Conference Call Transcript

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CORPORATE PARTICIPANTS

Jeff Immelt
General Electric Company - Chairman, CEO

PRESENTATION

Unidentified Participant

(Audio in progress) -- will be there, so stick around for that. With that, Chairman and CEO, Jeff Immelt. Jeff, thanks.

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

Great, Shannon. Good morning. I am not going to make any comments from the start about our labor practices that I guess were brought up by Austin yesterday, so I'm just going to get right into the presentation.

Here is just a -- you been sitting around -- you know, some of the big themes. We see the economy improving, but still volatile. The execution is good. We will see earnings growth in the second quarter. GE Capital franchise is snapping back, very valuable. We've got lots of good growth initiatives that are out there underway in capital allocation. And having lots of free cash flow remains a good opportunity for GE.

Kind of the big themes that we kind of use to prepare the Company and strategize around the Company. We see a real reordering of the global economy, so we are probably one of the biggest companies in the world in the emerging markets. We prepared ourselves for a potential of slow growth, and we've got lots of good growth initiatives underway.

From a customer and customer productivity standpoint, we stand here with about $130 billion of long-term service agreements, so it puts us on the right side of the customer. Good growth initiatives overall.

More government influence. I think the Company has got very strong regulatory position -- just tremendous volatility. So I think all the work we've done to improve liquidity and drive cash and great operations puts us in great shape for the environment that we see today. So that is just some of the top line.

Portfolio is better. I think the work we've done to improve the GE portfolio has given us really a simplified infrastructure and capital finance portfolio. We think it is pretty well positioned on lots of the global themes. If you look on the industrial side, where about 70% of our earnings are in services; 60% are outside the United States.

Our R&D spending as a percentage of revenue has gone up dramatically over the last few years. So we like the portfolio and how it is positioned in the time period we are in today.

Financially, you are going to see really strong earnings growth over the next couple years. That, we think, is well underway, with lots of cash. We should have $25 billion of cash at the parent by the end of this year. We generate $6 billion to $8 billion of free cash flow every year.

And kind of the four things that we think are most important for investors right now are just the value creation in GE Capital; the fact that we've got well-established growth initiatives going in our infrastructure businesses; that we've got strong operating initiatives inside the Company that impact returns, margins, leadership development; and that we will be good stewards of capital and we will have lots of opportunities to create value as you look at the coming years. So this is kind of how I've structured the presentation, around these four dynamic points.

GE Capital, you know we are in the midst of strong earnings snapback. We think losses have peaked. We see high-value origination, costs are lower, funding is secured through into 2011. And essentially, it's strong. You know, we've got 8,000 originators. We've got good domain expertise in the businesses that we are in. We've got wide-open markets, wide-open playing field.

So we think you are going to like GE Capital again, as time goes on. We think it is pretty well-positioned and has some good competitive advantage.

The cycle -- through the cycle and just from an enterprise risk standpoint, I think we've always done a pretty good job, even during the crisis, of being focused on spread of risk, domain expertise, match funding, some of those principles that served us well coming through the crisis. We think our losses will be lower than banks. We didn't bet on exotics.

I think in many ways, our risk model stood the test of time. But we learned some things -- about the size, real estate exposure. I think we have done a better job on liquidity. So we got better coming through the crisis.

I think from an investor's standpoint, if you look at the lower right, this is just a safer and more secure financial service business. It is smaller, its leverage is lower, the liquidity is stronger, the capital ratios are better, the margins are better. So I think we have come through this with a much stronger GE Capital than we went into the crisis.

Now, just from a top-line earnings dynamics standpoint, the capital ratios are improving, and they will continue to get better quarter by quarter. Margins are growing and costs are coming down and losses are coming down. So losses have peaked and are coming down. I think what that means from an investor's standpoint is more earnings, higher-quality earnings, income maintenance agreement much lower than any of us had thought about or talked about or planned, commercial real estate stabilizing, getting slightly better. And we hope to restore the GE Capital dividend back to the parent by 2012.

We've got some great franchises. I just show commercial lending and leasing, verticals, which is GECAS, Energy Financial Services and the retail business, which is retail finance and private-label credit card. These are three world-class franchises where we have high margins, great originations, solid distribution, domain expertise, good cost of funds. And this kind of gives you a pretty good snapshot of some of the engines, at least in the short term, that are going to drive solid earnings growth into GE Capital.

And lastly, I think we are still in turbulence, clearly. But I just want to give you a snapshot of how we think about the business going forward. And what I show here is just the things -- in other words, what we're trying to do in Financial Services is talk about things that are completely under our control. So we are going to get down to $440 billion ENI. Safer funding model, lower commercial paper. We've talked to you about long-term debt and how it looks going out in the coming years. Better alternative funding. So kind of a safer funding model overall.

Our origination in the second quarter will be up 20%, so we see that there is demand for credit. And our margins are way up, when you think about what is rolling off the book versus what is coming on the book.

