PHIG
Patrick Henry Investment Group

Karina Van Belle

Esteban Weesner

William Storz

4/13/24

General Electric

Current Price:	$154.63
Target Price:	$172.33
Upside:	8% IRR

I. Renewed Strategic Focus to Drastically Increase Cash Flow to Shareholders

II. Superior Market Penetration to Undergird Stable Returns on Robust Long-term Global Demand

III. Industry Leading Operational Efficiency to Drive Double-Digit FCF Margins & Bottom-Line Growth

Order Type: Market Order

Allocation: 13 shares (~$2000)

Unge C. Washburn
PHIG President

PHIG Director

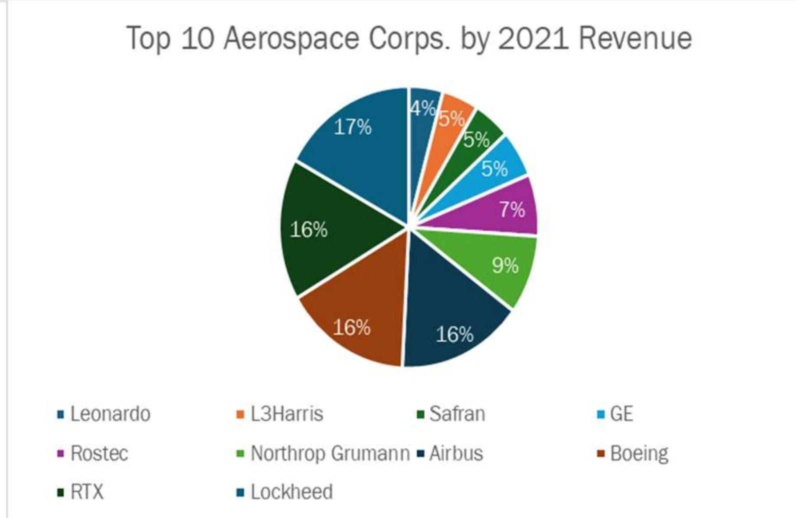
VP of Finance

WS3

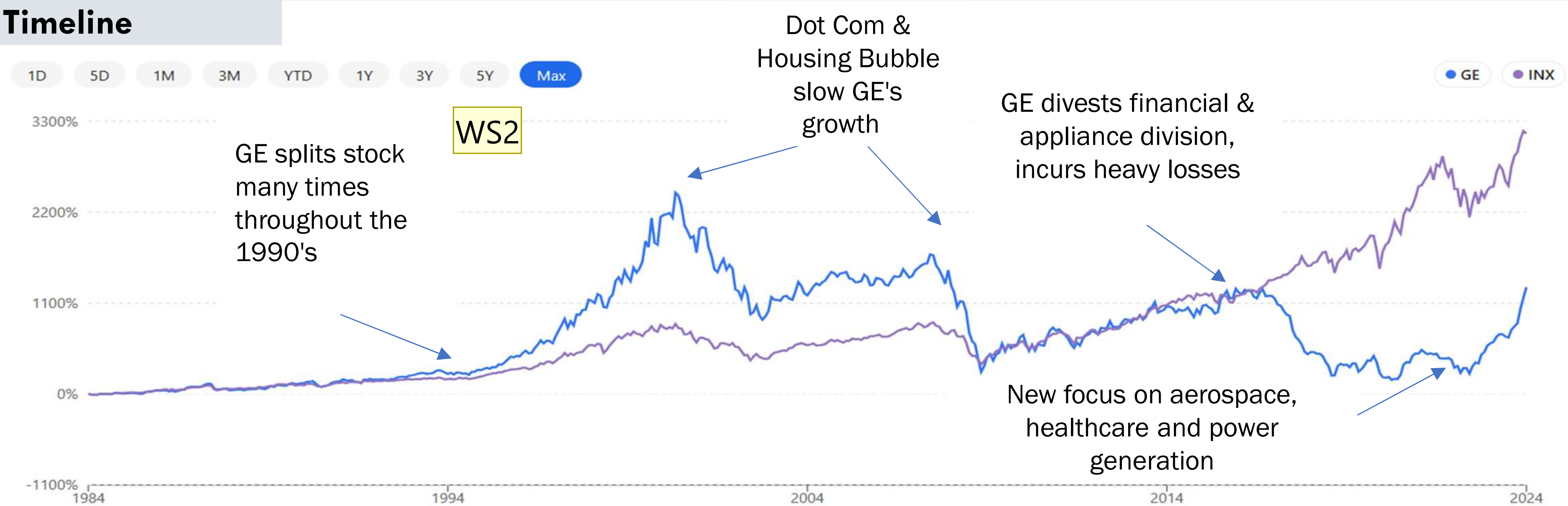
Company Overview

Key Highlights

- **General Electric:** powerful and historic conglomerate with a strong presence in many sectors. GE is a top 10 global aerospace company.
- **Core Business:** Due to GE's upcoming stock split, the GE stock will encompass two key areas: GE aerospace, and finance.
- **GE Aerospace:** GE's main source of revenue. Broken down into 2 key segments: sale of aerospace equipment, and servicing of aerospace equipment. Around 70% of GE Aerospace revenue comes from servicing.
- **Finance:** GE currently owns around $7 billion in equity in GE Healthcare (NYSE:GEHC) and Aercap Holdings (NYSE:AER). These securities have risen by 20.4% and 67% in the past year, respectively.



