



Conference Call Transcript

GE - General Electric at The Electrical Products Group Spring Conference

Event Date/Time: May. 19. 2009 / 2:00PM ET

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CORPORATE PARTICIPANTS

Jeff Immelt

General Electric Co. - Chairman, CEO

PRESENTATION

Unidentified Participant

Okay, everyone. We are ready for the closer here. GE was the big shift for Tuesday here, so I would like to kick it off. Thanks a lot to Jeff Immelt, Chairman and CEO, for being here. Jeff, I will pass it along to you.

Jeff Immelt - General Electric Co. - Chairman, CEO

Great. Thanks. And again, thanks for accommodating a schedule change. I really appreciate it. I'll jump right into it.

I'm going to really go through two pieces. One is just kind of weathering the recession -- what we are doing, what we are saying. And then the second part is just how we are positioning the Company to win in this reset world. So those are the two big themes.

First quarter is done. I think decent performance on a relative basis, so orders down 10%. Lots of restructuring. The March 19 meeting at GE capital I think was good; it resolved the ratings. So I think that kind of gives us a cornerstone to start the year.

Our view on the environment really hasn't changed from the first-quarter conference call. We still see that there is a global recession. We think the commercial credit cycle is going to be tough. There are headwinds in major equipment order. On the positive side, we are seeing strength in the emerging markets; China, Middle East remain very strong. We see lots of deflation out there. Customer usage helps services. Stimulus hasn't really kicked in yet, but we think the stimulus is going to offer some upside.

And the credit markets are better. In the last month, we've been able to do some unguaranteed debt. We think the capital markets are getting more stable by the day, and we think that is a positive for us.

Framework for the year in 2009 really hasn't changed. We still kind of see energy and technology infrastructure as advertised. NBC, kind of more or less the same view we had at the first-quarter conference call. Capital Finance on track to be profitable.

On the corporate side, the one thing I would point out is that, look, we are going to continue to do restructuring throughout the year. We did \$0.04 or \$0.05 of restructuring in Q1. We are going to continue to do restructuring to get the Company positioned for 2010 and beyond. So we are going to continue to be very aggressive from a cost standpoint.

Capital Finance, this is the page that we used in the March 19 meeting. We've updated it for the capital ratios, given kind of what they used on the stress test. And I think what you see is that the Company is very well-capitalized. We still think this is a good framework. The first quarter was more in line with our operating plan. It was below the fed base case. We expect that to get worse through the year.

We have plenty of capital. Current scenarios don't require us to raise any outside capital at all. And I'll come back to this and just show you some of the dynamics around this later in the presentation. But just no news around GE Capital. I think the team continues to execute, and we think this framework we showed you on March 19 is still the right way to think about the business.

Infrastructure in both energy and technology, still on track. Energy up strongly; technology infrastructure up. The things they have going for them are services, deflation, good global growth; those continue to be on track. The negatives are just the general economy -- can customers get access to credit. In the case of technology infrastructure, the US diagnostic imaging market continues to be tough. Rail loadings continue to be down. But really, the framework that we laid out last December and that the first quarter was very consistent with that, we continue to see that as we go through the rest of this year.

NBC is tough. NBC, we said is going to have negative earnings for the year. We still feel that that is going to be the case. The advertising market remains tough. We plan to continue the restructuring at NBCU. And on the right-hand side of the page, if you look at the upfronts, we think the upfronts this year will kind of track typical recessionary cycles. The upfront is going to be slower and lower than it was last year. It's probably going to be down 10% to 15%. So we are not naive about what the upfront is going to be.

And we are going to punch away with the strength we've got. We've got a very strong cable franchise. We've got excellence in news across all platforms. We've got really good strength on the digital front with Hulu and NBC.com. We think the new comedy lineup is going to be very strong. So we will punch away with what we have. And what typically happens in a recession is that advertisers buy less up front and then the scatter markets tend to strengthen during the next year, the subsequent year. And typically the scatter prices are above what the upfront price was. And so we are going to hang back and see where the scatter can be and drive as much upside later on as we can. But we think this market is going to be tough as we look at it.

When I think about managing through this cycle, however long it lasts, we really kind of think about three things. One is just stability around GE Capital, which has to do with funding; it has to do with how we price new assets; and it has to do with just very strong capital ratios inside GE Capital.

It is about outperforming in the cycle, which really reflects protecting the backlog, driving the stimulus, preserving the service revenue, getting the global orders that are out there and taking cost out. And then it is about strengthening the balance sheet -- strong industrial cash flow and maximizing financial flexibility. And that is how we really think about running the Company in this cycle.

From a funding standpoint, 2009 is completely done, and we've pre-funded \$7 billion towards 2010. So collections outpaced originations by \$25 billion. CP will be at \$50 billion by the end of the year. 100% of the CP has backup lines behind it. We've done \$8 billion of non-guarantees. We've seen securitization markets slowly opening up. We had a very successful TALF offering.

And then when we look at 2010, again, we will have collections outpacing originations. We are going to pre-fund a lot of 2010 in 2009, maybe the whole thing. We just see that amount of strength out there right now, that we think we can just completely take 2010 off the table. And then we will strengthen the alternative funding, the ILC and things like that on the [alternative] funding. We still believe we've got a great case in alternative funding, and the only element is just how quickly we ramp it up. But again, we think from a funding standpoint, we've got a very strong story and a much improved story.

Credit ratings have been resolved. It is at Double A and Stable. And we're going to have \$30 billion of cash on the balance sheet. That is a negative carry, but we think -- we are opting towards safety and security in the short term, and we think that is the appropriate way to run the business.

