

## General Electric Company

# The final countdown: raising 2024 estimates as Vernova spin-off nears

Reiterate Rating: BUY | PO: 145.00 USD | Price: 129.95 USD

## 2024 guidance's complexity reflects nearing spin-off

2024 guidance is for GE Aerospace and GE Vernova separately – including standalone costs and allocated corporate costs (our detailed GE Aerospace & GE Vernova estimates are inside the report). This makes comparisons with consensus more difficult, but aligns with post-spin reporting. Vernova's \$34-35bn revenue guidance was ahead of \$33.1bn consensus. When adding back \$0.3bn of incremental standalone & corporate costs, EBITDA margin guidance was also above prior consensus. However, Aerospace's guidance for "at least" low double-digit organic growth was below 13.7% y/y consensus. We think supply chain uncertainty drove management to a conservative initial view. Excluding \$0.6bn of incremental standalone & corporate costs, the \$6.0-6.5bn operating profit guidance matched consensus at the high-end. Even with a conservative 2024 guide, management reiterated its 2025 framework. CFO Ghai said on the call, "We are thinking \$7.1-7.6bn of [Aerospace] profit for 2025, which is in line with what we said back in March, adjusted for the incremental expenses." Looking forward, we expect the Vernova spin-off in early April to be a positive catalyst as GE Aerospace becomes a pure-play stock with fewer operational issues versus peers.

## Vernova heads into spin-off with positive momentum

We continue to see signs that Vernova's turnaround is gaining momentum. Onshore Wind was profitable for the second consecutive quarter. Margin expansion here is supported by average backlog margins being ~1,000bp higher than those for current shipments. Grid Solutions' backlog has doubled to over \$12bn, with average margins in the backlog up 500bp y/y. Gas Power is a double-digit operating margin business with 70% services mix. Offshore Wind losses are expected to narrow "slightly" y/y. While these losses remain a significant drag in 2024, they have a limited scope (i.e., \$4bn backlog over 2024-25). GE Vernova and GE Aerospace will hold investor days on March 6th & 7th respectively ahead of the Vernova spin-off in early April.

## Raising 2024E FCF to \$6.3bn, raise PO to \$145

For comparability, we are raising our 2024E adj. EPS by \$0.14 to \$4.36. We also raise our 2024E FCF by \$0.3bn to \$6.1bn, which compares to guidance of >\$5.7-6.1bn. We reiterate our Buy rating. We raise our price objective by \$10 to \$145, based on a 14x EV/EBITDA our 2025E estimate (previously 13x 2025E). Our target multiple is a discount to the 15x peer average on 2024E, which reflects below-peer margins.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.60	2.81	4.36	5.35	6.00
GAAP EPS	0.53	7.99	4.85	5.97	6.76
EPS Change (YoY)	23.2%	8.1%	55.2%	22.7%	12.1%
Consensus EPS (Bloomberg)			4.61	5.99	7.32
DPS	0.32	0.32	0.32	0.32	0.32
Valuation (Dec)					
P/E	50.0x	46.2x	29.8x	24.3x	21.7x
GAAP P/E	245.2x	16.3x	26.8x	21.8x	19.2x
Dividend Yield	0.2%	0.2%	0.2%	0.2%	0.2%

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Timestamp: 23 January 2024 05:58PM EST

23 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	135.00	145.00
2024E Rev (m)	68,806.2	70,365.7
2025E Rev (m)	73,452.8	75,475.3
2026E Rev (m)	76,964.8	79,628.3
2024E EPS	4.22	4.36
2025E EPS	5.24	5.35
2026E EPS	5.81	6.00

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### Stock Data

Price	129.95 USD
Price Objective	145.00 USD
Date Established	23-Jan-2024
Investment Opinion	B-1-7
52-Week Range	77.47 USD - 132.27 USD
Mkt Val (mn) / Shares Out (mn)	141,337 USD / 1,087.6
Free Float	99.0%
Average Daily Value (mn)	584.09 USD
BofA Ticker / Exchange	GE / NYS
Bloomberg / Reuters	GE US / GE.N
ROE (2024E)	16.0%
Net Dbt to Eqty (Dec-2023A)	14.0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

# iQprofile<sup>SM</sup> General Electric Company

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.0%	3.3%	4.8%	5.5%	5.8%
Return on Equity	7.5%	9.7%	16.0%	16.6%	15.7%
Operating Margin	7.9%	8.8%	10.9%	12.0%	12.6%
Free Cash Flow	4,432	3,590	6,100	6,300	6,600