Timeline



Sources: Yahoo Finance, Motley Fool, GE Investor Relations, The Street

Slide 2

WS0 Get rid of the border. Slide would look a little more clean
William Storz, 2024-04-01T18:11:25.980

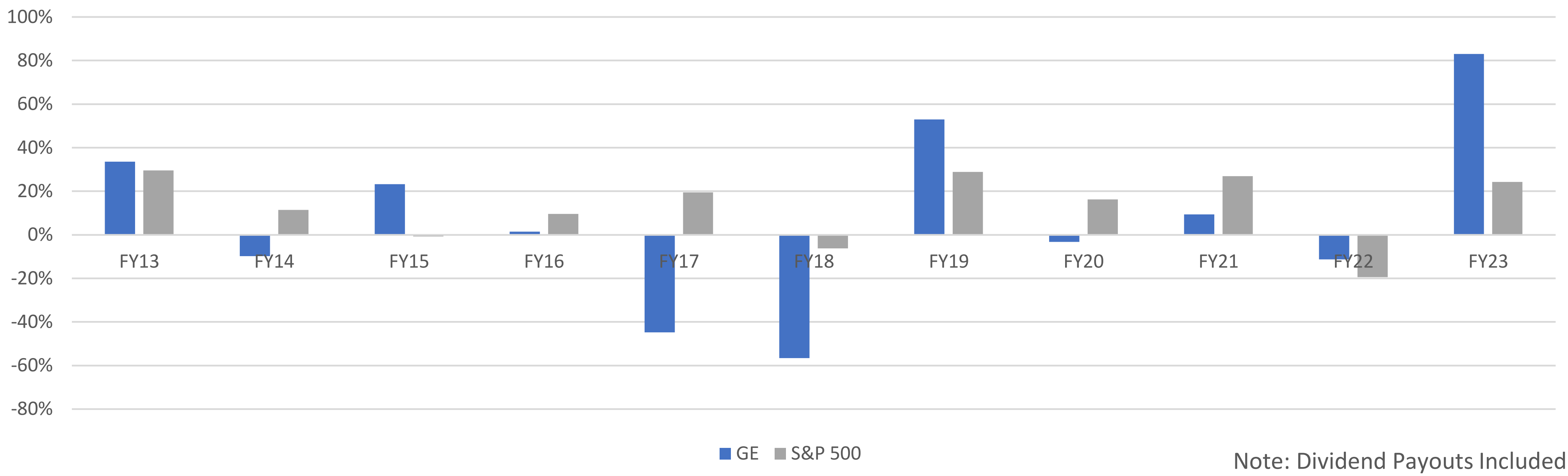
WS1 Bold title of chart. Make sure its black
William Storz, 2024-04-01T18:12:07.732

WS2 For bubbles, dump the border and drop the font size to help the slide look a little less busy
William Storz, 2024-04-01T18:13:32.227

WS3 Include something here about who their customers are? How diversified is revenue between differenet buyers?
William Storz, 2024-04-01T18:26:41.391

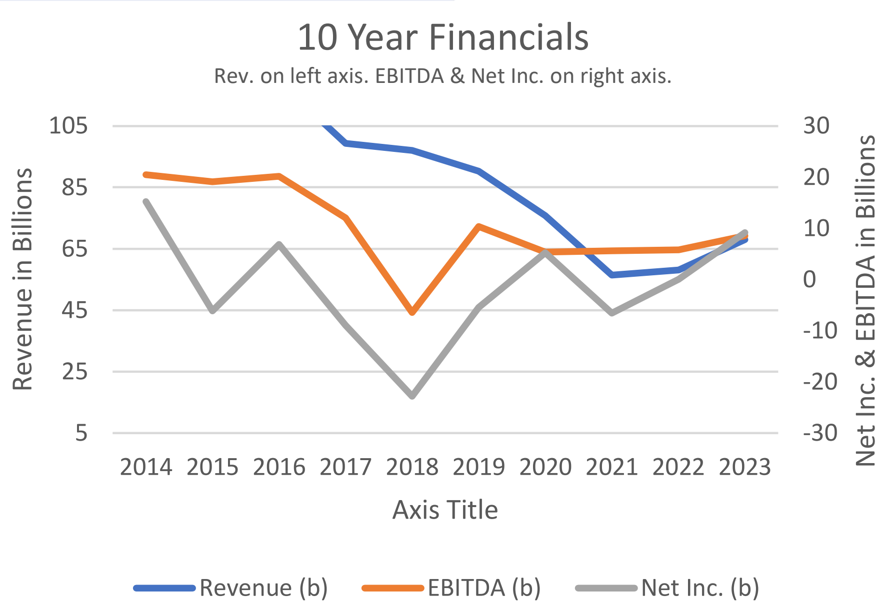
Financial Overview

Historical Performance



Note: Dividend Payouts Included

Revenue and Profit



WS1

Summary

- Following the Great Recession, GE sought to divest itself of several divisions, namely its financial and appliance sectors. This incurred several years of heavy losses post-2015.
- GE has recently undergone a strict shift in focus, moving away from the dynamic system implemented by Jack Welch. GE now focuses on a few key sectors.
- GE had a debt load of $134 billion in 2018, now its debt sits at around $22 billion.
- GE is an industrial stock, and as such, does not outperform the market during downturns, i.e 2008.