When you get to 2012 -- and again, there is a lot that has to happen between now and then, so I'm just going to give you kind of a point of view on where we think the business is when we get to 2012 -- at $440 billion, half of it probably lending and leasing, the verticals maybe being another 25%, 30%. And then a relatively small and focused consumer finance business and a smaller real estate book by that time period.

Now probably in 2012, we will probably still have the $440 billion ENI, we will still have $50 billion that aren't classic green assets or green investments. So we think even at 2012, we have the opportunity to remix the business, to grow the ability to take cash from GE Capital back to the parent, so we still have a lot of optionality.

So if I wrap up the section on GE Capital, safe and secure, dividends back to the parent by 2012, lots of cash optionality, good earnings growth in this time period, and like I said, I just think this is going to be a good business for investors over this cycle and into the future. And we feel pretty good about how we are positioned in the business right now.

Infrastructure, kind of ex. the industrial businesses, ex. NBC, about $90 billion. About $15 billion of pretax profit in 2009. The big levers are technology, services, globalization, the big themes that we are using to drive progress. These are all great franchises, number one franchises. I would say, if anything, our ability to drive competitive advantages is high or higher today, and these are the things that are going to drive organic growth.

I think in the environment we are in today, companies that can drive good organic growth are going to be the ones that end up winning, and we're investing like that is the key.

Technology, we will grow our R&D budget about 18% this year. We'll have about 5% R&D spend to revenue. That is a lot with our scale. Kind of what we are driving is more products and more price points. There is just a big -- a lot more NPIs coming through the system right now. We are trying to drive radically lower cost points and continue to try to globalize the framework.

And this is a place where we think we have real enterprise value, where the totality of GE really plays off from a standpoint of being able to share ideas and drive lower cost.

Healthcare is seeing a real resurgence. Healthcare's share of diagnostic imaging in the US has grown last year; it will grow again this year. The number of NPIs in our Healthcare business have doubled over the last two years. And we are really trying to drive innovation at every price point. We've got lots of high-end activity still going on.

This is kind of an Alzheimer's imaging agent that will be used in PET and MR scanning. We are in many ways flooding all the price points in an area like MR, with extremity magnets, and this is the wide-bore MR. And then there is just no place in the world we are not going to be competitive. We are going to be competitive in China and India with value products. So we are really focused on healthcare and focused on good healthcare growth on NPI.

I know you don't hear much about stuff like your turbofan or any engine competition. And we like to humbly every now and then give you our point of view, at this moment in a meeting, about how we see the engine wars.

So the left-hand side gives you a sense for the last 20 years of what the CFM joint venture has done. It is just a massive installed base we built from a standpoint of technology. And then the right-hand side, the LEAP-X, is the sole source on the Chinese narrowbody. Pratt has won a couple campaigns on the C100 and the Mitsubishi campaign.

We will see where the re-engining goes, but I reviewed this Monday up at the research center. I like our positioning here. I like where our technology can go. And I think narrowbodies continues to be a place where GE can grow and prosper into the future. But technology, spending in technology, execution in technology is the key.

This is the locomotive store. We don't talk much about it, but we've got 13 locomotive products being introduced in the next five years. We dominate the North American market. We are growing the adjacencies around transportation in areas like marine and mining. So we've really been able to build this format and -- look, in this cycle, we've got a chance -- we've got our biggest competitor that is owned by private equity, EMD -- in this cycle, we can be three generations of technology ahead in a business that is strategic to us and where we are a long-term player. So technology is really dominant, strong, we are spending a lot.

And then the last place it shows up is in what we call adjacencies. If you think about 2000 to 2009, we generated about $20 billion in revenue in renewable energy and life sciences and things we call adjacencies. We have a big pipeline of adjacencies for the next decade. Businesses like offshore wind could be $3 billion to $5 billion in revenue for us.

Avionics, where we are doing a joint venture in China to help us better compete with Rockwell and Honeywell and people like that, could be multiple billions of dollars. We are doing a joint venture with Intel in home health; again, could be $1 billion or $2 billion over the next 10 years. So we've got a big pipeline to try to create another $20 billion of revenue growth over the next period of time. So adjacencies are big as well.

70% of our earnings come off this page. Services continues to grow, big backlogs. And here, the key is investing in the installed base, it's long-term service agreements, it is being on the same side as the customer.

And GE, just from an enterprise standpoint, we are the world's best in remote monitoring and diagnostics. We have built real competitive advantage across all of our platform. But this is a business that has shown its robustness in this cycle. It is going to continue to grow as we look at the coming years. And we just have a great competitive position here.

This is the one that is actually quite important, because it goes to the installed base of all of our big infrastructure businesses. And since basically these businesses have a nominal value of let's say of somewhere around $150 billion, let's say, when they go in the ground. They are probably at about 20% to 30% of their useful life where we sit today, which says from a service standpoint, this installed base ought to generate about $500 billion of revenue over their lifecycle.

