Conference Call Transcript

GE - GE Annual Outlook Investor Meeting

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PRESENTATION

Trevor Schauenberg - ***General Electric - VP - Investor Communications***

Great. Good afternoon and welcome, everyone, to our GE annual outlook meeting. Today's webcast and event will be recorded. So it'll be available for replay tomorrow on our website.

Also on our website at www.ge.com/investor, you'll be able to find the presentation materials for today's event. So everyone on the webcast, please look there and press refresh on your browser if you're having trouble with that.

We will have Q&A at the end of the session today. And because it's a large room and we have a webcast going today, please raise your hand. We'll have a page come bring you a microphone. And then ask away so we can capture for our webcast audience. After the Q&A, we'll have a reception here in the hall so you can mix and mingle with several members of our leadership team, including Jeff and the Vice Chairman. So we'll enjoy that and then wrap up the day.

As I always have to say, elements of this presentation are forward looking and are based on the world as we see it today. Those elements of the world can change, as you know. So please interpret them in that light.

Without further ado, I'd like to introduce our Chairman and CEO Jeff Immelt.

Jeff Immelt - ***GE - Chairman & CEO***

Thanks. Good afternoon. If any of you in this room today were planning to see the Mehmet Oz show, you're in the wrong room. I think Nicole Parent, that might include you. But we'll see.

Five big messages for today -- I think we've positioned the Company to -- for solid earnings growth and cash flow growth in the future. We'll go through that. We think our strength in technology, services, emerging markets, big solutions position us well for the future. I think we've really defined the businesses that we want to be in and the ones that really fully utilize the GE competitive advantage. And we think those business will be the core to GE's growth in the future.

We think the worst is behind us in financial services and that the GE Capital franchises could be smaller but still a meaningful part of the Company going forward and that in this cycle we're going to generate the substantial amount of excess cash. And we're going to be extremely thoughtful about creating shareholder value as we deploy this capital. So these are kind of the five big themes that we'll reiterate and repeat and talk about as we go through the presentation.

First environment -- definitely getting better, challenging. And I'll go through a couple dimensions in terms of how we see the environment. I think in the short-term environment, capital markets are dramatically better. The global economies are stable. The emerging markets are relatively strong. We see certain of the leading indicators, like the ad market is quite good right now. The government stimulus I think is yet to be felt in many of our industries. And we still can see some opportunities out there going forward.

The high unemployment remains. There's record levels of excess capacity. Capacity utilization of 70% or 71% is 9 or 10 points lower than the past 25 years on average. Construction on commercial real estate is still challenging. And reforms, healthcare reform, things like that are creating uncertainty.

So when we look at the near term, it's going to take investment, organic investment to drive growth. And we still see good opportunity for cost out. And so in the cycle, our margins will still be high and strong. And we see those as the two dimensions really in the near-term economy.

On the longer-term dynamics, I mean, all of you read about this and put it in the context of your own firms. But the developed world seems to be growing slowly with big structural challenges, deficits, unemployment, debt levels. And the emerging markets are growing at multiples of the developed world with lower debt, lower deficits, still high unemployment. So the emerging markets still appear to be a good engine of growth.

And the developed countries, while they've stabilized are going to have some structural challenges. We don't know how much and how fast they're going to grow. But the ability to have a good strong global footprint seems to be an advantage again in this cycle.

Mike showed you this chart last week. I mean, the battlefield of financial services has changed, continues to change. We think going forward primarily banks -- I went back to an old presentation I gave here maybe six or seven years ago where I talked about GE Capital against our key competitors AIG and CIT and GMAC. And it's a whole other battle ground of competitors today. We think the worst days are behind us. There's plenty of room for growth out there post crisis. And we think origination and domain strength are just key strengths for the company going forward.

Lots going on in Washington and Brussels and the governments around the world -- I just ticked off some of the major reforms. There's financial reform. That'll have an impact on who the regulators are going to be, how much capital you have to be. I think if you just looked at House version that went through last Friday, it basically says GE's going to fit into the system. And it -- our advantage in small and medium lending is going to be a key strength I think as we go through this crisis.

Healthcare reform -- there's a deal or there isn't a deal. As I was walking over here today, I think there's a sense that there might be a deal now that the Democrats feel more comfortable about it. There you have to think about what our costs are going to be as an employer, where reimbursements are going to go. I say in -- the risks and opportunities are in balance. There's going to be new opportunities that emerge in services and healthcare IT and healthcare reform.

Energy and climate -- I don't know what's going to come out of Copenhagen. But the fact is that the ongoing trend around clean energy is unstoppable. There's going to be some kind of carbon price at some point. There's going to be incentives for technology going forward. We actually view that we're very well positioned for how this shakes out and where this goes in the future.

And then there's just going to be a focus on jobs. You see it in Washington. You see it really in every corner of the world that's going to be -- have an industry focus in places like green technology. And again, we feel like we're very well positioned as somebody that can create jobs, as somebody that knows how to invest in terms of where this goes.

So the point I'd make here is I don't think this focus on government strategies and government intervention's going to change anytime soon. What we've tried to do is make sure that GE can weather these changes in an advantageous way. And we think we're very well positioned along those lines.

So we can't necessarily pick the environment with a company our size. But I think what we've tried to do is position the Company to be a winner in this environment. We're an American company that is huge in winning in emerging markets. We're a great solutions company. We can do clean energy better than anybody else. We can do affordable healthcare better than anybody else. We're a really strong technology leader, innovator, global finance company. And we think that makes us welcome on a global basis. We know how to make things with low cost, which means we know how to compete in every corner of the world. We know how to compete in China and India and all those places. We think that's a good thing.

We're a good partner for small businesses to governments to big state-owned enterprises. We think that's the competitive advantage in a high-integrity brand. So if you think about the environment, what we'll try to do is just position the Company so that the GE brand is significant and can play in lots of different changes that are going on in the world.

Last part of the environment, just wrapping up on 2009, we put this framework out there at this dinner a year ago and I'd say more or less tracking to having flat industrial earnings for -- and that's really energy, technology, infrastructure, C&I. Healthcare is improving in the quarter. We feel good about that. That gives us some momentum and some backlog going into next year. That's a positive.

Media -- cable and ad markets are positives. We've had a tough year in network and movies. You've heard us talk about that in the past. Mike talked here last week about capital finance will be profitable for the quarter, profitable for the year, good margins, strong cash, and still high losses. And the corporate will be flat with good cost out offset by lots of restructuring this year.

And when we look at the dynamics in the fourth quarter, orders will be improving sequentially as we get into the fourth quarter of the year. The services and global business model remains strong; capital, again, still profitable, as I mentioned before; and the notion that we'll continue to do restructuring throughout the year. So that's kind of the way to think about closing off the year.

I think on the right-hand side when we were here last year, we talked about three real priorities, keeping GE Capital really safe and secure. We've done a lot. I mean, we've improved liquidity, reduced leverage, strengthened the balance sheet. I mean, we've done a lot in GE Capital. And I think it's given us a foundation that we've been able to refocus the business model and be optimistic as we look forward in the future. Again, that's what Mike talked about last week, still with some headwinds in commercial real estate for sure.

We've been able to outperform in a tough environment. The backlog has grown. The service model has proven itself as we looked at the future and just maximize financial flexibility. We will be at the high end of what we said for CFOA when we were here a year ago. We've announced some dispositions that gives us surplus cash.

So I think whereas we were playing defense when we were here a year ago, I think as we've turned the calendar and looked at 2010, you can think about the Company being back on offense and doing what we do best. And we feel very encouraged by what the team's done this year and where we're positioned.

So with that, just what I want to do is kind of talk strategically about the Company, what we've done, where we're going, what the priorities are and as a way to kind of set up the framework and how to think about the Company financially.

So I think if you think about the Company post the NBC announcement, this is just a -- it's a simple and more focused company. We're high-tech infrastructure and service company. And we've got financial services. Our core competency is just broad and deep technology, great install base management, very strong global brand and distribution, financial strength and discipline, the ability to generate cash and deploy it well, and leadership development.

And the way we'll leverage this portfolio and these strengths is to continue to make the portfolio more valuable, to generate a significant amount of cash, and allocate that to create shareholder value, to continue to drive the enduring growth initiatives that we've been talking about in this room for the past five or ten years, and to really have this competitive advantage and drive it across the Company in a way that should allow us through the cycles to outperform our key competitors and EPS growth, margins, and return on total capital. That's really what I want to talk about as the strategy of the Company and where we are.

It starts with the portfolio. We've just done a lot of work on the portfolio over the last decade. I think if you go back to the early part of the decade, we had about 20% of our earnings in insurance, about 25% in capital finance. Infrastructure was really at the peak of the gas turbine bubble. It was mainly US based and mainly gas turbine based. And we had a series of short-cycle businesses that were all more or less close to their peak or had seen their best days, right?

And so our focus on the portfolio was to derisk it by getting out of insurance to build a stronger global infrastructure portfolio, and to move through or reposition these short-cycle businesses.

Where we stand today, I think we've repositioned. We've simplified the portfolio. We've made some good investments. I think in the case of capital finance or in the case of where we stood pre-crisis, we've built a very strong industrial set of businesses, globalized the infrastructure portfolio, and then positioned the Company to be able to grow industrial earnings faster than financial service earnings.