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.1x	1.7x	1.6x	1.4x	1.3x
Asset Replacement Ratio	0.8x	1.1x	1.1x	1.2x	1.3x
Tax Rate	25.1%	26.0%	26.5%	26.0%	26.0%
Net Debt-to-Equity Ratio	40.1%	14.0%	-10.5%	-24.0%	-33.9%
Interest Cover	2.9x	3.8x	6.5x	7.9x	9.0x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	73,601	64,565	70,366	75,475	79,628
% Change	-0.7%	-12.3%	9.0%	7.3%	5.5%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	8,612	7,761	9,748	0	0
% Change	9.6%	-9.9%	25.6%	NM	NA
Net Interest & Other Income	(2,006)	(1,495)	(1,180)	(1,145)	(1,110)
<b>Net Income (Adjusted)</b>	<b>2,868</b>	<b>3,083</b>	<b>4,791</b>	<b>5,881</b>	<b>6,596</b>
<b>% Change</b>	<b>23.6%</b>	<b>7.5%</b>	<b>55.4%</b>	<b>22.8%</b>	<b>12.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,868	3,083	4,791	5,881	6,596
Depreciation & Amortization	1,776	1,483	1,423	1,423	1,423
Change in Working Capital	(67)	2,231	259	(739)	(681)
Deferred Taxation Charge	(651)	(404)	0	0	0
Other Adjustments, Net	1,990	(1,207)	1,227	1,435	1,062
Capital Expenditure	(1,484)	(1,596)	(1,600)	(1,700)	(1,800)
<b>Free Cash Flow</b>	<b>4,432</b>	<b>3,590</b>	<b>6,100</b>	<b>6,300</b>	<b>6,600</b>
<b>% Change</b>	<b>124.8%</b>	<b>-19.0%</b>	<b>69.9%</b>	<b>3.3%</b>	<b>4.7%</b>
Share / Issue Repurchase	(1,048)	(945)	0	0	0
Cost of Dividends Paid	(639)	(589)	(352)	(352)	(352)
Change in Debt	(2,935)	(3,113)	(700)	(1,700)	(1,100)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	17,262	16,967	23,803	28,124	33,329
Trade Receivables	17,976	15,466	16,856	17,873	19,074
Other Current Assets	61,060	60,234	59,773	60,833	61,749
Property, Plant & Equipment	14,478	12,494	12,584	12,788	13,108
Other Non-Current Assets	77,012	57,884	57,782	57,750	58,750
<b>Total Assets</b>	<b>187,788</b>	<b>163,045</b>	<b>170,797</b>	<b>177,368</b>	<b>186,011</b>
Short-Term Debt	3,757	1,253	1,253	1,253	1,253
Other Current Liabilities	51,247	47,797	50,982	52,912	54,939
Long-Term Debt	28,593	19,711	19,011	17,311	16,211
Other Non-Current Liabilities	66,609	65,704	65,994	66,121	66,756
<b>Total Liabilities</b>	<b>150,206</b>	<b>134,465</b>	<b>137,241</b>	<b>137,597</b>	<b>139,159</b>
<b>Total Equity</b>	<b>37,582</b>	<b>28,580</b>	<b>33,556</b>	<b>39,771</b>	<b>46,852</b>
<b>Total Equity &amp; Liabilities</b>	<b>187,788</b>	<b>163,045</b>	<b>170,797</b>	<b>177,368</b>	<b>186,011</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 11.

## Company Sector

Industrials/Multi-Industry

## Company Description

GE is a highly diversified, global industrial company with Aerospace, Power, and Renewable Energy segments. The company's products and services include power generation equipment, aircraft engines, wind turbines, and others. Over half of the business is tied to service and aftermarket support.

## Investment Rationale

We believe GE is making operational improvements and lowering structural costs. The pending spin-off of Vernova (Renewable Energy & Power) creates a catalyst for re-rating over time. Over the medium term, improving FCF should support share price appreciation.

## Stock Data

Average Daily Volume

4,494,698

## Quarterly Earnings Estimates

	2023	2024
Q1	0.27A	0.65E
Q2	0.68A	1.01E
Q3	0.82A	1.21E
Q4	1.03A	1.50E

## Standalone forecasts for Aero & Vernova

For 2024, we forecast 13% y/y revenue growth for GE Aerospace (versus low double-digit guidance) and \$34.4bn revenue for GE Vernova (versus \$34-35bn guidance). We forecast \$6.5bn operating profit for GE Aerospace (versus \$6.0-6.5bn guidance) and 6.1% adjusted EBITDA margin for GE Vernova (versus upper end of mid-single digit margin guidance). We assume all interest expense goes with GE Aerospace, with GE Vernova emerging in a net cash position.

### Exhibit 1: GE Aerospace forecasts (2022-25E)

We forecast \$6.5bn of operating profit in 2024

Aerospace (\$mn)	2022A	2023A	2024E	2025E
Revenue	26,050	31,770	35,922	39,693
EBITDA	5,811	7,215	7,600	8,561
EBITDA margin	22.3%	22.7%	21.2%	21.6%
Segment D&A	<u>1,037</u>	<u>1,100</u>	<u>1,100</u>	<u>1,100</u>
Segment operating profit	4,774	6,115	6,500	7,461
Segment operating margin	18.3%	19.2%	18.1%	18.8%
Corporate allocation	(295)	(233)	(20)	(10)
Interest expense	<u>(2,006)</u>	<u>(1,495)</u>	<u>(1,180)</u>	<u>(1,145)</u>
Pre-tax	2,473	4,387	5,300	6,306
Taxes	(650)	(1,140)	(1,405)	(1,640)
Tax rate	26%	26%	27%	26%
<b>Net income</b>	<b>1,823</b>	<b>3,247</b>	<b>3,896</b>	<b>4,667</b>
Diluted shares	1,101	1,099	1,099	1,099
<b>Adjusted EPS</b>	<b>1.66</b>	<b>2.96</b>	<b>3.54</b>	<b>4.25</b>

Source: BofA Global Research, company filings

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### Exhibit 2: GE Vernova forecasts (2022-25E)