Sources: Motley Fool, The Street, GE Earnings Report

Slide 3

WS0 Good general comments. Just make sure you can go beyond these and answer questions in depth about the historical performance. Feel free to add speaker notes on some of these points
William Storz, 2024-03-25T02:23:40.180

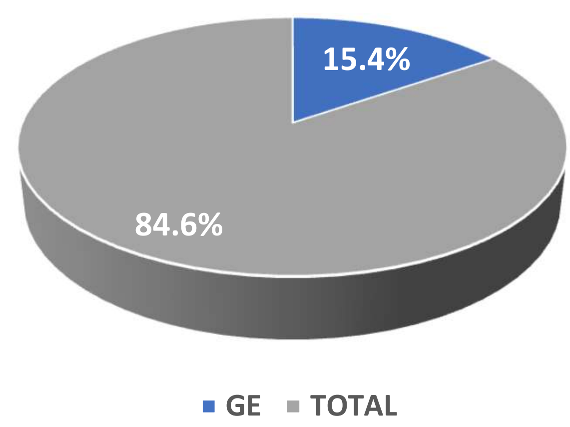
WS1 Why are net inc and ebitda the same in 2020 and 2023? Sanity check these numbers?
William Storz, 2024-04-01T18:16:51.808

WS2 Be able to really explain why performance differed from s&p 500 during various years
William Storz, 2024-04-01T18:18:28.793

Industry Overview

Industry Overview

- Capital Goods industry group holds about 70% of Industry weight within the S&P500 Industrials. Within Capital Goods, Aerospace & Defense companies hold 27.1% of the total market cap.
  - Aerospace revenue is secured through long term (typically 15-25 year) contracts of both equipment and services. Commercial aviation revenue is through engine sales with a service contract.
  - US based defense companies generally secure revenue through government contracts (occasionally through a third party) with R&D and manufacturing advanced military technology, aircrafts, sea vessels, cybersecurity, missiles, drone systems, and space tech, etc.



Porter's Five Forces

Competitive Rivalry	New Entrants	Power of Suppliers	Power of Buyers	Substitutes
Moderate	**Low**	**High**	**Moderate/High**	**Moderate**
▪ Both Aerospace and Defense are moderate as they secure revenue through contracts significantly into the future. Defense must also always be cutting edge in R&D to be a candidate for the contracts.	▪ Starting capex costs for Aerospace and Defense are extremely high and both are largely monopolized. ▪ Small start-ups with specific produ cts are acquired quickly.	▪ Two Aerospace aircraft manufacturers dominate the market: Boeing and Airbus. ▪ Defense; once a contract is secured, negotiating power to suppliers is limited.	▪ The Airline industry is largely monopolized; the manufacturers have limited custo mers. ▪ Defense is high as the gov has high bargaining power for product and service contracts.	▪ Aerospace is moderate as once the airline decides which engine (and service contract), there are extremely high switching costs, and the longevity of the contracts naturally lead to high customer loyalty.

Sources: S&P Dow Jones Indices, The Heritage Foundation, CSI Market, Deloitte

WS2

Sustainable Competitive Advantage

Generic Business Unit Strategy

- [ ] **Product Leadership** — Leapfrog of New Products: Innovation
- [ ] **Product Differentiation** — Unique Features, Product, and/or Service
- [ ] **Operational Excellence** — Unmatched Focus; Quality, Price & Ease
- [x] **Operational Competency** — Std Product, Good Quality, Capable Delivery
- [ ] **Customer Intimacy** — 1:1 Bonding; Specific Customer Needs
- [ ] **Customer Responsive** — Loyalty thru Broad Marketing/Service Focus

Advantage - Strategic Dimensions & Distinctives *(Economic Moat)*

- Operational Competency: GE holds distinct industry leading operating margins approaching 20% compared to the top competitors with 10-14%. This is possible through a near monopoly of heavy market presence through GE Aerospace with geographical locations across the globe.
  - The Aerospace segment consisted of 48% of total 2023 GE Revenue (GE Vernova included). 75% of GE Aerospace revenue is from commercial engines and services.
  - A CFM engine is present in 3 of every 4 commercial departures with service bases across the globe.
  - Aerospace revenues increased $5.7B (22%) with segment profit was up $1.3B (28%) 2022-2023, primarily due to increased commercial spare part shipments, higher internal shop visit volume, and higher prices.
  - Aerospace unearned revenue from 2022 to 2023 increased $18.6B (14%) due to increases in contracts for both equipment and services.
  - Unearned revenue grew 6% from 2021-2022, and then 12% 2022-2023 to $137B on 15-25 year contracts.
- Customer Response: Over 70% of commercial aviation revenue is based off service contracts ranging from 15-25 years. With 25-year service contracts, high switching costs, and high cost of failure ultimately results in top customer loyalty (especially with the big four US based airlines).
- Renewed Strategic Focus: Spin off GE Vernova.
  - GE's portfolio of energy businesses, including the Power and Renewable Energy segments of GE spun off into GE Vernona on April 2, 2024, with a market cap of $37B. This is the second segment of spin offs that started with GE Healthcare and will end in GE Aerospace when that segment has matured.
- Commitment to Financial Solvency: GE has reduced its debt burden by well over $100 billion during Culp's tenure. We think there's an exceptional opportunity for GE to shift from debt reduction to other capital allocation options that favor the shareholder and provide the firm with strong flexibility to shift to offense. In fact, GE Aerospace has now committed to returning 70% to 75% of its available cash to investors through share repurchases and dividends.

