GE's Recent Financial Performance & Strategy

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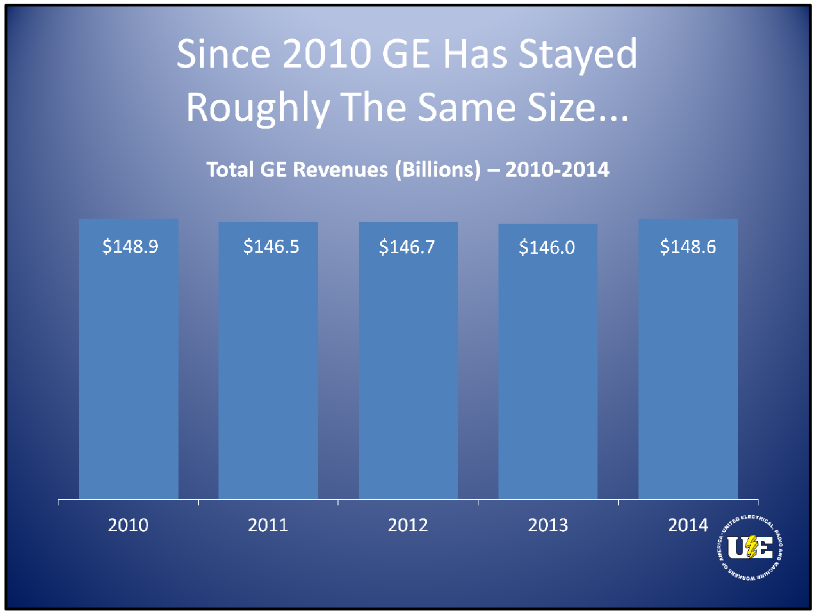
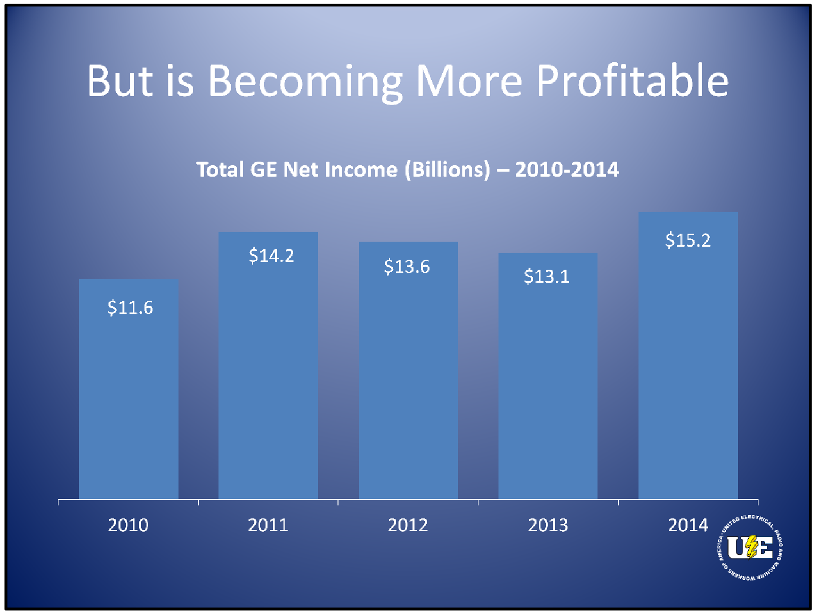
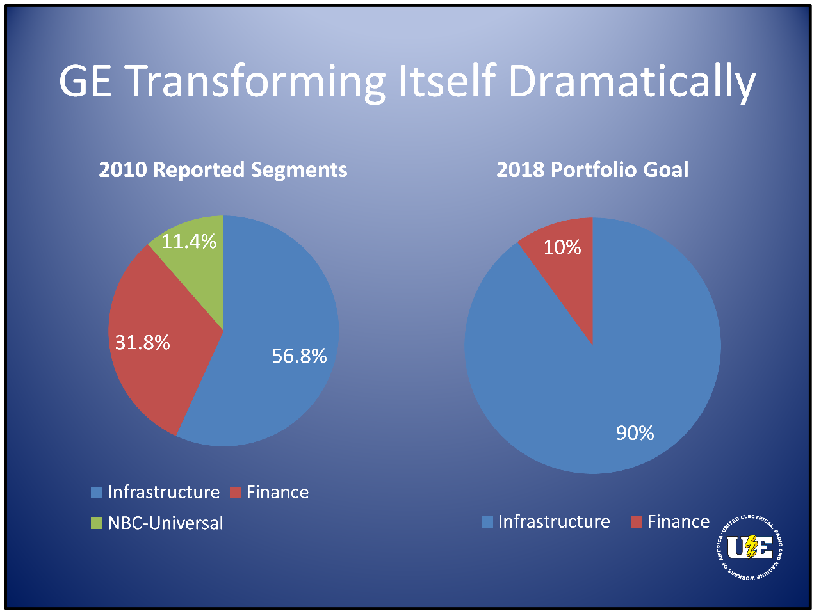