At the same time, we have executed or exited plastics and repositioned ourselves on the short cycle side of the business. And so I think when we stand here today, we've got a great set of infrastructure businesses. We've got a capital finance business that needs to be repositioned. And in many ways, we've played through in media and strengthened our media assets and priorities to be very well positioned as we sit here today.

I think going forward we really just have a simpler task. It's to continue to invest and grow in our infrastructure technology businesses. And it's to create value in our capital finance businesses. So it's a much I think easier hand to play when we sit here today than what we've had five years ago or ten years ago. It's a very simple -- and I think the moves we've made to strengthen in particular our infrastructure businesses is paying off and really positions us for the next five or ten years of good, solid growth.

Think about where we are industrially post-NBCU, it's about a $90 billion revenue business. It's got margins in excess of 16%, return on total capital in excess of 16% at really the worst part of the cycle, so very fundamentally strong.

If you look at the last three years, we've outperformed the S&P Industrial Index over the last three years. And if you think about how these businesses face up into the core strengths of the Company, technology, services, global distribution, emerging markets, the big themes, all these businesses are really in the sweet spot of what the Company stands for and what we can do.

At the same time, I think these businesses are a lot more valuable for two key reasons. One is we began the decade with about 30% of our earnings and services. We ended the decade with about 70% of our earnings and services. These are in backlog, higher margin, more valuable, easier to protect. And from a geographic diversity standpoint, more than half our revenues are now outside the United States. So this is an incredibly valuable set of industrial businesses that we've kind of repositioned and invested in to grow during the past five or ten years.

In financial services, if you look at the left-hand side of the chart, we said we're going to shrink from about $480 billion in assets down to $400 billion in assets. And what I show here is we're very well capitalized today at tier I capital of 8%, right? And we can operate -- as we generate earnings and shrink, these capital ratios will grow. We'll hit 8.5% next year. The question is -- will we need to go higher than that? I think that remains to be seen.

But the point I would make is that as we shrink the balance sheet, as we grow earnings, as we exit some of the more highly leveraged parts of the portfolio, our capital strength's going to take care of itself. We're going to operate ourselves into whatever tier I ratio we need to have. I mean, I just want you to really understand this point.

And it's our goal over the next few years is to restore the capital dividend back to the parent. And so we think we're looking into that. In the next few years, we ought to be able to do that again.

On the right-hand side, look, we just got into businesses in GE Capital. We let it get too big. And we got into businesses that weren't central to the GE core. And we're just going to be very disciplined about where the business is and what it looks like going forward. And the core -- the four key segments that we're going to focus on are the verticals for sure because that is right in the sweet spot of domain and risk management and good margins and profitability.

The mid-market lending and leasing, which is kind of half of the assets in GE Capital, are the businesses we've been in for 30, 40, 50 years, high margin, high return. We've got tremendous competitive advantage in origination and product development, what we can do that banks can't do, risk management and operations.

I think in selected consumer areas, where we think we can build a competitive advantage and high margins, and we'll look through that, I mean, I think the retail finance business is an incredibly distribution intensive business that we have real competitive advantage. The PLCC business looks much better today than it did two years ago. But we're going to have to continue to evolve and see how the markets change and strategize around that as time goes on. And then in real estate, we're definitely going to be smaller. We're going to work our way through the current crisis. But we do have good domain and expertise.

And so the point I'd make on this page is that we are very well capitalized. And we'll continue to be well capitalized. And we will be able to operate ourselves into wherever we need to get to from a capitalization standpoint. And we will be very disciplined and focused as you think about where GE Capital goes in the future. And we should be able to fully earn a 2% plus return on $400 billion in assets, fully earn, and be able to, again, with very high reserves and things like that. So I think financial services -- we are in execution mode on a plan that we think can stand the test of time.

Now through this industrially and in financial services, we're just going to generate a lot of cash. I mean, we talked about -- as we announced the NBC Universal deal, we talked about ending 2010 with somewhere between $23 billion and $26 billion of what I call parent cash, available cash, cash that's scrolled away under Keith Sherin's desk. This is the -- in the lockbox under Keith's desk, right? So that's cash.

And then we have a very strong industrial business that generates a lot of free cash flow. We just -- we have a set of industrial businesses that generate a lot of free cash flow. And we'll always operate the Company to have a very high rating with the rating agencies. We'll always do that. But when you think about capital allocation and what we think we need to do, there's just a couple priorities. The first one is to always keep GE Capital safe and secure. And we've said that we contemplate putting $2 billion into GE Capital as part of the income maintenance agreement in the first quarter of '11. So we take -- out of this big stash, we take $2 billion and put it there.

And then we can invest in infrastructure. We think that there may be opportunities in a disciplined way we can do organic-inorganic investment. And infrastructure, the target there would be to replace the NBCU earnings in some way. But we can be patient. We think we've got enough good organic growth as we work our way through there.

We can look opportunistically at buybacks. We've got the preferred instrument that's due in 2011. We look at that. We'll be thoughtful as time goes on to think about where buybacks fit and how that works and does it look attractive and be opportunistic as we think about that. And then we want to have a payout ratio go back to the historic payout ratio of 40% to 50% and as earnings grow have a dividend that can grow with that.

So we think we've got plenty of capital to grow the Company and have attractive returns. And this is kind of the way we think about it. There's good optionality. I think we can be patient and disciplined about the way we think about it and doing things that we think are going to drive returns, long-term growth, and the ability to invest in the Company.

Now inorganic positioning, inorganic growth is something that we want to look at. I thought what we'd do is just kind of go through the past five or ten years and just go through the various buckets of inorganic acquisitions that we've done and kind of rate them on a strategic scale and on a financial scale. And probably five or six years ago, we talked about new growth platforms. And these were businesses that we really weren't in that we were acquiring into new spaces. And I think strategically by and large we did a pretty good job there.

But I think what we've learned over time is that these were hard to come in and generate. And when I look at financial, our target is 15% cash on cash return by year five. So that's the metric that we're looking at. The new growth platforms were just hard to get the kind of financial return that we want to expect and want to get.

Most of the capital went into our domain. Most of the capital went into energy, renewable energy, services, healthcare, the thing -- aviation, avionics, that things that are in the GE sweet spot. And these strategically are on track with what we want to do. And financially, by and large, we've done a reasonably good job in that space over time.

And then NBCU, our strategy was to make the asset more valuable at a very dynamic media space. And we had some hits and misses if you looked at the deals that we did from Telemundo to some of the digital plays. But the big ones we got right. Universal was a very good deal for NBC as we went through this time period. All the cable assets we've been able to generate good return.

So I would say if you look back and look at the financial returns, we were above our cost of capital if you look at it in aggregate but below our 15% goal. And I think as we go forward, the types of deals that you're going to see us do are right in the middle, are the strength in infrastructure type deals that we think and we know we can execute on as time goes on.

Now here's some ones that we did well. I think if you look at oil and gas, life sciences, and wind, these are three that we did extremely well. And one of the keys is they all played to GE's core competency. In the case of oil and gas, we were able to leverage the Global Research Center. We were able to build on customer relationships that we've already had. We were able to build up their service franchise. I mean, we have a very strong oil and gas franchise today.

In the case of life sciences, again, good customer relationships, good service revenue. We were able to invest in the key strengths that we bring. And in terms of the Global Research Center, very strong.

In the case of wind, in this time period, we were able to take kind of a second tier wind player that we acquired in 2003. And by 2010, we ought to be the number one wind player in the world. And we've been able to utilize every part of the GE skill set. So as we do inorganic growth or if we do inorganic growth in the future, it's going to be in the key domains, not new platforms. And it's going to really leverage all of the core competencies, like we were able to do in these three places. So that's a little bit on the portfolio, lots of cash to be reallocated, disciplined around how we do it.

In terms of long-term growth, I mean, there's four things that we've really focused on for a long time, investing in technology, building the install base, positioning the Company to grow around the world, and really having a very strong focus on two big solutions -- clean energy and affordable healthcare. And these are the kinds of initiatives that are going to drive long-term organic growth equal to or greater than our peers as we focus on the future.

In the case of technology, we've invested a lot each year. We're going to put probably $20 billion in a three-year time period into product spend. It's the one budget area that grew in 2009, will grow again in 2010 by double digits. And we've filed 20,000 patents this decade. So we're probably the biggest US filer of patents. And our focus on technology in the near term is just more products and more price points, filling out the products and product lines as a way to grow margins and grow share. I mean, we have as many or more product launches in this time period as we've had in any one- or two-year time periods in the history of the Company.

This gives you a sense for energy. It's just -- I could do a chart like this for any one of the GE businesses. But this shows where we started the decade, which was primarily a US gas turbine business, and where we end the decade with an incredible array of technologies, leadership technologies. And the point that the US gas turbine business, which was half our revenues almost ten years ago is really only 10% of our revenues right now. And so we've really been able to diversify and grow this business, despite the fact that the US gas turbine market hasn't been that strong over the last five or ten years. So this is just I think what good technology can do for GE and how well we're positioned.

