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Conference Call Transcript

GE - General Electric Company at The Electrical Products Group Conference

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CORPORATE PARTICIPANTS

Jeff Immelt

General Electric Company - Chairman and CEO

PRESENTATION

Unidentified Participant

All right, so closing the show down, we have got the Chairman and CEO of GE, Jeff Immelt.

Jeff Immelt - General Electric Company - Chairman and CEO

Great, Nigel. Good morning. We will dig right in.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Jeff Immelt - General Electric Company - Chairman and CEO

Okay, David. Thanks for your help. That's really -- how's your business in China, by the way? So with no further ado, let's get right to it here. Look, like around the world, I would say headlines for us, business is good. Orders strong, service revenue good, lots of cash on hand to buffer any volatility. And so I would say kind of headlines is we are pretty optimistic about what we are seeing in our business today and how it looks going forward.

Quick on the framework, this is the industrial stuff. We still see industrial earnings growth for the year to be solidly positive. Transportation and healthcare remain very strong for us. Aviation is trending more positive mainly driven by service earnings in aviation. In energy, I think we think it will probably be more flat for the year, really margins and wind but the orders and the leading indicators in energy actually are quite positive. So industrial looks like it's going to be up for the year and we feel pretty good about our positioning there.

Meanwhile capital remains very strong. Earnings positive. Most of the signs, we're looking at losses, things like that are quite good in GE Capital. Corporate about on expectations; cash between \$12 billion and \$13 billion and organic -- industrial organic revenue growth up 5%. So I would say our 2011 framework is trending positive and we see when we look at incoming orders and things like that nothing to derail that on a global basis. And so that is I would say -- and we think we're very well positioned for 2012 and beyond.

These are kind of the six metrics that we showed you at the end of the year that we have been working on. I think we are well on track for all these earnings growth above S&P 500, good balance earnings, good cash. So we see in 2011 pretty good execution and consistent with this model and framework that we've showed you before.

Just quick, very quick update on strategy. I think we like the portfolio infrastructure in financial services. I think it's the best, most competitive portfolio that the Company has had at least in 10 years and lots of competitive advantage. I think lots of opportunity for tailwind when I look at the portfolio today and I think pretty stable. We just don't see a lot of macro changes in the portfolio in the short-term.

Same six strategic imperatives on growth that we've been executing in some way shape or form for the last five or 10 years and big operating parameters as it pertains to capital allocation, people development, driving margins and returns. So I would say both portfolio and our initiatives are really in pretty good shape and we think can execute in the environment we're in today as we look forward.

Just -- I will just give a couple quick strategic updates on the Company. The first one is in R&D. We see overall R&D for the company between 5% and 6% of revenues. I'd make a couple of comments. The first one is I think I don't see us increasing NPI or R&D as a percentage of revenue.



I think we are at a good state for us, so I think point number one I would make is this won't increase as a percentage of revenue going forward. But I like where we are.

30% more products coming through the pipeline directed at gaining share, growing contribution margins, or expanding our market presence. And the tale of tape is our organic industrial orders growth should be between 5% and 10% in 2011. So that's the pay back ultimately is above market growth and we think our technology gives us a chance to do that.

Services are very strong. Services are kind of generating double-digit type topline and bottom-line growth. We see increase in the installed base. We see increase in revenue per installed base. We have seen increases in parts revenue. We have seen increases in CSA backlog. Our growth in the emerging markets is strong. Our margins in the emerging markets are strong. Our CSAs have good protection on inflation. We get good productivity in our CSAs, and our software revenue is up growing 15% a year. So a lot to like on the services page.

From a global standpoint, we have grown in the emerging markets, key growth markets, 10% a year for the last decade or so. That has actually accelerated. We think this will be about 15% this year in these great emerging markets.

A couple of big changes. I think just repositioning our leadership with John Rice going to Hong Kong and lots of other key leaders going with him; I just think we put our decision-making closer to where the markets are, point number one. I think point number two, big investments in capability vis-a-vis innovation, engineering, manufacturing in these regions. And point number three, more partnerships which we think expand our market presence and our penetration. So we like the way our business is trending in the key global markets.

A couple examples to the partnerships, the stuff on the top half of the page really allow us to expand our presence in the countries, so a joint venture in China with Huadian, which again will allow us some more gas turbines in China. A couple big joint ventures in healthcare and energy in Russia, which are going to expand our market presence.

