General Electric (NYSE : GE)

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Company Overview

Core Industrial Operations Reported in Four Segments

Aviation

- Narrow-body, wide-body, and military **aircraft engines** and avionics
  - **65% narrowbody, 47% widebody** market share
- Profit derived from **aftermarket services**
- 30% of industrial revenues
- 65% of revenue is services
- Competes with Raytheon and Rolls Royce

Healthcare

- **Imaging/monitoring equipment**, and contrast media
  - Leader in CT scanners, ultrasound
- 25% of industrial revenues
- 49% of revenue is services
- Competes with Siemens Healthineers and Royal Philips

Power

- **Gas turbines**, steam turbines, and power conversion equipment
  - Powers **1/3 of the world's electricity**
- 24% of industrial revenues
- 70% of revenue is services
- Competes with Siemens Energy, Mitsubishi Heavy Industry

Renewables

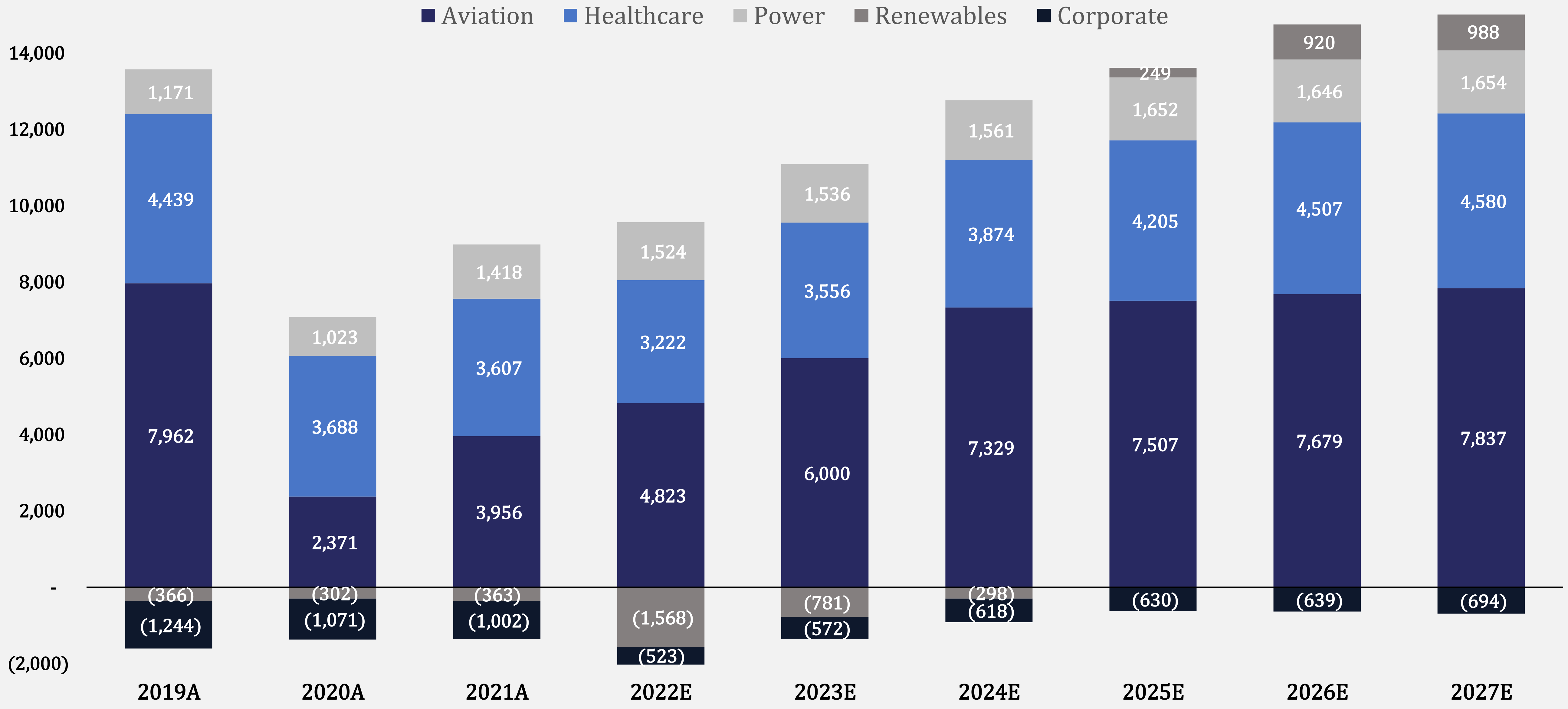
- Onshore and offshore **wind turbines**
  - **50% share of U.S. onshore** wind market
- 21% of industrial revenues
- 16% of revenue is services
- Competes with Vestas, Siemens Gamesa, Goldwind

