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Conference Call Transcript

GE - General Electric Q4 2005 Earnings Call

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PRESENTATION

Operator

Welcome to the General Electric fourth-quarter earnings conference call. At this time, all participants are in a listen-only mode. My name is Rachel, and I will be your conference coordinator today. (OPERATOR INSTRUCTIONS) As a reminder, ladies and gentlemen, this conference is being recorded. I would now like to turn the program over to your host for today's call, Mr. Bill Cary, Vice President of Investor Communications. Please proceed, sir.

Bill Cary - ***General Electric Company - VP Corporate Investor Communications***

Thanks very much and welcome, everybody. JoAnna and I are very pleased to host this call this morning to go through the fourth-quarter and total-year 2005 results. Please remember that this is a webcast, so you need to refresh your browser to see the materials that we will go through this morning.

Hopefully you have the press release that we released about 6:30; and as I said all the slides from today's call will be available at our website at GE.com/investor, along with some supplemental data. If you don't see the slides out there, just go to the site and refresh your browser. You should be able to see it. You can, of course, download and print and hopefully follow along.

Also as always, elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. Of course that world can change, and as the world changes our view can change. We'd ask you to interpret our comments in that light.

On the call this morning we're going to cover the fourth quarter of 2005 as well as our total-year performance, as I said. We will give you an outlook for the first quarter of '06 and allow time at the end of the call for your questions. To cover all that of course and as usual, we have got Jeff Immelt, our Chairman and CEO, and Keith Sherin, our Senior Vice President and CFO, with us here this morning. And with that I will kick it over to Jeff.

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

Great, Bill, good morning. Just on the overview page, we still see good fundamentals and positive momentum as we leave the year. Total-year orders were up 10%, solid growth really across the board. Equipment backlog is at 24 billion. We had a good quarter and good year in services, so that backlog continues to grow. Our financing volume was up 17%, and portfolio quality remains strong.

From a growth standpoint, organic growth was up 8% for the year and the quarter. Earnings from continuing operations were, as we reported, at 18.3 billion up 12%. Good strength across the board.

Cash continues to be a particularly good story at 21.6 billion, and very strong both in terms of industrial CFOA as well as financial services dividend. That allowed us to accelerate the stock buyback to $5 billion for the year.

Our initiatives continue to perform well and have good momentum as we end the year. And I think importantly, we have completed the critical phase of the insurance portfolio repositioning, both from a Genworth standpoint and also the announcement of the Insurance Solutions disposition. So as expected, $1.72 from continuing operations, up 10% for the year.

If you look just at the global environment, I figured I would take a little bit of time just to talk through what we are seeing. The US market continues to be strong and in line with expectations. With increasing inflation, we continue to manage the price inflation volume trade-off that impacts businesses like our industrial and plastics business.

In financial services, we saw good volume, we see good asset quality. And liquidity is both a positive and a negative, as we look at competing for assets.

Asia continues to be very strong, with Japan improving. China is very strong across the Company. We passed $5 billion in 2005. Europe, from a short-cycle standpoint, particularly in plastics we saw softer volume; but Europe is very strong elsewhere, in terms of healthcare and some of the infrastructure projects.

From a financial service standpoint kind of mixed. Eastern Europe very strong; and some of the more developed countries slower growth in financial services but stable asset quality. Developing markets continue to be very positive across the board.

If you look at the fourth-quarter infrastructure, very strong growth. Healthcare very strong growth. Good industrial margin rate expansion. Slower plastics volume, particularly in Europe. From financial services, again, strong volume on both consumer and commercial. Good ROE, impacted a little bit by currency, and had fewer asset sales in the quarter.

If you looked at it from a revenue standpoint, we had 5% revenue growth if you exclude the FAS 133 impact and the sale of the Genpact business in the fourth quarter last year. FX was about a point; and when you factor in asset sales and some of the other elements, we had 8% organic growth for the quarter.

If you look at the key customer wins on the next page, again, pretty broadly dispersed customer wins across the businesses. Infrastructure really is a global story. We had great airline wins as we ended the year. Very strong rail wins in China and good momentum there.

Healthcare is really a product story if you look at us expanding our product line, both in core DI, in diagnostic pharmaceuticals, and in IT. Commercial Finance, broad growth, really on most of the asset classes. Consumer Finance, very strong particularly on a global basis.

The industrial businesses continue to focus on high-end market share and high-end products like the GE Profile product line. NBC continues to drive content. We saw some good progress from a comedy standpoint and currently have a number of good movies out on the air. So some very good customer wins.

From a growth standpoint, we talked about the total year being 8% organic growth and same for the quarter. Pretty high visibility on the revenue side. Product service sales 9% for the year and double-digits in the quarter. Growth platform revenues were up 20%, 8% organically.

Global revenues continue to be very strong. Really, good global revenues in every region on the world. Imagination Breakthroughs continue to drive incremental growth. We just gave a couple examples here.

Our entertainment financial vertical had an incremental $100 million of assets. Portable ultrasound, 18 times the growth we saw in 2004. And the country-to-company approach in Qatar really driving good growth. So again, the initiatives and the momentum look strong for 2005 and into 2006. With that, I will turn it over to Keith.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Thanks, Jeff. I'm going to start with orders. Total-year orders of 76.5 billion were up 10%. Here are the breakdowns that we usually talk to you about. On a left side is major equipment. You can see these orders are lumpy on a quarterly basis. I think you should focus on the total year up 19%.

But even in the quarter, if you look at aviation they had a great quarter, up 98%. An example of lumpiness, energy is listed as up 5; if you adjust for last year in the fourth quarter, when the production tax credits were passed and we had big wind orders, adjusting for that the energy orders were up 95%. So they had a really good quarter across the board in the other product line.

