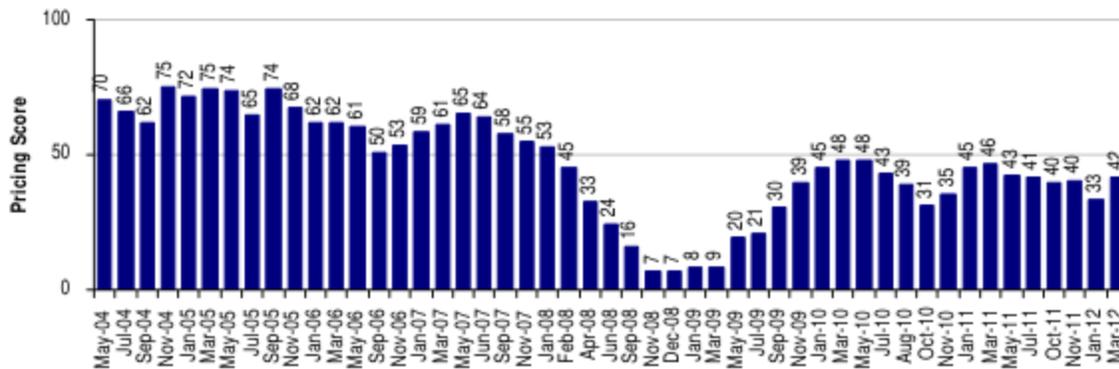
**Chart 15: Indication of Pricing, March 2012**



Source: UBS Business Jet Survey

Our pricing score came in at 42, 26% higher from our prior survey in January.

**Chart 16: UBS Business Jet Survey Score - Pricing**



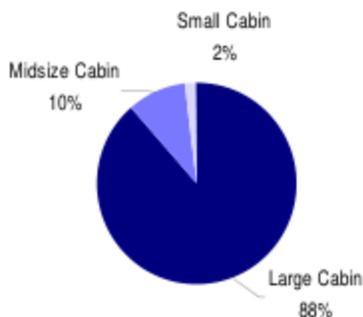
Source: UBS Business Jet Survey

### Pricing by Cabin Class

In the next question, our participants were asked to indicate the cabin class of aircraft in which they were seeing the strongest pricing. Respondents were asked to choose from Large Cabin, Midsize Cabin or Small Cabin. Of the 123 responses (49 participants did not respond to this question), 88% indicated they were seeing the strongest pricing in large cabin aircraft, with 10% indicating midsize and 2% indicating small cabin. Compared to our prior survey, this reflects slightly stronger pricing for midsize aircraft.

**Chart 17: Cabin Class with Strongest Pricing, March 2012**

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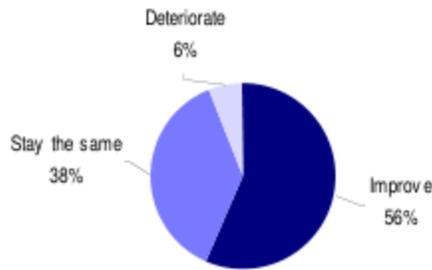
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Source: UBS Business Jet Survey

## 12-Month Outlook

In the next question, we asked, “Over the next 12 months, do you expect overall business conditions to improve, stay the same or deteriorate?” Of the 172 responses (all participants responded to this question), 56% expect business conditions to improve, while 6% expect business conditions to deteriorate. The remaining 38% expect business conditions to stay the same over the next 12 months. These results are better than our prior survey in which 41% expected business conditions to improve, 8% expected business conditions to deteriorate and 51% expected business conditions to stay the same.