And the bottom half of the page, a joint venture with AVIC, which is going to really expand our technology presence in the cockpit in a joint venture with a company called Triveni, which is going to give us a super low-cost steam turbine capability out of India. So that's going to be a product we can sell not just in India but around the world.

Our global presence is really good. I think the points I would make on this page is the diversity of the GE footprint is very strong. We are getting good growth across all these regions and in the businesses where we have our sweet spot. We're getting good growth in infrastructure, energy, healthcare. So we've got just a broad, diversified emerging market footprint where we play with competitive advantage. And I could give you good stories about Brazil, China, really across the board. So we see good technology pipelines strategically. We see good services and we are seeing a global operation that really is working extremely well.

Lastly, we've got a program called GE Advantage going on inside the Company. We're really focused on 40 key processes inside GE which we think have the highest leverage on margin enhancements and working capital turns. We think this is going to really lead us to some good progress as time goes on, using the tools that we have used for a long time, Lean Six Sigma, tools like that.

Examples just to get more efficiency out of our NPI, get more bang for the buck there. Cycle reduction in order to remittance, margin enhancement on our supply chain, making sure that our acquisitions are effective and have teams of people working on that. And then just working on the value gap, how we price with our customers, how we are doing deflation, so this is going to be a lot of the fuel that helps us grow margins next year and continue to improve working capital turns is on this page. So that's really just a brief strategic update.

What I thought I would do this year unlike past years is just go through what's on your mind. Really reading the sell side notes, talking to a lot of investors, just really do a deep dive on the things I hear you talking about that are concerns or opportunities for the Company and just do a deep dive on them.

So you might pick more than this, but these were the six that I picked as the most frequently asked questions. You know, the first I would say is, look, when I look at '10, '11, '12, '13, we see very solid earnings growth for the Company during that time period. And then here are the things that I hear investors talking about most frequently -- margin rates, acquisitions, energy cycle, aviation cycle, GE Capital, and capital allocation. So I'm going to do a little bit of the deep dive on each one of these and just kind of talk you through it.

Margin rates, I think good historic margin rates inside the Company. We think the margin rates will be down slightly this year and then in 2012, our expectation is that margin rates start growing again consistent with our long-term performance.



There's four big drivers. The first one is just value gap and productivity. That was headwind this year, mainly driven by pricing in the wind backlog was a big driver. We see that getting better as we go into 2012 or at least reaching a run rate and meanwhile, we have good volume and good productivity programs. So when I look at the value gap for '12 and good deflation programs, we see that going from being negative this year to being no worse than flat as we look at 2012.

R&D and NPI pipeline, as I already talked about, I think we have kind of achieved our threshold from an R&D standpoint, so that's going to improve next year. Some of the inefficiencies of the new engine losses are in the run rate, so this was negative this year. We think that will be positive on the operating profit rate next year.

The other thing is service margins are positive this year. Service margins are going to be positive again next year.

And then the last point is just the -- as we bring in acquisitions that have lower inherent operating profit rates, it takes us a year or so to do the synergy programs and things like that, so we see that as being a negative this year and going to a positive next year.

So when I put it all together, we think we will get margin expansion going into 2012, so that's point number one.

Point number two, we have done a lot of work on the portfolio. We basically wanted to make the Company focus on infrastructure where we saw our competitive advantage, so more competitive advantage, less volatile, and within infrastructure, we wanted to make our businesses stronger. We wanted to give them more revenue streams inside a business like energy and aviation than they have had in the past.

If you think about the last six or nine months, we have done really a reallocation from NBC to doing energy acquisitions, basically NBC going from 80% down to 49% and then generating -- doing deals that basically give us \$6 billion of relatively fast-growing revenues in the energy space and two big goals.

One was to build out a good oil and gas platform and the other one was to strengthen some key energy efficiency and energy platforms looking at the future.

So oil and gas, we really have kind of defined a space that is in what I call technical solutions. This is the rotating equipment and the services associated with doing a big energy project somewhere between 20% and 40% of the content of the project. Our customers are both oilfield service people like Halliburton or Schlumberger and also the national and integrated oil companies and we think this is a really good space. It's got good technical barriers. It's got good service revenues that go with it. With the deals we've done, we have established a leadership position in this area and we think this is a platform where we've got some competitive advantage that can grow for a long period of time organically that can leverage aviation and other businesses.

So this is kind of how we define the space and who we play against and we think we've established a pretty strong position looking at the future.