Investment Thesis

Investment Thesis

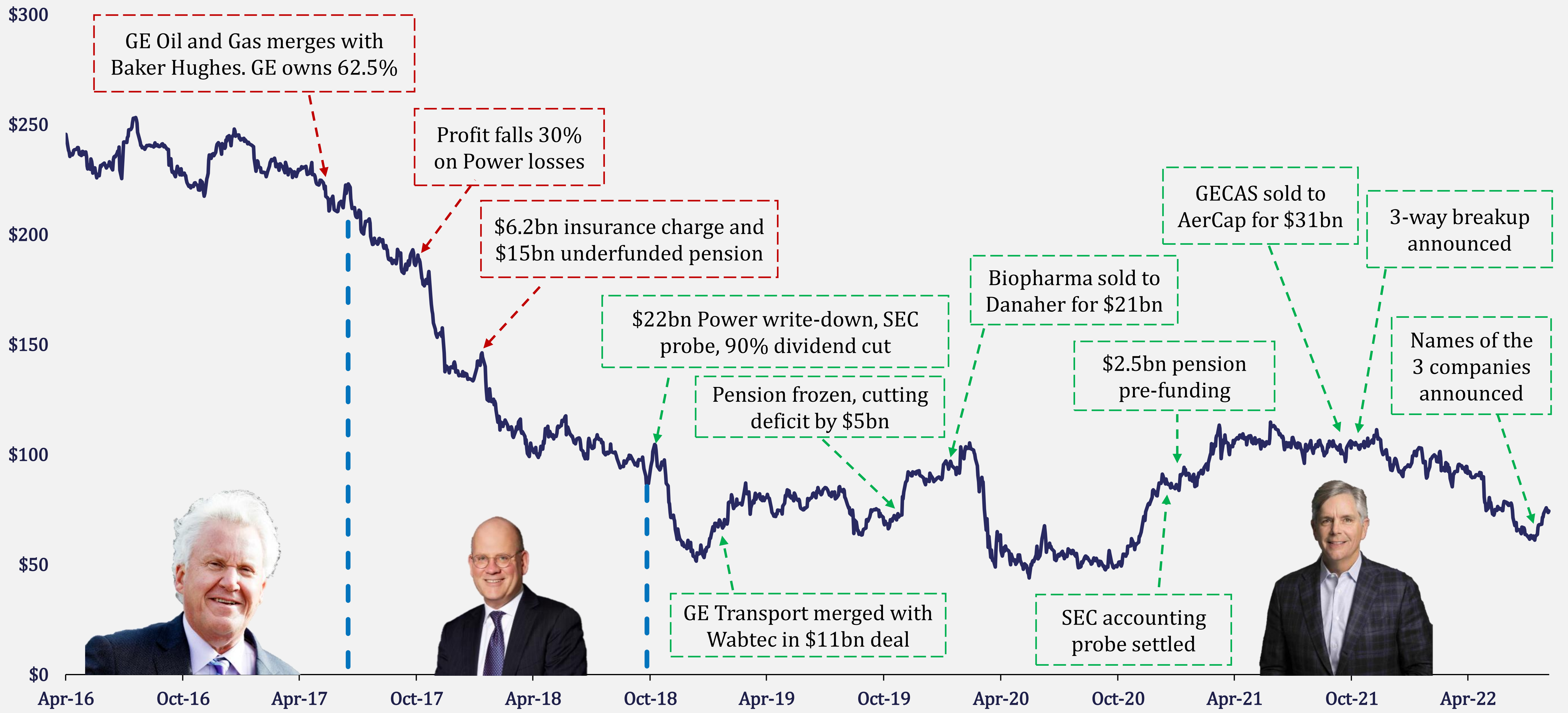
New CEO, New GE	▪ Under Culp, GE's systemic issues stemming from Power overcapacity, unfunded pensions, GE Capital, and lackluster accounting have been resolved ▪ Culp implemented lean manufacturing, executed layoffs, spun-off businesses, and cut costs
Aviation's Strong Position and Recovery from COVID-19	▪ Aviation is well positioned to lead the future of flight, with an industry leading install-base, benefits of scale, and high barriers to entry ▪ As flight volume returns to 2019 levels over the next several years, segment profitability will continue improving from aftermarket shop visits and services
Short-term Issues in HC & Renewables Likely to be Resolved	▪ Healthcare issues in 2022 stem from resolvable supply chain disruptions, and not fundamental issues in an otherwise consistently strong segment ▪ Renewables losses from the 2022 Production Tax Credit expiring and steel inflation are at the trough, with the Inflation Reduction Act extending the PTC for 10 years
Value Creation as a Sum of the Parts	▪ High losses in Renewables over PTC uncertainty and HC cost inflation have distorted recent earnings and obfuscate a great engine business ▪ By 2024, GE will be separated into three leading business and shareholders can choose to only own GE Aerospace, which will not be dragged down by Renewables

EBITDA Projections



New CEO, New GE

Major Corporate Developments



More Efficient, Lean, and De-levered

GE is no Longer a Distressed, Sprawling Conglomerate Thanks to the Efforts of CEO Larry Culp

Structural Challenges GE Faced			
1 Excessive Leverage	Reduced debt by over $50bn and still has a combined $12bn AerCap and Baker Hughes stake to monetize	2 Doubling Down on Coal Power at its Peak	Exited newbuild coal, prioritized profits over market share, and implemented lean to restore profitability
3 Inept Leadership	Replaced 9 of the 13 board directors, brought on a new CFO, and changed segment leadership	4 Unfunded Pension and Legacy LTC Liabilities	Froze pension plans, reduced pension liabilities by $10bn, and made a voluntary $5bn LTC contribution
5 Operational Inefficiencies	Cut 46% of workforce, 50% of corporate costs, and cancelled the construction of new HQ	6 Opaque Accounting	GE adopted one-column reporting & 10-k went from 322pgs → 237pgs

Aviation Strength and Recovery

Strong Positioning

GE is the Dominant Aircraft Engine Leader & Profitability Hinges on Aftermarket Services/Spare Parts

Dominant Leader in an Engine Duopoly

- 65% narrowbody, 47% widebody market share
- Install base of over 39k commercial [19k CFM] and 26k military engines
  - 50% of CFM engines have not had a shop visit
- Exclusive engine for Boeing's 737-Max Family
- Rolls Royce's reputation damaged by Trent 1000

