Conference Call Transcript

GE - General Electric at The Electrical Products Group Conference

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CORPORATE PARTICIPANTS

Jeff Immelt
General Electric Company - Chairman, CEO

PRESENTATION

Unidentified Participant

Down to the stretch here. It's been a great week. I want to thank you all for your cooperation. We are thrilled to have GE finish us off here, and Jeff Immelt, Chairman and CEO is going to take the stage. So with that, Jeff, it's all yours.

Jeff Immelt *- General Electric Company - Chairman, CEO*

Great. Thanks, Scott. Good morning. I'll just get started and talk a little bit about 2008 and then give you a perspective on the strategy of the Company going forward, the things we are working on, kind of an update on how we see it.

You've talked a lot this week -- you know, being the last guy, you've got this environment probably pitched down -- but what I would say is the infrastructure remains very strong, the global markets remain very strong. I think you've probably heard that already, ad infinitum.

I would say the capital markets are slightly better than what we saw in the first quarter, still volatile, but I would say slightly better. U.S. consumer remains tough, and from a regulatory standpoint, when we look at FAA, FDA, all the things going on, I'd say some positives -- we think like some of the things going on in the FAA are positive. Clearly, we've just gone through and gotten our plan started on OEC on the FDA, and we still think that is something worth watching.

And the critical aspects of winning, you've got to price ahead of inflation, which we've been able to do in most of our product lines. Very strong balance sheet, which we've got, and cost control -- to play a little defense we think is also critically important in terms of where we are.

Really no change in how we're looking at the quarter and the year vis-à-vis what we've already guided to. So we think that is pretty consistent with what we've said in the past. We're doing frequent business pulsing. Infrastructure remains very strong. We've got OEC shipping, we got more cost out. And like I said, we see, particularly versus what we saw in the latter part of the first quarter, we see the capital markets improving. So 2008, kind of basically what we've seen in the past.

And then on the total year basis, again, about $187 billion in revenue; earnings between $22 billion and $23 billion, $23 billion of cash. Return on total capital of 18%; EPS of $2.20 to $2.30, up 0% to 05%.

The industrial side of the Company, the industrial businesses would be up 10% to 15%, pretty consistent with what we see in the S&P 500. We've got Financial Services down between 5% and 10%. Financial Services have been a pretty tough neighborhood in the first quarter and it will probably remain challenging for the year. So really, no change in terms of what we're doing in 2008 and how we're operating the Company I have just kind of laid out.

I think if you think about the Company going forward, there's really five things that I would update on. First, kind of a long-term perspective on how the Company has performed, where the operations are, a little bit of an overview on the businesses, and then talk about the portfolio. A brief update on growth as a process, and where we stand on organic growth. The activities we're doing to drive margin rates and returns, and then a little bit on the organization, the people on the team.

The Company for a long period of time -- this goes back to 1990 -- has grown earnings on balance 10%, over this 18-year time period. Recession slower, boom times faster, but on balance, a pretty good track record over a long period of time. And I think if you look at the last five years, we've had double-digit revenue growth, double-digit earnings growth, and 20%-plus CFOA growth.

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And we're always going to operate through some headwinds. And I'd say in the last five years we've had to work through the power bubble, we've had to work through insurance, we've had to work through some self-inflicted wounds like WMC. And despite those headwinds, we've always been able to deliver pretty consistent 10% earnings growth over a long period of time.

The other thing I would say is from an operating standpoint, we believe in scale, we believe in the strength of a multi-business structure. We think scale gives you great leverage with technology, with globalization, from a balance sheet standpoint. Initiatives like Six Sigma and lean services that we've driven throughout the Company have helped margin rates. And so if you just break down all of our relevant businesses against their relevant competitors and 2007 operating profit rate, the Company is able to cash in on these advantages and initiatives and this advantage in scale that we think is very relevant in terms of how we run the Company.

The business has got the momentum right now and, again, you've seen it this week -- is infrastructure. Infrastructure for us is somewhat unique, because the last five years it has been the slowest growing business in the company because of the U.S. power bubble. I think what you see now is that the rate of growth is actually accelerating, and unlike the U.S. power bubble, we have a multitude of technologies and a multitude of geographies which we think make this deep and long-lasting when you think about the Company.

We've got big backlogs of products, $50 billion. We've got a big backlog of services, over $120 billion. And we think infrastructure has just got multiple years of growth, profit expansion, and we feel great about how we are positioned.

The other thing I would mention is that maybe unlike last time, we've done a good job of reinvesting back into the portfolio as we've grown. We've talked about how we do imagination breakthroughs. On the left-hand side of the chart, I kind of give you an Aviation example. When we think about core adjacencies and new business models, in the case of Aviation core would be the GEnx engine that we are going to launch with Boeing 787; an adjacency would be Avionics; and the new business model would be launching a business jet engine that we've got underway with Honda, and we've got other plans to expand in that space.

Then if you blow that out with all of infrastructure, we've got a multitude of products and technologies and geographies that are going to come to the fore in the next one, two, three, four, five years that we believe is going to give infrastructure lots of momentum for a long period of time. So we feel great about the positioning in infrastructure, both in short- and long-term, and the initiatives have a lot to do with that.