Oil and gas had some large LNG orders last year; but total year up 16%. Transportation had multi-year delivery orders last year; I mean, you can see the backlog in transportation is up 23%. We have over 1,800 locomotives in the backlog, so a couple years of production. Most of those are EVO locomotives.

So overall 6.9 million rolling four-quarter average, and over $7 billion, almost $8 billion in the quarter. So you're going to see that rolling average continue to grow.

In the middle are services. They continued very strong. Total services up 12%, 11% for the year. You can see the aviation spares remain strong. Healthcare backlog is up, as energy. Both nuclear and [Arrow] had good service quarters, up 16% in total.

Large order timing and transportation, oil and gas, for some of the orders last year in the fourth quarter with services; but overall up 12%. So a terrific performance and continued to drive high-margin growth for us.

On the right side are the flow orders. We continue to see single-digit growth. This is similar to what we saw through the first three quarters. Again, in the fourth quarter prices were strong. Industrial systems were good. Security very strong.

Plastics you see that we were down in total. We really were working the price-volume trade-offs. We had nice order rates in the US, up 5. Asia was up 11. We made some volume trade-offs in Europe, and I will show you that later when I get to the plastics page. So overall total flow up 3% and consistent with what we were seeing up through three quarters year-to-date.

In the quarter, $21.5 billion of orders, up about 6%. A solid performance across the Company.

Next page is portfolio quality. The portfolio continues to be in great shape. On the left side are delinquencies greater than 30 days past due. You can see our consumer delinquencies have turned from 5.23% down to 5.08 from third to fourth quarter. We are seeing stabilization in the UK secured market, and that is great news. Overall if you look at commercial delinquency levels, they are at a great low level.

We ended the quarter with no aircraft on the ground. So a terrific performance in the aviation leasing business.

On the utilization side, utilization remains at high levels, 87%. You can see Penske, railcar, trailers are all up and the high utilization rates. That continues. The outlook for utilization is good. We expect utilization to be flat to slightly up when you look at Q1. So the portfolio is in very strong shape.

Before I cover the fourth-quarter income statement, I want to highlight the performance of our businesses in the fourth quarter, and this chart does that. You can see that on the left side the fourth-quarter operating results and the great performances. I'm going to take you through the details of those businesses in a few charts.

But clearly, we had a great performance across the portfolio. Infrastructure up 16% in profit; industrial up 25; commercial finance up 18; consumer up 21; healthcare up 16; and NBC Universal down 7. So the total segment profit for the businesses, and that is the run rate we are seeing and the kind of momentum we have, was up 15.

Then over on the right side, I will start with the 15% from the businesses results that we said on the left side; so that is the left column bar. Then I'm going to reduce it for the corporate items that we have to compare to in the quarter.

The first box is really driven by two non repeating items. We have the FAS 133 correction that added about $250 million of earnings into the fourth quarter last year. That obviously is not repeating this year in the fourth quarter, so we are comparing that. We also had dispositions last year in the fourth quarter that did not continue, did not repeat. Principally the sale of, at the time, GECIS, and now Genpact.

Those two items, those dispositions not repeating and the FAS 133 correction not repeating, account for about 10 points of V in the quarter. We also had some higher non-cash pension in the quarter. Pension was about $100 million swing. And we had a higher industrial tax rate in the quarter. It was up about 2 points, which is the primary driver for the other box. So that gets you down to the 1% for the quarter.

So when you look at this page, I want to just reinforce we had strong business segment results, up 15%; the consolidated results at $0.55 were in line with guidance. And really importantly, this last quarter where the business results were impacted by the insurance dynamics. What I mean by that is in the fourth quarter of '04, Insurance Solutions lost over $200 million after-tax. But that loss, which -- and if we were comparing to it, it would be favorable this year -- was moved into discontinued operations.

So really if you look at the dynamics here in the quarter, Insurance Solutions and FAS 133 correction caused this dynamic. Just adjusting for the non repeating items, the comparable earnings from the businesses were up double-digit, up over 11%.

Now let me turn to the income statement. Revenues at 40.7 billion, up 3% as Jeff mentioned. Adjusting for the FAS 133 item that we talked about, FX, and the number of days in the quarter, it is up over 8% organic growth. I will show you that later in some of the businesses' results.

Industrial sales at 25.5 billion, up 4%. Financial services revenue at 15.1; again here is where you compare to the items that I covered on the previous page. On a comparable basis that would be up about 5%.

Net earnings of 5.8 billion; and EPS at $0.55 as expected, up 2%. The shares were down about 1% from the buyback in the fourth quarter. That gives you the EPS up 2. And then we just had a great cash flow year as everybody knows, and I will take you through the details of that. But 21.6 billion for the year, and 13.8 billion from industrial see CFOA, up 14%.

Over on the right side are the earnings dynamics for the quarter. 5.7 billion last year, the strong results from the businesses that we talked about and I will cover in a minute; offset by some of the onetime items from the previous periods; and then the increase in pension and other, including tax, to get you to the 5.8 billion this year.

So five or six businesses up double-digit in the fourth quarter and in line with expectations.

Now before I get to the businesses, I want to do one page to just show the details of continuing and discontinued operations. On the top line are the continuing operations, for both the fourth quarter and the total year that we have covered already, the $0.55 and the $1.72.

Now we have two entities that went into discontinued operations in the fourth quarter, Genworth and Insurance Solutions. You can see both came in as expected in the quarter. Genworth, 200 million in the fourth quarter positive; and Insurance Solutions at 2.9 billion after-tax loss, which we announced when we made the announcement about the disposition to Swiss Re.

Then you get down to the net earnings in total. For GE going forward, we will be reporting on a continuing operations basis; then we'll also give the total discontinued for completeness of the financial statements.

