

## General Electric Company

## 4Q23 first look: finishing strong, greater standalone costs in '24 guidance

Maintain Rating: BUY | PO: 135.00 USD | Price: 131.23 USD

## \$0.12 adj. EPS upside with better revenue and margins

4Q23 adjusted EPS of \$1.03 was \$0.12 above \$0.91 consensus and above \$0.78-0.88 guidance. Relative to our estimates, both Aerospace and Vernova results showed revenue and margin upside. Adjusted revenue rose 13% y/y organically (versus our 6% y/y estimate). On an organic basis, margins expanded +50bp y/y. FCF of \$3.0bn was above our \$2.9bn estimate. Orders grew 7% y/y organically, with the cancelation of a large offshore wind project partially offsetting strong onshore wind orders. We maintain our Buy rating on backlog visibility and improving FCF trends.

## 2024 guidance includes higher standalone costs

General Electric (GE) Aerospace is guided to have low double-digit or more organic revenue growth (versus 13.7% consensus). 2024 guidance for \$6.0-6.5bn operating profit (versus \$7.1bn consensus) but includes \$0.6bn of incremental stand-alone and "run off" corporate costs. GE Aerospace 2024 FCF is expected to be greater than \$5bn. GE Vernova is guided to have \$34-35bn revenue (versus \$33.1bn consensus) and mid-single digit adjusted EBITDA margin (including \$0.3bn of incremental stand-alone costs). GE Vernova 2024 FCF is guided to be \$0.7-1.1bn. On a combined basis, GE expects 1Q24 adj. EPS of \$0.60-0.65, which is below consensus of \$0.71, but brackets our \$0.63 estimate.

## 4Q23 adj. EPS of \$1.03 beats consensus by \$0.12

Adjusted EPS of \$0.15 was above BofA's \$0.88. 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.

## Looking ahead: Vernova spin in April

GE is due to host investor days for GE Vernova on March 6th and GE Aerospace on March 7th (both in New York City). GE has stated it plans to spin-off Vernova in early April under the ticker GEV.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.11	2.60	2.65	4.22	5.24
GAAP EPS	(2.84)	0.53	7.29	4.55	5.71
EPS Change (YoY)	502.9%	23.2%	1.9%	59.2%	24.2%
Consensus EPS (Bloomberg)			2.65	4.61	5.99
DPS	0.32	0.32	0.32	0.32	0.32
Valuation (Dec)					
P/E	62.2x	50.5x	49.5x	31.1x	25.0x
GAAP P/E	NM	247.6x	18.0x	28.8x	23.0x
Dividend Yield	0.2%	0.2%	0.2%	0.2%	0.2%

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## Stock Data

Price	131.23 USD
Price Objective	135.00 USD
Date Established	26-Jul-2023
Investment Opinion	B-1-7
52-Week Range	77.47 USD - 132.27 USD
Mkt Val (mn) / Shares Out	142,729 USD / 1,087.6 (mn)
Free Float	99.0%
Average Daily Value (mn)	568.58 USD
BofA Ticker / Exchange	GE / NYS
Bloomberg / Reuters	GE US / GE.N
ROE (2023E)	8.8%
Net Dbt to Eqty (Dec-2022A)	40.1%
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)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	2.2%	3.0%	3.2%	4.8%	5.6%
Return on Equity	7.7%	7.5%	8.8%	14.6%	15.5%
Operating Margin	6.1%	7.9%	8.6%	11.0%	12.2%
Free Cash Flow	1,971	4,432	3,665	5,800	5,999

