

Aerospace & Defense Electronics

Jefferies Business Jet Survey: Moving in the Right Direction

Key Takeaway

Our third semi-annual business jet survey indicates continued improvement in market tone. From June 15th through July 1st, we surveyed nearly 650 new and used business jet brokers globally and have received detailed responses from about 70. The aggregate response reflected improving market conditions. The outlook index rose to 5.9 on a 10 point scale vs. a 5.6 rating in our January survey and 4.2 in our July 2016 survey.

Demand Outlook - Significant Change in Past Six months. Our survey found 94% of respondents expected an increase in unit sales volume for 2017/2018 versus 2016. This compares to 70% of respondents that stated they expect an increase in our January 2017 survey for 2017. As we consider the reasons for the lack of an upturn in aggregate demand for business jets, we note that a significant number of respondents (37%) cited the used market as continuing to lure new buyers.

Highest Demand OEM and End Markets. Gulfstream was called out as the OEM with the most appeal according to 37% of respondents. Cessna placed second with 34% of respondents. From an industry perspective, 45% stated Industrial customers are leading the enthusiasm, with 26% calling out Consumer and 17% highlighting Financial customers (Exhibit 25). Energy fell the most as the industry had been expected to improve the most, but it was the weakest industry, followed by Government and Healthcare sectors.

High favorability ratings were given to the Citation XLS, Challenger 300/350, and G550. The **CJ2** and **G650** fell off as having high demand. The former's production line has come to an end. The **Hawker** models were unsurprisingly the most difficult to sell, followed by the **Falcon 7X** then the Falcon 900. The Bombardier Global platforms including the Global Express and **Global 5000** which were on prior lists were removed. One can infer that the lower used inventories has helped demand for these aircraft because Bombardier has cut production (Exhibit 14). A sizeable portion of respondents noted the **G500** was the new aircraft with greatest customer interest. This was followed by **G600** with another 20% expressing strong interest.

Change in Demand Trends. About 65% noted a change in buying and selling behavior since the election, while 35% stated no change. It appeared most responses noted a positive change. Potential benefits to stimulating new business jet demand were the retention of the current accelerated depreciation rules vs. lower corporate taxes which is a change from our January 2017 survey.

Impact of Fractional Market. According to the survey, 60% of respondents stated that fractional sales have impacted new purchases. About 42% stated that buyers find fractional ownership a viable option vs. a direct purchase. This was similar to results in our January 2017 survey. The benchmark for individual ownership appears to be over 100 hours a year of utilization (Exhibit 24).

Pricing - Decline in Residual Values Impacts Market Most. A significant portion of respondents, 63%, stated that the average discount between a new and large jet is 10-20%. This figure is far lower than we have seen in recent surveys and may help spur new demand of jets as the decline in residual values is often cited as one area that has hurt new jet purchases. The Latitude was the model cited most often according to about one-third of respondents. On a combined basis, the Legacy 500 and Legacy 450 were cited one-third of the time as well (Exhibit 20).

JEF Forecast. Our forecast continues to assume minimal market recovery with 2017 unit deliveries down 5% in 2017, but growing 5% in 2018. We figure model transitions should mark the bottom in 2017, with volumes up somewhat in 2018. Low deliveries could lead to upside revisions for GD and TXT in our view.

Howard A. Rubel *

Equity Analyst

(212) 284-2126 hrubel@jefferies.com

Sheila Kahyaoglu *

Equity Analyst

(212) 336-7216 sheila.kahyaoglu@jefferies.com

Greg Konrad, CFA *

Equity Analyst

(212) 284-2391 gkonrad@jefferies.com

* Jefferies LLC

^Prior trading day's closing price unless otherwise noted.

Investment Summary

This report covers our third semi-annual business jet survey, which seeks to gauge activity for the year ahead. The survey focuses on the following:

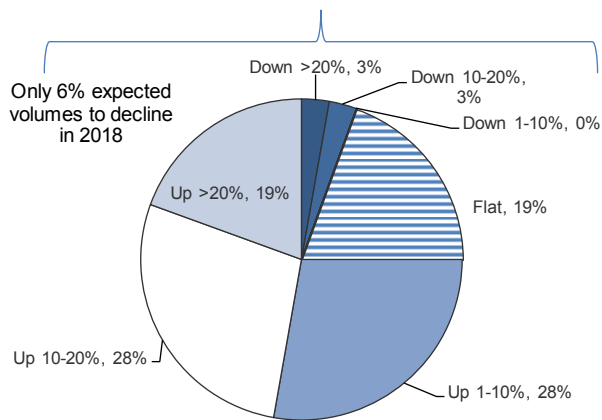
- **1) Jefferies Semi -Annual Business Jet Survey**
 - **Volume Expectations**
 - **Pricing Conditions**
 - **Purchasing Process and Behavior**
 - **Survey Respondents**
- **2) Jefferies – State of the Market**
 - **Business Jet Fleet and Delivery Outlook**

1. Jefferies Semi-Annual Business Jet Survey

Volume Expectations

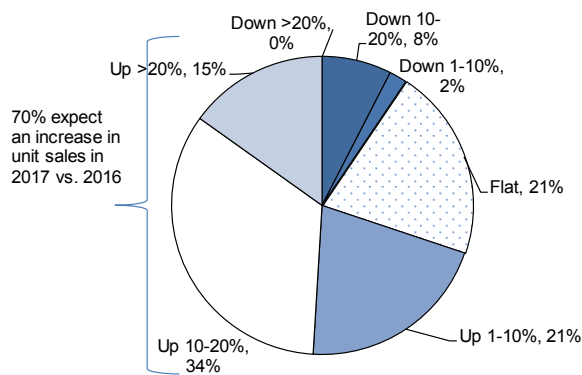
We asked respondents to state their expectations for sales volume for the business jet market in 2017/2018. Of our 68 respondents, 94% stated they expect business jet volumes, on a unit basis, to increase in 2018/2017 versus 2016. This compares to 70% of respondents who expected an increase in our January 2017 survey. Only 6% of respondents expect unit volumes to decline in 2018/2017 versus 10% which expected a decrease just six months ago.

Exhibit 1: How do you expect your sales volume to shake out in 2018 vs. 2017 (unit basis) – JULY 2017 SURVEY



Source: Jefferies Business Jet Survey. Note: Based on 68 respondents.

Exhibit 2: How do you expect your sales volume to shake out in 2017 vs. 2016 (unit basis) – JAN. 2017 SURVEY



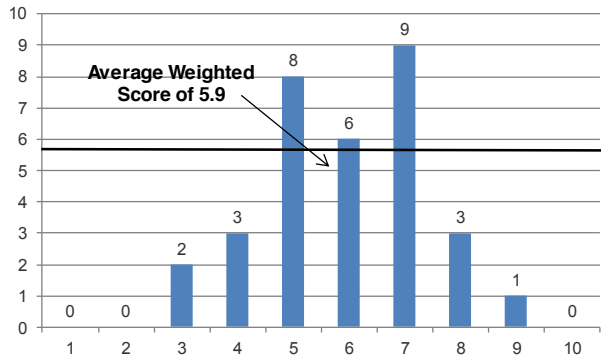
Source: Jefferies Business Jet Survey. Note: Based on 90 respondents.

Survey Ranking

When asked to define market sentiment considering both demand and price, the survey indicated a rating of **5.9** on a 10 point scale, with 10 being the strongest. This compares to **5.6** and **4.2** ratings in our January 2017 and July 2016 survey, respectively.

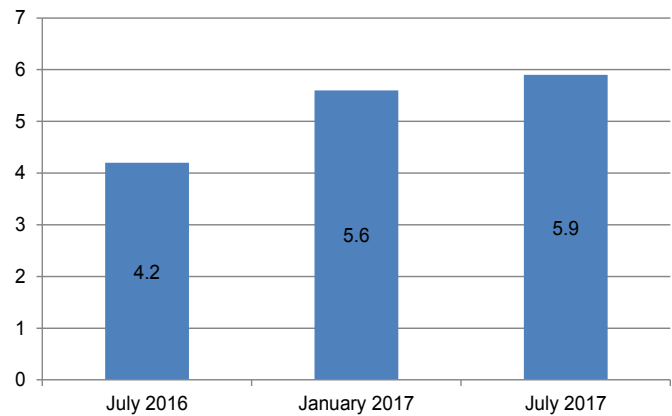
Exhibit 3: Assess Sentiment of the Market Factoring in Demand, Pricing Both New and Used Models, Technology, Inventories

1 = Weakest, 10 = Strongest



Source: Jefferies Business Jet Survey. Note: Based on 68 respondents.

Exhibit 4: Market Activity Comparison

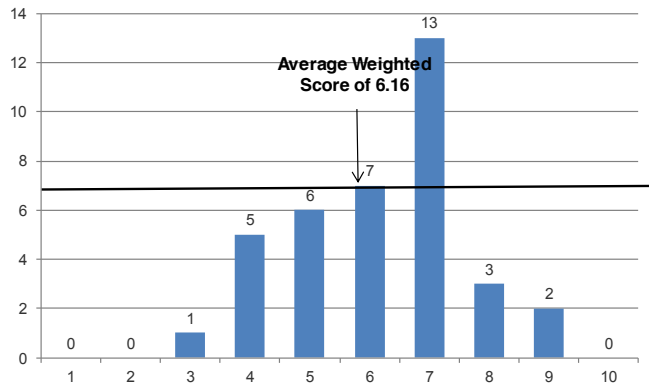


Source: Jefferies Business Jet Survey.

Respondents were also asked how they gauge **used jet** market activity today. The average ranking experienced a move up to **6.2**. This compares to **5.7** and **4.3** rating in our January 2017 and July 2016 surveys, respectively.

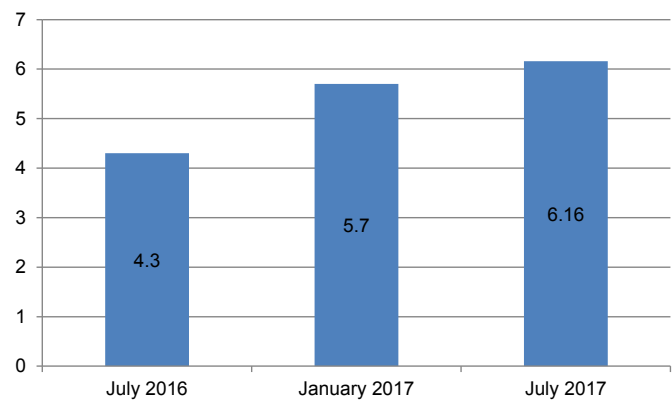
Exhibit 5: Gauge Current Used Market Activity

1 = Weakest, 10 = Strongest



Source: Jefferies Business Jet Survey. Note: Based on 68 respondents.

Exhibit 6: Used Market Activity Comparison



Source: Jefferies Business Jet Survey.

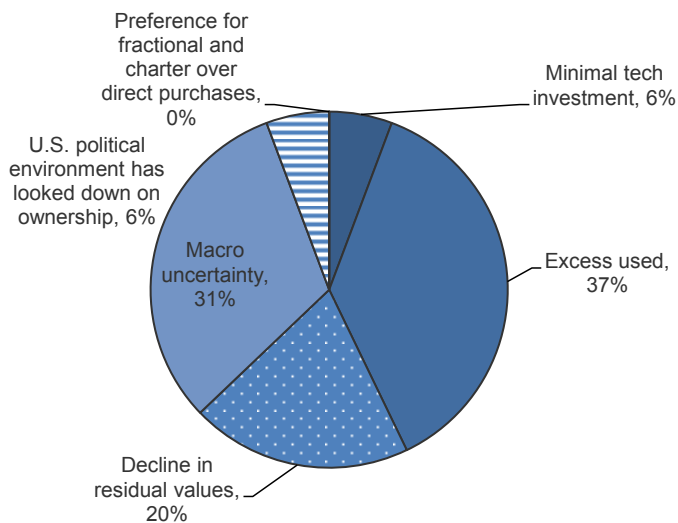
Rationale for Improved Demand Dynamics

As we consider the reasons for the lack of an upturn in aggregate demand for business jets, we note that a significant number of respondents (37%) cited the used market as continuing to lure new buyers. The decline in used prices has also not been helpful (20%). These results are comparable to our January 2017 and July 2016 surveys. Other reasons which were cited included macroeconomic factors according to 30% of respondents. Another 6% stated that the U.S. political environment discouraged ownership. None of the respondents stated that fractional and charter demand has cannibalized new aircraft demand.

