

EADS (EAD.PA)

Downgrading to Neutral on Merger Concerns and FX

- Summary** — We downgrade EADS from Buy to Neutral. Given 23% performance YTD and the risks associated with the potential merger of EADS with defence-focused BAE, plus the strengthening of the € vs. the \$, we view this as an opportune time to downgrade. We believe that the potential merger, rather than EADS' fundamental performance, will be the focus of the market for the foreseeable future. We also remove EADS from Citi's Europe Focus List.
- Potential €38bn merger** — We believe that the proposal of merging EADS and BAE changes EADS' investment case materially. Based on undisturbed closing prices at 11 September, the combined entity could have a market cap of €38bn, of which 40% would be BAE's and 60% EADS'. The implied valuation for BAE and EADS is 377p and €27.80/share, respectively. A potential attraction is that the combined entity could offer a c5% dividend yield in 2013E, in line with BAE.
- Bigger is not necessarily better** — A merger would allow EADS to achieve its aim of balancing civil aerospace OE (Airbus) with non-Airbus activities and a "European Champion" would effectively be created. EADS and BAE already work together on a number of programmes, notably Eurofighter and MDBA. However, we believe that achieving merger synergies for the combined entity could be difficult, particularly given the need to ring-fence certain strategically sensitive activities. We believe that the merger also reflects a challenging outlook for US defence budgets.
- Potentially a protracted process** — BAE/EADS must "put up or shut up" by 10 October. However, a merger could take some time due to the UK government's golden share in BAE and strategic French (22.5%), German (22.5%) and Spanish (5%) holdings in EADS, creating an overhang for existing shareholders.
- Lowering EPS and Target Price** — We lower our EPS forecasts by 3-5% to reflect a revised FX assumption of \$1.29/€ vs. \$1.23/€ previously. This also lowers our DCF from €40 to €33.3/share, to which we now apply a c20% discount to reflect the risks associated with the proposed merger with BAE to derive our new Target of €27/share. Catalysts: announcement deadline (10 Oct) then 3Q12 results (8 Nov).

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Neutral	2
from Buy	
Price (12 Sep 12)	€28.00
Target price	€27.00
from €40.00	
Expected share price return	-3.6%
Expected dividend yield	2.5%
Expected total return	-1.1%
Market Cap	€23,154M
	US\$29,765M

Price Performance (RIC: EAD.PA, BB: EAD FP)



EADS (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	45,752.0	49,128.0	54,757.8	56,670.0	61,590.0
Net Income (€M)	647.0	1,144.0	1,684.8	2,263.7	2,963.8
Basic EPS (€)	0.80	1.41	2.06	2.77	3.62
Basic EPS (Old) (€)	0.80	1.41	2.13	2.85	3.81
PE (x)	35.1	19.9	13.6	10.1	7.7
EV/EBITDA (x)	10.8	9.3	6.6	5.4	4.3
DPS (€)	0.22	0.45	0.68	0.91	1.19
Net Div Yield (%)	0.8	1.6	2.4	3.3	4.2