The good news, I think, on the demand side is that the demand for lending has grown in the second quarter. We still think in commercial finance we will do 45, 50, \$55 billion of new origination. The pricing on the new origination is somewhere between a 3% and 4% ROI, so we are seeing very good pricing. Our funnel is growing. There is not a lot of competition out there. And we think we can underwrite some terrific business in this cycle.

On the right-hand side, the four businesses that really grew in the first quarter, that had positive earnings, were our Commercial Loan & Lending business, the Verticals, Global Banking and US Consumer. These are the places that will get the majority of the capital as we look at the rest of the year. Positive earnings from the first quarter, and just good market dynamics around these spaces.

In the Commercial Loan & Lending business, good origination, the ability to do maybe some bulk origination at very high returns. Verticals, very few competitors; the 5 or 6 ROI type deals. Global banking had a very solid first quarter. And on the Consumer side, the underwriting we did in '07 and '08, I think, is looking very solid in the economy, and our margins are offsetting losses. So again, we think that GE Capital is stabilizing. It's a valuable franchise and operating well in a tough environment.

When I think about industrial earnings, we entered the cycle with \$170 billion of backlog, \$120 billion in service, \$50 billion in equipment. There is a lot of uncertainty, right? Timing of the recovery, consumer credit, what impact will regulation have. Our expectation is that kind of orders around services are going to be positive for the year; orders around major equipment are going to be negative for the year, maybe along the lines that you saw in the first quarter.

And our job is to make this as good as it can be. So we focus on protecting the backlog. We've set aside \$10 billion of financing to protect the backlog. We only used \$500 million of that in the first quarter, so we still have lots of firepower there.

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The CSA contracts and what they do for customers is very robust, so that is a key. How we play through on stimulus. You know, we've invested \$50 billion in R&D over the last decade. We are in a lot of the technologies that are going to get the government stimulus. We are going to try to position ourselves to be able to tap into that. Preserving our very strong business model around globalization and services; we think that is a big driver. And just aggressively repositioning of the cost structure. So that is what we can control, is what is on the right-hand side of this page, and that is where we are really focused.

On the stimulus, we've targeted 10 regions, if you will, 10 countries. We've got teams of people that are looking at this. We've kind of circled about 419 projects that represent about \$190 billion of potential revenue. And these are in areas like green technology, infrastructure, rural healthcare, healthcare information technology, export finance and research and development.

So my message to you is this is yet to fully unfold, but these governments have set aside \$2 trillion in stimulus. We've got the right stuff. In other words, we've got the right technology and systems. And just some early wins we've had -- Smart Grid Miami, a lot of you read about -- that is \$400 million of GE content. That's going to create 1000 jobs, not a lot in GE, but throughout the system.

We've accessed French financing to do a \$200 million turbine deal in Pakistan that comes from our factory in France. That creates jobs in France, allows us to build an installed base. We launched our sodium battery technology last week. That's got state investment money, allows us to accelerate the technology, get it out in the marketplace in front of customers faster. So we just want to position the Company to be successful and to be advantaged as this takes place and continues to accelerate.

Services is a big strength for GE. \$120 billion backlog, about \$35 billion of revenue in 2008; be positive in 2009. Will expand margins in 2009. Of our five big franchises, they'll all have positive earnings growth in 2009. Some of the markets will be tougher than others. There will be negative revenue passenger miles, negative rail loadings, things like that. But that is only one dimension of what builds your service revenue.

There are other two dimensions that are really important. One is what is the strength of our installed base. And in every one of these industries, our relative strength of the installed base has grown over the last decade. So our share of locomotives has grown. The CFM share in the airline installed base has grown. And then the last piece is where are you in your usage cycle.

And so if you looked at the next three years, in CFM and GE90, the number of shop visits will triple because the installed base is getting of that age. That is the important thing. Something like 40% or 50% of our aircraft engines have yet to have their first shop visit. So we have a very healthy pipeline that is coming that I have actually talked about in this room before, that in this generation, in this time period, both the F Turbine, the CFM, that GE90 are experiencing very robust shop visit cycles.

So we are not naive about where the market is, but we have some real mitigants in the service business over at this time period. And then again, this is \$8 billion of net income and service that probably has about as high a visibility as almost anything in the world that we live in today.

And then to win the big global orders. You've got to hustle and you've got to be nimble, because there are orders out there, and we've got to try to get them. So our industrial global revenue was \$60 billion in '08. It's going to grow in '09. China and the first quarter for us was close to 20%. We won the East-West pipeline. Healthcare was robust. I'm very encouraged by the elections in India. I think that is a real plus for a lot of us that are big players in India.

We've got to execute on the big energy projects. The Iraq order's on track. We've got a big oil and gas funnel of new orders and developments. Environmental grows, Middle East is strong, and we're going to win some big aviation orders with our partners in the Middle East and the rest of the world. So we are going to win more than our fair share of the global orders that are out there in this space.

[I see] Kazakhstan up here. We've invested a lot of money in Kazakhstan. We are going to do \$1 billion in rail between 2010 and 2013 just in Kazakhstan, which is a big joint venture we are doing with the country. We're going to be able to ship locomotives in the region. So again, I think the globalization and the global piece is incredibly important as we go through this, as well.

And then lower cost. We've been very aggressive on our cost base in 2008 and 2009. We are going to continue to drive that in 2010. We are going to drive footprint reductions, headcount reductions, sustained restructuring, and be very aggressive with this approach through the next -- the rest of this year and into next year.