Sources: GE 10K, GE Vernova, MorningStar Equity Analyst Report, WSJ, Deloitte

Slide 5

WS0 Rework according to notes
William Storz, 2024-04-01T18:31:58.045

WS1 Change to operational competency. Leverage metrics compared to other defense companies. Also industry-leading operating margins approaching 20% compared to top competitors with 10-14%
William Storz, 2024-04-03T15:15:18.381

KB1 0 Why? How? is this sustainable?
Karina J Van Belle, 2024-04-05T23:50:19.761

WS2 Sure they have superior margins, how are they able to achieve these? Is this sustainable? Is this a proprietary management process? Will other companies be able to improve their margins similarly?
William Storz, 2024-04-05T23:50:20.467

Investment Summary

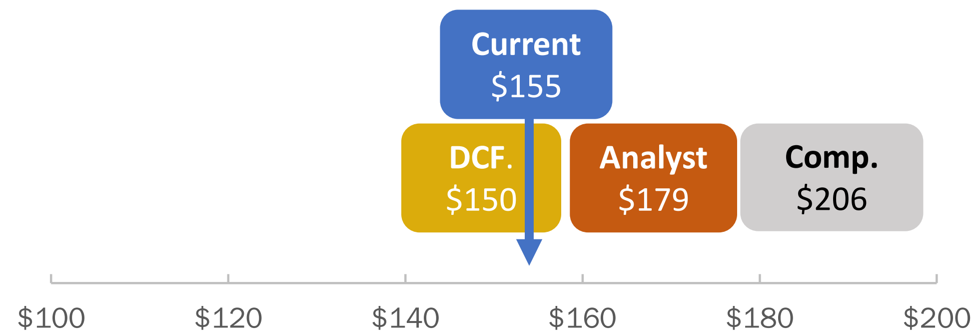
Investment Thesis

- Renewed Strategic Focus to Drastically Increase Cash Flow to Shareholders:
  - In 2023 alone, GE more than tripled earnings and increased free cash flow generation by ~70%. GE's new capital allocation framework to return 70% to 75% of its available cash to shareholders as future dividends and stock repurchases. Q1 '24 dividend increased by 250%.
- Superior Market Penetration to Drive Stable Returns on Robust Long-term Global Demand:
  - Over the next 20 years, the global commercial fleet is expected to grow by nearly 20,000 aircraft, entailing a near doubling of the global fleet by 2042.
  - Between deliveries of new product and servicing of old engines, GE is forecasted to generate $85 billion in FCF in the next 10 years.
  - GE participates in 75% of the commercial jet engine market, as measured by its installed base of more than 40,000 commercial engines. Furthermore, GE alone commands approximately 40% of the global engine maintenance, repair, and overhaul market.
- Industry Leading Operational Efficiency to Drive Double-Digit FCF Margins & Bottom-Line Growth:
  - Under new CEO's leadership GE has reduced its debt burden by well over $100 billion since 2018. Under CEO Culp, GE is dedicated to achieving goal of 100% free cash flow conversion in the long-term. During the last three years, GE converted 88% of EBIT to FCF.
  - GE's industry-leading operating margins approaching 20% compared to top competitors operating margins of 12.3% (LMT), 10.5% (RTX), and 10.2% (GD). Leaning out the business expected to result in double-digit free cash flow margins in 2025 and beyond.

Historical Valuation

Target Prices

- $150 AVG DCF value largely attributable to uncertainty regarding sustainability of margin growth.
- GE up ~13% 1M and ~40% 3M.
- Currently trading within 4% of 52 week high.
- Average of 3 valuation methods: ~$178



Appendix: General Electric (GE)

1) Industry Headwinds
2) Industry Tailwinds
3) Relative Valuation (Capital Goods)
4) Relative Valuation (Aerospace)
5) DCF (Upside)
6) DCF (Conservative)

Industry Headwinds

Major Headwinds

Skilled Labor Shortages	▪ Around 30% of manufacturing jobs are vacant. ▪ Many factors have caused these industry-wide shortages, such as the retirement of baby-boomers. ▪ Top Aerospace and Defense executives said their primary business challenge was attracting and retaining a quality workforce.
Supply Chain Turmoil	▪ Global crises have interrupted international trade volume in key areas, such as the Red Sea. ▪ Studies have shown that this turmoil could cost manufacturers ~45% of annual revenue over the next 10 years. ▪ This supply chain has hit key areas of commerce, such as microchip production causing extended shortages for key parts in production.
Net-Zero Regulations	▪ New legislation has created new hurdles for industrial companies to comply with, creating new costs and interrupting established processes. ▪ Legislation such as the Inflation Reduction Act or the Infrastructure Investments and Jobs Act both place regulations on industry to comply with net-zero goals.

Sources: Deloitte, PwC, Morningstar, Randstad

Industry Tailwinds

Major Tailwinds

Microchips & Artificial Intelligence

- At an estimated 46.7% CAGR until 2025 in the industrials sector alone, AI has the potential to benefit early adopters substantially.
- Microchips are experiencing adjacent growth as well, as evidenced by a massive increase in government-funding for microchips, which has increased by 20x since 2019.