Reasons cited by respondents for under-utilization of aircraft:

- *High cost of business and you are dealing with less than 1% of the population. When the market is bearish they prepare for a rainy day in all aspects.*
- *Operating costs and public image of using jets in a down-market.*
- *Still coming out of negative image of using aircraft here in US, activist board members use the aircraft as a leverage point for poor management, which is actually in most cases the opposite.*

Exhibit 7: Why Has the Business Jet Market not Improved Over the Past Few Years



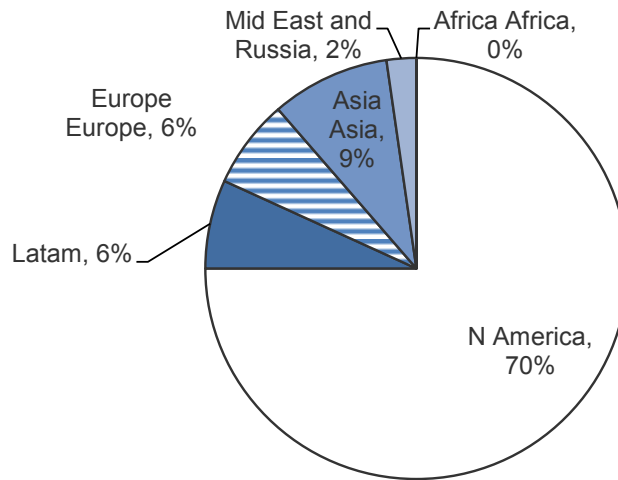
Source: Jefferies Business Jet Survey.

We also asked respondents what was driving weakness in the turboprop market:

- *Over-supply of new and existing turboprop models as well as competition from VLJs.*
- *The low cost of jet acquisition. A good mid-range King Air 350 is \$6-8MM, you can buy multiple jet models in that budget range.*
- *New TP's are very expensive vs Light Jets or larger pre-owned Jets. Customers prefer smoother and quieter cruising altitudes in Jets vs TP's.*

The region with the most improved market dynamics was North America according to 70% of respondents.

Exhibit 8: What Region Has Seen the Biggest Pick-up in the Past Six Months

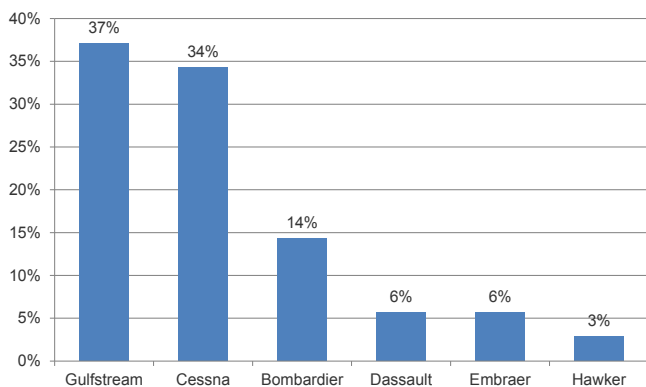


Source: Jefferies Business Jet Survey.

OEM Demand

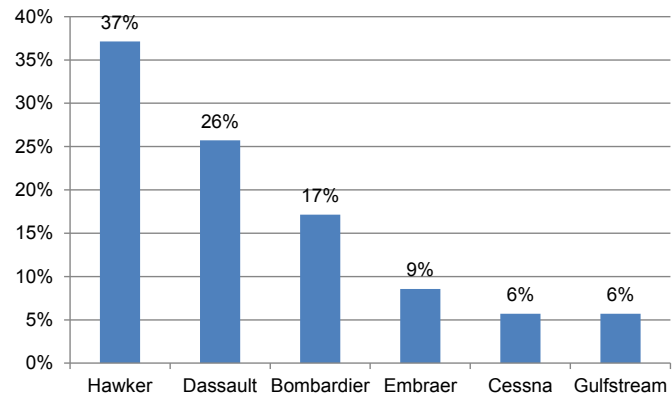
Respondents selected Gulfstream 37% of the time as the product line with the most customer interest. Cessna placed second with 34% of respondents. The OEM with the weakest market interest was Hawker, in the used market with Dassault in second from last place at 26%.

Exhibit 9: What OEM has Experienced the Highest Market Interest - from Demand Perspective



Source: Jefferies Business Jet Survey. Note: Based on 68 respondents.

Exhibit 10: What OEM has Experienced the Weakest Market Interest - from Demand Perspective



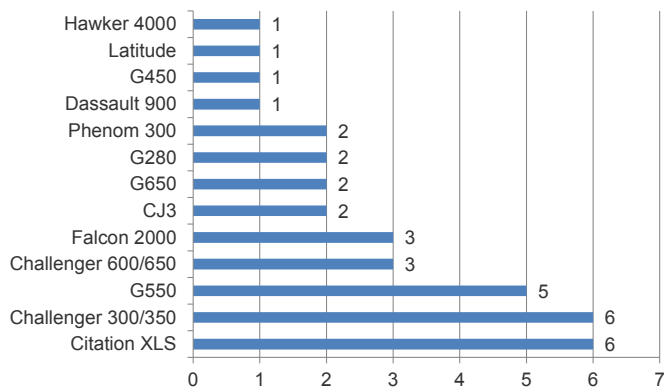
Source: Jefferies Business Jet Survey. Note: Based on 68 respondents.

What Models are Hot, What's Is Not

We show in Exhibits 11 and 12 what aircraft types were chosen as having the highest relative demand. The **Citation XLS** stood out with six respondents stating it is their 'easiest' aircraft to sell across our last three surveys. The XLS accounts for about 10-15% of

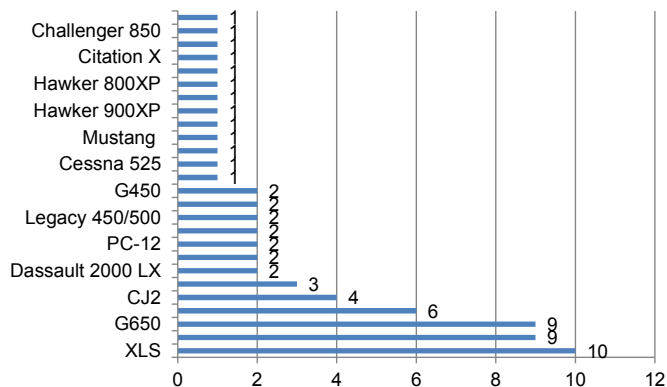
Textron Aviation’s annual deliveries. The **Challenger 350** and **G550** were each also cited as favorites again. Despite some turnover in the survey respondents, the responses on the most popular aircraft were fairly consistent. The **CJ2** and **G650** fell off as having high demand. The former’s production line has come to an end. The latter should have lower production rates in the out years.

Exhibit 11: Which Aircraft have the *Highest Demand* Relative to Availability - Higher Number of Respondents is Good
JULY 2017 SURVEY



Source: Jefferies Business Jet Survey.

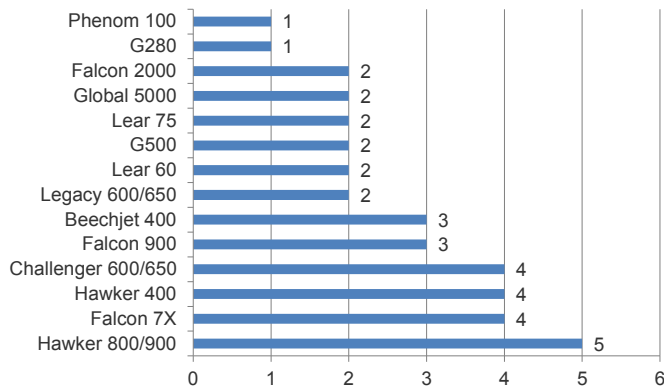
Exhibit 12: Which Aircraft have the *Highest Demand* Relative to Availability - Higher Number of Respondents is Good
JAN 2017 SURVEY



Source: Jefferies Business Jet Survey.

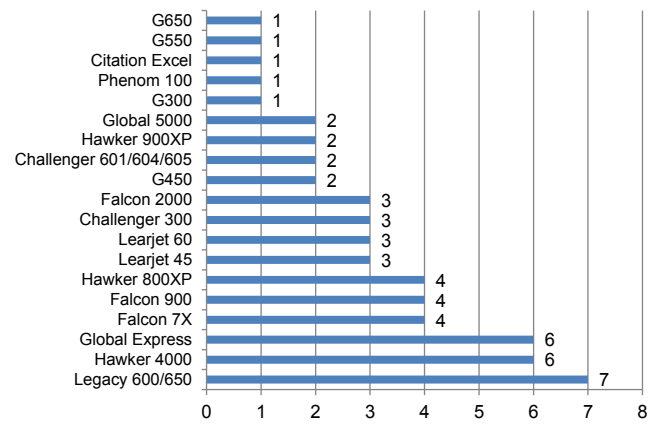
As shown in Exhibit 13, the **Hawker** models were unsurprisingly the most difficult to sell. The **Falcon 7X** was the second hardest to sell followed by the Falcon 900. The Falcon 7X may be dealing with the last off the line phenomenon with not enough separation versus the Falcon 8X. Additionally, asking prices may be too high. The Bombardier Global platforms including the Global Express and **Global 5000** which were on prior lists were removed. One can infer that the lower used inventories have helped demand for this aircraft as Bombardier has cut production.

**Exhibit 13: Which Aircraft have Lowest Demand Relative to Availability - Higher # of Respondents is Tougher to Sell
JULY 2017 SURVEY**



Source: Jefferies Business Jet Survey.

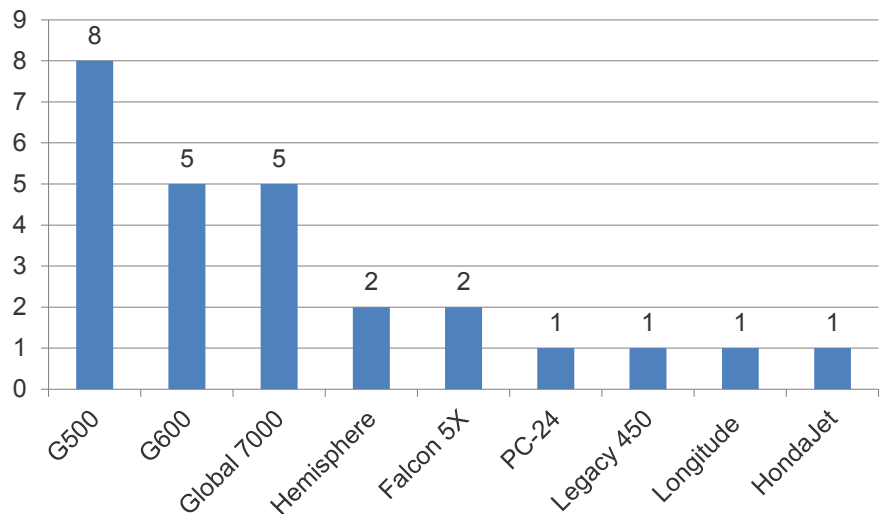
**Exhibit 14: Which Aircraft have Lowest Demand Relative to Availability - Higher # of Respondents is Tougher to Sell
JAN 2017 SURVEY**



Source: Jefferies Business Jet Survey.

As shown in Exhibit 15, a sizeable portion of respondents noted the **G500** was the new aircraft with greatest customer interest, with about 30% calling it out. The G500 was cited as the potential replacement for the G450 / Falcon 900 segment. This was followed by **G600**, with another 20% expressing strong interest. The **Global 7000** accounted for 20% of responses with the Hemisphere representing 7%. Other new models were more fragmented. We believe the Cessna Longitude will fare well in the 100 unit mid-sized market segment.