We forecast \$2.1bn of EBITDA in 2024

Vernova (\$mn)	2022A	2023A	2024E	2025E
Revenue	29,093	32,795	34,444	35,782
EBITDA	(107)	911	2,087	2,451
EBITDA margin	-0.4%	2.8%	6.1%	6.9%
Segment D&A	<u>918</u>	<u>900</u>	<u>850</u>	<u>800</u>
Segment operating profit	(1,025)	11	1,237	1,651
Segment operating margin	-3.5%	0.0%	3.6%	4.6%
Corporate allocation	(295)	(233)	(20)	(10)
Interest expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Pre-tax	(1,320)	(221)	1,217	1,641
Taxes	337	57	(323)	(427)
Tax rate	26%	26%	27%	26%
<b>Net income</b>	<b>(983)</b>	<b>(164)</b>	<b>895</b>	<b>1,215</b>
Diluted shares	1,101	1,099	1,099	1,099
<b>Adjusted EPS</b>	<b>(0.89)</b>	<b>(0.15)</b>	<b>0.81</b>	<b>1.10</b>

Source: BofA Global Research, company filings

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GE Aerospace had \$5.7bn of segment-level FCF in 2023. On a stand-alone basis, we estimate this would translate to ~\$4.8bn. Our \$5.1bn 2024 FCF forecast for GE Aerospace compares to guidance of over \$5bn. GE Vernova had \$0.6bn of segment-level FCF in 2023. On a stand-alone basis, we estimate this would translate to ~\$0.3bn. Our \$0.9bn 2024 FCF forecast for GE Vernova compares to guidance of \$0.7-1.1bn.

### Exhibit 3: GE Aerospace standalone FCF forecast (2022-25E)

We forecast \$5.1bn of FCF in 2024

Aerospace (\$mn)	2022A	2023A	2024E	2025E
EBITDA	5,811	7,215	7,600	8,561
Interest expense	(2,006)	(1,495)	(1,180)	(1,145)
Capex	(624)	(830)	(832)	(919)
Cash taxes	(650)	(1,140)	(1,405)	(1,640)
Working capital/other	1,138	1,271	936	352
Corp. allocation	<u>(295)</u>	<u>(233)</u>	<u>(20)</u>	<u>(10)</u>
<b>Standalone FCF</b>	<b>3,374</b>	<b>4,788</b>	<b>5,100</b>	<b>5,200</b>

Source: BofA Global Research, company filings

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### Exhibit 4: GE Vernova standalone FCF forecast (2022-25E)

We forecast \$0.9bn of FCF in 2024

Vernova (\$mn)	2022A	2023A	2024E	2025E
EBITDA	(107)	911	2,087	2,451
Interest expense	0	0	0	0
Capex	(510)	(743)	(744)	(773)
Cash taxes	(291)	(328)	(323)	(427)
Working capital/other	888	753	(1)	(142)
Corp. allocation	<u>(295)</u>	<u>(233)</u>	<u>(20)</u>	<u>(10)</u>
<b>Standalone FCF</b>	<b>(315)</b>	<b>361</b>	<b>1,000</b>	<b>1,100</b>

Source: BofA Global Research, company filings

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## Total GE estimates: higher 2024 FCF and adjusted EPS

We are raising our estimates despite ~\$0.5bn in incremental standalone costs now included across GE Aerospace and Vernova. Our 2024 FCF estimate is \$0.3bn higher at \$6.1bn, which compares to guidance of >\$5.7-6.1bn. We raise our 2024E adjusted EPS by \$0.14 to \$4.36, +55% y/y.



**Exhibit 5: Change in BofA adjusted EPS estimates**

Raising our 2024 adj. EPS to \$4.36

(per share amounts)	2024E	2025E
<b>Prior BofA adj. EPS</b>	<b>\$4.22</b>	<b>\$5.24</b>
Change in EBIT	\$(0.23)	\$(0.27)
Change in Corporate	\$0.32	\$0.34
Change in interest expense	\$0.05	\$0.04
Change in tax rate	\$(0.00)	\$0.00
Sharecount and other (net)	\$0.00	\$(0.00)
<b>Current BofA adj. EPS</b>	<b>\$4.36</b>	<b>\$5.35</b>

Source: BofA Global Research

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**Exhibit 6: Change in BofA FCF estimates**

Raising our 2024E FCF to \$6.1bn

(\$bn)	2024E	2025E
<b>Prior BofA FCF</b>	<b>\$5.8</b>	<b>\$6.0</b>
Change in EBITDA	\$0.2	\$0.1
Change in CapEx	\$(0.1)	\$(0.1)
Change in interest expense	\$0.1	\$0.1
Change in cash taxes	\$(0.1)	\$(0.0)
Change in working capital	\$0.2	\$0.2
<b>Current BofA FCF</b>	<b>\$6.1</b>	<b>\$6.3</b>

Source: BofA Global Research

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## Bridging EBITDA to FCF

We note that 2024 estimates include an incremental \$0.5bn of standalone costs, which aligns with go-forward reporting after the spin-off of GE Vernova in early April.

