Keanu Kawata | *Analyst*

Industrials | *Aerospace & Defense*

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BLUEGRASS CAPITAL RESEARCH

GE Aerospace

$GE: Cleared for Takeoff

$GE has seen major volatility year-to-date due to supply chain concerns, global tensions, and rising fuel prices. Yet, GE's Q4 RPO growth of 74% and $190 billion backlog signal powerful long-cycle earnings that few industrials can match. With the GE9X engine entering high-margin production by 2027, the LEAP aftermarket wave accelerating, and the increased need for defense, GE is entering a multi-year earnings upcycle**. Initiate with a BUY rating and a one-year price target of $404.**

Thesis 1 The most important aspect of aerospace is not the manufacturing of engines and parts, but the maintenance of them**. GE has created a robust aftermarket services sector, with roughly 70% of total revenue derived from aftermarket services**, while maintaining dominance in the OEM market. The combination of these drives GE's success. When an airline buys a GE engine**, that's not a one-time sale, but rather a 20-to-30-year service relationship**. The ~50,000 commercial engines in service create **a massive and highly predictable revenue stream**. Airlines cannot easily switch engines mid-fleet, thus creating a lock-in revenue relationship that is structural, not contractual. This matters for valuation as pure manufacturers trade on cyclical earnings multiples. GE's recurring revenue allows them to trade on cash flow durability and contract visibility, multiples that are structurally higher and more defensible.

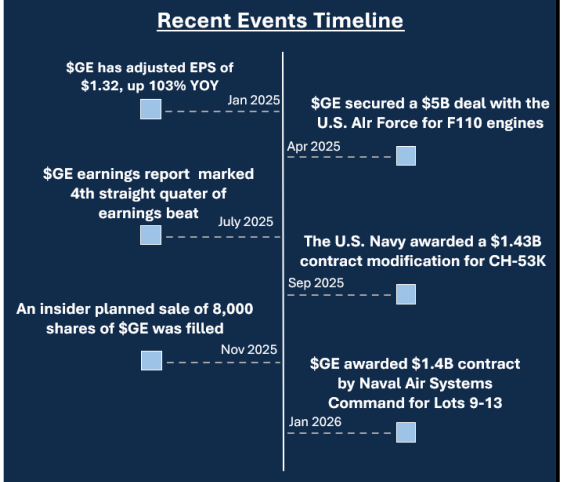
Thesis 2 At the end of 2025, **GE had a RPO (remaining performance obligations) of $190 billion**. For an aerospace company with long-cycle service agreements spanning decades, this is an extraordinarily powerful signal. Beyond the huge RPO GE possesses, GE had seen an RPO growth of 12% for 2025. **RPO growth tells you two things: that existing customers are renewing and extending contracts (retention), and that new engine deliveries are bringing new service agreements into the backlog (expansion)**. For GE, RPO is growing even further, with Q4 RPO growth reaching 74%. This means that future business is larger than the present, a dynamic that few industrials can claim. In a market where analysts often have poor visibility into forward earnings, a large and growing **RPO is a revenue guarantee**. Long-term service contracts lock in rates, giving GE predictable margin expansion opportunities as it ramps production capacity and drives cost efficiencies. **GE has $190 billion in guaranteed revenue, and that is only growing.**

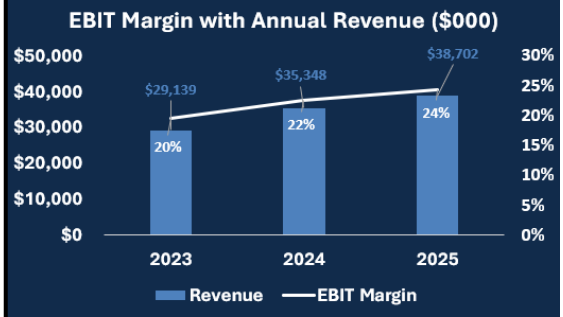
Thesis 3 The DPT segment (~23% of revenue) **not only diversifies GE's revenue base but changes the risk profile** of the company. Commercial aviation is notoriously cyclical. In contrast, **defense spending is contracted and more resistant to economic downturns**. Unlike commercial aviation, governments still use and test their fleets, regardless of economic conditions. This provides GE with constant revenue through the maintenance and service of these engines. The **current political environment further amplifies this**. The current U.S. administration has signaled higher defense budgets, while NATO faces persistent security pressures are accelerating their own military spending. While unrest in the Middle East has created uncertainty about oil prices, **the need for military power has only further increased**. As well. GE **maintains constant competition for new military contracts**, signaling room for growth and the need for defense technology.