Now on the bottom of the page, what I want to cover are the tax rates and also share again the impact of discontinued operations. The top line in the box is GE ex-GECS, which would be referred to as the industrial rate. You can see through three quarters, year to date, about 25%. For the total year we ended at 23%.

In the fourth quarter, we did have a capital repatriation under the American Jobs Creation Act. We repatriated about $1.2 billion of cash in the fourth quarter, which gave us a benefit versus the third quarter year-to-date rate. But as I mentioned, if you just look at the fourth-quarter tax rates on industrial they were up a couple of points year-over-year in the quarter.

Then in the middle is GE Capital Services continuing ops. If you take out the impact of insurance, through three quarters the financial service tax rate was about 12%, and ended the total year 11%. So that was in line with our expectations.

Then finally, the bottom line is if you did include the results of the discontinued ops; so you left Genworth and the Insurance Solutions, including the loss, in. For through three quarters year-to-date we are at 19% rate on financial services and 17% for the total year, in line with what we had expected. So that basically shows you the impact insurance has on our rates. The higher taxed insurance coming out lowers the GECS tax rate.

So overall total year continuing operations $1.72, up 10%. That is what will be focused on and reporting going forward.

Let me shift to cash flow in the quarter and for the year. We had a terrific year; you can see the 21.6, the GECS dividend, and $7.8 billion. We restored the regular GECS dividend to 40% for the full year. We had excess capital from some of the Genworth secondaries that allowed us to dividend up about 3.9 billion from Genworth, giving us that $7.8 billion.

On the industrial side, up 14%, $13.8 billion. It was a terrific performance for cash for our industrial businesses.

On the right side is the cash walk that we show you. We started the year with 3.2 billion of cash. CFOA of 21.6 from the left side of the chart. We paid our dividends, 9.4 billion. We bought back $5 billion of stock. We had about $2.8 billion of plant and equipment. We made $3.9 billion of acquisitions, net of dispositions. The change in Debt/Other was 1.7.

We ended the quarter with $10.2 billion of debt, and net debt was basically flat year-over-year. So a terrific cash performance, and it allowed us to return over $14 billion of cash to our shareholders with dividends and buyback.

So let me just close 2005. One summary before I turn in to the results in the quarter and look at 2006 first quarter. Just an overall great year. Revenue up 11% across the enterprise. Double-digit earnings, up 12%. Great cash flow, up 42%. Return on total capital for the Company was 16.2%, and that will rise to over 18% this year.

All six businesses up double-digit earnings growth. Great Vs. Really terrific performances by the team. 8% organic growth across this portfolio, which is a tremendous result with the growth focus we have in the Company. Great cash flow.

And if you looked, go back to the page where I showed you the performance of the businesses in the fourth quarter, and you look at those Vs, that is the confidence we have and the evidence we have about the strong momentum as we enter 2006. So we're feeling pretty good about where we are heading.

Let me turn to 2006. Here's the first-quarter operations outlook. Give you the guidance for revenues and segment profit for the six businesses. You can see continued strong performances in infrastructure. Great performance continuing in industrial. Commercial and Consumer Finance are set up for terrific quarters. Healthcare has a lot of momentum and very good broad global strength. NBC Universal will be similar to what we saw in the fourth quarter.

So when you put that portfolio together for the first quarter, right side, revenues will be 37 to 38 billion, up 5 to 10%. Our earnings forecast at 3.9 to 4.1 billion, up 11 to 17%. And EPS $0.38 to $0.40, up 15 to 21%.

A point about the tax rates for 2006. The estimates that we have in our forecasts here would have an industrial tax rate of around 24 to 26% and a financial services tax rate of 17 to 19%. So first-quarter guidance of $0.38 to $0.40.

Now I will take you through the six businesses and look at the fourth quarter and look at the first quarter.

Start with infrastructure. Infrastructure had a great quarter and a great year. Revenues of $12 billion in the quarter, up 11%. Tremendous growth. A segment profit of 2.4 billion, up 16%; and for the total year up 14%.

Aviation remains solid. You can see the revenues and the segment profits down on the bottom left. Service orders up 12, CSA backlog up 23. Had good revenue growth; it was up 5. It was really driven by the commercial engine revenue, up 21. Military engines were down 4%. Op profit up 6; we had price and productivity that was offset by higher R&D for the GEnx spend, and we had some late military spares orders that came in which pushed into first quarter.

If you look at energy, on track. Revenues up 14; op profit up 10. Service orders were really strong, up 16%. The equipment backlog is also up 16%. They had good orders. A quarter. The revenue was driven by higher wind shipments; we had over 900 wind units versus 300 last year. Service revenues were 13%. The op profit was up 10%, a little less than the revenue growth. Driven by great services growth, partially offset by some continued pressure in Hydro.

Oil and gas had a great quarter. Look at the revenue up 30 and the op profit up 60. Had a great year of profit up over 24%.

Transportation continues to have a great year. 197 EVO locomotives shipped and a tremendous backlog, as I said, almost two years of production in the backlog.

The financial services verticals continue to perform very well.

So when you look at infrastructure in total and you turn to the first quarter, we expect to continue to see a very good performance out of aviation, both equipment deliveries and services.

Energy, we're expecting to be about flat. It has got a tougher comparison in the first quarter; units will be down from 20, from 34 gas turbines this year to about 22 next year in the quarter. And we had no repeat of some terminations last year, so they will be about flat. But they are on track for the total year up 10 to 15.

Financial services verticals continue to be strong. And oil and gas and transportation will have a strong quarter. So overall segment profit for the quarter up 10 to 15.

Look at Commercial Finance, also had a great quarter and a great year. If you look here, the revenues are 5.2 billion on a reported basis, down 3%. If you just adjust for some two dispositions they had of some Canadian retail business, that would be up 3%. You can see the segment profit up 18%, very strong.