And on the raw material side, we actually had inflation in '08, we will have deflation in 2009. And in 2010, the difference between 1% and let's say 4% on the raw material deflation is about \$2 billion for us. So that is a substantial number. So what I want you to see is we have great cost

momentum. And in an environment like this, you kind of triangulate around three points. What is going to happen with major equipment, where orders are going to go down, you're going to eat into backlog? What's going to happen in services, which is positive and probably should be able to sustain as positive? And what you do in cost, which will be very highly positive and will continue positive.

So I put those three things together, particularly when I think about infrastructure, and say, in this cycle, we are going to do just fine. We're going to have some headwind in major equipment, but we're going to have tailwind in services, we're going to have tailwind in cost. And that is the way I think about kind of managing through this cycle.

Now cash is critical. When you think about GE, you think about a big infrastructure and media company that has high margins and low CapEx. Our CapEx is \$2 billion or \$3 billion a year, and in this cycle, closer to the 2 than a 3. So in our world, it's all about working capital. We will do \$14 billion to \$16 billion of CFOA. We'll do another probably \$2 billion in other, in divestitures and corporate action, things like that. So around \$16 billion.

We're going to have headwind in '09 and '10 on progress. That's for sure. We think about \$5 billion of headwind on progress. But one working capital turn for us is worth \$5 billion. We'll get half of that at least in 2009, the other half in 2010.

This just shows you Aviation. Aviation, we will generate about \$1 billion in cash just in Aviation this year, incremental cash, by taking \$0.04 or \$0.05 of working capital out and then do another half a turn next year.

So this is something that the GE team is really focused on. It's something that they are compelled on. It is something that the teams are working on. So we are going to generate a ton of cash through this cycle '09 and '10 and beyond.

And then the last thing I just wanted to dwell on a little bit, just purely just try to take emotion out of it and just be purely analytical here. We've raised \$15 billion of equity last October, \$15 billion of equity. We really did our second equity raise when we cut the dividend, right? We cut the dividend and that is \$13 billion that is going to take place in 2009 and 2010.

So I sit here and say, if you take the Fed cases in 2010, the base case or the adverse case, which I would contend doing the Fed adverse case in '09 and another Fed adverse case in '10 is actually an adverse case. That's actually an adverse case. So let's say you did both those. We would have an income maintenance agreement with GE Capital at the end of '10 of about \$6 billion or \$7 billion, roughly half of the [dividend].

So we've got plenty of capital in this place to weather through this cycle. We do not have to go out and raise more equity. The dividend, the original equity raise will do just fine. If we have to put more into GE Capital to have strong ratios, we will do that in 2010. But as a Company, as GE, we just don't see a scenario where we have to go out -- we actually think we've done it twice. We raised equity once; we cut the dividend. That gives us another \$13 billion.

In the meantime, we've got more cash in the Company than ever. We've cut CP from more than \$100 billion down to \$50 billion by the end of the year. Our ratios, our leverage ratios are as good or better than any of the banks, very strong. And we're going to absorb losses as we go through this cycle. So just analytically, a way to think about the Company, this is how we see it, where we stand.

And over the last seven months, look, this has been hard, but we've taken lots of positive actions to strengthen GE as we've gone through the cycle, and this is where we stand.

So I think about the recession. I think about stabilizing Capital Finance, which is really all about weathering the losses, stabilizing funding, new margins, adequate capital, increased transparency. We are going to have another analyst meeting like the one we had on March 19, we're going to have on July 28. We're going to go through the second quarter and we're going to give you an early look at 2010. I can't promise 190 pages again, but -- we may cut it off at 150, maybe something like that.

Industrial earnings outperform, this is about the backlog, the stimulus, services, global reach and lower cost. And then strengthen the balance sheet. Really a conservative approach and strong cash generation. That's how I think about the Company in this cycle, however long it lasts.

Now there will be a future. There is actually going to be some time that maybe you guys can go out and golf at this meeting or something like that. So -- and I think it's important that every company has to have a point of view on what this future is going to be like. So we have kind of, I would say, five things that are in our mind as we reposition the Company for long-term growth.

The first one is financial services are going to change. There's going to be more regulation. There's going to be more capital required. And so we think this is going to call for a smaller GE Capital.

Government engagement is not going to end, and we think this means you're going to have to positive engagement in the big industries that you are part of. We think the developed world could be on a slower growth trajectory. We think what this means is you've got to be in big industries, you've got to have massive organic growth initiatives, and a service stream always helps.

We think that the resource-rich parts of the world, the parts of the world that have oil, natural gas, are going to be strong, and China and India are going to be strong. So we are differentiating resources to win in those areas. And we think that trust is low, corporations are going to be under scrutiny, and so brand and culture continue to be important and we want to make the right investments in those areas, as well.

So when I think about the future for GE, our view is a Capital Finance business that is between \$400 billion and \$500 billion in assets. It's a 1.5 to 2 ROI type business. You're going to get a cyclical pop out of this thing. You're going to have one or two years where the losses abate and you are going to get a spike in earnings, and then you're going to have strategic growth after that.

On the industrial side, it is going to be about \$125 billion in revenue, high margin. We think we can grow to 2 to 3 times GDP. And the strategy is really all about improving the portfolio, kind of repositioning GE Capital and investing in industrial growth businesses, and driving organic growth, which is about technology, services, globalization and owning some of the big bets, owning some of the big plays. And so when I look out two, three, four, five years, these are the things I want to make sure that we are doing inside GE.

We've always run the portfolio more or less on two dimensions -- how attractive are the markets, and what is our competitive position. Just starting kind of at the top right, we've put about \$40 billion into the Company in the last six or seven years. We've built some platforms in avionics, renewable energy, services, globalization, things like that. That is the sweet spot. That is where we want to go.