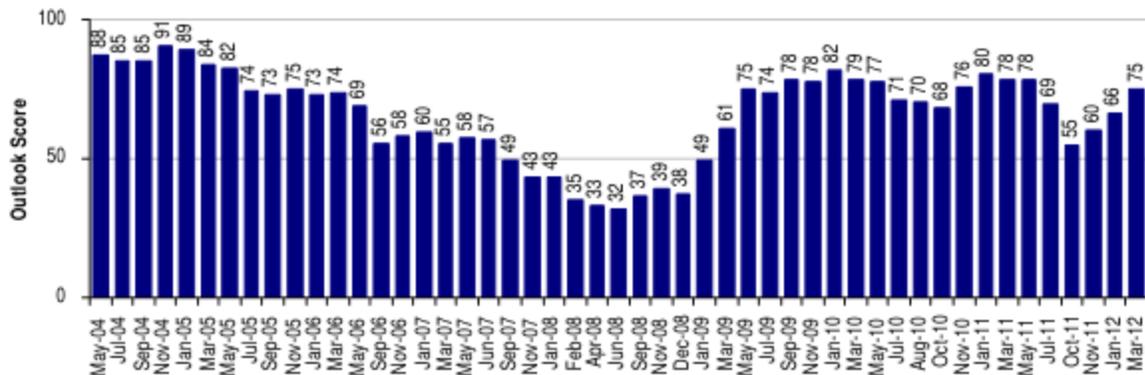
**Chart 18: 12-Month Forward Outlook for Business Conditions, March 2012**



Source: UBS Business Jet Survey

Our 12-month outlook score came in at 75 this time, 13% higher than in our prior survey and well above 50, indicating that on average our survey participants expect business conditions to improve over the next 12 months.

**Chart 19: UBS Business Jet Survey Score - 12-Month Outlook**

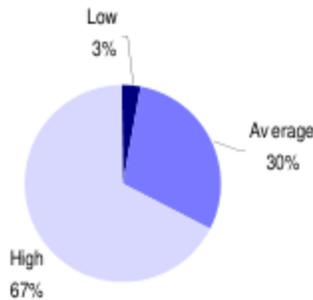


Source: UBS Business Jet Survey

## Overall Inventory Levels

In the next question, we asked, “How would you characterize current inventory levels?” In this question, we targeted broker/dealers, but in some cases, other participants also responded. The survey participants were asked to select “high”, “average”, or “low.” Of the 135 responses (37 participants did not respond to this question), 3% believe inventory levels are low, while 67% believe inventory levels are high. The remaining 30% believe inventory to be at average levels. These results are better than our prior survey in January in which 3% believed inventory levels were low, 73% believed inventory levels were high and the remaining 24% believed inventory to be at average levels.

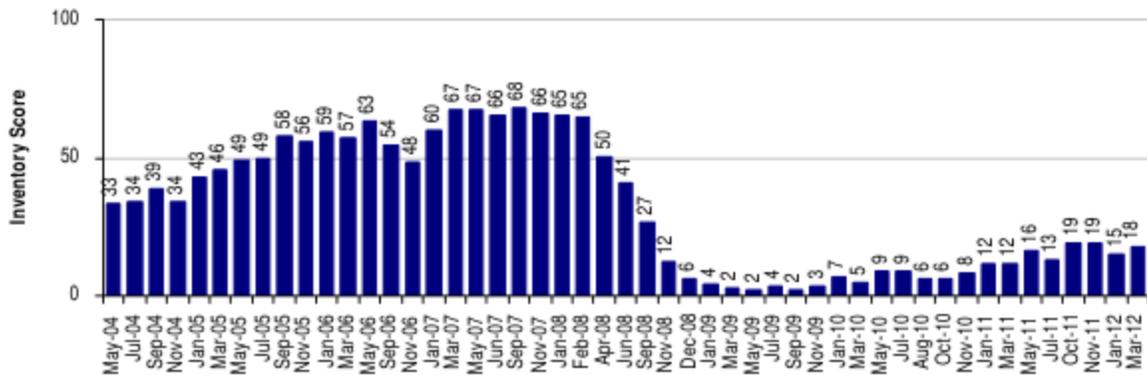
**Chart 20: Indication of Inventory Levels, March 2012**



Source: UBS Business Jet Survey

Our inventory score came in at 18 this time, 17% higher from our prior survey in January, but continues to reflect high overall inventory levels.