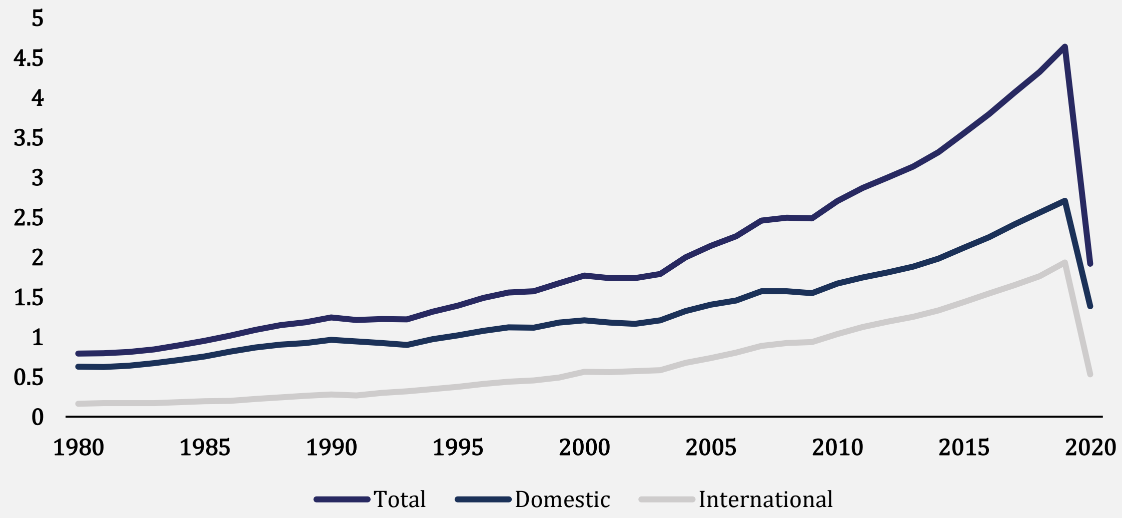
Switching Costs, Barriers to Entry, and Scale

- Switching costs high for airlines, in terms of both time and money
  - Engines can sell for upwards of $40m each
- High barriers to entry due to safety risks, development costs, and regulatory compliance
- GE's install-base scale enables it to have operating margins 2.5x those of Pratt & Whitney

Razor and Blade Business Model

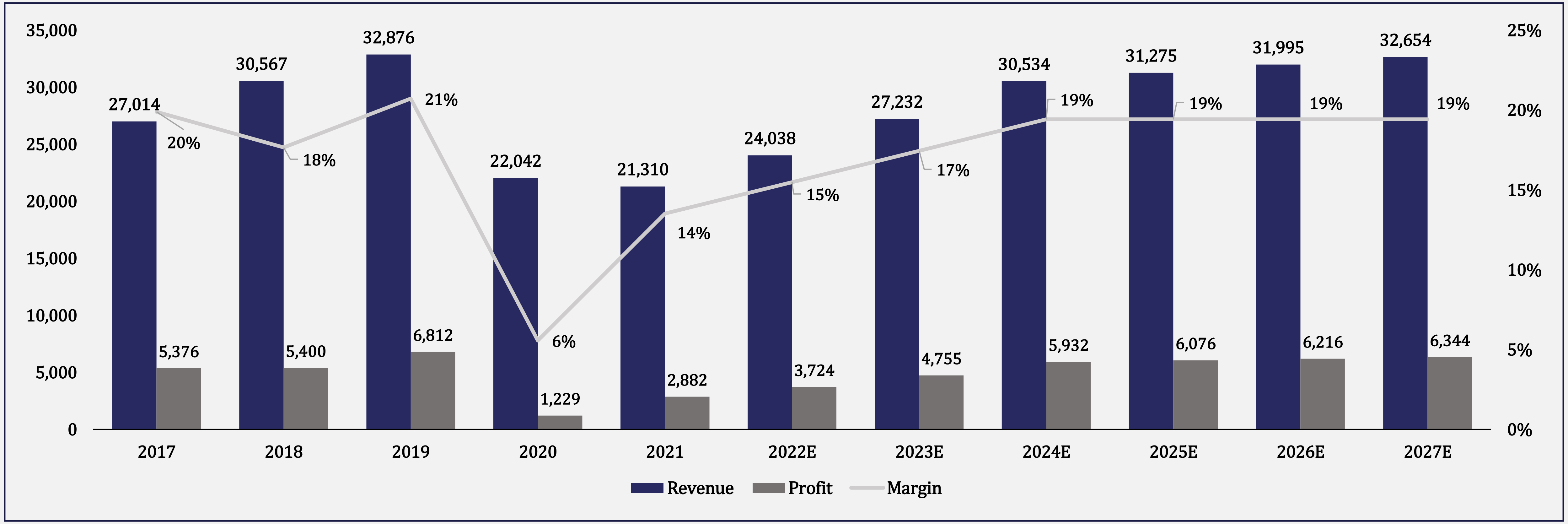
- New engines are often sold at discounts ranging from 70% of list price to at cost
- Profits derived from long term service contracts with customers and selling spare parts
- Shop visits at 5-7/10/15 yr. interval over the lifecycle of the engine
  - Flight hours and therefore the number of active engines flying is key driver for profitability

Air Passenger Traffic (billions) – IEA



Recovery from COVID-19 and Future Growth

As Flight Travel Recovers and Grows, GE Aviation will Generate Outsized Aftermarket Profits



Despite COVID-19, $260bn backlog and $130bn remaining performance obligations

As of May, 65% recovery in RPKs, with GE Aviation profits closely matching at 66% of 2019 levels