And then there's a couple energy spaces that drive energy efficiency, that drive process controls, and that are in distributed power, each one of which we have strengthened by doing these deals. Converteam and Lineage really add to our electrification and power controls business. Dresser really added to our process controls capability and Waukesha really added to our distributed energy space.

So these are well-known competitors, big massive profit pools that are growing and kind of key GE businesses where we think we can now really compete and participate at scale. So that's how we think about the acquisitions that we have done.

Energy is always on people's minds and this is a question I get asked a lot from all of you. And I have read some of the comments that were made by some of my predecessors who have been here this week. We see the formation of a natural gas power generation cycle forming and there's a number of different reasons from inexpensive gas pricing to the need for capacity in emerging markets to questions about the nuclear power industry to you just go down it. There's just lots of things that are helping to drive it.

Natural gas is an inexpensive way to generate power and it appears to be plentiful. So it seems like this is information right now and we think this is very important to GE.

What I would point out is unlike the late '90s, the last time when this formed in the US, we've got a much bigger footprint in this space. We now do [air] derivatives, distributed power, oil gas technology, LNG flow monitoring controls. So we can participate in a much broader arena around this trend than we could in the past.



And then the last thing I would say is just when I was here a year ago we basically thought that the heavy-duty gas turbine shipments would be flat in '11 of '12. Now we see growth this year and we see growth next year. The primary drive at least on deliveries is going to be outside the United States but there's going to be increased demand again in the US. We think it's going to start sooner than later. We don't know exactly but it feels like it could be as early as '12. And so if that plays into this, this gets even better.

So I think point number one is it appears like we are entering into a natural gas cycle and GE is well-positioned probably as well or better positioned than anybody you have had here this week to participate on this trend.

Then if you just think about our energy business in general, this kind of gives you a 10-year look back. This kind of shows you the US power bubble and I think what investors can take some consolation in is that in this economic cycle we won't have one negative earnings year in our energy business. In fact if you look at '06 through '11, the average earnings growth in energy will be 10% through a recession and through a US market that has really been dormant for almost a decade. So when I think about -- so it's just a much stronger business. It's more global. It's got more diversity. It's got more technical diversity. It still has high margins.

When I look at '12 and beyond, there is just lots of good drivers for where the Company goes, more positive heavy-duty gas turbine cycle, acquisitions playing in, energy service margin expansion, wind which was extremely negative this year kind of settles into the run rate and will eventually turn. So we've got lots of things. Great global growth to position us.

So we really see energy earnings going positive in the second half of this year and then that accelerates into 2012 and beyond. So that's kind of the energy story.

Point number four is the aviation product cycle. I know you've had a few conversations on the aviation cycle this week. What I try to do is put this into some perspective. If you look over decades from 1980 to 2020, GE has cleaned up in the commercial aviation industry, cleaned up. We had two major platforms launch in the 25 years from 1980 to 2005, fundamentally. Our installed base between the early '80s and where we sit today has more than doubled as a share of the industry, right?

So if you look at our share of the installed base, we ran at a 20%, 30% market share. We are now substantially over 50% share of the installed base. And then when you look at the investments we're making today, more platforms being launched but that's already in the run rate, a very healthy GE share position, and a very strong product lineup. Look, I am quite confident of our performance on the GENx and LEAP-X on the Airbus 320 re-engine program. So I'm extremely confident as I think about our position over this time horizon.

Now when you think about it financially, we have got great service revenues, great service earnings this year. That's going to continue. We upped our investment as we launched the GENx engine and now the LEAP-X engine. So we upped the investment. That now has kind of crested. We've got our avionics business growing and then we've got the launch and efficiencies of kind of shipping new engines into the run rate.

So when I think about the aviation business going forward, I'd say very, very, very strong competitive position, pretty good visibility out years in the future, and earnings growth starting in 2011 and accelerating in 2012 and beyond. So I like how this business is positioned.

The next one on GE Capital and how GE Capital is positioned, good earnings growth in GE Capital. [ENI], that investment reduction is really on plan. The one way to think about one of the key advantages for GE Capital is we have got origination that the banks don't have, so we are able to continue to grow the asset base of the business at high margins because I do think we've got a front-end advantage, commercial real estate getting better.

And then when I think about the fact that we are earning more money on a lower net investment, our capital ratios are going to be quite strong. So we anticipate kind of having a new regulator. It's still our expectation when you look at the capital ratios, just a number of times we in many ways have kind of had people looking at what is it going to mean to be regulated by the Fed and stuff like that? We thought through it a number of different ways. We still see an opportunity to have a dividend from GE Capital by next year.