Two of the businesses that have been over 15 years, five, 10, 15 years, NBC Universal and Healthcare, have been great performers for our investors. These are diversified platforms, things that we've invested in. In 2008, they are going to be single-digit growers. But I think if you start with entertainment, we like the overall positioning with NBC Universal. And even while the network business might experience a slower growth, we've got a chance, I think, to drive earnings from a content and a cost standpoint. The cable business is very strong; the digital business is very strong; the global business is very strong. And we think this is going to be consistent double-digit earnings over time.

Similarly, Healthcare has had a very solid 15-year track record. We think over the long-term, Healthcare is a great place to have investment and have a strong position. We are not counting for a big increase in the U.S. diagnostic imaging market. We think the global markets will continue to be strong.

But the service business and the IT business in the U.S. and around the world is very robust right now. The diagnostic -- the life sciences and the MDX business, we think is capable of strong double-digit growth. And the overall clinical services business, we've got a great share position; we like how that's positioned over time. So we like the Healthcare business; we think it is going to be a good contributor as time goes on, and we think both of these businesses are very well positioned.

The other thing I would say is just the investments we've made over time to diversify these business models make them more robust to be able to grow through the cycles. In 1996, when I first was in the medical business, 85% of our profits were selling MRs and CTs in the United States. Now from a geographic and technical diversity standpoint, the investments we've made there, the investments we've made in Universal, have really, I think, dramatically changed the face of those businesses and how we think about them.

Our Financial Services, clearly a lot is going on in financial services as an industry. What I want to keep driving home and remind investors is that we've got a very disciplined business model that has allowed us to outperform in Financial Services for a long period of time. And there is really four parts of that. The first one is we've got unique origination. We've got the best, most diverse, globally positioned origination of any of the competitors. And that allows us to be very opportunistic, to do distressed assets right now to try pricing and be very effective in those categories.

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From a risk management standpoint, we're centralized, we've got very strong risk management principles. Our write-offs, although unacceptable, have been low in comparison to the balance of the industry. And when we look forward into the future, we think Consumers is going to be tough. I think on the Commercial side, we are still at record low levels. We don't see any up tick in Commercial yet, but you've got to plan on that going forward, potentially getting tougher than where we are.

From a funding standpoint, we run the company to be a AAA. We have centralized treasury; we've got the capital dividend at 40%. We're conservative around the balance sheet. This Company is profoundly AAA, we're committed to doing it. And I want to be very sharp on this point -- we will continue to be a AAA with no external funding. In other words, this is a self-funded AAA. Unlike our competitors, this will sustain AAA with no external funding. I just want to be perfectly clear and be very specific on that point.

And lastly, on capital allocations, Financial Services are always about capital allocation and how you move through the cycles. And we've been pretty good about adapting to this as time went on. As we exited insurance, we became more global, both in Commercial Finance and GE Money. Now, we're allocating between GE Money and Commercial Finance, but we've always done a pretty good job of allocating within the portfolio in Financial Services.

So, this four-part model has made us effective through the decades. I would also say that it is allowing us to play offense in the type of capital markets that you see today. I think if you just look at how we're repositioning the business and what we've done, I think you say GE Capital and JPMorgan have been really the only two companies in the first four months of this year that have been out aggressively taking advantage of this marketplace. We have done Merrill, we have done Citi, we did the Santander swap. We think all of those are attractive for investors and well positioned.

We've got lots of opportunities for high margin leasing and financing. A year ago, debt in real estate would be LIBOR plus 50; now it's LIBOR plus 400. You've got a lot of lucrative financing opportunities that we want to take advantage of. And what I would say is we also are exploring partnerships -- partnering with private equity or sovereign wealth funds to create new opportunity funds, because the origination is just so lucrative right now, we're going to take advantage of that and effectively remix and try profit inside the portfolio.

And then on the selling side, you've already seen us announce, again, the Santander swap, the corporate card, private label credit card, Japan, Equipment Services perhaps some runoff books. And so we think that there will be overall, primarily in GE Money, $75 billion to $100 billion of assets down, and then growth in Commercial Finance we will grow opportunistically. And so we're going to walk through this with higher margin, a more debt-oriented business. And so we like taking advantage and playing offense in the kind of turmoil that we see today.

So that is the environment. We think we've got a good opportunity to remix, higher margins, higher ROEs, more debt spread business, and we're going to take advantage of those activities.

The portfolio that we've done never felt wimpy to me, as we've gone through the portfolio transition; this never seemed small. Over the last five years, we've grown earnings double-digit; we've returned $92 billion to investors in buyback and dividend; we've reduced debt by $17 billion; and we've done a lot of repositioning vis-à-vis the portfolio in terms of acquiring businesses that put us in a better place, big partnerships like Vivendi and Hitachi. And then lots of disposition.

So the way we've always thought about dispositions have been to risk reduce the Company. Fundamentally, we've always thought about addressing dispositions, exiting insurance first. It took us a couple years to work our way through the insurance portfolio. There is not one of those businesses that I'm not happy to be out of right now, to be honest with you. And that was a difficult transition.

Getting through all the materials businesses, Plastics, Super Abrasives, Silicones, getting through all those activities. The slowest growth industrial businesses, industrial distribution motors, things like that. Recent announcement on Appliances. But just a lot of activities in that space.

I worked for three businesses before I became CEO, Plastics, Appliances and Healthcare. That's a great motivator for our Healthcare team, to see Plastics and Appliances on this list. And did -- when I say did we time them all at the top of the market, probably not. But there is not one that I would have waited on vis-à-vis how you exit. And when you run a Company like GE with a portfolio like ours, that is the way you kind of got to think through it, I think, sometimes.