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.4x	2.1x	1.7x	1.6x	1.3x
Asset Replacement Ratio	0.7x	0.8x	1.0x	1.0x	1.1x
Tax Rate	35.6%	25.1%	26.5%	26.5%	26.0%
Net Debt-to-Equity Ratio	46.7%	40.1%	13.3%	-9.0%	-21.6%
Interest Cover	5.0x	2.9x	3.7x	6.0x	7.4x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	74,129	73,601	63,147	68,806	73,453
% Change	-6.9%	-0.7%	-14.2%	9.0%	6.8%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	7,859	8,612	7,470	9,563	0
% Change	24.3%	9.6%	-13.3%	28.0%	NM
Net Interest & Other Income	(902)	(2,006)	(1,452)	(1,249)	(1,211)
<b>Net Income (Adjusted)</b>	<b>2,320</b>	<b>2,868</b>	<b>2,910</b>	<b>4,634</b>	<b>5,753</b>
<b>% Change</b>	<b>512.0%</b>	<b>23.6%</b>	<b>1.5%</b>	<b>59.2%</b>	<b>24.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	2,320	2,868	2,910	4,634	5,753
Depreciation & Amortization	1,871	1,776	1,463	1,463	1,463
Change in Working Capital	(1,933)	(67)	335	(162)	(803)
Deferred Taxation Charge	(1,451)	(651)	(65)	0	0
Other Adjustments, Net	2,525	1,990	441	1,385	1,206
Capital Expenditure	(1,361)	(1,484)	(1,420)	(1,520)	(1,620)
<b>Free Cash Flow</b>	<b>1,971</b>	<b>4,432</b>	<b>3,665</b>	<b>5,800</b>	<b>5,999</b>
<b>% Change</b>	<b>NM</b>	<b>124.8%</b>	<b>-17.3%</b>	<b>58.3%</b>	<b>3.4%</b>
Share / Issue Repurchase	(2,392)	(1,048)	(945)	0	0
Cost of Dividends Paid	(575)	(639)	(589)	(351)	(351)
Change in Debt	(36,867)	(2,935)	(2,602)	(700)	(1,700)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	15,770	17,262	17,409	23,945	27,966
Trade Receivables	15,620	17,976	15,250	16,051	16,934
Other Current Assets	70,353	61,060	58,410	57,532	58,467
Property, Plant & Equipment	15,609	14,478	12,167	12,137	12,221
Other Non-Current Assets	81,522	77,012	57,019	56,948	56,942
<b>Total Assets</b>	<b>198,874</b>	<b>187,788</b>	<b>160,255</b>	<b>166,613</b>	<b>172,529</b>
Short-Term Debt	4,361	3,757	1,882	1,882	1,882
Other Current Liabilities	47,592	51,247	47,127	49,370	50,941
Long-Term Debt	30,824	28,593	19,593	18,893	17,193
Other Non-Current Liabilities	74,485	66,609	61,088	61,254	61,380
<b>Total Liabilities</b>	<b>157,262</b>	<b>150,206</b>	<b>129,690</b>	<b>131,398</b>	<b>131,396</b>
<b>Total Equity</b>	<b>41,612</b>	<b>37,582</b>	<b>30,565</b>	<b>35,215</b>	<b>41,132</b>
<b>Total Equity &amp; Liabilities</b>	<b>198,874</b>	<b>187,788</b>	<b>160,255</b>	<b>166,613</b>	<b>172,529</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## 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

	2022	2023
Q1	0.24A	0.27A
Q2	0.78A	0.68A
Q3	0.35A	0.82A
Q4	1.24A	0.88E

# Variance analysis

## Exhibit 1: Variance analysis

4Q23 results versus BofA estimates

	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)	NM	(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

BofA GLOBAL RESEARCH

## Price objective basis & risk

### General Electric Company (GE)

We base our \$135 price objective on a 13x EV/EBITDA multiple of our 2025 estimates. Our target multiple is in line with the 13x peer average on 2024 estimates. We argue the pending spin-off of GE Vernova (Energy and Renewable segments) will drive a re-rating of GE Aerospace.

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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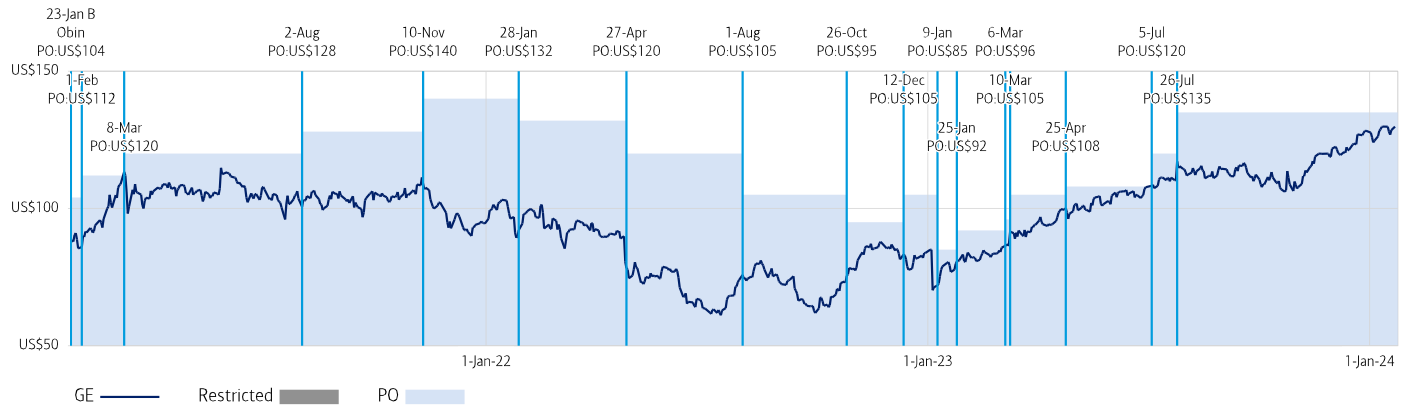
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# Disclosures

## Important Disclosures

### General Electric (GE) Price Chart



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.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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