

## Goodrich (GR)

Rating **OUTPERFORM\***  
Price (20 Jul 11, US\$) 93.11  
Target price (US\$) (from 100.00) 117.00<sup>1</sup>  
52-week price range 98.99 - 67.04  
Market cap. (US\$ m) 11,626.69  
Enterprise value (US\$ m) 13,173.40

\*Stock ratings are relative to the relevant country benchmark.  
<sup>1</sup>Target price is for 12 months.

Research Analysts  
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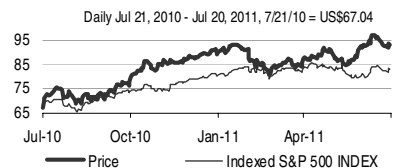
**Shaival Patel**

### INCREASE TARGET PRICE

## Mgmt Confidence at All-time High Following Exceptional Q2; Raising TP to \$117

- **Raising Estimates and TP:** Aftermarket demand and execution bode well for further outperformance, in our view. Management seems more confident with its revenue and margin outlook than it has in recent memory, suggesting it has very good visibility into next year. As such, we raise our 2011 estimate to \$6.08 from \$5.60 (35% y/y growth) and boost the out-years as well for a CAGR of 11% from 2011-2015. Our '12 est. rises to \$6.96 (from \$6.45) and our '13 est. to \$7.89 (from \$7.44). A multiple of 12.5x expected peak earnings in 2015 of \$9.34 yields a new target price of \$117.
- **Double Digit Spares Growth Appears Sustainable, Perhaps into 2012:** GR delivered 16% (14% organic) spares growth in Q2, marking the third consecutive quarter of positive aftermarket comps. GR spares are now 31% above the 4Q'09 bottom. Mgmt raised spares growth guidance from 7-9% to 12% (organic) for 2011 which beat expectations from some in the investment community for a new target of 9-11% which would have implied a fade in H2 on tougher comps. Even though some of the current spares strength is discretionary (crew seats, evacuation slides), the company sees double-digit aftermarket growth again in 2012 (which has incremental margins as high as 50%). We expect the company to introduce 2012 guidance with Q3'11 earnings results in Oct., and see further upside to 2012 consensus of \$6.46.
- **Margins at Record Level:** Between strong volumes and effective lean implementation, the company achieved a record underlying margin of 18.4% in the Q (ex. expected and unexpected charges). We see further margin expansion next year, despite some headwind from a greater OE mix (including low profit 787) on continued aftermarket leverage and completion of initiatives such as the SAP implementation at Electronics Systems.

### Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.87	1.24	1.25	1.16
2011E	1.52	1.38	1.53	1.64
2012E	1.50	1.68	1.81	1.96

### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (US\$)	4.51	6.08	6.96	7.89
Prev. EPS (US\$)	—	5.60	6.45	7.44
P/E (x)	20.6	15.3	13.4	11.8
P/E rel. (%)	—	97.4	98.6	100.0
Revenue (US\$ m)	6,966.7	8,153.6	9,133.9	9,940.9
EBITDA (US\$ m)	1,273.1	1,595.4	1,759.9	1,955.9
OCFPS (US\$)	4.07	9.61	8.46	9.75
P/OCF (x)	21.7	9.7	11.0	9.6
EV/EBITDA (current)	10.4	8.3	7.5	6.7
Net debt (US\$ m)	1,559	1,547	984	252
ROIC (%)	15.90	16.78	17.15	18.52
Number of shares (m)	124.87	IC (current, US\$ m)		5,337.69
BV/share (Next Qtr., US\$)	29.3	EV/IC (x)		2.4
Net debt (Next Qtr., US\$ m)	1,836.2	Dividend (Next Qtr., US\$)		—
Net debt/tot. cap. (Next Qtr.,	41.0	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## Q2 Quarter Color

GR reported Q2 EPS of \$1.38 (beating the street by +3.1%). Q1 revenue of \$2.0B beat consensus by 2.9% and was up +16.5% y/y (of which ~12% was organic growth) driven by +21.1% in Actuation and Landing Systems, +19.3% in Nacelles and Interior Systems, and +8.3% in Electronic Systems. All of the company's major market segments experienced y/y and seq increases. Strong commercial aftermarket growth of +16% (+14% organic) drove the quarter, along with large commercial OE (Boeing and Airbus) up +17% y/y driven by the impact of production rate hikes. Regional biz jet and general aviation OE was up +58% (+23% organic) and defense/space OE and aftermarket was up +10% (+6% organic).