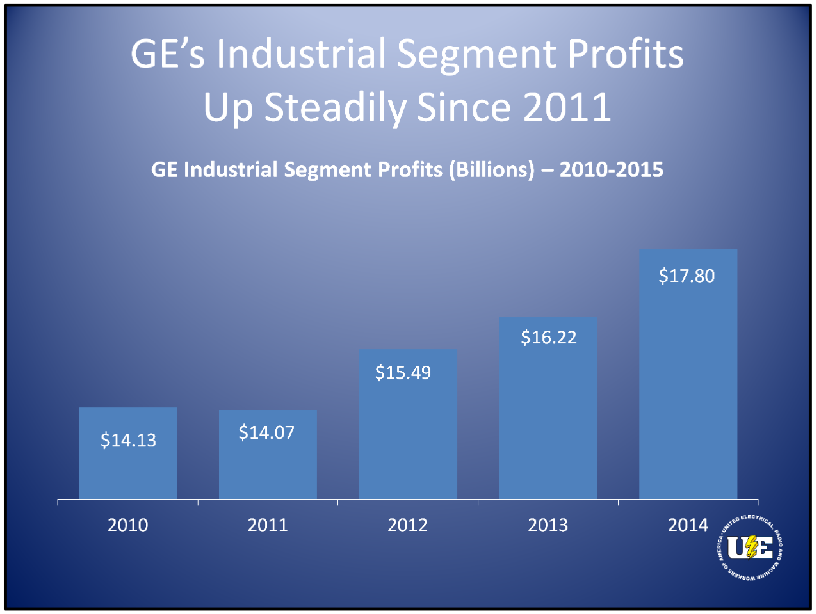
Looking at sales, GE seems like it has changed little over the last five years. Revenue has varied pretty tightly within a $3 billion band.



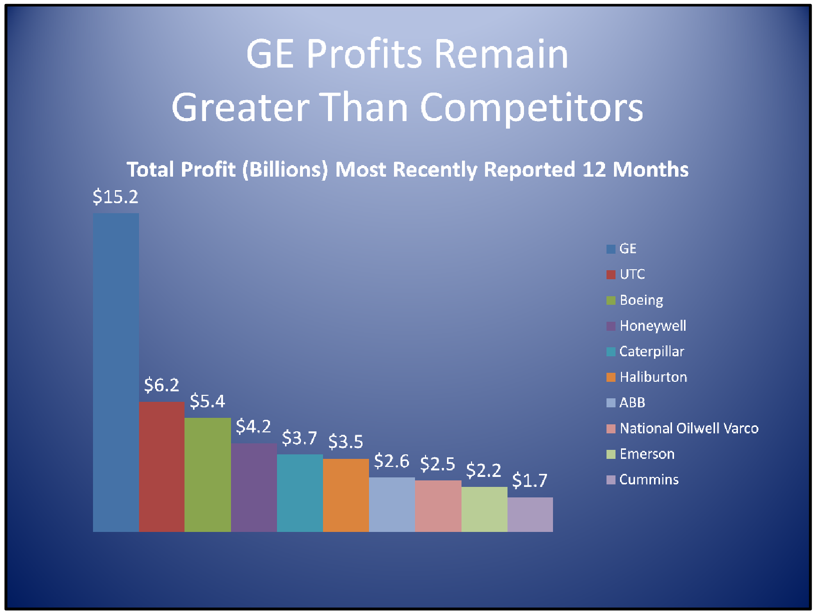
GE's profit margins have varied considerably more over the same period. Preliminary reports suggest that GE has reached all-time levels of profit in 2014. Profits were up an impressive 17% over 2013. Given GE achieved this despite its revenue only ticking up a modest 2%, this means the company is squeezing more profit out of each dollar of sales – something we'll consider in more detail in later slides, which will summarize each operating segment of GE.



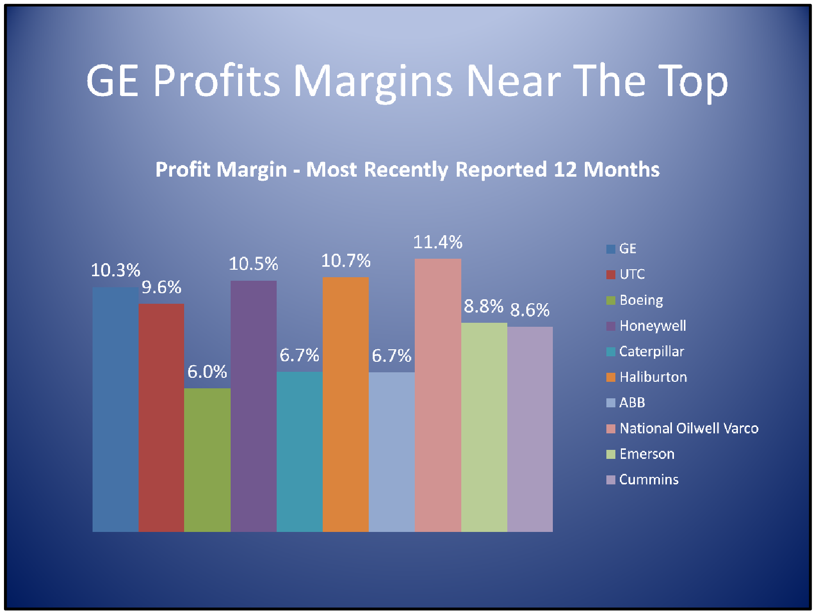
Although GE is roughly the same size as it was in 2010, the Company's structure is in the process of changing dramatically. In 2010, GE was still a true conglomerate. By 2018, the last vestiges of this conglomerate nature – the legacy of Jack Welch – will be gone. NBC Universal was fully purchased by Comcast in 2013. GE's financial division has been on a slow decline as a percentage of profit ever since the beginning of the recession, both due to a decline in profitability and the steady sale lower-return businesses. Just this past week, GE announced it will accelerate this divestment, beginning with the sale of their real estate portfolio, with ultimate plans to spin off or sell all divisions of GE Finance which aren't directly related to the financing of GE infrastructure products. At the same time GE continues to double down on its historic businesses – heavy infrastructure – investing more into capital improvements, expansion, and new acquisitions.