As I think about the Company going forward, where we think we're good -- vis-à-vis the GE core. We are great at technology and content. We are the preeminent global and global distribution company in the world. I think we are the best at managing multiple revenue streams -- by that I mean product, services, financing. We do a great job of doing that. We can leverage scale. We can leverage leadership. And we have a lot of ways to drive initiatives together.

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I think what that means for the Company is the industrial set of businesses is in really good shape. We like the portfolio we have today in Financial Services. It's a real focus on, I would say, Commercial Finance, the verticals and emerging markets. And we've got redeployment opportunities that will go on around that.

If you think about the Company going forward, it is going to have industrial, probably higher than financial. We will continue to invest in the core of the business, both organically and inorganically. We want to play offense in Financial Services. We like partnerships. We've liked the partnership with Vivendi and NBC Universal, we like the partnership with Hitachi, and we will continue to be investor friendly in capital allocation with dividend and buyback.

So we've always had a pretty good sense of the GE core. I think we are close to that today. We've got some more opportunities, but the portfolio in general, we believe, is in very strong shape.

In terms of where some of the transactions stand, we've completed the corporate card transaction; the PLCC, we will target third or fourth quarter close, and that product is a very strong asset. In the case of Japan, I expect that we will be close to an announcement in the second quarter and exit in the third quarter. In the case of the deal we announced with Santander, we will probably have a completion in the third quarter or fourth quarter of this year.

In the case of Appliances, look, this is a preeminent brand, it's a preeminent asset, it's got the highest operating profit rate in the world. You've got a time when the dollar is weak, other currencies are strong. Most of the potential buyers are outside the United States. And we're going to look very carefully at do we want to do a spin, do we don't want to do an outside -- an outright sale. And we're going to really complete whatever transaction has the highest certainty and is the most investor friendly.

And we think we've got some good options vis-à-vis where we go. We've had a lot of reverse inquiries in the business, and we think this is an asset that is easily sellable even in a more difficult market. So the redeployment remains very strong inside the Company.

Growth as a process, we've been at this -- I've been down here pitching growth as a process probably four or five years. The organic rate of the Company has basically doubled. We've got a strong pipeline of products, big backlog of services, very strong global position. We've had initiatives like ecomagination that have worked very well. So we think we've got pretty good momentum vis-à-vis being able to continue to drive the organic growth rate of the Company.

Where our focus is right now is to make sure we are taking all of the things were doing and become really great at that outside the United States. So really accelerating globalization in a tremendous way. And the other one is to make sure we continue to lead in the big teams that we've outlined.

GE is a great global company. I think globalization is something that really plays to breadth and depth inside the company, and we've got that in every way. If you look at just the tale of the tape, if you just look at the numbers, we'll probably be $100 billion by the end of this year; it would be more than 50% of the company. Emerging market growing 38%. We think on balance, that will maybe slow down to 25%, but very strong. And even the developed market growth at 15%.

And our focus is to continue to invest in technology and capability outside the United States. We're doing an exercise right now called connected and scalable localization, which is a way to take a business in a market to make sure we're really doing a market-back approach to our investing and how we grow.

Take a new approach to customers -- we've got now verticals around industries like mining, where all of the big customers are outside the United States and we are capitalizing the multi-business strength. And we've got new business models in Healthcare and energy, sourcing globally. We will probably do as much as $10 billion sourcing in China and other growth. And we've redeployed a lot of business development people outside the United States as a way to drive growth. So globalization's got very strong tailwind, and we think we will continue to grow as time goes on.

The big teams that we believe the Company ultimately is going to have tremendous leadership in them. I talk about it in the annual report, I talked about it in the December meeting, I've talked about it for the last few years. Infrastructure, we just believe that we are the preeminent infrastructure company in the world. It's about technology, execution, installed base, financing, being able to execute on a massive scale. We think GE's got tremendous power in that.

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Company to country approach in emerging markets -- this is a map of Kazakhstan, which I'm sure many of you recognized immediately that that is what it was. But we've got kind of a $3 billion agreement with the Kazakhstan government to do multiple products. Again, it takes advantage of GE's breadth. Ecomagination, environmental solutions, we got there first. We've got the brand for it, we've got tremendous tailwind with it. We signed the biggest wind order in history with Boone Pickens earlier this week, and we just see lots of momentum along those lines.

Demographics, we still love our position in Healthcare and believe it is a long-term winner for the Company going forward. Digital connections, I would say we still have some catching up to do in entertainment. But in the Healthcare business and with the digital tools we've got inside the Company, good growth opportunities there.

I just think we have positioned ourselves to be the world's best partner. We've positioned ourselves to have -- if you think about Mike Neal and his organization, 10 or 11,000 originators located around the world. We're a great place to set up opportunity funds, infrastructure funds, and we have a great capability for driving growth in that way.

Growth is important, but we've got to drive real focus on operating profit and return on total capital. And this is something that I'm spending a lot of time on and the entire leadership team is spending a lot of time on. I think over time, the operating profit rates have expanded over the last few years from a low after the wind-down of the power bubble.

We're flat this year. We've really got tough mix going on with both the Olympics and the equipment mix, but the pricing and productivity is very strong. And the secret -- and the activities we've got going on inside the Company on an operating profit rate is executing on services, because the mix is going to drive tremendous improvement in profit and margin rates. It's about really driving detailed reviews of the top 30 products to make sure we're driving contribution margin there, and it's getting structural costs out of the Company. And I'll update all three of those for you.