We had strong volume growth in all the businesses. Capital solutions volume was up 15 in the quarter. We're seeing a lot of economic activity. Corporate financial services up 14. Real estate up 30. So a lot of economic activity and that is driving good volume growth.

If you look in the quarter, capital solutions had very good core growth. They had some increased loss provisions and lower gains, resulting in the op profit only being up 1%. But for the year they were up 14%. They had a tremendous year, and they are well positioned, with their current asset growth up over 8% in the quarter, for the first quarter for 2006.

Real estate had a great performance overall. Only up 4 in the quarter, but we had a lot less sales of assets in the fourth quarter versus the fourth quarter prior year. Overall for the year the real estate team was up 14%, so a tremendous performance.

If you look, we had great growth in healthcare. The vertical was up 23%. And the corporate financial services business was up over 50% for this segment for the fourth quarter.

So the portfolio is in good shape. Nonearnings, delinquencies, and write-offs are all down versus the prior year. We expect to see a pretty good 2006, and it will start in the first quarter. Capital solutions should be up 10 to 15, and real estate will be up over 20, and the overall segment up about 15% in the first quarter.

Shift to industrial. Great results in the quarter. Terrific performance overall. Revenues at 8.4 billion, up 1%.

I think the first point on the top right is important here. There were five less days in the quarter, fourth quarter of 2005 versus the fourth quarter of 2004. That impacted the top line by about 6 points. You can see we have adjusted the revenues down in the bottom left for that impact of just having less days in the quarter, to try and give you a comparable about run rates and what it means for the future.

We had a great segment profit result here, up 25%. Strong C&I performance. Priced continued to exceed material inflation, and we had a 4% total cost productivity here, which basically fell through to the bottom line. Our appliance business continued to gain share at the high end. Profit was up strong double-digit. And we had great performances in our industrial business and our supply business. So a good performance in C&I.

Plastics, you see the revenue up 4 adjusted, and profit up 1. We are really managing that price and volume inflation trade-off. The average daily order rates were solid. US was up 5%, Asia was up 11, Europe continues to be soft for us. China is great, really good growth. We made some trade-offs here. To manage our margins we raised our price in November. We lost some volume in the fourth quarter, done about 2 to 3%; but price was up about 6%. We were hit with some inflation in natural gas in operations in the quarter.

However, when you look at the first quarter, we've got a forecast for plastic to be up 10%. Continue to see the strength in US and Asia. We want to have price greater than inflation; we feel pretty good about that. Volume has got to be up, and the January ADOR is up 11% year-to-date, so we have got some good momentum there.

Equipment services had a great quarter. You can see the results, and we expect them to continue to have a good quarter. So if you look overall at the segment profit here for the first quarter, it should be up 15 to 20%.

Let me turn to NBCU. NBCU had a tougher fourth quarter, but there is a lot to be positive about here. Revenues down 3, really driven by the network, partially offset by cable. Segment profit down 7. It is pretty much the same dynamics. You can see that down in the bottom. If you look at the quarter, the earnings trends in prime and stations and TV production were similar to what we saw in the third quarter.

Film also had some tougher comparisons in the fourth quarter, but overall had a great year. Op profit for the film business was up over 90%. If you look at the combination of network and film in the fourth quarter, that was partially offset by good growth in entertainment cable, up 25%; improvement in info cable; benefits from MSNBC restructuring; and a rebound in the Telemundo, where earnings were up 17%. You can see the ratings growth we have there.

So as you look to 2006, we are confident about the earnings outlook of $3 billion for NBC Universal. We have made progress with prime ratings. We ended Q4 with a 3.2 rating, which was up from the second and third quarter levels of 2.8 and 1.9. So that is nice progress. The Thursday night strategy is working. We continue to see ratings strength from Earl and The Office. We got a lot of positive news there.

Lastly just to close on a topic that's been reported about a lot, we feel great about the execution on King Kong. The movie has already grossed over $500 million worldwide. It's on track to get close to $600 million, and we're positioned for a good return on the project. So we feel great about that as well.

So total year for the NBC team looks at about $3 billion, and the first quarter outlook looks similar to what we saw in the fourth quarter, segment profit down around 10%.

Let me close on the final two businesses. Healthcare had a great quarter. If you look, revenues at 4.5 billion, up 5%. Organic revenue growth here was up at 8%. Segment profit up 16%. We had broad strengths here across the businesses. The technology business op profit was up 16. The biosciences business op profit was up 17. The op profit rate for the quarter was 22%, up 2 points, so nice margin growth.

Solid organic growth in the quarter from the DI business, ultrasound, healthcare IT. Even more positively, when you look at the orders, stronger equipment orders, up about 7%. And that is really driven by our new product strategy and our technology strategy.

Our VCT is really doing great in the marketplace; we had over 190 units in the quarter versus 55 last year. The total year was over 600 units. The high-def MR is 170 units versus 70 last year. Vividi in ultrasound, 330 units versus 55. So the technology focus is winning here, and our equipment and services backlogs are up 13%. The first-quarter outlook looks really good with both biosciences and the technology delivery node. Nice profit growth.

Then finally, on the right side, Consumer Finance. They also had a great quarter. You can see the numbers. Revenue up 14; op profit up 21. Great core growth really was the driver here. Assets were up 11%, ex-FX; so we are hurt by the stronger dollar here in the quarter. Strong core growth up 10% in this business.

And pretty good broad-based growth. You look at the Americas were up 30%, Europe was up 35, Austria was up 40. Credit quality is improved. The 30-day delinquency declined from the third quarter, as I said. And write-offs as a percent of [A&E] were down 10 basis points year-over-year.