Sustaining innovation -- this is -- offshore wind is a small business we acquired in Europe two or three months ago. There's going to be lots of offshore wind that gets invested in. We expect we ought to get 20% or 25% market share of that activity.

Molecular pathology is a key technology we can put in our life sciences business that comes out of our research centers.

The Leap X will be the next narrow-body engine that we launch. We expect to launch that in association with the new Chinese narrow body. This also can be moved into the business jet space. Water reuse is going to be the way that we grow the water business and a place where we think GE can lead. So we're still doing lots of innovation. We're still using technology as a key way to grow the Company.

And then just filling in places using partnerships -- we've got two in healthcare, one with Intel, which is going to take our technology into the home. We've gone one with UPMC, which is information technology around pathology. We've joint ventured with Google to take Smart Grid into the home. We own 8% of A123, which is one of the leading electric vehicle companies.

We're doing what we call reverse innovation, doing a joint venture on small steam turbines in India, which we think we can grow globally. We're in discussions with the Ministry of Rail in China to do high-speed rail technology from China into the US as a way to compete with some of the big players there. So we just have lots of great technical ideas and technical programs that are coming through the Company.

Services has really withstood as tough a test in 2009 as you're ever going to see. And through it, we have grown our backlog. We've grown our CSAs. We've grown our margins. We've grown revenue. If you think about 2010, all of the businesses will continue to have positive service revenue growth with the exception of transportation. So again, we'll have another positive revenue year next year, another positive margin year and margin rate year in our service businesses. So again, this has really withstood a very tough economy. And all the things we've said about where we stand have really proven to be true.

And here our focus really is on protecting what we have, protecting the install base, but then extending these markets beyond just the current install base because we think we're really good at this. We can drive technology. And this is really -- this is worth 70%. 70%, 75% of our industrial earnings are really on this page. So we think we can grow this at two to three times GDP at high margins in a competitively advantaged way.

One of the reasons is we own the technology. I mean, we've invested in the technology. We continue to refine the technology. The Global Research Center is best in class at the technology. And whether it's remote monitoring, something we've done for a long time, inspection and repair, now I'm moving into more domain workflow expertise and CSA modeling that improves some of our margins. We've been able to work up the value chain with our customers as a way to leverage our technology in the future. And it's just hard to repeat.

This again -- I think if you think about all the times we've spoken about our competitors or small company's ability to encroach into this service model, this really has stood the test of time. And it's mainly because we invest in it. And we grow it. And we've positioned it for the future.

Here's the aviation example that we like to show. I say that 2008, 2009 from a freight and revenue passenger miles, this is one of the toughest years in the history of the commercial aviation business. Despite that, we grew our install base nicely because we just own the market. We've done a great job on market share. And our CSA backlog has also grown. So aviation services in a very tough market in 2009 and 2010 will grow revenue and margins through this cycle because we just own the backlog. We've got a great CSA profile in a lot of the units. There's probably 40% of the units that still haven't come in for their first shop visit. So this is just going to be the gift that keeps on giving.

Smart Grid is one of the what we call more solutions-oriented businesses. This is about a $1 billion business inside GE today and one that we think is positioned for 20% growth in the future. We've won about 50% of the big city wins that have been announced so far. If you look at the grid itself, GE has probably 40% or 50% of the content that's required in one of the big city projects.

And our priorities here again are to continue to win these orders, add to our capability, both organically and inorganically, continue to drive software and software performance, and just really drive great success in some of the high-profile projects, like Columbus and Miami, Tokyo, and some of the other things we're doing globally.

The other place we're growing services is around customer productivity. We're doing this in every business. But this is the example we have in healthcare, where we're doing lots of work around asset management, performance solutions, labor efficiency, working in the C suite in concert with our information technology business to drive healthcare productivity. And this is a multiple-hundred-million-dollar business today inside GE Healthcare and one that we think could be a $1 billion business as we go forward because GE just has that kind of footprint inside our hospital executives.

Emerging markets -- global growth is, again, another driver. We tend to divide the world up not in classic terms. In other words, we don't have classic emerging market-developed market terms. But we have two priority regions, one that we call resource-rich parts of the world and the other we call rising Asia. And these are segments that exist inside GE.

Resource rich is exactly what it says. These are the countries that have oil, natural gas, coal. So it would include a lot of the emerging world but also countries like Canada and Australia. The rising Asia is what it says, China, India, Southeast Asia. And the combination of these two regions is about $31 billion in revenue in 2009. We'll grow it two to three times GDP in 2010.

And what we try to do here is capture the breadth of the Company and company-to-country initiatives, where we can take multiple touch points and bring them to bear in front of the customer or in front of the government, localize to drive good long-term growth, and then position ourselves with some of the leading players. This is like the Mubadala deal. So again, we are very well positioned to win as these countries grow and emerge in the future.

Here's China. I mean, we just had a big set of announcements in November in China. The C919 will be the next narrow body launched. We think that plane could have the most GE content of any plane in history between the engine, the avionics, the electric power. And so we think that'll allow us to get down the learning curve on a lot of our technologies and be well positioned for whenever Airbus and Boeing do their narrow bodies, which we always have to anticipate. Or in case there is a re-engining that might take place in the narrow body, we'll be advantaged for those activities.

In China, we basically localized all the healthcare products or are on our way to localizing all the healthcare products. We think that could be -- we've blown past $1 billion. We think that could be multiple-billion dollars in healthcare in China.

Locomotives we just doubled. We did an additional 300 units. We got orders for another 300 units in China. We're very well positioned to do both manufacturing and sales with the Ministry of Rail in China.

And energy -- just multiple opportunities, whether it's in clean coal, wind, or other activities. So we're playing through to the next round in China and see lots of opportunities to continue to grow.

Oil and gas is just exciting. I mean, it's -- we are in interesting places, like Angola and Algeria, Australia, Russia, China, Brazil. Petrobras in Brazil is going to have multiple-billion dollars of orders. Australia -- in just our oil and gas business, the business run by Claudi Santiago will have $5 billion of orders across the country that will be up for grabs that we can potentially win. So you just see lots of global opportunities. And again, this is very much the purview of a big company, a company like GE. We just play better in these regions than most other people can play. And so we think we're well positioned for this activity.

And in Mubadala, that venture and those relationships have taken hold. We think we're positioned to do lots of things with them in the region, just as we've described over the past 18 months. The commercial finance joint venture has been formed. We're going to try to do $1 billion of origination in the fourth quarter. And we think this platform that we've got with Mubadala is something that maybe we can replicate in more places. But at the very least, this venture with Mubadala I think is going to be very positive and very strong going forward.

The two big solutions that are big cornerstones for the GE brand are Ecomagination and Healthymagination. We think this really leverages GE's leadership. It's the foundation of the brand. It allows us to be the partner of choice to our big customers. It allows us to align with these big themes and I think really positions the Company to get stimulus and things like that, depending on where governments are going because we do have this kind of association. And we think these two are just evergreen. We think they can last for 5, 10, 15 years as being real cornerstones and pillars of what we do.

In the case of Ecomagination, on the left-hand side, we set some very formal commitments when we launched this in 2005 to double our R&D, to reach $25 billion in revenue, to reduce our own greenhouse gasses. And we've been a founding member of USCAP. We will grow this, even in a downturn. And our eco products -- this will grow again in 2010. And the team really is reformulating and to go forward from 2010 to 2015.

So we're going to kind of reup how we view clean energy and green technology in the future to again double our R&D yet again, to be able to grow at twice the average growth rate of GE, to reduce our own consumption of electricity of our own output of carbon and our water conservation, and to use this as an engine to create economic growth in jobs.

At the same time, we've got an Ecomagination fund we're going to launch and try to get 20 million smart homes. So this initiative to start in 2005, I think we've kind of closed the first chapter. And we've got the second chapter emerging. And so we think this one will continue to evolve and grow.

In the case of Healthymagination, I think it's rejuvenated the business. I think for the last couple years, we've been playing defense in healthcare. I talk about the deficit reduction and things like that. I think when we look at it right now, we've aligned this with ways to grow the business, investments in core technologies, that our own healthcare costs will be focused and hopefully below the CPI, that our long-term organic growth rate in healthcare we want to get back to two to three times GDP.

And in order to do that, we really have a number of initiatives that are going inside our healthcare business to launch more products for more price points, to really be a relevant player in healthcare information technology, to really drive rural programs and more around consumer access to healthcare as being a big driver for growth, both inside the United States and globally, to be a productivity partner with our customers, and to be really in the middle of the advocacy points in healthcare. So Ecomagination, Healthymagination we think position us for the future as being two real pillars and cornerstones of the GE brand.

Last part just in terms of capability, strategy for the Company, it's just the unified strength, the unified competitive advantage of a company that can create value from scale. We are a company that's got 40,000 originators, the fourth most valuable brand in the world, and we can make those play very -- in a very advantageous way in front of the customer when we drive enterprise selling and big themes.

We've got 35,000 engineers. We have filed 20,000 patents this decade. That gives us the capability in a business like wind to go from number seven to number one in eight years. That's how we are able to create value. We are a $35 billion sourcer. We've got $15 billion of supply chain capability, all being driven by Lean Six Sigma. We can get scale out of our manufacturing base. We're a low-cost provider. And there's just tremendous advantage to being able to do $150 billion of financing. Our losses are less than banks. We're domain experts. We've got good financial strength.