GE's continuing to invest in its industrial infrastructure businesses makes solid sense – it's following the money. Beginning in 2012, GE began squeezing more and more profits out of the industrial division, which was mostly composed of stable markets and saw little in the way of new acquisitions.

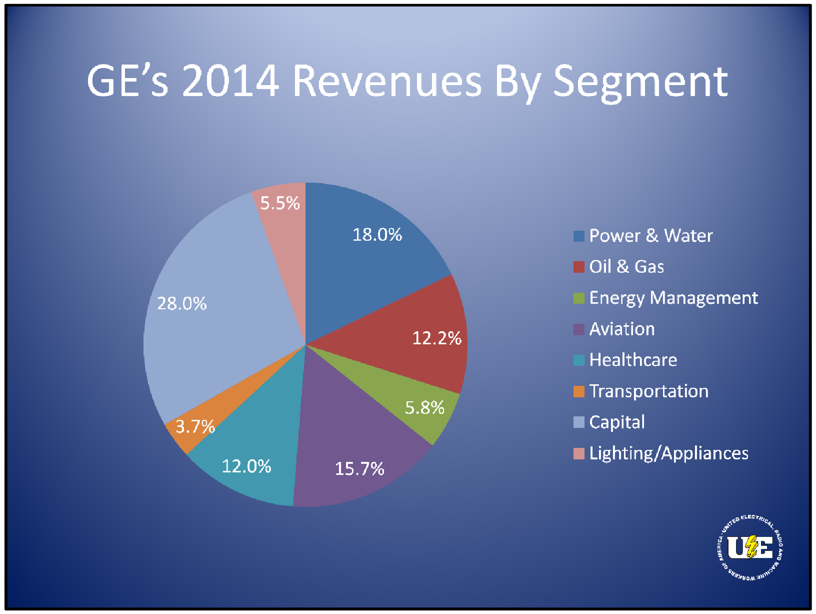


It has always been difficult to speak about competitors to GE, because there is no single company which competes with GE in all of their major divisions. Here is GE's most recently reported net income compared to major competitors in one or more of their infrastructure divisions. As has been the case in the past, GE is more than twice the size of its nearest "competitor." There is simply no question that GE generates more profit, in raw numbers, than anyone else in the business.



Here's the same listing of companies listed by profit margin, rather than ranked by raw profitability. GE doesn't come out on top, but it's still quite competitive. Part of the reason why it doesn't rank number one in absolute profit margin is due to its nature as a conglomerate. It has some divisions which are high margin – very profitable – where it beats the pants off all competitors. And it has other divisions which still have a ways to go with beating the competition. Two out of the three major competitors of GE are in the Oil & Gas industry, where GE is still in the process of building its division. But in long-established divisions of GE, like Aviation and Transportation, it clearly is on top.

Segment-By Segment Analysis



GE has gone through several reshufflings of the major segments. Currently, it's comprised of eight divisions. GE Finance remains the largest, although that may change over the next several years. GE Transportation is the smallest.

GE Power & Water

- Revenue up 11% in 2014
- Profit up 7%
- Overall profit margin of 19.4%
- Likely home for most of the Alstom acquisition
- GE more profitable than major competitors

GE Power & Water is the largest single component of GE's Industrial/Infrastructure business, and one of the most key to its portfolio. Among the major product lines are gas turbines, wind turbines, nuclear plant components, water/wastewater treatment products, and associated services. It is believed that many of the businesses which are being acquired as part of the agreement with Alstom will find their way into this segment, although it has not been announced yet.

2014 was an excellent year for this segment of the company. Sales rose 11%, and profit rose by 7%. The profit margin of 19.4% was the third best reported for any GE segment in 2014. As a longtime core area for GE, it handily beats major competitors such as Emerson, United Technologies, and Honeywell.

GE Oil & Gas

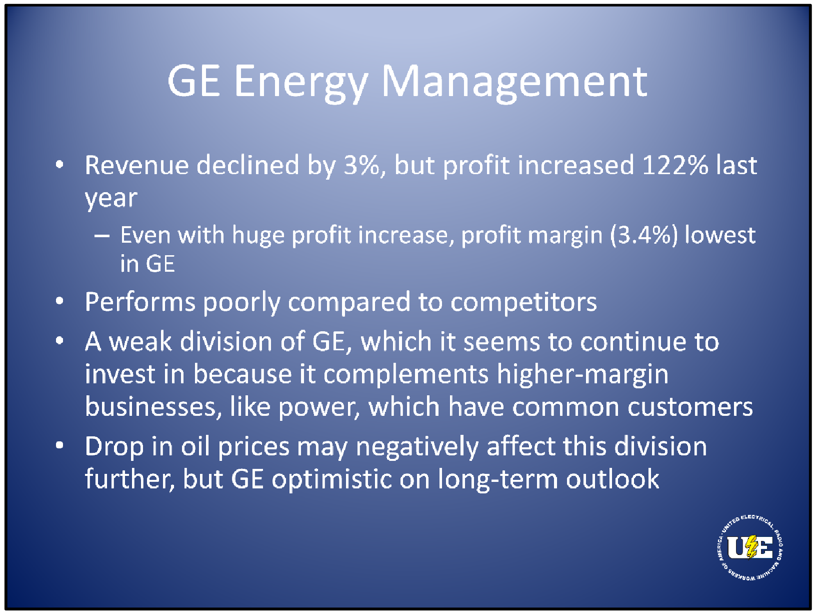
- Segment nearly doubled in size between 2010 and 2014
- Revenue up 10%, profit up 19% in 2014
- Growth positively impacted by continued new acquisitions
- 2014 profit margin of 13.8%
- GE not yet a leader in this industry, but rapidly closing on competitors
- 2015 outlook weaker due to collapse in oil prices