So again, we have to go work through that process, but we like our position right now in GE Capital and we think the business is quite well positioned in this arena.

Then lastly on capital allocation, I think we did what we said we were going to do over the last year. When I was here a year ago we said we were going to increase dividends. We did. We said we were going to relaunch the buyback. We have. We said we were going to do industrial deals between \$1 billion and \$3 billion. That is what we did.



When I think about the business going forward really we should have in excess of \$30 billion of cash above and beyond the things we have committed to as I look at the next three years. And the priorities are going to be to have a very good dividend, a payout ratio that is consistent with the history of the Company, to continue to do smart and strategic infrastructure deals, and to continue to grow the payback. We think as we get cash out of GE Capital through dividend and special dividend, that gives us a great avenue to increase the buyback as we think about how the Company is positioned and where we are in the cycle.

So those are the six things that I hear the most. Again, just a recap, we see a couple pretty good years of earnings. I just wanted to give you a couple thoughts. Industrial earnings growth is important to you. It's important to me. It's important to everybody who thinks about GE. This is job one and we like how we are positioned. We think we've got good organic growth. If we execute well, we are going to grow margins and we like how our industrial businesses are lining up, number one.

Number two, GE Capital is performing. We are executing well. We think GE Capital is going to be a good way to grow earnings and to provide cash for the Company over time.

Point number three, my huge focus right now is on acquisition integration. We have done some deals. I want to make sure they get integrated well, that the returns are good, and that is much more important to me right now than doing new deals right now. So a real focus on acquisition integration where we are today.

And then just capital flexibility, financial flexibility as we go forward. So that is how we feel about the Company and where we are positioned right now.

So just a couple of things to summarize with -- we did the mosaic last year. When I did the mosaic last year, a lot of things on the left-hand side, some turned out to be better. Some, like wind margins, turned out to be true. So that was last year's mosaic.

When I look at this year, we just have a lot more tailwinds than headwinds when I think about the Company and where we are right now. GE Capital, we are just well positioned. The market is better. Losses are going to be lower. Commercial real estate is going to be better. We just have a lot of things in GE Capital.

And then when I look at all the industrial segments, none of them are perfect, but they all have more tailwinds than headwinds and it would be my expectation that these businesses all have positive earnings growth as I look into 2012. And we have to see how the economy goes and stuff like that, but that would be my expectation running the Company as we look forward.

And then corporate, there just shouldn't be -- there shouldn't be any surprises in corporate. The Hudson and stuff like that, that is kind of 2010 activity and so corporate ought to be somewhat easier to model as we look forward. So that's how I would think about the mosaic.

And then this is just the summary page, which is this year puts and takes, headwinds and tailwinds, GE Capital, a pretty good stretch in '11 and '12 for a lot of good reason. Industrial growth resumes this year and accelerates next year, still with -- we still have a few headwinds but with more tailwinds as we go into next year. The NPI working better margins, acquisitions kicking in, pretty good markets, and so we see good earnings growth next year and balanced earnings growth between GE Capital and GE Industrial. So that's the GE story.

So let me -- Scott, maybe (multiple speakers) prerogative of the host?

QUESTION AND ANSWER

Unidentified Participant

(inaudible) one. So gas turbine production I think you had it down initially. You said then that inquiries are flat and now you're looking for (inaudible) to grow. So I think the real change in that business is accelerating, yet you still only have one plus for 2012. So order takes you up 2 plus for 2012?

Jeff Immelt - General Electric Company - Chairman and CEO



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You mean in heavy-duty gas turbine unit growth? (multiple speakers)

Unidentified Participant

Is it just like some caution on global growth or is it just too early to make that call?

Jeff Immelt - General Electric Company - Chairman and CEO

I think it's too early to say. Again, I think, Nigel, most of the market activities are positive. You basically go through a cycle to go from interest, order to shipment. Those are heavy-duty gas turbine shipments for this year and next year. We have a great supply chain and we are already providing more units in Japan and things like that. So let's see how it goes. I would say when we look at new quote activity in the gas turbine market, the pricing is getting better as well. So I want to man (technical difficulty)

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Jeff Immelt - General Electric Company - Chairman and CEO

That's a good one.