And so the ability to put all these things together over time is what allows us to have margins and returns that are in excess of our peers and be able to do it over lots of generations. And that's what the focus of the Company has been and will be.

In the case of leadership, again, we've got a strong set of leaders, 4,000 executives at the top of the Company, 450 senior leaders, 185 officers, 98% retention in a very tough cycle. We've got global and diverse. We've got real strength, experience, and tenure. And we've continued to invest in leadership and leadership development during this cycle. We've invested $1 billion in education every year during this down cycle. Where we're really focused the most today is in globalization and technology.

We are putting more resources outside the United States. We're changing the way we run the Company outside the US For the first time, we've got a CEO of our Indian business running it like a P&L. We're adding 1,000 sales reps in our healthcare business in China this year to be positioned to grow over the long term. And technology, we're adding capability in software, systems engineering because we want to have the human resources that can drive good long-term growth in technology.

We're building pipelines and functional expertise in P&L management. Inside each one of our organizations, what we've tried to do is invest in really domain intelligence type functions. How can we do a better job of predicting what's next? How can we bring people inside the Company that could've seen some of the challenges we've had in the past 24 months? How do we do a better job of predicting the future and planning for it?

Intensive recruiting -- we'll do as much or more recruiting on campuses this year and last year than we ever have. And so we continue to drive the GE leadership approach and the GE leadership brand. And ultimately, that's got to pay off in business results.

I mean, on the left-hand side, just some key places why we work. We just have more scale and technology and places like the Global Research Center. If you think about buying Nuovo Pignone in the late '90s, which was a state-run oil and gas business, there was basically nowhere outside of Europe. And being able to infuse aircraft engines technology to the Global Research Center to create a number one player in the span of a decade, that's the enterprise strength we have inside GE.

Domain expertise -- being able to go through an aviation cycle with GECAS side by side with our aviation business and be able to drive good profits through tough cycles, that's what we can do. The business interface, the brand interface -- company to country, I don't think anybody's played China better than GE has over the past five or ten years from the standpoint of competitiveness, revenue growth, margins, and the things we can do.

Brand -- being able to build big brand and capability, depth and experience, again, talking about what we've done in wind over the past decade, and just culture -- learning from each other, constantly driving for a half a turn or a full turn of working capital. In GE, one working capital turn, if we can drive Lean Six Sigma, is a huge amount of cash, has a huge impact.

And so on the right-hand side, we have a set of 18 peers that we look at and through this cycle, through this year, measuring ourselves against them in revenue, organic growth, margins, returns. We want to be in the top half, top 25 percentile on these key metrics against our key competitors.

So if you think about the strategy, simpler portfolio, lots of cash and capital allocation, enduring organic growth initiatives, and the way to pull it together in a way to be better able to compete and drive margins and returns. That's where I think we've been. And that's what we're doing inside the Company.

Now with that foundation, what I thought I'd do is just talk a little bit about 2010, take you through some of the key businesses, take you through our framework, and give you a sense for how the Company's going to perform in the near term.

So here's our framework page in the no-guidance world. This is the da Vinci code I guess or something. But I see the word flat. It's -- we're looking at industrial. This is a combination of energy infrastructure, technology infrastructure, and C&I, we think will be about flat year over year in our profit. The positives are the NPI growth, lower cost, better margins, global position services. The negatives are -- if you look at a business like our transportation business, there's still multiple thousand rail cars parked. And so you're not going to get some growth in businesses like that. But I would say we look at operating profit there being more or less flat.

In NBC, we think operating profit will be down slightly. It would be up ex-Olympics. But we're just counting on having tough economics around the Olympics. And so that'll be slightly negative when we look at NBC going into next year.

Capital finance -- you heard Mike talk last week. We think the capital finance earnings will be about flat year over year. And then the other big piece is in corporate. And here, there's -- think about 2009. We will do somewhere around $0.18, $0.20 a share of restructuring in 2009, right? So we did a lot of restructuring in 2009. We may do half that in 2010. But the offset of that is -- I would say pension expense will be after tax another $0.07 to $0.10, something like that. And that reflects both the amortization of the losses and the discount rate when I talk about that. So we think those more or less offset on the corporate lines.

We think we've got the financial risks more or less in balance. And as we go through the year, look, if we see opportunities to do more restructuring, it makes the Company and puts the Company in better position for 2011 and beyond that are good payoff projects and things like that, we're going to do them. So that's basically how we see the framework going from 2009 to 2010.

Similarly, revenue we see about flat. And the way that I would kind of pick through the revenue lines is capital will be up slightly even while it's shrinking because you have higher margins. And you'll probably have some FX benefits on the capital side.

NBCU and C&I will be up. That's really driven by the Olympics as much as anything else and maybe a little bit of improved markets in C&I. But we're not counting on a whole bunch.

Infrastructure services will be up on the service side. We've got good backlogs, pretty good visibility to those businesses, and so pretty good strength on installed base growth offset by maybe lower capacity utilization.

And then equipment we think will be down maybe 5% or 10%. And this is based on ending the year with about $45 billion of backlog, maybe having orders that are about flat year over year. So we think equipment revenue could be down a little bit next year, services up, C&I and NBC up, and GE Capital up a little bit, just given some of the dynamics. So that's the outlook on the revenue and operating profit and earnings.

Stimulus we've talked about a lot. We think in terms of orders and revenue this is always hard to -- there's no really exact science around this. But we think we've probably gotten $11 billion of orders and revenue this year, about half -- a little bit more than half inside the US but very strong globally as well. And the places that we're focused on are some of the renewable energy. You read about the Caithness wind deal last week. Those projects we think will continue to come. Smart Grid, a lot of this is being driven or some of it anyhow is being driven by stimulus dollars. Some of it's happening on its own.

Healthcare access, I mean, the China healthcare market's really strong. And a lot of it's driven by government spending to improve consumerism in the remote regions. There's infrastructure, healthcare IT in the US and China. I'd say the healthcare IT, we've gotten no benefit from the healthcare IT stimulus in 2009. We think that could be attractive in 2010. I mean, meaningful use will be better defined in 2010. We think that might be beneficial for the business next year.

Infrastructure projects, big Petrobras projects, US rail, water reuse, and tax credits, technical funding. So we're just well positioned as this continues to roll out. We just thought we'd give you an update on where it stands and how we do it. And like I said, a lot of it is outside the United States as well.

Margins are at a pretty high level historically. And we think margins will continue to stay at a pretty high level going into 2010. We'll have a positive value gap in 2010. We had a very positive value gap this year. But we'll still have a positive value gap in 2010. We've got the benefit of restructuring, again, because we've done $6 billion of restructuring over the last three years. So I mean, we've done as much restructuring over the last three years than probably at any time in the history of the Company. And those benefits spill over into next year.

Services will still be a positive mixed element. Business mix is negative. And that's some of the higher-margin businesses, like transportation, aren't going to be growing. And businesses, like C&I, that are lower margin will be growing. So you get a little bit of negative mix there. And the Olympics, there's just lots of revenue and no margin. So that's -- that doesn't work so well if you talk about margin rates, right? And that's how you look at margin rates, roughly flat.

Cash is pretty good. We'll generate $16 billion. When I was here a year ago, I said $14 billion to $16 billion in industrial CFOA. We'll hit the $16 billion of CFOA. Basically, if you think about the calculus of it, you're losing couple billion dollars of progress over the last two years, maybe $5 billion progress. We're making up for it in working capital. So if you think about earnings plus depreciation plus working capital reduction is how you get $13 billion to $15 billion of cash. And it seems (inaudible) executing this year. And that momentum will carry forward in the future.

The top right is what we talked about when we announced the NBCU deal. So that's the same arithmetic that we talked about before. And so we'll continue to work on working capital initiatives. Security should close in the first quarter, NBCU probably in the year. I mean, I'm not going to make any predictions on when that's going to close.

And, look, we'll have opportunities in '10. We went after the Ariva deal. We would've done that, too. We think we're going to have opportunities based on when NBC closes and things like that to allocate capital in 2010. And we'll be very thoughtful as we march through there and see where it goes. But I think the good news is we've got lots -- we'll have a good -- another good cash flow year and with the disposition, some optionality as we go through the year.

Here's GE Capital. Mike reviewed this last week from an ENI and margin and losses standpoint, how you think about '09, '10, and '11 and measure the bar or something like that in '11. And -- but we'll get some earnings growth as you get -- as you run through the losses and get in the out years. On taxes, we expect to retain the structural benefits of the tax rate over time. But we will pay higher taxes as we generate pre-tax earnings as you go through this cycle.

We're originating at high margins. We'll opportunistically look at bulk origination in a disciplined way and the places we want to invest and grow. We'll execute our funding plan. We've already pre-funded all of '10. We'll work on the red assets. As Jim Pollock has said last week, we think losses will peak in 2010. And commercial real estate is manageable but still very tough. And so we're going to work our way through commercial real estate. And I think Ron Pressman talked you through that last week.

When I talked to the investors and read the notes after last week's meeting, I just wanted to make one point. We do have some really good franchises in financial services. And after last couple years, it's been hard to lose sight of the fact that underneath all this, there are some great financial service businesses that we have.