**Chart 21: UBS Business Jet Survey Score - Inventory Levels**

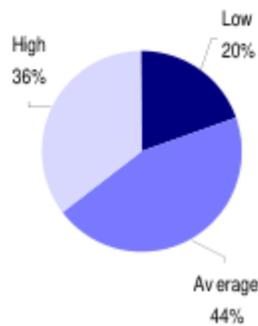


Source: UBS Business Jet Survey

## Young Inventory Levels

In the next question, we asked, “How would you characterize current inventory levels of relatively young used aircraft?” In this question, we targeted broker/dealers, but in some cases, other participants also responded. The survey participants were asked to select “high”, “average”, or “low.” Of the 132 responses (40 participants did not respond to this question), 20% believe young inventory levels are low, 36% believe young inventory levels are high, and the remaining 44% believe young inventories to be at average levels. These results are slightly better than in our prior survey in which 17% believed young inventory levels were low, 36% believed young inventory levels were high and 47% believed young inventories to be at average levels.

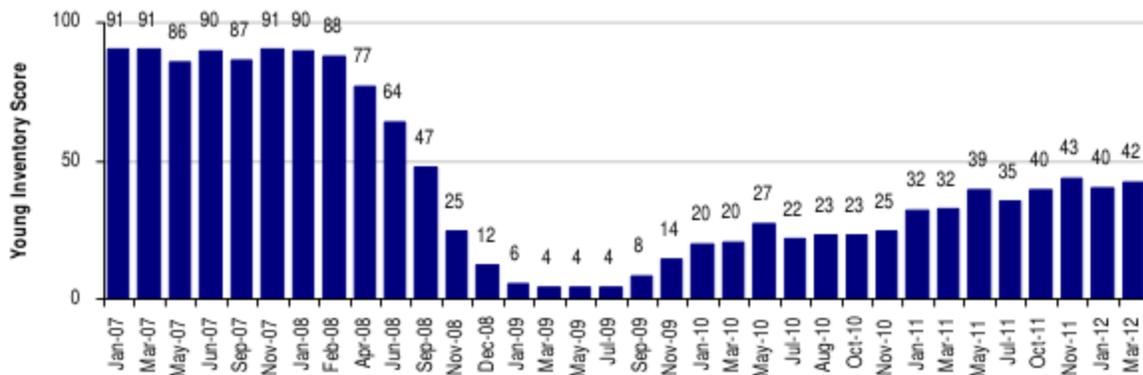
**Chart 22: Indication of Young Inventory Levels, March 2012**



Source: UBS Business Jet Survey

Our young inventory score at 42 continues to reflect oversupply of high-quality, young used aircraft.

**Chart 23: UBS Business Jet Survey Score - Young Used Inventory Levels**

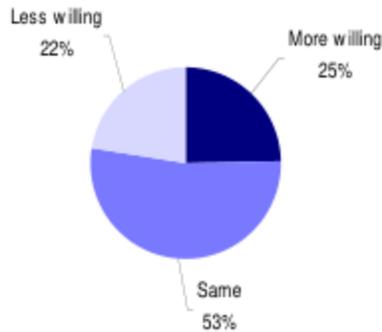


Source: UBS Business Jet Survey

## Willingness to Increase Inventories

In the next question, we asked, “Over the next month, will you be more or less willing to increase your inventory?” In this question, we again targeted broker/dealers, but in some cases, other participants also responded. The survey participants were asked to select “more willing”, “same”, or “less willing.” Of the 89 responses (83 participants did not respond to this question), 25% indicated they would be more willing to take on inventory, while 22% indicated they would be less willing to take on inventory. The remaining 53% indicated no change in their willingness to take on inventory. These results are better than our prior survey, in which 16% indicated they would be more willing to take on inventory, 28% indicated they would be less willing and 56% indicated no change in their willingness to take on inventory.