HC & Renewables Struggles

Major Macro Developments

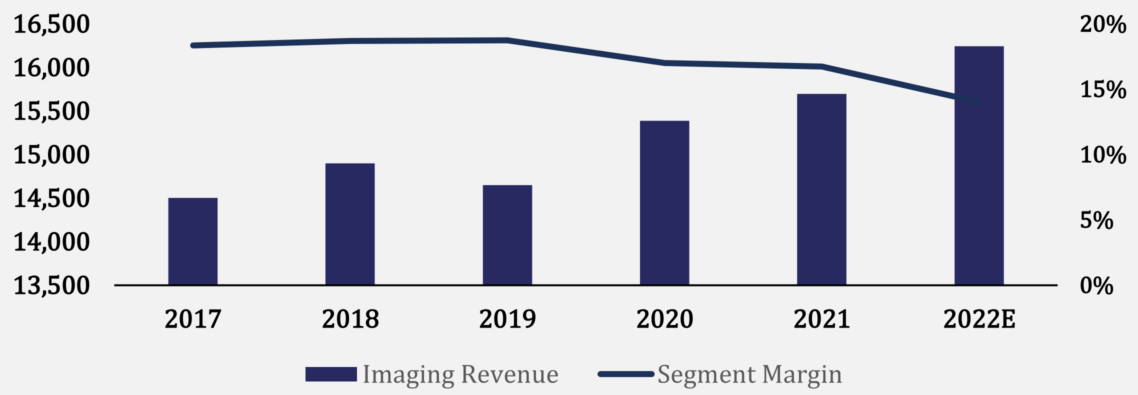
GE's Current Challenges No Longer Idiosyncratic

	2018-2019	2020	2021	2022	2023→
Aviation		COVID-19 & 737-Max	COVID-19		Recovery in Flight Travel
Healthcare				Supply Chain	Supply Chain Normalization
Power	Oversupply & Coal Decline				Servicing Gas Power Turbines
Renewables				PTC Expires	10yr PTC Extension, Margin Improvement

Healthcare and Vernova Valuable Once Issues are Resolved

Shareholders will Reap the Benefits of a Recovery in HC/Renewables Margins or can Exit and Only Hold Aviation

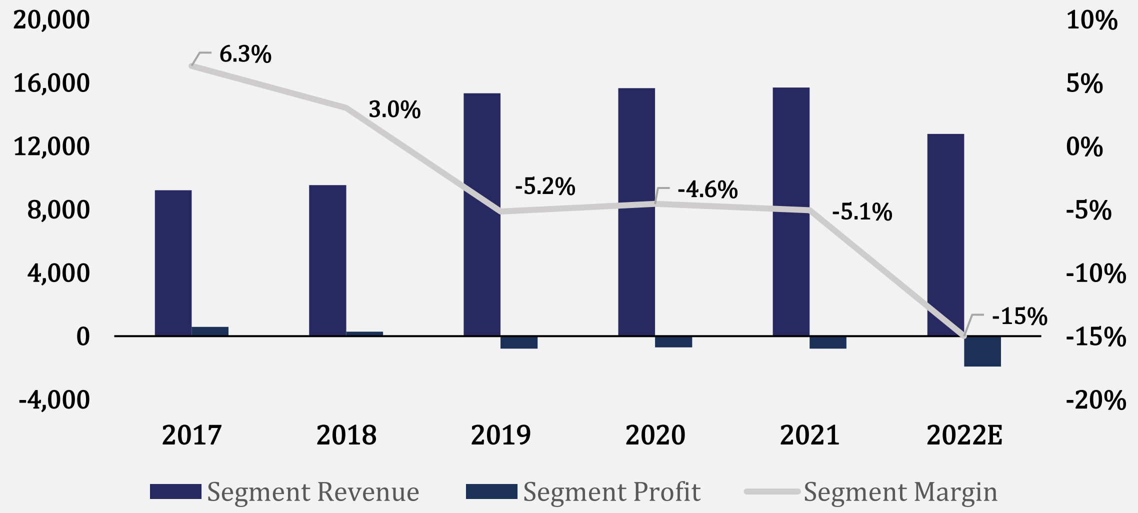
GE Healthcare Historically Strong



Resolvable Supply Chain Issues

- 2022 H1 margins constrained by supply chain shortages, partially from China lockdown
- Revenue remains strong, up 3% in H1
  - 5-year revenue CAGR ~3%
- Return to historical avg. margins [18.6%] by 2026 and slowing, LSD revenue growth through 2027