Exhibit 15: What is the Best New or Replacement Aircraft

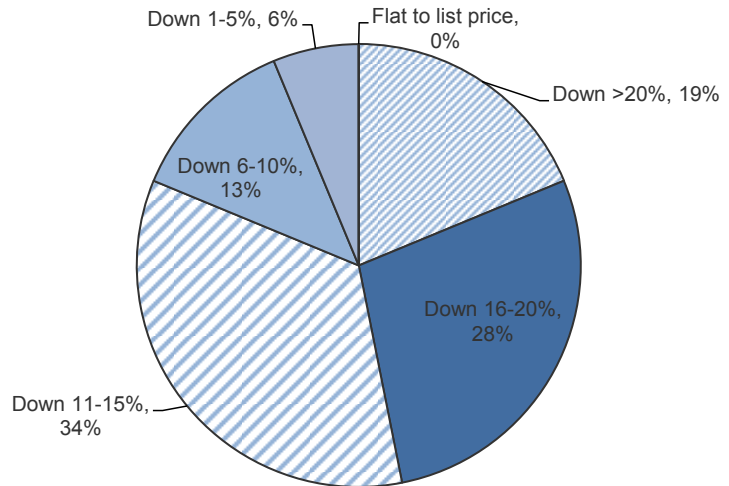


Source: Jefferies Business Jet Survey.

Pricing Conditions: Some Conflict, but Somewhat Better Environment

In this next section, we explore broker responses as it relates to price. A significant portion of respondents, 63%, stated that the average discount between a new and large jet is 10-20%. This figure is far less than we have seen in recent surveys and may help spur new demand of jets as the decline in residual values is often cited as one area that has hurt new jet purchases. Another 19% stated the difference in new vs. used jet prices are over 20%.

Exhibit 16: Average Discount vs. List for a New Jet



Source: Jefferies Business Jet Survey. Note: Based on 68 respondents.

In Exhibit 17, we compare key used prices versus list prices for in-production aircraft. The G650, Phenom 300, and CJ4 have relatively resilient pricing. A 5-year old aircraft in the example below may be considered the Phenom 100 or 300 which have retained residual value better than most. The G650 seems to be showing similar traits. However, older aircraft have experienced a significant gap between the new list price and the residual price. The gap can average 30-60% and can prevent buyers from replacing their aircraft because the capital is not there. Larger discounts between new and used aircraft may imply end of life (i.e. Gulfstream 450 and Citation X).

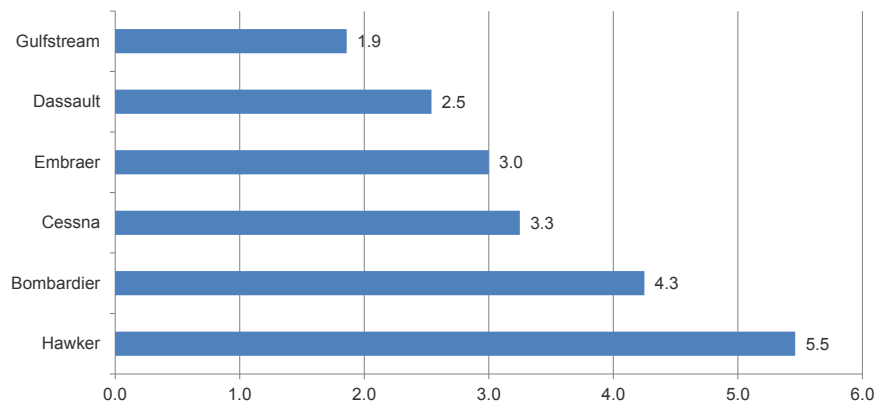
Exhibit 17: List Price vs. Used Aircraft Price for Select Platforms

| Model | List Price (\$M) | Avg. Used Price (\$M) -Q2 2017 | Avg Asking Price (\$M) -Q2 2017 | % Delta |
|-------------------|------------------|--------------------------------|---------------------------------|-------------|
| Challenger 300 | 24.8 | \$8.9 | | -64% |
| Challenger 605 | 27.0 | 9.7 | | -64% |
| Global 5000 | 50.4 | 19.7 | | -61% |
| Bombardier | | | | -63% |
| Mustang | \$3.4 | \$1.9 | | -43% |
| M2 | 4.5 | 3.7 | | -18% |
| Citation CJ2+ | 6.4 | 3.0 | | -53% |
| Citation CJ3 | 8.0 | 4.3 | | -46% |
| Citation CJ4 | 9.0 | 6.9 | | -23% |
| Citation XLS+ | 12.8 | 6.1 | | -52% |
| Latitude | 16.4 | -- | | -- |
| Sovereign | 17.9 | 6.8 | | -62% |
| Citation X | 23.4 | 4.4 | | -81% |
| Cessna | | | | -47% |
| Falcon 2000LX | 32.1 | \$11.6 | | -64% |
| Falcon 900LX | 41.0 | 25.0 | | -39% |
| Falcon 7X | 50.0 | 26.6 | | -47% |
| Dassault | | | | -50% |
| Phenom 100 | \$4.5 | \$2.1 | | -52% |
| Phenom 300 | 9.0 | 6.8 | | -24% |
| Legacy 500 | 20.0 | 16.1 | | -20% |
| Legacy 650 | 25.9 | 13.9 | | -46% |
| Embraer | | | | -36% |
| Gulfstream G150 | 15.1 | \$5.7 | | -62% |
| Gulfstream G280 | 24.0 | 15.0 | | -38% |
| Gulfstream G450 | 39.0 | 16.0 | | -59% |
| Gulfstream G550 | 53.5 | 23.7 | | -56% |
| Gulfstream G650 | 64.5 | 53.4 | | -17% |
| Gulfstream | | | | -46% |

Source: Jefferies estimates, company data, Amstat.

Brokers thought that Gulfstream and Dassault make a greater effort to hold price.

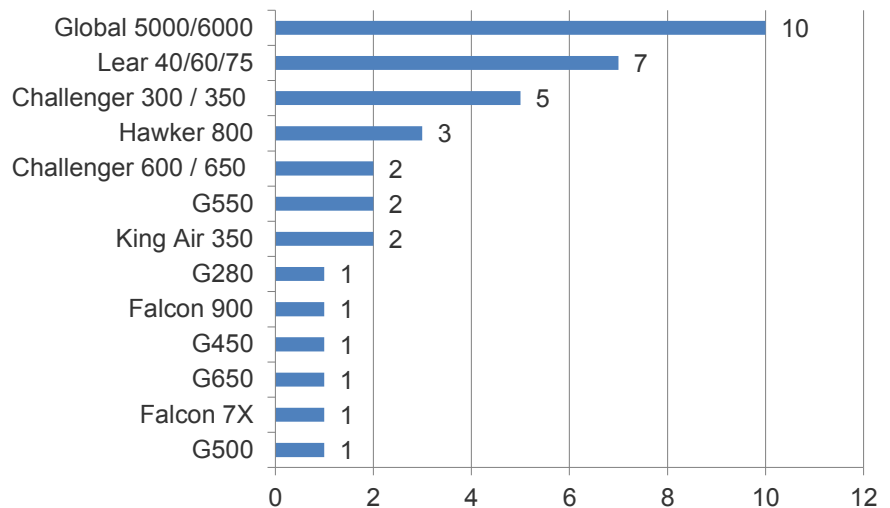
Exhibit 18: What OEM Seeks to Maintain Residual Aircraft Prices – Rank by OEM 1 = Maintains most Residual Value, 5 = Maintains Least Value



Source: Jefferies Business Jet Survey.

The biggest discounts on new and used jets appeared to include the Global 5000/6000 models. This is somewhat surprising given these models then to maintain their residual value well in the used jet market. The Learjet series was cited as another significant discounter.

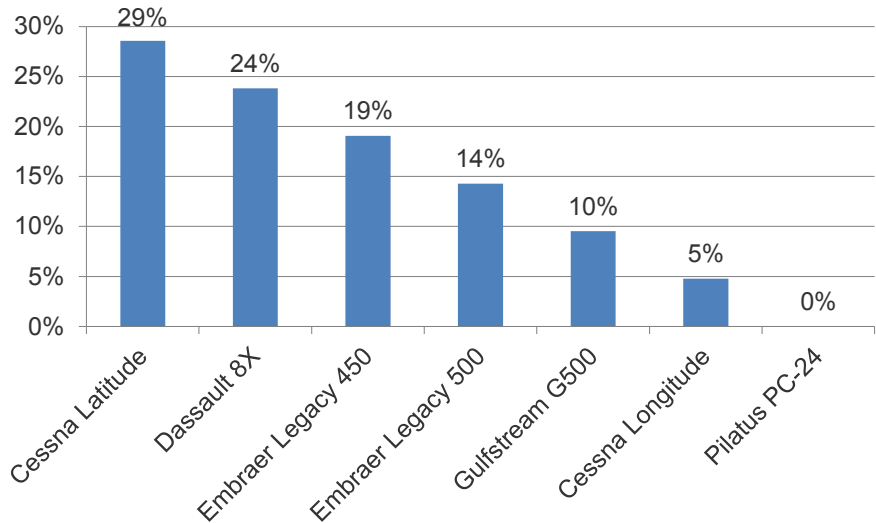
Exhibit 19: Which Aircraft Platform and Type are Seeing the Biggest Discounting in Residual Aircraft Pricing



Source: Jefferies Business Jet Survey.

In terms of new models experiencing the most price weakness the Latitude was the model cited most often according to about one-third of respondents. On a combined basis, the Legacy 500 and Legacy 450 were cited by one-third of respondents. The Dassault 8X, which recently entered service, was another example as shown in Exhibit 20.

Exhibit 20: Which New Aircraft Model is Seeing the Most Price Weakness



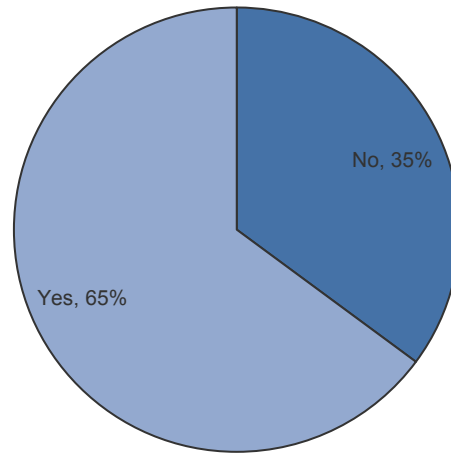
Source: Jefferies Business Jet Survey.

Purchasing Process and Behavior

In this next section, we explore some of the factors and features which may influence an aircraft purchase decision. In Exhibit 21, we indicate that brokers were more decisive, with 65% stating they have seen a change in buying and selling behavior since the 2016 election, while 35% stated no change. It appeared most responses indicated a positive attitude change. Some of the respondents noted:

- *More first-time buyers than we have seen in a long time.*
- *President Trump is obviously business aircraft friendly and many people were just waiting to see the outcome of the election, regardless of which candidate won.*
- *Initial positivist sentiment has waned since Q1/2017 and continues to decline*
- *Use of biz/private jets is seen in a more positive light in turn encouraging those sitting on the sidelines to explore the possibility of whole ownership.*

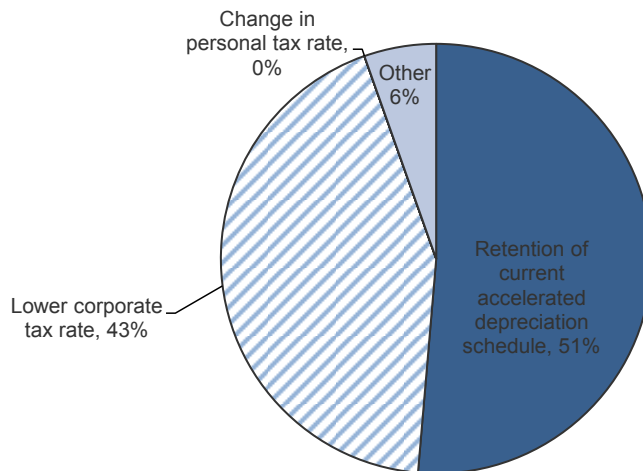
Exhibit 21: Has the U.S. Election Changed Buying or Selling Behavior



Source: Jefferies Business Jet Survey.