**Exhibit 7: EBITDA to FCF bridge, 2020-2024E**

We forecast FCF to reach \$6.1bn in 2024

(\$bn)	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E
GE Industrial revenue	73.0	71.1	73.6	13.7	15.9	16.5	18.5	64.6	15.0	17.0	18.1	20.2	70.4
Adj. EBIT	2.2	4.6	5.8	0.9	1.4	1.6	1.8	5.7	1.3	1.8	2.1	2.5	7.7
D&A	3.4	3.0	2.8	0.5	0.5	0.5	0.6	2.1	0.5	0.5	0.5	0.5	2.1
<b>Adj. EBITDA</b>	<b>5.7</b>	<b>7.6</b>	<b>8.6</b>	<b>1.4</b>	<b>1.9</b>	<b>2.1</b>	<b>2.3</b>	<b>7.8</b>	<b>1.8</b>	<b>2.3</b>	<b>2.6</b>	<b>3.0</b>	<b>9.7</b>
EBITDA margin	7.8%	10.7%	11.7%	10.1%	12.0%	13.0%	12.6%	12.0%	12.0%	13.7%	14.4%	14.9%	13.9%
CapEx	-1.7	-1.4	-1.5	-0.3	-0.4	-0.4	-0.5	-1.6	-0.4	-0.4	-0.4	-0.4	-1.6
Interest expense	-2.5	-2.1	-2.0	-0.4	-0.4	-0.4	-0.3	-1.5	-0.3	-0.3	-0.3	-0.3	-1.2
Cash tax expense	-1.3	-1.3	-1.1	-0.2	-0.3	-0.3	-0.4	-1.2	-0.2	-0.4	-0.5	-0.6	-1.6
Cash restructuring	-1.2	-0.8	-0.8	-0.1	-0.2	-0.1	-0.1	-0.5	-0.1	-0.1	-0.1	-0.1	-0.5
<b>Other cash items, subtotal</b>	<b>-6.7</b>	<b>-4.4</b>	<b>-5.4</b>	<b>-1.0</b>	<b>-1.2</b>	<b>-1.2</b>	<b>-1.4</b>	<b>-4.8</b>	<b>-1.0</b>	<b>-1.2</b>	<b>-1.3</b>	<b>-1.4</b>	<b>-4.9</b>
Contract assets/liabilities	1.6	-0.2	2.7	-0.3	1.0	0.2	2.9	3.8	-3.4	0.3	0.3	3.8	1.1
737 MAX impact	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of factoring	-3.4	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other working capital	2.8	0.5	-1.2	0.1	-1.2	0.5	-0.9	-1.6	2.7	-0.8	0.3	-2.0	0.2
<b>Working capital, subtotal</b>	<b>1.1</b>	<b>-0.4</b>	<b>1.4</b>	<b>-0.2</b>	<b>-0.3</b>	<b>0.7</b>	<b>2.0</b>	<b>2.2</b>	<b>-0.7</b>	<b>-0.5</b>	<b>0.6</b>	<b>1.8</b>	<b>1.2</b>
BKR dividend	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>GE FCF</b>	<b>0.3</b>	<b>1.9</b>	<b>4.8</b>	<b>0.1</b>	<b>0.4</b>	<b>1.7</b>	<b>3.0</b>	<b>5.1</b>	<b>0.1</b>	<b>0.6</b>	<b>2.0</b>	<b>3.4</b>	<b>6.1</b>
FCF as % of sales	0.5%	2.7%	6.5%	0.7%	2.6%	10.1%	16.0%	8.0%	0.7%	3.7%	11.0%	16.7%	8.7%
<b>FCF excluding factoring</b>	<b>3.7</b>	<b>2.6</b>	<b>4.8</b>	<b>0.1</b>	<b>0.4</b>	<b>1.7</b>	<b>3.0</b>	<b>5.1</b>	<b>0.1</b>	<b>0.6</b>	<b>2.0</b>	<b>3.4</b>	<b>6.1</b>
FCF as % of sales	5.1%	3.7%	6.5%	0.7%	2.6%	10.1%	16.0%	8.0%	0.7%	3.7%	11.0%	16.7%	8.7%

Source: BofA Global Research, company filings

Note: 2020 FCF excludes BioPharma.

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# GE Aerospace: revenue & margin upside

## 4Q results

Aerospace revenue grew 12% y/y on an organic basis. This was above our +10% y/y forecast. Commercial aftermarket revenue grew 23% y/y organic and Commercial original equipment revenue grew 1% y/y organic. Military revenue decline (1)% y/y organic.

Orders rose 10% y/y organically. Military book-to-bill was ~1.0x.

Operating profit of \$1,598mn resulted in operating margin of 18.8%. This was above our forecast of \$1,530mn and 18.3% operating margin.