Segment margins of 17.2% were down -45 bps sequentially and included \$23M of costs related to the closure of the Ohio Landing Gear facility and the acquisition of Microtecnica. Ex these charges, segment margins would have been 18.4%, or up about 75 bps sequentially. Further, FCF:NI of 103% was robust, despite a doubling of capital expenditures on a y/y and seq. basis. Below we show an EPS bridge to detail GR's guidance raise to \$5.85-\$6.00 (was \$5.40-\$5.55), and we illustrate management's guidance for sales growth by market channel.

### Exhibit 1: EPS Bridge from Prior to Current Guidance

	2010-2011 EPS Bridge (NI per diluted share)			Comments
	Previous Guidance	Revised Guidance	Variance	
2010 actual	\$4.51	\$4.51	-	
changes in est. on L/T contracts	(0.29)	(0.22)	\$0.07	in aerostructures & a/c wheels & brakes
aftermarket sales growth	0.44	0.78	\$0.34	better than expected perf, raised '11 guidance to 12% organic from 7-9% very strong wheel & brakes, piece parts & improving MRO improvement
pension	0.37	0.39	\$0.02	expense slightly lower than previous expectations (mid-yr true-up)
higher tax rate	(0.18)	(0.18)	-	
no debt redemption costs	0.18	0.18	-	
foreign exchange	0.09	0.07	(\$0.02)	re-valuation of exposure - only 95% hedged
plant closure & acq related costs	-	(0.16)	(\$0.16)	closure of Ohio facility & costs assoc. with Microtecnica
non-aftermarket (margin/volume/othr)	0.28-0.43	0.48-0.63	\$0.20	operating leverage, execution
<b>2011 estimate</b>	<b>\$5.40 - \$5.55</b>	<b>\$5.85 - \$6.00</b>	<b>\$0.45</b>	<b>8% increase at mid-point (5% above consensus \$5.65)</b>

Source: Company data, Credit Suisse estimates

### Exhibit 2: Sales Expectations by Market Channel

	2010	2011	2011	
	Actual	Q1 Outlook	Revised	Organic
Boeing & Airbus Deliveries	4%	15%	15%	15%
Regional/Biz/GA OE	2%	30-35%	40%	16%
Aftermarket (Comm'l/Reg/Biz/GA)	0%	7-9%	13%	12%
Defense & Space OE & Aftmkt	11%	8-10%	15%	10%
Other	-1%	>5%	>10%	>10%
<b>Total</b>	<b>4%</b>	<b>12%</b>	<b>16%</b>	<b>13%</b>