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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EAD.PA: Fiscal year end 31-Dec						Price: €28.00; TP: €27.00; Market Cap: €23,154m; Recomm: Neutral					
Profit & Loss (€m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	45,752	49,128	54,758	56,670	61,590	PE (x)	35.1	19.9	13.6	10.1	7.7
Cost of sales	-41,727	-44,472	-49,225	-50,200	-54,071	PB (x)	2.6	2.6	2.3	2.0	1.7
Gross profit	4,025	4,656	5,533	6,470	7,519	EV/EBITDA (x)	10.8	9.3	6.6	5.4	4.3
Gross Margin (%)	8.8	9.5	10.1	11.4	12.2	FCF yield (%)	11.9	4.2	0.3	6.1	9.6
EBITDA (Adj)	2,737	3,426	4,706	5,529	6,539	Dividend yield (%)	0.8	1.6	2.4	3.3	4.3
EBITDA Margin (Adj) (%)	6.0	7.0	8.6	9.8	10.6	Payout ratio (%)	28	32	33	33	33
Depreciation	-1,397	-1,643	-1,859	-1,919	-1,979	ROE (%)	5.7	11.7	15.6	20.4	23.4
Amortisation	-141	-181	-241	-241	-241	Cashflow (€m)					
EBIT (Adj)	1,199	1,602	2,606	3,369	4,319	EBITDA	2,624	3,328	4,426	5,429	6,539
EBIT Margin (Adj) (%)	2.6	3.3	4.8	5.9	7.0	Working capital	2,819	1,386	-484	376	430
Net interest	-99	13	-269	-224	-208	Other	-447	64	-1,291	-1,771	-2,070
Associates	145	192	214	221	241	Operating cashflow					
Non-op/Except	-316	-316	-205	-172	-172	Capex	-2,250	-2,197	-2,700	-2,700	-2,700
Pre-tax profit	816	1,393	2,066	3,094	4,180	Net acq/disposals	-80	-1,673	53	0	0
Tax	-244	-356	-599	-897	-1,212	Other	41	50	56	67	73
Extraord./Min.Int./Pref.div.	-19	-4	-4	-4	-4	Investing cashflow					
Reported net profit	553	1,033	1,463	2,193	2,964	Dividends paid	-7	-183	-371	-556	-745
Net Margin (%)	1.2	2.1	2.7	3.9	4.8	Financing cashflow					
Core NPAT	647	1,144	1,685	2,264	2,964	Net change in cash	-246	-1,308	385	344	1,027
Per share data						Free cashflow to s/holders					
Reported EPS (€)	0.68	1.27	1.78	2.67	3.61	Segment Sales (€m)					
Core EPS (€)	0.80	1.41	2.06	2.76	3.61	Airbus Commercial	27,673	31,159	36,200	38,100	43,000
DPS (€)	0.22	0.45	0.68	0.91	1.19	Airbus Military	2,684	2,504	1,900	1,900	1,900
CFPS (€)	6.16	5.87	3.24	4.92	5.97	Eurocopter	4,830	5,415	6,020	6,200	6,390
FCFPS (€)	3.34	1.18	0.07	1.71	2.68	EADS Astrium	5,003	4,964	5,518	5,520	5,520
BVPS (€)	10.91	10.89	12.15	14.14	16.85	Cassidian	5,933	5,803	5,780	5,610	5,440
Wtd avg ord shares (m)	811	813	818	819	819	Other Businesses	1,182	1,252	1,440	1,440	1,440
Wtd avg diluted shares (m)	811	814	819	820	820	Headquarters/Consolidation	-1,553	-1,969	-2,100	-2,100	-2,100
Growth rates						Sales - total segments	45,752	49,128	54,758	56,670	61,590
Sales revenue (%)	6.8	7.4	11.5	3.5	8.7	Segment EBIT (€m)					
EBIT (Adj) (%)	-40.5	33.6	62.6	29.3	28.2	Airbus Commercial	281	490	1,580	2,360	3,330
Core NPAT (%)	-44.9	76.8	47.3	34.4	30.9	Airbus Military	21.0	40.0	40.0	40.0	40.0
Core EPS (%)	-44.9	76.2	46.2	34.3	30.9	Eurocopter	303.0	374.0	410.5	420.0	430.0
Balance Sheet (€m)						EADS Astrium	283.0	287.0	319.1	310.0	310.0
Cash & cash equiv.	16,196	16,785	16,632	16,976	18,003	Cassidian	477.0	401.0	380.0	370.0	360.0
Accounts receivables	6,632	6,399	7,100	7,300	7,900	Other Businesses	25.0	50.0	40.0	40.0	40.0
Inventory	20,862	22,563	25,100	26,000	28,300	Headquarters/Consolidation	-46.0	152.0	50.0	50.0	50.0
Net fixed & other tangibles	19,729	20,426	21,026	21,566	22,046	EBIT - total segments	1,344	1,794	2,820	3,590	4,560
Goodwill & intangibles	11,299	12,745	12,745	12,745	12,745	Segment Margin (%)					
Financial & other assets	8,469	9,558	10,483	10,837	11,505	Airbus Commercial	1.0	1.6	4.4	6.2	7.7
Total assets	83,187	88,476	93,086	95,424	100,499	Airbus Military	0.78	1.60	2.10	2.11	2.11
Accounts payable	8,546	9,630	9,200	10,600	10,600	Eurocopter	6.3	6.9	6.8	6.8	6.7
Short-term debt	1,408	1,476	1,730	1,730	1,730	EADS Astrium	5.7	5.8	5.8	5.6	5.6
Long-term debt	2,338	3,173	3,111	3,111	3,111	Cassidian	8.0	6.9	6.6	6.6	6.6
Provisions & other liab	61,959	65,327	69,079	68,377	71,229	Margin - total segments	2.9	3.7	5.1	6.3	7.4
Total liabilities	74,251	79,606	83,120	83,818	86,670	Leverage & valuation					
Shareholders' equity	8,841	8,850	9,942	11,578	13,797	Adj. net debt (cash)/(€m)	-12,450	-12,136	-11,791	-12,135	-13,162
Minority interests	95	20	24	28	32	Pension deficit (surplus)(€m)	4,233	4,824	4,824	4,824	4,824
Total equity	8,936	8,870	9,966	11,606	13,829	Adj. ND to EBITDA (x)	-4.5	-3.4	-2.5	-2.1	-1.9
Net debt	-12,450	-12,136	-11,791	-12,135	-13,162	Adj. EV/EBITDA (x)	7.2	7.4	6.6	5.2	4.1
Net debt to equity (%)	-139.3	-136.8	-118.3	-104.6	-95.2	Adj. EV/EBIT (x)	16.2	15.4	12.0	8.4	6.1
						FCF Yield	20.1	5.5	0.3	6.2	10.0

