

US Aerospace and Defense

Aeronautics & Space Engineering Board

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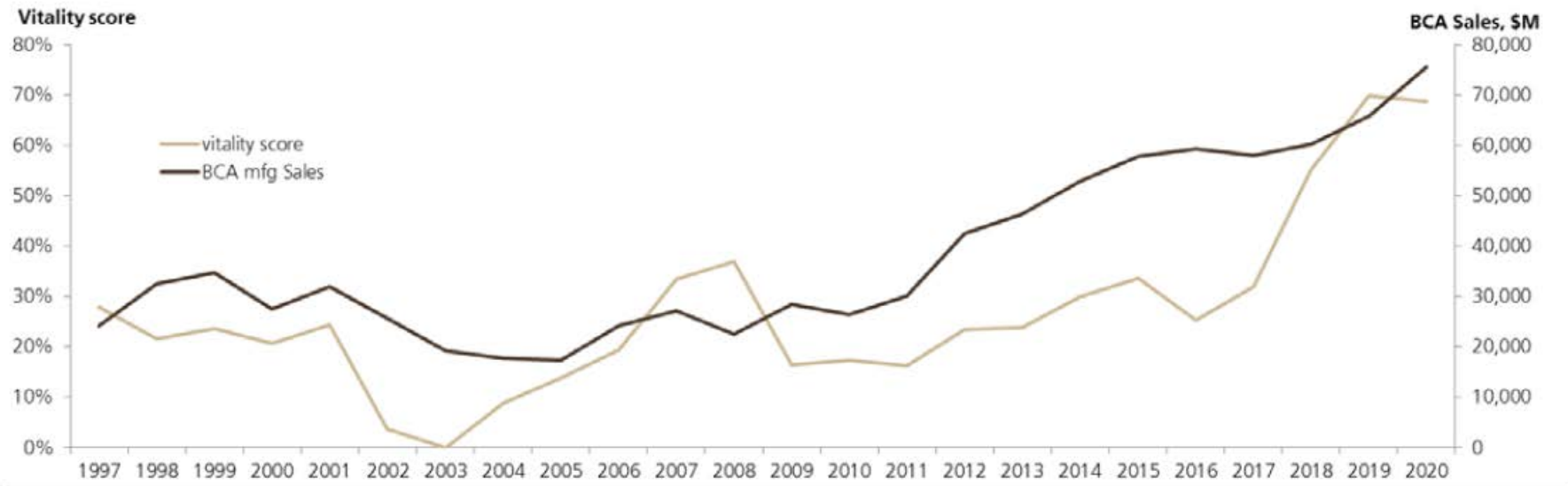
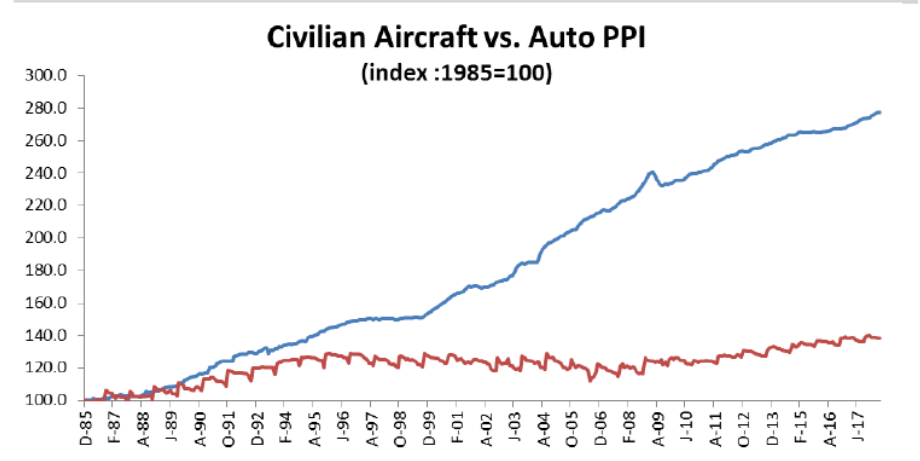
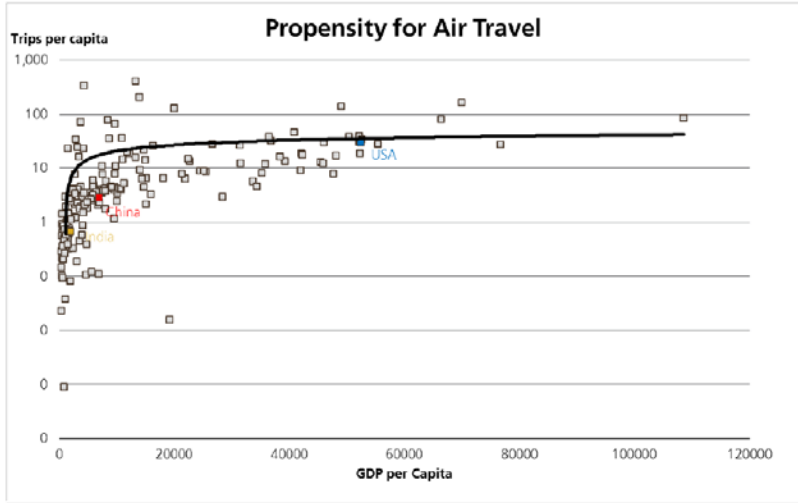