GE Renewables Hurt by 2022 PTC Expiration

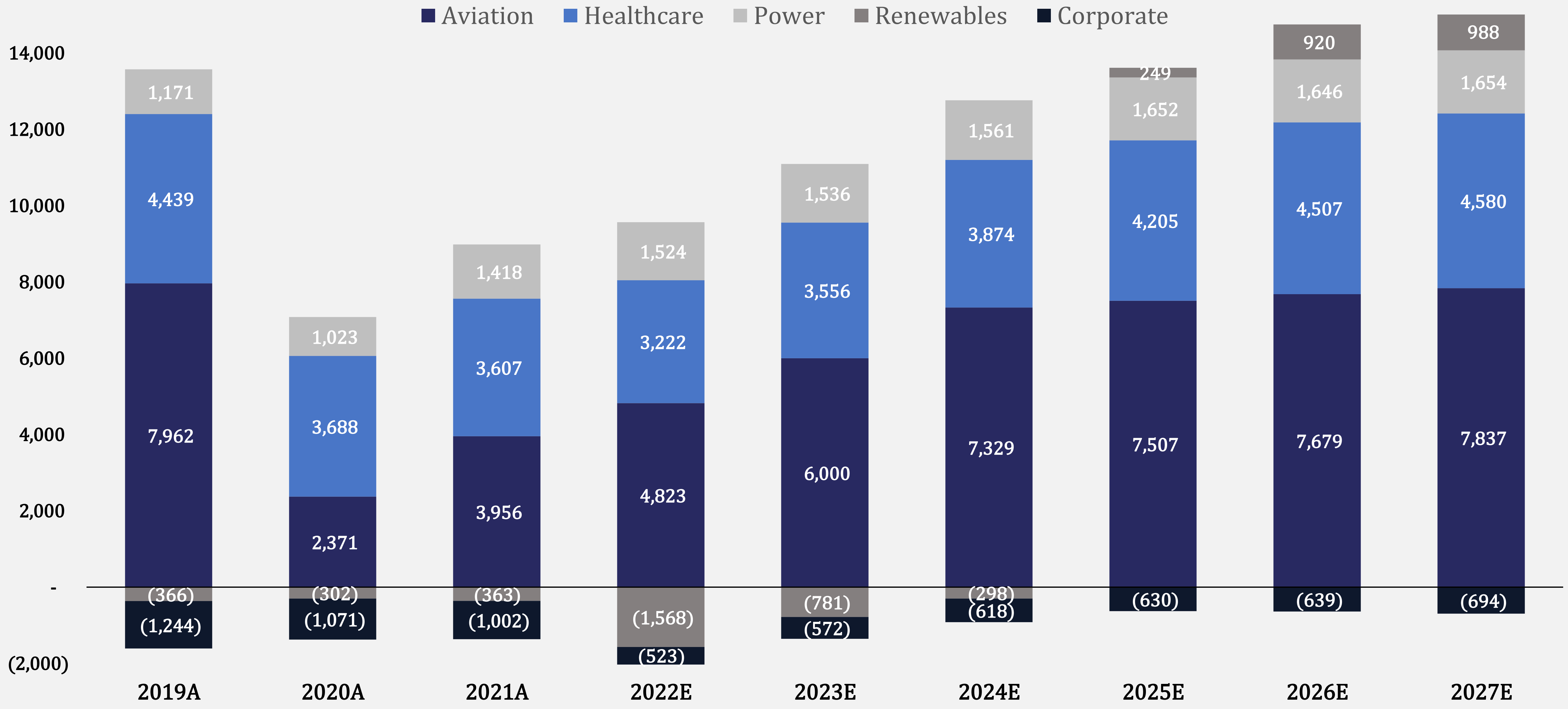


Renewables Recovery Can Add Value to Vernova

- PTC expiration in 2022 damaged margins, as new GW installations projected to contract 22%
  - Renewables still well positioned in U.S. onshore wind market, with over 50% install-share
- Newly passed Inflation Reduction Act provides a 10-year extension to the PTC
- Margins projected to reach breakeven by 2025 and 2017 levels in the following year, as PTC extension rekindles demand

Undervalued as a SotP

EBITDA Projections



Sum of the Parts Valuation

Underlying Assumptions Driving 2027 Valuation

GE Aerospace

- Return to 2019 RPKs + historical avg. operating margins [19%] by 2024
- $23.9bn revenue & $7.6bn in EBITDA X 12.6x → $96.7bn implied EV

GE HealthCare

- LSD revenue growth + margins improve to historical avg. [18.6%] by 2026
- $18.2bn revenue & $4.6bn in EBITDA X 12.9x → $59.2bn implied EV

GE VERNOVA
Our portfolio of energy businesses

- Renewables becomes profitable via PTC extension and cost cutting by 2026
- $26.6bn revenue & $2.6bn EBITDA X 12.2x → $32.4bn implied EV

2027 Equity Value

$181bn EV less Corporate

↓

Net Debt & Pension
Preferred Stock
Insurance Ring
Separation Fees
LTC Contributions

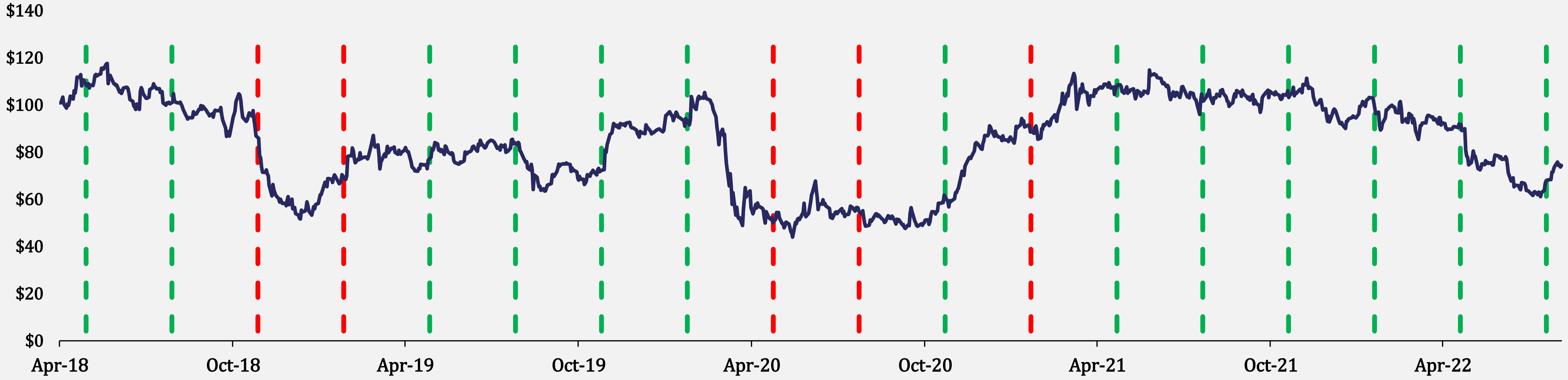
↓

$141 Stock Price
13% IRR

Undervaluation: COVID-19 & 2022 Distorted Earnings

- Despite flights recovering to over 60% of 2019 peaks and over $55bn in debt reduction, shares remain below pre COVID-19 levels
- Shares lower in 2022 over losses in Renewables and Russia impairments, which are temporary
- Vernova profitability catalysts realized outside the 2-3yr forecast period of GE analysts
  - Renewables projected breakeven by FY25 and profitability by FY26

