THE GE END GAME: BATAAN DEATH MARCH OR TURNAROUND PLAY?

The Core VC Competitive Advantage?

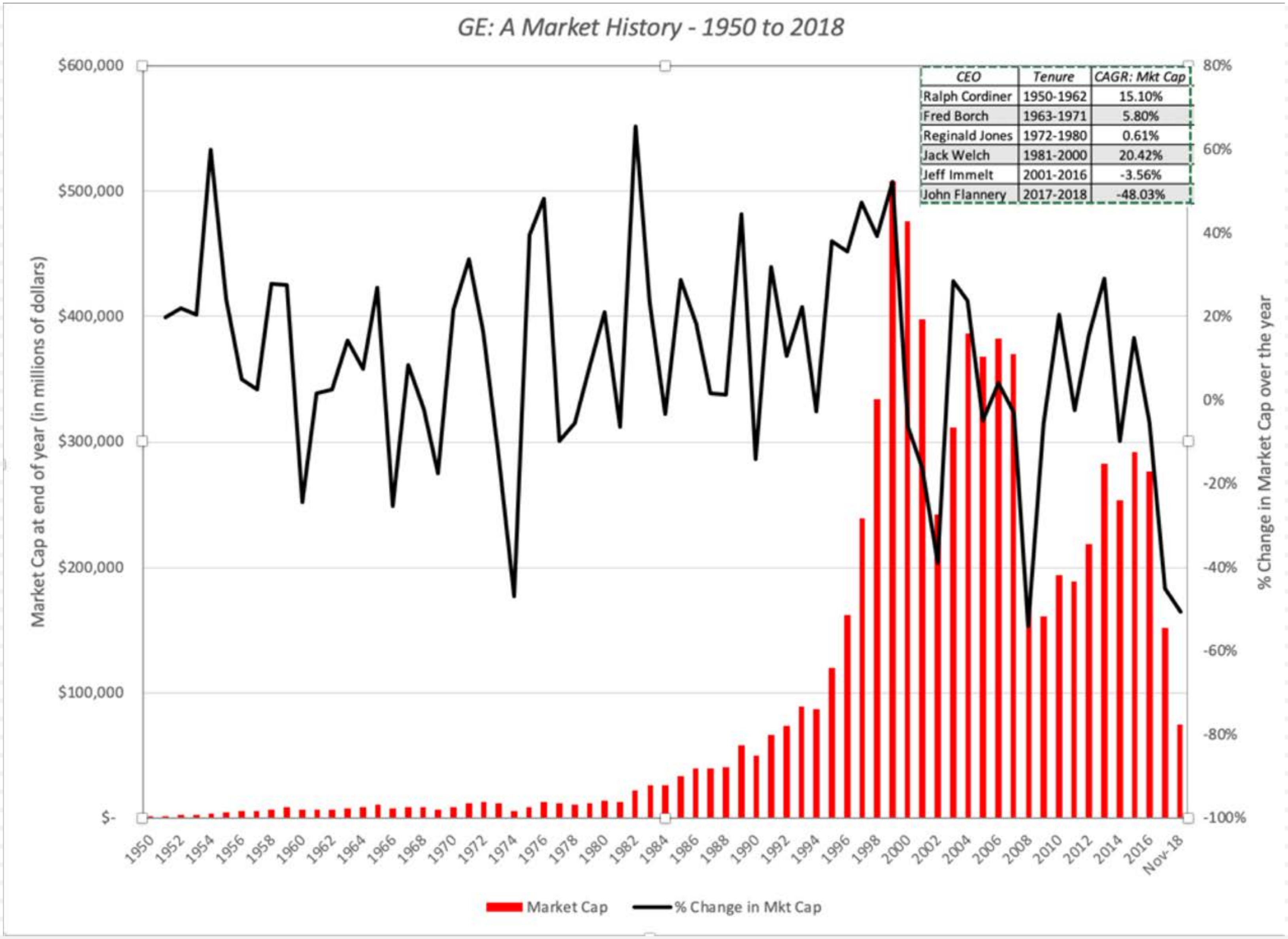
The Lead In

- it was just 2001, when GE was the most valuable company in the world, commanding a market capitalization in excess of $500 billion.
- The quintessential conglomerate, with a presence in almost every aspect of the global economy, it seemed to have been built to withstand economic shocks and was the choice for conservative investors, scared of the short life cycles and the volatile fortunes of its tech challengers.
- In the last two years, GE’s fall from grace (and market cap peaks) has been precipitous.
- As a new CEO is brought in, with hopes that he will be a savior, it is the right time to both look back and look forward at one of the globe's most iconic companies.