So one item that I would highlight here is in the fourth-quarter bankruptcy impact in the US. We did have gross write-offs of $157 million. But net of reserves, which we already provide for, based on these delinquent accounts that were probably going to go bankrupt, the client share was about a 25 million after-tax effect in the fourth quarter; in the total year was about 50. So we managed our way through that as well as could be expected.

So first quarter for the consumer business books pretty good. Based on the asset growth and the global strength we have, segment profit should be up about 15%.

One final page before I turn it back to Jeff. When you look at the portfolio, you look at the strength of the Company today, with the strength of cash in 2005 at 21.6, we are estimating 2006 cash flow to be about 24 to $25 billion. We will have 10 to 15% CFOA growth.

The industrial cash will grow in line with earnings. We will continue to have the financial services dividend at 40% of earnings; plus we will release capital, excess capital from insurance proceeds.

Because of that we have had great financial flexibility. We were able to grow our dividends for the 30th consecutive year to $1.00 a share, up 14%. The buyback, we did $5 billion last year; we were originally going to do $3 billion. We're taking the buyback in '06 up to 7 to $9 billion and the whole program up to 25 billion through '08. So that is going to be about 1.5 point reduction in shares again in 2006.

And we're investing for growth. We have enough capital to invest for growth in both our financial services and our industrial businesses. You see us continue to make very strategic acquisitions to build out the portfolio. So great financial flexibility. Let me turn it back to Jeff.

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

Thanks, Keith. Just to wrap up here, first on the revenue side. We have talked about driving the Company to achieve consistent top-line success. And just gives you a sense of how we think about it. We view the economy in 2006 as more or less the same as 2005, and we think that will generate about $4 billion of growth for the Company.

Developing markets momentum for us is just substantial. We, as we look forward, have great backlogs and good momentum in those regions. Services and equipment backlog, again, we have got great momentum in both CSAs and equipment backlog.

3 to $5 billion from incremental growth. We think we will get there. We're now running about $3 billion of incremental growth out of the Imagination Breakthroughs every year. When you look at both financial services and industrial acquisitions, less dispositions, we think that on balance will be about 3 to $5 billion of incremental revenue growth in 2006 as well.

So we feel like we have got a decent sense of where the growth is going to come from and how we look at where we're going for the year. So that has really been the output of a lot of focus we have had, not just in the last 12 months, but over the last three or four years, in terms of making growth a process.

Shifting gears just to wrap up on 2006 financials, we talked about this in December of about 165 billion in revenue. Net income between 20.2 and 21.1, up 10 to 15%. And on an earnings basis, on an EPS basis up 13 to 17%. And as Keith said, very strong cash flow from operating activities.

Good momentum and visibility into 2006. Portfolio quality from a financial services standpoint in great shape. We think the initiatives around growth are really working for us right now. Again, we have said over and over again that it is a great thing for the Company to get this insurance repositioning behind us. This has dampened our performance and we feel like, as you look forward with the Company, we just have great strength and momentum.

That has really looked -- reflected when you look at the quarterly guidance that we are giving. We get off the year on a very strong start, and on a total year probably even slightly better than what we had thought in the fourth quarter last year. So good view on the total year.

Just to wrap up, a strong 2005 performance and a fourth quarter that is in line with what our expectations are. Consistent and sustainable double-digit earnings growth into 2006, and expanding ROTC at the same time. Good cash flow, driving financial flexibility. Solid AAA. Great culture, great team.

And again as you look at 2006, we think we're on track for an excellent year in 2006. So, Bill, with that, turn it back to you and let's take some questions.

Bill Cary *- General Electric Company - VP Corporate Investor Communications*

Great, thanks very much. Rachel, at this point, let's go ahead and open the line for Q&A if you would please.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Jeff Sprague with Citigroup.

Jeff Sprague *- Smith Barney Citigroup - Analyst*

Can you just spend a little more time on the anomaly with the days? I realize you just highlighted it in flow, which is probably more relevant. When you think about the lumpiness of the equipment businesses, it may be less relevant; although I would think it would have impacted service and some other things. So could you just tell us about what it was about how you closed the year that the days were different, then maybe color on some of the other segments that you didn't highlight on the call?

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

Sure, Jeff. It wasn't how we closed the year. Basically just our fiscal calendar, when you divide into the fourth quarters, we had five more days in the fourth quarter of 2004 than we had in the fourth-quarter 2005. So that is the only adjustment we're talking about.

It is easy to adjust it in the flow, and it probably also did have an impact in our services businesses. We have got some idea what that was, but it wasn't really that material. Then also in the financial services businesses. So I think we have tried to say that overall in the quarter, 3% top line reported; but when you look at it organically, across this portfolio we're at 8% again.

Jeff Sprague *- Smith Barney Citigroup - Analyst*

Would you describe that as 8 in both industrial and financial? Or is there a little bit of a difference between the two in the quarter?

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

Yes, it's pretty close. It is 8 industrial, and it is 9 in financial.

Jeff Sprague *- Smith Barney Citigroup - Analyst*

Then just one business question and I will pass it. On energy, you actually highlighted Hydro as kind of the margin issue. Previously it was wind that was kind of in the price cost struggle. Should we take from that that wind is really closing that gap? Can you give us a little bit more detail on what is going on in Hydro?

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

You know, if you look at wind, we feel great about the business position. We've got a record backlog, the pricing is up, we continue to have incredible demand. We are sold out and we just can't fill the orders. We do expect to have a significant profit improvement in 2006 from wind with those deliveries.

In Hydro, we just continue to see cost pressure from some of the global projects that the team had taken. We are working our way through that. I don't think it's going to be something that is material in 2006.

Jeff Sprague - ***Smith Barney Citigroup - Analyst***

But on wind, you are, given the strength of demand, I doubt if you are reopening contracts; but have you been able to price much better on this forward-looking business?