In terms of some potential benefits to stimulating new business jet demand, we noted 51% of respondents suggested retention of the current accelerated depreciation rules would be positive. Two respondents stated that bonus depreciation in Canada would be helpful. Another 43% stated that lower corporate taxes would help the purchase of new business jets as shown in Exhibit 22.

Exhibit 22: What Tax Preference Items Would Help Stimulate Demand



Source: Jefferies Business Jet Survey.

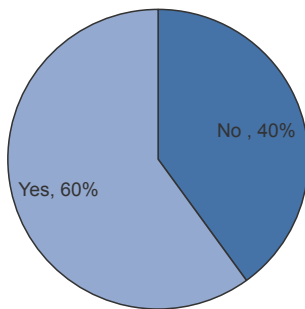
Fractional Sales

Fractional ownership interest appears high. We estimate fractional sales as a proportion of new jet deliveries account for 10-15% of the market today. These figures are in-line with the prior peak in 2007. According to the survey, 60% of respondents stated that fractional sales have impacted new purchases as shown in Exhibit 23. About 42% stated that buyers find fractional ownership a viable option vs. a direct purchase. This was similar to results in our January 2017 survey. It appears high net worth individuals prefer

fractional ownership over a direct purchase whereas corporates prefer direct purchases. The benchmark for direct purchases appears to be 100 hours of use per year. Overall, brokers viewed membership programs as an option in increasing interest in business jets. Other comments included the following:

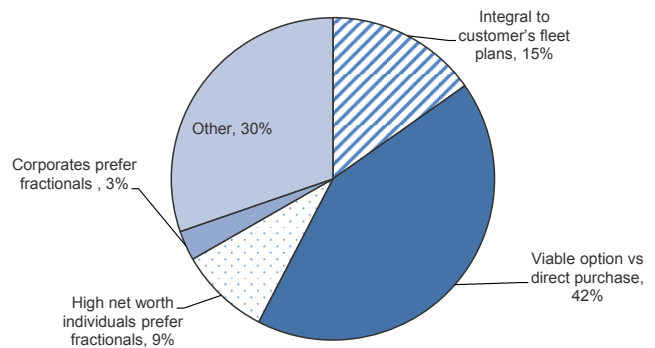
- *No different from the past.... Fractional ownership is in the main favored by those who would still actually prefer their own jet, but cannot justify the argument (net wealth and/or Corporate policy constraints)*
- *It is a viable option versus direct purchase or charter depending upon annual utilization...less than 100 hours a year.*
- *Great point of entry and way to cultivate interest in whole ownership.*

Exhibit 23: Has Fractional Ownership or Charter Service Availability has Impacted Jet Sales in Recent Periods



Source: Jefferies Business Jet Survey. Note: Based on 68 respondents.

Exhibit 24: Gauge Interest in Fractional Ownership

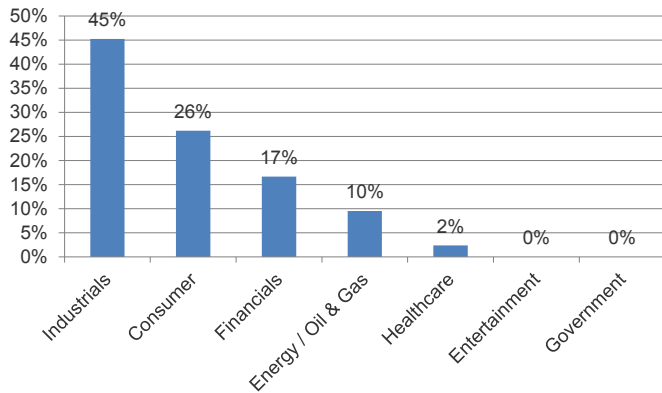


Source: Jefferies Business Jet Survey.

End Market Demand

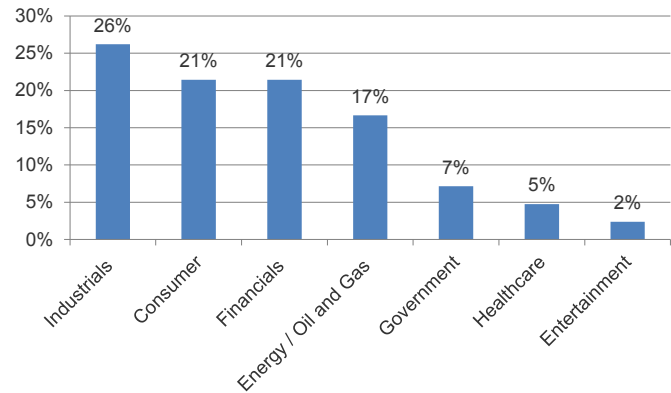
From an industry perspective, we surveyed brokers on what industries they would expect to be strong in 2017. About 45% stated Industrial focused customers are leading the enthusiasm. Another 26% and 17%, respectively, stated Consumer and Financial customers. These industries mirrored results in our January 2017 survey. In Exhibit 25, we show what customer end markets brokers expected to improve the most. Industrials, Consumer and Entertainment were the most popular responses. Enthusiasm for Energy / Oil & Gas customers has diminished since our last survey.

Exhibit 25: What Customer End Market Will be the Strongest in 2017 – in terms of Potential Buyers



Source: Jefferies Business Jet Survey.

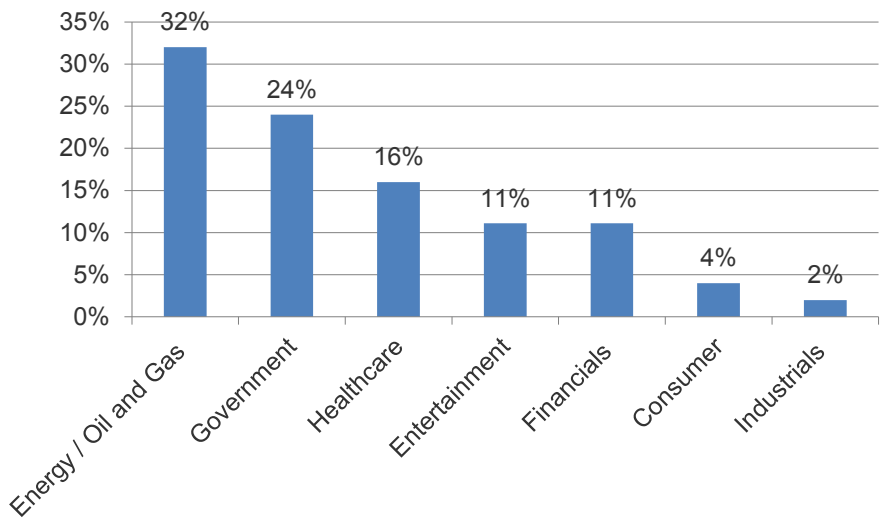
Exhibit 26: What Customer End market Will Improve the Most in 2017 vs. 2016



Source: Jefferies Business Jet Survey.

The weakest industries were cited as Energy / Oil & Gas, Government, and Healthcare according to 32%, 24%, and 16%, respectively, of the respondents.

Exhibit 27: What Customer End Market Will be the Weakest in 2017 vs. 2016

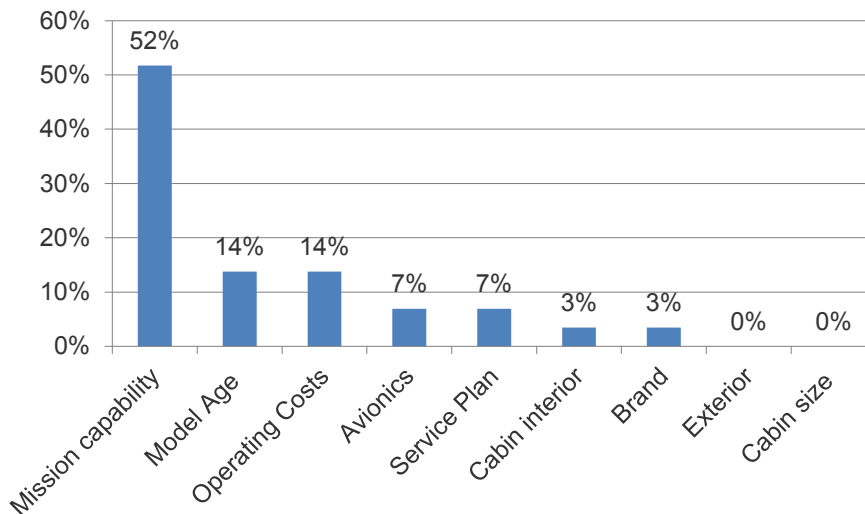


Source: Jefferies Business Jet Survey.

Important Business Jet Features

We show what features are most important for a buyer when choosing a new or used aircraft. According to the survey, 52% of respondents stated that mission capability was the most important feature in purchasing an aircraft. This compares to 46% in our January 2017 survey. The statement underscores the sophistication of the buyer, as he is seeking transportation equipment to fit his needs. We still cannot disprove that given a specified budget that the buyer won't buy a larger nearly-new plane vs. smaller new aircraft. Model age was the second most important feature garnering 14% of responses, followed by Operating Costs which were also a factor. Cabin Interior, Exterior, or the Brand had minimal influence on purchasing decisions. A few respondents stated that Next Gen upgrades such as ADS-B were starting to become factors in purchasing decisions.

Exhibit 28: What Feature is Most Important for a New OR Used Jet Buyer

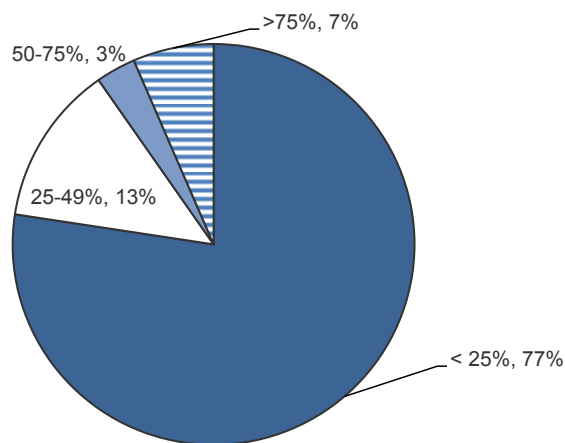


Source: Jefferies Business Jet Survey.

Losing Users

In terms of purchasers of new jets, 77% of respondents stated that less than 25% of used jet sellers are planning to purchase a new jet. Some sellers may be turned off by high maintenance costs and declining residual values and decide to exit the market or go to charter.

Exhibit 29: Percentage of Respondents who Indicate Used Jet Sellers will Buy A New Jet

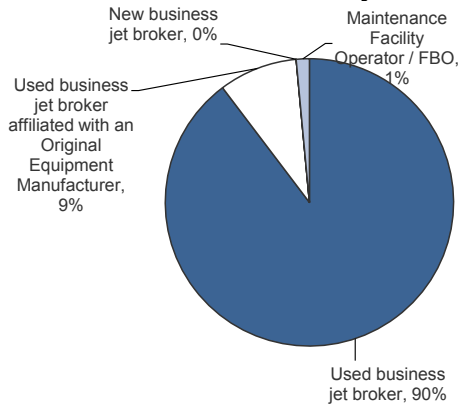


Source: Jefferies Business Jet Survey.

Survey Respondents

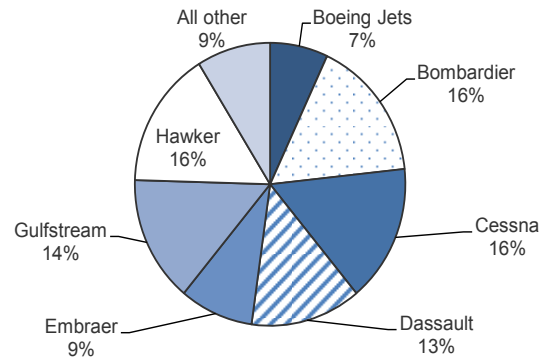
We show in the following charts a profile of our 68 respondents. Our respondents primarily consisted of used business jet brokers, of which 9% were affiliated with an OEM. We note these folks have one of the best jobs in the business as they have the ability to take a used jet off a seller's hands who is likely buying a new jet from the OEM. In terms of type of aircraft marketed most frequently, answers were fairly broad-based spread across Bombardier, Cessna, Gulfstream, in addition to Dassault and Hawker.