Automation

- 86% of surveyed manufacturing CEOs believed that “smart factory solutions will be the primary drivers of competitiveness in the industry”.
- Automation reduces the impact of the skilled labor shortage.

Domestic Focus

- Through the passing of the CHIPS and IIJA acts, supply chains will be shortened for American industrial corporations.
- First advances through these acts are set to be unveiled this year, such as the first CHIPS act-funded U.S facility.

Sources: Deloitte, PwC, Morningstar, Randstad

Relative Valuation (Capital Goods)

Valuation Output

Valuation Output			
Metric	**Mean**	**Implied Price**	**Implied Return**
EV/Revenue	2.67	162.9322564	-7%
EV/EBITDA	6.08	44.03768765	-295%
P/E	21.79	186.31875	7%
Mean Values		**131.0962314**	-33%

Interpreting the Data

- Due to recent deleveraging and margin increasing efforts, GE has consistently grown net income as shown by above industry average CAGRs
- As GE spins of less profitable businesses, valuing the company in relation to capital goods & industrial conglomerates may not accurately portray the value of the company.

Comps Table

Company	Ticker	Share Price	Market Cap (b)	EV / Revenue	EV / EBITDA	P/E	Inventory Turnover	ROCE	ROIC	Net. Margin	Net. Inc. 3Y CAGR	Net. Inc. 5Y CAGR	Rev. 3Y CAGR	Rev. 5Y CAGR
General Electric	GE	173.93	161.48	2.38	12.08	18.59	0.76	8.36%	2.80%	8.19%	21.94%	19.15%	-3.59%	-6.87%
Siemens	SIEGY	97.01	155.01	2.25	10.24	16.09	0.97	14.99%	7.17%	12.98%	26.99%	13.84%	11.97%	-1.29%
Schneider Electric	SBGSY	47.36	123.16	3.66	17.93	30.67	2.3	13.80%	10.42%	10.84%	23.48%	11.39%	12.58%	6.89%
Philips	PHG	20.61	18.91	1.27	-106.27	-8.61	1.87	-1.06%	-0.59%	0.77%	N/A	N/A	1.62%	0.05%
Northrop Grumman	NOC	470.75	70.63	2.11	19.56	20.07	8.24	-7.27%	-2.67%	5.23%	-13.61%	-8.63%	2.21%	5.47%
Rockwell Automation	ROK	281.78	32.29	3.85	19.5	23.78	0.87	14.68%	10.02%	13.30%	-2.39%	7.34%	13.70%	6.31%
Emerson	EMR	112.02	64.04	4.59	18.57	22.58	0.99	2.33%	3.79%	3.45%	74.27%	37.09%	-1.79%	-2.15%
3M	MMM	108.11	51.06	1.89	-9.16	16.99	0.9	15.80%	10.81%	11.79%	8.50%	N/A	0.51%	-0.05%
ABB	ABBNY	47.75	90.12	2.78	15.39	23.65	0.86	20.37%	6.79%	11.17%	-10.05%	11.49%	7.24%	3.11%
Honeywell	HON	201.18	130.5	3.9	15.7	23.37	0.95	15.70%	12.57%	16.43%	5.79%	-3.51%	3.95%	-2.59%
Hitachi	HTHIY	176.61	82.12	1.23	7.91	15.5	0.95	18.09%	5.96%	10.45%	33.07%	33.78%	5.94%	1.06%
Boeing	BA	187.78	125.28	2.1	51.5	58.82	0.24	5.74%	3.94%	-9.04%	N/A	N/A	9.87%	-5.11%
AVG:	**-**	**160.41**	**92.05**	**2.67**	**6.08**	**21.79**	**1.66**	**10%**	**6%**	**8%**	**16.80%**	**13.55%**	**5.35%**	**0.40%**

Sources: 10-K, Argus, Morningstar, CNN, Macroaxis, SimpyWallSt

Relative Valuation (Aerospace)

Valuation Output

Valuation Output

Metric	Mean	Implied Price	Implied Return
EV/Revenue	3.24	198.6372534	12%
EV/EBITDA	19.81	151.8347143	-15%
P/E	31.91	272.809125	36%
Mean Values		**207.7603642**	16%

Interpreting the Data

- Since GE's new business will be primarily focused on aerospace and defense, in the foreseeable future it may be more accurate to compare GE to other aerospace companies.
- When compared to competitors in this space, GE's valuation ratios are all below industry average.
- This results in a hypothesized fair value 16% above GE's current value.

