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Conference Call Transcript

GE - General Electric at The Electrical Products Group Conference 2006

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CORPORATE PARTICIPANTS

Jeff Immelt
General Electric - Chairman and CEO

PRESENTATION

Unidentified Speaker

As our usual final presentation, General Electric. Here to present is Jeff Immelt, Chairman and CEO.

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

Good morning. Just to start right in, look, we have had a lot of conversation with a lot of you on the stock. We hear what is on people's minds and I am just here today to reemphasize that the Company has never been in better shape. We like where the portfolio is. We like the initiatives, the initiatives are delivering. We feel very strongly about being in a period of excellent growth, expansion and operating profit, and return on total capital. The Company has never been better. It is only going to get better over time. So that is what you're going to hear as we go through the presentation today.

Same strategy we have had for the last four or five years, consistent high single-digit revenue growth, double-digit earnings growth, expanded return on total capital, expanded dividends, and free cash flow. And work on four things, work on great businesses, work on strong a execution, work on a common organic growth platform across the Company, and work on great teams, stable teams, solid teams, and a great focus for the future. And we think 2006 is delivering on all these things inside the Company.

So I'm going to tick through those four things, start with the great businesses. As you look at the businesses I think what you have to say is that we are extremely well positioned with a lot of market tailwinds when you look at the Company today and that the portfolio of businesses we have generates a tremendous amount of free cash flow and we're going to see expanding return on total capital in the next few years. So you sit back and think about what's going on in the world today, you've got great infrastructure investments. You have got strong developing country growth. You have got tremendous sense of demographic tailwind in health care, strong consumer around the world. Liquidity and impact of digitization and higher energy costs and GE can play positively in virtually all these big market teams and not just for a year or two, but for a long period of time. And we approach them from a standpoint of having great technology, great service revenue, a great capability in human resources and things like that.

Portfolio, we love today. We like the way it is positioned. The biggest business infrastructure takes advantage of almost all these tailwinds that are out there today. Commercial and consumer finance continue to grow globally, take advantage of liquidity, and be in great position. Healthcare is benefiting from demographic tailwind and globalization. Industrial expanding markets and globalization, and NBC we think can capitalize on some of digital and consumer trends.

So we love the set of businesses we are in and then underlying those are, we think, real examples that help GE play collectively to improve performance. We can play with scale. If you look at our ability to go places like India and China, we do that with the totality of the Company. We play domain. If you look at the energy market we bring technology, financing, services, information to a market the way that smaller or more focused competitors can't do. We can leverage our financial strength. We can leverage our management talent so GE can capitalize on this portfolio in a great way.

So one of the big themes that I want to make sure that you take away today is the portfolio is very solid, in very strong shape and can capitalize on all these massive market tailwinds not just this year but for a long period of time.

I stood here in 2002 and talked about a portfolio transformation. We have had very significant adherence to that portfolio transition. We have invested to make some of the core businesses stronger. We have launched growth platforms. We have divested of slower growth financial and industrial businesses, and we have been very true to what we said we're going to do over the last couple of years. We've done a lot of heavy lifting that we think dramatically improve the Company.

If you look at some of the investments we've made in the growth platforms, this is now 13% of our industrial revenue in the growth platforms that we more or less launched four or five years ago. Well strategically, we like where all these businesses are. We like the organic growth rates. We like the market position. There are a couple of the businesses that are behind the deal case from a timing standpoint, but we think all of them are going to catch up. And we feel very strongly that this set of businesses is one of the key reasons why this is a more valuable Company and we feel it is going to continue to expand over time. So we like the industrial growth platforms and we think we will continue to reinvest back into these growth platforms going forward to continue to drive the growth rate going forward.

From a financial services standpoint, I read yesterday in the newspaper about the forecast of more hurricanes in September and I don't worry about it anymore. It's a divesting of the $25 billion of insurance is a really good thing for this Company, a really good thing. When you look at our commercial and consumer finance businesses, the historic performance of expanding ROE and expanding growth rate is pretty profound. I know we've got to rebuild confidence in this space given what we've done in the insurance business, but I think if you just look at the arithmetic and the market positions we've got and the expanding return on equity we have had in commercial and consumer finance and the fact that we still play a relatively low market share, I feel great about how this positioning looks going forward.

Again we like the fact that our financial service businesses is higher value. I think when you look at the set of businesses we are in today we just generate a lot of free cash flow. Our service revenues and our industrial platforms are capital light. Our CapEx, we are $160 billion business that has $3 billion of CapEx a year and high ROE financial services gives us $30 billion plus of free cash flow over the next three years. And the ROTC is going to be driven by real focus from a management standpoint -- this is the key way how our leaders are compensated. It is a great discipline for buying back $25 billion of stock. We will be the 18% to return on total capital this year, 20% by '08, expanding about 100 basis points a year. So from a capital standpoint, we are in very good shape in terms of the leverage that we are seeing and will continue to see.

We have got a very disciplined industrial -- one of the things we do is we plan to do 3 to $5 billion of industrial deals a year. This gives you a sense of our target is to get a 20% return, 50% cash on cash per year. I approve every deal in excess of $5 million, every industrial deal in excess of $5 million. Every December we go through this four block with the Board, which basically looks at strategic on or not on plan and in the financials where we are versus the deal case and I'd say we get about 65%, 70% or in the upper right hand quadrant. Some have been a time delay. I threw Telemundo up there because we like the strategy of Telemundo. We are probably two years behind the deal case. It took more money to get the programming right at Telemundo than we had originally forecast, but it is moving over the other way.

But we spent a lot of time in the Board redigesting. The point I would make is I think what we owe investors is real adherence to strategy, a real focus on adherence to strategy. And then we can lean into the executing disciplines of the Company and I think you want us to lean into the executing disciplines of the Company in terms of the long-term returns we get in this business.