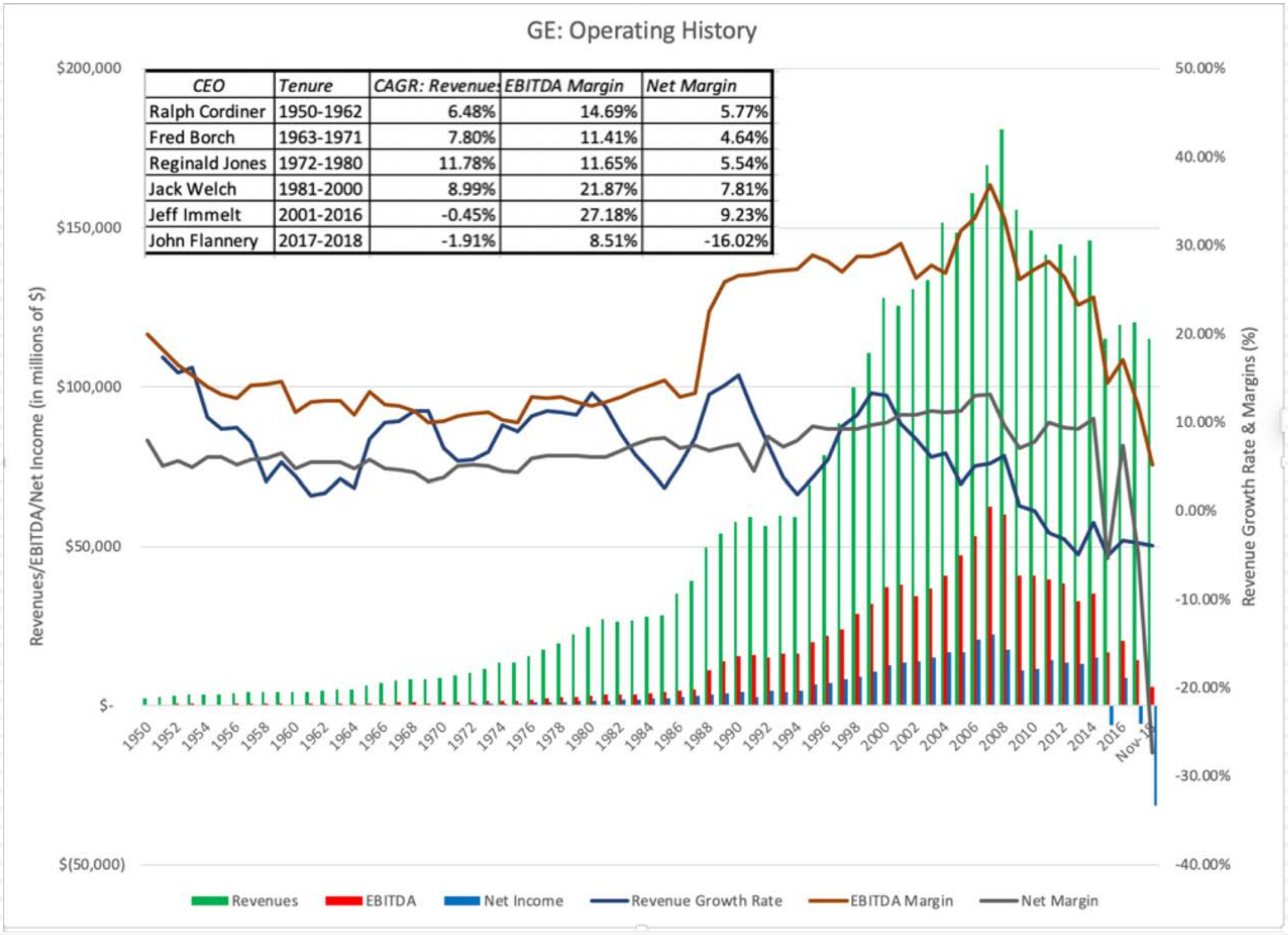
GE’s History

- GE's roots can be traced back to Thomas Edison and his invention of the light bulb. The company that Edison founded in 1878, Edison General Electric, was combined with two other electric companies to create General Electric in 1892.
- The company established its first industrial lab in 1900 and it would not be an exaggeration to say that it revolutionized not just the American home, with its appliances, but changed the way Americans live. GE remained an appliance company, though it made forays into other businesses.
- It was in 1980, when Jack Welch became the CEO of the company, that the company started its march towards what it has become today.