Comps Table

Company	Ticker	Share Price	Market Cap (b)	EV / Revenue	EV / EBITDA	P/E	Inventory Turnover	ROCE	ROIC	Net. Margin	Net. Inc. 3Y CAGR	Net. Inc. 5Y CAGR	Rev. 3Y CAGR	Rev. 5Y CAGR
General Electric	GE	173.93	161.48	2.38	12.08	18.59	0.76	8.36%	2.80%	8.19%	21.94%	19.15%	-3.59%	-6.87%
RTX	RTX	95.54	127.03	2.4	17.21	42.92	1.34	7.86%	8.92%	7.16%	42.73%	-9.52%	6.79%	14.70%
Northrop Grumman	NOC	470.75	70.63	2.11	19.56	20.07	8.24	-7.27%	-2.67%	5.23%	-13.61%	-8.63%	2.21%	5.47%
Boeing	BA	187.78	125.28	2.1	51.5	58.82	0.24	5.74%	3.94%	-9.04%	N/A	N/A	9.87%	-5.11%
Lockheed Martin	LMT	445.88	107.23	1.82	11.8	16.19	5.15	23.86%	15.81%	10.24%	0.42%	6.52%	1.1%%	4.68%
Airbus	EADSY	45.95	135.13	1.94	16.32	34.29	0.61	12.81%	5.76%	5.79%	76.95%	5.60%	8.19%	-0.16%
General Dynamics	GD	281.16	77.03	2.04	16.43	23.3	1.16	15.02%	8.83%	7.84%	1.53%	-0.15%	3.68%	3.15%
L3Harris	LHX	211.94	40.29	2.72	18.04	27.3	2.5	2.89%	11.78%	6.32%	3.13%	7.74%	2.20%	24.71%%
Safran	SAFRY	55.91	88.61	3.39	20.74	43.01	N/A	3.98%	5.05%	14.56%	67.30%	11.14%	0.45%	4.35%
Honeywell	HON	201.18	130.5	3.9	15.7	23.37	0.95	15.70%	12.57%	16.43%	5.79%	-3.51%	3.95%	-2.59%
BAE Systems	BAESY	69.81	51.99	1.92	12.88	22.81	N/A	12.93%	7.11%	8.05%	12.65%	13.17%	6.18%	6.53%
TransDigm	TDG	1231.2	68.46	12.15	25.51	52.22	0.48	18.64%	16.67%	20.81%	53.89%	10.65%	13.75%	12.00%
AVG:	**-**	**289.25**	**98.64**	**3.24**	**19.81**	**31.91**	**2.14**	**10%**	**8%**	**8%**	**24.79%**	**4.74%**	**4.88%**	**3.29%**

Sources: 10-K, Argus, Morningstar, CNN, Macroaxis, SimpyWallSt

WS0

Discounted Cash Flow (Upside)

Notes:

- As costs and losses incurred by liabilities from other business units are divested, margins are expected to see robust growth during forecasted period.
- Average of analyst forecasts predict 6-9% revenue growth for the short-term foreseeable future with upcoming business split.

Influential Factors:

- The extent to which costs are reduced and margins are increased are relatively uncertain. Conservative non-linear models were made to estimate several growth rates.
- By 2025, GE expected to increase operating margins to >20% and double digit FCF margins.

Unlevered Free Cash Flow Calulation

	Historical				Forecast					Terminal Value
($mm)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2028
Revenue	**75,833**	**56,469**	**58,100**	**67,954**	**73,051**	**78,529**	**84,419**	**90,750**	**97,557**	
% Revenue Growth	*0*	*-34.29%*	*2.81%*	*14.50%*	*7.50%*	*7.50%*	*7.50%*	*7.50%*	*7.50%*	
Less COGS	59,832	45,232	46,654	53,140	54,861	56,513	58,165	59,714	61,168	
Gross Profit	**16,001**	**11,237**	**11,446**	**14,814**	**18,190**	**21,988**	**26,254**	**31,037**	**36,389**	
% Margin	*21.10%*	*19.90%*	*19.70%*	*21.80%*	*24.90%*	*28.00%*	*31.10%*	*34.20%*	*37.30%*	
Less Operating Expenses (Excludes D&A)	15,426	15,932	15,990	16,081	9,317	9,701	10,391	10,787	11,543	
Less Non-Recurring Items	0	0	0	0	0	0	0	0	0	
EBITDA	**2,703**	**-3,073**	**-2,980**	**206**	**7,710**	**11,144**	**14,731**	**19,110**	**23,657**	**Use 2028 EBITDA**
% Margin	*3.6%*	*-5.4%*	*-5.1%*	*0.3%*	*10.6%*	*14.2%*	*17.4%*	*21.1%*	*24.2%*	**and UFCF for**
Less D&A	2,128	1,622	1,564	1,473	1,163	1,144	1,132	1,140	1,189	**Terminal Value**
Plus Unusual Income/Expense Items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**Calc**
EBIT	**9,485**	**-4,695**	**-4,544**	**-1,267**	**8,873**	**12,287**	**15,863**	**20,250**	**24,846**	
% Margin	*12.51%*	*-8.31%*	*-7.82%*	*-1.86%*	*12.15%*	*15.65%*	*18.79%*	*22.31%*	*25.47%*	
Less Taxes	-675	-506	-2,029	-272	828	1,230	1,646	2,147	2,663	
NOPAT	**10,160**	**-4,189**	**-2,515**	**-995**	**8,045**	**11,058**	**14,217**	**18,102**	**22,183**	
Plus D&A	2,128	1,622	1,564	1,473	1,163	1,144	1,132	1,140	1,189	
Less Change in NWC	-30,055	-4,599	-6,137	-3,676	2,189	2,560	2,616	1,695	678	
Less CapEx	-2,316	-1,361	-1,484	-1,568	-1,359	-1,374	-1,368	-1,379	-1,444	
Unlevered Free Cash Flows	**40,027**	**671**	**3,702**	**2,586**	**5,661**	**8,267**	**11,366**	**16,168**	**21,250**	**21,250**

Value of Discounted Cash Flows

	2020	2021	2022	2023	2024	2025	2026	2027	2028	Terminal
Terminal Value										
Unlevered Free Cash Flow	**No input needed**				5,661	8,267	11,366	16,168	21,250	21,250
Discount Period (Years)					1	2	3	4	5	5
Discount Factor					0.92	0.84	0.77	0.71	0.65	0.65
Discounted Cash Flows	**-**	**-**	**-**	**-**	**5,189**	**6,948**	**8,757**	**11,419**	**13,759**	**13,759**

Sources: 10-K, Argus, Morningstar, CNN, Macroaxis, SimpyWallSt

Slide 12

WS0 Make the whole multiple change thing more understandable. Why would multiple go down?