GE Oil and Gas is a comparably new segment of GE – at least at its current size. Since 2010, GE Oil & Gas has increased its revenues by 98%, essentially doubling in size. 2014 in particular showed impressive results, with revenue up 10% and sales up by 19%. That said, given this division of the company continues to acquire and integrate smaller manufacturing and service companies, much of this increase was undoubtedly due to acquisitions. The total amount will not be disclosed until the Annual Report is released.

GE Oil & Gas has a profit margin of 13.8%. This segment's profit margin has steadily risen since 2011, but it still is significantly lower than many of GE's other core infrastructure businesses, suggesting GE has a lot of room yet to integrate its new acquisitions into the GE system.

GE is still much smaller than some competitors in the oil and gas business, such as Halliburton and National Oil Varco. That said, with the incredibly quick ramping up of GE Oil & Gas, it could easily be an industry leader in another 5-10 years.

The oil bust has already begun to hurt this segment. In the last quarter of 2014, sales fell by 6% compared to the same period in 2013, and profits were only up by 1%. For this reason, GE has a negative outlook for this division of the company, at least through 2015. However, the company is still confident in this segment, feeling that the higher profits from other segments of the company will cancel out lower returns here. Low oil prices may actually benefit even this segment of GE in the longer run, given GE's deep pockets may mean it can acquire struggling standalone oil/gas equipment manufacturers and service companies on the cheap.



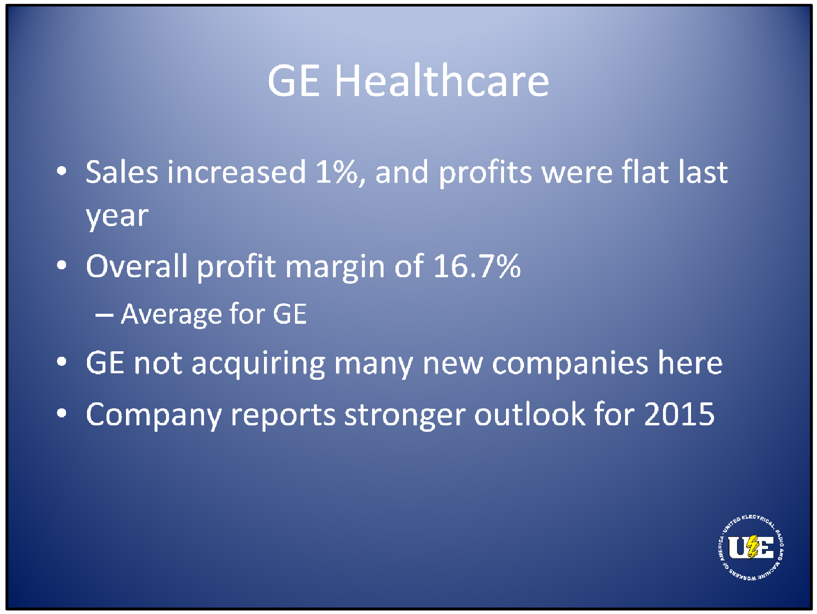
GE Energy Management focuses on products and services dealing with power distribution and control rather than power generation. It's a small segment of GE today, and has long been somewhat troubled compared to GE's other core businesses. 2014 was in one sense a great year for it, with profit more than doubling despite a minor drop in revenue. Still, the profit margin of this division, while the highest in the past five years, was only a paltry 3.4%. Not only are GE's margins low, they are lower than competitors such as ABB and Emerson Network Power.

If GE has a minimally profitable segment, why isn't GE selling it off? The likely reason is that many of GE Energy Management's customers are also customers of other GE divisions, and GE thinks the synergy which this segment provides is worth the lower returns. GE continues to invest in this division, recently purchasing Lineage Power Systems and Pittsburgh-located Converteam, showing that if anything they continue to double down in this area despite the overall low margins.

GE Aviation

- Revenues up 9%, profit up 14% in 2014
- Profit Margin of 20.7%
  – highest in GE
  – Becomes more profitable each year
  – Far above competitors margins
- GE positive about near future for segment – feels that this is one segment low oil prices will help a lot

GE Aviation is a larger, and key segment of the company. GE has managed to increase sales every single year since 2010, along with profit. More impressively, it's increased profit every single year beyond the sales increase, allowing GE to steadily increase the profit margin for the division. With a 20.7% margin, GE Aviation is now the single most profitable segment of GE and beats handily competitors like Boeing, Honeywell, and United Technologies.