Company Overview GE Aerospace is a global aerospace leader developing and manufacturing commercial and military jet engines, integrated engine components, electric power systems, and a wide range of aircraft technologies. It carries the largest installed propulsion base of approximately 50,000 commercial and 30,000 military engines. This global fleet creates an immense services aftermarket (MRO) that accounts for roughly 70% of the company's total revenue. GE uses a lean operating model, with emphasis on safety, quality, long-term utilization, and customer demand. GE continues to grow, expanding capacity and capabilities for tomorrow, and inventing the future of flight.

GE Aerospace

TICKER:	$GE
RATING:	BUY
PRICE:	$294.40
PRICE TARGET:	$404.77
MARKET CAP:	$302.20bn/m
52-W RANGE:	$182.10 - $348.48
LTM P/E:	33.79x
IMPLIED UPSIDE:	46.54%





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Risk 1 GE supply chain disruptions remain an active constraint. The deeper risk lies not with direct suppliers but with Tier 2 and Tier 3 sub-suppliers. These smaller suppliers of niche parts lack the ability to keep up with the GE's high demand. Issues at this level can halt GE's assembly lines with little. This supply issue comes at a crucial time as LEAP engines issued from 2019-2021 are starting their MRO. A bottleneck in even one critical component can cascade across an entire production and maintenance quarter. This risk is largely out of GE's control.

Risk 2 As both a defense contractor and a manufacturer, it represents a high-value target for sophisticated hackers. GE has already experienced many cyberattacks resulting in unauthorized system access. Maintaining security is becoming increasingly costly. Also, deep integration with suppliers, partners, and government counterparties means a breach doesn't need to target GE directly. Data breaches could jeopardize government contracts, while any compromise of safety-critical engine systems could trigger regulatory investigations. As GE expands its use of AI and connected engine monitoring, its attack surface will only grow, making cybersecurity a core strategic risk.

Catalysts The GE9X engine will soon go into high-margin production and services stream as the Boeing begins 777X production, projected to begin early 2027. Simultaneously, the expansion of the LEAP engine is driving a maintenance wave that remains broadly underappreciated by the market, with commercial services revenue growing 26% to $25B in 2025. This was further supported by over $1 billion in MRO investment. As well, competition to supply the engine for the U.S. F-47 fighter is still ongoing between GE and RTX. This upside potential may not yet be fully priced in. This momentum has further been followed by a $1.4 billion contract awarded by Naval Air Systems Command for GE's T408 turboshaft engines.

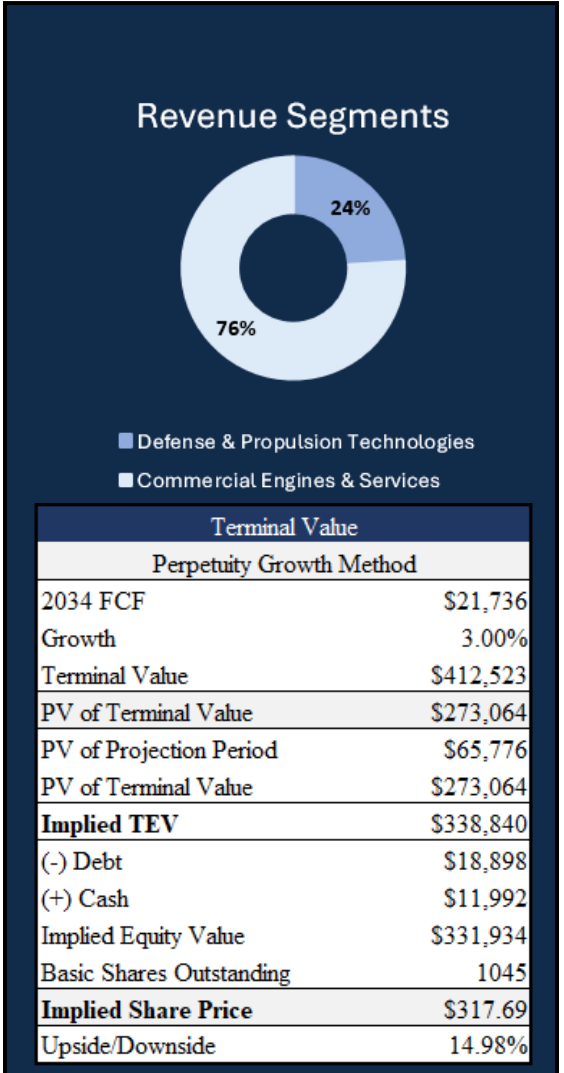
Valuation – Price Target: $404

Our base case 5-year DCF projects organic revenue growth. The model assumes a revenue