The lower left, we've exited a lot of businesses. We've exited about \$60 billion of equity out of the Company. This has been insurance, reinsurance, plastics, silicones, four TV stations. So we've tried to get out of the Company some of the slower growth businesses where we weren't competitively advantaged.

One of the tricks is to keep the businesses in the yellow from becoming red. So there is some businesses that are basically good industries where we are not competitively advantaged. We thought the homeland protection business was kind of a business like that. We announced the disposition of that about two or three weeks ago.

In some businesses, we have a great position; it is just the market is going to be slow to take off. And in some of those, we take on partners. We've got Hitachi as a partner in the nuclear business, and we want to stay in the nuclear business. But we thought it made sense to have multiple partners as we went through it.

And the point I make is we always work this. We can always self-fund growth by selling things and buying things. But the whole notion that Keith and I and the rest of the leadership team have had is about really working this portfolio to increase our industrial growth rate, to build an industrial franchise, an infrastructure and media franchise that could always grow at two to three times GDP.

By the way, I think we've done a pretty good job on the industrial side. I mean, we've got very strong businesses that have leadership positions that we've really invested in.

GE Capital, again, the way I look at it from where we are today to the future, we are going to drive the runoff book as quickly as we can. That might take two or three years to work through that. We want to fit with the era, which means lower leverage, more regulation, low-stress funding, diversified funding, fewer competitors. So we have a pretty clear view of what we think the market is likely going to be -- is more than likely going to act like and be like.

We've got a bunch of global banks that are pretty strategic, actually very well-positioned, that we can grow or partner with. And then we've got sweet spot GE businesses that are kind of the core lending and leasing vertical business that are domain-based, aligned with the brand. We've got origination and risk management competitive with banks. And so we think this is a long-term profitable franchise with a lot fewer competitors than we have today.

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We are funding organic growth. Even in the downturn, as must cost as we have taken out, we are still funding research and development. We are still funding content. We've put about \$50 billion into R&D in the last decade. We've put about \$40 billion into content. We've issued more than 20,000 patents.

And the approach is to blanket these big industries like energy and healthcare. It is to build on systems like Smart Grid technology. And it is taking our basic research, the Global Research Center, and bringing these new technologies to market. So we have a very full pipeline of products that we think could be launched in this cycle that will drive good organic growth as we work through this cycle.

Here's energy. From the big-bet base-load technologies and coal gasification and nuclear to renewable and wind and solar and some of the industrial renewable businesses, water reuse, waste heat recovery, things like that, all the way over to oil and gas, where we are working on electrification, the integrated riser. GE just has top-to-bottom leadership, brand-new products and very competitive offerings across the space in energy. A lot of these green technologies are the targets of the government stimulus, and we feel good about this technical pipeline, this technical pathway.

Healthcare from the high end to the low end. I mean, we've got a good pipeline in molecular imaging. A lot of it based on neurology that we think is going to be very healthy technology. A good new platform for us in pathology, where we have both digital pathology and molecular technology, which we think are going to be good screening tools, maybe \$0.5 billion product line.

Portable ultrasound, hand-held ultrasound tablets, where we have really strong leadership and good opportunities for long-term growth in the ultrasound space. And a Value MR, a 1.5 Tesla low-cost MR scanner that can go after 40% of the world that doesn't have any access to MR technology today, at price points that are about half of what we are seeing in existing technology. So we really are seeing good opportunities to grow with technology in our healthcare space.

Lots of good content. Our cable content between news and entertainment cable is the best in the world. And we will continue to dominate with content in the cable space. We actually have quite a good global franchise in NBC today. Between movies and the cable franchise, this is a \$4 billion or \$5 billion global franchise inside NBC Universal, but we are really building out the global channel business on the cable side.

Film, we've got a very good pipeline. The movie business is probably one of the few businesses that is seeing strong growth year-over-year in the media space. And then comedy, you know, our big bet is Leno. I think it does two things for us. It allows us to dominate in comedy. I think early signs are that we are going to be able to really get a good advertiser support for Leno at 10 o'clock, and it allows us to put our focus on content between 8 and 10. So we think this one helps us in multiple ways.

And Hulu, we think, with Disney and Hulu, this is now the definitive premium website content site, and it really is going to allow it to stake out some good positioning there.

System leadership and Smart Grid. I know you haven't heard anything about the Smart Grid this week at all. So I hate to pile right in there, but I will have my stake as well. The Grid itself, I think I trained Joe well enough to train you on what the Smart Grid technology is. But between Smart Grid -- our big play of the Smart Grid itself is Smart Readers and the hardware and software around the TV stations that allow the utilities to make money on the grid.

And then we've got all the appliances that are going to be able to do wireless technology, a hybrid electric water heater, an in-home energy management system. What you like about the Smart Grid technologies is just one city, a couple million people, Miami, is \$400 million of content just for GE. So if you build out 50 cities or 75 cities, which I'm convinced it's going to happen in the US, and then multiply that around the world, the numbers do add up relatively quickly. And we can kind of play it across the spectrum.

And then we still do basic research, so we still are investing in the Global Research Center. Lots of new material technology. This just happens to be a helicopter engine. But I could show you the new kind of Leap56 that we are going to do on the new narrowbody plane, using similar technologies.

One of the businesses that we're going to get in with some of the people -- or compete with some of the people that presented here this week is this airborne electric power. We just think the electric power business in general is a place where we have no business today. This is just low-hanging fruit. We know how to do it. We know how to productize it. We know how to have an advantage in it.