I'll just show an example. In 1998 we bought the Diasonics Vingmed business, $230 million we spent for business that had $10 million of EBITDA. On day one, this looked expensive, right? Now you sit here in 2006. We did this to launch into the cardiac ultrasound business. We are now number one, $400 million franchise. They had an Israeli base in technology that had a PC backed technology which has been the foundation of how we built our portable business and driven massive productivity and we acquired distribution which made us number one in Europe. This is now generating $250 million in incremental margins each year.

So when you run GE, you run a company that's got 40,000 engineers, 40,000 salespeople, 100 countries of distribution and we always want to be able to drive real operating synergies as we look at the Company. Our goals for the portfolio remain the same, increased industrial growth rate, improved financial services return.

Our priorities going forward are to continue to build out the growth platforms; to continue to broaden our footprint and infrastructure and in healthcare; redeploy from slower growth industrial businesses, we are going to continue to focus on that; focus on high ROE financial service businesses. We always have the leverage of the GEnx dividend at 40%. We can always play with that if we want to redeploy elsewhere and a continuous focus on EPS and our ROTC expansion. In other words, we went from $1.82 to $1.72 as we exited insurance. We felt like that was strategically important just given the bad set of the insurance business. That's not what we want to do going forward. Any portfolio move is going to be in the context of expanding EPS and expanding ROTC and we view insurance as kind of a one-off special case just based on where that business was and what we had to do.

So second thing, reliable execution. I think what you are going to see here is the biggest business infrastructure is in a long-term secular tailwind position that is going to deliver over longer period of time. We believe that NBC is going to be a positive earnings contributor going forward. We are in a period of expanding operating profit with -- I think we are in kind of the second or third inning from a standpoint of where we can take operating profit rates going forward and we have gotten some massive tailwinds behind this Company in terms of things that we think are going to add a foundation going forward.

Our business is pretty good. Our run rate from an order standpoint even through April continues to looks strong as it pertains to capital equipment, services, short cycle orders, and financial service volume. I think what we would see in the economy is probably what you've heard the last two or three days, which is delinquencies are stable. Pricing, we are getting pricing in some businesses, tougher in others but net-net pricing is positive.

Inflation is more or less stabilized. Interest rates are rising and we just see lots of growth out there that is available. We are managing more volatility than we would in other years but basically we think the environment is pretty solid and pretty strong.

Infrastructure, which is 35% of the Company, is just in a long-term -- we just have long-term tailwind. We are winning or have won every technical battle in almost every business that is in here. We've got a massive installed base that has grown up around the business. Our productivity programs and operating profit expansion in these businesses are just beginning. We use our industrial knowledge to do a better job of financing and the one thing we are working on is just trying to get all the water businesses integrated and get those back up to deal case and we think we've got some good headroom to doing this. But this business is in a long-term substantial tailwind and is going to be really we think very strong as you look forward in the Company. This is 35% of the Company.

Commercial of consumer finance, another 35% of the Company, if you look at commercial finance; good asset growth; low delinquencies; global origination capability; good vertical knowledge; extremely strong business mix and business model. The one thing we are watching in commercial finance is just the excess liquidity that is out there. And so in every asset class we're trying to figure should we be a seller, should we be a buyer? How do you stay fast on your feet? How do you grow? And the consumer finance side, again, pretty good tailwind in that business. Good consumer mix. Good developing country blend. Nice productivity. The thing we watch in that business is regulatory pressure, which caps pricing and competitive pressure and just really putting a big emphasis on pricing right now.

But if you look at these two businesses, which are another 35% of the Company, in very good shape, strong balance sheets, good ROEs and good origination on a global basis.

Our healthcare business is very strong. We will see 10% to 15% revenue growth and 15% plus operating profit growth, strong technical mix. We really have tried to build a diversified set of healthcare assets. We think we've been pretty successful along those lines. Nice global growth, good service business that's growing. The one thing we are managing is the change in the reimbursement rate in the United States, which really tends to hit the clinic business the hardest. We are not seeing a big impact from that right now, but it is something we always watch and we just like the diversified business model we have got in the healthcare business and think we are very well positioned in this business.

Industrial is going to have another good year, revenue up between 5% and 10%, operating profit up in excess of 15%. Most of the business is in pretty good shape overall, good asset utilization equipment services, strong growth in consumer and industrial, good operating profit expansion, lots of cost focus, globalization on cost. So good strength overall.

The one business we are watching really here is plastics, where volume is pretty good. Pricing is down slightly versus where it was a year ago. Benzene is still the high 2s, so that is one business we are really watching in the industrial mix, but other than that we feel like a very strong set of businesses in industrial with some decent tailwind and pretty good order rates.

At NBC, you know NBC has been a big contributor over the last five or six years. We are having a tough 2006 really driven by the ratings in primetime. Operating profit will be flat. I think the way we look at the business right now in the network is that we've stabilized our ratings. We think the NFL is going to give us good -- the upfront is still early. There are not a lot of businesses that have been written behind the upfront yet, but I think the diversified business model we have got here is still very strong. So when you look at entertainment cable, when you look a lot of the other assets, they are still very healthy. When you look at the movie business and some of the international growth assets, still very strong and we think some opportunities here to improve on the ROTC. And our focus is on getting this business to make it a strong earnings contributor in the future, and we think that is where it is going to be.

If you look at the world of entertainment, we're not counting on much [forward] market growth. We think the ad market could be flat to up a couple of percent. We think the cable market will be up 3% to 5%. But we really attack it today as a set of brands, if you will. Those brands are NBC and the NBC stations, which are really broad brands. We'll earn about $400 million of operating profit in that space. And in a set of really demo driven brands like Bravo and USA and Sci-Fi, we'll earn about $1.1 billion in operating profit this year on those brands. Then a set of content driven brands like news with MSNBC or business with CNBC or Telemundo with Hispanic.