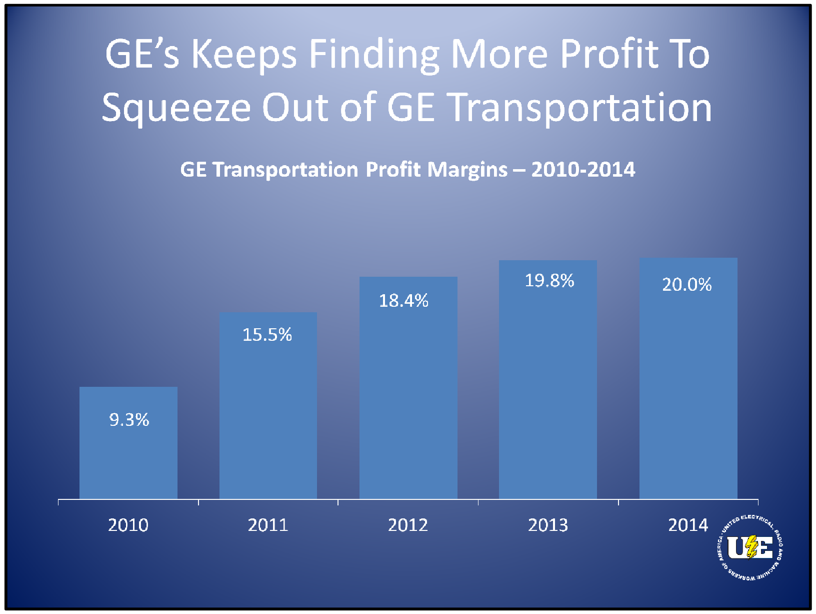
GE Healthcare, since 2011, has been pretty steadily a $18+ billion industry for GE, although within this there has been steady churn of smaller businesses being bought and sold. Overall they've managed to slowly increase their profit margins – back in 2011 the margin was only 15.5% on roughly the same level of business. Today it's 16.7%.

Despite it being a largely stagnant market, GE has voiced optimism for 2015. Orders were up significantly in the forth quarter, although GE Healthcare was also the only division which saw selling prices drop in the fourth quarter. It may be that GE floated this optimism to reassure investors, because as we will discuss, many want GE Healthcare on the chopping block.

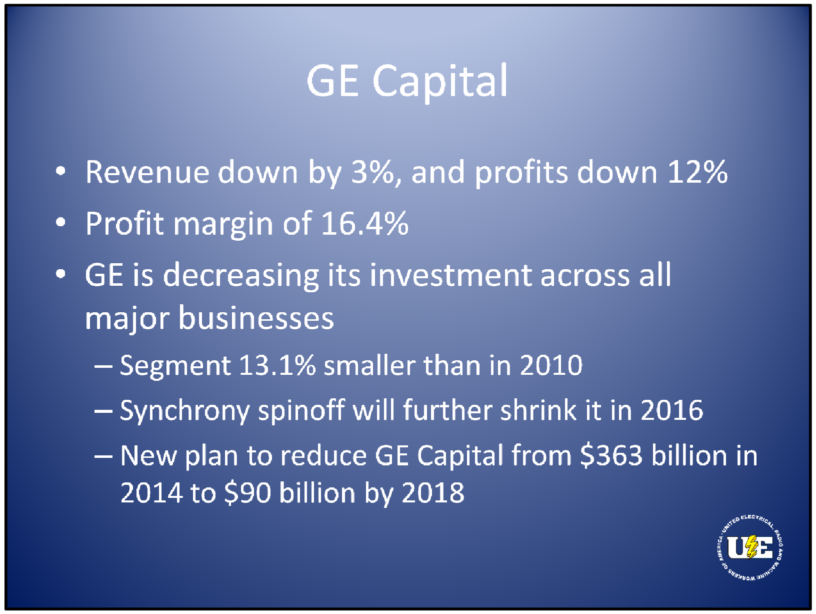
GE Transportation

- Sales down 4% in 2014
  - Due to OHV business – 4th gen locomotives strong
- Profits down 3%
  - Due solely to decline in sales
- Profit margin of 20% second-highest in company

Now we come to GE Transportation, the division of most interest, for obvious reasons, to many people in the room. Transportation has always been a small, but key portion of GE. In 2014 it amounted to around 3.7% of total revenue. 2014 wasn't a good year in terms of topline numbers, with sales down 4%, and profits down by 3%. However, this appears to be almost entirely due to the OHV business tanking. Because profit didn't fall as rapidly as sales, profit margins now stand at 20%, the second-highest in the company.



The transformation of GE Transportation over the last five years has been remarkable. The division is over twice as profitable as it was in 2010. While the biggest strides were made in 2011 and 2012, the company continues to make incremental improvements. GE Transportation now outshines its competitors by all major metrics. Its profit margin in 2013 was twice that of Cummins, and three times that of Caterpillar.



GE Capital remains the largest division of GE at the moment. It is large enough that GE reports information on five sub-segments of GE Capital – Consumer Lending & Leasing, Consumer, Real Estate, Energy Financial Services, and GE Capital Aviation Services. This segment almost brought GE to total destruction during the market crash in 2009, and GE has been doing all it can to limit exposure here, decreasing assets and selling off businesses which are poor fits. Although a relatively high profit segment of GE overall, setbacks here continued in 2014, three out of five segments showing declines in both sales and profitability.

The middle of last year, GE announced the planned spinoff of Synchrony Financial, which is the nation's largest issuer of store-based credit cards. This deal should give the Company between $18 and $20 billion in cash – twice what dividends currently offer.

Just this past week, GE wowed investors by announcing the essential elimination of GE Capital by 2018. It plans to begin the sale of its real estate division entirely this year, and exit all consumer-based and most commercial lending businesses. The only elements of GE Capital the company now wishes to retain are those which help finance the purchase of GE products in aviation, energy, and healthcare equipment. GE plans to plow the vast majority of this money into further stock buybacks, forgoing increased dividends or further investment in industrial acquisitions.