Sequestration, every sequestration plant that gets built could have \$700 million of GE content with it. So we think that is a big advantage. And then the sodium battery, which can go on transportation, but can also go across uninterrupted power supply, telecom. We think this is a billion-dollar franchise.

By the way, when we execute on a hybrid locomotive, we will be two generations of technology ahead the private equity guy that acquired EMD. So we now will have built -- in the time that GM sold the EMD business to private equity, we now have a 10- or 15-year lead in technology as they work their way through that. So that's a good thing, by the way.

Services is the important thing, about -- to investors and about how we run the place. It's 75% of our industrial earnings. It has grown at 2 to 3 times GDP at 25% to 30% margin. This has to be the one piece of the Company that we turbocharge constantly. And the way you do that is you build out the installed base, which we continue to grow the installed base. You've got to add more content, which is basically sensing and software technology. Then you've got to grow beyond the installed base. And I'll give you a good example of what we are doing there.

And you've got to have more tools than anybody else that helps keep the customers productive. Because customers want productivity. That's why they buy CSAs, and that's where you can build a massive competitive advantage.

So the first thing is just about growing the installed base, kind of a GE do you know quiz. We will do 150 heavy-duty gas turbines in Saudi Arabia between 2006 and 2010. So this is one question now. Behind that, over the next 5, 10 years, however long, is a \$2 billion service franchise. And what we've optimized in Saudi Arabia is heavy fuels. We've built a service shop there. So it is really hard for any of our competitors to come behind that, just because of the massive installed base, the amount of technology we have, the things we are doing in service.

Similarly in wind, we are building about a \$1 billion wind service franchise. It is about remote monitoring, upgrade kits. The wind business doesn't have the service calories that the gas turbine business does, but \$1 billion is still a pretty good franchise and one that we will build out behind the installed base.

And then the best example of growing beyond the installed base is in healthcare, where we really have about a \$35 billion market between healthcare information technology and what I would call performance solutions, in a market that is growing 7% or 8% a year, where GE today has about 2.5 billion -- we've got --. We are like a 7% share player in a market that is going to grow dramatically that every one of these segments GE can lead in, can play hard in and can win in.

And this is an important page, because this is one of the places that I think we are going to grow in our healthcare business substantially. Electronic medical record, performance solutions in the hospital, and this is a fantastic opportunity. We have got an electronic medical record that we are working on on Intermountain Health that's going to be commercialized in 2010, that you guys are going to see at RSNA this year.

It is a -- I was going to say it is a killer product, but in healthcare, probably shouldn't say that. This is a really great product. So we are going to be able to go toe to toe with Epic, Cerner, anybody in this space, and play big. We can do financing. We can do things nobody else can do to help grow in this place.

Position for global growth. The only thing I would point out on this page is that more than half of our industrial revenues are in regions that are going to continue to grow. This is resource-rich regions, Middle East/Africa, Australia, Brazil, China, India. That is the future. These places are going to continue to grow.

We still care a lot about our customers in Europe and Japan, but I just think nobody is counting on robust growth in those two regions anyplace soon. You've got to win today in China, India, Middle East, Africa; these are the big places. So we've positioned ourself to win in these areas.

Now, one of the big advantages we have, I would say against even the companies I respect that were here this week is the breadth and the ability to do financing make us a great partner for these countries. A couple examples. Mubadala, the commercial finance joint venture is going to be done imminently. It has built a great partnership with a key player in renewables and in other technology. We've done a great deal with Cutter in healthcare information technology, in healthcare R&D.

And then on the right-hand side, there's all these Chinese state-owned enterprises where we can do unique joint venture that I think could be game changers. In the case of aviation, we potentially could get a great platform in avionics that we could go and become a bigger competitor with companies like Honeywell and Rockwell. In the case of state grid and energy, you've got a T&D player that if you did the right venture, this is a game changer vis-a-vis long-term market share in T&D. So these are things that GE can do I'd just say a little bit better than everybody else because of our size and scale and breadth.

Lastly, win in big themes. We did -- I did eco down here four or five years ago. We announced healthymagination a couple weeks ago. These are all about connecting the dots of GE to get in some of the biggest markets, to have initiatives that are relevant socially, but also can earn good money for the Company at the same time and leverage technology. So these are great, I think, long-term initiatives for us and for our investors.

Eco has been a big win. We will be \$18 billion, \$19 billion this year, on our way to \$25 billion next. This has been -- we've saved money for the Company. It has helped build our brand. Lord knows nobody has followed us here on this endeavor, and this has just been a great initiative for the Company to lead in clean energy. And I think it gives us a seat at the table at the big global debates along those lines.

And then healthymagination, I just think it is important even for ourselves to really reposition the business for long-term growth. This is an important franchise for GE. And what we try to do is create metrics around these initiatives. One that some of you have talked to me about before is kind of a healthcare value gap that measures what do we earn on our healthcare business versus what do we spend on employee healthcare costs and how does that grow over time.

But in essence, really what healthymagination is, it is about broadening our technology range to do more in healthcare IT, affordable products, access, consumer health. It is about inside the Company driving our long-term healthcare costs down to CPI. It's about restoring to this business a 2 to 3 times GDP growth inside the business to earn money for our investors. And it's about engaging in the debate. So I think this just makes us a broader, deeper healthcare player in a business that is very important for the Company long-term.