Market Capitalization March

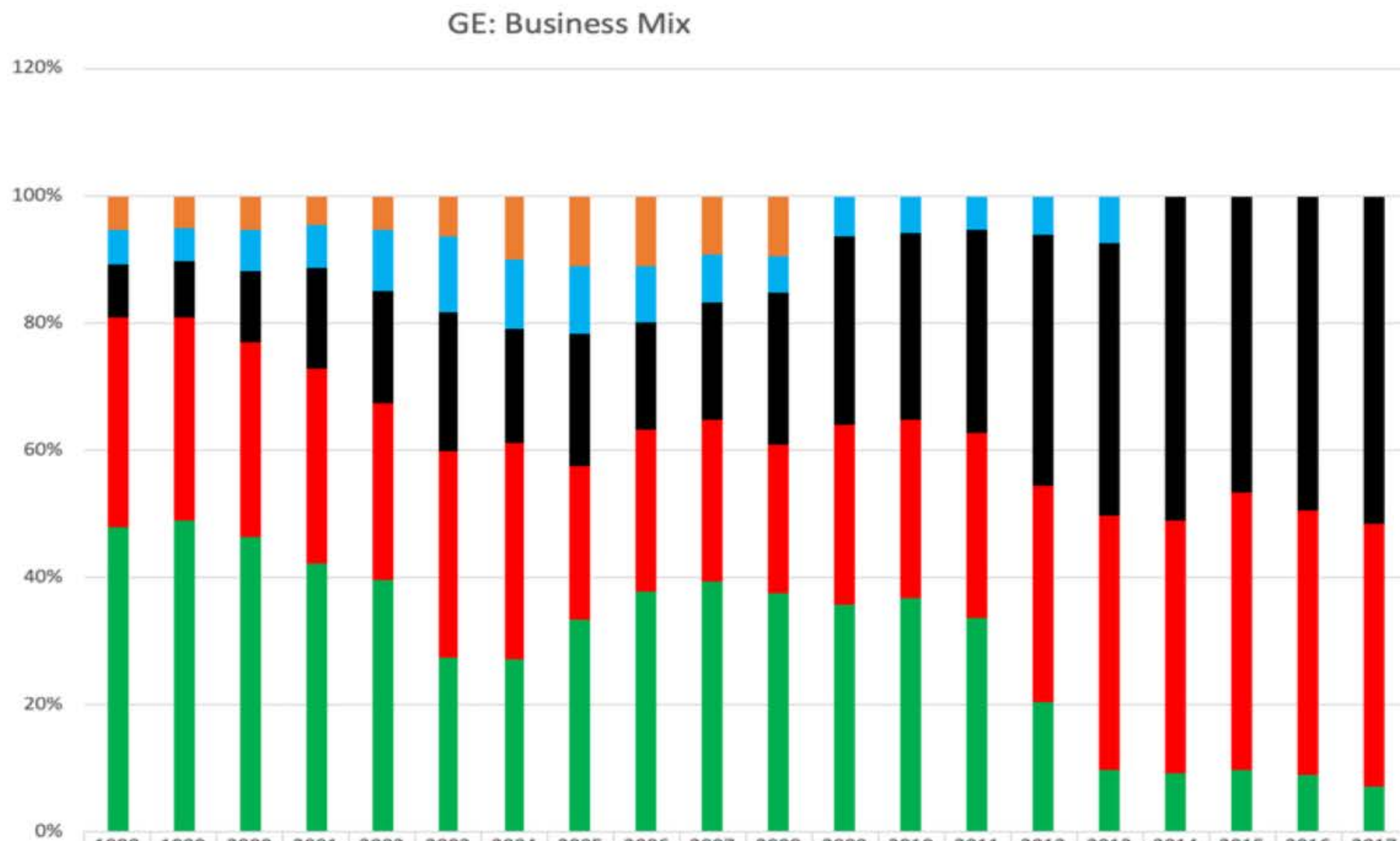


Operating History



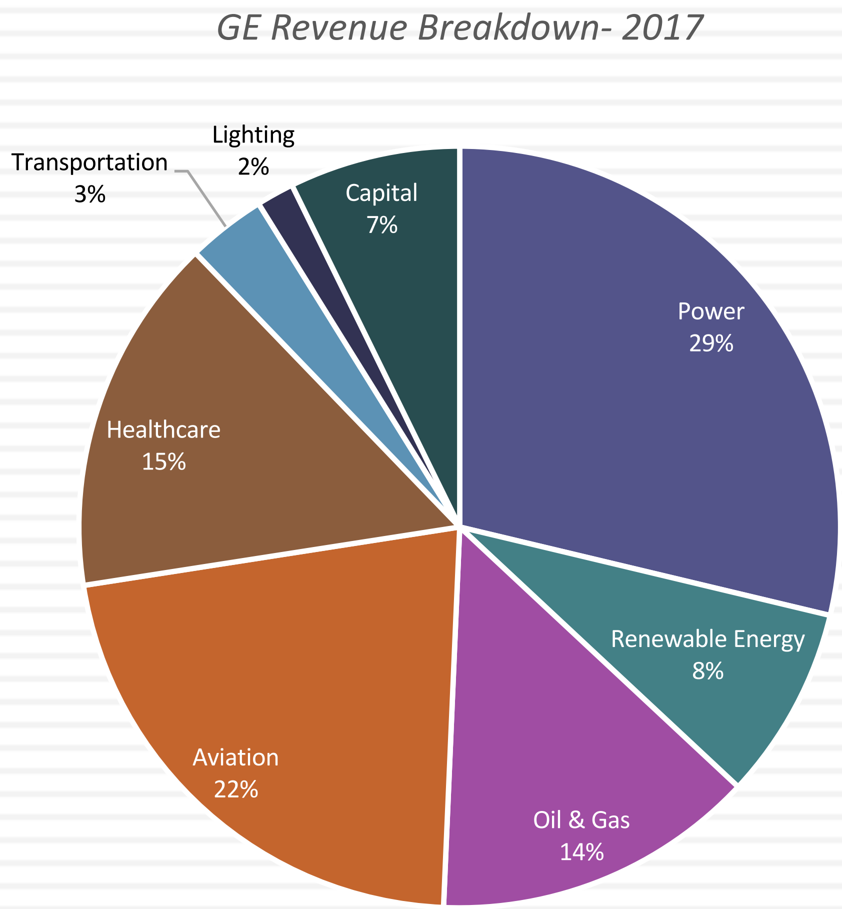
CEO	Tenure	CAGR: Revenues	EBITDA Margin	Net Margin
Ralph Cordiner	1950-1962	6.48%	14.69%	5.77%
Fred Borch	1963-1971	7.80%	11.41%	4.64%
Reginald Jones	1972-1980	11.78%	11.65%	5.54%
Jack Welch	1981-2000	8.99%	21.87%	7.81%
Jeff Immelt	2001-2016	-0.45%	27.18%	9.23%
John Flannery	2017-2018	-1.91%	8.51%	-16.02%