We are only a portion of the way there. We've got $130 billion under contract. The competitive position is even stronger. We've got more technology. I think the safeness factor, this FAA-like safeness factor is going to played into oil and gas and every business fundamentally that we are in -- more reliability, more safety means more service contracts. So this just is a fantastic -- they should just leave this up here for the next 20 minutes and just keep talking about -- this is so powerful from an earnings standpoint.

These contractual service agreements, the reason why they work and the reason why they continue to grow is because it puts us on the same side as our customer. So the left-hand side kind of shows what our customer benefits are from a contractual service agreement and how little improvements help make them more money. And then the right-hand side just says with 30% plus operating profit, the predictability, the reliability, the productivity embedded in the service agreements is quite powerful when you look at the future.

The place where we want to grow is in this domain software, where we are going to compete with people like Accenture and IBM. And we've got about a $4 billion business in these domain spaces, these infrastructure spaces today. And these are things like electronic medical record, where we are introducing a product called Qualibria, which will be kind of the domain software piece -- intelligent software piece that we've gotten from our Intermountain Health experience.

Smart Grid is a big aspect here. A think called on Movement Planner, which we've been working on for 10 years with Norfolk Southern, is really showing signs of life. And a thing called Smart Landing is in the aviation business, which should save 5% to 10% fuel burn -- software that goes on the cockpit of an airplane. So good follow-on revenue, even above and beyond the CSAs.

We've got a very strong position in the emerging markets. We're $33 billion in the high-priority markets, as we call them. We kind of -- we don't segment the world necessarily as developed and emerging, but we talk about resource rich markets and rising Asia, and that is what this represents, is that segmentation.

And these are places where our scale, our technical capability, our relationship capability is able to give us a real competitive advantage in these regions. So we think GE does globalization very well, and is, again, the partner of choice in a lot of the places where we play.

A country like China, GE has a substantial position in China; we're about $6 billion in revenue. We do a $4 billion a year in sourcing. But we've got a nuanced, I'd say, strategy in China. I've been going there probably 25 years. The Company has had presence there for a long time. We are growing our localization, and businesses like Healthcare will pass $1 billion this year. Our Aviation business is growing. Our Oil and Gas business is growing. These businesses are being localized and show great promise for the future. And that is one key way to play China, is through localization.

The second way to play China is in places where we don't have as high a market share, to do partnerships with state-owned enterprises in places like T&D or aviation, where you can create -- you can do what we did with CFMI 30 years ago, to create big 50-50 joint ventures that are going to help us grow to the rest of the world.

The third way to play China is to use the business model that is there to drive lower price points. This is where the $500,000 1.5 Tesla MR is being developed. It is where a lot of the value segments can be -- and sold around the world. So we capitalize on that.

And then the fourth way to play China is kind of as an investor. We do partnerships on aircraft lease. But we've stayed away from bubbles. We've stayed away from construction and real estate. We've stayed away from steam turbines, things like that in China that are potential bubbles.

And so this combination of localization for growth, partnering to win globally, understanding the business model and capitalizing on the business model and being a smart investor, meaning you don't go everywhere with the same approach, you know, it helps us be strategic and long-term players in China and avoid risk and avoid bubbles.

This is a place where we are going to clean up. We're going to clean up in the resource-rich parts of the world. These are places with no local competition. They like GE. They buy big and they buy broad. This has doubled in the last five years, should double in the next five years. And these are the places that really value this GE relationship, and whether it is Africa or Middle East or Brazil or all these places, is really where the biggest global growth is going to take place as we look at the future.

We've been talking about ecomagination down here for five years. We've been talking about healthymagination for a couple years. These are branding opportunities. They allow us to innovate inside the Company. I think they've given us good capability, broad capability, made us welcome and thoughtful on some of the big topics around clean energy and affordable health care.

I think we also used them internally as ways to restage and reposition the businesses. Healthcare really is a different business. I would say it is run better. It has got more capability. I think John Dineen met with you guys last year and talked about 3% to 5% growth in revenue and maybe 5% to 10% growth in operating profit. We are going to do better than that.

I think the business is -- it is always going to have its own cycles, but it's just got more products and more price points. We are hiring a thousand sales reps in China this year, a thousand, to sell healthcare products in every corner of the country. The amount of emerging markets -- and that is a wide-open playing field. That is kind of a bubbleless Chinese market with no big competitors. And you can do the same thing in the Middle East and all over the place.

We've got good adjacencies. Our own healthcare costs are under control. So we've been able to take healthymagination and really make it a fantastic restaging, if you will, of the total business.

Similarly, in ecomagination, we've had great results over the last five years. We are going to continue to invest in clean energy and continue to invest in clean water. We think this remains a good opportunity for us.

And on the right-hand side, this gives us a good opportunity for our clients' business. It has allowed us to restage our water business into an industrial water reuse. We've got a good global position. So we've used these big themes, these big initiatives to help stage and grow the Company.

So point number one, GE Capital is back. Point number two, we've got as many industrial growth levers as anybody you've seen here this week. We've got as many things going across the Company as anybody you are going to see.