GE Lighting (& Appliances…For Now)

- Revenue rose by 1%, and profit rose by 13% in 2014
- Profit margin of 5.1%
- Will shrink over 50% in 2015 with sale of Appliances
  - Appliances was the higher-performing half of this division
- Lighting's days in GE are likely numbered

Last, and almost certainly least, we have Lighting and Appliances. Once a core GE Division, it is now mostly an afterthought. In 2014 sales were roughly 5.5% of total company revenues. Over half of this total is likely attributable to Appliances – Lighting is clearly a smaller business these days. Revenue was almost flat, although the profit improved to match its recent high point in 2010. That said, the profit margin of only 5.1% makes it the worst-operating segment next to Energy Management – and unlike Energy Management, GE doesn't have strategic reasons to retain this segment.

GE Lighting has been reported on the chopping block in the past, and with the sale of GE Appliances to Electrolux, there will be further pressure on the Company to dump the business. It's a tiny part of GE's portfolio, and the profit margins are low. More importantly, it's the only industrial business GE has left which sells products directly to consumers. Besides purchasing a small LED manufacturer in 2012, Lighting hasn't made significant acquisitions in years. Jeff Immelt has been largely silent on the subject, only noting that there are "interesting opportunities" ahead for the lighting business.

The Bigger Picture

Broad GE Plans For Future:

- Cut operating costs an additional 0.5%
  - (approximately $750 million)
- Build new efficiencies into product designs
- Increasing focus on after-market services
- Pivoting back to industrialized economies

But GE's Stock Hasn't Recovered

	Dow Jones Avg	GE
Price 10/5/2007	14,066.01	41.77
Price 4/14/2015	18,011.51	27.44
Change	**28.05%**	**-34.31%**

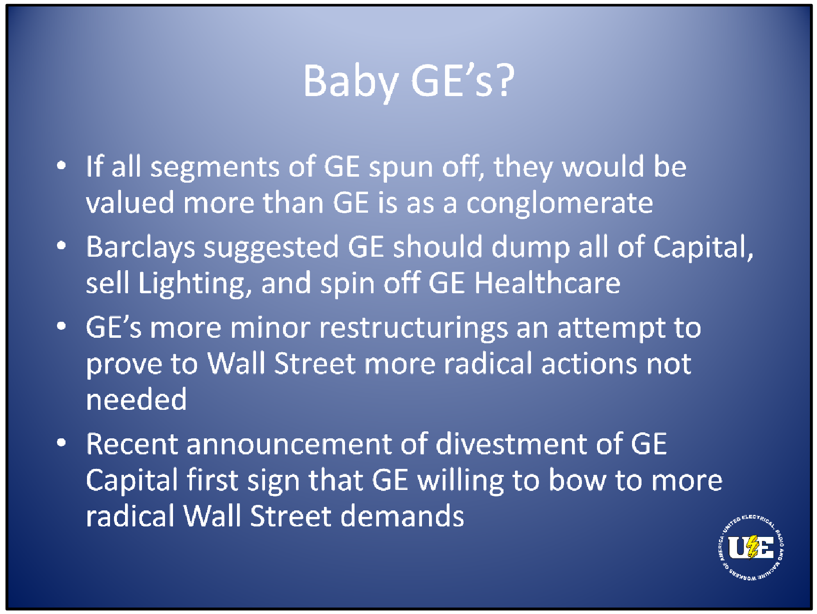
GE has, in one sense, not recovered from the Financial Crisis, in that it has not regained the confidence of Wall Street. For much of 2014, GE was the single worst performing stock of any Fortune 500 company.

Why Wall Street Distrusts GE

- Focused on stable, mature industries with slow growth
- Last of mega-conglomerates
- Investors don't know how to value GE's synergies
- Annual report so complex many professional investors can't understand it
- *GE's reputation sullied by Jeff Immelt's prior predictions not coming true*

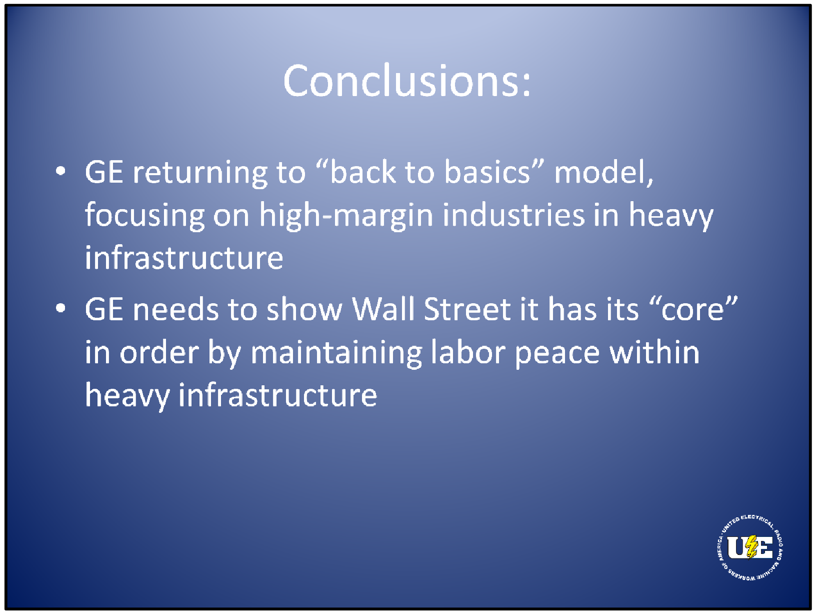
There are many reasons why GE has underperformed the market in general. GE is not in a sexy, high-growth industry. It makes good bank being in infrastructure, but compared to other industries in the modern economy, the margins just aren't as great. Conglomerates have fallen out of style as well, with companies expected to slim down and shed businesses tangential to their core focus. GE has done this to an extent, but remains convinced there are synergies in being a conglomerate – being able, for example, to both sell aircraft engines along with finance the capital needed to purchase them. Wall Street disagrees. Also, due to the size (still larger than many countries) and complexity of GE, they are well known for having arcane financial statements which even professional investors have a hard time understanding.