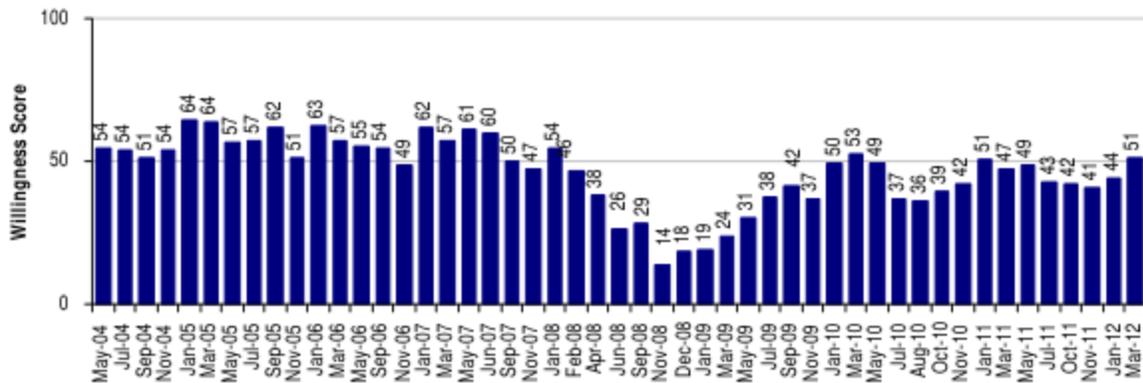
**Chart 24: Willingness to Increase Inventory Levels, March 2012**



Source: UBS Business Jet Survey

Our willingness score increased 16% to 51 this time, above the 50 mark indicating that participants are more willing to take on additional inventory compared to our prior survey in January.

**Chart 25: UBS Business Jet Survey Score - Willingness to Increase Inventory Levels**

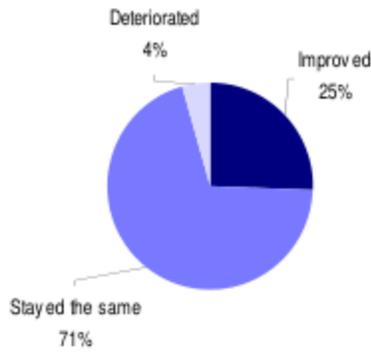


Source: UBS Business Jet Survey

## Customer Financing

In the next question, we asked, “Since our last survey in January, has the availability of customer financing improved, stayed the same, or deteriorated?” Of the 161 responses (11 participants did not respond to this question), 25% indicated that customer financing conditions had improved, while 4% indicated that financing conditions had deteriorated. The remaining 71% indicated that financing conditions had stayed the same. These results are better than our prior survey, in which 18% indicated financing conditions had improved, 12% indicated financing conditions had deteriorated and 70% indicated no change in financing conditions.

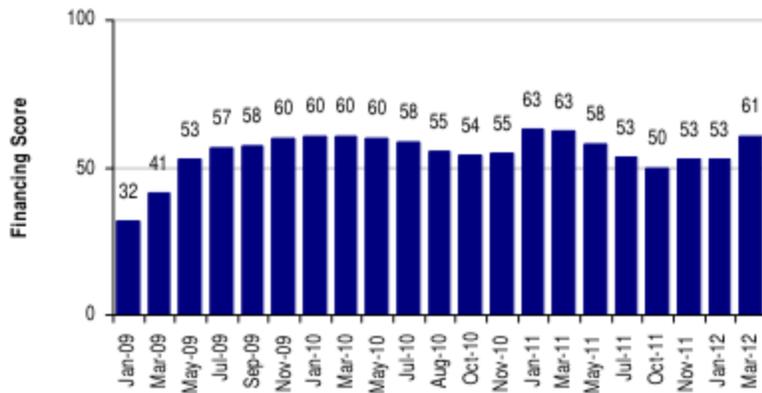
**Chart 26: Financing Conditions, March 2012**



Source: UBS Business Jet Survey

Our financing score came in at 61 this time, 14% above our previous survey and above the 50 mark indicating incremental improvement.

**Chart 27: UBS Business Jet Survey Score – Financing**



Source: UBS Business Jet Survey

## Commentary

The following are selected comments from business jet professionals.

### Overall Business Conditions

- We saw an improvement in 2011 over 2010 and hope the trend continues.
- Slightly more activity now than in recent past.
- Much more activity since the start of the year.
- Things are slowly improving.
- Very uneven recovery favoring late serial number aircraft, which are very robust in some markets. Huge difference between early and late serial numbers this time.
- Very good activity in Q4 2011. Typical activity in Q1 2012, but lower than in 2011.
- We're still bumping along the bottom.