Exhibit 30: Position in the Industry



Source: Jefferies Business Jet Survey.

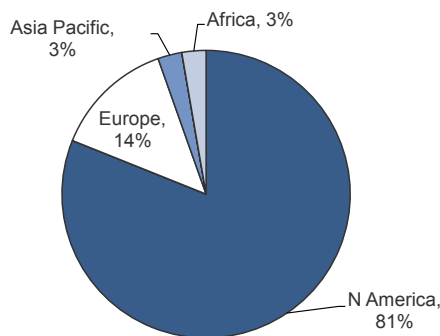
Exhibit 31: Type of Aircraft Marketed Most Frequently



Source: Jefferies Business Jet Survey.

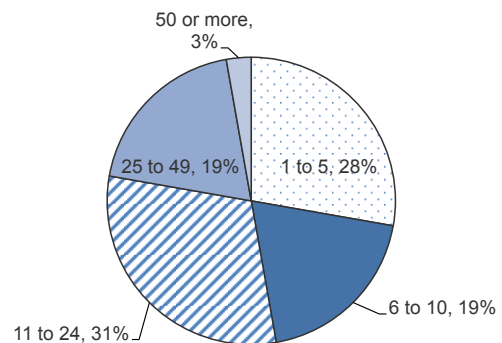
The geographic exposure was skewed a bit more than the market, with 81% of the respondents coming from North America. About 65% of the fleet is based in North America. Another 14% represented Europe. A majority of brokers were high volume sellers with ~55% of respondents selling 10 to 50 aircraft per year. Assuming a jet price of \$10MM per aircraft this can equate to \$5BB in annual transactions for our sample, a meaningful element of the market.

Exhibit 32: Geographic Exposure



Source: Jefferies Business Jet Survey.

Exhibit 33: Number of Aircraft Sold per Year



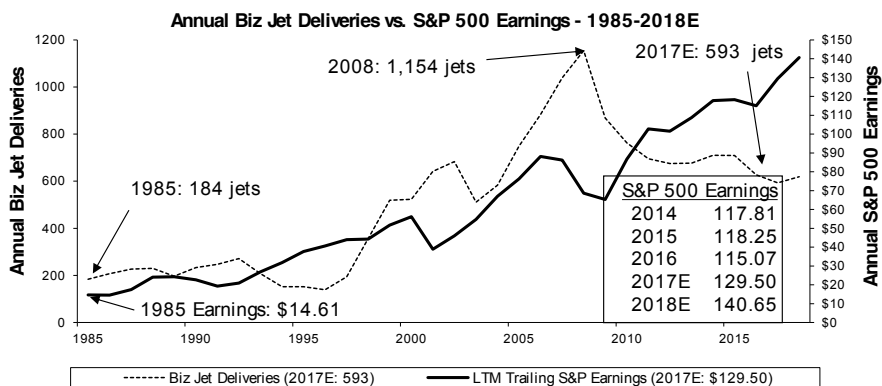
Source: Jefferies Business Jet Survey.

Jefferies – State of the Market

Business Jet Fleet and Delivery Outlook

We believe part of the market weakness has been attributable to minimal S&P EPS Growth. Other factors include no major advances in technology to stimulate replacement demand, surplus supply in emerging markets, and a corporate focus on cutting costs as opposed to revenue growth. Financial regulations have also constrained demand. The reduction in airline service quality in the back of the cabin through higher density does not seem to have spilled into the upper markets, which could help demand. There has been flat spots in demand which have lasted for a number of years. We may be in the middle stages of this situation, with demand unlikely to pick up until the latter part of 2018 as shown in Exhibit 34, when old models phase-out and surplus inventory declines.

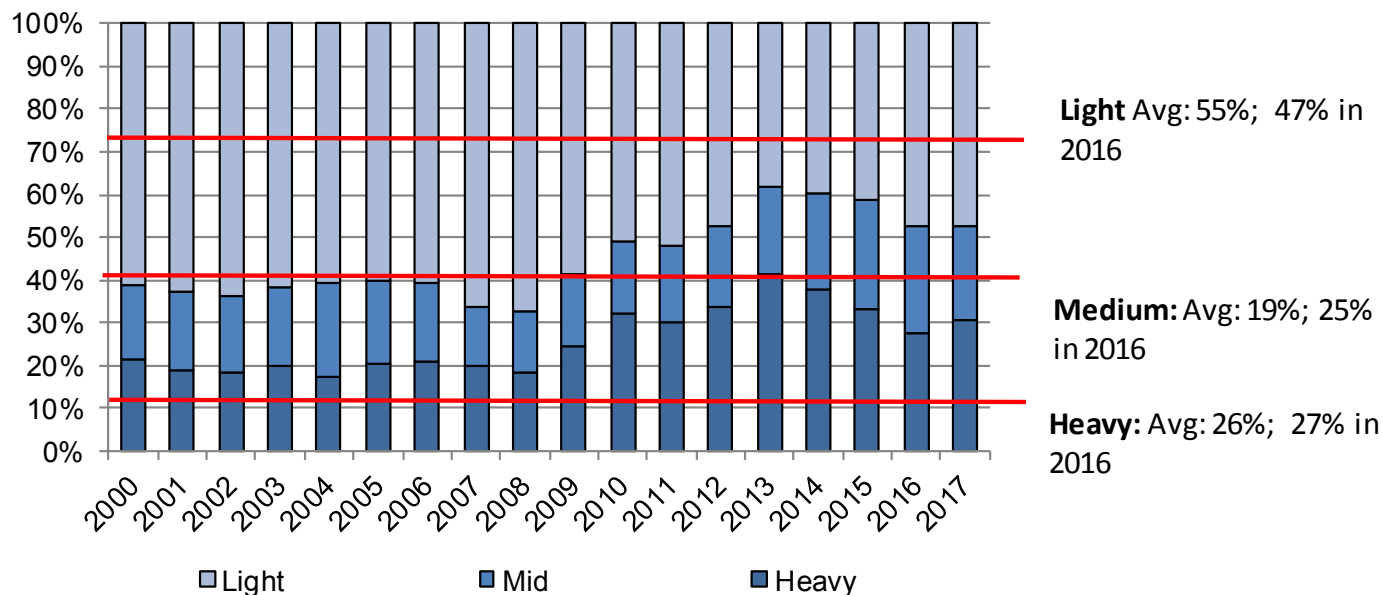
Exhibit 34: Business Jet Deliveries vs S&P Index



Source: Jefferies estimates.

For market segmentation, if one extracts large and mid-sized jets from the mix, light jet deliveries are far more depressed than the annual delivery data may suggest. In 2016, there were 319 light jet deliveries to customers, or 47% of the total. In 2016, there were 169 Medium Jet deliveries which accounted for 25% of the total from 19% historically. Finally, in terms of heavy jets, we count 239 Heavy Jet delivered in 2016 vs. 270 in 2015.

Exhibit 35: Annual Deliveries by Aircraft Segmentation – Heavy Jet Slowing, While Mid-Size Jets Most Stable Fueled by New Models.



Source: Ascend, Jefferies estimates.

Jefferies Forecast

Our forecast continues to assume minimal market recovery with 2017 unit expectations now 49% below the market peak of 1,154 planes in 2008. According to GAMA, deliveries declined 12% in 2016 to 627 units. We note our analysis excludes deliveries from Honda Aircraft and Pilatus. The market share winner was Cessna with 28% of the market on a unit basis, expanding 5-points from 2015.

We forecast deliveries of 596 and 625 in 2017 and 2018, respectively. We figure model transitions should mark the bottom in 2017, with volumes up somewhat 2018. We forecast 652 unit deliveries in 2019. We would suspect at some point Embraer launches a new model. Exhibit 36 tallies our outlook by major producer.

Exhibit 36: Annual Business Jet Delivery Forecast

| Annual Business Jet Shipments | | | | | | | | | | | | | | | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
| Airbus | 10 | 12 | 9 | 11 | 13 | 9 | 9 | 6 | 5 | 4 | 1 | 5 | 4 | 4 | 4 |
| Boeing | 13 | 7 | 6 | 4 | 10 | 8 | 12 | 7 | 10 | 11 | 4 | 8 | 6 | 6 | 6 |
| Bombardier | 213 | 226 | 247 | 173 | 150 | 182 | 181 | 179 | 204 | 199 | 163 | 135 | 145 | 155 | 165 |
| Cessna | 306 | 388 | 466 | 289 | 178 | 183 | 182 | 139 | 159 | 166 | 178 | 175 | 185 | 186 | 193 |
| Dassault | 61 | 70 | 72 | 77 | 95 | 63 | 66 | 77 | 66 | 55 | 49 | 46 | 50 | 53 | 45 |
| Embraer | 27 | 36 | 38 | 122 | 145 | 99 | 99 | 119 | 116 | 120 | 117 | 104 | 111 | 116 | 121 |
| Gulfstream | 113 | 138 | 156 | 94 | 99 | 99 | 94 | 144 | 150 | 154 | 115 | 123 | 124 | 132 | 149 |
| Hawker Beechcraft | 140 | 162 | 160 | 98 | 73 | 52 | 32 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 883 | 1039 | 1154 | 868 | 763 | 695 | 675 | 677 | 710 | 709 | 627 | 596 | 625 | 652 | 683 |
| Total Deliveries YoY | 18% | 18% | 11% | -25% | -12% | -9% | -3% | 0% | 5% | 0% | -12% | -5% | 5% | 4% | 5% |
| Revenues (\$ bln) | \$16.3 | \$19.1 | \$20.4 | \$12.9 | \$15.9 | \$17.5 | \$18.0 | \$20.9 | \$22.3 | \$23.7 | \$21.2 | \$20.0 | \$21.0 | \$21.5 | \$21.5 |

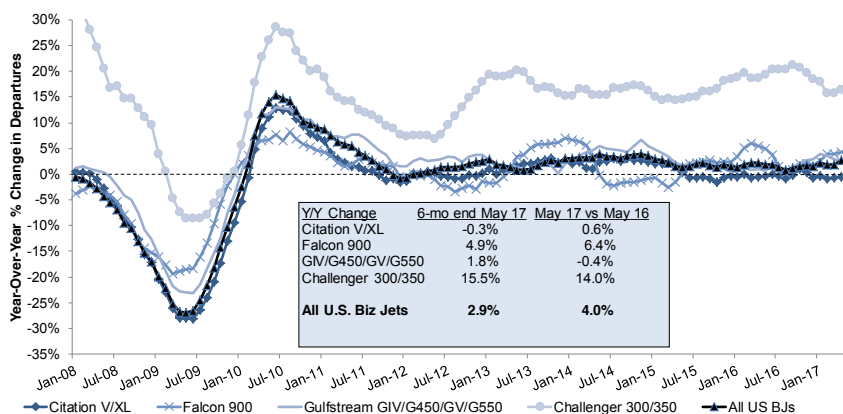
| % share | | | | | | | | | | | | | | | |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
| Airbus | 1% | 1% | 1% | 1% | 2% | 1% | 1% | 1% | 1% | 1% | 0% | 1% | 1% | 1% | 1% |
| Boeing | 1% | 1% | 1% | 0% | 1% | 1% | 2% | 1% | 1% | 2% | 1% | 1% | 1% | 1% | 1% |
| Bombardier | 24% | 22% | 21% | 20% | 20% | 26% | 27% | 26% | 29% | 28% | 26% | 23% | 23% | 24% | 24% |
| Cessna | 35% | 37% | 40% | 33% | 23% | 26% | 27% | 21% | 22% | 23% | 28% | 29% | 30% | 29% | 28% |
| Dassault | 7% | 7% | 6% | 9% | 12% | 9% | 10% | 11% | 9% | 8% | 8% | 8% | 8% | 8% | 7% |
| Embraer | 3% | 3% | 3% | 14% | 19% | 14% | 15% | 18% | 16% | 17% | 19% | 17% | 18% | 18% | 18% |
| Gulfstream | 13% | 13% | 14% | 11% | 13% | 14% | 14% | 21% | 21% | 22% | 18% | 21% | 20% | 20% | 22% |
| Hawker Beechcraft | 16% | 16% | 14% | 11% | 10% | 7% | 5% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 99% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Jefferies estimates, company data.