Shares have Barely Budged Since Culp's Arrival, Despite Earnings Beats and Extensive De-risking



Key Risks

Risks

Downside Centers on the Aviation Recovery, Renewables/HC Margins, and Legacy GE Capital

Key Risk Factors

A — Slower Commercial Aviation Recovery

1. Conservative estimate of RPK recovery to 2019 levels by FY2024
2. Risk of a recession offset by flight travel still at ~65% of 2019 levels and benefiting from pent-up demand

B — Inability to Realize Healthcare and Renewables Margin Improvement

1. For H1, Healthcare revenue is strong [+3% YoY] and supply chain is improving [+30bps segment margin QoQ]
2. Renewables benefits from the Inflation Reduction Act extending PTC for 10yrs and cost reductions

C — Unaccounted for Legacy GE Capital Issues

1. Pessimistic model of $6.5bn insurance ring, $7.8bn LTC contributions, and no insurance profits
   - –Higher interest rates reduce LTC liabilities and future pension costs

Appendix

Current Financial Ratios

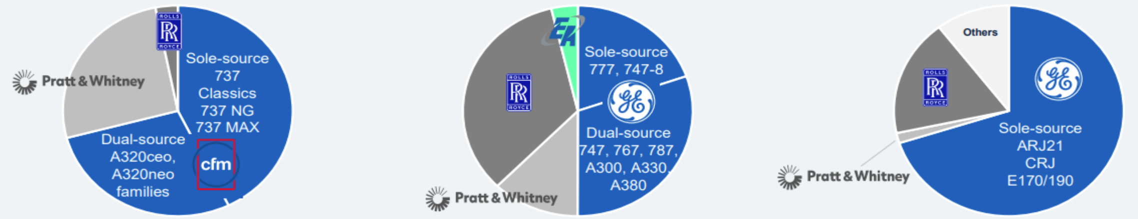
- Share price: $78.90
- Market Cap: $86.5bn
- EV/EBITDA: 9.9x
- Forward P/E: 20.3x
- Dividend Yield: 0.41%
- Net Debt: $19.5bn
- Net Debt Including Pension & Stakes in BKR/AER: $28.3bn
- YTD Performance: -16.5%
- Credit Rating: Baa1/BBB+/BBB
- $74.2bn FY2021 Revenue
- 0.94 Debt/Equity
- FY22 Projected FCF: $4.43bn

Aviation Market Share/Install Base & Flight RPKs

Source: March 2022, Investor Day

Strength in diverse commercial equipment installed base

Global fleet distribution (# of engines)-a)

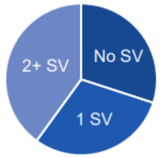


'22–'32 fleet CAGR-b)	MSD	MSD	Flat

GE and JV-d) engines in operation with …

- **73%** Global airlines
- **74%** Widebody freighters
- **89%** Global lessors

WIDEBODY ENGINES

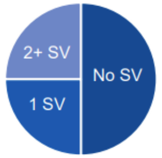


~6,500 total widebody engines in service-a)

~60% of widebody engines have not seen SV2

Expecting MSD SV growth through 2025

CFM56 ENGINES



~19,100 CFM56 engines in service-a)

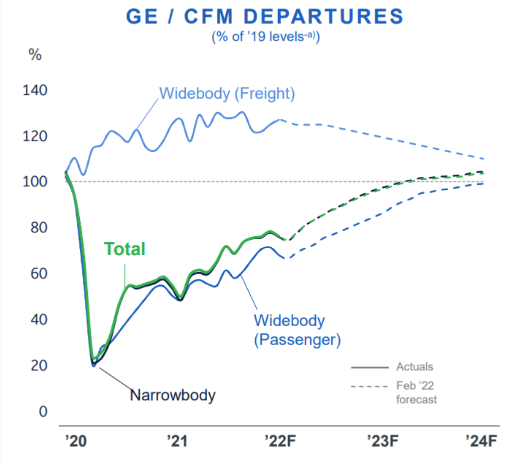
~50% of CFM56 engines have not seen 1st SV

CFM56 SVs peak later in the decade

Focused portfolio across large, growing businesses

	COMMERCIAL PROPULSION	MILITARY PROPULSION	SYSTEMS
Sector size '21-a)	~$40B	~$15B	~$15B
Sector CAGR '21 - '25-a)	High-teens	LSD	HSD
GE Aviation '21 revenue % services	$14.4B >60%	$4.1B >70%	$1.6B ~50%