I just put three on here. The America's Lending & Leasing business, this is the basic lender to mid-market America. I mean, we'll do -- we've done like $31 billion of SME lending in the US so far this year. I mean, we are one of the preeminent small or medium enterprise lenders. The new margin rates are 5.8%. The runoff margin rates are 2.8%. This is a business -- as you guys know financial services, this is a business that's going margin positive in a very strong way. And that takes time, right, because you have to blend down as you go through it.

Retail finance, we do financing of all these retailers that are selling a variety of different things, equipment and recreation-type skidoos and things like that. This is a very -- really operationally intensive business and one that banks historically haven't been any good at. The margins of 13%, the runoff of 11%, this is a very operationally intensive business.

And the verticals, which are $73 billion, this is -- these are just places we have more domain knowledge than anybody else in financial services. So I just -- the originate-to-hold model works. We are a great SME lender. We really are the big player in mid-market financing. These are the kind of businesses we want to invest in.

I think, look, we -- as I said earlier, we extended too far. And that's something I could say over the last 30 years, not just the last cycle. But don't lose sight of the fact that we have some excellent core businesses underneath here that we think are going to generate good earnings growth over time.

The energy business -- John's in the room. I think we'll be up slightly next year. We'll probably grow margins. We'll see good growth in oil and gas and flat to up slightly on the energy business. I think the good news for this business is, over the long term, this is going to be a gas and wind world. I think we have a broad technical footprint. But if you had to pick what businesses would you want to be really big in, not just in the US but globally, it would be gas turbines and wind turbines.

Those in some way, shape, or form are going to be the winners as we look out over time. We've got good product pipeline. We've got a very good global position. We're well positioned for stimulus. The service remains robust. We can shape energy policy. This is just a great GE business, where we've got good competitive advantage.

And I'd say the big question here is -- what's the demand for electricity going to be? I mean, we've had negative electricity growth in the US and in Western Europe. And so that's going to gait how fast we can grow. But I love our positioning overall. And almost no matter where policy goes, we are well positioned to benefit as you think about that.

And I think on the big wins, on the big orders, we really had a good year. I mean, we really had a good year. We got the biggest wind order in Europe this year. We got the biggest wind order in the US this year. We got the biggest order in the Middle East. I mean, last year, we were talking about the Iraq order, this year talking about this order in Kuwait. We won big in the Australian L&G space. I mean, we will be from an order standpoint -- the VetroGray business and the -- our oil and gas business will be the peer of anybody in the industry right now, so pretty strong performance overall on energy.

Technology will probably be down slightly next year. Transportation is going to have a tough year. Healthcare -- again, I think we see some strengthening in Q4 that makes us guardedly optimistic. I promised people that I wouldn't use healthcare and optimistic in the same sentence. So I maybe violated that rule here. But we do see some strength in the markets. And I think our execution is improving.

And in aviation, I think actually the team's done a great job with executing this cycle. Their earnings will probably be down slightly next year. And so executing on the new product pipeline, the GEnX has to fly next year. We're launching lots of new products across -- growing services through the cycle. We've done a lot of restructuring in these businesses, which should help our cost point driving global growth.

We had a couple aviation transactions last year that won't repeat. That really is what's going to impact the aviation business. And then transportation's in a very tough cycle right now. We're picking up some good business outside the United States. But inside the US, it's a tough cycle. So transportation will have down earnings. Healthcare should have up earnings. And aviation will be flat to down slightly as you think about this segment next year.

And similarly, we won a lot of big orders. We won the Etihad order. We won the American Airlines order. We've grown the business in China and India very substantially. The joint strike fighter got funded for another year. We were just kind of announced to be the favorite suppliers for

100 locos in South Africa. We picked up another 300 kits in China. This life sciences is the biggest order we've ever received in life sciences in Brazil. So we're hustling for business on a global basis and winning more than our fair share when you think about how this business is positioned.

C&I will have a decent year next year. We've got lots of new products. We've done a lot of restructuring in lighting and appliances as you think about next year. We've got improved product lines and some really good energy products. I mean, this Energy Star, which really gives you -- if your new products are 20% more energy efficient than what they replace, you get a very nice -- and make it in the US -- you get a very nice tax benefit. So we've got some products kind of rumbling through there.

This hybrid water heater ought to do $65 million in business next year. That's a business we're not even in. We talked yesterday about moving the profile, the high-end washing machine in to Louisville. So we see some decent growth in C&I and driving good cash along with that.

And NBCU, as we said, the earnings will be down year over year. They'd be up ex-Olympics. The market's better. Scatter I think has improved. Stations are doing better quarter over quarter. Cable continues to be excellent. Next year, films should be better. It'd be hard to be worse. So I think we'll probably be better in films.

Parks will improve year over year. We've got to continue to invest in the network to improve our performance there. And my hunch is we'll probably lose a couple hundred million bucks on the Olympics in Vancouver. It's just a tough time for a big event like that. And we'll do a good job of selling it. But it's just a more difficult sales environment for a big event.

This is kind of what we created in NBC Universal. We basically owned 100% of fundamentally a network business ten years ago. We went down to 80% of a better cable and media enterprise. Now we go down to 49% of an even better cable and media enterprise going forward. At the bottom, we kind of -- I think when we started, we really viewed as being so dependent on advertising was a negative. And so we diversified the revenue mix.

And so, look, I think we've just positioned NBC Universal. We think that this is going to be a good enterprise going forward. We're a substantial owner. We expect to generate good earnings from this as we go forward, take some cash off the table that we can redeploy. And so we're quite happy about how this deal worked and where we're positioned for the future.

So that's the framework for '10. What I thought I'd do is just give you a sense for how we're managing our team. Basically, our leaders get compensated. They have a base salary. They have an annual incentive compensation that's really based on how they do in a given year. They get paid -- they get stock options. And then we have a three-year long-term incentive plan that we basically go out to about 1,000 of our top leaders. And we do it roughly every three years.

So we're going to launch a new plan for 2010, 2011, 2012. And it will have four key metrics. The first one is cumulative EPS. And our managers are going to get compensated based on a substantial growth in EPS as we end the credit cycle in GE Capital, as we continue to execute on service and other equipment growth through this cycle. We should see a good earnings bounce back in this cycle. And our managers are going to get compensated accordingly. That's rule number one.

Rule number two is good cumulative CFOA to make sure that we continue to generate a lot of cash, lot of free cash flow that the business has done. And this will be the second metric that we have and just to make sure that we have not just earnings growth but high-quality earnings growth and good cash flow that goes with that, that our industrial return on total capital in 2012 is at a high level, that it would be in the top 25% of our industrial peers.

This means that we're going to have to deploy cash in an investor-friendly way, that as we generate cash we're smart about how we use it. And this is a key metric. And in many ways, these three metrics have been part of our long-term incentive plans for a long time. And so this is really nothing new.

And the last thing -- I think it's just quite important that we hit our ending net investment targets in GE Capital. I want investors to know that it's important not just to hit that but to hit the earnings at the same time. So it's good to have both these metrics, that they balance one another off, and that these four metrics are the cornerstone for a three-year incentive plan for the 1,000 top leaders. And it's a one-company plan, right?

So in other words, we basically have this as a one-company plan. And it's simple. And it's I think pretty well aligned with investors as we think about where we stand. So as I went through the framework for this year, I thought it was important to share with you how we're going to compensate our leaders and give you a sense for that.

So now looking forward -- so I think simpler company, lots of cash to redeploy, good growth initiatives, pulling it all together. 2010 I think is a positioning year that can lead to the next few years. And what I want to do now is just maybe wrap it up on a couple pages just looking forward.

So the first thing I'd say is just if you go back to the day Lehman Brothers went bankrupt to the present day, we've gone through a lot. We've put you through a lot. And I want to give you a sense of kind of where we stand and what we've done. I think when we sat here a year ago, it was all about playing defense. I think we sit here today. We think we've repositioned the Company. And we're ready for the next cycle of growth.

But if you go back to the things that we said we were going to do a year ago, keeping GE Capital safe and secure, equity raise, dividend cut, more liquidity, right? Funding improved, lower leverage, better ratios, met base case and losses gone through incredible increase in losses, I think gotten to a safer place from a regulatory standpoint.

So in this side, I think the team has done a lot to reposition the Company and put us on a value-creating path in a dramatically changed financial service industry, but one that we can look at an generate good earnings and high returns in a disciplined way but through a lot of activity that we've done in the last 15 months to position ourselves in this spot to go forward.

Outperform in a tough environment -- we did a lot of restructuring. We actually increased our NPI. We increased our advertising. We got stimulus. We did global investment. We got -- our margins improved. I think if you think about us from an industrial standpoint, we'll be able to begin the next cycle with very strong initiatives at higher margin rates and returns and a good competitive position. And so we've done a lot on the industrial side.

And from a financial flexibility standpoint, we generated -- we'll generate CFOA at the high end of our range. I think we've done some strategic divestitures. We've increased the cash balance, both at the parent and in GE Capital. And our ratings are stable. So it gives us a chance to have flexibility to create long-term value.