On the return on total capital side, it's about resource allocation, capital allocation. It's about driving lean and cycle time and tremendous capital efficiency inside the Company that we have today and will continue for the future.

This is the best bad story in GE. In other words, equipment has boomed. It has lower margins than service. We built a huge service backlog. In other words, we've got $125 billion of long-term service agreements, we've got a top line in services that ought to grow 10% for a long period of time, a bottom line that is going to grow 15% for a long period of time. The installed base growth has been substantial over a long period of time, the margin rates are 30 and climbing. We've done a good job of pricing and taking cost out and globalization.

And I don't know quite when the equipment revenue growth is going to be slower than service -- it could be '09, it could be 10, you know. But we really have behind it a tremendous service franchise that's going to continue to play through into the future. And this is substantial, it is real, and you can count on this as a tremendous tailwind, not just for earnings, but for margin rates as time goes on.

In the portfolio, where I spend a lot of personal time right now is going through the top 30 products, and really in a detailed way. So, if you think about the top 30 products in GE, it's about 75% of our profit, and we look at all of them in terms of which ones are growing at 2 to 3 times GDP, our target, versus just GDP growth, and which ones are getting pricing ahead of inflation, which ones are accreting at the contribution margin level. And so it allows us to do deep dives on each one of these products as we go through it, and we've got about 67% of the products -- this is like the EVO locomotive, wind turbines that are expanding both growth rate and margins at the same time.

We've got about 11% in the top left. This would be like the GE90, engine where we've got to drive more material productivity to get margin rates up and more pricing in that regard. Price share trade-off. These are places that are growing their margin rate, but not growing at 2 to 3 times GDP. This would be like the Network business, where basically what we've said is we are going to run the Network for margin. And so we are going to take cost out, we're going to try pricing appropriately -- that is how we run the Network business.

And then some of it, we just have to restructure. That would be an example of -- I would say the water chemical business. It's been a GDP grower. We haven't gotten pricing ahead of inflation yet; that is what we have to drive. And so we've got plans for each one of these products. And in an aggregate as we drive this, this is going to increase the contribution margin rate for the Company. This is something I personally am driving and involved with as time goes on.

And lastly, what I would say is that the reduction of overhead, we still track simplification, reduction of costs as a percentage of revenue, and we track net income per employee inside the Company. And we're going to continue to drive restructuring, rooftop reductions, as we gains. We are going to accelerate restructuring. We're doing detailed reviews on travel and living, indirects inside the Company. And so the notion of just continuing to drive costs and productivity to improve margin rates is fantastic, and we will continue.

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So, again I think the key leverage point, if you look at the future, is when will service grow faster than product. But we've got a good backlog of higher margin products. And if you think about businesses like energy, everything in the backlog from a product and service standpoint has higher margins than what is replaced, and so we've done, I think, a good job of pricing ahead of inflation in the vast majority of the portfolio.

Last thing, on cash, our CFOA growth in the industrial side has surpassed our earnings growth over that time period. This is a big point of compensation inside the Company for me and the rest of the leadership team. We've done a pretty good job of driving both inventory turns and working capital turns.

We've had Six Sigma in the Company for about 15 years; we've been driving lean for the last three or four years. We're taking big cycle time reductions in places like the locomotive business, the turbine business, the Aviation business, the wind business. This, in the case of energy, in particular, allows us to create more capacity, so we can grow revenues at the same time. And we are also doing work on receivables and progress collections and things like that.

And I would always remind you that this is about $100 billion industrial company, let's say, inside GE, that basically has between $3 billion and $4 billion of CapEx every year. So it is a very capital efficient business model, which I think gives us a lot of flexibility in terms of how we look at the future.

So, I think the long-term performance very strong. Portfolio underway, we like where the portfolio is; a little bit more work to be done. Growth as a process, I think fairly credible, given where the results have been gone. Big focus on margins and returns that we think is really important.

And just a few reflections on the team. I have been CEO since 2002. Since that period of time, we've had about the same number of officers. I really run the place like a partnership. When you think about the officers of the Company, I've always wanted to keep this group small, even while we grow. We've got about 120 new officers since I've been there, more global, more diverse, more technical.

A lot of these people didn't leave voluntarily, right? I mean, when you have 120 out of 187 that are new, at all levels of the organization, we've driven tremendous performance inside the Company -- always have and always will. And the numbers I think kind of speak for themselves.

So tremendous performance management, metrically driven. That's how people are promoted and how they are paid -- and at all levels of the organization, from Senior VPs, Vice Chairmen, down to officers, this is a pretty distilled group.

And on the right-hand side, we do a process every year in called Session C where we go through leadership and leadership development. Our focus this year was first and foremost on globalization. It's how do you make sure you've got the right people in the right place, how do you make sure you've got the right decision-making. And I just think that is such a big strategic driver that we manage it very well.

In inflationary times, these 30 product managers are the people that set where your margin rates are going to go. And the ability to price ahead of inflation on an ongoing basis. So we go through the Company to make sure these 30 product managers are handpicked, are the right people, have the right experience with respect to where we are going, what we have to do. We always have spent a lot of time on risk and regulatory, but we did big, deep dives on the people who keep us safe inside the Company, and we think that is always important. But it's important now and we want to make sure that we've got our hands on all of those levels of people inside the Company.

