

B / S	P / C / S	Strike	Exp.	Premium
SELL	Call	26.00	DEC 15 '17	\$1.49
BUY	Stock	26.42		(\$26.42)
Receive	Dividend		SEP '17	\$0.24
Covered Call			DEC 15 '17	(\$24.69)

FWI Tear Sheet: General Electric (GE)

Bullish Bond Replacement (Low Conviction)

Data as of 12 July, 2017

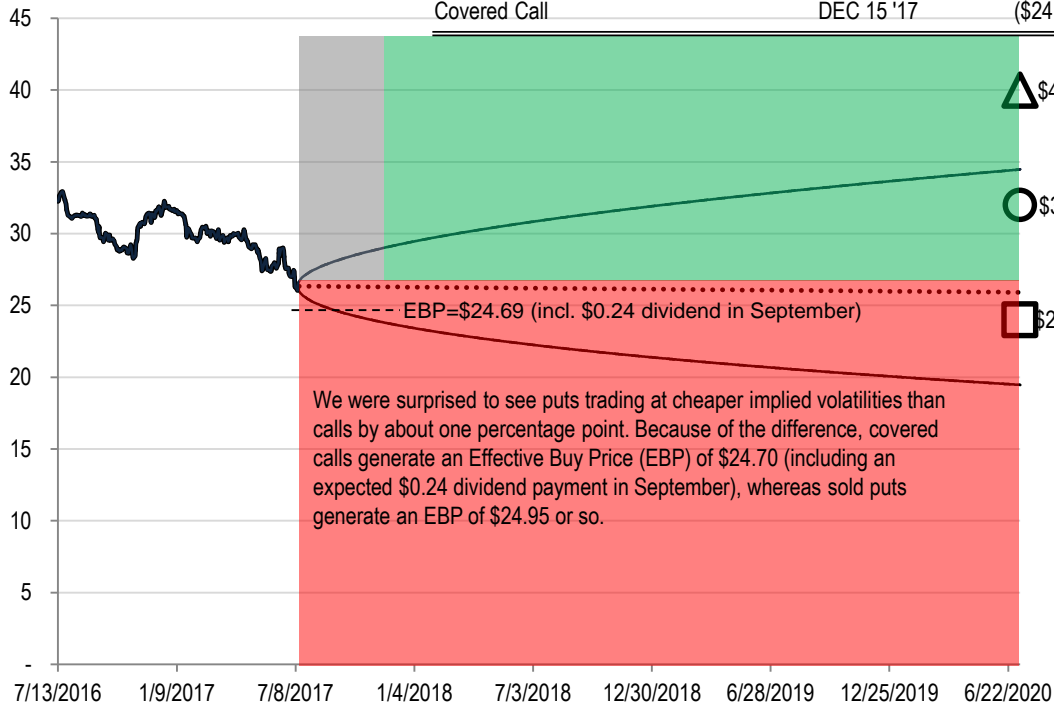
Framework's Take

We list this as low conviction since there is one valuation scenario just below the present price and EBP. We do not think this scenario is the most likely one, but there have been so many changes at the company over the last few years, some uncertainty exists. Our main uncertainty relates to normalized profitability levels. Profits over the past few years have been influenced by the disposal of the financing business, and we do not yet have any historical evidence of what worst-case profits for the "new GE" will be. We continue to hold an unlevered position in GE from early 2015 and considering our updated valuation, we made a mistake in not taking profits last year. We continue to think GE's value is probably closer to the high end of our range.

Drivers

Revenues	GE meets fundamental demand for modern life: power, transportation, medicine. It is a leader in all its markets. Proj: +4% (Best), +1% (Worst).
Profitability	Using competitor HON's avg OCP margin for worst-case. We think this is too low. Proj: +14%(B), +11%(W)
Investment Level/Eff.	Investments ex-divestitures are under 10% of profit. We forecast inv. spend of 15% of OCP. Proj (med-term growth): +7% (B), +5% (W)

Balance Sheet No hidden assets/liabilities found in our analysis.



We were surprised to see puts trading at cheaper implied volatilities than calls by about one percentage point. Because of the difference, covered calls generate an Effective Buy Price (EBP) of \$24.70 (including an expected \$0.24 dividend payment in September), whereas sold puts generate an EBP of \$24.95 or so.

Valuation & Return

Valuation Uncertainty: High

	Low	Likely	High
Stock Fair Value (\$)	24	32	40
Stock Return(%)	-9	21	52
Option Period Return (%)	-1	5	5
Option Annual Return (%)	-2	13	13

Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	2	NA
Profit Margin (%)	15	NA
Med-term Growth	NA	NA

Market Risk

GE is in the midst of a transition and there is a good deal of uncertainty. Any hint that GE's cash flows are light will likely cause a sell-off. If other prominent analyst cut rating, price might fall as well. Note PS lower bound around \$20/share.

Scenarios Key
ST Rev Growth | ST OCP Margin | Med-Term Growth

Case / Scenario	Value
PSR Implied Low	20
1% 11% 5%	24
252-day Low	26
1% 11% 7%	26
4% 11% 5%	28
4% 11% 7%	30
1% 14% 5%	33
252-day High	33
1% 14% 7%	35
4% 14% 5%	37
4% 14% 7%	40
PSR Implied High	40