And we continue to invest in leaders. I would say what is important to us is to have very strong functions, to have P&L leaders that are real domain experts and to have a culture that is strong. I just put up here on functionally, we've got 35,000 engineers at GE. They are deep in sciences, they are deep in product development, they are deep in systems. They are integrated around the world. They've got fantastic -- we do a lot of benchmarking in terms of how they stack up with us. We did this function-by-function with continuous improvement at all times.

We track 60 big P&Ls inside the company. We've got a bench of about 235 people for these 60 P&L jobs. We want people that know domain. We expect people to stay in their job longer. We expect them to be globally astute. We expect them to be financially accountable. This is kind of - the combination of functional excellence and P&L excellence are the two dimensions that are really critical.

And then culture, 20 years with GE, global and diverse, long-term comp, high retention rates, domain experts. Again, we are committed to win. We're committed to continue to build the team and hold people accountable for the long term.

Lastly, just want to make three points on value creation, three points. The first one is, we perform. If you compare us with a composite of world-class companies, whether it's organic growth, return on total capital, margin rates, revenue per employee, this is a very competitive Company and a very performance-based Company. So point one, we perform and we will continue to perform.

Point number two, there will be growth again someday. Okay? I think we are positioning the Company for a reset world with an industrial business -- an industrial set [of businesses] that have strong service revenue, have high margins, generate a lot of cash, our position around big themes. And a financial service business that is smaller, that has good returns and that has good, competitive advantage versus banks. So again, repositioning the Company for growth over the long-term.

And the last thing is we are just in good spaces. We are in affordable healthcare, we are in clean energy. We are in transportation infrastructure. We are in a big media market. We are in financial services around infrastructure and financial service around small and medium enterprises. So performance, growth, long-term positioning. I think these are three good calling cards to achieve.

That's it. Take some questions.

QUESTION AND ANSWER

Unidentified Audience Member

Jeff, the only thing you haven't done as well as many peers is M&A. Can you talk about maybe why your returns have been so low and what needs to change, if it needs to change at all?

Jeff Immelt - General Electric Co. - Chairman, CEO

Scott, we do a five-year lookback on M&A. And I would say when you look at cash-on-cash returns over a five-year time period, they are going to be in the low teens, 12%, 13%, something like that. So that means they haven't all hit. They haven't all missed. We've had some that have hit well. Our WACC is probably 9% or 10%, something like that.

I would say where we make mistakes are places where we've just bought too small a platforms and haven't integrated them as well or left them apart from a bigger superstructure of a business, like an energy business. And where we've done well is where we just are able to take a platform and plug it into an energy, a healthcare, an aviation type business. And I think that is what we want to try to do more of.

Unidentified Audience Member

As a follow-up, just to change gears, the healthymagination, it seems like it is a bit of a capitulation of the prior arms race strategy. So I guess my question is, how do you feel your position versus your kind of 2.5 million peers to go after that market? And then second, do we see an R&D dividend, where you're able to kind of dial back the huge spend that (multiple speakers)?

Jeff Immelt - General Electric Co. - Chairman, CEO

Scott, what I would say is that there is going to be -- there is probably going to continue to be somewhat of a two-tier market, in that there is going to be a commercialization of a chemical marker for Alzheimer's. It is married with imaging and therapy around that disease that is going to save money for healthcare. And the imaging agent is going to be expensive, and the image is going to be expensive. And that market is going to continue to exist.

But equally important to that is just going to be low-cost CT, low-cost MR, handheld ultrasounds. And I just think as a CEO, I think healthcare -- the long-term dynamics of healthcare are fantastic, really fantastic. This is going to continue to be a positive industry. But I think our investors want to hear something other than DRA reimbursements got cut, right? You want to hear, here is where we're going, here is what we are doing about it, here is where we are going to grow, here are the new products we are in, here are the services we are going to do.

So if you call that a capitulation, then I would say you are right. I think it is just every business we are in, if you're in them long enough, they go through changes. This was a business that was really driven by, I would say, medium- to high-end reimbursement and the development of MR centers in the US. I think we are counting on those days as being largely -- I wouldn't say over, because they are never completely over, but are going to be vastly different.

So we just think it is a good reposition --. How we position -- look, I think we've got breadth and depth, as do Siemens and Philips. We've got financing, which I continue to say is a big advantage. And Scott, we've got an awfully good brand. We've got an awfully good brand. But they are two good competitors that also have -- you could've asked your same questions on acquisitions to either one of those two guys. We've all got to make money in healthcare.

Unidentified Audience Member

Jeff, has your attitude changed at all about when actual stimulus dollars hit your P&L? That's been sort of a moving target, very slow to get off the ground. Any sense -- any changes?

Jeff Immelt - General Electric Co. - Chairman, CEO

Cliff, the money exists, right? The money exists in the US and China and France. And what is happening is it is working its way through the system, in terms of what the grants are now.

I think something that happened yesterday is really important. The initial thrust was the biggest Smart Grid grant was going to be \$20 million. Now it is \$200 million. So you are going to see that is going to accelerate some development. There's going to be more money for coal

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gasification. There is going to be grant money that we are able to get for the battery program. I think it's one of those things that is going to be slow for the second half of this year.

We think more about it in a '10 and '11 timeframe. We really do. Not a '09, but I think '10 and '11 is really the game you want to play on stimulus.

Unidentified Audience Member

In terms of the Fed adverse scenario and the -- has the Fed given you any kind of signaling or indication -- are they looking in any way at GE Capital at this point? Is there any sign you have that they are preparing to do so in coming months?

Jeff Immelt - General Electric Co. - Chairman, CEO

No. No and no. I mean, it --

Unidentified Audience Member

Okay, and then the second question is around a lot of other competitors, some of whom have been here over the last couple of days, and in the marketplace, I hear talk about being on a back foot in terms of normal amounts of financing you do with your equipment in healthcare and other places, and sort of waiting for GE to come back into the market more aggressively. How should we think about that?