So I think whether it's around GE Capital, whether it's around the industrial business, whether it's around cash flexibility, I think we've done a lot this year so that when we move through this, it's a company that can play offense again. And that's -- I just wanted to give you a sense for how I think about it and where I think we are going forward.

Here's where I talked about the brand. I think we're very well positioned in emerging markets. We're a company that can do these big solutions, like clean energy in a trusted way. We're a technology leader. We're a low-cost, high-quality manufacturer. We're a good partner. It's a trusted brand. Again, I can't predict exactly what the environment's going to be over the next few years.

But if you think emerging markets are going to grow faster than the US is going to grow, we're pretty well set for that. If you're not sure there's going to be much tailwind, we are a good organic growth investor. If you think that cost is going to be important, we're a low-cost manufacturer and supplier. So I think we've gotten the Company positioned into lots of the volatility or lots of the challenges of today's environment. We've got the Company ready to perform.

The renewal is really about a simpler portfolio built around real core competencies of technology and services and global brand, financial discipline and people, and a sense of having great leadership franchises, generating a lot of cash, and deploying it in an investor-friendly way, having strong enduring growth initiatives that will continue to produce, and a unified competitive advantage that should give us margin rates and returns equal to or better than our peers. So that's the focus on the renewal and the strategy.

Lastly, just what do I want you to believe as you walk out of here, right? Consensus for 2009 is about $0.99 a share, something like that. 2012 is going to be a lot higher than that. And here's what you have to believe to think that that's true -- $12 billion of losses fed this base case will go through that this year. A normal year for GE Capital would be $2 billion to $3 billion of losses. If that just gets cut in half over '11 and '12, that's $6 billion. And even if you have a higher tax rate or something else, that's a lot, right?

And so as you originate at higher margins, as you go through these losses, we would be extremely disappointed in our GE Capital business if we didn't see reasonably robust earnings growth as we walk through this. Okay? So just that's point one.

Point two, 70% of our industrial earnings are in services. In this cycle, services has grown its revenue and margins. And I think it's highly likely that that business, if the world gets better, will still grow its revenue and margins. It generates a lot of cash. It's competitively advantaged. It's in backlog. It's visible. And so I think you feel pretty good about that, right? You feel pretty good about that portion.

Equipment backlog is strong. We've got NPI. We've got globalization. We've got stimulus. I'm not here to predict exactly what the shape of the recovery's going to be or be able to do it country by country. But I think it's pretty safe to say that on the equipment side, which again is another part of the earnings on the industrial business, we're going to reach a new peak. We're going to come out of this with pretty good margins on our equipment with a pretty good backlog with lots of tailwind, however it gets created.

And so I think you've got that to look forward to. It's -- in the worst economy since 1940 in 2009, our equipment revenue of our major companies just wasn't that bad. And so as that gets better with high margins and tailwind, that's pretty good.

And then last thing's just optionality around cash, right? And I know that's on your mind. And I don't have specific predictions and things like that. I would just do just one arithmetic just in your own mind to just say here's one arithmetic thing that could happen, which is if you've got $8 billion, right -- and let's just say when you got it from NBCU, nothing was appealing at the time. You had no really brilliant ideas. And you just use it to either buyback stock or retire the preferred stake. That creates an earnings per share in excess of any dilution we have from NBC, right?

So if you said you woke up on that day, you had that cash, you had nothing that inspired you, just to put it in your head about one thing that could happen, so I just think in the near term, the Company looks okay. If you just plug in those sets of assumptions and look in the end this is how I want to play the game is to make these things take place and happen over time.

So in conclusion, what I want you to walk out of here are the same five points. We've positioned the Company for solid earnings growth as we look at the future. Our strength in technology and services and global markets I think positions us well for today's environment. I think we've really defined the portfolio that really is based on GE's core competency. We think the worst is behind us in financial services. GE Capital business will be smaller but still a meaningful part. And we plan to generate a lot of cash and be extremely thoughtful in the way we allocate that capital when you think about the Company going forward.

So with that, I'm happy to take any questions. I know I'm freezing you a little bit in here. But it's -- but Jeff, we'll start with you.

QUESTION AND ANSWER

Unidentified Audience Member

Thanks, Jeff. Two questions somewhat related -- I guess on the first one, not to open old wounds because it's been a very tough year for everyone. And a lot of companies made mistakes, including the one I work at. But your -- the question really is -- you made the comment. We ended up in some businesses we had no business being in. And when we think about kind of the rigor and management process at GE, how was it that you ended up in a set of businesses you shouldn't have been in? And what might change to make sure that doesn't happen again?

Jeff Immelt *- GE - Chairman & CEO*

Look, Jeff, I think in financial services, if you go back over a long period of time, right, I think it's easy to enter businesses. You don't have to build factories and stuff like that. And we were a big LBO player in the late '80s. We were a big insurance player in the late '90s. We probably got too big in some consumer finance spaces and some commercial real estate spaces in this cycle.

And my view is that maybe some of it was just too much liquidity. Some of it was too easy to drive incremental earnings growth. And then I just think some of it is -- as you think about GE Capital going forward, they're going to pay their fair share on the dividend. Going forward, we're going to stick to those core businesses and just grow inside that bandwidth.

So it's not like I'm in -- this is not an epiphany or anything like that. It's just -- I think there ought to be a certain size. There ought to be a certain -- a steady return hurdle. And I just think those businesses I outlined -- there might be one or two others. But there won't be many. So I think that's -- now all that being said, look, in the short term, if we saw good bulk origination opportunity in mid-market lending, we're going to go do it because where we're good, we're really good. And we should go do it. But that's -- I'm not making an excuse. That's just where we've been.

Unidentified Audience Member

And then secondarily and somewhat related, when we think about GE Capital -- and it may end up being just an issue of opinion. But kind of thinking about your entitlement to be in certain areas, I mean, I can understand the verticals. And I can understand mid-market finance and anything doing with equipment leasing, capital finance, and the like. I think where the justification problem comes is on consumer and real estate.

And it just may be your strategic decision. But it seems to me that actually if you want to be compared to some of these other peers, it's going to be hard to break out of the sum-of-the-parts math of having a finance company if you're in things that feel non-core to your industrial operations, just your thoughts on that.

Jeff Immelt - ***GE - Chairman & CEO***

Jeff, again, I view -- when I think about the core competencies, the analogy to technology on the financial side as being able to do things that are structured, being able to do things that really tap into our strong origination risk management financial discipline. So when I go through that list of core competencies, I include GE Capital as a part of it really.

There weren't just -- we have to be thoughtful as we go forward in the future. Retail sales finance -- lots of barriers to entry. We really are good at it. We do it better than banks. There's lots of scale advantages and things like that. PLCC -- been in it for 50 years. It was one of the cornerstones of the original GE Capital. This cycle clearly is amazing where we've ended up. But I think we have to be thoughtful about it going forward.

Commercial real estate -- definitely smaller. It's got to be places that leverage origination scale, risk management scope, things like that. But look, I think that the onus is going to be on doing fewer things better, having capital to return to the parent, and having margins that are better than banks. So I don't disagree with your big point. I may argue a little bit on some of the pieces. But that's how I think about the Company going forward. Scott?

Unidentified Audience Member

Just to follow up on that (inaudible), talk to us about how maybe things have changed in the M&A process that the people -- how you think about returns, et cetera.

Jeff Immelt - ***GE - Chairman & CEO***

So, Scott, I've always thought that 15% cash-on-cash returns is a good target. I think the fact that people get paid on return on total capital is a good thing. That (inaudible). We have a 16% return on total capital. So we start with a pretty good level. And I would just say that the further we got from these core strengths, the harder it is to -- has been to generate a return. But when you think about oil and gas and life sciences and avionics and renewables and services and controls, these are all 20% plus cash-on-cash returns, very effective. And we'd like to do more of those.

Unidentified Audience Member

I mean, part of the question was just -- has the M&A process changed? Have the people changed? Has there been -- I mean, just getting to the core of the question, how do you -- if it's the same board and the same management team, how can you give us some assurance that the same mistakes wouldn't happen two or three years down the road?

Jeff Immelt - ***GE - Chairman & CEO***

Look, I think we always learn from anything we do wrong. We have very formal review processes with the board. The deals we've done have generated cash on cash or industrial returns above our cost of capital. And some have done extremely well. Look, I just think if you're going to do some, Warner didn't quite work. You're going to have some that do better than others. But again, I think having good metrics in place on return on total capital, having good processes in place, maximize our chance of success. And I don't want to be a company that's just gun shy from doing inorganic opportunities because I do think the ones I showed you are quite strong.

Unidentified Audience Member

And last question, just you're making a $2 billion contribution to GE Capital in the first quarter. And you talked about --

Jeff Immelt - ***GE - Chairman & CEO***

Of '11, of '11.

Unidentified Audience Member

First quarter of '11.

Jeff Immelt - ***GE - Chairman & CEO***

Yes, yes, of '11. That's based on the income maintenance agreement next year that would be $2 billion in the first quarter of '11.

Unidentified Audience Member

Okay. I suppose when you think about your reserve levels, what gives you confidence that $2 billion is enough?