## Exhibit 8: GE Aerospace forecast (2019-2025E)

We forecast \$6.5bn in operating profit in 2024

(\$mn)	2019	2020	2021	2022	1Q23A	2Q23A	3Q23A	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
Commercial OE	10,199	6,302	5,365	5,807	1,523	1,818	1,811	1,875	7,027	1,666	1,989	2,162	2,419	8,236	9,265
y/y %	7%	-38%	-15%	8%	34%	35%	23%	1%	21%	9%	9%	19%	29%	17%	13%
Commercial A/M	15,260	8,179	8,996	12,858	3,671	3,883	4,588	4,516	16,658	4,236	4,392	5,248	5,211	19,088	21,475
y/y %	9%	-46%	10%	43%	35%	31%	31%	23%	30%	15%	13%	14%	15%	15%	13%
Military	4,389	4,572	4,136	4,410	1,018	1,342	1,111	1,244	4,714	1,140	1,323	1,144	1,406	5,013	5,238
y/y %	7%	4%	-10%	7%	-2%	22%	8%	-1%	7%	12%	-1%	3%	13%	6%	5%
Systems & other	3,028	2,991	2,814	2,975	770	818	900	885	3,372	847	875	846	1,018	3,585	3,715
y/y %	14%	-1%	-6%	6%	8%	13%	27%	7%	13%	10%	7%	-6%	15%	6%	4%
<b>Aviation</b>	<b>32,876</b>	<b>22,042</b>	<b>21,310</b>	<b>26,050</b>	<b>6,981</b>	<b>7,860</b>	<b>8,409</b>	<b>8,520</b>	<b>31,771</b>	<b>7,890</b>	<b>8,578</b>	<b>9,400</b>	<b>10,054</b>	<b>35,922</b>	<b>39,693</b>
Organic growth	8%	-33%	-3%	22%	25%	28%	25%	12%	22%	13%	9%	12%	18%	13%	11%
<b>Operating profit</b>	<b>6,819</b>	<b>1,245</b>	<b>2,881</b>	<b>4,774</b>	<b>1,326</b>	<b>1,479</b>	<b>1,712</b>	<b>1,598</b>	<b>6,115</b>	<b>1,377</b>	<b>1,499</b>	<b>1,802</b>	<b>1,822</b>	<b>6,500</b>	<b>7,461</b>
Operating margin	20.7%	5.6%	13.5%	18.3%	19.0%	18.8%	20.4%	18.8%	19.2%	17.5%	17.5%	19.2%	18.1%	18.1%	18.8%
Non-cash charges		1,158	475												
Inc./Dec. margin ex-charges	15%	41%	-130%	30%	30%	19%	25%	18%	23%	6%	3%	9%	15%	9%	25%

Source: BofA Global Research estimates, company filings

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## BofA forecasts

For 1Q24, we forecast 13% y/y organic revenue growth and \$1.4bn profit, or an operating margin of 17.5%. This reflects an incremental ~\$150mn of standalone and run-off corporate expenses compared to 1Q23.

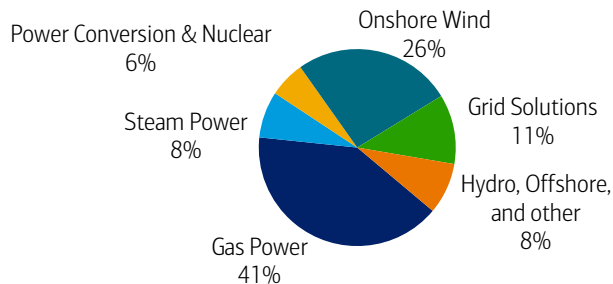
Management's 2024 guidance is for at least low double-digit organic revenue growth and operating profit of \$6.0-6.5bn. For 2024, we forecast 13% y/y organic revenue growth. Including \$0.6bn of incremental standalone and run-off corporate expenses, these assumptions yield our \$6.5bn operating profit forecast.



# GE Vernova: turnaround has momentum

## Exhibit 9: GE Vernova revenue by segment (2023E)

Gas power and onshore wind are the largest businesses within GE Vernova



Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

## 4Q results

Vernova revenue grew 15% y/y on an organic basis. This included Power up 12% y/y (above our 0% forecast) and Renewable up +19% y/y (above our 6% forecast). Gas power grew 12% y/y. Grid Solutions grew >10% y/y for the fifth consecutive quarter. Offshore Wind revenue more than doubled as GE shipped equipment on its two existing projects in backlog.

Power operating profit of \$759mn drove a 13.1% operating margin, down (210)bp y/y organically due largely to higher equipment revenue mix. This was above our 11.5% forecast. Renewable segment margin of (8.2)% was better than our (9.4)% estimate. Segment loss of \$(347)mn was roughly in line with our \$(343)mn forecast.