Jeff Immelt - General Electric Co. - Chairman, CEO

Look, I think fourth quarter last year was like -- that was a strange time. First quarter, there just wasn't a lot of demand. We did a lot of restructuring and reorganization of GE Capital in the fourth quarter last year.

I would say now our Commercial Finance business has got its groove. And so we can do as much or as little as we want to at this point. We've got a lot of capacity. And we are not going to do dumb deals to sell equipment. I mean, I think we are very experienced at things like that. But we've got a ton of capacity to do good deals as we go through it. And I would say we are fully -- in Commercial Finance, have our groove back from an origination standpoint. Does that answer your question?

Unidentified Audience Member

Thanks, Jeff. Two unrelated questions. The first one, a little bit playing off Cliff. So on the one hand, we've got stimulus coming. One of the things we are obviously hearing from a lot of companies is there is a lot of uncertainty about -- there is a lot of regulatory uncertainty, tax uncertainty and things of that nature. You made a good case that you are dealing with what you can control. But my question is is you do have a bit of a seat at the table in Washington, and I am wondering in what (multiple speakers).

Jeff Immelt - General Electric Co. - Chairman, CEO

I'm a Republican. I mean, let's get that out there. I am way over here, baby. So not even close. So I'm not sure how much influence --. Way over here.

Unidentified Audience Member

Nonetheless, that's kind of the question, is the voice of business beginning to be heard or not?

Jeff Immelt - General Electric Co. - Chairman, CEO

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You know, Jeff, look, it's all about jobs. In the end, that is -- I have my report card; you guys give it to me more or less every day or more frequently. That is their report card. And people that have jobs are the people that create jobs. So I think in the end, Jeff, there is going to have to be a middle ground where business and government works in concert with one another.

And I think from the standpoint of GE, is, look, we've been in the healthcare business since 1950. We've been in the power business, the energy business since 1875. If the stimulus is going to go towards healthcare and energy, we're going to win. That is -- I -- it's not like we've changed our strategy to accommodate the stimulus. Where the money is going tends to be places that GE has great footprints in.

So I think the voice of business will be very loudly heard. I think the President is a good listener and wants to get this economy going and wants to create jobs.

Unidentified Audience Member

Separate and unrelated -- and it may be very, very embryonic -- but it was interesting the comment you made about avionics coming out of China. Could you elaborate on that a little bit?

Jeff Immelt - General Electric Co. - Chairman, CEO

I think we didn't acquire Smiths to play the hand Smiths had. We acquired Smiths to be able to do a full system on the narrowbody launch, on a widebody launch. You guys are smart about these industries. They play out over five, ten, 15 years. But we intend over the next decade to be a meaningful player in the systems business and doing so organically as the base case.

Unidentified Audience Member

A couple things. You showed one chart that showed aggregate losses for Capital in '08 and '09, and looked pretty conservative. On the other hand, you said that margins on originations were offsetting losses. And we know that the losses in the first quarter were sort of at the low end of a range of expectations and have ramped up modestly, I think, subsequently.

So maybe you could put those pieces together for us. Are you seeing losses ramping up that are so far below what you would think? And I guess the question is when should we see a bigger ramp in losses towards the targets you've put on the chart there, the 70 to 20?

Jeff Immelt - General Electric Co. - Chairman, CEO

What I would say is the most recent data you saw was after the first quarter. I don't see a lot different than what we said at the end of the first quarter, of March 19. We are still not seeing -- we are still seeing them in an orderly way, but we are very cautious about the commercial cycle, very cautious.

And so I just think we want to be conservative as we go through the rest of this year. Some pieces are better. Some pieces are worse. I just don't have a lot of different data than what we gave you at the end of the first quarter.

Unidentified Audience Member

Slide 42, I'm just looking at the bars here. It's an interesting slide on the -- I guess it is kind of an earnings power slide. And I'm just curious what does cycle mean here? Does that mean over the next couple of years? Does that mean a trough type of expectation? And then when you say new world here, it looks like the earnings here are about in line with what you did in 2008.

Jeff Immelt - General Electric Co. - Chairman, CEO

It is meant to be just a directional chart, Steve. In other words, if you look at the cycle, our industrial earnings will be fine this year and we will be profitable in GE Capital. This is a cycle year. And then we see over the -- kind of in the new world, a smaller GE Capital and an industrial business that we think we can continue to grow.

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Unidentified Audience Member

So do we think about that as a normalized number, or do we think about that as the potential -- the potential for GE?

Jeff Immelt - General Electric Co. - Chairman, CEO

I think about it as a symbolic chart that is consistent with the strategy of the Company.

Unidentified Audience Member

And then one last question on GE Capital. With the first quarter, your pretax pre-provision number was kind of tracking towards the adverse case. I think we didn't get a lot of detail on the quarter. We did get some from the Q. And you said that there is going to be a lot of cash sitting on the balance sheet. So is there going to be a seasonal improvement in that pretax pre-provisioning number that gets you more towards the base case?

Jeff Immelt - General Electric Co. - Chairman, CEO

My hunch is that that will improve as the year goes on. But just to go back to having -- if you've got \$30 billion of cash on the balance sheet, that is a negative -- that does have an adverse effect on earnings. But we think it's important for safety.

Unidentified Audience Member

And then one final question, and I'm not sure if Keith is here, but just on tax. Can you just explain to us how -- it's kind of hard to get into the filings and figure out exactly how you guys are getting to these big tax benefits. I know there is (multiple speakers).