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For definitions of the items in this table, please click [here](#).

Downgrading to Neutral with a €27 Target Price

We downgrade EADS to Neutral with a €27/share Target Price.

In this note we downgrade EADS from Buy to Neutral and lower our Target Price from €40/share (based on a spot rate assumption of \$1.23/€) to €27/share (based on \$1.29/€). We also remove EADS from Citi's European Focus List. EADS shares are up 23% YTD in absolute terms and 11% relative to the CAC40 and we take the opportunity to downgrade today for 2 reasons:

1. **Potential Merger with BAE** — We believe that the announcement of a potential merger between EADS and BAE Systems materially changes the EADS investment case, increasing its exposure to challenging defence end markets and introducing additional risks in respect of the merger itself.
2. **Strengthening of the €** — The recent movement in the € vs. the \$ (from \$1.23/€ to \$1.28/€) materially reduces our EADS valuation. EADS is a beneficiary from a strong \$ vs. the €, due to significant transaction FX exposure at Airbus Commercial.

We continue to value EADS on a DCF analysis, which we now update for a revised FX assumption of \$1.29/€. However, we now apply a c20% discount to our revised DCF of €33.30/share to reflect the risks associated with this deal to derive our updated €27/share Target. We remain positive on EADS' civil aero OE exposure and still see scope for margin improvements at Airbus Commercial through 2015. However, we believe that the potential merger with BAE Systems will dominate debate in the market for the foreseeable future and believe that the risk-reward is no longer as attractive.

Potential €38bn merger

The announcement of a proposed merger between BAE and EADS today comes as a surprise and materially changes the EADS' investment case, in our view.