\* GR did not breakout organic growth in April outlook

Source: Company data, Credit Suisse estimates

## Exhibit 3: Q2'11 Quarterly Analysis

Period ending	vs. Estimate			vs. Consensus			YOY %			SEQ %		
	2Q11E 6/30/2011	2Q11 6/30/2011	% change	2Q11E 6/30/2011	2Q11 6/30/2011	% Change	2Q10 6/30/2010	2Q11 6/30/2011	% Change	1Q11 3/31/2011	2Q11 6/30/2011	% Change
Actuation and Landing Systems	696.1	736.7	5.8%				608.1	736.7	21.1%	684.3	736.7	7.7%
Nacelles and Interior Systems	685.7	688.8	0.5%				577.4	688.8	19.3%	656.4	688.8	4.9%
Electronic Systems	563.9	575.9	2.1%				532.0	575.9	8.3%	555.2	575.9	3.7%
<b>Total Sales</b>	<b>1,945.7</b>	<b>2,001.4</b>	<b>2.9%</b>	<b>1,944.9</b>	<b>2,001.4</b>	<b>2.9%</b>	<b>1,717.5</b>	<b>2,001.4</b>	<b>16.5%</b>	<b>1,895.9</b>	<b>2,001.4</b>	<b>5.6%</b>
Actuation and Landing Systems	84.9	76.5	-9.9%				60.5	76.5	26.4%	86.5	76.5	-11.6%
Nacelles and Interior Systems	162.4	178.2	9.8%				151.4	178.2	17.7%	157.3	178.2	13.3%
Electronic Systems	90.8	89.8	-1.1%				95.1	89.8	-5.6%	91.0	89.8	-1.3%
<b>Operating Income</b>	<b>338.1</b>	<b>344.5</b>	<b>1.9%</b>	<b>293.1</b>	<b>344.5</b>	<b>17.6%</b>	<b>307.0</b>	<b>344.5</b>	<b>12.2%</b>	<b>334.8</b>	<b>344.5</b>	<b>2.9%</b>
Actuation and Landing Systems	12.2%	10.4%	-182 bp				9.9%	10.4%	44 bp	12.6%	10.4%	-226 bp
Nacelles and Interior Systems	23.7%	25.9%	219 bp				26.2%	25.9%	-35 bp	24.0%	25.9%	191 bp
Electronic Systems	16.1%	15.6%	-51 bp				17.9%	15.6%	-228 bp	16.4%	15.6%	-80 bp
<b>Segment Operating Margin</b>	<b>17.4%</b>	<b>17.2%</b>	<b>-16 bp</b>	<b>15.1%</b>	<b>17.2%</b>	<b>215 bp</b>	<b>17.9%</b>	<b>17.2%</b>	<b>-66 bp</b>	<b>17.7%</b>	<b>17.2%</b>	<b>-45 bp</b>
Corporate G&A	(37.0)	(41.6)	12.5%				(31.7)	(41.6)	31.2%	(34.5)	(41.6)	20.6%
<b>EBIT</b>	<b>301.1</b>	<b>302.9</b>	<b>0.6%</b>				<b>275.3</b>	<b>302.9</b>	<b>10.0%</b>	<b>300.3</b>	<b>302.9</b>	<b>0.9%</b>
Interest expense	(34.0)	(34.5)	1.5%				(33.6)	(34.5)	2.7%	(34.6)	(34.5)	-0.3%
Interest income	0.5	0.3	-34.5%				0.3	0.3	0.0%	0.3	0.3	0.0%
Other income (expense)	(19.8)	(4.2)	-78.7%				(4.4)	(4.2)	-4.5%	(5.8)	(4.2)	-27.6%
Income before taxes & trust dist.	247.8	264.5	6.7%				237.6	264.5	11.3%	260.2	264.5	1.7%
Taxes	(78.8)	(86.2)	9.4%				(76.3)	(86.2)	13.0%	(63.6)	(86.2)	35.5%
Tax Rate	-31.8%	-32.6%	-79 bp				-32.1%	-32.6%	-48 bp	-24.4%	-32.6%	-815 bp
Net income from continuing ops	169.0	178.3	5.5%				161.3	178.3	10.5%	196.6	178.3	-9.3%
Net income attributable to non-controlling inte	(2.0)	(1.7)	-15.0%				(2.4)	(1.7)	41.2%	(2.0)	(1.7)	17.6%
Net income from continuing Ops	167.0	176.6	5.7%				158.9	176.6	11.1%	194.6	176.6	-9.2%
Net income from discontinued ops	0.0	0.0					0.1	0.0	-100.0%	0.0	0.0	
<b>EPS - Continued Ops</b>	<b>\$1.31</b>	<b>\$1.38</b>	<b>5.7%</b>	<b>\$1.34</b>	<b>\$1.38</b>	<b>3.1%</b>	<b>\$1.24</b>	<b>\$1.38</b>	<b>11.7%</b>	<b>\$1.52</b>	<b>\$1.38</b>	<b>-8.9%</b>
EPS - Charges/Accounting change	\$0.00	\$0.00					\$0.00	\$0.00		\$0.00	\$0.00	
<b>EPS (GAAP)</b>	<b>\$1.31</b>	<b>\$1.38</b>	<b>5.7%</b>	<b>\$1.34</b>	<b>\$1.38</b>	<b>3.1%</b>	<b>\$1.24</b>	<b>\$1.38</b>	<b>11.6%</b>	<b>\$1.52</b>	<b>\$1.38</b>	<b>-8.9%</b>
Shares outstanding - diluted	125.9	125.9	0.0%				126.5	125.9	-0.5%	126.4	125.9	-0.4%
<b>Adjusted EPS</b>				<b>\$1.34</b>	<b>\$1.41</b>	<b>5.1%</b>						
Operating cash flow	410.3	241.2	-41.2%				223.5	241.2	7.9%	96.4	241.2	150.2%
Capex	(43.9)	(62.4)	42.0%				(30.7)	(62.4)	103.3%	(35.6)	(62.4)	75.3%
<b>Free cash flow</b>	<b>366.4</b>	<b>178.8</b>	<b>-51.2%</b>				<b>192.8</b>	<b>178.8</b>	<b>-7.3%</b>	<b>60.8</b>	<b>178.8</b>	<b>194.1%</b>
FCF/share	\$2.91	\$1.42	-51.2%				\$1.52	\$1.42	-6.8%	\$0.48	\$1.42	195.2%
<b>FCF/net income</b>	<b>2.2x</b>	<b>1.0x</b>	<b>-53.8%</b>				<b>1.2x</b>	<b>1.0x</b>	<b>-16.5%</b>	<b>0.3x</b>	<b>1.0x</b>	<b>224.1%</b>