And then when we look out the next 18 months, really what we are counting on is the network, it may take us a year or two to get that back to where we want it to be. We are counting on roughly flat earnings out of the network, but the entertainment cable and the content driven -- you know, Telemundo is going to be up more than 20%, CNBC up more than 20%, the entertainment cable franchise up 15% to 20%. And then we are delivering on good content. We're building good web communities, so we will get some good advertising pullthrough and we have already locked in some cable business for the next four are five years at higher rates with more growth that is into the business plan right now.

So when you look the entertainment business, this is a much more diversified set of brands, we think a much more robust business model, and we think this is one that is going to allow us to have NBC as a contributor to earnings growth going forward. Then step back and look at the broader portfolio.

One of the things we did with Universal is broadly diversify the revenue streams. The movie business and the DVD business is going to have a pretty healthy year this year. The parts business we are actually seeing lots of growth outside the United States with licensing deals that we think are going to improve both revenue, earnings and ROTC. We've got just the purely online business with doubles with iVillage and its going to grow 20% or 30% a year. Then we've got big international opportunities to continue to grow the footprint.

The second big point I would make on the portfolio is the fact that we think NBC Universal is going to continue to be a contributor to earnings growth when you look out into the future of the Company and we think the business model is really what gives us confidence that this is going to happen.

Operating profit, we feel we are -- we have got some really good operating programs to expand the operating profit over the next few years back to where it was at the bubble days, back to where it was when we were close to 18% with the power bubble. Really the three things we're driving very hard inside the Company are service mix, which we're just going to get. In other words that is something that is already locked in that's going to flowthrough; a real focus on simplification, which takes down our G&A costs; and a real focus on product and product margins both using productivity and pricing that we think is going to give us some tailwind in the next few years.

On service mix, this is pretty arithmetic, in other words if you look at the mix, if you look at the percentage of service in the industrial platform, it grows by one point or two every year and the operating profit rate on service also expands and has been expanding almost every year. And if you just did in the back of your mind if you said product grows at 8%, service grows at 10%, this is about 80 basis points of expansion that we get an operating profit rate over time. Now you add to that the fact that we've got a young fleet. If you look at engines, if you look at turbines, if you look at rail, if you look across the board, we have got a young fleet of businesses out there. This is just going to keep driving expansion as time goes on and we think in a very positive way.

Simplification is something we have focused on as really revenue as G&A dollars spent as a percentage of revenue, we've taken out about $2 billion of cost over the last two or three years. We think we'll get another $2 billion out next year just in the next 12 months. This is really accelerating. It is being driven by the new organization. I have got Lloyd Trotter now, one of our best operating leaders that's kind of leading the process and the process focus. We're driving towards common back rooms. We're driving towards common IT systems. We are closing down rooftops. We think we're going to dramatically execute here and continue to drive operating profit rate behind it. So we think we've been good momentum in this initiative that is going to accelerate as you look at the rest of 2006 and 2007.

I think one of the things that I wanted to make sure to point out, again we always focus on productivity and we'll get in excess of 3% total cost of productivity and we are getting pricing ahead of inflation. So we continue to see the ability to price inflation stabilize and we'll continue to get priced ahead of inflation. I think one of the things I wanted to point out is and I use the evolution locomotive example as we have introduced a lot of new products in the last two or three years. The evolution locomotive, the GE 90, GEnx, the VCT, products like that that are going down the learning curve and we are also getting pricing at the same time.

So if you look at the evolution locomotive, we have expanded capacity. We're getting better pricing. We're getting lower cost. The margin rates of this over the last couple of years are going to grow 30%, 35% of margin rates. Then you expand that inside the company when you look at all of the new products we've introduced, again, we are going to get good CM rate expansion behind these new products and productivity programs over the next few years. We think that is extremely positive as well.

The last thing I'll talk about is we continue to drive the global footprint of the company. We've gone from a little bit less than 30% of our costs outside the United States and we will be close to 50% in the next few years. We continue to do it both on the product and the service side. I show here our new high-end washer and dryer set that we designed that's manufactured in China; 15% to 20% cost advantage, higher price, and better margin rates.

So that dramatically changes we think the footprint of the company and at the same time we continue to do engineering around the world. So we've got 3500 engineers in India which we think generates a couple of hundred million dollars of productivity every year and probably more than $1 billion of productivity over time. So if you add up all the things we're doing and see where we stand today, we ought to get about 100 points of operating profit expansion per year over the next few years. So 100 basis points or more of ROTC expansion and 100 basis points or more of operating profit expansion as you look at the company over the next few years.

If you look the year on '06 again we think we're going to continue to have a strong year. We think revenue will be up about 10, earnings up 10 to 15, earnings per share up more than that, $25 billion of cash flow from the operating activities, expending ROTC, all of the business guidance is consistent with what we talked about in December. We are going to grow the business segment profitability 15% despite having NBC at zero.

So pretty good performance across the board and we are comfortable with the range. We got some tailwinds going. We have got some headwinds going. We think they are about evenly matched. We're comfortable with the range. It is still early in the year and this is something that we will continue to work on. But we feel good about where the company is positioned right now and again we think other than NBC we've got pretty good operating performance across the breadth of the company.

The other thing I want to point out is that if you look back to 2002 and beyond, the company has operated pretty well. We have had three big-time headwinds over the last three years. Insurance, this is just taking the insurance earnings out without talking about adverse development through the system. We have had the power bubble that we've wrestled with and pension has been almost $3 billion pretax over the last four or five years. So if you look at that and project forward, you have got power now a positive. You have got pension that is going to stabilize. You've got insurance out of the system. The extent to which we get gains we could put them into restructuring or making the company better going forward. And I think you just sit here and you've got no headwinds.

So growing 10% plus, if you look out in the future with no headwinds is a lot easier than growing 10% plus when you got a point or two every year of headwind. Plus we're buying back stock, so that gives us a couple points of both ROTC and expansion going forward. I just think this is a big story from a standpoint of how the company is positioned for the future.