A changing business mix



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
GE Entertainment	5%	5%	5%	5%	5%	6%	10%	11%	11%	9%	9%	0%	0%	0%	0%	0%	0%	0%	0%	0%
GE Appliances/ Consumer Products	6%	5%	7%	7%	10%	12%	11%	10%	9%	8%	6%	6%	6%	5%	6%	7%	0%	0%	0%	0%
GE Power/Energy	8%	9%	11%	16%	18%	22%	18%	21%	17%	18%	24%	30%	29%	32%	39%	43%	51%	47%	49%	52%
GE Industrial	33%	32%	31%	31%	28%	32%	34%	24%	25%	25%	23%	28%	28%	29%	34%	40%	40%	44%	41%	41%
GE Capital	48%	49%	46%	42%	40%	27%	27%	33%	38%	39%	38%	36%	37%	34%	21%	10%	9%	10%	9%	7%

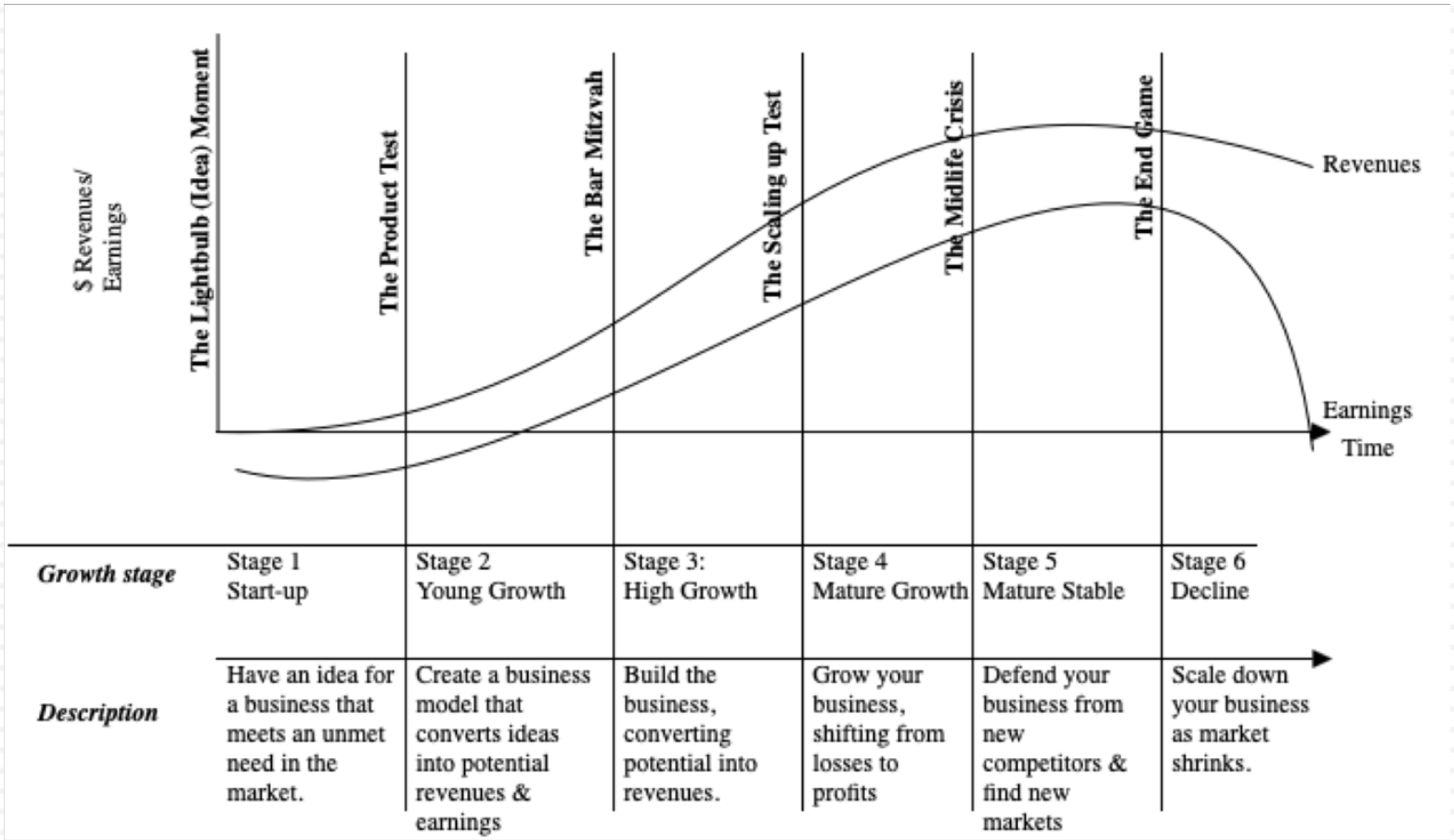
GE, coming into 2018



GE's Businesses

Business	Revenues- 2017	Revenue Growth in 2017	EBIT before G&A	EBIT after G&A	EBIT Margin	Invested Capital	ROIC in 2017	ROIC: 2013-2017	Cost of capital
Power	$ 36.00	-1.64%	$ 2.80	$ 1.69	4.68%	$328.34	3.85%	9.28%	4.91%
Renewable Energy	$ 10.30	14.44%	$ 0.70	$ 0.41	4.00%	$49.91	6.19%	8.00%	6.88%
Oil & Gas	$ 17.20	33.33%	$ 0.20	$ (0.31)	-1.78%	$275.95	-0.83%	3.71%	8.82%
Aviation	$ 27.40	4.18%	$ 6.60	$ 5.80	21.19%	$192.73	22.59%	20.27%	8.52%
Healthcare	$ 19.10	4.37%	$ 3.40	$ 2.86	15.00%	$132.81	16.18%	15.07%	7.97%
Transportation	$ 4.20	-10.64%	$ 0.80	$ 0.70	16.56%	$20.73	25.17%	26.67%	7.49%
Lighting	$ 2.00	-58.33%	$ 0.10	$ 0.03	1.59%	$3.34	7.16%	9.66%	8.50%
Capital	$ 9.10	-16.51%	$ (6.80)	$ (7.04)	-77.40%	$723.38	-7.30%	-2.81%	3.64%
Total	$ 125.30	1.29%	$ 7.80	$ 4.15	3.31%	$1,727.18	1.80%	4.50%	6.23%

Paths Forward: A Life Cycle Perspective



1. Break it up: Ingredients for success

- *Separable businesses*: The different businesses have to be separable, since leakages and synergies across businesses can make it more difficult to cleave off pieces to sell or spin off.