Point number three, we are going to run the place well. Big initiatives on operating excellence, big initiatives on leadership development, big initiatives on capital allocation and risk management. And we should always be in the top 25 percentile of all of our peers in profit rate, return on total capital, cash conversion and return on assets. We should always be in the top 25 of anybody you see here this week.

If you look at leadership development, we continue to invest $1 billion here in training. Our retention is high. Probably the four places we are working on are more domain expertise, so people that are really -- if you are going to be in the oil and gas business, you want to have oil and gas experts, you want to have aviation experts, deep domain experts in the businesses we are in.

Continue to restage and reposition leadership and leadership development. Every 18 months, we have a team-based training for our 50 big P&Ls on strategy and execution and investing. And just driving globalization. Globalizing the leadership base is incredibly important for the Company as we go forward.

Margins and cash are just great tales of the tape for GE. I think we've executed well through this downturn. We'll have 16%, 16 and change maybe, operating profit rate this year. As you look out over the next few years, we see good service mix. We see a positive value gap. We just aren't seeing a lot of inflation in the things we buy, so we see a positive value gap, so we see some positives.

I think potential headwinds would be what goes on vis-a-vis R&D spending, which is really up to us, what happens with pension. But on balance, we are really running the place well, I think, from a standpoint of operating profit.

Similarly, from a cash standpoint, our working capital turns are improving. As we grow the equipment side, that has a tendency to add cash as you grow. But our turns will continue to be pretty good.

And then GE Capital in this time period, by 2012, either from a size standpoint or from a GE Capital dividend standpoint, is going to add to our ability to drive CFOA as well.

So cash and margins are things that managers are paid on. It's important for us, and we spend a lot of time thinking about it. We are using the tools like Lean and Six Sigma and sourcing strategies to help us get there.

This is just a picture of some of the things we are doing on margins. Like I said, we have a positive value gap last year. We have one this year; we should have one next year. Lean and sourcing strategies are the key to driving good margin rates. From a standpoint of cash and working capital turns, one full working capital turn for a company our size is $5 billion of cash. We basically have gotten one turn over two years. We would like to stay somewhat on that trajectory.

And again, we are driving cycle time, operating excellence. I do monthly detailed operating council reviews with our key teams. We measure specific activities in all the businesses. So this is really key.

GE Capital, you like lots of growth, operational excellence around margins and cash, and then just a little bit on capital allocation. You know, we've got cash. We should have $25 billion by the end of this year, assuming that NBC closes. Then beyond that, we ought to be generating $6 billion to $8 billion of free cash flow a year.

And so the way we think about it is a dividend growth in line with earnings growth by the end of this year at about a 45% payout ratio, somewhere in there. The preferred -- as it comes, we are going to be thinking about lots of good approaches on the preferred.

Acquisitions, I would say in the $1 billion to $3 billion range, all in infrastructure, energy and oil and gas and that space. And then very opportunistic around buybacks. I would say under $22 a share, this is a high return opportunity, and we will launch a buyback by the end of this year.

So I think we've got enough cash to do all four of these things. That is the way I think about it, is we can pick and choose, we can pick the right place, we can pick the right time. But dividend in line with earnings with a reasonable payout, opportunistic buyback by the end of this year, acquisitions on strategy, low risk that make sense, we are going to see some, and the preferred. These are all going to be accretive to investors, strategic for investors as we look forward in the future.

And then on M&A, guys, look, we've done a lot the last 10 years. A ton of dispositions. You guys can always question did you do them fast enough -- but we did them. We got through, I think, the bulk of the businesses that didn't fit or were the highest risk. It added volatility as we went through it, but we've got a better Company today. It is simpler. It is closer to the GE core. It's easier to understand. And we feel good about that.

And over the last 10 years, we have spent time studying every deal we've done in great detail, studying it with the Board. We've spent about $65 billion in the last 10 years. Only 55% of that went into infrastructure, went into our core. And that is -- in the next 10 years, that's going to be 100%.

And I would say as I look forward in the future, it is going to be energy, it's going to be all the infrastructure stuff. I'd say Energy, Aviation, Transportation, small, medium. If a large deal made sense, we would look at that. Healthcare, we are going to stick more on the small side on deals. But that is how I look at it.

NBC, we had to play a lot of defense in order to play offense with NBC. We had to take a business that was primarily just a broadcast network at the beginning of the decade and transform it. That's what we did from an M&A standpoint. Now that's -- Brian Roberts' responsibility for working with us on NBC, and we did some white-space deals that are hard to get a good return. And I would say in the future, we're either not going to do that, or we are going to do it via partnerships.

So really the future is going to be infrastructure. It is going to be small- to medium-sized deals. It is going to be big execution. All those deals, we've generated returns far in excess of our weighted average cost of capital, our WACC. And that is how we are thinking about how we go in M&A in the future.