And then the last thing is we've got 27 people inside the Company that are running a Fortune 500 business. So the pipeline of talent has to be strong and vibrant, and we spend a lot of time going through the pipeline and where we stand and things like that. And so that is how we think about the organization where we go.

And then I thought what I would do is just kind of step back and talk about the organization in total, because I think sometimes -- because of our size and we tend to maybe spring things on you on organizational stuff that you don't always understand in context, so I want to try to give you a sense for kind of how we've thought about running the Company, if you will, over time.

It is always been about globalization and simplification for me. Those have been the big backdrop themes. If you go from 2001, it was about a $125 billion company, about 40% outside of United States. We had 11 industrial P&Ls, 28 financial P&Ls. Really two headquarters inside the Company, one at GE Capital, one in GE.

Where we sit today, we've got six big P&Ls. We've interspersed financial and industry businesses. For instance, we've got financial verticals inside infrastructure, things like that. We've got two of those six businesses located outside the United States, one headquarters.

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And when I think about where we're going to go in the future, we want to be simpler still. We want to continue to drive globalization and continue to have the central kind of command and control that we think is important for the Company in terms of how you think about the Company.

You know, what could that mean? I would say we are always looking for ways to simplify Financial Services, both in terms of how you see it and how we see it. I think one of the feedbacks we got from investors is having all the Financial Services business embedded in all the segments may not be optimal. And so we are going to kind of think through that, when we think about how we position the Company going forward in the future.

Stretch the organization. I think anytime you think about the organization, it is a little bit about people and it's a little bit about process. So the way I think we need to think about GE is at a relatively large company, we have to have people that can run a $50 billion segment, a $15 billion business, a $10 billion business and a $1 billion business. And so we've got to constantly think about stretching the organization to take advantage of the people we've got and the talent we've got inside the Company.

Meanwhile, we're always looking for organizational synergies. So the way we've done infrastructure where John Rice has been able to get cost synergies out. We like driving the fact that you can really move people around fluidly, drive synergies and services and things like that. And so we think that is important in terms of how you think about the organization.

And then, you know, new eyes drive change. I think when you think about what Jeff Zucker has done at NBC Universal, bringing in a brand-new team, and then how they've approached the upfront, how they are approaching globalization and digital growth, we think that new eyes always help.

So, just a little bit about how we think about the organization in the coming years, and with a real eye on simplification and continuing to globalize the Company, because we see that is where a lot of our growth opportunities are going to be over time.

Lastly, just a couple of personal reflections, and then just wrap up. I would say GE when we're at our best is an operating company. We are about good processes around growth and cost. We're about metrics in organic growth, margin rates and returns. It's how I like spending time; it's how Keith likes spending time; it's how our leaders like spending time. This is in the essence what we have inside the culture and what we try to do.

Nonetheless, you have to do portfolio change. The amount of portfolio change we've had to do over the last five years is disruptive inside and outside the Company. But it's made us a better company, I'm convinced for the long-term. I don't think there will be as much going forward. But I think the lesson I've learned is in order to keep the Company sharp, doing a little bit as time goes on, as you continue to evaluate, is a lot better than just going four, five, six years and doing none. And I just think that is what we've got to constantly understand vis-à-vis the Company.

In volatile times, a simpler GE that is as simple as we can make it in terms of how we communicate and what we do, the better we are. And that's something that I always have in the back of my mind.

Look, the culture of the place needed to change and has changed. It's more global, it's more technical, it's more externally focused. And it is possible in a place like GE to drive that kind of culture change without losing edge in a performance culture. It's important to the Company in the past and will continue to be important to the Company in the future.

People like working at GE. Retention is high. The vast majority of 320,000 people inside the Company really grade us by how they are doing versus their relevant competitors. If you're in our Aviation business and you think you got 70% market share in commercial aviation or 65% market share, you think you are winning. You like the connectedness. And that is the way the people inside GE feel versus the relevant competitors. In the markets they are in, we've got premiere franchises. Always have and always will.

And the last thing I'd say, just stepping back and maybe stating the obvious, is the Company is built to grow over time 10% through the cycles. I feel confident about that today, and I would say from quarter to quarter, we frustrate you maybe sometimes a lot. But if you look at the big picture, the overall performance is strong, and we've got to do a better job of communicating that as time goes on, and are committed to continue to work on that.

So just to wrap up, food for thought, I think 2008, we're on track for reduced guidance. Credibility is important to the management team; that is where we want to build, that is what we want to do, and that is where we are.

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The long-term performance we think is very strong. Infrastructure itself could be $100 billion by 2010. I mean, it is just a powerful platform with a good prognosis. And we're going to take this opportunity to remix the financial businesses.

From a portfolio standpoint, the industrial portfolio we think is in good shape and you will see more Commercial Finance from a portfolio standpoint. Growth as a process is on track. 20% organic growth globally is very strong. And the six big themes we think are very attractive vis-à-vis how the Company is and where we are positioned. Margin rates are a lot about service, and we should have $200 billion of service revenue coming through in the next five years, $200 billion at 30% profit rate. So very strong vis-à-vis where the Company margin rates need to be, and a great team, committed team who believe in a company and want to perform for you.

So with that, I'm happy to take questions, talk about anything at all. Yes, Jeff.

QUESTION AND ANSWER

Jeff Immelt - *General Electric Company - Chairman, CEO*

Yes, Jeff.