The biggest reason, however, remains Jeff Immelt himself. In January 2009 Immelt promised investors that GE had enough cash reserves not to cut dividends and maintain the company's AAA rating. One month later, the company cut quarterly dividends from $0.31 to $0.10. Although dividends have recovered somewhat, they are still below all-time highs. Many institutional investors do not trust Immelt, and GE will probably maintain a stink about it until dividends return to pre-recession highs. Even the recently announced planned divestment from GE Capital only produced a small bump in GE's stock price, and a wave of critical articles by analysts – some directly saying the move showcased how uncreative Jeff Immelt has been as CEO of GE.



There are periodic calls, which grew again last fall, for GE to be broken up in a manner similar to the old Bell Telephone, albeit (semi) willingly. It has been noticed that if each individual segment of GE traded at its own company, they would be higher valued than they are under the GE umbrella. At minimum some institutional investors have called for a wholesale liquidation of GE Capital, the sale of the Lighting division, and even GE Healthcare, which is viewed as a poor fit into the heavy infrastructure portfolio.

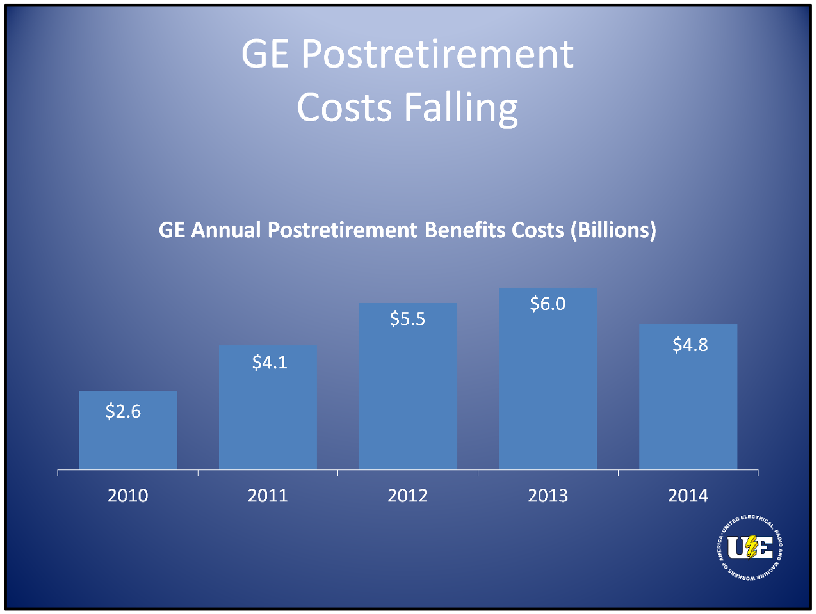
GE has, up until recently, resisted these calls for a more radical restructuring. Everything it has done in more recent years – the Alstom Deal, the Synchrony spinoff, and the sale of Appliances to Electrolux, were attempts to convince Wall Street that the GE portfolio could continue on with minor restructuring. Wall Street was unconvinced, which may be part of why GE decided to announce it was spinning off or selling most of GE Captial by 2018.



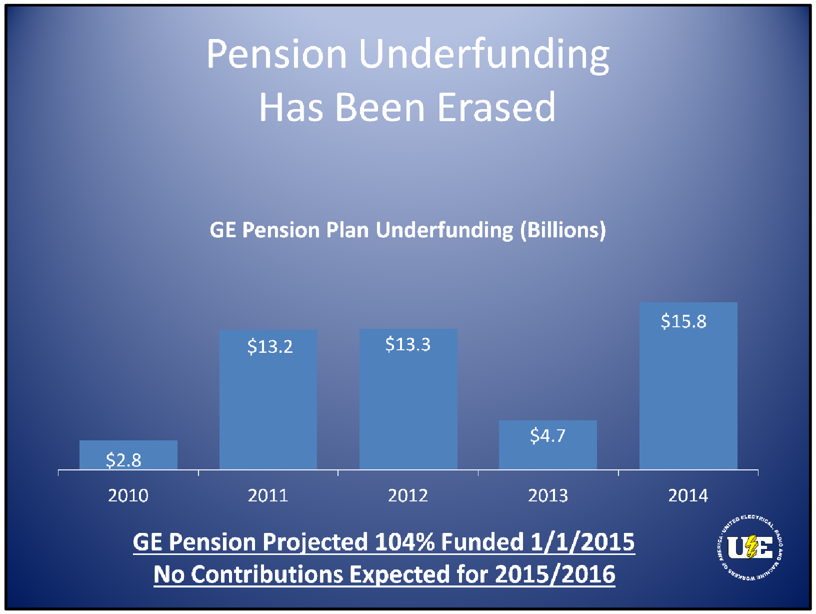
The bottom line is we're where GE wants to be. After many decades of treating the CBC as an afterthought, the industries which comprise it are a key element in GE's plans to ever-increase its operating margins. GE needs to show Wall Street it has its house in order in this stable core of business. Coming to a successful agreement with the CBC is probably the most major way it can do so this year – particularly because it will provide at least PR contrast with the high-visibility labor fights that major industrial competitors like Boeing and Caterpillar have faced in recent years.