Jeff Immelt - ***GE - Chairman & CEO***

Well, again, I think it's -- the $2 billion is just about pre-tax income, where the income's going to be, and what we have in place with the rating agencies is where you get the $2 billion. So I think that's kind of night follows day. It's formulaic and things like that. I think what you saw last week from Mike was a pretty good sense of our reserve levels on our losses as we go through next year, which gives us some confidence that flat earnings year over year is the right thing to be working on and to count on. Yes?

Unidentified Audience Member

Thanks, Jeff. Just a follow up again on the portfolio questions -- so just to be crystal clear, you're not looking at anything inorganic outside of the core franchises. You're building in on the core franchises. And would you also consider stock transactions or anything transformational? Are you saying both core and small over the next sort of year or year and a half timeframe?

Jeff Immelt - ***GE - Chairman & CEO***

Look, I mean, I think the -- I think stick -- we've got ample opportunities in the core franchises we have to make whatever investments. So I don't see anything outside our core franchises. And we just have a very good industrial company, very good one. It's got lots of opportunities for inorganic growth and organic growth. And so I just don't see that in the next period of time, mainly because I don't think we need it to achieve any of the goals that I spelled out for you today. So I mean, I just don't see it.

Unidentified Audience Member

If you think about the sort of implicit guidance and what you've put up today --

Jeff Immelt - ***GE - Chairman & CEO***

Again, I push back a little on that because implicit guidance --

Unidentified Audience Member

I'm going to ask the question again.

Jeff Immelt *- GE - Chairman & CEO*

Okay. Good.

Unidentified Audience Member

Okay. In the -- I'll use the word then. With the --

Jeff Immelt *- GE - Chairman & CEO*

(inaudible)

Unidentified Audience Member

With the framework that was put up here, right, and the size and shape of the bars, when you think about the upside-downside, particularly the downside to that, what are the biggest things that would move the needle on the downside from your perspective? And is there anything in the next, say, 12 to 18 months that would cause you to think that an equity raise might be necessary?

Jeff Immelt *- GE - Chairman & CEO*

Again, I think that the sense for the environment is out there. I would say the economy gets much worse than 10% unemployment. I think we kind of -- what the GE Capital team took you through, we kind of modeled it that unemployment got worse, not better. So I think we've tried to take a pretty good -- pretty conservative look at where things go. So if the world just got a lot worse, that would be -- that would have an impact.

But I think we've come through a pretty tough time period. I think that the government, the US government, has given every indication that they are going to stay involved until they're sure this economy gets better. So it'd have to be some externality outside of that that would be where we are.

So your question on equity, I just don't see it. In other words, if you think about having $23 billion to $26 billion of cash at the parent, having a capital -- tier I capital ratio that is growing and that is significant while we're shrinking and earning money, I just don't see it.

Unidentified Audience Member

And then final question, Jeff -- if you look at the TLGP commitments that you have and given the changing mood in Washington or continuing mood in Washington with what we've seen through the House, et cetera, are there any signals of your hands being tied in any way are coming as a result of even that involvement in that program, recognizing it's not TARP or anything else? But are you feeling any restrictions in business?

Jeff Immelt *- GE - Chairman & CEO*

I don't think so. In other words, the FDIC is going to get more than $2 billion, something like $2.1 billion of fees from the TLGP. I think they like that program. Our bond spreads are now well inside what we issued debt for, for the TGLP. So I think we don't see that as being a pressure point. And then I just think it's -- who's the regulator going to be for GE Capital? And then what's the capital requirements and things like that? But, guys, look, as you shrink and earn and get out of more highly levered businesses, our tier I capital grows, right? And so it just grows.

Now what we'd like to do is we'd like to over this time period return cash from -- there should be at some point a big cash payday from GE Capital back to the parent. That should happen. Now I'm not the regulator. And I don't know when and stuff like that. But that is going to happen as we get out there. I think that's how I'd view where we are. Did I make the point strong enough on this one because I just want to make sure that there's no mistaking? Cliff? We're going to have to get you a headband or something.

Unidentified Audience Member

I'm sure that my girlfriend is on this call. And I'm going to blame it on her.

Jeff Immelt *- GE - Chairman & CEO*

Okay. (inaudible) on that one.

Unidentified Audience Member

The -- I was surprised that you thought it would be a gas and a wind world when the economics still drive to nuclear, particularly with respect to wind, which exists only because of subsidies. Can you talk a little bit about -- is that the political impediments? Well, let me just ask it simply. Why is that on your list?

Jeff Immelt *- GE - Chairman & CEO*

So we're in the nuclear business. We'll stay in the nuclear business. And I want to have -- I think it's a good bet for the future to stay in the nuclear business. But it's just not for any of the guys at the front of the room here. None of us will see the fruits of that. It's really for our successors some day.

The nuclear business is a sovereign business. The governments decide how big it's going to be, right? When we bid on a deal in Abu Dhabi, we bid against the French government, the Korean government. And that's the nature of where the nuclear business is. We like the fuels business. It's profitable. I hope we get a couple of these big deals. But when we put it into our enterprise risk model, it's going to have to make sense for how we do it.

I just think when you think about energy flexibility, where the current price of gas is, we like our gas position. We think that's a very strategic position. And wind is the renewable of choice. So if you get a clean energy standard, if you get any kind of renewable portfolio standards, Europe has decided there's going to be 30 gigawatts of offshore wind. I think those are the two technologies that really give you the best footprint. Yes, Bob?

Unidentified Audience Member

In the slide that showed the vision of GE in the future, there was a little sliver of consumer on the bottom and noticeably no consumer industrial bar. I mean, does that suggest the spin [that] this is still possible down the road?

Jeff Immelt *- GE - Chairman & CEO*

Yes, Bob, the way -- I think what we'll probably do is take the industrial businesses that really with Smart Grid and how that's evolving are a good fit with our other Smart Grid capabilities. So stick those into the Smart Grid. And when we talk about consumer, it's really appliances and lighting that are down in that. The industrial business is small. And the sense it makes inside the Company is really as part of the Smart Grid capability.

Unidentified Audience Member

A final question -- you mentioned the structural tax credit. I wonder if you could take a minute with your colleagues here and talk about how big that structural tax credit is at capital, where it comes from, and how stable it is looking forward over the next few years.

Jeff Immelt *- GE - Chairman & CEO*

So what I would say is that we think that what we call subpart F, which is the structural part of GE Capital, is -- I don't know, Keith, what -- $1.5 billion, $2 billion a year, something like that? About $1.5 billion or $2 billion a year, Bob. It's always had bipartisan support. It's got bipartisan support today. And so I very much think that will continue going into the future. So that was the stable part on the bar chart, right, Trevor? And then the negative, which is saying as you earn pre-tax earnings, you're going to start -- we'll start paying taxes again. So that's a brief answer. And then you can hit Dr. Sherin in the break. Yes?

Unidentified Audience Member

So, Jeff, you like oil and gas. But rough speaking, you're overweight power gen, underweight on gas. Would you like over time to bounce more towards oil and gas and make oil and gas maybe similar size to your power gen assets?

Jeff Immelt *- GE - Chairman & CEO*

I think we like the space. I mean, we've been very pleased because it's got big customers that are -- like technology and things like that. But to be honest with you, we think we can do it organically. I mean, if you look at just in two or three years what we've done with VetcoGray and how well we've done vis-a-vis our competitors just in a couple years, really if you -- look, if you run the tables in Australia and you do well in Brazil, you're going to win a lot of chips in that one. So I think oil and gas is a great place for us. But I think we can do a lot organically in oil and gas.

Unidentified Audience Member

And another question on GE Capital regulation -- I mean, how are you thinking about the possibility of Fed [or else] involvements in GE Capital? And what sort of break is that on your capital deployments in industrial in the parent balance sheets and [until] the NBCU cash comes in?

Jeff Immelt *- GE - Chairman & CEO*

Again, I think that the regulatory discussion's going to take place into next year. I think if you think about -- I mean, I don't know what its shape will look -- but if you just look at what's known, which is the House -- what was passed in the House last week, it allowed for grandfathering. It allowed for some I would say operating flexibility between the industrial company and the financial service company.

But a lot of that's yet to be determined. And I think it'd be premature for me to talk much about it. I think that, again, the best thing I can say is that we were going to do -- we would've been happy to do the Ariva deal. That was EUR4 billion. And that basically passed muster. So I think we do have flexibility when you think about next year. Yes?

Unidentified Audience Member

Jeff, sounds pretty clear from your discussion on capital allocation that buyback is a priority over dividend to GE shareholders, but wonder if you could put your thinking there in context, timing, how you think about the uncertainty on tax and regulation on the finance side as well.

Jeff Immelt *- GE - Chairman & CEO*

On just in terms of capital allocation and stuff like that, so let me just walk through the page because what I wanted to try to do was just leave you with a sense that there's lots of optionality and that we're going to think through all of them. So on GE Capital, I really think that we can operate our way into a good tier I capital ratio and that we talk about $2 billion in the income maintenance agreement for first quarter of 2011.

I really -- that's not a bad base case I don't think for GE Capital, I don't. I think our transparency around losses and stuff like that has been good with investors. I think we've marched through this year. And so I think that's point number one.

Then if we see some good inorganic growth opportunities, we're going to capitalize on them. But they're going to have to meet our return criteria. We're not -- we think we can be patient. If opportunities present themselves, we're going to go for it. But that's on the list as well.