Late this afternoon, BAE Systems and EADS issued an RNS confirming that the two companies are in discussions regarding a possible merger. The discussions envisage that BAE shareholders would own 40% of the combined entity and EADS shareholders 60%. This would effectively create a European defence champion. Although EADS has had a stated ambition to rebalance its portfolio away from Airbus due to the cyclical nature of the business and exposure to the US \$, we had anticipated that this would be achieved through a series of smaller bolt-on acquisitions (in 2011A EADS made 3 bolt-on acquisitions totaling €1.5bn: Vector, Vizada and Satair), preferably non-defence, so today's announcement came as somewhat of a surprise and one that changes the equity stories of both BAE and EADS materially, in our view.

Today saw some dramatic share price moves from both BAE (+11%) and EADS (-6%). And looking at the deal, we believe that the market's initial reaction looks about right. Based on the undisturbed share prices as of the close of 11 September, we believe that the combined entity has a market capitalisation of €38bn (£10.7bn for BAE or €13.4bn and €24.5bn for EADS), and we estimate that the deal implies the following valuations for both companies:

Based on the combined undisturbed market capitalisation of €38bn as of 11 September, we calculate the implied value for BAE shares to be c377p/share and EADS €27.80/share.

- **BAE Systems** — The merger implies a valuation of c377p/share for BAE, based on 40% ownership of the combined €38bn entity (@ \$1.25/€ and 3,227m shares on issue). This represents a P/E of 9.6x 2012E and 8.5x EV/EBIT in 2012E, which compares to the current trading multiples of US defence stocks of 10.4x 2012E P/E and 8.0x 2012E EV/EBIT. The implied price of 377p compares to tonight's closing price of 353p, suggesting a further 7% upside to the current share price.
- **EADS** — The implied valuation is less positive for EADS at €27.80/share, based on 60% of the combined undisturbed market cap of €39bn as of 11 September and 819m shares in issue. This implies a further 1% downside vs. today's closing share price of €28.00 and suggests a valuation for EADS of 13.4x 2012E P/E and 11.9x 2012E EV/EBIT (falling to 9.9x and 8.3x in 2013E, respectively). However, we see a risk of further de-rating given the material change in the investment case due to today's merger announcement.
- **The Combined Entity** — Assuming a €38bn market cap for the combined entity, the implied P/E multiples are 11.5x in 2012E and 9.9x in 2013E based on Citi's forecasts and 12.3x and 10.2x implied P/E on consensus estimates for 2012E and 2013E, respectively. On a fully adjusted basis, including the usual adjustments for customer advances, pensions, government launch aid, etc, we estimate that implied EV/EBIT for the combined entity will be c9.7x 2012E and c8.3x 2013E.

Based on the above, we believe that there could be some further short-term upside to BAE's share price and downside to EADS' share price. However, we believe that from EADS' perspective, the bigger issue is that this dramatically changes the equity story by weighting the business far more towards defence. There are the additional risks and complication of the merger synergy to be considered also. Finally, we believe that there is a risk that EADS de-rates further, as investors are unlikely to be willing to pay the same P/E multiple for the combined business as they would for EADS alone, in our view, due to raised risks and lower EPS growth.

Bigger is not necessarily better

We are concerned that merger synergies could be hard to achieve. A merger significantly increases EADS shareholder's exposure to US defence budget risks, notably sequestration.

The statement issued by BAE Systems this afternoon argues that the combined entity would offer potential cost synergies, procurement efficiencies, and new business opportunities. While we believe that this could be true, we do not expect significant synergies to be achieved given: 1) the multiple geographies of BAE and EADS' various businesses; and 2) the fact that many operations may need to be ring-fenced for reasons of national security, thereby potentially negating any synergies. BAE and EADS do have some shared programmes, notably the Eurofighter and the JV with MBDA, which could result in some synergies. However, these businesses are relatively small in respect of the groups.

