

# INVESTMENT COMMITTEE MEMORANDUM

**Target: GE Aerospace ("Project Flight")**

**Date:** January 7, 2026

**From:** Deal Team

|                        |                            |                     |                                    |
|------------------------|----------------------------|---------------------|------------------------------------|
| Rec.<br><b>APPROVE</b> | Target IRR<br><b>22.4%</b> | MOIC<br><b>2.8x</b> | Entry<br>EV/EBITDA<br><b>18.5x</b> |
|------------------------|----------------------------|---------------------|------------------------------------|

## 1 Executive Summary

We recommend an equity investment in GE Aerospace ("The Company") to support its standalone optimization following the GE Vernova spin-off. While the market views this as a "Beta" play on aviation super-cycles, our thesis is an "Alpha" play on **Carve-Out Optimization**.

The market is currently mispricing the asset due to "TSA Fog"—the opacity of transition costs masking true earnings power. Our proprietary bottom-up analysis suggests that by aggressively unwinding the Transition Services Agreement (TSA) and rationalizing the legacy conglomerate SG&A structure, we can expand EBITDA margins by **250bps** independent of volume growth.

### Investment Highlights:

- **Valuation Arbitrage:** Entry at 18.5x LTM EBITDA represents a discount to peers (Safran: 20x, Heico: 35x) due to perceived separation friction.
- **Operational Alpha:** Identified **\$850M** of run-rate cost synergies via TSA exit and "Project Clean Sheet" SG&A reduction.
- **Downside Protection:** 70% of revenue is derived from aftermarket services with 95%+ renewal rates, providing a cash flow floor even in recessionary environments.

## 2 Investment Thesis

### 2.1 1. The "Clean-Up" Value Creation (Margin Expansion)

Public filings obscure the true standalone cost structure. The Company is currently burdened by a TSA estimated at 1.5% of sales (\$638M) and stranded corporate costs.

- **The Edge:** We have modeled a "Standup Cost" of only 0.8% of sales (\$340M) to replace the TSA, leveraging modern ERP solutions rather than legacy GE infrastructure.

- **Impact:** This delta creates **\$300M+** of immediate EBITDA uplift upon TSA termination (Month 18).
- **Benchmarking:** Current SG&A is 11% of sales. Peers (RTX, Safran) operate at 9%. Bringing GE Aero to peer parity releases an additional **\$500M** in value.

## 2.2 2. Multiple Re-Rating via Capital Deployment

As a conglomerate subsidiary, GE Aero's free cash flow (FCF) was trapped or swept. As a standalone entity with 100% FCF conversion, the Company can aggressively deleverage.

- **Plan:** Dedicate 100% of Year 1-2 FCF to debt paydown and TSA exit costs.
- **Result:** Net Leverage reduces from 2.5x to  $\downarrow 1.0x$  by Year 3, supporting a re-rating to the "Quality Industrial" peer set (22x-24x).

## 3 Pro-Forma Financial Analysis

### 3.1 EBITDA Bridge: Reported to Adjusted

The following bridge normalizes the LTM financials for the full impact of the separation.

| \$ in Millions                           | Amount          | Margin       | Commentary                                    |
|------------------------------------------|-----------------|--------------|-----------------------------------------------|
| <b>2025 Est. Reported Revenue</b>        | <b>\$42,500</b> |              | <i>Based on 2024 Actuals + Guidance</i>       |
| Reported Operating Profit                | \$8,500         | 20.0%        |                                               |
| (+) D&A                                  | \$1,200         |              |                                               |
| <b>Reported EBITDA</b>                   | <b>\$9,700</b>  | <b>22.8%</b> |                                               |
| <i>Carve-Out Adjustments</i>             |                 |              |                                               |
| (-) Est. Standalone Public Co. Costs     | (\$150)         |              | <i>Board, IR, SEC reporting (Benchmarked)</i> |
| (-) Pension Svc Cost Adjustment          | (\$200)         |              | <i>Cash drag on legacy obligations</i>        |
| (+) TSA Cost Removal (Run-Rate)          | \$638           |              | <i>1.5% of Sales (market standard)</i>        |
| (-) Standalone IT/HR Replacement         | (\$340)         |              | <i>Est. replacement cost (0.8% of sales)</i>  |
| <b>Pro-Forma Adjusted EBITDA</b>         | <b>\$9,648</b>  | <b>22.7%</b> | <i>True recurring earnings power</i>          |
| <i>Operational Improvements (Year 3)</i> |                 |              |                                               |
| (+) SG&A Rationalization                 | \$500           |              | <i>Targeting 9% SG&amp;A vs. Current 11%</i>  |
| <b>Target Exit EBITDA</b>                | <b>\$10,148</b> | <b>23.9%</b> | <i>Peer Parity Achieved</i>                   |

### 3.2 Separation Cost & Working Capital Analysis

Contrary to the initial memo, we have quantified the "one-time" cash costs required to achieve the EBITDA bridge above.

- **Separation One-Timers:** Estimated at **\$1.2B** over 24 months (IT migration, rebranding, severance). This is modeled as a cash outflow below the line.
- **Working Capital Unwind:** We model a **\$500M** working capital outflow in Year 1. Parent companies typically "stretch" payables prior to spin-off; we assume normalization of Days Payable Outstanding (DPO) from 60 to 45 days.

## 4 Valuation & Returns

### 4.1 Entry & Exit Assumptions

- **Entry Price:** \$178.5B EV (18.5x LTM Adjusted EBITDA).
- **Exit Multiple:** 20.5x LTM EBITDA (Conservative re-rating, discount to Heico/TransDigm).
- **Leverage:** 4.0x Total Leverage at entry (conservative for high-recurring revenue asset).

### 4.2 Returns Sensitivity (5-Year Hold)

| Exit Multiple | 18.5x | 19.5x | 20.5x (Base) | 21.5x | 22.5x |
|---------------|-------|-------|--------------|-------|-------|
| IRR           | 18.2% | 20.1% | 22.4%        | 24.1% | 25.8% |
| MOIC          | 2.3x  | 2.5x  | 2.8x         | 3.0x  | 3.2x  |

## 5 Risks & Mitigants

- **Risk: TSA Cost Overruns.** *Concern:* TSA costs exceed 1.5% estimate or extend beyond 24 months.
- **Mitigant:** Sensitivity analysis shows that even if TSA costs double to 3.0% (\$1.2B) and extend to 36 months, the IRR remains ~16% due to the strength of the underlying commercial engine backlog.
- **Risk: Pension Funding Volatility.** *Concern:* Market downturn triggers mandatory catch-up contributions.
- **Mitigant:** Modeled \$200M annual buffer in FCF. The plan is currently 94% funded (per 2024 10-K), offering significant headroom before statutory triggers apply.

## 6 Next Steps

To finalize the operating model, we require the following data points (currently treated as assumptions):

1. **TSA Schedule:** Request the specific Service Level Agreements (SLAs) from the Data Room to confirm the \$638M estimate.
2. **Pension Actuarial Report:** 2025 Year-End report to confirm cash service cost vs. P&L expense.
3. **Pro-Forma SG&A Detail:** Granular breakdown of "Corporate Other" to pinpoint the \$500M savings target.