So here is the four points. Capital, $40 billion of ENI, $8 billion of earnings -- soon. It is going to snap back. I'm not going to give you a specific quarter or time or year, but we are on that trajectory. $15 billion of earnings in 2009. In infrastructure, we've got big levers we are pulling. So see that and watch that grow.

Real operational focus on remaining in the top 25% on all the key operating parameters inside the Company. And $25 billion and growing cash that can be applied and allocated in a strategic and effective and investor -- long-term investor returning friendly ways.

So that is kind of the overview and the strategy of the Company. Just a little bit on kind of -- the environment is -- it is getting better. I know sitting in this room this week, it doesn't feel that way. And it is not that Europe is not a concern, because it is something we all have to think about.

But when I look at just the stuff we are thinking about, we had the upfronts, the advertising market is very strong. We are seeing early cycle improvement in financial services, early cycle improvement in aviation spares, consumer, healthcare, transportation, general service business. But there is still a lot of volatility. I think Europe is something that we are all looking at. Regulation, and there are a lot of different areas adds volatility to the mix.

So I would say the environment is improving, but we are cautious because of the volatility that is out there. And I want to be thoughtful about that.

No real update to the second-quarter framework per se, and annual framework. This is what -- the top part is what Keith and I showed you at the first-quarter earnings. A couple updates. We will have upside to the original framework that was flat. I think most of you have seen that.

We expect earnings growth to begin second quarter of 2010. We will likely have positive orders growth in the second quarter of 2010. And I think when we think about FX, FX is going to hurt revenue, but earnings, there is really negligible impact, when I think about the big move that the euro/dollar has made. So that is kind of a near-term thought on currency and where we stand and things like that.

And then I think -- and we don't give guidance anymore, but I don't want you to think we don't think about stuff. When you don't give guidance, you are still working the dynamics around the company all the time and thinking about the framework. So I thought I would just kind of walk you through the stuff that we are thinking about and working on.

Financial Services, you know, look, I would say we are going to get some kind of regulatory reform. We are okay with where it is today and how it comes through. I would say we will see what happens in the next few weeks, but we are okay there.

Financial Service taxes are going to go up, and we've all said that and planned it. But other than that, Financial Services in the early stages of recovery bounceback. And most indicators I look at are pretty positive right now in Financial Services.

Energy, the headwind is going to be, I think, the US wind market. We have -- we are kind of tied for number one with Vestas. We have the lowest cost and the highest reliability. So we can have as much share as we want to in wind, fundamentally. We've got a lower cost point than any of the Chinese companies. We've got the highest uptime and reliability, and that is measured by all of our customers. But the US market, I think, is going to be choppy. There is going to be headwinds on wherever energy policy goes, things like that. So we are cautious in the US wind market.

But other than that, we love our gas position. We've got above 50% market share in the heavy-duty gas turbine market. Gas is going to be favored. Our emerging-market business is very strong. We see a lot of positives on the services side of the Energy business and we think we are very well-positioned.

Oil and gas, we all have to wait and see what happens in the Gulf on oil and gas. Nobody really knows for sure. Maybe that will delay some projects, we just don't know. Beyond that, we have a great LNG position, we've got a great global position, we've got a strong backlog. And if there are higher standards in the oil and gas business over time, that is going to be probably beneficial to GE as we look at it. But we will just have to see how that all shakes out.

Aviation, we've got a lot of product launches coming through. We've got the GEnx, the LEAP-X. The choice for us is just how much do we want to spend on R&D over the next couple years. But the tailwinds are spares are getting better, cost base is good, share position is very good in commercial aviation. So we see lots of powerful and positive things on the plus side on the Aviation business.

Healthcare, you know, we worry about our customers' profitability. We worry about government funding of healthcare systems and where that is all going to go. Those could be headwinds.

Tailwinds, look, we've seen now that reform has been clarified in the US, the average age of a CT and MR in the US is 10 years old, 10 years. The difference in the procedures you can run on a CT scanner that is 10 years old versus one that is new is substantial. I mean, it is just substantial.

Emerging markets are blowing it out. Our technical depth is strong. We see some positives in healthcare going out, although we are cautious on the business overall.

Transportation, there is still 3,500 parked locomotives, but sometimes things get better just because they can't be as bad, and that is the way I would think about transportation. We are lapping easy comps; our share position is good. We see some positives on transportation.

Consumer, we worry about housing, we worry about unemployment, things like that. But we see some good orders growth in the Appliance and Lighting business, good margins and generally positive dynamics overall.

Corporate, pension, who knows where it goes? It has been a headwind for all of us probably that has presented here this week. And the tailwinds are probably less restructuring and all the capital allocation stuff we can do with the cash that generates positive shareholder returns. So those are the pluses and minuses.

So like always with GE, a lot going on. Lots of things we are managing as a Company. But within the context of -- the earnings growth in this Company is going to be substantial in the next two years. It is going to be substantial in the next two years. And we will manage the pluses and minuses on this page accordingly.