## Exhibit 10: Vernova forecast (2019-2025E)

We forecast \$2.1bn of EBITDA in 2024

(\$mn)	2019	2020	2021	2022	1Q23	2Q23	3Q23	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
<b>Power</b>															
Gas Power	13,122	12,655	12,080	12,072	2,867	3,052	2,952	4,418	13,290	2,956	3,269	3,014	4,507	13,753	14,233
Steam Power	4,021	3,557	3,241	2,643	541	649	571	743	2,505	540	801	570	394	2,307	2,087
Power Conversion & Nuclear	1,482	1,378	1,582	1,547	412	450	450	625	1,938	438	434	430	654	1,947	1,957
<b>Renewable</b>															
Onshore Wind	10,421	10,881	11,026	8,373	1,502	2,316	2,431	2,285	8,534	1,686	2,243	2,788	2,512	9,228	10,063
Grid Solutions	4,016	3,585	3,207	3,086	824	923	946	1,060	3,753	894	989	1,008	1,206	4,097	4,491
Hydro, Offshore, and other	900	1,200	1,464	1,518	511	611	773	868	2,763	626	717	870	933	3,146	2,989
<b>Vernova revenue</b>	<b>33,962</b>	<b>33,256</b>	<b>32,600</b>	<b>29,239</b>	<b>6,657</b>	<b>8,001</b>	<b>8,125</b>	<b>9,999</b>	<b>32,782</b>	<b>7,140</b>	<b>8,454</b>	<b>8,679</b>	<b>10,206</b>	<b>34,479</b>	<b>35,820</b>
y/y %		-2%	-2%	-10%	4%	10%	14%	18%	12%	7%	6%	7%	2%	5%	4%
Power op. profit	386	287	725	1,216	75	377	238	759	1,449	148	428	241	611	1,427	1,485
Renewable op. profit	-791	-715	-796	-2,241	-414	-359	-317	-347	-1,437	-252	-111	65	107	-190	166
<b>Vernova operating profit</b>	<b>-405</b>	<b>-428</b>	<b>-70</b>	<b>-1,025</b>	<b>-340</b>	<b>18</b>	<b>-79</b>	<b>412</b>	<b>11</b>	<b>-104</b>	<b>317</b>	<b>306</b>	<b>718</b>	<b>1,237</b>	<b>1,651</b>
Operating margin	-1.2%	-1.3%	-0.2%	-3.5%	-5.1%	0.2%	-1.0%	4.1%	0.0%	-1.5%	3.8%	3.5%	7.0%	3.6%	4.6%
D&A	1,305	1,162	1,125	918	225	225	225	225	900	213	213	213	213	850	800
<b>EBITDA</b>	<b>900</b>	<b>734</b>	<b>1,055</b>	<b>-107</b>	<b>-115</b>	<b>243</b>	<b>146</b>	<b>637</b>	<b>911</b>	<b>108</b>	<b>530</b>	<b>519</b>	<b>930</b>	<b>2,087</b>	<b>2,451</b>
EBITDA margin	2.7%	2.2%	3.2%	-0.4%	-1.7%	3.0%	1.8%	6.4%	2.8%	1.5%	6.3%	6.0%	9.1%	6.1%	6.8%

Source: Global Research, company filings

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## BofA forecasts

For 1Q24, we forecast Vernova revenue to grow revenue 7% y/y on an organic basis. We forecast \$108mn EBITDA, or a 1.5% margin.

For 2024, we forecast Vernova to have +5% y/y organic revenue growth and a 6.1% EBITDA margin, which includes ~\$300mn (or ~90bp) of incremental standalone and corporate costs. This drives our EBITDA forecast of \$2.1bn.

# Balance sheet update

In November 2023, GE sold its remaining 30.7mn shares of AerCap (AER) raising approximately \$2.0bn. Net debt declined by \$3.7bn sequentially in 4Q23 to \$4.0bn, or 0.5x trailing twelve months adjusted EBITDA.

GE has a \$1.0bn AerCap note and 61.6mn GE Healthcare shares worth \$4.6bn at current market prices.

## Exhibit 11: Net debt to EBITDA 4Q23

Leverage decreased to 0.5x, or 1.3x including pension

(\$mn)	4Q22	1Q23	2Q23	3Q23	4Q23	Q/Q change
Short-term debt	3,739	2,262	1,882	1,334	1,253	-81
Long-term debt	20,320	20,159	19,900	19,488	19,711	223
Preferred shares	5,795	2,795	2,795	0	0	0
<b>Gross debt</b>	<b>29,854</b>	<b>25,216</b>	<b>24,577</b>	<b>20,822</b>	<b>20,965</b>	<b>143</b>
Cash	15,810	12,001	12,766	13,127	16,967	3,840
<b>Net debt</b>	<b>14,044</b>	<b>13,215</b>	<b>11,811</b>	<b>7,695</b>	<b>3,998</b>	<b>-3,697</b>
TTM EBITDA	5,238	5,671	6,014	7,270	7,742	472
<b>Net debt to EBITDA</b>	<b>2.7x</b>	<b>2.3x</b>	<b>2.0x</b>	<b>1.1x</b>	<b>0.5x</b>	
Pension	6,923	6,923	6,923	6,923	6,425	-498
Net debt including pension	20,967	20,138	18,734	14,618	10,423	-4,195
TTM EBITDA	5,238	5,671	6,014	7,270	7,742	472
<b>Net debt &amp; pension to EBITDA</b>	<b>4.0x</b>	<b>3.6x</b>	<b>3.1x</b>	<b>2.0x</b>	<b>1.3x</b>	

Source: BofA Global Research, company filings

Note: 4Q22 results pro forma for the spinoff of GE Healthcare

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## 4Q23 adj. EPS is \$0.15 beat vs. BofA

Adjusted EPS of \$0.15 was above BofA's \$0.88 estimate and the Street's \$0.91. Organic revenue grew +13% y/y, above our +6% forecast.