- *Willing buyers*: There have to be potential buyers who are willing to pay prices for the pieces that exceed what they will generate as value for the holding company, as going concerns, and those higher prices either have to come from potential synergies or changed management.
- *Corporate Waste (at HQ)*: A large chunk of the corporate overhead has to viewed as wasteful, with a big drop in corporate expenses accompanying the breakup.

Pricing GE, in pieces

Business	*Revenues in 2017*	*Normalized EBIT, using average margin (2013-17)*	*DA in 2017*	*EBITDA*	*Peer Group EV/EBITDA*	*Estimated Pricing*
Power	$ 35,990.00	$ 4,061.80	$1,358.00	$5,419.80	10.55	$ 57,179
Renewable Energy	$ 10,280.00	$ 532.70	$ 259.00	$ 791.70	15.13	$ 11,978
Oil & Gas	$ 17,231.00	$ 1,365.19	$1,026.00	$2,391.19	12.15	$ 29,053
Aviation	$ 27,375.00	$ 5,209.28	$ 979.00	$6,188.28	6.56	$ 40,595
Healthcare	$ 19,116.00	$ 2,668.20	$ 806.00	$3,474.20	10.97	$ 38,112
Transportation	$ 4,178.00	$ 737.06	$ 135.00	$ 872.06	11.22	$ 9,785
Lighting	$ 1,987.00	$ 43.03	$ 86.00	$ 129.03	12.8	$ 1,652
Total (non-capital)	$ 116,157.00	$ 17,551.60				$ 188,353
GE Capital Business	$ 9,070.00	$ (5.98)	$2,343.00	$2,337.02	10.13	$ 23,674
					Pricing of Business	$ 212,027.44
					- GE Debt	$ 83,568.00
					- GE Capital Debt	$ 51,023.00
					- Minority Interests	$ 17,723.00
					+ Cash	$ 43,299.00
					Pricing of Equity	$ 103,012.44
					- Options	218.94
					Pricing of Equity in common stock	$ 102,793.50
					Estimating Pricing per share	**$11.84**