We believe that this move can also be seen as a reaction to a challenging budgetary outlook for defence companies, particularly in the US where the threat of sequestration (a 10% defence budget cut in January 2013) and Continuing Resolution (potentially disrupting order flow) are looming. We have taken a cautious stance on defence stocks generally and BAE specifically — see our note entitled [“Staying Selective on Defence as US Budget Risks Rise”](#) on 21 June, where we downgraded BAE to Neutral from Buy. We believe that this deal materially increases EADS' exposure to US defence risks into 2013. We would note that in the period 1985-1995 when US defence budgets fell by c40% cumulatively in real terms, there was significant M&A activity amongst the US primes. In essence, if it goes ahead the deal would result in the creation of a “European Defence Champion”.

As part of EADS' Vision 2020 approach, the company stated a desire in 2010 to balance its portfolio away from Airbus and the civil OE cycle and reduce its US\$ exposure.

In its November 2010 Investor Forum, EADS introduced its Vision 2020 plan, which aimed to rebalance the portfolio away from Civil Aerospace OE (Airbus Commercial), working towards a 50:50 balance between Airbus and the non-Airbus businesses (a similar ratio to Boeing). Because Airbus has been growing faster than the rest of the group, acquisitions were always likely to be required to achieve this. In 2011A, EADS did 3 small acquisitions, which were in Space, Helicopters and Civil Aerospace Aftermarket (Vizada, Vector and Satair) totaling €1.5bn. However, these deals were not defence acquisitions and while we believed that there was an outside chance that EADS could acquire a small or medium-sized defence business, a merger with BAE Systems was not what we expected. The reason that EADS wishes to diversify away from Airbus is to reduce the cyclicity of the group and its transaction exposure to the US \$.

An increased dividend yield from 2013E is a potential sweetener for EADS shareholders, in our view.

Dividend bonus for EADS shareholders

The dividend policies of the two companies have historically differed, with BAE Systems typically paying a higher yield (5% in 2012E) than that of EADS (2.5% in 2012E). Under the new agreement, to better align the payout ratios of the two companies, it has been agreed that EADS will firstly pay £200m (€0.24 per share or a yield of c1%) to its shareholders prior to the completion of the transaction. Post the transaction, assuming the combined earnings of the two companies are broadly in line with market expectations, it has been stated that the combined new entity would declare a dividend such that all shareholders would receive an equivalent amount to that declared to BAE Systems in 2012 (c5% yield). The new policy represents a material increase for EADS shareholders in 2013 versus market expectations, while maintaining an equivalent amount to the shareholders of BAE Systems.

Given the UK government's golden share in BAE Systems and the strategic shareholdings in EADS by the German, French and Spanish, approval could take some time.

Timetable

BAE and EADS must by 10 October either announce the transaction or state that they no longer intend to pursue the deal. There is the possibility that this deadline could be extended, subject to the agreement of the Takeover Panel. We see scope for this deal to drag on for some time, even if the Takeover Panel grants approval promptly:

- **UK Government Golden Share in BAE Systems** — Post selling its remaining shareholding in BAE Systems in 1985, the UK government maintained a £1 Golden Share in the company. The Golden Share is essentially a nominal share that is able to outvote all other shares in specific circumstances and consequently gives the UK government the right to veto foreign control in the company.
- **Potential Overhang of 50% of EADS Shares** — The EADS shareholder structure remains complex with contractual partnerships holding 50% of the total shares in issue. This specifically includes French institutions in total holding 22.5% (split between the government/Lagadere), German institutions holding 22.5% (split between Daimler/KFW), and Spanish institutions holding 5.5%, with the remainder 50% being in free float. If the transaction is approved, the institutions could have to exit their positions and as the total holdings amount to 50%, we believe it could take a considerable amount of time for all the shares to enter back into the market.

We believe that there is also a potential risk to BAE's US business if the merger goes ahead as a result of this deal — historically the UK and the US have enjoyed politically enjoyed a "special" relationship, which has not been present between the US and France, Germany or Spain.