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

You know, Jeff, the new pricing is significantly better. We honored the old contracts that we inherited, but that is really done now. We're going to make good money on wind this year.

Jeff Sprague - ***Smith Barney Citigroup - Analyst***

Great, thanks a lot.

Operator

Nicole Parent with Credit Suisse First Boston.

Nicole Parent - ***Credit Suisse First Boston - Analyst***

Keith, just one question on the tax rate, I guess. Could you just explain a little bit why repatriation would cause it to go down? Then I guess a follow-up would be, what is the tax rate guidance for 2006?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Sure. We took a look at our globally reinvested foreign earnings, and the majority of them are continually permanently reinvested in productive assets overseas, and supporting the growth of the Company globally. But we had about 1.2 billion of earnings that were overseas that we thought we could repatriate that had been provided for at rates above the repatriation rate of 5%.

So we were able to bring those $1.2 billion of cash back and get a benefit by having the rate of tax be only 5% in accordance with the American Jobs Creation Act. So it was a previously provided rate above that number; so that is how you get that.

Then for the 2006, I had those on a chart where I talked about the outlook for 2006. We're talking about 24 to 26% on the industrial rate in 2006 and 17 to 19% on the financial services rate. It is on page 13.

Nicole Parent - ***Credit Suisse First Boston - Analyst***

Okay, and just one follow-up on healthcare, I guess. Is the disconnect between the reported revenue growth of 5% and organic 8% largely FX?

And in light of the deficit reduction act that was passed in December, which causes for like a $3 billion cut to imaging reimbursement, how would that impact the business as you look into '07 and '08?

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

You know what I would say, Nicole, is I think FX was like 2 points and we had --

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Healthcare had also a disposition.

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

1 point of disposition. That was part of, I think, Instrumentarium that we sold this year, the dental x-ray business. So what I would say is when you look at the proposed health care act, again it is largely outpatient focused. That has been a business that has been slow for us really in the last couple years.

So I think when we look at our DI backlog, and what we think is going to happen around the world, we still think that is going to be revenue in the mid single digits going into the future.

Nicole Parent - ***Credit Suisse First Boston - Analyst***

Great, thank you.

Operator

Dave Bleustein with UBS.

Dave Bleustein - ***UBS - Analyst***

Can you help me understand some of the variability of the GE Capital tax rate? And maybe provide some color as to the tax locations where the income is earned.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Well, the variability of the rate, we had 11% for the total year; it was in line. We had 12% through the third quarter year-to-date. So I didn't have a lot of volatility in the fourth quarter. We did have some benefits from some Commercial Finance structured transactions in the quarter. Other than that, it is mostly from continued reinvestment of our overseas earnings at lower than the US tax rates.

Dave Bleustein - ***UBS - Analyst***

Okay. Did you calculate 6.6% for the fourth quarter for GE Capital?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Well, 7.1%

Dave Bleustein - ***UBS - Analyst***

Okay, 7.1. Then why is the tax rate higher in 2006?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Well, there are some things that -- if you remember in 2005 we got a lot of benefits from the American Jobs Creation Act that were kind of one-time in the aircraft leasing business. Those have affected the rates in Capital and in GECIS. Those don't repeat in 2006.

We do get an ongoing benefit from our leasing operations; but the one-time transfers did not repeat. We also had some onetime transactions in the Commercial Finance in Europe that won't repeat. Those would be the two primary drivers.

Dave Bleustein - ***UBS - Analyst***

Okay, terrific. Thanks.

Operator

Deane Dray with Goldman Sachs.

Deane Dray - ***Goldman Sachs - Analyst***

I don't have a tax question. What I do, what I would like to ask is the potential for GE increasing their exposure to nuclear energy and what the opportunities are there, near-term, longer-term? Might that create any potential conflicts with the SRI groups? Or is that not an issue?

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

You know what I would say, Deane, is that we really can't comment on any potential transactions. We are in the business today. It is a good business and a healthy business. We are in our existing business reinvesting back into new technology. So regardless of what might happen in the future, we like the position we've got in nuclear business today. Beyond that I just can't comment on any potential transactions.

Deane Dray - ***Goldman Sachs - Analyst***

I appreciate that. Then on NBC, we are about to hit the Olympics and this would be -- could you just review with us what the economics are and how that will affect the first quarter? And what the potential cross-selling synergies are for these Olympics?

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

What I would say, Deane, is the Olympic revenue that we will see in the first quarter is, what, 650 to 750 for the quarter. It is about breakeven in total for NBC. I would say on the top sponsorship program, the incremental revenue into Torino was slight, probably in the 50 to $100 million range. That builds by the time we get to Beijing to be probably somewhere between 500 million to 1 billion. Torino we got working on later; Beijing we have got kind of full thrust going.

Deane Dray - ***Goldman Sachs - Analyst***

So this is more of a revenue opportunity rather than margin?

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

Exactly. When I say that, I talk about sales. There's things like portable power, mod space, incremental healthcare, portable units, things like that.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

And overall, including all the affiliate contributions and the sub-fees that we get in the years when we're not in the Olympics, this is a very profitable franchise for us.

Deane Dray - ***Goldman Sachs - Analyst***

Great, thank you.

Operator

Robert McCarthy, CIBC World Markets.

Robert McCarthy - ***CIBC World Markets - Analyst***

Could you talk about kind of the weakness in plastics in Europe? Is there any specific end market that impacted that?

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

You know, what I would say there, Rob, is I would say the underlying economic growth in Europe is not that bad. As we have driven growth or have driven response to inflation in plastics, we have really had a strong focus on maintaining margins. So my sense is that we might have lost a little market share in the fourth quarter in Europe.

I think the underlying growth in Europe has been pretty consistent with what we have seen throughout the year, in terms of the automotive industry and things like that. US business was solid, consistent with what we see here, 5%. And China continues to really be strong.