Talking about growth, common [issues] growth, my theory to run the company has always been that GE has always had great operating disciplines and risk disciplines. We never wanted to lose any of those. But if we could apply operating discipline and process discipline to growth, then we could make this a more robust company for investors going forward. So I think if you look at the company today, we have got a good set of growth processes. We have got broad technical leadership. We have got a massive installed base. We are well positioned globally as a company and our goal is to make the growth processes every bit as robust as the operating processes have been over a long period of time.

To do that, to make something like this successful you have to think about process and metrics. So what we have really done is thought about the elements of growth in technology, in services, in globalization, and the way we focus on customers, commercial excellence, innovation. We measure them. We have teams focused on them. We're driving progress against them and that is how we think we're going to make this visible, valuable, and consistent as time goes on. And we think that is what you get with GE.

First on technology, we just have taken what was a pretty good technical base and expanded it dramatically. If you look over the past 4, 5, 6 years, we are still investing in the old technologies to improve the installed base and things like that, but we have added an immense amount of capability. We have gone from one to four global research centers. We've added the amount of engineering leaders we have inside the company. We've globalized the capability. We've invested in new technology. I think if you think about the company today you've got to think about us in terms of having a much broader set of technologies and a more robust model for growth than we have ever had in the history the company. And that is behind us. In other word, I don't have to look; we're going to have to compromise operating profit or anything else to make these investments. We have made these investments and now we're going to have the dividends from them and you get that in two ways.

First one is it is a more robust business model. Oil goes from 15 to 70; our growth rate increases because we have got coal gasification, because we've got wind, because we've got service optimization, because we've got LNG. Because we have done all these things, when we look at this we actually have an energy business that's order rate is expanding, not contracting around a tremendous footprint of technologies and more robust technology leadership.

One way to think about what we've done in technology, I could draw the same chart for healthcare. I could say, look, reimbursement change in the United States, I worry a little bit about the U.S. market. Now the healthcare business is so much more robust. We grow right through these changes in the market and I think that's true across the entirety of the company.

The second thing is that we just create massive barriers to entry. If you look at our aircraft engines business, we spend between $1 billion and $1.5 billion a year in R&D. We launch new technologies that absolutely can span the entire breadth. We have more depth than anybody else. But if you look at the right-hand side of the page, we have technology in every corner from cost of ownership, from service technology and on down the line. The notion that somebody is going to come in and sneak up on us from a service standpoint is just not going to happen.

And the notion -- right now we've got two competitors in commercial and military engines, the notion that there's going to be three in my lifetime -- it ain't going to happen because you literally have $1.5 billion each year and cumulatively $20 billion, $30 billion, $40 billion of R&D built up in this pipeline, so I would just say technology is a big, robust theme that gives us better margin rates, gives us more capability, puts a big barriers to entry in a lot of our businesses.

This is one of the most valuable things it creates, which is a massive service franchise, which has doubled in the last few years. It is going to double again. We kind of extended just out -- based on the visibility we have out to 2010, you get close to $50 billion by 2010 of 30% plus operating profit type business that is growing in every segment of the company. So rail is growing, aircraft engines is growing, power is growing. Everybody has got this big installed base and big competitive advantage around services and then again not only do you have better technology, which we also have a very massive installed base advantage versus our competition and already embedded to give us high visibility, very valuable growth when you look at the future.

One of the other things we have done is worked on waste, take GE process and apply those to customers. So on the left-hand side, we talk about using Six Sigma and Lean and impacting what is called a net promoter score in front of our customers. So what we have done is taken a lot of our growth and customer facing processes like new product introduction, order to remittance and created a set of lean showcases throughout the company which really allow us to embed ourselves with our customers, gain market share and drive growth.

On the right-hand side what we have done is really done a better job of marketing and selling in the totality of the company to find ways to drive incremental growth across the system and both of these are driving good growth across GE.

On the lean showcases, we've got 30 of these going inside the company. This takes again the principles of Lean and Six Sigma and applies it to a customer metric like MR cycle time, like field approval time, like doing outages in the oil and gas field. This shows you some of the cycle time improvements we have made. Each one of these teams is signed up to get $50 million from incremental growth. So you get that by better pricing. You get that by better cycle times. You get it by more capacity. And in the case of a deal team you get it by better outage turnaround in the case of the energy service team. So we have this very strong GE process capability that we're building across the company in terms of driving incremental growth.

For us for excellence again is both focused enterprise selling and enterprise marketing. Eco-imagination, which we talked about a year ago, has a growth rate two or three times the balance of the company. We become the go to partner in terms of the eco initiative. We have got big collaborations going out there. We talked about getting $20 billion by 2010. We think we will exceed that in terms of this initiative. We think it was the right thing at the right time and allows us to play as a big company.

And on the right-hand side, what I would talk about are financial verticals where we really look at healthcare, energy, GECS, businesses like that and put a common front-end on all of our financial capability, which helps us improve ROE, lower risk, do a better job of origination, and these asset growth is growing about 2X the total of GE capital. So it is a way to use the totality of GE in order to drive incremental growth into the future.

Probably the best place where we use the totality of the company is in globalization and this about half the company today and it is growing at about 15% a year, so it's growing at faster than the growth rate of the company and a big driver of the growth are developing countries. In developing countries we're at about $25 billion in '05. We see that growing 15% plus over the next few years and it allows us to play in using the breadth of the company. So it allows us to play using infrastructure, using financial services, using our compliance practices and being able to go company to country from the standpoint of interfacing with places like China where they really do look at us in their totality. So we think this is a good avenue for incremental growth in the future as well.