William Storz, 2024-04-01T18:49:36.498

Discounted Cash Flow (Upside)

WACC & Output

- WACC may change depending on Fed. Monetary policy, though Fed. Funds rate expected to stabilize.
- The extent to which GE is able to increase margins and decrease their EV/EBITDA multiple has a large effect on the valuation output. In this scenario, GE is forecasted to reduce its multiple by roughly 35-45% from its historical average.
- Depends also on market valuation. Decreased multiple dependent not only on EBITDA margin growth, but also on enterprise value remaining stagnant or increasing at a relatively lower rate.

Weighted Average Cost of Capital (WACC)	
Debt	
Debt (Current + Long Term)	20,964
Cost of Debt	4.90%
Tax Rate	11.40%
After-Tax Cost of Debt	4.3%
Debt to Total Capitalizatoin	10%
Equity	
Total Equity	185,280
Risk Free Rate	4.01%
Expected Rate of Return	8.61%
Equity Risk Premium	4.60%
Beta	1.22
Cost of Equity	9.62%
Equtiy to Total Capitalization	90%
Total Capitalization	206,244
WACC	**9.08%**

Equity Value Per Share: Multiple Method	WACC				
$173.51	8.08%	8.58%	9.08%	9.58%	10.08%
7.6x	$ 151.83	$ 148.58	$ 145.42	$ 142.34	$ 139.34
8.6x	$ 166.54	$ 162.96	$ 159.47	$ 156.07	$ 152.77
9.6x	$ 181.26	$ 177.34	**$ 173.53**	$ 169.81	$ 166.19
10.6x	$ 195.98	$ 191.72	$ 187.58	$ 183.55	$ 179.62
11.6x	$ 210.69	$ 206.10	$ 201.63	$ 197.28	$ 193.05

Implied IRR						
Initial Cost:	**2024**	**2025**	**2026**	**2027**	**2028**	**Final Return:**
-193,120	5,661	8,267	11,366	16,168	21,250	227,109
Implied IRR:	**8%**					

Discounted Cash Flow (Conservative)

Notes:

- In this model, GE’s margin growth is significantly reduced along with the revenue growth rate estimates.

Influential Factors:

- While analyst estimates are more in line with the upside case, the conservative case provides a more pessimistic estimate should the margin growth in 2023 not be sustainable long term.

Unlevered Free Cash Flow Calulation

	Historical				Forecast					Terminal Value
($mm)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2028
Revenue	**75,833**	**56,469**	**58,100**	**67,954**	**69,313**	**70,699**	**72,113**	**73,556**	**75,027**	
% Revenue Growth	*0*	*-34.29%*	*2.81%*	*14.50%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	
Less COGS	59,832	45,232	46,654	53,140	53,128	53,084	53,039	52,960	52,856	
Gross Profit	**16,001**	**11,237**	**11,446**	**14,814**	**16,185**	**17,604**	**19,074**	**20,596**	**22,170**	
% Margin	*21.10%*	*19.90%*	*19.70%*	*21.80%*	*23.35%*	*24.90%*	*26.45%*	*28.00%*	*29.55%*	
Less Operating Expenses (Excludes D&A)	15,426	15,932	15,990	16,081	8,840	8,734	8,877	8,743	8,877	
Less Non-Recurring Items	0	0	0	0	0	0	0	0	0	
EBITDA	**2,703**	**-3,073**	**-2,980**	**206**	**6,241**	**7,841**	**9,230**	**10,928**	**12,379**	**Use 2028 EBITDA**
% Margin	*3.6%*	*-5.4%*	*-5.1%*	*0.3%*	*9.0%*	*11.1%*	*12.8%*	*14.9%*	*16.5%*	**and UFCF for**
Less D&A	2,128	1,622	1,564	1,473	1,104	1,030	967	924	914	**Terminal Value**
Plus Unusual Income/Expense Items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**Calc**
EBIT	**9,485**	**-4,695**	**-4,544**	**-1,267**	**7,344**	**8,871**	**10,197**	**11,852**	**13,293**	
% Margin	*12.51%*	*-8.31%*	*-7.82%*	*-1.86%*	*10.60%*	*12.55%*	*14.14%*	*16.11%*	*17.72%*	
Less Taxes	-675	-506	-2,029	-272	653	840	1,000	1,190	1,346	
NOPAT	**10,160**	**-4,189**	**-2,515**	**-995**	**6,691**	**8,030**	**9,197**	**10,662**	**11,947**	
Plus D&A	2,128	1,622	1,564	1,473	1,104	1,030	967	924	914	
Less Change in NWC	-30,055	-4,599	-6,137	-3,676	2,424	2,529	2,329	1,349	427	
Less CapEx	-2,316	-1,361	-1,484	-1,568	-1,289	-1,237	-1,168	-1,118	-1,110	
Unlevered Free Cash Flows	**40,027**	**671**	**3,702**	**2,586**	**4,081**	**5,294**	**6,668**	**9,120**	**11,324**	**11,324**