Unidentified Audience Member

Jeff, one of your competitors, Siemens, is spinning off Osram, as we have all been told. Clearly I know home and business solutions is not a huge priority for you. But does what Siemens is doing change at all how you think about the business and while we're on that, how do you think about the business?

Jeff Immelt - General Electric Company - Chairman and CEO

Scott, as you know, this is kind of -- we've been there done that almost on looking at it. You know what we have done, Scott, is we put money in the product line. The business ought to get good earnings growth next year based on that. You've got a likely -- well, I shouldn't say a likelihood - - you've got a chance of a housing cycle at some point in the future and I think what we have done is made it better and we will see where we go as time goes on.

So I just -- we will just see what happens, but in the meantime, I think it ought to be a source of no downside for investors and we ought to get some earnings as time goes on out of it. Jeffrey?

Unidentified Audience Member

Thanks, Jeff. Just two questions. First on margins looking into next year, with R&D trending down a little bit and volume picking up, it sounds like wind is a little better, what is it that would hold the margins roughly flat as you look into next year?

Jeff Immelt - General Electric Company - Chairman and CEO

Look, I think the only thing that would make it flat would just be a difference in what we see today in equipment versus service mix. That would be the only thing, because I think we can see kind of some of the new business margins coming in. We know what the service margins should be and that would be the only thing that I would see. And then the speed of acquisition integration, stuff like that.

Unidentified Audience Member



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Then secondly on leave backs, there's been a little bit of talk that the design isn't totally stabilized, that you guys are adding stages and fan size and things like that. Can you just give us an update on where the engine really is relative to --?

Jeff Immelt - General Electric Company - Chairman and CEO

On the LEAP-X?

Unidentified Audience Member

On the LEAP-X, yes.

Jeff Immelt - General Electric Company - Chairman and CEO

No, look, you are going to see between now and the air show, you are going to see some good orders. So I just think when you're in a -- heavily competed industries like this, there's always a thousand stories in the Naked City, you know? I think the one thing I would say to investors is, look, we have launched more engines than the rest of the industry combined over the past 30 years at better margins and we will launch this one with excellence as well. I'd just rather leave it at that, Jeff, than get into point counterpoint.

Unidentified Audience Member

Thanks. We've heard a lot from companies about emerging-market margins this week and the pressure that those may be under in coming years as competition starts to mature in those markets. So a question at a higher level is what are you seeing on that front? What gives you confidence that you will be able to outrun that and stay ahead of the margin front relative to emerging market competition?

Jeff Immelt - General Electric Company - Chairman and CEO

You know, my view is that -- I watch the service margin revenue extremely closely. I watch all of our margins closely but the service margin revenue, which in many ways creates your earnings stream for a longer period of time is as good in emerging markets as it is in developed markets. And then I would say from a -- if you just look at heavy-duty gas turbines, it's hard to find a substantial margin difference from region to region. I think what happens is when the cycle goes down like it was in '08, everybody is competing for fewer business, price gets under pressure. When the market gets better like it does right now, pricing gets a little bit better. I think that's true in Turkey and South Africa, and Saudi and everywhere.

Unidentified Audience Member

Then on tax rate, maybe give us a sort of current view particularly with some of your extracurricular activities how you are thinking about headwinds and tailwinds on that front? (multiple speakers)

Jeff Immelt - General Electric Company - Chairman and CEO

Believe me, I'm not sure they asked my opinion on taxes all that often. Maybe other things, but look, I think Keith went through it on the call in terms of how we view '11 and '12 and I think there's no change on that. And then I just don't know. I really don't know what's going to happen with deficit discussions and things like that.

I think we, like David, like everybody who would be here would love to see a territorial system just like the rest of the world and half fewer one offs, generally a lower corporate tax rate. GE would love that, just like other people would. But I have no idea how that transpires. In the meantime, the stuff that we care most about in the current forum all runs through '12.

Unidentified Audience Member



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Jeff, a follow-up on that last point regarding your new role in Washington. The initial reaction was the good news is that you had the bandwidth to take on a role like that, but what has been the role? Have you had any issues with conflicts? What is in it for shareholders? And my sense is it's not because you like the ring of Senator Immelt out there, but how you (inaudible) over the initial reactions?

Jeff Immelt - General Electric Company - Chairman and CEO

So, Dean, look, it's a private sector panel. There's 26 members on it, lots of CEOs, people you would respect. Matt Rose from Burlington Northern, Paul Otellini from Intel, Ellen Kullman from DuPont. So you are with some other big-time players and our focus really, Dean, is on really job creation. In the short term, how do you create -- match up supply and demand? In the medium term, how do you get industries to locate in the US and be competitive -- systems of long-term competitiveness and improve the tone?