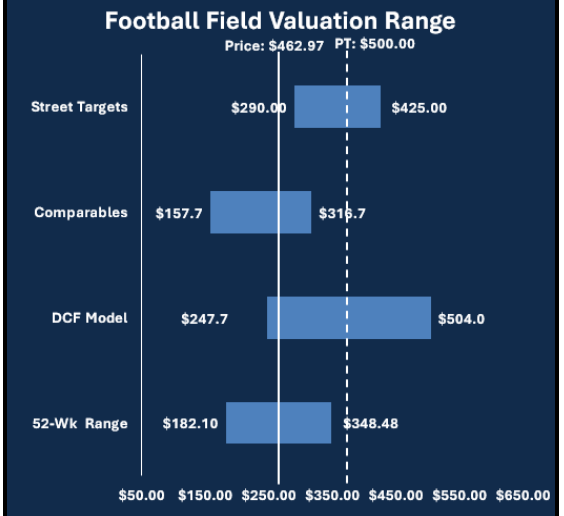
DCF Analysis ($mm)	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/30/2030	FY2031 12/31/2031
Revenue	52,461	62,010	73,816	88,500	106,876	130,018
Revenue Growth	*14%*	*18%*	*19%*	*20%*	*21%*	*22%*
Defense & Propulsion	11,789	13,204	14,821	16,674	18,800	21,244
Commercial Engines	40,672	48,806	58,995	71,826	88,077	108,775
EBIT	10,280	12,712	15,686	19,470	24,314	30,554
EBIT Margin	*20%*	*21%*	*21%*	*22%*	*23%*	*24%*
Tax Expense	1,420	1,602	2,169	2,930	3,957	5,347
Effective Tax Rate	*14%*	*13%*	*14%*	*15%*	*16%*	*18%*
NOPAT	8,860.00	11,110.35	13,517.30	16,539.74	20,357.22	25,207.32
D&A	1,321	1,649	1,971	2,372	2,875	3,510
Capex	1,492	1,736	2,264	2,951	3,850	5,032
Changes in NWC	695	868	1,052	1,283	1,576	1,950
UFCF	7,994	10,155	12,172	14,677	17,806	21,736
PV of FCF	7,777	9,237	10,226	11,388	12,761	14,388

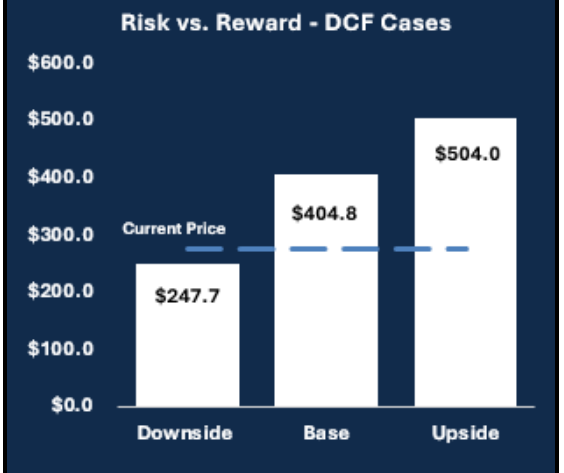
CAGR of approximately 18% through FY2031, reflecting the ongoing LEAP aftermarket ramp and GE9X production, with EBIT margins expanding steadily from 20% in 2026 to 24% by 2031 as the high-margin services mix deepens. A WACC of 8.4% and a 20x EV/EBITDA exit multiple is used, in line with industry multiples. We projected that NOPAT would grow from $8.9B in FY2026 to $25.2B by FY2031, supported by moderate capex and working capital consumption. This yielded a present value of free cash flows of approximately $79B over the period. Given GE's record of contract retention and its recurring revenue base, we applied a modest premium to reflect the durability of its earnings profile. These projections are consistent with management guidance.

Conclusion GE Aerospace offers investors a rare combination of compounding durability and near-term earnings acceleration. The recurring revenue and $190 billion of RPO, growing 74% in Q4 alone, provide visibility for future cash flow. The GE9X ramp, accelerating LEAP aftermarket wave, and rising global defense budgets collectively drive sustained multi-year earnings, with the unpriced F-47 contract representing further upside. We initiate GE Aerospace with a BUY rating and a price target of $404.77, representing 46.5% upside. Don't ground a plane that just cleared for takeoff!