Utilization Trends

Departures were up 4% in May, the most recent month reported by the FAA. This compares to 2.9% growth based on 6-month trailing activity. According to TraqPak, business jet activity was up 5.3% in April in North America. The increase was led by fractional utilization which grew 8.5% y-o-y with Part 91 activity up only 0.5%. Fractional sales were up most for the turboprop category (22%) and Large Cabin (14%). In terms of aircraft categories, Large jet utilization grew 8.8% followed by Medium jets which were up 7.7%. Light jet hours were up modestly.

Exhibit 37: U.S. Business Jet Change in Departures YoY

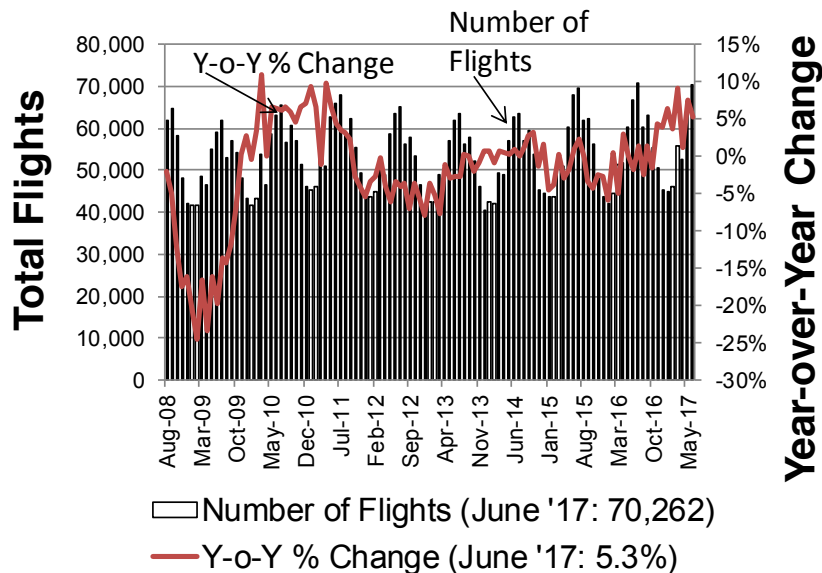


Source: FAA, Ascend and Jefferies estimates.

Exhibit 38 shows the more volatile European market. But June has been a busy month. European traffic increased 5.3% in June 2017. According to WingX Advance's Business

Aviation Monitor, Southern Europe is seeing the strongest regional growth, reflecting the increase in activity at the most popular resorts, such as Ibiza and Mallorca.

Exhibit 38: Europe Business Jets Total Flights vs. Year-over-Year Change % (RHS)



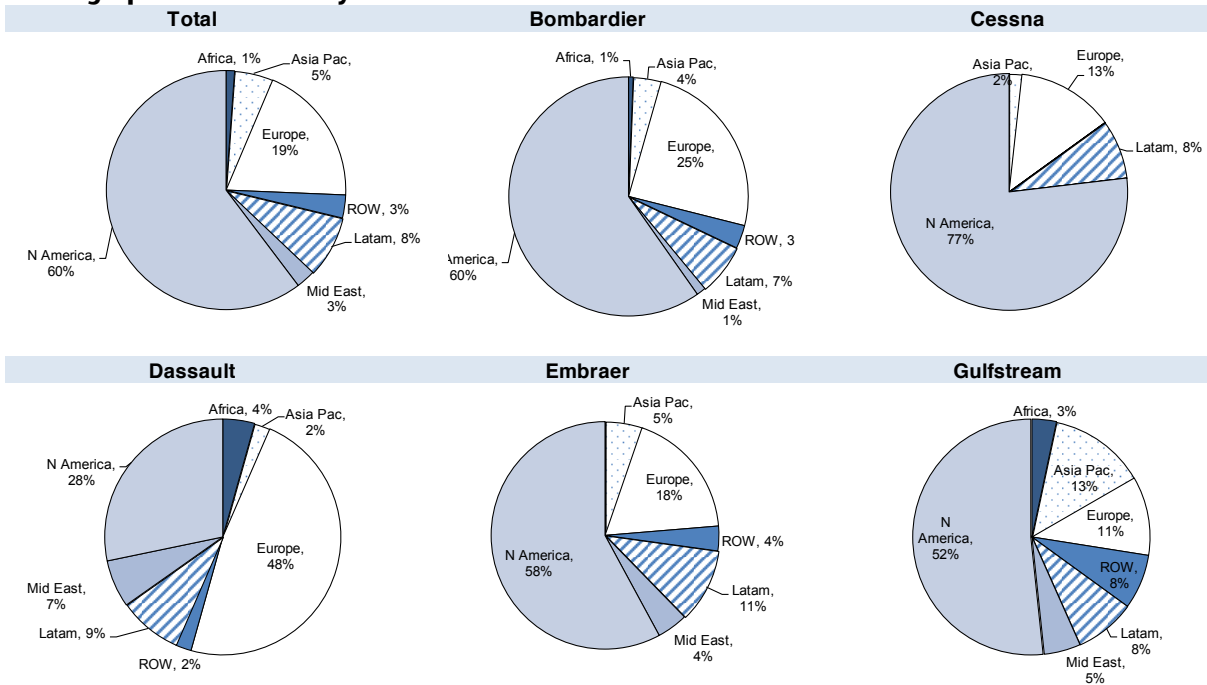
Source: EBAA, Jefferies estimates.

Geographic Segmentation

The North American market remains the driver of replacement demand. At the end of the year, the business jet fleet stood at roughly 20,500 business jets, with roughly 13,205 aircraft operated in North America, roughly 64% of the fleet. By contrast, the European business jet fleet totaled about 2,672 aircraft or about 13% of the fleet.

In Exhibit 39, we show geographic breakdown of deliveries by OEM. The current active fleet today is over 21,000 aircraft of which about 65% are based in North America. In 2016, deliveries declined across all regions. Asia Pacific contracted most significantly, down 27% accounting for 5% of total deliveries. North American accounted for the largest portion of deliveries at 60%. The market was still down 15% y-o-y. Deliveries to Europe accounted for 19% of total deliveries down 10% from 2015 levels. On an OEM basis, Cessna had the largest portion of deliveries to North America with 77% (from 79% in 2015) of total deliveries; Europe was the second largest region at 13%. North America accounted for 58% of deliveries for Embraer (down from 64% in 2015). Gulfstream has the most broad-based geographic exposure.

Exhibit 39: Geographic Breakdown by OEM – 2016A



Source: Jefferies estimates, company data.

New Products, the Competitive Landscape, and the Supplier Base

Just as important as replacement is the need for technology. New technology can alter the demand for the used fleet and accelerate replacement. Exhibit 40 arrays the target date of delivery of the announced new models expected to be brought to the market over the next half decade. We count eight new planes through 2019. We believe there are at least two unannounced platforms, which seems rather low; typically there is about a half dozen unannounced platforms. We highlight the Pilatus PC-24 which is expected to enter service early in 2017. This may be a competitor for the Phenom 300 and CJ3/4 models. In terms of upcoming models, most are in the heavy market, the suppliers are split across HON and COL. We believe there is only one unannounced avionics platform which is the Cessna Hemisphere.

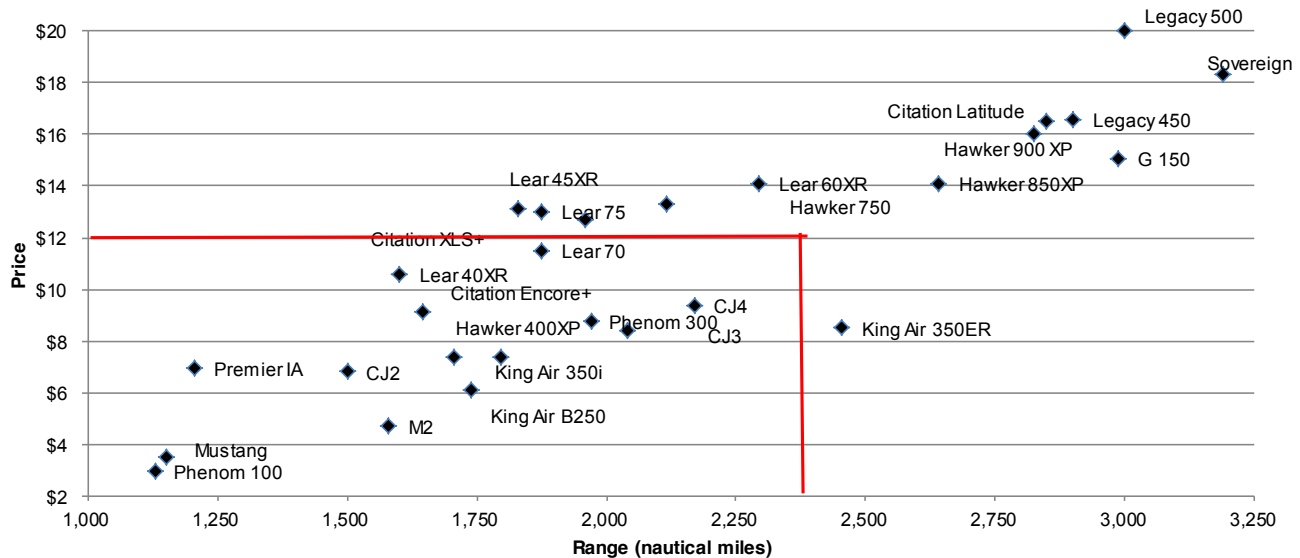
Exhibit 40: Recent and Future New Model Introductions

| OEM | Model | Range (nm) | # of Seats (Typical Passenger Configuration) | Initial Announcement | EIS | Avionics Manufacturer |
|------------|--------------------|------------|--|----------------------|----------------------------------|--------------------------|
| Bombardier | Challenger 350 | 3,200 | 8 | May 2013 | June 2014 | COL Pro Line Fusion |
| Cessna | Citation X | 3,242 | 9 | September 2011 | June 2014 | Garmin G5000 |
| Embraer | Legacy 500 | 3,000 | 12 | October 2007 | October 2014 | COL Pro Line Fusion |
| Gulfstream | G650ER | 7,500 | 16 | May 2014 | Q1:2015 | HON Primus 1000 |
| Bombardier | Challenger 650 | 4,000 | 12 | October 2014 | July 2015 | COL Pro Line Fusion |
| Cessna | Citation Latitude | 2,700 | 8 | October 2011 | Q3:2015 | Garmin G5000 |
| Embraer | Legacy 450 | 2,300 | 7 to 9 | May 2008 | Q4:2015 | COL Pro Line Fusion |
| Dassault | 8X | 6,450 | 19 | May 2014 | October 2016 | HON EASy III |
| Pilatus | PC-24 | 1,950 | 6 to 10 | May 2013 | Early 2017 | HON Pilatus ACE |
| Cessna | Citation Longitude | 3,500 | 12 | Nov. 2015 | H2:2017 - First Flight Oct. 2016 | Garmin G5000 |
| Gulfstream | 500 | 5,000 | 18 | October 2014 | H1:2018 | HON Symmetry Flight Deck |
| Bombardier | Global 7000 | 7,400 | 19 | October 2010 | H2:2018 | COL Pro Line Fusion |
| Gulfstream | 600 | 6,200 | 18 | October 2014 | Early 2019 | HON Symmetry Flight Deck |
| Bombardier | Global 8000 | 7,900 | 19 | October 2010 | TBD | COL Pro Line Fusion |
| Dassault | 5X | 5,200 | 13 to 16 | October 2013 | H1:2020 | HON Primus Epic |
| Cessna | Hemisphere | 4,500 | 19 | Nov. 2015 | 2020 | HON Primus Epic |

Source: Jefferies estimates, company data.