So I just think I probably spend two hours a week on it. I've found it to be manageable. If I didn't find it to be manageable, GE comes first. There's just -- I'm a GE man. That's the way I feel about it, but I do think it's important right now that business finds a way to work with government and to try to make the economy better, and that's what the role should be.

Unidentified Audience Member

Jeff, if the Fed sees GE Capital the way you do, how soon after the summer would you start to think about the special dividend? What would be the primary use by the parent?

Jeff Immelt - General Electric Company - Chairman and CEO

You know, I hate to even -- I hate to even speculate on that because we just -- we owe it to ourselves, to our investors, and to the Fed to treat the process with great respect and not presuppose. Our hope is that we have -- we will be above 10% Tier 1 capital well above 10% Tier 1 capital. We will be above all the Basel III and all those requirements, well above. My hope is that GE Capital pays its fair share of the dividend as time goes on.

And then, look, I want to reduce the float. Over the next few years, I would like to get the float back down to where it was pre the offering in 2008. So I just think that's what I'd like to do, but we want to treat the process with full respect. Again, I hate to give you a speculation but I think a buyback would be a priority, right?

Unidentified Audience Member

John Rice's move to Hong Kong seems to have actually really energized a lot of the regions and for a lot of perhaps different reasons, maybe decision-making authority is closer or just more attention or focus. Could you talk a little bit about kind of your own thought process toward, is this a bit of a trial? Is this really an unstoppable trend toward a little bit of decentralization or perhaps a lot of decentralization of the emerging market authority decision-making? How are you going to benchmark really the factors of success? Because in theory this could be a big opportunity to get back some of the tailwinds if you will in some of these emerging regions.

Jeff Immelt - General Electric Company - Chairman and CEO

Look, John, I think the trends in emerging markets are unstoppable. GE has always had strong access that is product-oriented. That's good for investors over time because these big capital businesses you want us to make good investment decisions around that. What we wanted to do is have a very strong geographic focus.

What I talk about, John, is not decentralization. I talk about repositioning leadership. What we have done with Rice -- behind Rice, guys, we have moved dozens of vice presidents, other big players into the region. I think what you want companies like GE doing is you want them to have repositioned -- decentralization to me has a connotation of allowing a low-level person to make a big decision in the spirit of freedom. Repositioning leadership says you have high-level people making intimate decisions because they know the market better than anybody else.



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You guys know Rice, Rice inside our Company speaks big, and so it really has driven a change that I think you will see. We have never been bad. We've always had good growth. We are very -- anytime you do brand studies, GE is in the top five brands in every country around the world. But I just think this is a way if we want to catch and I want everybody in this room to think this is a definitive GE competitive advantage against anybody else you had pitching up here this week.

And in the end the way you measure that is revenue growth, order growth, market share, stuff like that, and Rice helps us do that.

Unidentified Audience Member

(Inaudible - microphone inaccessible)

Jeff Immelt - General Electric Company - Chairman and CEO

Look, I think, John, we have tested India a freestanding P&L. That has worked spectacularly. Now, I don't know -- I'm not sure I would do that model in other places, but I think all of us are in the quest of how do you create a great global company in the 21st century? GE wants to be there.

Unidentified Audience Member

A longer-term question. In the 2007 annual report there was an extensive section in the Chairman's letter positing that GE has built a process to deliver revenue growth of 2 to 3 GDP growth and indeed in the 2003-2008 level, you did do that at 8%. A lot of things have changed since then.

The question is is the GE portfolio today capable of delivering the aspirations realistically of that -- that were put in that report, namely 2 to 3 times global GDP expansion or A+ percent if you think the world is growing at 4%, 10% EPS growth, and a 20% return on invested capital particularly in light that you now believe GE Capital can only deliver 11% to 15% return on equity.

Jeff Immelt - General Electric Company - Chairman and CEO

You know, I'm glad we don't give guidance anymore. I don't know quite where to go. I think the safest place for me to go is to give you a couple thoughts on the components. I think if you look at service -- so if you look at our service business, which is roughly 70% of our industrial earnings, 70% or 80% of our industrial earnings, I think between that and the emerging market total growth, you've got to big chunks of the company that bought to grow 2 times GDP or more.