Source: Company data, Credit Suisse estimates

## Exhibit 4: Income Statement

	2008	2009	2010	1Q11A	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E	2014E	2015E
Period Ending	Dec-08	Dec-09	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Actuation and Landing Systems	2,614.7	2,524.3	2,491.3	684.3	736.7	782.4	805.9	3,009.4	3,224.6	3,338.5	3,519.6	3,712.2
Nacelles and Interior Systems	2,484.6	2,322.6	2,340.0	656.4	688.8	722.9	783.2	2,851.3	3,393.0	3,900.7	4,171.1	4,463.2
Electronic Systems	1,962.0	1,838.7	2,135.4	555.2	575.9	579.4	582.4	2,292.9	2,516.3	2,701.7	2,834.6	2,975.6
<b>Total Sales</b>	<b>7,061.3</b>	<b>6,685.6</b>	<b>6,966.7</b>	<b>1,895.9</b>	<b>2,001.4</b>	<b>2,084.8</b>	<b>2,171.5</b>	<b>8,153.6</b>	<b>9,133.9</b>	<b>9,940.9</b>	<b>10,525.2</b>	<b>11,151.1</b>
Total Sales Growth	10.5%	-5.3%	4.2%	11.9%	16.5%	19.3%	20.2%	17.0%	12.0%	8.8%	5.9%	5.9%
Actuation and Landing Systems	300	267	273	86.5	76.5	92.8	99.4	355	399	421	443	468
Nacelles and Interior Systems	648	515	556	157.3	178.2	176.7	184.0	696	786	928	1,022	1,093
Electronic Systems	269	276	325	91.0	89.8	94.4	99.6	375	401	419	454	476
<b>Operating Income</b>	<b>1,216.2</b>	<b>1,058.6</b>	<b>1,153.9</b>	<b>334.8</b>	<b>344.5</b>	<b>363.9</b>	<b>383.0</b>	<b>1,426.3</b>	<b>1,586.4</b>	<b>1,767.0</b>	<b>1,918.9</b>	<b>2,037.3</b>
Actuation and Landing Systems	11.5%	10.6%	11.0%	12.6%	10.4%	11.9%	12.3%	11.8%	12.4%	12.6%	12.6%	12.6%
Nacelles and Interior Systems	26.1%	22.2%	23.8%	24.0%	25.9%	24.4%	23.5%	24.4%	23.2%	23.8%	24.5%	24.5%
Electronic Systems	13.7%	15.0%	15.2%	16.4%	15.6%	16.3%	17.1%	16.3%	16.0%	15.5%	16.0%	16.0%
<b>Segment Operating Margin</b>	<b>17.2%</b>	<b>15.8%</b>	<b>16.6%</b>	<b>17.7%</b>	<b>17.2%</b>	<b>17.5%</b>	<b>17.6%</b>	<b>17.5%</b>	<b>17.4%</b>	<b>17.8%</b>	<b>18.2%</b>	<b>18.3%</b>
Corporate G&A	(115.3)	(129.4)	(155.6)	(34.5)	(41.6)	(39.6)	(41.3)	(157.0)	(173.5)	(188.9)	(200.0)	(211.9)
Corporate G&A margin	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
EBIT	1,100.9	929.2	998.3	300.3	302.9	324.3	341.8	1,269.3	1,412.9	1,578.2	1,718.9	1,825.5
<b>GR EBIT Margin</b>	<b>15.6%</b>	<b>13.9%</b>	<b>14.3%</b>	<b>15.8%</b>	<b>15.1%</b>	<b>15.6%</b>	<b>15.7%</b>	<b>15.6%</b>	<b>15.5%</b>	<b>15.9%</b>	<b>16.3%</b>	<b>16.4%</b>
Interest expense	(112.4)	(121.0)	(137.5)	(34.6)	(34.5)	(34.5)	(34.5)	(138.1)	(129.7)	(134.7)	(134.7)	(134.7)
Interest income	5.7	1.1	1.2	0.3	0.3	(0.1)	2.5	3.0	1.9	3.2	2.3	2.4
Other income (expense)	(27.6)	(25.2)	(57.1)	(5.8)	(4.2)	(3.8)	(3.8)	(17.5)	(17.0)	(17.0)	(17.0)	(17.0)
Income before taxes & trust dist.	966.6	784.1	804.9	260.2	264.5	285.9	306.0	1,116.7	1,268.0	1,429.6	1,569.5	1,676.1
Taxes	(293.0)	(207.8)	(220.5)	(63.6)	(86.2)	(89.2)	(95.5)	(334.5)	(380.4)	(428.9)	(470.9)	(502.8)
Tax rate	-30.3%	-26.5%	-27.4%	-24.4%	-32.6%	-31.2%	-31.2%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%
Trust distribution	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income GAAP*</b>	<b>681.2</b>	<b>597.3</b>	<b>578.7</b>	<b>194.6</b>	<b>176.6</b>	<b>194.7</b>	<b>208.3</b>	<b>774.2</b>	<b>878.6</b>	<b>991.7</b>	<b>1,089.7</b>	<b>1,164.3</b>
<b>EPS - Continued Ops</b>	<b>\$5.33</b>	<b>\$4.43</b>	<b>\$4.50</b>	<b>\$1.52</b>	<b>\$1.38</b>	<b>\$1.53</b>	<b>\$1.64</b>	<b>\$6.08</b>	<b>\$6.96</b>	<b>\$7.89</b>	<b>\$8.70</b>	<b>\$9.34</b>
EPS - Discontinued Ops	\$0.06	\$0.26	\$0.02	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
EPS - Charges/Accounting change	\$112.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>EPS (GAAP)</b>	<b>\$5.39</b>	<b>\$4.70</b>	<b>\$4.51</b>	<b>\$1.52</b>	<b>\$1.38</b>	<b>\$1.53</b>	<b>\$1.64</b>	<b>\$6.08</b>	<b>\$6.96</b>	<b>\$7.89</b>	<b>\$8.70</b>	<b>\$9.34</b>
Shares outstanding - diluted	126.4	125.2	126.4	126.4	125.9	125.4	124.8	125.6	125.2	124.6	124.1	123.5