60% Commercial fleet with one or less shop visits

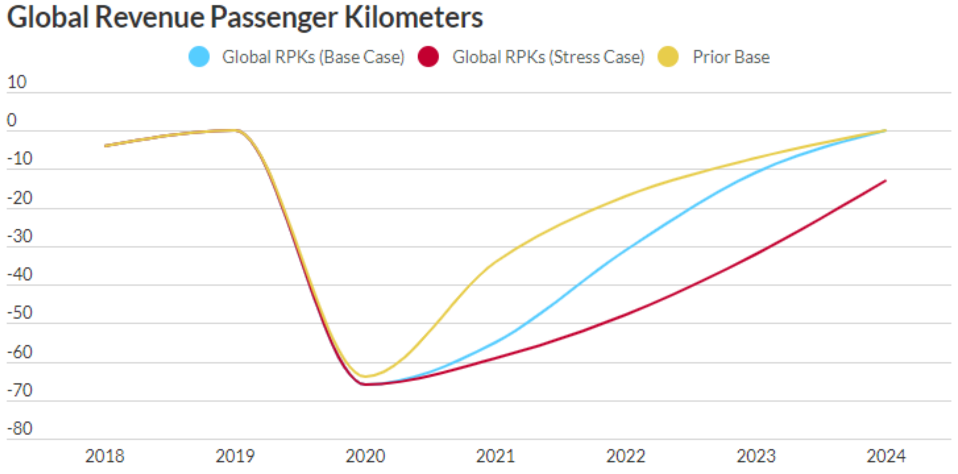


TOTAL DEPARTURES

- Expect narrowbody traffic to recover by early '23, widebody passenger by early '24
- Slow start in '22 due to Omicron … expect momentum to pick up based on customer confidence

WHAT IT MEANS FOR GE

- Departure recovery driving '22 shop visits & organic services revenue growth* more than 25%
- Strong utilization drives billings and cash higher



RPK - Revenue passenger kilometers.
Source: Fitch Ratings

Siemens Healthineers vs GEHC Recent Earnings

Business Development

Siemens Healthineers

(in millions of €)	Q3 2022	Q3 2021	Act.	%-Change Comp.[1]
Revenue	5,186	5,000	3.7%	–5.7%
Adjusted EBIT[2]	765	945	–19%	
Adjusted EBIT margin	14.7%	18.8%		
Net income	364	395	–8%	
Adjusted basic earnings per share[3]	0.43	0.56	–24%	
Basic earnings per share	0.32	0.35	–7%	
Free cash flow[4]	478	852	–44%	

1 Year-over-year on a comparable basis, excluding currency translation and portfolio effects as well as effects in line with revaluation of contract liabilities from IFRS 3 purchase price allocations.
2 Adjusted EBIT is defined as income before income taxes, interest income and expenses and other financial income, net, adjusted for expenses for portfolio-related measures, severance charges and centrally carried pension service and administration expenses (only excluded from adjusted EBIT of the segments).
3 Adjusted basic earnings per share are defined as basic earnings per share, adjusted for portfolio-related measures and severance charges, net of tax.
4 Free cash flow comprises the cash flows from operating activities and additions to intangible assets and property, plant and equipment included in cash flows from investing activities.

Imaging

(in millions of €)	Q3 2022	Q3 2021	Act.	%-Change Comp.[2]
Total adjusted revenue[1]	2,602	2,376	9.5%	2.5%
Adjusted EBIT	478	430	11%	
Adjusted EBIT margin	18.4%	18.1%		

1 Total adjusted revenue is defined as total revenue adjusted for effects in line with revaluation of contract liabilities from IFRS 3 purchase price allocations.
2 Year-over-year on a comparable basis, excluding currency translation and portfolio effects.

The Imaging segment recorded **revenue** of €2.6 billion in the third quarter. This corresponds to growth of 2.5% over the strong prior-year quarter on a comparable basis. Magnetic Resonance posted very strong growth, while revenue in Molecular Imaging and Ultrasound declined due primarily to lockdown-related supply chain disruptions. From a geographical perspective, the Americas region achieved strong growth while the EMEA region recorded slight growth. The Asia, Australia region, faced with considerable lockdown-related declines in China, saw revenue slightly below the prior year.

The segment's **adjusted EBIT margin** of 18.4% was above the level of the prior-year quarter. Cost increases in particular for procurement and logistics, as well as lockdowns in China weighed on the margin, while lower expenses for performance-related remuneration components had a positive effect.

Diagnostics

(in millions of €)	Q3 2022	Q3 2021	Act.	%-Change Comp.[2]
Total adjusted revenue[1]	1,409	1,720	–18.1%	–23.9%
Adjusted EBIT	178	360	–51%	
Adjusted EBIT margin	12.6%	21.0%		

1 Total adjusted revenue is defined as total revenue adjusted for effects in line with revaluation of contract liabilities from IFRS 3 purchase price allocations.
2 Year-over-year on a comparable basis, excluding currency translation and portfolio effects.

SEGMENT REVENUES AND PROFIT	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Healthcare Systems	$ 4,037	$ 3,915	$ 7,913	$ 7,740
Pharmaceutical Diagnostics	482	539	969	1,021
Total segment revenues	$ 4,519	$ 4,454	$ 8,882	$ 8,761
Equipment	$ 2,337	$ 2,257	$ 4,593	$ 4,484
Services	2,182	2,197	4,288	4,278
Total segment revenues	$ 4,519	$ 4,454	$ 8,882	$ 8,761
Segment profit	$ 651	$ 801	$ 1,189	$ 1,500
Segment profit margin	14.4 %	18.0 %	13.4 %	17.1 %

For the three months ended June 30, 2022, segment revenues were up $0.1 billion (1%) and segment profit was down $0.1 billion (19%).

Revenues increased $0.2 billion (4%) organically*. Equipment revenues increased driven by Imaging and Ultrasound mainly due to strong growth in the U.S. and Europe, the Middle East and Africa, partially offset by COVID-19 impacts in China. Services revenues increased, driven by the continued growth of HCS services, partially offset by PDx primarily due to China.

Profit decreased $0.1 billion (13%) organically*, driven by increased material inflation and logistics cost across all product lines, partially offset by increased volume and price. We also continued to make research and development and commercial investments.

For the six months ended June 30, 2022, segment revenues were up $0.1 billion (1%) and segment profit was down $0.3 billion (21%).