Let's talk a little bit about India. In 2001 would talk about going 5x5 by 2005 in China, so $5 billion of revenue, $5 billion of sourcing in China by 2005. We hit the $5 billion in revenue. We did about $3.5 billion in sourcing. You can use this to rally people inside the company and India today in our businesses anyhow we see the market really evolving very rapidly. So energy, water, healthcare, India is offering financial services is offering tremendous opportunity for growth. And the country in my view is finally you have got such a great economy that is more broad spread. It is exceeding the government's ability to slow it down. So India really I think is evolving toward the tipping point and we think we can do maybe 8x8x10; so $8 billion in assets, $8 billion in revenue by 2010 in India and what we're really driving is winning all the infrastructure battles.

We are kind of the infrastructure company of choice, getting launched in real estate and commercial finance, driving the water business that's got tremendous potential, as has healthcare, owning the big customers in India. So we think this is a place where we can drive again continue this stream of developing country growth into the future.

Then the (indiscernible) innovation, again, the way I would think about this is kind of a pool of ideas. We've got 90 ideas each one of which has the potential for $100 million of incremental growth and this has CEO endorsement, let's say. In other words we get to pick who the leaders are. We get to pick -- make sure they are funded completely. We get to make sure all the best practices are installed in these programs, and then we measure them. So we baseline incremental revenue growth and measure where they go. And a couple of the imagination breakthroughs are ones like portable ultrasound, which is where we compete with a company called SonoSite. We have had amazing growth in this business, incremental growth, and we have got a real chance to be number one by the end of this year, maybe next year in the case of portable ultrasound.

We cut a redline monogram share compared to Subzero and Thermador and people like that and said okay, 2004, here is where your share in is. Incremental share is what we count on the imagination breakthrough and we are already seeing tremendous growth in market share and here is a case where we have improved our operations, we have improved our branding, we put a little bit more advertising into a big incremental share there and then we created an entertainment financial services vertical around cable and financing in that segment because we thought we could use some of our NBC knowledge to be able to make us smarter in financial services and we're seeing great revenue growth there.

So think about this as just portfolio of ideas that we always keep on the front burner and generating $2 billion, $3 billion of incremental growth every year, that is the stuff that is the difference between growing 7% versus 9% ultimately when you look at the portfolio. So that is what we try to do with imagination breakthroughs and then every now and then you get a big megillah, one like coal gasification where you really want to drive -- so we go -- one like coal gasification that could be a real game changer. And when you look at all the coal plants that have been announced between 2006 and 2012 and the ones that could be done in coal gasification, it would mean about $13 billion of revenue for GE over this time period and you throw in the global aspect of it in terms of China, India, Europe, places like that, it could be even more.

We are very close to getting a couple commercial orders in the United States, so our target is to get a couple of commercial orders in the United States this year that have already been approved by the Public Utility Commission and then it is very problematic once it gets launched for a PUC to approve a pulverized coal plant when they see a validated coal gasification plant. So a few of these imagination breakthroughs are truly game changing ideas and again, we think that coal gasification is one of those game changing ideas and think about the future.

So again, I think you think about a process for growth, we have done 8% organic growth for the last six quarters. We think we're going do 8% organic growth this year. I think the number itself has become kind of a distraction and in and of itself I've gotten feedback from investors along those lines. I want you to know I'm not taking the heat off. It is just I think showing the range of what we initially had intended and like I said, I think if anything I am more bullish about our growth prospects but I don't want the focus to be an over/under on one number. I want the focus to be all the stuff we're doing, the portfolio of the things we've already done?

I think everybody down here has talked about growth this week because the markets are good but if you sit back and say -- think about us, we've got service. We've got financial verticals. We've got a bunch of stuff here that is already baked that is going to give us I would say dramatically above market growth that is already in full flight and then a portfolio of some bets, the growth platform. Not all five of the growth platforms are probably going to be everything I thought they were going to be. But if four of them are, that is a lot of growth, right?

Developing countries, India may not be as big as China but it could be bigger. Turkey may not work, but it might. I think the way you got to think about us is process and metrics are at the baseline of all this which ultimately I think makes the delivery very believable when you look the company and how we are positioned and where we go forward. So again we think this is something you don't have to dream about. This is already embedded in the value of the company that is consistent, valuable, visible growth.

Then the last thing just simple structure and strong theme. It is I got a company that was run by one guy that was 10 industrial businesses, 28 financial service businesses, 2 headquarters and a legacy team and the philosophy I always had of how I thought we should run GE is to own markets, organize to own markets, reduce complexity broadly inside the company, hard wire intellect; I mean best practice sharing is great but the vision I've always had is to hardwire intellect inside the company and have a leadership team that was both broad and deep. In other words I never wanted to do away with the breath of the GE leadership team. I think seeing more than one business is good in your career, but I also want teams that are deep. I want people like Joe Hogan who has been around GE but is recognized as a healthcare expert in his field as well and having a team that is both deep and broad. And that is what we have today inside company.

I think if you looked at the way we are structured, if you looked at the philosophy of the organization, we have got the most robust I think company and one that can scale to be several times bigger than it is today.

Owning markets. Dave Calhoun can go to China or India or anyplace like that and he can swing for the fences in infrastructure and he has got all the assets and all the technology and all the capability that you would ever want to be able to build that market. If you look at Asia and commercial finance on the top right, I would say we have always been an underachiever and outside the United States in commercial finance. One of the reasons has been every business operated on its own. We would have all these small businesses out there versus having one commercial finance business that can now look at Asia and say, boy, we can play in some places we couldn't play before. And from an industrial standpoint the ability to put together the enterprise, whether it is at the Olympics or the NFL, we think $3 billion of incremental revenue that is out there to be had just by allowing these new organizations to own the market [strength].

