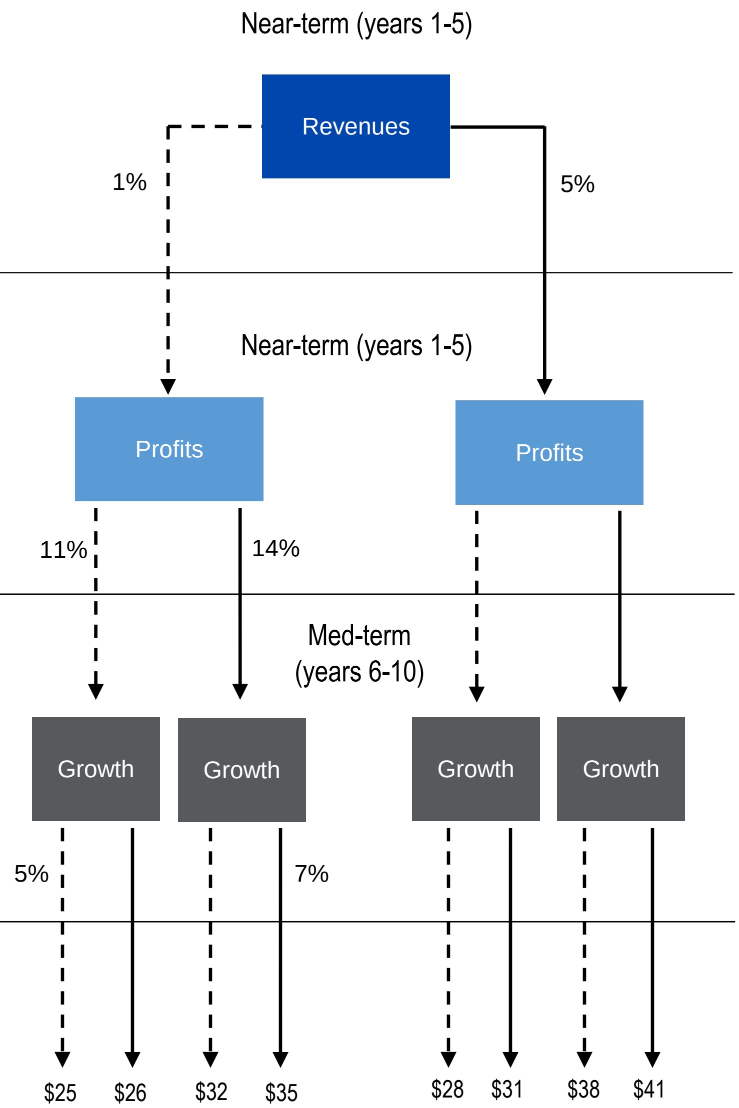
Valuation Waterfall

Revenue Growth
Welch, for all his faults, built businesses that were #1 or #2 in a field. Immelt, for all his faults, refocused the conglomerate on its core Industrials business. GE has strong competitive positions in industries with high barriers to entrance. As long as the world continues to grow older, more prosperous, and more cosmopolitan, GE's products and services will be in demand, providing a tailwind for its revenues.

Profitability
Recent divestment activity has made it difficult to know what the "new" GE's profitability profile will be. We are using the average OCP margin of an Industrial competitor, Honeywell, as a worst-case assumption, and 14% - near what we think historical profitability has been when divestment effects are excluded – as a best case. Current management guidance regarding cash flows encourages us we are in the right ball park.

Medium-Term Cash Flow Growth
GE has been investing intelligently in technology solutions that allow its industrial products to run more efficiently and allow it data to make the products even better in the future. We believe that as developing markets demand more consumer electronics devices, GE's Oil & Gas and Power solutions will meet with even greater demand. As developed markets age and become more cosmopolitan, GE's Healthcare and Aviation solutions will too.

Fair Value Range
Our fair value range spans $25 per share to $41 per share with an equal weighting of all our scenarios at $32 per share. At present, we are not marking any valuation scenarios as more likely, though our analysis of the company and of its line-up of offerings make us think the relatively quicker growing, more profitable branches are more realistic. We see very little downside valuation risk and a healthy potential for valuation upside.



Methodology

Framework Investing analyses focus on three main valuation drivers: revenue growth, profitability, and medium-term cash flow growth. We estimate a best- and worst-case scenario for each of these drivers resulting in a total of $2^3 = 8$ fair value scenarios based on discounted cash flow methodology. Profitability is measured by Owners' Cash Profit (OCP) margin. We use a discount rate of 10% for large capitalization stocks. A wide spread of lowest and highest fair values indicates a firm whose value is uncertain. Risk depends on the stock price's relationship to the valuation range.

Best-case scenarios are represented with a solid line; worst-case scenarios, with a dotted one.