Terminal Value	
Perpetuity Growth Method	
2034 FCF	$21,736
Growth	3.00%
Terminal Value	$412,523
PV of Terminal Value	$273,064
PV of Projection Period	$65,776
PV of Terminal Value	$273,064
Implied TEV	$338,840
(-) Debt	$18,898
(+) Cash	$11,992
Implied Equity Value	$331,934
Basic Shares Outstanding	1045
Implied Share Price	$317.69
Upside/Downside	14.98%





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Income Statement ($mm)	2025A	2026E	2027E	2028E	2029E	CAGR%
Revenue	45,855	52,461	62,010	73,816	88,500	17.9%
EBITDA	17,644	11,601	14,362	17,657	21,842	5.5%
EBIT	11,088	10,280	12,712	15,686	19,470	15.1%
NOPAT	9,748	8,860	11,110	13,517	16,540	14.1%

Margin & Growth Data	2025A	2026E	2027E	2028E	2029E	AVG%
EBITDA Margin	38.5%	22.1%	23.2%	23.9%	24.7%	26.5%
EBIT Margin	24.2%	19.6%	20.5%	21.3%	22.0%	21.5%
Revenue Growth	18.5%	14.4%	18.2%	19.0%	19.9%	18.0%
EBIT Growth	17.7%	-7.3%	23.7%	23.4%	24.1%	16.3%

Valuation Metrics	2025A	2026E	2027E	2028E	2029E	AVG%
P/FCF	14.5x	36.1x	28.4x	23.7x	19.7x	24.5x
EV/Sales	6.7x	5.6x	4.8x	4.0x	3.3x	4.9x
EV/EBITDA	16.8x	25.5x	20.6x	16.7x	13.5x	18.6x
FCF Yield	6.9%	2.8%	3.5%	4.2%	5.1%	4.5%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
RTX Corporation (NYSE:RTX)	$267,028	$301,442	39.58x	$88,603	$14,735
Howmet Aerospace Inc. (NYSE:HWM)	$101,797	$104,268	68.90x	$8,252	$2,388
General Dynamics Corporation (NYSE:GD)	$91,646	$99,102	21.8x	$52,550	$6,344
Northrop Grumman Corporation (NYSE:NOC)	$96,382	$109,380	22.88x	$41,954	$6,820
General Electric Company (NYSE:GE)	$328,003	$337,789	48.33x	$45,855	$10,703

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
RTX Corporation (NYSE:RTX)	20.5x	20.1%	16.6%	11.7%	9.7%
Howmet Aerospace Inc. (NYSE:HWM)	43.7x	34.2%	28.9%	25.5%	11.1%
General Dynamics Corporation (NYSE:GD)	15.6x	15.1%	12.1%	10.3%	10.1%
Northrop Grumman Corporation (NYSE:NOC)	16.0x	19.8%	16.3%	12.7%	2.2%
General Electric Company (NYSE:GE)	31.6x	31.5%	23.3%	20.7%	18.5%
High	43.66x	34.2%	28.9%	25.5%	18.5%
75th Percentile	31.56x	31.5%	23.3%	20.7%	11.1%
Average	25.47x	24.1%	19.4%	16.2%	10.3%
Median	20.46x	20.1%	0.0%	12.7%	10.1%
25th Percentile	16.04x	19.8%	16.3%	11.7%	9.7%
Low	15.62x	15.1%	12.1%	10.3%	2.2%

GENERAL ELECTRIC COMPANY (XNYS:GE)		
Implied Enterprise Value (25th Percentile)	$	171,657
Implied Enterprise Value (Median)	**$**	**218,957**
Implied Enterprise Value (75th Percentile)	$	337,789
Implied Share Price (25th Percentile)	$	157.68
Implied Share Price (Median)	**$**	**202.95**
Implied Share Price (75th Percentile)	$	316.69

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.18%
Beta	1.40
Risk Free Rate	4.29%
Cost of Equity	5.32%
Weighted Average Cost of Debt	7.20%
Tax Rate	14.10%
Cost of Debt	2.95%
Total Equity	$288,676
Total Debt	$6.906
Equity/Total Capitalization	52.35%
Debt/Total Capitalization	47.65%
WACC	8.27%

Downside Case: Our downside case assumes a moderation in commercial aerospace activity, causing airlines to defer engine orders and MRO spending. Combined supply chain disruptions causing delayed LEAP maintenance revenue, we assume revenue growth decelerates to low-single digits with EBIT margins compressing roughly 250bps from our base case. Applying a 16.0x EV/EBITDA multiple we arrive at a downside price of $247.72, implying 10% downside from current levels.

Upside Case: Our upside cased is based on stronger than expected aftermarket penetration of the LEAP engines, combined with GE9X entering full production ahead of schedule as Boeing's 777X. We assume revenue growth sustains above 20% annually, with EBIT margins expanding toward 25%. Applying a 20.0x EV/EBITDA multiple in line with GE's current trading level, we arrive at an upside price of $504, implying 82% upside.