Reducing complexity, I have always been a believer in simplification, ways to consolidate backrooms. I think if you look at again commercial finance, infrastructure, industrial, the big changes we made a year ago, we'll get $1 billion of cost out and these are all businesses that could harmonize around common service shops, common facilities, common back rooms, common IT systems, things like that. Dave Calhoun in infrastructure will probably run with one IT organization for the entire business versus having energy and aircraft because really in the end we can get a lot of productivity out of that. The businesses really operate the same way. We ought to have one IT organization for the totality of that business. So we think this is just dripping with ways to get more cost out and get more resources in the ownership of the customer.

Hardwire intellect has always been a big deal of mine. I show the functions drive a lot of this but this is just an example of the global research center and doing work on membrane technology across the board. Xenon enters here in terms of hollow fiber technology. That technology gets played in healthcare and the protein separations business and plastics and the process engineering part and in energy and the environmental part. So because we have a global research center, because we believe in hardwiring intellect, we can take one technical idea, or one cost idea, or one service idea and spread it dramatically throughout the company. We think this is a big value.

Then lastly on the team, if you look the six people that work for me, these are all domain GE folks that are great in domain and so they have tremendous value and if you look at the functional leaders, they are functional experts and people that can hardwire initiatives throughout the company. So I think we've got a pretty robust set of leaders. And then we've got another 50 behind them they are getting great experience, that are broad and deep inside the company, getting more experience. These are the people that are between 35 and 40 years old inside GE. So we have got a deep bench. We have got a very deep bench and a very strong leadership team at the top. And we think that is only going to get better as time goes on.

And inside the company, look, our retention among the executive branch is still above 98%. So we have got a very strong pipeline of people that know these businesses. Every year we do a CEO survey and I usually share the results. Here we have got tremendous response, 95% of the exempt employees we get 150,000 people to take a CEO survey and you get a sense of how they feel about the company, what they think about their leadership team, what are the ideas, things like that. Our scores are traditionally above other companies and very strong. Again, we like the structure of the company today. We like the leadership team and how they are positioned.

So just to wrap up on one page, we like the financials about the company. We think you're going to be in a time period of high single-digit revenue growth, double-digit earnings growth, expanding returns with a strong dividend and a lot of free cash flow, some of which is going to go into a buyback, some of which is going to go into reinvesting back into the industrial footprint of the company. And again, I think all of us work for investors and when we hear the things on your mind, you sit back and say what is there to like about the company? I would say very strong portfolio of businesses and beyond that in a stage where we're going to be returning a lot of cash back to investors, high ROTC, big buybacks. It is a portfolio that spouts cash in terms of where we are.

From a business mix standpoint, the biggest segment is in a multi-year secular tailwind that is very strong and the business that has created the one drag this year in NBC, we're going to turn this thing around and feel confident that we can do that. Expanding operating profit and massive headwinds behind us, you have got to like that aspect of it.

From a growth standpoint, you don't have to have one ounce of vision to believe in our growth trajectory. We're seeing it today. We have got the best technical pipeline. We have got a massive installed base and nobody -- nobody that has been here this week or that you're going to talk to can play globalization better than this company can in terms of where the future is going to go. So we have got that. We have got a very strong team in place and that is GE. That is where we are.

So with that, let me turn it over to you.

QUESTION AND ANSWER

Unidentified Audience Member

Jeff, the A350 apparently is going back to the drawing boards. The speculation is that will be a bigger plane requiring a bigger engine than the GEnx that was on the original version. How do you think you'll approach it either with a solo engine or maybe go to the GP7000 joint venture?

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

What I would say, Martin, is it is still in midstream right now. I would say it's probably going to go to a family of planes, but Airbus has not declared exactly what they're going to do. My hunch is that the GEnx will be okay for a part of the family of the planes and the extent to which they go to higher range aircraft, one that is maybe above the 777 or something like that, I think it's going to require a new engine. I don't think the GP7000 will be the right one to work on that platform. But it is all still in flux and like we did with the 787 or anything else we do a very formal ROI calculation as it pertains to the investment and where we go with it.

Unidentified Audience Member

I guess big picture, what do you think is the biggest organizational challenge that you have making the growth processes at the company as robust as the operating processes?

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

The biggest operational challenge, Nicole, I would say two things. One is we have to continue to globalize capability. So I think you can sit here today and say, look, China easily could be $10 billion by 2010. How do you get enough finance people and risk people and manufacturing technology talent like that to do it? I'd say the second thing is just making sure that you have got people that are innovative enough that are going to continue to look at coal gasification and figure out ways to commercialize it technically and commercially. So I think business schools don't teach people how to be innovative. You have got to find them in your system. You have got to pull them out. You've got to put them up there and you've got to find ways to leverage that capability inside a big company. So I think those are the two things.

Unidentified Audience Member

Just two questions. One is a little bit of a housekeeping on the redefinition of the revenue growth, which I think we all welcome but if we think about the 2 to 3, should we be thinking about a global GDP number and the real GDP or how would you really frame that?

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

I think it is a global GDP number and it is real GDP like -- so off a 3 base or something like that over time. Yes.

Unidentified Audience Member

Then when you think about turning around NBC and getting it to grow, it sounds like a big chunk of it is just growing away from primetime in the network business, but I wonder if you actually do think you have visibility on changing the model or that piece of the business? You put some of this Internet stuff up on the board and there's some feelers out there, but is getting NBC growing more about growing away from the network or is there really another formula?

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

What I would say, Jeff, first, look, never in any GE preamble like when we all go to leadership school is going from number one to number four a strategy. In other words nobody ever got a big "At a Boy" or anything like that, so we stunted up. So one aspect of it is get better, guys. Get better. Now when I was sitting here in 2003/2004 I always thought we were too vulnerable from being number one for too long and too vulnerable for an advertising only business, and that was the whole thinking behind Universal was to get us into some open field, if you will. So I would say some of what I would say about the broadcast network I would have felt anyhow and going from number one to number four just exacerbate it. In other words it is always going to be -- it is a choppier market today in terms of what advertisers want and things like that.

