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Emirates Airline Says Yes to Airbus and to The Boeing Company (NYSE: BA), A Positive Sign for Growth in Global Middle Class Travel and for Precision Castparts Corp. (NYSE: PCP)

On Sunday, November 17, 2013, **Emirates Airline**, the world's largest international airline in terms of passenger capacity, announced at the Dubai Air Show that it had signed contracts for a \$76 billion dollar order with **The Boeing Company (NYSE: BA)** for Boeing's 777X aircraft, the more fuel-efficient version of the company's 777 aircraft.

Boeing and **Emirates** intend on delivery before the end of this decade.

Also on November 17, **flydubai**, the short-haul Dubai headquartered carrier, ordered **Boeing** aircraft worth \$11.4 billion.

Airbus, as well as **Boeing**, came away from the Air Show happy: **Emirates** said it would order fifty **Airbus A380** planes worth \$23 billion.

The newly contracted **A380s** will be used for new routes and to replace old aircraft, **Emirates** said.

Because fuel costs are a large factor in airline costs and because fuel prices are likely to stay high for many years, **Airbus** (**Airbus** is the aircraft manufacturing subsidiary of the **European Aeronautic Defense & Space Co.**) and **Boeing** are under the gun to make their planes as fuel efficient as they can, a mandate that is good for **Precision Castparts Corp.**, a company that uses titanium---a metal that is lightweight but strong---to make aircraft engines run powerfully, giving engines great thrust, but also making it possible for these engines to be fuel and emission efficient.

Boeing and **Airbus** buy their aircraft engines from either **General Electric (NYSE:GE)**, **Pratt & Whitney** (a division of **United Technologies Corporation, NYSE: UTX**) or from **Rolls-Royce** and these three companies get the critical components for their engines from **Precision Castparts Corp.**

The relationships that **Precision Castparts Corp.** enjoys with **General Electric**, **Pratt & Whitney**, and **Rolls-Royce** have been carefully cultivated, tested and strengthened over many decades and are likely to exist for a long time.

Large jet aircraft engines are manufactured by a limited number of suppliers, including **General Electric ("GE")**, **Pratt & Whitney** (a division of **United Technologies Co.**), **Rolls-Royce** and several joint venture partners. With this highly concentrated and sophisticated customer base, we believe a high level of customer service and strong, long-term customer relationships will continue to be important to achieving our goals. We have been supplying castings for jet engines to **GE** for more than 45 years, and we have been supplying **Pratt & Whitney** with castings for its jet engines for more than 35 years. In addition, we have supplied small structural investment castings to **Rolls-Royce** for approximately 30 years and large structural castings for approximately 25 years. As we have been able to cast larger and more complex parts, manufacturers of large jet aircraft engines have increased their use of our structural castings. (**Precision Castparts Corp.**, 10-K for the 2012-2013 fiscal year ended March 31, 2013, page one.)

Switching Aircraft Engine Suppliers is not as easy as moving from **Arm & Hammer® to **Tide®** or from **Canada Dry Ginger Ale®** to **Great Value Ginger Ale®****

A consumer might be tempted to switch laundry detergents during a price promotion, moving from the red and blue box of **Tide®** to the yellow and

blue box of **Arm & Hammer®**. A consumer might drive to **McDonald's (NYSE: MCD)** instead of **Wendy's** when the former offers a free Coke with the purchase of a burger and fries. A driver may go out of his way by half a mile to save eight cents per gallon on gasoline. Or a financially stressed housewife or househusband might choose **Wal-Mart's (NYSE: WMT)** Great Value Creamy Peanut Butter which may unintentionally contain traces of milk, eggs, anchovies, wheat, and soy, trying to save a few cents per jar, without knowing that **Smucker's (NYSE: SJM)** Natural Creamy Peanut Butter is made without hydrogenated oils and will never have an unplanned ingredient such as anchovies, an ingredient that does not belong in a peanut butter jar. (Great Value and other private label offerings are often produced in plants where products other than peanut butter are produced. **Smucker's**, in contrast, produces only peanut

butter in the plants that dedicate to peanut butter.) But the harried house wife, hurrying to get home to prepare dinner and to make sure her teenage daughters and sons are studying but not texting, does not have the time to evaluate the ingredients of competing peanut butter selections. And any mistake she makes in selection of the peanut butter for her household is a benign mistake. So she lets price rule her product choice.

Things are vastly different when it comes to the reliability of a jet engine. You can compromise on peanut butter quality, but you cannot compromise on the power and safety of a jet engine. **Precision Castparts** does work that is hard to imitate and, most importantly, work that calls for one hundred per cent reliability, making it unlikely that **General Electric** and other aircraft engine manufacturers would consider displacing **Precision Castparts**.

The Swelling Middle

For the first time in history, a truly global middle class is emerging. By 2030 it will more than double in size, from 2 billion today to 4.9 billion in 2030. Brookings Institution scholar Homi Kharas estimates that the European and American middle classes will shrink from fifty percent of those regions' total population to just twenty-two percent. Rapid growth, however, in China, India, Indonesia, Vietnam, Thailand, and Malaysia will cause Asia's share of the new middle class to more than double from its current thirty per cent. By 2030, Asia will host sixty-four per cent of the global middle class and account for over forty per cent of global middle-class consumption. The biggest surge in new members of the middle class over the next twenty years will come from hundreds of millions of Chinese and Indians. The percentage of people in India and China below the middle will drop by seventy per cent by 2030. (From www.reuters.com/middle-class-infographic by David Rohd, March 15, 2012)

Big Three versus Big Two

In the 1980s and 1990s the Chinese consumer focused on the 'Big Three', that is the television, the refrigerator, and the washing machine, whereas the beginning of this century has seen the emergence of the 'Big Two' (property and automobiles) as the focus of Chinese consumer spending. The middle class has been one of the driving forces behind increased spending on these two consumer items, and owning a house and a car has become something of a status symbol to middle-class households.

Statistics shows that in 2008 the private car ownership rate of the middle class was 29%, while an additional 8.2% of the middle class claimed that they 'would buy a car within a year', a testimonial that leads the following speculation: the middle-class private car ownership rate must now exceed one in three, and in coming years owning a private automobile will become the norm for the middle class. In Beijing, 43.8% of middle-class households already own a private car; of these, 48.3% of car owning households own a car whose value exceeds Renminbi ¥100,000 (US \$16,461.20), while the remaining 51.7% own a car with a value less than that amount. (From www.boaoreview.com by Li Chunling, January 6, 2013)

To read the full Investment Letter, please email us at contact@ferimc.com or call (918) 743-5959. You could also fill out your contact information at <http://www.ferimc.com/contact.html>, we will contact you as soon as possible.