So just to wrap up, good financial performance, lots of cash. And then I think the four value creators are making GE Capital a great, valuable franchise again; driving good organic growth in the infrastructure businesses with lots of initiatives; running the place with excellence, consistently over time; and generating shareholder value with excellent capital allocation.

So that is the GE story. Let me open it up. Yes, Scott.

QUESTION AND ANSWER

Unidentified Audience Member

Jeff, it was intriguing when you mentioned that you are hiring 1,000 salespeople in China. That just sounds like a really big number.

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

In Healthcare.

Unidentified Audience Member

Yes, in Healthcare, that's right. Which leads to the question of healthymagination. Do you kind of feel like you are finally where you need to be with the cost of the product and kind of local design for China, made in China product, that --. Is that the indication really, when you hire 1,000 people like that, that you really feel like you have the product? Or just maybe some color on that.

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

Our credibility in Healthcare -- it has been a troubled business over the last two or three years. But I think the focus we've had is to really drive technology across all the price points, to have good focus on customers and segmentation, great service business, and then invest in emerging market growth, invest in sales and service and emerging market growth.

So Scott, when I look at China today, really, I sit with a team that can be beat Mindray on its own turf, that has cost positions and products that can be sold at every price point, with high margins, with high margins. We can do a 55% contribution margin product that has a $2,000 price point.

So now, we are going to add salespeople in Saudi Arabia, we are going to add salespeople -- this is going to be the Healthcare story. And I just think cost -- now that's one piece. I've got to tell you, we are working on molded coil MRs that allow us to take the cost out of a 1.5 Tesla magnet MR, sell it at a price point no higher than $500,000 and earn 50% contribution margin. That is the future of Healthcare.

So I am quite -- and if you think about China, that is the bubbleless part of China. When you are on the ground in China, there are hundreds of millions of people that are going to go to clinics for the first time. The government wants that to happen. That is the bubbleless part of China.

And there is no local champion. It is not like the government has picked five guys who are going to win in healthcare. We are one of the five guys; we are on the ground, we're local. So that is why I am so bullish, Scott, on healthcare.

Unidentified Audience Member

And just as a follow-up, in the last upcycle, your incremental margins were rather disappointing. And that may reflect kind of the OE aftermarket mix, but I think we calc them out at somewhere around 10% versus your peers at more like 20%.

I think in this downcycle, you took a lot of fixed costs out, from what we can tell, and an awful lot of working capital out. What is your sense, or do you think about targets or what is your kind of sense of upcycle incremental margins this time around, and how it may -- as you say, you want to be top 25% of peers, but obviously in the last upcycle, you weren't there.

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

So Scott look, I think we had two headwinds in the last cycle. One was we had a massive OE build. And the other one was at the end of like 2001, we had sold all these gas turbines at extraordinary margins that people didn't need. So we had this comparison on the last gas turbine bubble that made it quite hard.

This time around, I say 70% of the industrial earnings are in services. The CSAs give us lots of levers on incremental margins there. I think very good handle on the value gap. I think the real criticism of us is that we had a real mismatch between selling long and buying short, so we did deals that had lower margin and had to chew through them in the last cycle. And I just think we are smarter about how we do the value gap today.

So I think those are things that are better. And then it is just -- the counter to that is there is so much new engine launch in aircraft engines, that is -- what you are spending in R&D and stuff like that, that is the counter.

Unidentified Audience Member

I had a couple questions, Jeff. First one on GE Capital. You talk about return on investment of about 2%, and when a look at it historically, I think I sort of see a 2% peak on ROA, and a lot of that $1 billion to $2 billion around commercial real estate transactions -- and tax, also another obvious benefit.

When you look at that very big number in terms of the return, how do you get there without the real estate, or are you counting on the real estate (multiple speakers)?

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

It is a great -- you know, the margin of what's rolling off and what is coming on, it is all about CV. I would say -- look, this is an aspirational goal right now, 2%. It is also -- like an originator cannot do a deal in the field today. It will not get approved, it will not get through our deal team unless it has that.

So right now, we've got origination. There is a lot of liquidity, to be honest with you, but there is not many players left standing. And so it's all about managing that CV on the way in.

Now look, we are modeling a GE Capital that has -- is at least an 80% debt business, maybe 20% equity, something like that. So it is just one of the lessons we learned, is that that's a level of volatility we don't want to have back in the business as we go through it.

We've got -- I don't know -- $50 billion, $60 billion of cash on the GE Capital balance sheet right now. Let me tell you guys, I could do a lot of real estate deals right now. I'm not sure you would applaud it. I'm not sure you would sit there and say, way to go. But by the same token, in areas like distribution finance, there is no competitors.

So kind of the grind-it-out, grunty, industrial finance business, which is what we built GE Capital on, that is wide-open spaces. So I'd say 2% is aspirational. Your question is a great question. But that is the discipline we want to have.

And we don't want to -- we just don't want to have a lot of equity that is part of that. And the tax rate, you can model for yourself as it is [going up].