So what I would say, Jeff, that is one part of the answer. I think the other one is if you look at and I spent a lot of time with people like Martin Sorrel. I have kind of a network of advertising people that I meet with regularly because this is an important thing for all of us. What I would say is when people are unsure, advertisers are unsure of how they are going to spend their money, so they want to dabble in things. What we are trying to do is give them stuff to dabble in. So whether it is Bravo, whether it is Sci-Fi, whether it is U.S.A., whether it is NBC 360, we've given them ways to give us money, hopefully more money than our competition and things like that so that we can put them in a lot of different places. And so I think that is the strength of the business model now is the diversity.

I show the numbers up here. Look, I will be disappointed if our earnings are a flat again in the network next year but I am not going to commit to you -- in other words I'm going to build a business model that allows us to grow earnings assuming they are going to be flat because I don't want to be Pollyannaish about what it takes to go from number four to number three to number two to number one vis-à-vis where we go.

Now, look on the digital front, I think we will get somewhere between what I would call net digital dollars close to $500 million next year and that will be 200 or $300 million of pullthrough and probably $300 million plus of what I would consider to be purely digital, purely digital. I think international is a big platform that we have under whelmed and so I think international is going to be a nice growth aspect. But look, this is has been a high operating profit rate, high ROTC business for a long time. I think it’s hard for investors and I understand completely. You sit out there and you say look, is it a business model issue or a performance issue? I have thought long and hard about this and spent a lot of time thinking about this with people outside the company and inside the company and I don't think it is a business model issue. I think it is a performance issue.

I think if we were sitting here and it had only gone from number one to number two, operating profit would be up 13%. We wouldn't even be having a conversation and you say hey Jeff, great job on Universal, great deal on Universal. We wouldn't be here. But I think it is up to us to prove it, Jeff. It is up to us to prove the robustness of a business model and where it goes and things like that. So I think it is important. It is important.

Unidentified Audience Member

GE aside, one of the tenets of business school 101 is the premise of economies of scale and you actually for a while now have been a big advocate of sizing your advantage. The question is as you think about your portfolio in all these different business why isn't there a little bit of within a variety of different areas -- why isn't there the prospect of just economies of scale that might lead to possibly larger divestitures which actually could help your growth rate over time?

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

John, what I would say is I think two questions you asked here. One is should we be discerning about the portfolio when things just look like either we can't add value to them, which I would say not reinsurance but I think if you looked at GE financial insurance, the Genworth business, we weren't adding much value to that business and it can grow better on its own so I think that's one thing. We always have to be discerning in the portfolio, say has the business reached kind of an asset where it is going to become less valuable or we erode value by having it? And I would tell you, John, you're still going to see divestitures here. You're still going to see again take in mind always in the context of expanding EPS and expanding ROTC, but there are clearly some businesses to your point we don't think we can grow like we could.

But I think if you think about the heart of GE what we try to do is position the portfolio so we can win big and big gains. So in other words, if you think about the company today we are big in big markets, so energy, healthcare, aviation, rail, China, India, entertainment. These are big company games. Small guys are not going to win in India. GE is going to win in India. Small guys aren't winning in energy or wind. GE is going to win in energy and wind. Small guys are not going to do coal gasification. GE is going to do coal gasification. So what we try to do is get ourselves in places where size, scale, capability, domain, balance sheet ultimately wins and I still think that is trillions of dollars of market out there and get out of things like global exchange.

Global exchange was an EDI software business. Scale meant squat in global exchange and we sold it. There are still businesses where scale doesn't mean anything that we should exit as a company. So I think it is a great question. There will still be businesses there but I think if you look at the vast majority of the company we win big in big places and your size is an advantage ultimately.

Unidentified Audience Member

Jeff, you seem more confident in your margin targets I think this presentation than in past presentations. Can you frame this a little bit? Is this more confidence that NBC and power gen are turning around or is it a function of just the service mix shift and operating leverage you talked about?

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

I think it is a little bit of both. What I would say, Scott, is, look, the operating disciplines inside GE have never gone away. So some of it is just showing you what we are doing because as we were launching the growth initiative, we wanted to make sure investors -- we spent a lot of time talking about the growth initiatives and maybe not as much time talking about all the stuff we are doing on operating profit that was still there. But like I would say when I look across the set of businesses, NBC is critical. We think that is going to turn around. Since I have been here I have never been more confident in the energy business, because again I think landing the plane, now it's taking off again down the runway is pretty positive.

The service stuff is just from a margin standpoint it is just money in our pocket because it is highly visible. It is in backlog. There's probably more cost out ideas associated with service just because you have so much knowledge of the domain and so much control over -- if you've got a big backlog of CSAs, you really can mete out the way you drive productivity in a very controlled way. So I think it is all those things that comes to the fore that feel good about that.

Unidentified Audience Member

You talked certainly more about your service but I was wondering -- I listened to Dave Calhoun's presentation the other day on service and technology, when is GE going to go for the second derivative in terms of service business where there is no real financing involved to get the business or there's no nuts, parts, labor, unions, or it is really an intellectual type of capacity where again big plays really hard. When are you going to put together for instance JA and FAA and the Chinese who just got the source code for the GPS, the Galileo system that they have, and put together free flight and combine it with meteorological capability to be able to help go after the airlines use of fuel in a pure intellectual way? There's no inventory. When are you going to manage the electrons in the grid? Okay? Move to the next level where we really have an almost infinite return on capital that will really, truly demonstrate the value of your present knowledge and well-along established reputations in the key markets we serve?

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

You know, Nick, what I would say is the furthest along we are because a lot of those businesses are domain intellect and information businesses, and probably the furthest we are along is in healthcare, where ultimately I think if you look at our health care IT business it is a $2 billion or $3 billion today. We are there without ever creating decision support. In other words what we've got going with Intermountain Health not only doing electronic medical record and clinical systems and stuff like that, that is all pretty easy stuff. This is like Dr. X sees patient Y and knows precisely what to do online and then the Pharma companies come in and things like that. I would say the healthcare is furthest along and healthcare has got probably two or three experiments going on right now that unlock that. That turns that into a $10 billion business ultimately, something like that.