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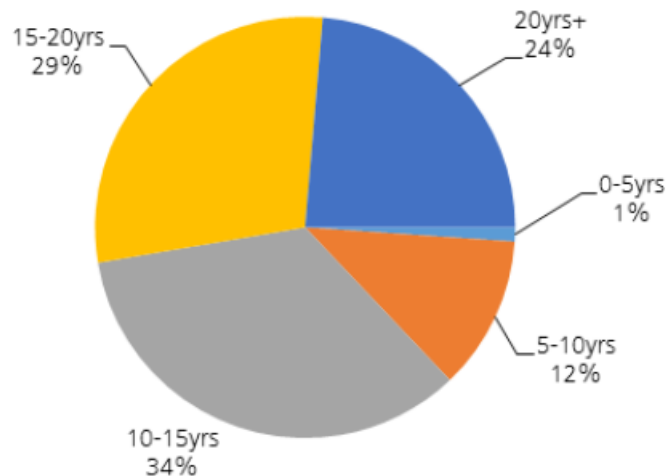
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Secular Demands for a Cyclical Market



China: the duopoly's best friend and future competitor

	China Deliveries			China Backlog
	2015	2016	2017	Jun '18
Boeing Deliveries	145	127	173	239
Airbus Deliveries	<u>137</u>	<u>157</u>	<u>157</u>	390
Total	282	284	330	629
% of Industry	20%	20%	22%	5%