Unidentified Audience Member

Just following up on that question, you said intriguingly that Capital could get to $440 billion and $8 billion net soon. What qualifies as soon?

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

You're going to have to talk to Keith about that. It is just -- at some point, it is just arithmetic, in terms of where the losses go and how it plays out. And the point I make is that the assets are there, we are putting them on at high margin, and as the losses go down, the rest is arithmetic.

Unidentified Audience Member

Okay, we'll get to that. The second question is you are looking at the NBC joint venture (inaudible) later this year, which suggests some dilution to 2011 earnings. You put up on your slide there a couple of alternatives. What would be your view of how you could offset any potential dilution that might come out of that joint venture?

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

I think the way to think about NBC is their business ought to be better next year than this year. The earnings are going to come down, kind of consistent with the ownership stake, stuff like that. It would be easy to do it probably just -- if you just did a buyback, it would be quite easy. It's linear.

That is not what we want to do. What we really want to do is run the company for the long term, make smart decisions about capital as we go through it. But there is lots of alternatives with how to fill in that size of gap.

Unidentified Audience Member

Jeff, just looking at the pluses on the bars, your total Company's two pluses, GE Capital is three pluses. If I do the math, does that mean industrial is up in 2011 or is it too soon to make that call (multiple speakers)?

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

We haven't done any – S2 or anything like that on the industrial business. The way I would look at it is you got 70% of industrial earnings are services; highly likely that grows throughout this cycle. 30% is product, and that is going to be dependent on markets and how much we spend on R&D and stuff like that.

But it is probably too soon to think about that. We expect the total Company over a couple-year time period to be growing.

Unidentified Audience Member

And then just on the commercial real estate front, you guys had it in the tailwind section for '11 and '12. Is that just the credit cycle playing out in real estate? And maybe what are you seeing there, and is it looking a little bit better than (multiple speakers) previously?

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

We are still cautious on commercial real estate, as we should be. We do see some liquidity coming back into the marketplace. The leasing percentage is going up. Rents in some markets seem to be stabilizing. If you look at third-party estimates of properties, that rate is either stable or not going down by as much as it did.

But we are still cautious on real estate. I think we put it up there as kind of a later cycle improvement, as something that could keep the GE Capital dynamics, I'd say, going in the out years.

Unidentified Audience Member

When is your next mark-to-market analysis for the realized losses?

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

I think it's maybe in the third quarter. But the team is grinding it every week.

Unidentified Audience Member

Sorry, one more question on the language of the dividend. Grow the dividend by 2011, that means by the end of 2011?

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

No, no, it is by the time we get to 2011.

Unidentified Audience Member

So into that -- so you would have an announcement before 2011?

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

Yes, that would be -- again, this is the Board approval and stuff like that. But that would be my expectation, yes.

Unidentified Audience Member

You've been helpful with giving us the kind of formula behind the dividend thinking. And I'm wondering if you would do the same on the buyback thinking, $22. What is the kind of plumbing behind that arithmetic?

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

You know, Terry, it is just when we look at the earnings growth, and, you know, we would pick it a little bit because it is symbolic of when we did the equity raise and stuff like that. But when we look at the basic earnings and dividend growth of the Company versus where the stock price is, there is nothing really hard and fast around 22. It is more to say we want to be opportunistic, and in that range are some places where we can do so.

Unidentified Audience Member

Just trying to think longer-term, beyond 2012. If you are not doing as big acquisitions in the future as you've done here over the last decade or so, maybe there is some arithmetic that could be helpful to people.

Secondly, just in terms of -- coming back to the Europe issue, and really more from a GE Capital perspective. We've seen some rates and spreads move around kind of dramatically here; market definitely getting nervous. It doesn't sound like you are changing plans on kind of pace of pre-funding '11 or any of your thinking on liquidity. What do you need to see to pull that lever (multiple speakers)?

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

We are, I'd say, cautious on Europe, just like probably everybody else that has been here this week. If I give you a sense for the Company overall, we don't have -- we really don't have much exposure to sovereign debt. We've got a European manufacturing base and a European revenue base that are more or less matched. So while it may have some impact on revenue, it shouldn't have a big impact on earnings or put us at a competitive disadvantage vis-a-vis other companies that are there.

We've got a lot of cash on the balance sheet right now, so our liquidity position is very strong. We are funded well into 2011, and we've got some alternative funding that we can still do. So I would hate to give you a specific on if we saw this, we would do that, other than to say I would say we are respectful of the environment because we've lived through this, and so we want to make sure that we understand how it goes. But man, the Company has never been in better shape in terms of weathering volatility than we are right now. So that is what I would say.

Unidentified Audience Member

Question, first as an observation, it has been a long time since you've been down here EPG that you weren't bombarded with questions about NBC and how did it fit in the portfolio. So first, how does that feel?

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

Sprague didn't know what to ask.

Unidentified Audience Member

And so --

Unidentified Audience Member

It's not over yet.

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

I should've kept my mouth shut right, Jeff?