When you think about our service business and our emerging market business, those ought to be -- those are two big engines that are capable of growth. Look, margin rate enhancements are important to you. It's important to me. And we ought to aspire to that.

Then I would say, Martin, if you look at our industrial business, [GEX], GE Capital, our return on total capital of the industrial business is probably close to 20%, has stayed there even during the crisis. We'll just have to see on GE Capital as time goes on. So those are the pieces, a few pieces to think about.

Unidentified Audience Member

Jeff, I wonder if you might come back to how you are thinking about normalized earnings power in GE Capital, and after -- you get the asset-base to where you want it, which looks like end of this year, how you are thinking about normalized growth in pre-provision earnings. Obviously you've got this framework to keep it as a certain percentage of the company and I'm just wondering if you look at the opportunities for growth in that area, whether you feel like you're going to be constrained in terms of the opportunity set versus the capital available and how you want to balance that?

Jeff Immelt - General Electric Company - Chairman and CEO

So, Terry, what I would say is you've got a -- I would say a pretty linear equation for the next few years as you just re-earn the losses to a certain extent, so you've got a pretty linear equation there. Then you've got an opportunity to remix the portfolio, basically to higher return as things run



May 18, 2011 / 03:30PM GMT, GE - General Electric Company at The Electrical Products Group Conference

off. And so you've got a window that you can see healthy growth just in the current let's say strategic footprint, maybe three or four years, something like that where you're going to be able to do that.

And if you think out beyond that, I think we ought to be really thoughtful about how could you get cash out of GE Capital? How would you redeploy that cash if you could get it out in big lumps? What is the most investor-friendly way to reallocate that capital?

So I think you've got a window that investors can look at and say okay, they're going to re-earn a good ROI. The losses go down. You remix the portfolios. Bad stuff goes out, better stuff comes in that gives you a window that you can analyze and I would say that's starting to come in focus. We ought to start to be getting some credibility for that, right?

Then I think it's all about cash and capital allocation. We should -- we will have great valuable portfolios that are either good in GE or we can do something with them strategically that would allow us to pump up the industrial business even higher.

Look, guys, the [P] analysis isn't lost on me, right? So I know what's going to put the most food on the table and what rings the bell. But in the near term if I were an investor, I would sit here and say this is a good earnings growth stream that is relatively low risk in the context of the world today, that GE Capital ought to deliver for the next couple of years.

Unidentified Audience Member

Yes, you called out wind a few times and I guess you are saying that next year the margin headwind abates a little bit. On the assumption that pricing stays very difficult, are there things you are doing in terms of thinking about migration of the manufacturing footprint in wind? Also on R&D, I guess you have been behind a bit on large onshore turbines and on offshore. Can you just give us an update on the product pipeline?

Jeff Immelt - General Electric Company - Chairman and CEO

You know, what I would say is that our 2.5 is launched and the 1.6 is launched and a lot of the stuff we are seeing this year was already baked in the backlog. So a lot of the new business quite honestly is outside the United States and the margins are -- let's put it this way -- we take a big hit this year particularly in the first half. And then the margins we see in '12 and beyond ought to stabilize with that and start growing. So it's kind of in the run rate and then when we look out a lot of the businesses outside the US today. Our cost position and our reliability position is as good or better than anybody in the industry, really. Supply chain has always been a strength even in that business.

And there will be another -- look, there will be another good run for wind turbines. I think if you sat back and looked at the US, some day in the next few years the US is going to grow again from a heavy-duty gas turbine or from a power generation standpoint and when it does, I love having gas and wind. When the US comes back if you had only two chips to play, those would be the two chips you would play and we will be in good position on both.

Unidentified Audience Member

In that case, I'll take it. There's been a lot of investment in the solar area recently by you guys. Can you comment on that? I know you referenced wind, but this is -- sounds like a much bigger deal for the Company than I think it has been historically or the best increasing in that area and why?

Jeff Immelt - General Electric Company - Chairman and CEO

Again I think solar if you look out to the back half of the decade, solar is going to be one of the technologies you have in your portfolio. We actually bought a small startup. We are going to scale it ourselves. We've got a thin-film efficiency that is as good or better than First Solar today and we will just chip away at it over time. But it's one of those that I think is good to have in the portfolio and should be \$1 billion plus business for GE going out. Going this way is a lot more accretive to our investors than going out and buying somebody. So that's how we will do it.

Great, thanks.



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