Made in China 2025 highlights

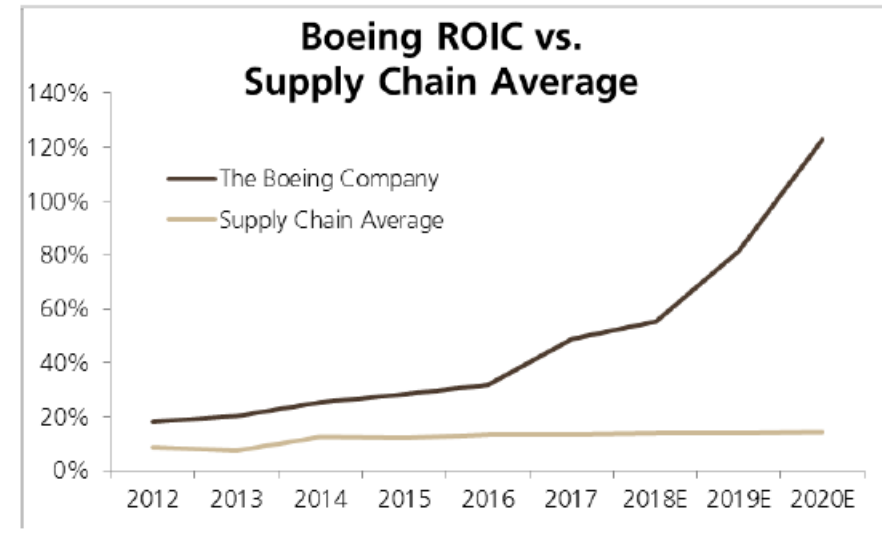
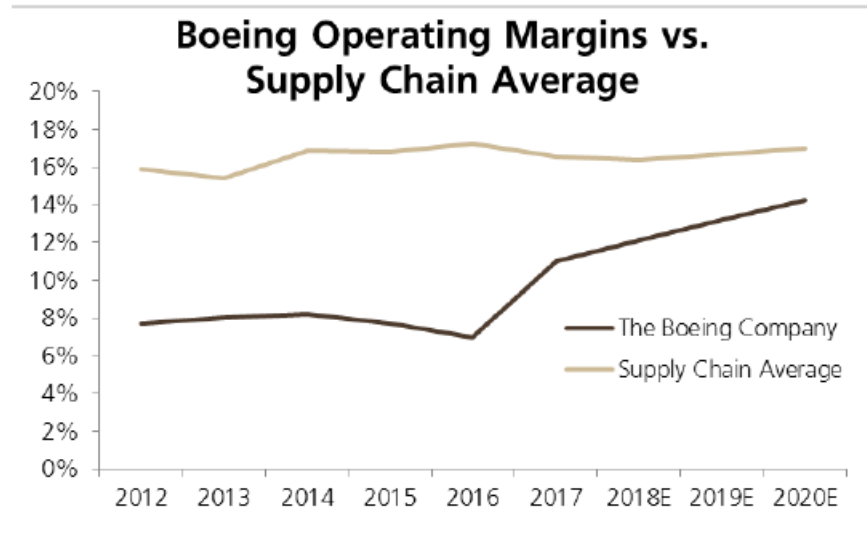
10 priority sectors:

- 1) New advanced information technology;
- 2) Automated machine tools & robotics;
- 3) *Aerospace and aeronautical equipment;*
- 4) Maritime equipment and high-tech shipping;
- 5) Modern rail transport equipment;
- 6) New-energy vehicles and equipment;
- 7) Power equipment;
- 8) Agricultural equipment;
- 9) New materials; and
- 10) Biopharma and advanced medical products.

Elongation of development

		Launch	EIS	Total time (months)	
Boeing	747-100	Apr-66	Jan-70	54	48mo Avg
	767	Jul-78	Sep-82	50	
	757	Apr-79	Jan-83	45	
	737-300(classic)	Mar-81	Dec-84	45	
	747-400	Dec-85	Dec-89	48	
	777-200	Oct-90	Jun-95	56	
	737-700 (NG)	Nov-93	Jan-98	50	76mo Avg
	747-8	Nov-05	Oct-11	71	
	787-8	Apr-04	Sep-11	89	
	737MAX	Aug-11	Oct-17	74	
Airbus	777X	Dec-13	Dec-19	72	
	A300	Dec-70	May-74	41	54mo Avg
	A310	Jul-78	Apr-83	57	
	A320	Mar-84	Mar-88	48	
	A330/340	Jun-87	Mar-93	69	
	A380	Dec-00	Oct-07	82	81mo Avg
	A350	Dec-06	Jun-14	90	
	A320Neo	Dec-10	Oct-16	70	

Economic Returns in Aerospace



Valuation Method and Risk Statement

Valuation: We set our 12-month forward price targets primarily based on a discounted cash flow analysis which we believe provides a more comprehensive and longer-term view of a company's potential earnings growth. To add greater depth to the analysis, we apply both medium and long term assumptions around growth rate & WACC. Additionally, we sanity check our results using a combination of forward multiples including P/E, EV/EBITDA, and FCF Yield.

Risk Statement: The aerospace industry faces a number of risks including weakening global economies as well as exogenous events which can lead to a decrease in passenger and/ or freight demand as well as for business aircraft. Lower demand can impact aircraft deliveries and related aircraft services which could significantly impact our companies' sales and earnings. The defense industry faces a number of risks including a slowdown in defense spending, as well as exogenous events which can lead to lower customer demand both domestically and internationally. Lower defense spending and lower customer demand can impact contract profile and product delivery/program execution, which could significantly impact our companies' sales and earnings.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	48%	24%
Neutral	FSR is between -6% and 6% of the MRA.	37%	21%
Sell	FSR is > 6% below the MRA.	15%	12%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 September 2018.

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.

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