Light jets on average have a range up to 1,500 nautical miles; for reference New York to Los Angeles is about 2,100 miles. The Citation Mustang offers 1,000 nautical mile range with a \$3.3MM list price. The Embraer Phenom 100 and the Hawker Beechcraft Premier I/A are its primary competitors. The latter is no longer in production. Embraer entered the market with the Phenom 100. Cessna’s M2, Citation CJ3, CJ4, and XLS are the other aircraft this segment.

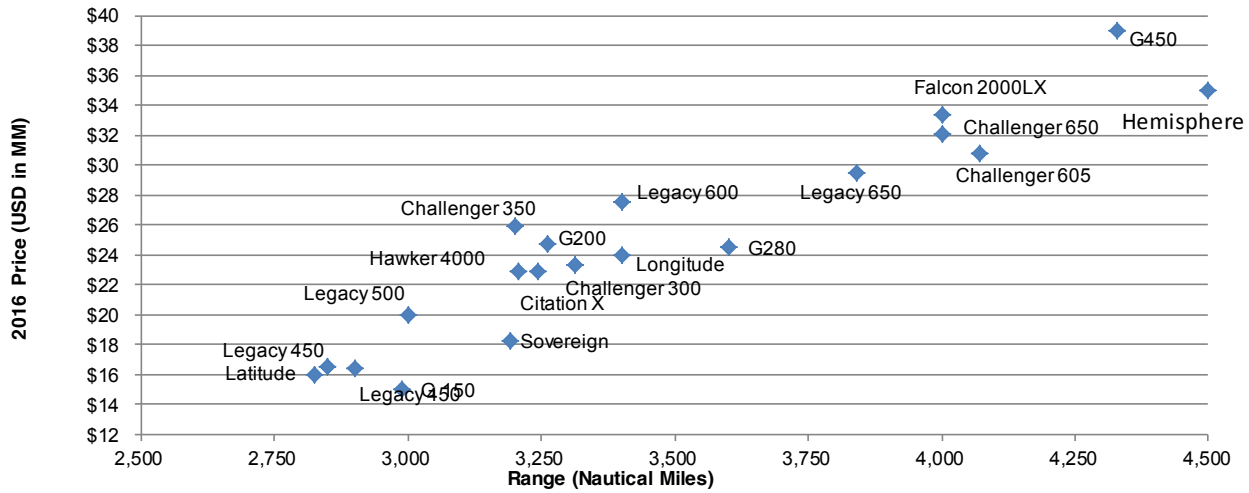
Exhibit 41: Range vs. Price - Key Light Jets



Source: Business & Commercial Aviation, Jefferies LLC estimates.

We show in Exhibit 42 key jets in the \$15MM to \$45MM category.

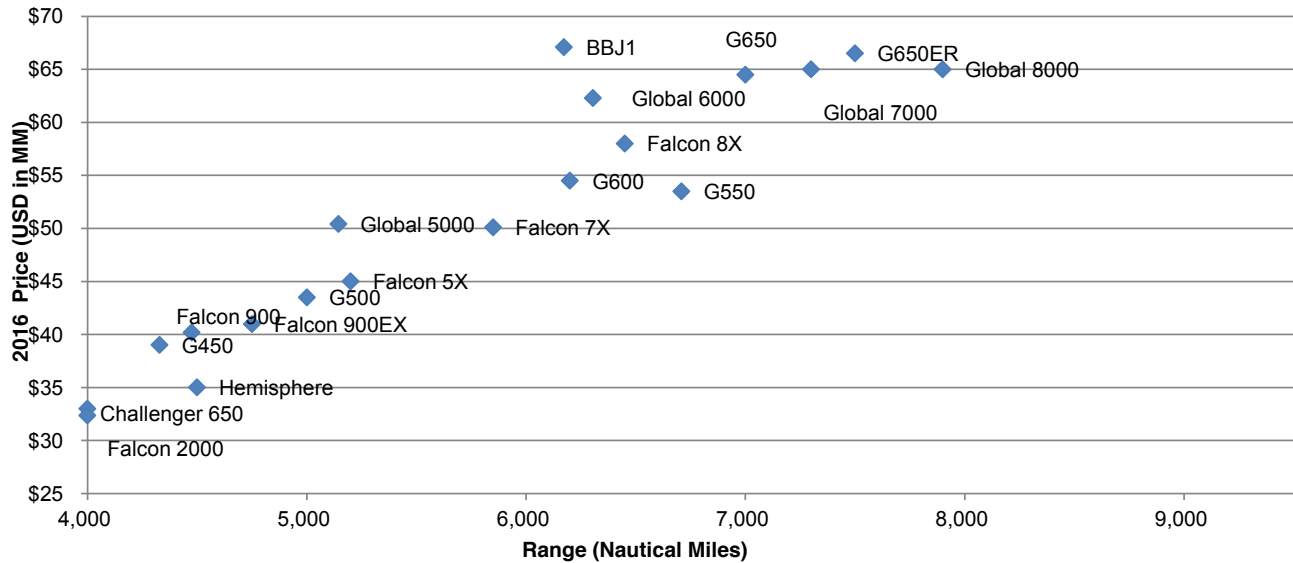
Exhibit 42: Range vs. Price - Key Jets \$15MM-\$45MM



Source: Business & Commercial Aviation, Jefferies LLC estimates.

We show in Exhibit 43 key jets valued over \$30MM.

Exhibit 43: Range vs. Price – Key Heavy Jets >\$30MM



Source: Business & Commercial Aviation, Jefferies LLC estimates.

Exhibit 44: Selected Valuation Statistics (as of July 7th, 2017)

| Rating | FYE | Price Performance | | | | EPS Estimates | | | P/E Multiple | | | Free Cash Flow | | | Dividend | Dividend Yield | |
|---|------|-------------------|--------------------|------------------|---------------------------|---------------|--------|--------|--------------|--------|---------|----------------|---------|---------|----------|----------------|------|
| | | 7/7/17 | Price one week ago | Price at YE 2016 | Performance Since YE 2016 | 2016 | 2017E | 2018E | 2016 | 2017E | 2018E | 2016 | 2017E | 2018 | | | |
| Systems Integrators | | | | | | | | | | | | | | | | | |
| BA | Buy | 12/31 | \$202.37 | \$197.75 | \$155.68 | 30.0% | \$7.24 | \$9.25 | \$10.00 | 28.0x | 21.9x | 20.2x | \$7,383 | \$8,341 | \$8,970 | \$5.68 | 2.8% |
| GD | Buy | 12/31 | 201.26 | 198.10 | 172.66 | 16.6% | 8.64 | 9.75 | 10.45 | 23.3x | 20.6x | 19.3x | 1,806 | 3,230 | 3,400 | 3.36 | 1.7% |
| LMT | Hold | 12/31 | 285.20 | 277.61 | 249.94 | 14.1% | 12.38 | 12.65 | 14.25 | 23.0x | 22.6x | 20.0x | 4,126 | 4,952 | 4,030 | 7.28 | 2.6% |
| NOC | Hold | 12/31 | 261.99 | 256.71 | 232.58 | 12.6% | 12.19 | 12.50 | 13.45 | 21.5x | 21.0x | 19.5x | 1,893 | 1,784 | 2,102 | 4.00 | 1.5% |
| RTN | Buy | 12/31 | 165.87 | 161.48 | 142.00 | 16.8% | 7.55 | 7.45 | 8.20 | 22.0x | 22.3x | 20.2x | 2,227 | 2,350 | 2,289 | 3.19 | 1.9% |
| Major Subsystems Suppliers & Diversified Companies | | | | | | | | | | | | | | | | | |
| AJRD | Buy | 12/31 | 21.79 | 20.80 | 17.95 | 21.4% | 0.27 | 0.65 | 0.80 | 80.9x | 33.3x | 27.3x | 111 | 82 | 96 | - | - |
| AOBC | Hold | 4/30 | 21.49 | 22.16 | 21.08 | 1.9% | 2.58 | 1.55 | 1.98 | 8.3x | 13.8x | 10.9x | 89 | 119 | 105 | - | - |
| COL | Hold | 9/30 | 106.36 | 105.08 | 92.76 | 14.7% | 5.50 | 4.60 | 6.25 | 19.3x | 23.1x | 17.0x | 530 | 708 | 1,201 | 1.32 | 1.2% |
| HON | Buy | 12/31 | 134.12 | 133.29 | 115.85 | 15.8% | 6.60 | 7.10 | 7.60 | 20.3x | 18.9x | 17.6x | 4,403 | 4,679 | 5,349 | 2.66 | 2.0% |
| HRS | Buy | 6/30 | 112.81 | 109.08 | 102.47 | 10.1% | 5.55 | 6.05 | 6.90 | 20.3x | 18.6x | 16.4x | 407 | 893 | 931 | 2.12 | 1.9% |
| LLL | Hold | 12/31 | 171.51 | 167.08 | 152.11 | 12.8% | 8.21 | 8.70 | 9.45 | 20.9x | 19.7x | 18.2x | 881 | 902 | 952 | 3.00 | 1.7% |
| OA | Buy | 12/31 | 102.33 | 98.36 | 87.73 | 16.6% | 5.55 | 6.00 | 6.75 | 18.4x | 17.0x | 15.2x | 332 | 290 | 346 | 1.28 | 1.3% |
| OSIS | Buy | 6/30 | 76.63 | 75.15 | 76.12 | 0.7% | 2.11 | 2.85 | 3.25 | 36.3x | 26.9x | 23.6x | 42 | 86 | 95 | - | - |
| TDY | Hold | 12/31 | 133.25 | 127.65 | 123.00 | 8.3% | 5.37 | 5.25 | 6.10 | 24.8x | 25.4x | 21.9x | 229 | 245 | 271 | - | - |
| TXT | Buy | 12/31 | 48.06 | 47.10 | 48.56 | -1.0% | 2.62 | 2.45 | 2.85 | 18.3x | 19.6x | 16.9x | 655 | 690 | 727 | 0.08 | 0.2% |
| UTX | Buy | 12/31 | 122.61 | 122.11 | 109.62 | 11.9% | 6.61 | 6.60 | 7.30 | 18.5x | 18.6x | 16.8x | 2,602 | 5,375 | 6,347 | 2.80 | 2.3% |
| VSTO | Buy | 3/31 | 22.32 | 47.10 | 36.90 | -39.5% | 1.90 | 1.25 | 2.00 | 11.7x | 17.8x | 11.2x | 483 | 192 | 154 | - | - |
| Significant Component Suppliers | | | | | | | | | | | | | | | | | |
| AVAV | Hold | 4/30 | 38.67 | 38.20 | 26.83 | 44.1% | 0.54 | 0.60 | 0.72 | 71.8x | 64.6x | 53.8x | (20) | 10 | 13 | - | - |
| DGI | Buy | 12/31 | 33.40 | 33.30 | 28.65 | 16.6% | 0.34 | (0.12) | 0.38 | 99.0x | -280.5x | 88.9x | 110 | 179 | 103 | - | - |
| ESL | Hold | 9/30 | 97.45 | 94.80 | 89.20 | 9.2% | 4.86 | 4.90 | 5.65 | 20.0x | 19.9x | 17.3x | 135 | 187 | 184 | - | - |
| HEI | Hold | 10/31 | 75.84 | 71.84 | 61.72 | 22.9% | 1.83 | 2.05 | 2.20 | 41.4x | 36.9x | 34.4x | 114 | 244 | 258 | 0.16 | 0.2% |
| HXL | Hold | 12/31 | 53.83 | 52.79 | 51.44 | 4.6% | 2.58 | 2.70 | 3.20 | 20.9x | 20.0x | 16.8x | 73 | 123 | 265 | 0.44 | 0.8% |
| KLXI | Hold | 1/31 | 51.45 | 50.00 | 45.11 | 14.1% | 0.92 | 1.89 | 2.91 | 56.2x | 27.2x | 17.7x | 69 | 162 | 278 | 0.00 | - |
| MRCY | Hold | 6/30 | 43.55 | 42.09 | 30.22 | 44.1% | 0.96 | 1.09 | 1.45 | 45.5x | 40.0x | 30.1x | 30 | 26 | 56 | - | - |
| SPR | Buy | 12/31 | 58.94 | 57.94 | 58.35 | 1.0% | 4.56 | 4.90 | 5.35 | 12.9x | 12.0x | 11.0x | 463 | 467 | 501 | 0.40 | 0.7% |
| TGI | Buy | 3/31 | 32.20 | 31.60 | 26.50 | 21.5% | (0.87) | 3.30 | 3.50 | -37.1x | 9.7x | 9.2x | 315 | (309) | 47 | 0.16 | 0.5% |
| TDG | Buy | 9/30 | 266.66 | 268.87 | 248.96 | 7.1% | 11.49 | 12.15 | 13.85 | 23.2x | 21.9x | 19.3x | 624 | 751 | 856 | - | - |
| WAIR | Hold | 9/30 | 10.85 | 10.85 | 14.95 | -27.4% | 1.13 | 0.85 | 0.90 | 9.6x | 12.7x | 12.1x | 104 | 46 | 100 | - | - |
| WWD | Hold | 9/30 | 67.32 | 67.58 | 69.05 | -2.5% | 2.85 | 3.05 | 3.55 | 23.7x | 22.1x | 19.0x | 97 | 195 | 243 | 0.50 | 0.7% |
| Financial Market Metrics | | | | | | | | | | | | | | | | | |
| SPARO | | 12/31 | 993 | 975 | 849 | 16.9% | 47.37 | 50.60 | 53.20 | 21.0x | 19.6x | 18.7x | 30,290 | 36,965 | 40,269 | 9.62 | 1.0% |
| SPX | | 12/31 | 2,425 | 2,423 | 2,239 | 8.3% | 115.07 | 129.50 | 140.65 | 21.1x | 18.7x | 17.2x | - | - | - | 29.11 | 1.2% |