RPO as of June 30, 2022 decreased $0.3 billion (2%) from December 31, 2021, primarily due to an increase in equipment orders, more than offset by the impact of contract renewal timing in services.

Revenues increased $0.3 billion (3%) organically*. Equipment revenues increased, driven by Imaging, mainly due to strong growth in the U.S. and Europe, the Middle East and Africa offset by COVID-19 impacts in China. Services revenues increased, driven by the continued growth of HCS services offset by PDx primarily due to China.

Profit decreased $0.2 billion (14%) organically*, driven by increased material inflation and logistics cost across all product lines, partially offset by increased volume and price. We also continued to make research and development and commercial investments.

Sum of the Parts [model base case]

Industrial Segments EBITDA	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Aviation									
D&A	1,150	1,142	1,074	1,099	1,245	1,396	1,430	1,463	1,493
As a % of Segment Revenue	*3%*	*5%*	*5%*	5%	5%	5%	5%	5%	5%
Capital Expenditures	(1,031)	(737)	(445)						
EBITDA	**7,962**	**2,371**	**3,956**	**4,823**	**6,000**	**7,329**	**7,507**	**7,679**	**7,837**
Healthcare									
D&A	702	628	641	650	674	692	710	721	733
As a % of Segment Revenue	*4%*	*3%*	*4%*	4%	4%	4%	4%	4%	4%
Capital Expenditures	(395)	(256)	(278)						
EBITDA	**4,439**	**3,688**	**3,607**	**3,222**	**3,556**	**3,874**	**4,205**	**4,507**	**4,580**
Power									
D&A	880	749	692	709	689	675	667	665	668
As a % of Segment Revenue	*5%*	*4%*	*4%*	4%	4%	4%	4%	4%	4%
Capital Expenditures	(277)	(245)	(189)						
EBITDA	**1,171**	**1,023**	**1,418**	**1,524**	**1,536**	**1,561**	**1,652**	**1,646**	**1,654**
Renewables									
D&A	425	413	432	347	302	287	280	287	308
As a % of Segment Revenue	*3%*	*3%*	*3%*	3%	3%	3%	3%	3%	3%
Capital Expenditures	(455)	(302)	(349)						
EBITDA	**(366)**	**(302)**	**(363)**	**(1,568)**	**(781)**	**(298)**	**249**	**920**	**988**
Corporate									
D&A	384	531	168	283	253	240	238	243	209
Capital Expenditures	(58)	(40)	(25)						
EBITDA	**(1,244)**	**(1,071)**	**(1,002)**	**(523)**	**(572)**	**(618)**	**(630)**	**(639)**	**(694)**

Sum of the Parts [model base case]

Aviation EV		
Peer EV/EBITDA		Remaining GE Aviation
Safran	14.9x	
Raytheon	14.3x	
Rolls Royce	8.6x	
Average	12.6x	
GE Aviation EV	**98,883**	

Healthcare EV		
Peer EV/EBITDA		GE Healthcare -- Spinoff Early 2023
Siemens Healthineers	16.0x	
Royal Phillips	8.8x	
Medtronic	14.0x	
Average	12.9x	
GE Healthcare EV	**59,278**	

Power EV		
Peer EV/EBITDA		GE Vernova -- Spinoff Early 2024
Siemens Energy	6.2x	
Mitsubishi Heavy Industries	9.2x	
Kawasaki Heavy Industries	7.5x	
Average	7.6x	
GE Power EV	**12,561**	

Renewables EV		
Peer EV/EBITDA		
Vestas	23.9x	
Goldwind	10.7x	
Siemens Gamesa	25.6x	
Average	20.1x	
GE Renewables EV	**19,840**	

Corporate EV	
Weighted Average	13.2x
GE Corporate EV	**(9,138)**

Consolidated Valuation	
Total Enterprise Value	181,424
Consolidated Net Debt incl Pension	(26,795)
1/2 Preferred Stock	(2,970)
Insurance Ring Fence	(6,500)
Separation Fees and Dis-synergies	(2,500)
Remaining LTC Contributions	(7,740)
Equity Value for GE Common Shareholders	134,919
Shares Outstanding	959
2027 Implied Share Price	**$ 141**
IRR	**13%**

	2022A	2022E	2023E	2024E	2025E	2026E	2027E
Return	$ (74.9)	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 141
DpS		$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.3
Shares	1,097	1,097	1,075	1,056	1,033	1,002	959
Price	$ 75	$ 86	$ 97	$ 108	$ 119	$ 130	$ 141

Discounted Cash Flow [model base case]

Free Cash Flow	2021A	2022E	2023E	2024E	2025E	2026E	2027E
NOPAT	3,641	3,467	5,196	6,760	7,630	8,480	8,654
D&A	3,009	3,089	3,163	3,290	3,325	3,379	3,411
dNWC	(902)	(2,060)	(116)	(196)	(56)	(83)	(124)
CAPEX	(1,250)	(1,609)	(2,275)	(2,607)	(2,179)	(2,300)	(2,033)
Free Cash Flow	**4,498**	**2,886**	**5,968**	**7,247**	**8,720**	**9,477**	**9,908**
Period		1	2	3	4	5	6
Discount Factor		1.08	1.16	1.25	1.34	1.44	1.55
Discounted FCF		2,682	5,153	5,815	6,503	6,567	6,381
Terminal FCF							127,997
Enterprise Value							161,100
Less Net Debt incl Pension							(28,320)
Less Insurance Ring Fence							(6,500)
Less LTC Contributions							(7,740)
Less Preferred Shares							(2,970)
Equity Value							**115,570**
Shares Outstanding							959
Implied Share Price						**$**	**120.5**
Upside							**61%**

TGR	2.5%