Value of Discounted Cash Flows

	2020	2021	2022	2023	2024	2025	2026	2027	2028	Terminal
Terminal Value										
Unlevered Free Cash Flow	**No input needed**				4,081	5,294	6,668	9,120	11,324	11,324
Discount Period (Years)					1	2	3	4	5	5
Discount Factor					0.92	0.84	0.77	0.71	0.65	0.65
Discounted Cash Flows	-	-	-	-	**3,741**	**4,449**	**5,137**	**6,441**	**7,332**	**7,332**

Sources: 10-K, Argus, Morningstar, CNN, Macroaxis, SimpyWallSt

Discounted Cash Flow (Conservative)

WACC & Output

- The extent to which GE is able to increase margins and decrease their EV/EBITDA multiple has a large effect on the valuation output. In this scenario, GE is forecasted to only reduce its multiple by roughly 15-25% from its historical average.
- Either GE generates less earnings and EBITDA margin growth, or enterprise value growth tracks more closely.

Weighted Average Cost of Capital (WACC)	
Debt	
Debt (Current + Long Term)	20,964
Cost of Debt	4.90%
Tax Rate	11.40%
After-Tax Cost of Debt	4.3%
Debt to Total Capitalizatoin	10%
Equity	
Total Equity	185,280
Risk Free Rate	4.01%
Expected Rate of Return	8.61%
Equity Risk Premium	4.60%
Beta	1.22
Cost of Equity	9.62%
Equtiy to Total Capitalization	90%
Total Capitalization	206,244
WACC	**9.08%**

Equity Value Per Share: Multiple Method

	WACC				
$127.82	8.08%	8.58%	9.08%	9.58%	10.08%
12.5x	$ 118.24	$ 115.65	$ 113.13	$ 110.67	$ 108.28
13.5x	$ 125.94	$ 123.17	$ 120.48	$ 117.86	$ 115.31
14.5x	$ 133.64	$ 130.70	**$ 127.83**	$ 125.05	$ 122.33
15.5x	$ 141.34	$ 138.22	$ 135.19	$ 132.24	$ 129.36
16.5x	$ 149.04	$ 145.75	$ 142.54	$ 139.42	$ 136.39

Implied IRR

Initial Cost:	2024	2025	2026	2027	2028	Final Return:
-143,322	4,081	5,294	6,668	9,120	11,324	179,497
Implied IRR:	**8%**					

Sources: 10-K, Argus, Morningstar, CNN, Macroaxis, SimpyWallSt

Additional Information

Answers to Q's

- **Q:** Will GE be able to meet increasing supply and servicing demands? Increased demand could place manufacturing and supply chain under disruptive strain.
- **A:** Since GE's founding, the company has a long history of innovation, which uniquely enables GE to mitigate the impact of industry headwinds such as COVID-related supply chain disruptions. For example, in 2024, GE plans to invest over $650 million in vertical integration and other related supply chain infrastructure improvements in a total of 22 facilities across 14 states and several international sites.
- **Q:** While it seems like GE has greatly reduced its debt burden and is organically accelerating margin growth, how does this compare to competitors in the aerospace & defense space?
- **A:** General Electric has a low net debt to EBITDA ratio of only 0.23. And its EBIT easily covers its interest expense, being 16.0 times the size. Even more impressive was the fact that General Electric grew its EBIT by 436% over twelve months in 2023. The immense growth in EBIT was mirrored by only a ~52% increase in market cap. In comparison other aerospace and defense industry leaders have net debt to EBITDA ratios of 1.12 (LMT), 4.79 (RTX), 5.25 (HON), 7.01 (NOC).

▶ **Name** USD in Million except per share data	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
▶ Total Assets	163,045	187,788	198,874	253,452	266,048	309,129	377,945	365,183	492,692	648,349
▶ Total Liabilities	134,465	150,206	157,262	216,378	236,187	257,648	295,959	287,692	392,554	511,516
▶ Total Equity	28,580	37,582	41,612	37,074	29,861	51,481	81,986	77,491	100,138	136,833
▼ Debt Maturity Schedule Total										
Debt due in Year 1	1,253	—	4,264	3,321	36,376	13,100	24,700	32,600	50,800	118,900
Debt due in Year 2	1,827	—	3,406	4,968	—	—	—	—	—	—
Debt due in Year 3	1,334	—	784	4,725	15,900	27,200	27,700	21,500	43,000	93,600
Debt due in Year 4	1,580	—	1,841	1,537	—	—	—	—	—	—
Debt due in Year 5	478	—	1,327	6,154	8,400	17,100	18,200	24,900	28,200	51,800
Debt due Beyond	14,493	—	—	—	42,900	52,600	64,000	57,200	76,300	100,700
Debt - Interests Charges and Other Adjustments	—	—	—	—	24	-42	-1,989	11	-24	-20
Total Debt Maturity Schedule Total	**20,965**	—	**11,622**	**20,705**	**103,600**	**109,958**	**132,611**	**136,211**	**198,276**	**364,980**

Sources: Yahoo Finance, Morningstar, Gurufocus, GE IR

Service Sector Breakdown