1) Free cash flow is in millions of dollars.

2) Annual estimates for VSTO, AOBC, TGI, AVAV, and HRS are the next fiscal year. For example, HRS's 2016E EPS listed is actually the FY17E ending in June.

3) SPARO is the S&P Aerospace and Defense Index and is comprised of ARNC, BA, COL, GD, LLL, LMT, NOC, RTN, TDG, TXT and UTX; SPX is the S&P 500 Index.

Source: Company data; Factset and Jefferies estimates.

Exhibit 45: Selected Valuation Statistics (as of July 7th, 2017)

| | EBITDA | | | EV/EBITDA Multiples | | | Revenues | | | EV/ Sales | | | FCF Yield | Capitalization | | |
|---|-------------|--------------|--------------|---------------------|-----------------|----------------|-----------|-----------|-----------|-----------|-------|-------|-----------------|----------------|--------------|------------------|
| | 2016 EBITDA | 2017E EBITDA | 2018E EBITDA | EV/2016 EBITDA | EV/2017E EBITDA | EV/2018 EBITDA | 2016 | 2017E | 2018E | 2016 | 2017E | 2018E | 2017E FCF Yield | Dil. S/O (mm) | Equity Value | Enterprise Value |
| Systems Integrators | | | | | | | | | | | | | | | | |
| BA | \$7,934 | \$11,681 | \$12,235 | 15.6x | 10.6x | 10.1x | \$94,571 | \$91,800 | \$94,200 | 1.31x | 1.35x | 1.31x | 6.6% | 620 | \$125,550 | \$123,801 |
| GD | 4,188 | 4,695 | 4,920 | 14.9x | 13.3x | 12.7x | 30,561 | 31,405 | 33,365 | 2.04x | 1.99x | 1.87x | 5.2% | 307 | 61,844 | 62,438 |
| LMT | 6,764 | 6,811 | 7,490 | 14.0x | 13.9x | 12.6x | 47,248 | 50,315 | 51,625 | 2.00x | 1.88x | 1.83x | 5.9% | 293 | 83,507 | 94,711 |
| NOC | 3,680 | 3,831 | 4,122 | 14.0x | 13.4x | 12.5x | 24,508 | 25,210 | 26,600 | 2.10x | 2.04x | 1.93x | 3.9% | 176 | 46,136 | 51,393 |
| RTN | 3,810 | 3,879 | 4,190 | 13.5x | 13.2x | 12.3x | 24,124 | 25,310 | 25,865 | 2.13x | 2.03x | 1.99x | 4.8% | 293 | 48,567 | 51,382 |
| Major Subsystems Suppliers & Diversified Companies | | | | | | | | | | | | | | | | |
| AJRD | \$126 | \$169 | \$182 | 14.6x | 10.9x | 10.1x | \$1,761 | \$1,860 | \$1,900 | 1.05x | 0.99x | 0.97x | 5.2% | 72 | 1,575 | 1,844 |
| AOBC | 250 | 177 | 220 | 5.3x | 7.4x | 6.0x | 903 | 775 | 850 | 1.46x | 1.70x | 1.55x | 9.9% | 56 | 1,200 | 1,314 |
| COL | 1,277 | 1,602 | 2,301 | 16.9x | 13.5x | 9.4x | 5,259 | 6,801 | 8,870 | 4.10x | 3.17x | 2.43x | 5.0% | 132 | 14,082 | 21,582 |
| HON | 8,088 | 8,990 | 9,570 | 13.4x | 12.1x | 11.4x | 39,302 | 39,600 | 41,775 | 2.77x | 2.74x | 2.60x | 4.5% | 774 | 103,795 | 108,672 |
| HRS | 1,418 | 1,498 | 1,633 | 12.5x | 11.8x | 10.8x | 5,860 | 6,100 | 6,500 | 3.01x | 2.90x | 2.72x | 6.4% | 125 | 14,045 | 17,664 |
| LLL | 1,214 | 1,344 | 1,413 | 13.6x | 12.3x | 11.7x | 10,511 | 11,000 | 11,175 | 1.57x | 1.50x | 1.48x | 6.6% | 79 | 13,601 | 16,538 |
| OA | 675 | 714 | 765 | 10.7x | 10.2x | 9.5x | 4,455 | 4,625 | 4,875 | 1.63x | 1.57x | 1.49x | 4.9% | 58 | 5,904 | 7,254 |
| OSIS | 139 | 164 | 171 | 11.6x | 9.8x | 9.4x | 830 | 962 | 976 | 1.94x | 1.67x | 1.65x | 5.8% | 20 | 1,495 | 1,608 |
| TDY | 341 | 411 | 451 | 17.4x | 14.5x | 13.2x | 2,150 | 2,510 | 2,675 | 2.77x | 2.37x | 2.22x | 5.1% | 36 | 4,810 | 5,945 |
| TXT | 1,597 | 1,509 | 1,664 | 10.0x | 10.6x | 9.6x | 13,788 | 14,395 | 14,858 | 1.16x | 1.11x | 1.08x | 5.3% | 273 | 13,112 | 15,983 |
| UTX | 10,689 | 11,105 | 11,857 | 11.0x | 10.6x | 9.9x | 57,244 | 58,740 | 62,850 | 2.06x | 2.00x | 1.87x | 5.5% | 802 | 98,370 | 117,650 |
| VSTO | 306 | 258 | 320 | 7.2x | 8.5x | 6.9x | 2,547 | 2,375 | 2,475 | 0.86x | 0.92x | 0.89x | 15.1% | 57 | 1,273 | 2,194 |
| Significant Component Suppliers | | | | | | | | | | | | | | | | |
| AVAV | 20 | 26 | 30 | 36.6x | 27.7x | 24.1x | 265 | 290 | 305 | 2.71x | 2.48x | 2.36x | 1.1% | 23 | 904 | 718 |
| DGI | 369 | 390 | 436 | 8.8x | 8.3x | 7.5x | 725 | 870 | 905 | 4.48x | 3.74x | 3.59x | 8.7% | 62 | 2,061 | 3,251 |
| ESL | 269 | 324 | 325 | 12.8x | 10.6x | 10.6x | 1,993 | 2,030 | 2,045 | 1.72x | 1.69x | 1.68x | 6.4% | 30 | 2,920 | 3,437 |
| HEI | 326 | 362 | 381 | 21.6x | 19.4x | 18.5x | 1,376 | 1,491 | 1,583 | 5.11x | 4.72x | 4.44x | 3.8% | 87 | 6,395 | 7,033 |
| HXL | 457 | 484 | 567 | 12.4x | 11.7x | 10.0x | 2,004 | 2,050 | 2,375 | 2.82x | 2.76x | 2.38x | 2.5% | 93 | 5,001 | 5,651 |
| KLXI | 223 | 316 | 392 | 16.0x | 11.3x | 9.1x | 1,494 | 1,737 | 1,825 | 2.39x | 2.06x | 1.96x | 6.1% | 52 | 2,665 | 3,575 |
| MRCY | 57 | 93 | 101 | 35.0x | 21.6x | 20.0x | 270 | 407 | 450 | 7.43x | 4.93x | 4.46x | 1.3% | 45 | 1,952 | 2,006 |
| SPR | 934 | 1,095 | 1,143 | 8.1x | 6.9x | 6.6x | 6,793 | 6,920 | 7,270 | 1.11x | 1.09x | 1.03x | 6.6% | 121 | 7,114 | 7,523 |
| TGI | 398 | 315 | 417 | 6.8x | 8.7x | 6.5x | 3,533 | 3,173 | 3,159 | 0.77x | 0.86x | 0.86x | -19.4% | 50 | 1,596 | 2,724 |
| TDG | 1,495 | 1,663 | 1,819 | 16.0x | 14.4x | 13.2x | 3,171 | 3,536 | 3,732 | 7.56x | 6.78x | 6.43x | 5.0% | 56 | 14,905 | 23,991 |
| WAR | 197 | 164 | 176 | 9.6x | 11.5x | 10.7x | 1,477 | 1,504 | 1,506 | 1.28x | 1.26x | 1.25x | 4.3% | 99 | 1,074 | 1,888 |
| WWD | 320 | 356 | 405 | 14.8x | 13.3x | 11.7x | 2,023 | 2,070 | 2,257 | 2.34x | 2.29x | 2.10x | 4.6% | 63 | 4,275 | 4,742 |
| Total | \$57,607 | \$64,478 | \$69,694 | 13.4x | 11.9x | 11.0x | \$391,416 | \$400,566 | \$418,847 | 1.97x | 1.92x | 1.84x | 5.4% | | \$687,895 | \$769,869 |

1) EBITDA, revenues, equity value, and enterprise value are in millions of dollars. Totals for FCF, Revenues, and EBITDA are for all companies under coverage

2) Annual estimates for VSTO, AOBC, TGI, AVAV & HRS are the next fiscal year. For example, HRS's 2016E EBITDA listed is actually the FY17E ending in June.

Source: Company data; Factset and Jefferies estimates.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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- DigitalGlobe, Inc. (DGI: \$33.40, BUY)
- Esterline Technologies Corp. (ESL: \$97.45, HOLD)
- General Dynamics Corp. (GD: \$201.26, BUY)
- Harris Corporation (HRS: \$112.81, BUY)
- Heico Corporation (HEI: \$75.84, HOLD)
- Hexcel Corporation (HXL: \$53.83, HOLD)
- Honeywell International Inc. (HON: \$134.12, BUY)
- KLX Inc. (KLXI: \$51.45, HOLD)
- L3 Technologies Inc. (LLL: \$171.51, HOLD)
- Lockheed Martin Corp. (LMT: \$285.20, HOLD)
- Mercury Systems (MRCY: \$43.55, HOLD)
- Orbital ATK (OA: \$102.33, BUY)
- OSI Systems (OSIS: \$76.63, BUY)
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|---------------------|-------|---------|-----------------------|---------|
| | | | Count | Percent |
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