EADS

Company description

EADS is a European aerospace and defence company centred on Airbus Commercial, which represents c60% of group sales. Airbus Commercial is an "airframer" which manufactures large commercial jet aircraft. The other businesses include Airbus Military (military transport and refueling aircraft), Eurocopter (helicopters), Cassidian (with exposure to MBDA missiles and the Eurofighter programme) and Astrium (satellites and launchers). EADS also has also a 50% stake in ATR, a regional aircraft manufacturer (alongside Finmeccanica).

Investment strategy

We rate EADS Neutral. We view EADS as attractive, forming half a duopoly with Boeing. Civil aerospace remains a long-term growth story, in our opinion. For EADS we forecast strong EPS growth from a depressed growth driven by rising aircraft deliveries, underpinned by the large order backlog. Reduced losses on A380 should also provide an additional boost to EBIT. Although the A350-XWB programme has suffered some delays, the programme continues to receive close management scrutiny which should limit the scale of overall schedule slippages, we believe. EADS' strong balance sheet (with a large net cash position) is also attractive in the current environment of macroeconomic uncertainty. However, we believe that these attractions are offset by the risks around a potential merger with BAE Systems, execution issues (A350, A380, A400M) and a strengthening € vs. the \$.

Valuation

Our one-year target price of €27 is based on a 20% discount to our DCF valuation of €33.3 using a conservative set of assumptions, including a 10% WACC, 2.4% long-term growth and a mid-cycle margin assumption of 8.8% for the group and 8.2% for Airbus Commercial (at \$1.29/€). EADS targets to achieve a 10% Airbus Commercial margin by 2015E (at \$1.30/€) before the dilutive impact of A350XWB. Our DCF-based TP implies 13x 2013E P/E (vs. EADS' long-run average of 14x) and 10.6x 2013E EV/EBIT. Our target implies 0.67x 2013E EV/Sales vs. our mid-cycle assumption of 7.8% and 6.3% in 2013E, rising to 7.4% in 2014E.

Risks

The key risks to our investment thesis on EADS are: (1) potential further cost overruns on the A350XWB programme; (2) execution risks surrounding Airbus' plans to ramp up narrow-body production; (3) transactional FX risk; (4) cyclicity and typical aviation risks including terrorism/war and external shocks; (5) increase in demand for vendor financing, worsening cash flows, if credit markets tighten or continued export credit agency support is not forthcoming; (6) Power 8 cost cutting plan failing to achieve the targeted cost savings as incremental savings prove harder to attain. Conversely, restructuring may exceed expectations; (7) continued difficulties ramping up A380 production; (8) continued cost overruns on the A400M military transporter programme; (9) the potential for a late-cycle decline in civil aircraft deliveries; (10) re-engining the A320 could prove technically and commercially risky, and lead to even higher R&D costs at Airbus Commercial; (11) complex nature of the business, making it difficult to model and hard to value. Recurring non-recurring items can make estimating the underlying profitability of the business tricky. If the impact of these risk factors is more or less negative than we anticipate, then the share price could fail to reach or exceed our target price.

BAE Systems (BAES.L; £3.64; 2)

Valuation

Our 290p Target Price is based on a DCF, which assumes -1% sales CAGR 2012E-16E, zero nominal growth rate and an 8% margin in the terminal period and an 8.3% WACC. Our target implies a 2013E P/E of 7.5x, lower than BAE's long-term average of 12.0x and a 2013E EV/EBIT of 7.1x vs. long-term average of 8.9x, which we believe are justified on account of lower earnings growth prospects than in the past.

Risks

The key upside risks to our investment thesis on BAE Systems are: (1) The US budget situation improves with the 10 year defence spending cuts turning out to be less bad than feared (2) Post US elections in the November, the new President manages to side step sequestration, removing a key overhang over defence stocks (3) BAE management is able to counter slowdown in core revenues by focusing on defence niches such as cyber and security and by rapidly expanding in adjacent markets such as homeland security (4) A faster and more favourable outcome of negotiations with Saudis over Eurofighter upgrade (5) Large export contract wins (e.g. Eurofighter in Oman, Brazil).