**Aerospace** was a \$0.05 beat on higher revenue (+12% y/y organic vs. our +10% estimate) and stronger margin (18.8% vs. our 18.3% estimate). **Renewable** was in line on higher revenue (+23% y/y organic vs. our +6% estimate) and better margin (-8.2% vs. our -9.4% estimate). **Power** was a \$0.12 beat on better revenue (15% y/y organic vs. our 0% estimate) and stronger margin (13.1% vs. our 11.5% estimate). Lower corporate expenses were \$0.01 boost. In total, adjusted operating profit was \$0.17/sh above our estimate. Higher interest expense was a \$(0.03) drag and a lower adjusted tax rate was a \$0.01 boost

### Exhibit 12: 4Q23 variance analysis

Adjusted EPS of \$1.03 was \$0.15 above our estimate

	Actual	Reported		Estimated		Variation Versus BofA Est.		
	4Q:22A	4Q:23A	Y/Y % Chg.	4Q:23E	Y/Y % Chg.	Dollar	Percentage	EPS
<i>(in US\$ mn, except per share data)</i>								
<b>Revenue</b>								
Power	5,030	5,786	15%	5,110	2%	676	13%	
Renewable Energy	3,413	4,213	23%	3,652	7%	561	15%	
Aerospace	7,615	8,520	12%	8,351	10%	169	2%	
Healthcare	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
<b>Segment revenue</b>	<b>16,058</b>	<b>18,519</b>	<b>15%</b>	<b>17,113</b>	<b>7%</b>	<b>1,406</b>	<b>8%</b>	
Corporate items & eliminations	(13)	(5)	NM	(17)	NM	12	-71%	
<b>Total revenue</b>	<b>16,045</b>	<b>18,514</b>	<b>15%</b>	<b>17,096</b>	<b>7%</b>	<b>1,418</b>	<b>8%</b>	
<b>Operating profit</b>								
Power	692	759	10%	586	-15%	173	30%	\$0.12
Renewable Energy	(454)	(347)	NM	(343)		(4)	NM	\$(0.00)
Aerospace	1,434	1,598	11%	1,530	7%	68	4%	\$0.05
Healthcare	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Segment operating profit</b>	<b>1,672</b>	<b>2,010</b>	<b>20%</b>	<b>1,772</b>	<b>6%</b>	<b>238</b>	<b>13%</b>	<b>\$0.17</b>
Corporate items & eliminations	(306)	(237)	NM	(250)	NM	13	NM	\$0.01
<b>Total operating profit</b>	<b>1,366</b>	<b>1,773</b>	<b>30%</b>	<b>1,522</b>	<b>11%</b>	<b>251</b>	<b>16%</b>	<b>\$0.17</b>
<b>Operating margin</b>								
Power	13.8%	13.1%	(60 bp)	11.5%	(230 bp)	170 bp		
Renewable Energy	-13.3%	-8.2%	510 bp	-9.4%	390 bp	120 bp		
Aerospace	18.8%	18.8%	(10 bp)	18.3%	(50 bp)	40 bp		
Healthcare	N/A	N/A	N/A	N/A	N/A	N/A		
Segment operating margin	10.4%	10.9%	40 bp	10.4%	(10 bp)	50 bp		
<b>Total operating margin</b>	<b>8.5%</b>	<b>9.6%</b>	<b>110 bp</b>	<b>8.9%</b>	<b>40 bp</b>	<b>70 bp</b>		
<b>Total EBIT</b>	<b>1,366</b>	<b>1,773</b>	<b>30%</b>	<b>1,522</b>	<b>11%</b>	<b>251</b>	<b>16%</b>	<b>\$0.17</b>
Interest expense	456	328	-28%	285	-38%	43	15%	\$(0.03)
Income taxes	185	307	66%	272	47%	35	13%	\$0.01
Tax rate	N/A	21.2%	N/A	22.0%	N/A	(80 bp)		
<b>Adj. net income</b>	<b>725</b>	<b>1,138</b>	<b>57%</b>	<b>965</b>	<b>33%</b>	<b>173</b>	<b>18%</b>	<b>\$0.15</b>
<b>Adjusted EPS</b>	<b>\$0.66</b>	<b>\$1.03</b>	<b>56%</b>	<b>\$0.88</b>	<b>33%</b>	<b>\$0.15</b>	<b>18%</b>	
Diluted shares	1,095	1,100	0%	1,099	0%	1	0%	\$(0.00)
Non-op. pension costs	84	317	277%	(78)	-193%	395	-506%	\$0.36
Other adjustments	769	134	-83%	(66)	-109%	200	N/A	\$0.18
<b>GAAP net income</b>	<b>1,578</b>	<b>1,589</b>	<b>1%</b>	<b>821</b>	<b>-48%</b>	<b>768</b>	<b>94%</b>	<b>\$0.69</b>

Source: BofA Global Research, company filings

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## Sum-of-the-parts supports \$145 PO

Starting with our 2025E segment EBITDA estimates, we allocate corporate expenses equally. Our \$2.9bn 2025E net cash estimate conservatively includes \$6.4bn of after-tax pension liabilities, which we do not typically treat as debt. GE will not have to contribute to the pension through 2029. We assume \$2bn in further monetization of GE Healthcare equity stake through year-end 2025 (versus current fair value of approximately \$4.5bn).

### Exhibit 13: Sum of the parts analysis using 2025 estimates

Aerospace represents most of the total value of GE

(\$bn, 2025E)	'25E EBITDA	PF '25E EBITDA	EV/EBITDA	Implied EV	Net debt	Leverage	Equity value	Equity value/share
Aerospace	8.6	8.6	15x	132.5	(0.6)	-0.1x	133.1	\$121
Vernova	2.5	2.5	9x	23.2	(2.5)	-1.0x	25.7	\$23
Corporate	0.1							
<b>Total GE</b>	<b>11.1</b>	<b>11.1</b>	<b>14x</b>	<b>155.6</b>	<b>(3.1)</b>	<b>-0.3x</b>	<b>158.8</b>	<b>\$145</b>

Source: BofA Global Research

Note: Pro forma 2025 adjusted EBITDA allocates corporate expenses equally between Vernova (Power and Renewable Energy) and GE Aerospace.

