

INVESTMENT COMMITTEE MEMORANDUM

Target: GE Aerospace ("Project Flight")

Date: January 7, 2026

From: Deal Team

Rec.
APPROVE

Target IRR
22.4%

MOIC
2.8x

Entry
EV/EBITDA
18.5x

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 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
2025 Est. Reported Revenue	\$42,500		<i>Based on 2024 Actuals + Guidance</i>
Reported Operating Profit	\$8,500	20.0%	
(+) D&A	\$1,200		
Reported EBITDA	\$9,700	22.8%	
<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>
Pro-Forma Adjusted EBITDA	\$9,648	22.7%	<i>True recurring earnings power</i>
<i>Operational Improvements (Year 3)</i>			
(+) SG&A Rationalization	\$500		<i>Targeting 9% SG&A vs. Current 11%</i>
Target Exit EBITDA	\$10,148	23.9%	<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.