Postretirement Information

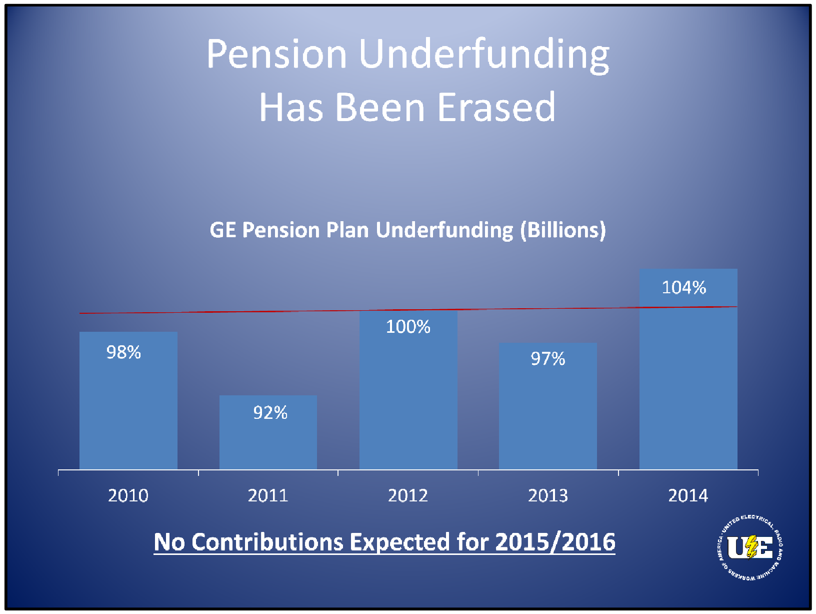
Now let's take some time to look at an area near and dear to many members, but somewhat ancillary to the main discussion of GE's finances – the status of the Pension Plan



In 2012 and 2013, the total cost for GE's post-retirement plans increased considerably, primarily because GE was lowering the "discount rate" for their plans. This means they lowered their projected rate-of-return – not because the rate of return of the overall market was worsening, but because they still needed to smooth out some pension losses which were felt with the market crash beginning in 2008. For 2014 this finally began to reverse for GE benefits, with the rate of return climbing from 3.96% to 4.85%. As the "bad years" continue to drop out in the future, we should expect this "discount rate" to continue to improve, meaning the retirement costs for 2015 and onward (presuming we don't see another financial crisis) will continue to decline.



GE's Pension plan's underfunding was cut massively from 2012 to 2013, dropping from $13.3 billion to $4.7 billion. This is especially impressive because GE did not contribute anything towards the pension in 2013 – the gain of $9.6 billion was mostly based upon an impressive 14.6% rate of return on pension plan assets. The number bounced upward again in 2014, due to a lower pension discount rate along with new mortality table assumptions. However, in August of 2014, the U.S. Government passed new provisions that change how ERISA calculates minimum pension funding requirements. As a result, GE did not have to contribute money to the pension in 2015, as the pension is now over 100% funded. GE now projects that there will be zero contributions to the pension for at least the next two years.



Since the start of the financial crisis, GE's pension, which had historically been moderately to significantly overfunded. However, as with many other pension plans, the one-two whammy of the Pension Protection Act's new funding rules, along with the financial crisis, caused GE's pension to dip into negative territory for the first time in recent history.

After some fluctuations, it seems as though this pension underfunding is finally over, and GE will have an overfunded pension again for the foreseeable future. This is due in large part to, in August of 2014, the U.S. Congress passing new provisions which change how ERISA calculates minimum funding requirements. In effect, the feds slightly loosened the PPA-era rules once again, meaning GE went from having a modestly underfunded pension to one which was over 100% funded once again.

Due to the effects of the financial crisis, GE contributed $400 million to the pension in 2012 – the first contribution it made since 1987. We now know, unless something unlikely happens, GE does not plan to contribute anything to the pension through at least 2016. Thus the company went 24 years without contributing anything to the pension, and, by 2016, will have only contributed to the pension once in 28 years.

Putting GE Pension Costs In Perspective

Total Pension Contributions – 1988-2014	$400,000,000
Total Participants in GE's Pension: 2013	500,588
Average Cost Per Participant	$799
Average Cost Per Participant Over 28 Years	$28.53
Average Annual Cost For GE Pension – 1979-1985*	$957,000,000

* Adjusting for inflation from 1985 to 2015

So over the past 28 years, GE has only contributed $400 million to the pension. Per worker, this works out to just under $800. But this doesn't take into account 27 years with zero contributions. Dividing the cost by the 28 years since 1987 (when regular contributions to the pension ended) the cost is only $28.53 per enrollee per year – very minor indeed.

Another way to look at it is between 1979 and 1987, GE contributed around $435,000 to the pension on average every single year. Adjusted for inflation, these costs were even higher. $435 million in 1985 was very close to $1 billion in 2015 dollars, and considerably higher the further back in time you go. Any costs GE has today for the pension are simply peanuts compared to what it used to deal with – not to mention compared to the significant underfunding that other companies have had to deal with.

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