### Aircraft Values / Pricing

- Pressure to sell this year's production slots (already work-in-process) will continue to restrain prices for both new and used light jet models.
- Prices have stabilized for now.
- Still a buyer's market.

### Outlook

- We believe markets will remain flat this year.
- We don't anticipate a recovery in values until late 2013 or early 2014.
- We don't believe we're headed toward a big improvement this year given the economy and problems in Europe/Middle East.

### Customer Interest

- We have seen a slight slow down in interest over the past few months.
- Clients are on the sidelines waiting for improved economic conditions.
- Interest returning to light jet market.
- Interest amongst customers seems to be improving.
- Activity has increased, but no one seems to want to pull the trigger.
- Phone activity has been very quiet last 3-4 weeks, with exception of deals already in the works.

### International Markets

- Some real opportunities with real buyers in India/SE Asia, however Europe seems to still be asleep.

- The African continent has shown a fair resilience to the economic slump, specifically South Africa which has robust banking legislation and offers good tax breaks on aircraft depreciation.
- The expansion into Africa via South Africa is helping to underpin the demand for business aircraft.
- Poor airline safety records coupled with infrequent schedules are making business aircraft justifiable to the African business community.
- Germany and Eastern Europe are buying airplanes again.
- Strong demand from emerging markets.

## Financing

- Weak demand for loans.
- More and more leasing and unique funding solutions coming to market.
- We have seen an increase in requests for financing for purchases in the last 30 days.

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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. Our estimates, ratings and price targets for General Dynamics, Textron and Rockwell Collins 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.

## ■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

## Required Disclosures

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	57%	36%
Neutral	Hold/Neutral	37%	35%
Sell	Sell	7%	17%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	12%

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 December 2011.

### 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; Darryl Genovesi.

**Company Disclosures**

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
General Dynamics Corp. <sup>16</sup>	██████	Buy	N/A	US\$72.78	23 Mar 2012
Rockwell Collins Inc. <sup>2, 4, 5, 6a, 6b, 7, 8, 16, 18a</sup>	██████	Buy	N/A	US\$57.55	23 Mar 2012
Textron Inc. <sup>6b, 7, 16, 18b, 22</sup>	██████	Buy	N/A	US\$27.14	23 Mar 2012

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

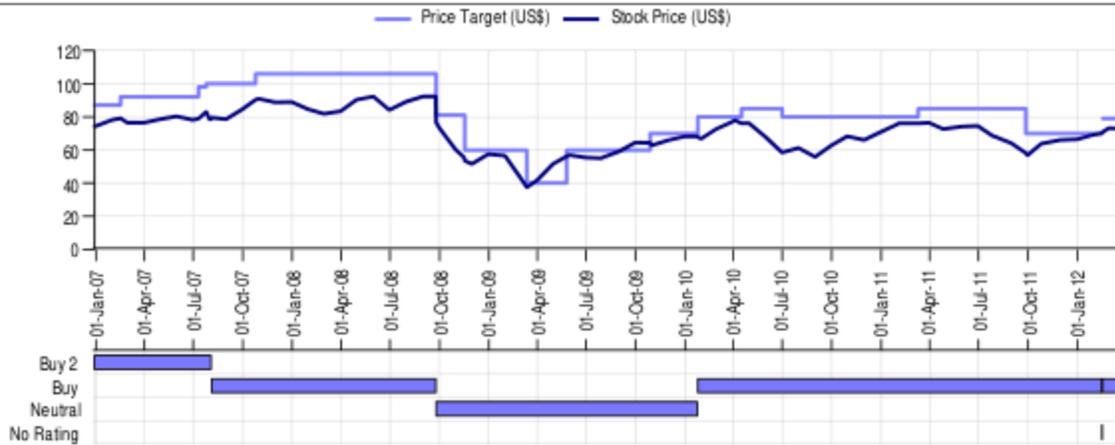
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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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 23 Mar 2012

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



Source: UBS; as of 23 Mar 2012

Textron Inc. (US\$)



Source: UBS; as of 23 Mar 2012

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%.

Additional Prices: Bombardier Inc., C\$4.25 (23 Mar 2012); Embraer, US\$31.40 (23 Mar 2012); Source: UBS. All prices as of local market close.

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