Robert McCarthy - ***CIBC World Markets - Analyst***

All right. Then on the selling days, excuse me, the five less shipping days in the quarter, how should we think about it? Was the impact in the first quarter, in fact? Did they have more shipping days in that quarter?

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

Right.

Robert McCarthy - ***CIBC World Markets - Analyst***

And that probably affected the organic growth rate in that quarter?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

It affected the overall revenue V, yes. Absolutely.

Robert McCarthy - ***CIBC World Markets - Analyst***

(multiple speakers) think about that in terms of the first quarter.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

That's why taking a look at the total-year numbers that we're dealing with here is the right way to think about this.

Robert McCarthy - ***CIBC World Markets - Analyst***

Thank you for your time, gentlemen.

Operator

Peter Nesvold with Bear Stearns.

Peter Nesvold - ***Bear Stearns - Analyst***

First a quick question on the capital side. It looked like in capital solutions and real estate there was at least a modest disconnect between volume and revenue growth. You mentioned some of that as FX and maybe some asset dispositions.

Can you talk more specifically, though, where are you leaning on the securitization market a little bit more, number one? Number two, what is the magnitude of the impact to the financials?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Well, actually, if you look at it, securitization gains in Commercial Finance in the fourth quarter of '05 were about $29 million; and they were down $50 million from the fourth quarter of '04. So again this is a dynamic in the quarter. There were less gains, there were less asset sales in the business. I think we are pretty well positioned here, Peter.

Peter Nesvold - ***Bear Stearns - Analyst***

Okay.

Ann Duignan - ***Bear Stearns - Analyst***

And a follow-up from Ann Duignan, thanks. I just wanted to follow-up on aerospace. Have you already experienced a mix shift because of the strength of OEM assembly? Or will we see a little bit more shift towards OEM products in '06? And what impact is that going to have on profitability?

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

You know, again, I would say that you're going to see more OEM shift next year. So what I would predict is that we will have a lot more revenue; that the operating profit rate expansion will be less, because service as a percentage of the total will be less. But you'll still get -- we will still get some op profit expansion because of productivity and other items. But I would say as you look at '06, '07, and out you're going to get more product sales.

Ann Duignan - ***Bear Stearns - Analyst***

Okay, thank you.

Operator

John Inch with Merrill Lynch.

John Inch - ***Merrill Lynch - Analyst***

Keith, the 4% industrial revenue growth in the quarter versus the 8% that you mentioned, what are the component walk-throughs to bridge that? Like, say, FX or dispositions, that sort of thing?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

For the total Company?

Robert McCarthy - ***CIBC World Markets - Analyst***

Just for the industrial company.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

For the industrial company, I don't have an organic walk for that, John. We will have to get you that.

John Inch - ***Merrill Lynch - Analyst***

You know what roughly? I am just trying to understand. Like I think in mid-December you guys thought total revs were going to be about 42-plus, right? So they're little bit lighter. I am just curious how much maybe FX accounted for that.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

FX was about 1 point on the industrial side. I think the price volume trade-off was a bigger factor in the industrial segment. You know, it is probably a couple hundred million dollars of plastics that we did not take.

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

John, you know what I would say is it is probably about $1 billion. It is about 3 or 400 million of FX. It is probably -- and I am talking total Company now, John. It is probably about 4 or $500 million of less asset sales and financial services. Then plastics would be the remainder. So what I would say is that I think as we finished the year, those were probably the puts and takes around revenue growth.

John Inch - ***Merrill Lynch - Analyst***

Just on Commercial Finance, again, I apologize if you mentioned this, but how do you go to 5.2 this year versus 6.8 last year? What is the difference?

And what is going on in this corporate items and eliminations line? Is there something that goes from one bucket to the other?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

I think that is maybe discontinued operations. We took other insurance out of Commercial Finance, and it's in corporate, John. So I think that is the big piece.

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

That is the runoff.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

You are really doing [42 90] versus [40 49] next year.

John Inch - ***Merrill Lynch - Analyst***

Okay, great.

Operator

Don MacDougall with Banc of America Securities.

Don MacDougall - ***Banc of America Securities - Analyst***

Just a follow-on on John's question; I want to make sure I understand this. But I think in December you had guided total Company revenues to about $151 billion. We finished up just shy of 150. That billion dollar change, and you had cited ForEx, financial services, and plastics, did that occur in the last two weeks of December?

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

No, I think, at the end of the year we never really know exactly where the FX is going to occur and what the asset sales. I would say the toughest one for us to predict is going to be where the financial service revenue goes. So I would say that is where most of the volatility took place.

Don MacDougall - ***Banc of America Securities - Analyst***

Okay, and looking into the first quarter, Jeff, your guidance suggested 15 to 21% year-over-year. That is actually a little more front-end loaded than we typically see from GE. Is that a reflection of -- maybe you could give us a sense for where that extra confidence is coming from?

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

You know, I think if you look both in terms of the infrastructure businesses, and services, and then financial services, we just have built backlog. So we are shipping out of backlog. It gives us good confidence and pretty high visibility vis-a-vis how we look at the year.

Don MacDougall - ***Banc of America Securities - Analyst***

One final one, Jeff, and it's actually Don. But the plastics price volume trade-off that you have talked about, is that do you think at the end? In other words, you're basically done giving up the volume? Because you think there is more pricing power out there. Or is that something that we should look for more of in 2006?

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

You know what I would say, Don, is it has just been a business that has been reasonably volatile from a standpoint of both natural gas and benzene. I think we feel very comfortable that we covered benzene. We had -- natural gas went up in the fourth quarter of the year. We went for another price increase to cover that. So I just think it's one of the things we're going to have to continue to manage, but we're pretty good at it.

Don MacDougall - ***Banc of America Securities - Analyst***

Thank you.