The key downside risks to our investment thesis are: (1) Sequestration is enforced in US from January 2013, causing c10% YoY decline in DoD's FY13 budgets (and a relatively greater decline in investment accounts). (2) UK budgets come under pressure forcing the government to materially cut back defence spending (3) BAE resorts to aggressive pricing to gain export market share resulting in considerable pressure on margins (4) Earnings and cash flows deteriorate forcing BAE to cut back its dividend (5) A slowdown in organic sales growth encourages BAE to seek acquisitions, raising the risk profile of the stock

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Appendix A-1

Analyst Certification

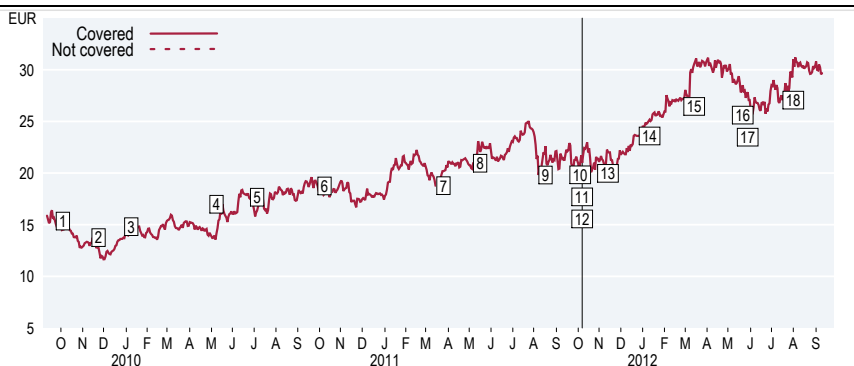
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IMPORTANT DISCLOSURES

EADS (EAD.PA)

Ratings and Target Price History Fundamental Research

Analyst: Jeremy Bragg



Date	Rating	Target Price	Closing Price
1 5-Oct-09	2H	*16.50	14.51
2 24-Nov-09	2H	*14.50	12.75
3 8-Jan-10	2H	*16.00	14.35
4 10-May-10	*1H	*18.50	14.16
5 6-Jul-10	1H	*22.50	16.37
6 8-Oct-10	*2H	*19.30	17.98

* Indicates change

Date	Rating	Target Price	Closing Price
7 25-Mar-11	2H	*21.00	20.19
8 17-May-11	2H	*23.80	22.05
9 17-Aug-11	2H	*23.00	22.60
10 5-Oct-11	2H	*22.50	20.96
11 7-Oct-11	Stock rating system changed		
12 7-Oct-11	*2	22.50	20.99

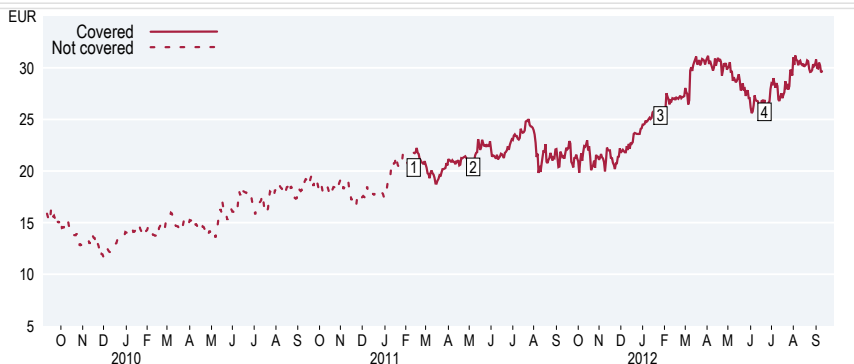
Date	Rating	Target Price	Closing Price
13 14-Nov-11	*1	*27.00	22.05
14 11-Jan-12	1	*31.00	25.17
15 14-Mar-12	1	*34.50	30.56
16 22-May-12	1	*38.00	28.51
17 29-May-12	1	*36.50	27.83
18 1-Aug-12	1	*40.00	31.01