Jeff Sprague - *Citigroup*

Two questions. Thanks, Jeff. The matter of the 10% growth, obviously you are not there this year. What is your confidence level returning to that growth track as you look into 2009?

Jeff Immelt - *General Electric Company - Chairman, CEO*

What I would say, Jeff, is we haven't done any prognosis at all for 2009. We haven't done growth playbook this year, we haven't done S-2s. The way I would think about it is infrastructure is tremendous, fantastic growth opportunities there. I think the rest of the industrial platform, there is more tailwinds than headwinds, when I think about 2009.

In Financial Services, we just have to see how the remixing goes, what the overall capital markets are like and things like that. But I think over the long-term, I feel great about 10%. But I don't want to call 2009 yet, just because we haven't done a lot of the work that is required to be there. But I would say the tailwind is industrial, the headwind is financial, is what I would say.

Jeff Sprague - *Citigroup*

And then on the question of mix, you noted that the portfolio changes maybe will largely be behind you this year. I guess the cyclical shrinkage in capital is helping a little bit and creating this room to maybe get rid of Appliances and other things. But how do you end up actually skewing the mix more towards industrial as we look out another couple of years? It feels like you're going to want to kind of go back to that 50% pretty quickly --?

Jeff Immelt - *General Electric Company - Chairman, CEO*

You know, Jeffrey, I'd never tried to manage to a specific number on industrial/financial. But what I would say is that we've got a real opportunity, really because of -- again, I think the way to maybe help you think about the Company is we've really invested in the industrial platform. We've got really good industrial businesses. We had this unique thing called the U.S. power bubble that was great for like three years, and then has stunk for the next five.

And we are through that now. And so given that the industrial businesses really have a legitimate chance to grow 15%, led by infrastructure, a decent performance let's say by NBCU and Healthcare, enterprise solutions I like, and C&I, it's just we're going to sell Appliances and it's a small part of the overall Company. So I feel great about that.

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And then the question is in Financial Services. I think we have a great opportunity to get to high-margin debt-oriented business -- again, we've always kind of ebbed and flowed vis-à-vis where we go inside that portfolio. So I think the industrial businesses are going to speak for themselves and you could end up at 60/40 by 2010 and still have decent growth over that time period.

Then, Jeff, I think it's all about capital allocation at that point trade. Yes, Nicole.

Nicole Parent – *Credit Suisse*

Just following up on that last point, could you talk a little bit about how you redeploy the cash from all the potential actions that you have outlined that we have on the table today?

Jeff Immelt - *General Electric Company - Chairman, CEO*

You know, Nicole, we've kind of framed the year doing $3 billion to $5 billion of industrial acquisitions, dividend on track, and then the buyback, $5 billionish, depending on where the dispositions go. I think as we complete these transactions, Nicole, we're just going to kind of do what is the most investor friendly thing at that time. Buyback could increase -- we've got a good set of industrial acquisitions, but they are all bolt-ons, kind of over the plate for what we are doing.

And the other thing I would say is look, we are looking seriously at the spin option. Again, what we like to do in divestitures is only talk about those things we know we can execute with certainty. But I think the spin option may give us some opportunity to both do it in an investor -- very economic way and maybe add to it. Maybe add to Appliances as we think about how to scale it up.

So I think we've always been cautious from the standpoint of what we talk -- when we announced Genworth, it was a lousy time, and we got it out there. It was hard to get it out there, we got it out there. When we announced Plastics it was a lousy time, but we were able to execute on Plastics in a very investor-friendly way; we did $14 billion of buyback last year with those proceeds.

So I think in the case of C&I, it may really render itself -- Appliances may really render itself to a spin, in which case it just is what it is at that point.

Nicole Parent – *Credit Suisse*

Thank you. Just to stay on that topic, when you talk about C&I as a potential spin, it may have been surprising not to see Lighting included in potential divestitures. I know your long-standing policy is you never like to talk about a business as a potential exit until you've actually -- it's right at hand. But would that spin option also include Lighting at some point?

Jeff Immelt - *General Electric Company - Chairman, CEO*

When we've announced as Appliances is when we have a high likelihood of doing. I think we will always make the smartest decisions for our investors and for our employees. And if, in fact, it would make sense for our employees to have the C&I entity stay together as we would spin it out, we would look at that. But we've announced a thing that is certain to do.

Nicole Parent – *Credit Suisse*

What is the potential timing?

Jeff Immelt - *General Electric Company - Chairman, CEO*

I think it is likely -- if I gave you the most conservative timing, it would be first-quarter -- it would be '09. But it's one of those things that could move faster, depending on how the process goes and how the markets look. But I think it's -- if you are in the appliance business, and you want to be global, this is the pre-eminent North American franchise. There is going to be people that are out there. Yes, John.

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Unidentified Audience Member

, Jeff, if financial markets kind of stay on the path that they are, it still seems to a lot of us it's going to be tough to do, given the Company's Financial Services, it's going to be tough to do the up 10%. If we get deeper into next year and the markets haven't really responded more favorably to some of the initiatives and the other sort of laudable trends that you've got within infrastructure, do have sort of a Plan B potentially prepared, perhaps on a larger scale, or --?

How would you like us to think about your own thought process in terms of thinking two steps ahead and playing out these various scenarios?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

You know, Tom, what we try to do is, I think in Financial Services, is always kind of maybe remain in the things that we think are core. We like the Commercial Finance business, and think that is going to be an attractive business going forward. And we like the verticals. I think that is going to be an attractive business going forward. And I think if the financial markets get tougher, we will review perhaps some of the pieces of GE Money and the developed markets.