Unidentified Audience Member

So the question is on GE Capital and the plan for shrinking the portfolio down to $440 billion. And to be realistic, that plan was formulated in a very different market condition. And now you are feeling your losses have peaked and you talk about the ability to put on originations at very attractive margins.

Is there a time where that $440 billion can get revisited and where you can start growing the percent of GE Capital again as (multiple speakers)?

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

What I would say is what we've presented to you both last year and this year is a plan that we can execute that is in our control. So we don't need a lot of help or any things like that. We can get to $440 billion more or less on our control. We don't have to make big dispositions or things like that.

And so I would say it in two side. If you get to 2000 -- and we've made estimates about not wanting to be more than 2% of the unsecured debt market as being -- so we kind of said, okay, what is the VAR for the total Company? We don't want to be in a position where volatility in GE Capital would make you have to reduce the GE dividend. We've had a bunch of parameters that have set that.

And then you say if you got on to 2012, two things might happen, right? One is some franchises that we think are great today might not be as good, and there might be people that want to buy them, and we should be very thoughtful about that. So we will look at maybe we want to shrink faster and we can do it without -- with a gain or in a capital efficient way.

And on the other side, markets may be better and maybe we can incrementally grow a larger size than that level. But the point I made that -- and maybe I should reemphasize is that when we get to $440 billion at 2012, we will probably still have $50 billion plus of nongreen assets. So we can still remix and grow, even inside that $440 billion framework.

I've got do Jeff and then I got to do Martin, or else he'll be pissed. So let me do Jeff and then Martin, if I'm allowed.

Unidentified Audience Member

I'm not going to ask what you are going to sell or anything. I'm actually --.

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

I know you're going to ask me about lighting. Are you going to sell lighting? And I was going to say, Jeff, come on man.

Unidentified Audience Member

Appliances. I'm actually interested in how you will handle the GECS dividend kind of in light of Dean's question. I mean, I think that's probably one of the ways that you end up modulating the growth of GE Capital. So your thoughts about that.

And then also just to understand, a little bit to the prior question, just about opportunism on share repurchase. Your old MO was you would lay on these massive multibillion dollar plans and you were in there every day. Is that the type of approach you would envision, or will it actually be more opportunistic?

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

Jeff, I would say on the first one, the way we can easily govern the GE Capital growth is by the dividend. And I think we can do it both in an orderly way, saying, okay, there is going to be -- again, safe and secure comes first. I probably -- I would be remiss if I didn't say that about GE Capital -- safe and secure comes first. So that is number one.

Beyond that, they will at least have to pay their payout, which is 45% of their earnings back to the parent, and we can govern that as time goes on. And then there might be a day where you would say, look, we are going to sell one of the GE Capital businesses because it is going to release $20 billion of cash. And you can use -- out to the parent, and we can use that cash to grow the industrial business.

I think we've -- coming through the crisis, 50-50 is not a stable place for the Company to be. We know that. There is probably an aggregate size that is not good for the Company. There is a VAR that says we don't want volatility to make you have to reduce it. So we've got some things that the Board and the management team are clearly aligned on as it pertains to GE Capital. And then there is lots of optionality.

If we can effectively deploy capital from financial services into industrial, we are going to do it. I would say there is more openness to that today than there has probably ever been.

Share repurchase, I just think we may be more programmatic as time goes on, but we are going to be more opportunistic, I would say, in this cycle that we are in today. Martin, last one.

Unidentified Audience Member

You've spent a lot of time on the GE Capital balance sheet. But what of the parent, and how -- and I have a series of questions on that.

First of all, you keep claiming $25 billion of cash on hand at the parent company at the end of this year. Some of that is already allocated to pay back the GE preferred dividend. There are day-to-day cash needs. How much of that $25 billion is actually free, allocatable cash?

Then, going back to the liability side of the balance sheet, GE at the parent company level has maintained a relatively low debt-to-equity ratio. Where do you think the debt levels at GE parent can be over time as necessary in supporting GE Capital, as well as the capacity for share repurchase?

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

So let me answer those two and then Shannon is going to give me the hook. And then we can talk about it.

But I would say, Martin -- I wouldn't say that we have a hard and fast rule on the $25 billion, how much, but we are going to carry more cash on the balance sheet than we did in the past, just to be safe. We haven't picked a specific number, but that is for sure. I would say we used to have maybe $2 billion cash at the GE parent. We will have more than that in the future.

In terms of the -- I don't think we ever, when we sit down, think about, I would say, a segmented look at the balance sheet necessarily without GE Capital. In other words, in many ways, it is about preserving a high rating for the totality of the Company, including GE Capital.

So on your second question, I'm not sure I've got a good answer, other than to say we think being an AA or an AA-plus, depending on which rating agency, is a good, competitive rating, and we think about it more as in the entirety.

Okay, thanks.

Unidentified Participant

Just last thing, on your way out, we actually do recycle these. So there is a basket; you can drop your name tag. That's it. Thanks, everyone, for coming.