Jeff Immelt - General Electric Co. - Chairman, CEO

Keith is here, Steve, and why don't we just have him go through it with you at the break?

Unidentified Audience Member

Okay, great. Thanks.

Unidentified Audience Member

Just two questions. You've given us long-term ROI. You've given us long-term [appetite] for GE Capital. What about leverage? Does the leverage go (inaudible) or are you happy with this kind of leverage?

Jeff Immelt - General Electric Co. - Chairman, CEO

You know, I think it is going to be in that range. It is going to be 5 or 6 type of range. We certainly don't see it going up in leverage, and I just think the type of business we are going to be -- a lot of it has to do with the mix of what you are doing and things like that, how much verticals and things. But I see it being a predominately debt book. The leverage probably doesn't change much. And that is roughly the size and the ROI.

Unidentified Audience Member

And secondly, Healthcare Services, you talked about the market share potential in that business. My healthcare colleagues are convinced you are going to buy every one of their companies. Do you see that as primarily an organic strategy, or (multiple speakers)?

Jeff Immelt - General Electric Co. - Chairman, CEO

You know, by the time we launch this [eSys] product, that we're doing it With mayo and Intermountain, we will have put probably well in excess of \$100 million or \$200 million into it organically. I think it is going to be able to go toe to toe with anybody else that is out there. And I see it primarily as an organic play. Now, we've done deals in the past to build our franchise, but I really see it as an organic play.

Unidentified Audience Member

Jeff, when do you expect that you will be able to be more specific about the timetable for shrinking GE Capital? I mean, we've lived through some runoff businesses before, like when you get out of reinsurance and Genworth and there were some runoff businesses. But this is \$150 billion of assets. Is it -- when do you think you can be more specific about the timing?

Jeff Immelt - General Electric Co. - Chairman, CEO

You know, Dean, I think it is one of those things we will continue to update on, and when we have the meeting in July we might be able to be a little bit more specific. But it is going to be a couple years. And some of that just rolls off naturally, and personally, I believe that at some point capital markets are going to open up and we are going to be able to do some bulk dispositions at that time. And we don't count on it now from a funding standpoint, but we are going to have some of those opportunities; we are convinced of that.

Unidentified Audience Member

And second question is you don't know how right you were about saying you are going to see more financial services regulation. You had the Senate today pass the credit card bill of rights, and that does have direct impact on private-label credit cards, which are still in the portfolio.

Any early reaction as to how that would impact P&L?

Jeff Immelt - General Electric Co. - Chairman, CEO

You know, Dean, the way the legislation was written was exactly I would say equal to or better than what our expectation was. So I think we are going to be okay.

I had Keith call Mark Begor when we were walking in here, so he's got a specific answer. So you can grab Keith in the break and get an even better answer than that one.

Unidentified Audience Member

My first question was on how you're thinking about a realistically -- what you might think you would be able to do on asset sales. You sort of answered it on the GE Capital side to Dean's question. Can you touch on that on the industrial side, first question?

Jeff Immelt - General Electric Co. - Chairman, CEO

First on the asset sales, even though they haven't been big, we've continued to exit Australian mortgage, some of the equipment finance places. So we are doing it even in tough capital markets we see today, on the financial service side.

On the industrial side, you saw us do homeland defense. You're going to see a couple other industrial platforms; I don't think big ones, but a couple other ones to take place this year that we think, even in this market, there is a good, strategic buyer who can play.

Unlike where we were a couple years ago, there is no big private equity guys, so they've got to be strategic. They've got to be of the right size. But you will see still a couple.

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Unidentified Audience Member

I guess in part of your earlier comment, you made an allusion to flexibility to potentially cut the dividend again in terms of meeting the 2010 covenant requirement. So I'm just trying to measure your --

Jeff Immelt - General Electric Co. - Chairman, CEO

I think the dividend we've got today is safe. The \$13 billion assumes that dividend stays in place. So again, in any scenario we can see for the income maintenance agreement, we sustain the dividend where it is and we can use the \$13 billion to offset.

Unidentified Audience Member

I'm just trying to measure your sort of appetite for asset sales relative to other alternatives such as that. I'm just trying -- are asset sales high on the list, as probably we would expect them to be?

Jeff Immelt - General Electric Co. - Chairman, CEO

Yes, we want to continue to sell assets. We really do.

Unidentified Audience Member

The balance there is your normalized earnings power. Last question, just wondering if you can maybe fine-tune how we should be thinking about cost savings for 2010 from actions you take in '09, sort of the carryover as we move into 2010.

Jeff Immelt - General Electric Co. - Chairman, CEO

Look, it is always hard, because we don't give guidance anymore. But I would say that the framework we've given has always envisioned being able to do restructuring during this year. So we are going to -- if you think about Q1, we were at \$0.26 a share; consensus was \$0.21. There were some nonrepeating items, clearly. And we did \$0.04 or \$0.05 of restructuring. So we've got -- given good operations of the Company, we've got the chance to do restructuring this year in the context of the framework and where the numbers are and everything like that, and get well positioned for 2010.

Unidentified Participant

Let me just jump in here real quick. So, I think we will wrap up the Q&A there, let Jeff make some -- any closing comments. And then remember, GE will have a reception outside these doors afterwards, so we can thank them for that and ask everybody to join that.

I'll hand it back to you, Jeff.

Jeff Immelt - General Electric Co. - Chairman, CEO

Performance, long-term growth, positioned in the long-term right places. So thanks for your attention. Great to be with you.

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