The next one is energy, where we've got this optimization business so we now have controlled the portal of usage that we can start building intellect around that. And I would say rail, we've got the computer dispatch, we've got the portal of usage and now we've got to turn that into decision support. And aviation we're probably the furthest behind. The key is you get this usage portal, whether it is an MR scanner or a device or something like that and turn it into decision support. That takes all these service businesses and opens up and a new $500 billion market or $200 billion market or things like that.

I tell you the other business we could operate like that is security. The other business that could operate like that -- like we are getting 8% or 9% organic growth in security. If people would ever allow technology to do what they are throwing labor at today, whether it was the government or in people's homes or things like that, this is another multiplication of this industry that is yet to be seen.

Unidentified Audience Member

One more NBC question. You mentioned you thought that network earnings would be flat next year. Does that imply the overall NBCU unit that has got growth prospects in '07? Is that the message?

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

I'm sorry, Bob.

Unidentified Audience Member

You mentioned you thought you would be disappointed that network earnings were flat in '07. That implies that the aggregate of NBCU would have earnings growth in '07. Is that the takeaway?

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

I would say, Bob, it is early to talk '07 in terms of operating plan and stuff like that. But our whole strategy, our whole operating theme is having positive earnings growth in NBCU in 07, yes.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

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

But off a realistic base. In other words, I would sit here and say I hope Studio 60 is a big show and all these shows are big shows, Heroes, I think it is the best set of shows we have had. But I don't think we can count on that and so we have got to count on everything else growing better.

Unidentified Audience Member

Staying with the NBC theme is it (multiple speakers)

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

The real problem is too many watched American Idol last night, so if we could just stop that, then we wouldn't have to talk about NBC anymore.

Unidentified Audience Member

Is it too early to speculate about what Vivendi might want to do with their 20% ownership and if given the choice today, would you be interested in adding to the position of NBC Universal?

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

I like Vivendi as a partner and they show every indications of wanting to stay. I would say we have the cash flow to buy the rest if we wanted to, but I also would love to have Vivendi stay as a partner. And I think by and large that is probably what is going to happen. We will see how it goes.

Unidentified Audience Member

You talk about feeling good about energy. Can you talk about what your expectations are for the nuclear business? Investment both in the U.S. and globally and how is GE positioned to serve that market?

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

The way we thought about nuclear is being in the business and from an investor standpoint it could be an upside but it won't be a downside. In other words if there is a nuclear business in the United States, GE will get its fair share, 20, 25, 30%, something like that, maybe higher. We are not going to over invest in the business because all you read today is all the proponents of nuclear. None of the opponents have said a thing, so it is still I think in the U.S. I'm not sure but we are investing in a new product, in a new technology. The government is paying half of it. We're going to be well positioned with a new boiling water reactor. We are competing on a couple deals outside the United States. We've got a good service business going. So I think it is a marginal upside in the next few years, but no down side. In other words we're not going to strike until we see the whites of their eyes on the nuclear energy in terms of where it's goes.

But beyond that, look, I love where we are in coal. I think wind has taken us awhile to get it commercialized, but at a $4 billion run rate we're going to make some good money. Gas, gas turbines are higher than we ever thought they would be. The fact of the matter is it is just the pricing is lower. We got some steel inflation. We're working through that. The price is actually expanding now but in terms of number of units shift in gas it is higher than we thought it was going to be. Oil and gas is booming. We bought the Jenbacher business, it was a $300 million dollar run rate, that is a $900 million run rate today.

So you look across the energy portfolio we've got good products, well positioned globally, good cost positions and we think a lot of tailwind from the breadth of the portfolio in terms of where we are.

Unidentified Audience Member

(Inaudible question - microphone inaccessible) Jeff, on wind definitely is growing a lot. Everybody in the industry says that the structural margins of that business might be 5 to 10% to put it -- 5 to 10 to make it, flat to put it up. What do you think margins can get to in wind as it grows?

Second, coal gasification, as you model that out, as that becomes a real business, can the margins look like the segment average? Then just to rein in on something, water, we have seen a lot of money go into the water, haven't seen a lot of profit coming out yet. Maybe talk about those three things.

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

What I would say on wind, wind is going to be a 10%, I would say 10 to 15% operating profit type business. It does not have a big service stream, but it is low investment. So it is 20%, 30%, maybe higher ROTC. You're going to get a lot of your money up front. The knock on business is relatively I would say relatively modest when you look at that business. The second part was --?

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

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

Coal gasification, what coal does is takes -- and dramatically increases the GE value added content versus just pulverized coal. So the margin rates of coal gasification we think are equal to or better than gas turbine type margin rates and the cost base is now about 10% more expensive than pulverized coal. So when you look at the opportunities there, we think it is pretty good from the customer standpoints and very good from our standpoint. And I would say we would make a couple hundred million dollars of operating profit in water this year. It has been harder to integrate all of the platforms not onto one existing platform I would say is the biggest challenge we have had. But I like the market that we are in and the people we compete with and I think that is going to be an opportunity for expansion and growth over time and I spend --.

Look, I would say this was true for everybody, every CEO you probably see here this week. I spend a lot of time on deals I've done. In other words I don't just do it and say oh, it is not working that well, you guys figure it out. I'd say how are we going to make this better? I do that with Telemundo. I do a Telemundo review probably twice a year because, look, I feel like my neck is on the line on that one. I do that with Amersham. I do it with Universal. I do it with water. I do it with wind. I do it with all of them.

We want to be good stewards of capital there it has trailed -- it is probably a year behind where we want it to be but we think it has got the right trajectory going forward.

That's the show? Great. Thanks. Good seeing you.