Source: Company data, Credit Suisse estimates

**Companies Mentioned** *(Price as of 20 Jul 11)*

Goodrich (GR, \$93.11, OUTPERFORM, TP \$117.00)

## Disclosure Appendix

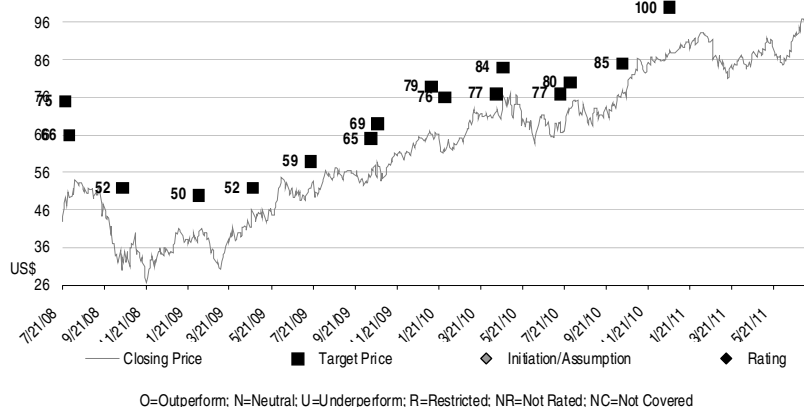
## Important Global Disclosures

I, Robert Spingarn, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

*See the Companies Mentioned section for full company names.*

### 3-Year Price, Target Price and Rating Change History Chart for GR

GR	Closing Price	Target Price	Initiation/
Date	(US\$)	(US\$)	Rating Assumption
7/24/08	47.68	75	
7/30/08	50.77	66	
10/16/08	33.19	52	
2/4/09	39.16	50	
4/23/09	46.02	52	
7/16/09	51.85	59	
10/12/09	54.83	65	
10/22/09	58.57	69	
1/8/10	66.21	79	
1/28/10	61.37	76	
4/12/10	72.04	77	
4/22/10	76.51	84	
7/14/10	69.22	77	
7/29/10	72.95	80	
10/12/10	76.42	85	
12/20/10	87.31	100	



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**Analysts' stock ratings are defined as follows:**

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10\text{-}15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\* with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

**\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.**

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**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

*\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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<b>Underperform/Sell*</b>	10%	(52% banking clients)
<b>Restricted</b>	2%	

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**Method:** A multiple of 12.5x expected peak earnings in 2015 of \$9.34 yields a target price of \$117.

**Risks:** Risks to our \$117 target price for GR include a stall in the commercial original equipment upcycle, a decline in aftermarket activity, potential overhang from failure to repair actuation system for the Airbus A380, raw material price increases and availability, and delays on 777 landing gear production at GR.

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