We still think in tough markets there is going to be ways to do joint ventures, partnerships and other things that are going to help us achieve the strategic goals that we've got. So I hate to give you too much prediction, other than to say I think we're going to stick with the core, and we will always look for ways to take the non-core or the things that we think we're less good at and find some strategic outcome for those, just like we did with insurance earlier this decade. Scott.

Scott Davis – ***Morgan Stanley***

I want to talk a little bit about medical. And just because you used to run the business, I think your perspective is going to be particularly interesting here. How does medical look in a post-DRA environment? I mean, is there some negative secular trends as far as what has gone on the U.S. in DRA that could expand globally, or is this really -- I mean, I know we went through this in Japan a few years ago -- but is the something that will be isolated to the U.S. or is there something that has changed since the time that you've run the business that just makes the cost of diagnostic equipment tough for governments to really handle?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

I think that's a great question. You know, Scott, the way we would look at it is -- and I don't think GE is necessarily alone in this -- I think it's probably the people that have been in diagnostic imaging, is if you go back before the DRA, diagnostic imaging for the ten years before that had been the big grower in U.S. healthcare markets. So, in many ways, we were the easiest guy to punch when the government stepped in and wanted to change the budget, and we were susceptible to that, as was everybody else.

I think I mentally, the team, and I would say our competitors kind of said this will be like the early '90s when Senator Clinton introduced the proposal and the MR market basically was cut in half over that time period. But it was very short-lived and it bounced right back instantaneously.

I think the way we're thinking about the business today, Scott, is let's think about the U.S. market as if it is going to stay kind of at procedure rate less a lot of productivity and never goes back to the 5% to 10% grower that it has been over 30 years. And let's model it to be flattish to up 5.

The thing we've always liked about healthcare is that each market, each politician, each president of a country around the world wants their own healthcare policy. So, very little gets transposed, if you will, on a global basis. So just where the U.S. might be tougher, Russia is going to be great, the Middle East is going to be great. Even Western Europe has remained early great. Japan remains tough, China better. So, what we liked about it, Scott, is the fact that globally, you've got lots of open doors that remain in the business, and that business stays very robust over time.

The other thing I would say, look, we introduced this new -- people still like technology -- we introduced this new CT scanner, we 510K last week for this new CT scanner. Look, I don't know. That's has got a lot of interest. And I still think when new stuff comes, people open up their wallets and drive it. So that is how I would trend it. I am still -- I think you've got to look at the U.S. as being it is what it is, but the rest of the world is going to be pretty decent.

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Scott Davis – *Morgan Stanley*

My last question is just on financing. Is financing equipment like medical, and you've got GECAS and PowerGen financing, are these businesses so integrated now that it's incredibly core to GE? Do they offer the type of competitive advantage that you've envisioned, or are they still more commoditized they way they were more like ten years ago?

Jeff Immelt - *General Electric Company - Chairman, CEO*

You know, what I would say, Scott, you've got to think about each one individually. My own belief is that the GECAS and Energy Financial Services really helps us understand the markets better, and they are very differentiated. Healthcare is one where it is more, I would say, gets embedded in the marketplace and can be commoditized, and we're constantly finding that. But we've never lost our risk discipline to keep it an arm's-length relationship between the equipment and the financing, which I think differentiates us and is very powerful. Bob.

Bob Cornell – *Lehman Brothers*

Yes, Jeff. In the presentation, you talked about $75 [billion] to $100 [billion] of divestitures, largely out of GE Money. GE Money has got $200 [billion] of assets, so that is basically cutting it in half. So, how would you say GE Money is going to be positioned going forward? Are we going to continue to see that shrink, or is this about the way it's going to be? And what is the core competencies left there and what is the big vision going forward for GE Money?

Jeff Immelt - *General Electric Company - Chairman, CEO*

What I would say -- my view, Bob, again, it's all about mass competitive advantage. And we believe that there is a lot of platforms around the world where there is a real opportunity to integrate better between GE Money and Commercial Finance -- Eastern Europe, Latin America, places in Asia that are very attractive. Even the opportunity in the U.S., even though the markets are tough, between retail sales finance and inventory finance, that allows us to piece those things together.

I would say, look, I sit here and say GE Money has been a good earnings grower; the return on equity has been high; our losses on a relative basis have been low. So we've had lots of good opportunities vis-à-vis GE Money and it has been a good performer for us.

But right now, Commercial Finance is really a great place to have capital to spend, and that is what we want to do going forward in the next 18, 24 months. Again, the types of opportunities we are seeing are extraordinary. You have to go back to the early '90s -- and nobody is playing. Fundamentally, we are the only guy in the marketplace that is out there with capital right now, and we are crazy if we don't take that opportunity.

So when I show the chart, if you add up all the ones before the bottom one, that is like $150 billion or $200 billion of opportunity, and then $75 billion to $100 billion of redeployment. That is a great story for investors, I think. as you think about just how much opportunity exists out there to reposition the business. Yes.

Unidentified Audience Member

Jeff, GE Capital pays you 40% of earnings, which implies that your retention rate within industrial is about 25%. I mean, are you thinking about maybe raising the capital dividend payout ratio to better balance retention rates across the organization?