Rating/target price changes above reflect Eastern Standard Time

EADS (EAD.PA)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jeremy Bragg



Date	Rating	Target Price	Closing Price
1 11-Feb-11	*ADD LP	-	21.77
2 6-May-11	*REM LP	-	20.95

* Indicates change

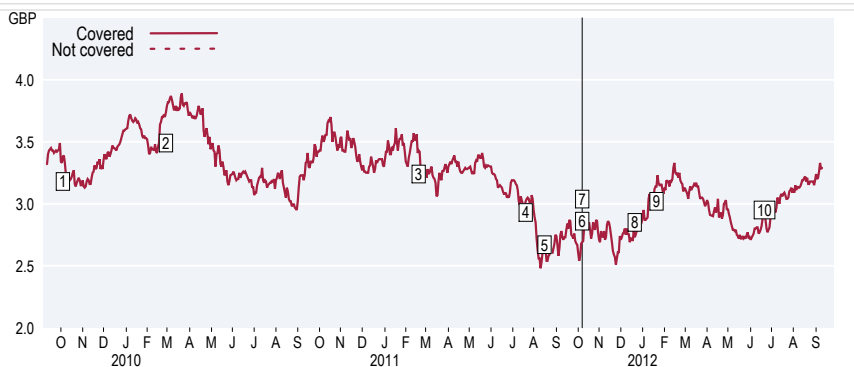
Date	Rating	Target Price	Closing Price
3 26-Jan-12	*ADD MP	-	25.45
4 21-Jun-12	*REM MP	-	26.90

Rating/target price changes above reflect Eastern Standard Time

BAE Systems (BAES.L)

Ratings and Target Price History Fundamental Research

Analyst: Jeremy Bragg



Date	Rating	Target Price	Closing Price
1 5-Oct-09	*1H	4.10	3.38
2 26-Feb-10	1H	*4.25	3.74
3 18-Feb-11	1H	*4.20	3.43
4 20-Jul-11	1H	*3.40	3.02

* Indicates change

Date	Rating	Target Price	Closing Price
5 16-Aug-11	1H	*3.20	2.62
6 7-Oct-11	Stock rating system changed		
7 7-Oct-11	*1	3.20	2.69
8 21-Dec-11	1	*3.00	2.73

Date	Rating	Target Price	Closing Price
9 20-Jan-12	1	*3.40	3.14
10 21-Jun-12	*2	*2.90	2.90

Rating/target price changes above reflect Eastern Standard Time

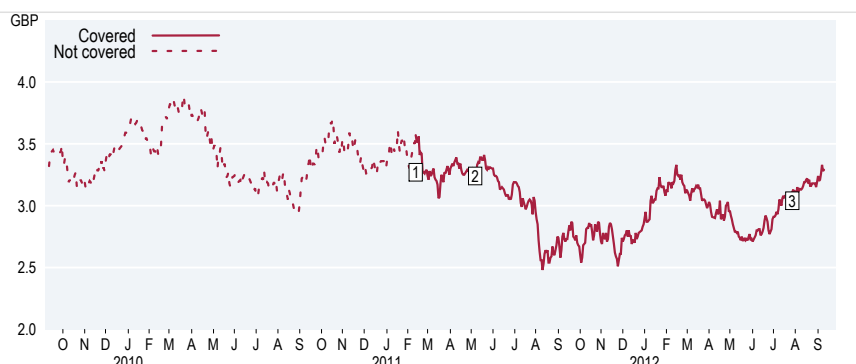
BAE Systems (BAES.L)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jeremy Bragg



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	3.57

* Indicates change

	Date	Rating	Target Price	Closing Price
2	6-May-11	*REM MP	-	3.26

	Date	Rating	Target Price	Closing Price
3	27-Jul-12	*ADD LP	-	3.11

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 30 Jun 2012

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
53%	37%	10%	10%	80%	10%
44%	43%	40%	48%	43%	45%

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