Dividend -- we believe that the good payout ratio for GE is 40% to 50% payout ratio as earnings improve. We should be able to accommodate that and grow the dividend. And then buybacks, we should just be thoughtful and reflective of where the stock price is, cash available, what's a good return, cognizant of the ratings and stuff like that. And so that's how we think about it.

Now, look, I think we've had lots of discussions about GE Capital. As we get smaller, as GE Capital starts generating good pre-tax earnings growth and things like that, there's going to come a point in time when we can dividend back to the parent and vis-a-vis what comes out of GE Capital. So I don't see having to put a lot more capital into GE Capital. I think $2 billion's not a bad way to think about it. And as we go through the year, we should have substantial available cash to do the smartest things we possibly can for the long-term growth and health of the Company.

Unidentified Audience Member

Two-parter on the structuring -- first, why the uncertainty on the 2010 restructuring? And then longer term, kind of thinking out to that 2010 period and beyond just in the longer term generally, one of the questions we get a lot in terms of that discussion with investors is -- will we see better margin performance in industrial on the OE side based on all this restructuring that's gone on the last couple years or how we should think about that in that longer-term context?

Jeff Immelt *- GE - Chairman & CEO*

Look, I think the -- being able to do $6 billion over the last couple years has really been I think important to get our cost structure down. You see it in -- our 2007 base costs were something like $44 billion, something like that. And 2010 base cost will be something like $38 billion, so taking really legitimate on the ledger $6 billion of cost out over that time period. I think, Terry, it's just a matter of what the projects look like. We did a lot of restructuring in 2009 that was opportunistic as we went through the year. And so we just want to be able to do that again in 2010 if the opportunities arise. I'm sorry. The last part of your question --

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Unidentified Audience Member

When you think about the challenges on the industrial margin expansion --

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Jeff Immelt *- GE - Chairman & CEO*

So look, I mean, I would say -- let's say that in a -- I don't know if this is trough cycle. But in a tough cycle, right, we're at 16% operating profit rates. I think that the service model is holding. And actually our profit rates and services are growing. So I think that's one piece of it. The business mix -- actually NBC out of the mix is accretive and not dilutive. So that helps. And then through this cycle, both the contribution margin rates of the original equipment and the operating margin rates of the original equipment should be able to grow based on the footprint reductions we've done and things like that.

We had a good year in 2009 because we had price and cost down. I think if you think about 2010, we have a good sourcing year pretty much locked in for 2010. And pricing won't be quite as good as it was in 2009 because we'd done a lot of deals pre-crisis in 2009 that helped. But on balance, we'll still have a positive value gap in 2010. And look, to hit 16% at a bad part of the cycle is pretty good, pretty good. Steve?

Unidentified Audience Member

Just a little more on the acquisition front, if you could maybe just define a little bit more around what you talk about as the core. You're heavy in generation. You went after the distribution side. You say you want to focus really on Smart Grid. Smart Grid is obviously a huge space. How do we think about that? Is it home and building control? Do you throw appliances in there, smart appliances into that bucket? Maybe if you could just clarify a little bit around how you would define broadly that Smart Grid space.

Jeff Immelt *- GE - Chairman & CEO*

Sure. I think T&D, Steve, is a pretty good example of maybe the type of deal. So it was -- our bid was like an eight times EBITDA. It was a business that we thought we could scale into the infrastructure that we had inside energy. We had an experienced leadership team with John

Krenicki and his guys that could do it. So we could see the synergies. We had high fait that the synergies would take place. We had a pretty good return profile on a deal like that. So that's not a bad deal to kind of model vis-a-vis what we would think about from an M&A transaction.

I think in Smart Grid, you basically have things like smart meters and the places that are distributed, that go to the home. You've got really software and equipment that is part of the operation of the utility, some of which we're growing home grown, some of it we have in digital energy inside the Company. Transmission and distribution is a piece of it. So that's going to be a piece of it. And then in the home, in appliances, you're going to have a control center. And you're going to have appliances that have the digital signal that can do the Smart Grid in the home. And those four or five areas, that basically is about 40% or 45% of the content in terms of what would be considered a Smart Grid.

So inorganic opportunities might be in the software side. It might be in some of the communications equipment that takes place in order to get the Smart Grid working. Those would be the inorganic type opportunities. But they're on the small side. Yes?

Unidentified Audience Member

So it seems like some of the details and commentary around the financial side are improving, in some cases weakly, with respect to the 2% ROI target now, some commentary around 2% plus and running well ahead of that currently. Is your sense now that the period with the circle of competitors shrinking for getting those much higher ROIs as really being a lot more durable than you might've thought even a quarter or two ago?

Jeff Immelt - ***GE - Chairman & CEO***

I think it's a great question. It's a hard one to answer because I don't think the industry's stabilized yet. The competitive landscape clearly has changed. And if you had capital this year, you could price for it. The demand wasn't that strong quite honestly. And throughout a lot of the year, the demand has not been -- I mean, our origination is up -- has grown sequentially. But there still is not a tremendous amount of demand.

All that being said, I think all of our teams feel like a 2% ROI is a pretty good steady state target for our teams, even with the current underwriting we're doing being significantly in excess of that, but that we don't think necessarily today is representative of what will be the case a year, two years, three years from now as this thing normalizes again. Okay? Couple more? Any -- yes, one more? Cliff maybe?

Unidentified Audience Member

You gave us some great examples of successes in inorganic platforms. Tell us what you learned from the things which were not successes. I don't want to pick on water. But it might be a good example.

Jeff Immelt - ***GE - Chairman & CEO***

Look, water was -- we paid too much for growth that was hard to materialize. And we had no foundational point in the Company to plug it into. So we ran it as a freestanding business, having paid 14 or 15 times EBITDA. So what do you learn? Don't pay so much. And put things inside core businesses, right?

But I guess we're a company that's got a 16% return on total capital, right? We generate a lot of cash. And doing inorganic growth is always going to be one where you're going to make some mistakes as you go through it. But I would say, Cliff, I really think if you go beyond ten times EBITDA, it is hard to make it pay, even when you plug it into a super structure that you've got. I mean, that's how I would triangulate -- how much you pay, plugging it into John Krenicky or John Rice or those core businesses. That's how we've been the most successful. Any last ones? Yes?

Unidentified Audience Member

Lots of companies have had risk control committees and risk control procedures. Can you describe what you're doing now that's different in risk control or risk management than before?

Jeff Immelt - ***GE - Chairman & CEO***

So we always had very formal spread of risk and risk policies inside GE Capital, pre-crisis and post-crisis, always been in place. I think what we've added to that is a much bigger and broader enterprise risk model that is more anticipatory, that looks more across the entire company when you think about risk. So we've just got a lot broader focus across the Company, even while we've had the granular focus inside GE Capital. And I'd say like lots of companies, the board oversight on risk has always been in place but has been beefed up significantly as you think about where we are and how we go forward. One last one. Go two more, one here and then --

Unidentified Audience Member

Thank you, Jeff. (inaudible) and company. Could you comment on what you're seeing out there within the commercial real estate arena? I know you touched on it. Last week, I read somewhere that Dubai or Dubai World had invested $250 million roughly in the W Hotel. And they just sold it for about $1 million. And the numbers that you have presented within your real estate sector or segment, I think they indicated a loss of about $7 billion roughly. And so I wanted to see if what -- if you could comment on what you're seeing at a broader level and if your loss estimates are realistic within that scheme.

Jeff Immelt - ***GE - Chairman & CEO***

So Ron Pressman went through it in detail last week. And again, I think how we've reflected our equity book is pretty true to what we're seeing. I think on the debt side, we've already taken in increased reserves. And we've got a very strong focus on that and disciplines around the reserving on the debt side. I think we see a little bit more liquidity coming into the marketplace. But it's still probably inside the GE Capital portfolio the one that we're watching the hardest. And basically, the focus is on the operating piece. What's occupancy? How are we doing on doing releasing and things like that?

So that's where ultimately this is going to be decided is how good a job do we do at operating these assets through this downturn. That's how the team gets compensated. And that's what's going to determine where the commercial real estate losses go. But I think we've framed it for investors. I really do. I mean, I can't think of one thing more that we could be giving you about commercial real estate. Yes? One last one.

Unidentified Audience Member

Thanks. Jeff, you've mentioned Ariva a few times during this discussion. And one of the questions that comes out of that is -- how else do you play the bundled power generation transmission distribution awards and bids for emerging markets without that asset such that you don't actually lose share on the generation side or on new bids?

Jeff Immelt - ***GE - Chairman & CEO***

So, look, I mean, I think first of all we have a position, right? We're just not -- we're probably number five in the marketplace and things like that. But we've got a number of discussions going with potential global partners in places like China that we think could add to our portfolio if that's the direction we have to go. So I think we're pretty cool about -- we were never naive about where Ariva was going to go. I mean, believe me, we were in. But we were never stupid about where that thing was going to go. But we have two or three other steps I think that can make sure we protect ourselves -- joint ventures with big companies globally, that kind of thing.

So have a nice holiday. It's great -- good questions. And the team's going to be around to answer more questions that you might have. So thanks.