Jeff Immelt - *General Electric Company - Chairman, CEO*

This is something we think about all the time. We triangulate it with keeping the Company a strong AAA and having the right kind of funding to sustain the AAA. So we are always triangulating between what the GE Capital dividend should be, what are the other boundary conditions to run the Company, how fast do we want to grow industrially and financially.

We have taken it up from -- I think when I became Chairman, it was 30; we have taken it up to 40 as time goes on. So it is something that we always debate inside the Company in terms of what we want to do.

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The advantage we have today is I think people who follow us, we've got the best industrial portfolio top to bottom that the Company has had for 20 years. In terms of quality of businesses, competitive advantage, reasonable market dynamics, this is the best industrial platform I've ever had. Any other questions? Way in the back.

Unidentified Audience Member

Just had a quick question on the first quarter and kind of how that has changed you at all, if it has, in terms of communication with your leadership team or anything from a cultural standpoint that you're thinking about doing differently going forward.

Jeff Immelt *- General Electric Company - Chairman, CEO*

You know, look, I would say that the financial markets were tougher than we thought. We're a performance company that didn't perform. The pulsing has changed dramatically. We've always been an intense company; the intensity has sustained and maybe a little bit more, right? The accountability is strong inside the company.

But I would say, look, our people, they love the Company and they hate what happened. And they are committed to rebuilding our credibility. So, I would say one of the things we've insisted on is that all of the information, all of the analyst reports, have been shared by thousands of employees. We've never canceled any meetings. The communication inside the Company has been strong. And we are going to be better Company for having gone through this. Personally, I don't want to do it again, okay? I would say it is -- but inside the Company, when this happens, we've got to make the Company better and I think we have. Yes, Jeff.

Jeff Sprague - ***Citigroup***

Just to that point, Jeff, I guess the late quarter seizure in the financial markets maybe underscored the necessity or the reliance perhaps on gain generation in a quarter. I think to some degree that has gone to the earnings quality concerns that people have struggled with. I guess what you are telling us -- in real estate, there is some model transformation there that should relieve that.

But I'm just wondering on a go-forward basis if you could, in fact, give us a little bit clearer roadmap of what you really see the composition of earnings, kind of gains versus core underlying growth, and what is going on with tax rates and things like that. Is that part of your thinking (multiple speakers)?

Jeff Immelt *- General Electric Company - Chairman, CEO*

Yes, Jeff, it is. But I would put it in some context. In other words, if you go back a look at 25 or 30 years in GE Capital, Financial Services, there is always a transformation in terms of where the capital markets are and how we participate. You remember in the late '90s, we had a $1 billion equity capital business that was a pure investment business. So as time goes on, the nature of the composition of the business changes.

We believe in terms of where the capital markets are and will likely will be for the next few years that we've got the opportunity to source high-value, high-return debt. We think that is inherently more valuable because it is more reliable -- it wasn't out there before, but it is very valuable. So I think that transition is going to take place inside the Company -- is already taking place inside real estate and other parts --I'd say real estate is really the main one -- but other parts of the Company. And I think that is a more valuable model.

In terms of the tax rate, it is really a function of where we do business, is really what determines the tax rate. Earlier in 2001, 2002, we very specifically tried to globalize Financial Services. That has led to a lower tax rate over time. But that is really what the tax rate has been more about.

But we just think you've got this unique opportunity where we've got capital; other people don't have capital. We can source high-value -- we can source 30% ROE debt, as much as we can possibly do today, and that gives us a great opportunity to remix the Company. Yes, John.

John Inch – ***Merrill Lynch***

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Just out of curiosity, should we be expecting management changes, possibly even some external hires, as just part of the renewal process?

Jeff Immelt *- General Electric Company - Chairman, CEO*

What I would say is that we like the management inside the Company. We think it is a very strong culture and bench. We've added people successfully outside the Company, and we will continue to do that. But some of the businesses that have been under the most scrutiny are businesses we're we've had 15%, 20% earnings growth over 15 years. So you've got lots of people in those businesses that are doing a pretty good job.

And really, when you think about the first quarter, Commercial Finance was the best management team over a long period of time in the company. So, if you look at the chart -- 187 officers, 120 new in five years. This is a place where you've got to perform. Dean.

Deane Dray – *Goldman Sachs*

Thank you. Just to clarify, Jeff. In earlier comments, you said that it may not be optimal to have some of the Financial Services -- I believe you said verticals embedded in the industrial businesses. Can you just clarify that -- were you referring to like GECAS --?

Jeff Immelt *- General Electric Company - Chairman, CEO*

-- GECAS and Energy Financial Services. Look, but what I would say is that these businesses have done great. They have been very well run. One of the beliefs that we had when we did it in 2005 is we wanted to drive a lot of synergy between those businesses. We think we've accomplished that over time. And what we're trying to do right now is just make the Company simpler for all of our investors to understand and follow, and we are thinking about ways to do that.

But in terms of if you look at GECAS and Energy Financial Services, they have been two of the best performers over the last three or four years. And having them as a part of the infrastructure segment has been very successful in that regard.

Deane Dray – *Goldman Sachs*

But if you made a change there, those two seem to be working exceptionally well. What would be -- is there anything disruptive or what would you need to give up?

Jeff Immelt *- General Electric Company - Chairman, CEO*

No, what I would say, Dean, is look, it's not something we have to do. But I think what we are always striving to do is to simplify the Company. Simplify it for the people that are observing it, our investors, and make sure we're doing a good job on that.

Great, thanks. It was great to be with you this morning.

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