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**GE Aerospace** is one of the strongest global aviation franchisees and carries above-peer margins. Contractual agreements with airlines and lessors add to its revenue visibility. Our 15x multiple compares to the 13x peer average on 2024E (Raytheon Technologies, Safran). **GE Vernova's** 9x multiple compares to Vestas Wind Systems at 15x and Siemens Energy at 6x on 2024E.

## Valuation

We base our \$145 price objective on a 14x EV/EBITDA multiple of our 2025 estimates. Our target multiple is a discount to the 15x peer average on 2024 estimates, which reflects below-peer margins. We argue the pending spin-off of GE Vernova (Energy and Renewable segments) will drive a re-rating of GE Aerospace.

### Exhibit 14: GE valuation versus peers

Our \$145 price objective is based on 14x EV/EBITDA multiple our 2025 estimates

Company	Ticker	Stock Price 1/23/2024	P/E		EV/EBITDA		EBITDA Margin		EPS Growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Eaton	ETN	\$243.25	26.4 x	24.8 x	20.0 x	18.7 x	20.7%	20.7%	5%	7%
Honeywell	HON	\$202.94	20.1 x	18.0 x	14.1 x	12.9 x	26.4%	27.4%	10%	12%
Siemens	SMAWF	€ 162.04	16.9 x	14.6 x	10.7 x	9.5 x	18.2%	18.6%	0%	15%
Raytheon Technologies	RTX	\$89.55	<u>17.2 x</u>	<u>16.0 x</u>	<u>14.1 x</u>	<u>13.3 x</u>	<u>15.4%</u>	<u>15.5%</u>	<u>4%</u>	<u>8%</u>
<b>Average</b>			<b>20.2 x</b>	<b>18.4 x</b>	<b>14.7 x</b>	<b>13.6 x</b>	<b>20.2%</b>	<b>20.5%</b>	<b>5%</b>	<b>10%</b>
<b>General Electric*</b>	<b>GE</b>	<b>\$129.95</b>	<b>29.8 x</b>	<b>24.3 x</b>	<b>14.8 x</b>	<b>12.5 x</b>	<b>13.8%</b>	<b>14.7%</b>	<b>55%</b>	<b>23%</b>
<b>General Electric at PO</b>		<b>\$145</b>	<b>33.3 x</b>	<b>27.1 x</b>	<b>16.5 x</b>	<b>14.0 x</b>				

Source: BofA Global Research estimates, Bloomberg, company report

Note: Estimates calendarized for December 31st year end

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## Price objective basis & risk

### General Electric Company (GE)

We base our \$145 price objective on a 14x EV/EBITDA multiple of our 2025 estimates. Our target multiple is in line with the 15x peer average on 2024 estimates which reflects below-peer margins.

Downside risks to our PO are 1) the pace of the recovery in Aerospace, 2) progress on Renewable's turnaround, and 3) transactional risks relating to pending spin-off of Vernova (Renewable Energy & Power).

## Analyst Certification

I, Andrew Obin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

BofA Securities is currently acting as a financial advisor to General Electric Co in connection with its proposed plan to form three public companies focused on Aviation, Healthcare, and Energy, which was announced on November 9, 2021.

### US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
<b>NEUTRAL</b>				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
<b>UNDERPERFORM</b>				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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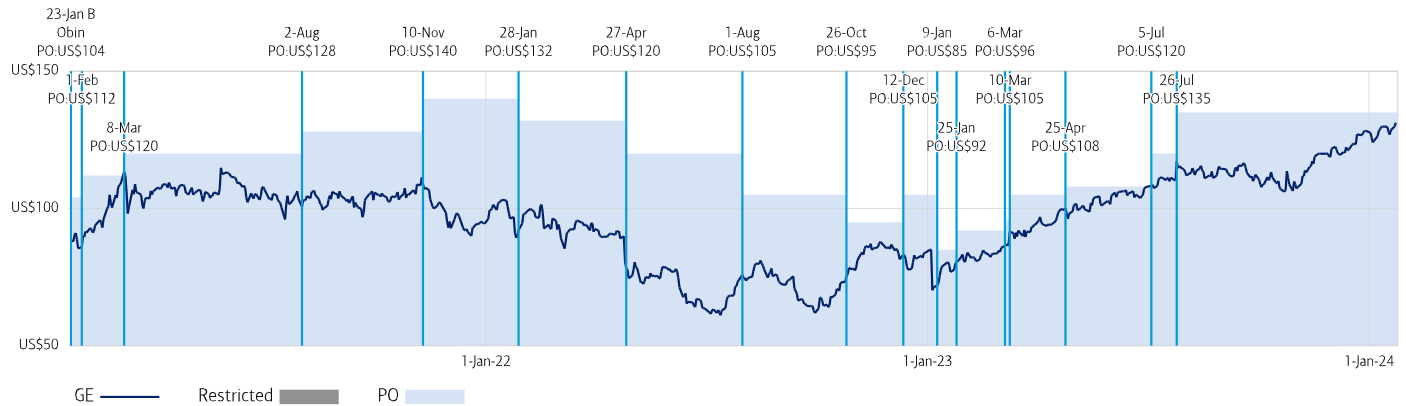
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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