Operator

Scott Davis with Morgan Stanley.

Scott Davis - ***Morgan Stanley - Analyst***

I just wanted to get a refresher on your acquisition strategy for '06. I think the catalyst to the question is the Arden Realty deal that you did, maybe announced a month ago. It seemed a little larger, maybe a little bit pricier than some of the things that we had talked about in the past. So maybe we can get a refresh and a little background. First of all on why Arden and particularly at this price? And also what should we be expecting in '06?

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

You know, Scott, first on the industrial side, we still think 3 to $5 billion for the year of things that are on strategy with good returns. We think in financial services, we want to be growing globally in financial services.

In real estate, we have sold assets, we have added assets as time went on. When we looked at Arden we felt like it gave us a good platform in terms of Southern California and something we could build on.

I think if you look at the transaction, we also sold, I think about 20% of the properties at a price higher than what we paid for the company in general. So I think that is a pretty good validation that the price we got was pretty -- was not bad vis-a-vis where the world of real estate is.

So we would like to grow assets 8 to 10% in Commercial Finance this year. That is what our game plan is. I think it's going to be probably a little bit more outside the United States than inside the United States, but we think that kind of opportunity is out there for us.

Scott Davis - ***Morgan Stanley - Analyst***

Okay, as an unrelated follow-on, the 7 to $9 billion share repurchase for '06, what would you estimate we will actually be able to reduce the share count? Basically saying, how much dilution from options and stock grants are you anticipating?

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

Scott, could you just hear Keith?

Scott Davis - ***Morgan Stanley - Analyst***

I could not.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Sorry, Scott. We'll do a quick swap here with Bill. We're going to buy back 7 to 9 billion, and it will reduce the share count on average for the year about 1.5 points.

Scott Davis - ***Morgan Stanley - Analyst***

Okay. Fair enough. Thanks, guys.

Operator

Tony Boase with A.G. Edwards.

Tony Boase - ***A.G. Edwards - Analyst***

I wanted to clarify something on the five less days. You mentioned that on the order side for the quarter, orders were up 6% I think for the total Company. If you adjust for the five less days, what would we have experienced?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

That is including an adjustment for that impact. That is an ADOR.

Tony Boase - ***A.G. Edwards - Analyst***

Okay, that is an ADOR? Just on the flow businesses, it looks like orders have kind of trended down the past couple of quarters here, 5% in the third quarter, now it's 3% for the fourth quarter. Is initiative strictly a plastics issue, or is there anything else going on that is maybe impacting that?

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

You know what I would say, Tony, is we think the economy has been pretty good. I would say it has probably been as much plastics as any other single driver in that business. I would say in virtually all those businesses, kind of we have really driven hard on the pricing front, and have -- the margin rates kind of reflect that, particularly when you look at consumer and industrial.

So I mean, I wouldn't read -- really in terms of the broader economy, I wouldn't read too much into it. I think it's been pretty consistent throughout the year.

Tony Boase - ***A.G. Edwards - Analyst***

Just a question on provision for losses, it came at [8.86] quarter, that seemed a little bit light, given that really delinquencies haven't changed that much, since the third quarter.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

(technical difficulty) year-over-year if you remember (technical difficulty)

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

Tony, are you there?

Tony Boase - ***A.G. Edwards - Analyst***

I am here and I couldn't hear the answer.

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

Okay, I don't know; we've got a problem with our microphones here. Hold on one second, okay?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Sorry, I was swapping with Bill again here. Tony, what I said was if you look at the provision year-over-year, last year, the fourth quarter, the specific reserves were $260 million for USAir, ATA, and ACA. And that more than accounts for all the difference between the provision year-over-year. We had huge reserves that we added for those specific accounts last year, and we didn't need to do that again this year.

Tony Boase - ***A.G. Edwards - Analyst***

So it's better to look at on a year-over-year as opposed to a sequential basis, then.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

I think it's better to look at it on the total year, actually.

Tony Boase - ***A.G. Edwards - Analyst***

Okay, thanks.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

We're going to do one more.

Operator

Nicole Parent, with Credit Suisse First Boston.

Nicole Parent - ***Credit Suisse First Boston - Analyst***

Just two follow-ups. One would just be on the split of energy between equipment revenues and service. You gave us the order number.

I guess the second one would just be, what did water sales and profit due in the quarter?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

On water, we had revenue of about 480, up 17%. The op profit was about 36 million. I will get Bill to give you the split of equipment and services for energy. I don't have it here.

Nicole Parent - ***Credit Suisse First Boston - Analyst***

Okay, do you know what the turbine shipments were in the quarter?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Yes, turbine shipments were --

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

Do you know what it was?

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

About 34, JoAnna?

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

I think it was about -- yes.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

Hang on one second; I think we have got it here. I have 34 versus 28 last year, Nicole.

Nicole Parent - ***Credit Suisse First Boston - Analyst***

Okay. Thank you.

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

I think we are tracking to about 130 for 2006.

Keith Sherin - ***General Electric Company - SVP Finance and CFO***

It is 130 for the year, yes.

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

With something like 22 in Q1, and it builds throughout the year.

Nicole Parent - ***Credit Suisse First Boston - Analyst***

Thank you.

Bill Cary - ***General Electric Company - VP Corporate Investor Communications***

Okay, Rachel, thanks very much for the questions and thanks everybody for dialing in today. Sorry about the snafu with the sound here. Hopefully you guys were able to hear all the questions. Obviously, a transcript will be available later today as well.

JoAnna and I are around all day if you guys want to go through any more questions. Please feel free to give us a call. And with that, we will sign off. Thanks very much.

Operator

Ladies and gentlemen, this concludes your conference call. Thank you for your participation today, and you may now disconnect. Have a wonderful day.