2. Retrench and Reshape

Business	Revenues in 2017	Average EBIT Margin before G&A, 2013-17	Normalized EBIT before G&A	Normalized EBIT (with corporate expenses allocated)	Normalized EBIT (1-t)	Cost of Capital	ROIC - Next 5 years	Expected growth next 5 years	Value of Business
Power	$ 35,990.00	14.34%	$ 5,161.92	$ 4,061.80	$ 3,046.35	4.91%	9.28%	6.10%	$ 73,138.18
Renewable Energy	$ 10,280.00	8.24%	$ 847.46	$ 532.70	$ 399.53	6.88%	8.00%	16.34%	$ 6,455.88
Oil & Gas	$ 17,231.00	10.97%	$ 1,890.80	$ 1,365.19	$ 1,023.89	8.82%	3.71%	-0.13%	$ 11,924.66
Aviation	$ 27,375.00	22.09%	$ 6,046.58	$ 5,209.28	$ 3,906.96	8.52%	20.27%	4.55%	$ 52,849.35
Healthcare	$ 19,116.00	17.01%	$ 3,251.87	$ 2,668.20	$ 2,001.15	7.97%	15.07%	0.99%	$ 26,233.80
Transportation	$ 4,178.00	20.71%	$ 865.41	$ 737.06	$ 552.80	7.49%	26.67%	-6.62%	$ 6,075.26
Lighting	$ 1,987.00	5.24%	$ 104.14	$ 43.03	$ 32.27	8.50%	9.66%	-24.94%	$ 280.49
Total (non-capital)	$ 116,157.00	15.35%	$ 17,829.69	$ 17,551.60	$ 13,163.70				$ 176,957.62
GE Capital Business	$ 9,070.00	3.00%	$ 272.10	$ (5.98)	$ (4.49)	6.23%	0.00%	-4.25%	$ 27,080.96
								Value of businesses	$ 204,038.59
								- GE Debt	$ 83,568.00
								- GE Capital Debt	$ 51,023.00
								- Minority Interests	$ 17,723.00
								+ Cash	$ 43,299.00
								Value of equity	$ 95,023.59
								- Options	$ 218.94
								Value of equity in common stock	$ 94,804.65
								Value per share	$ 10.92

3. Reincarnate

- The company tries to recapture its old glory, throwing caution to the winds and reinvesting large amounts in new businesses, or worse still, large acquisitions.
- While there is no indication that Larry Culp, GE's new CEO, has grandiose plans for the company, that may be because the company is in crisis today. If as the crisis passes,
- Culp is tempted to make himself the second coming of Jack Welch, the company will follow the path of other aging companies that refuse to act their age, spending billions on cosmetic surgery (acquisitions) before finally capitulating.
- If there is a role model that Mr. Culp should follow, it is less that of Steve the Visionary, and more that of Larry the Liquidator.

Lessons for business

- Conglomeration was, is and always will be a bad idea: Only a corporate strategist could argue that combining companies in different businesses under one corporate umbrella, paying hefty premiums along the way to acquire these holdings, creates value, ignoring the logic that you and I as stockholders can create our own diversified and customized portfolios, without paying the same premium.
- Complexity has a cost: While that complexity served GE well in its glory days, allowing it to hide mistakes from sloppy acquisition practices and bets gone bad, it has bedeviled the company since 2008.
- Easy money has a catch: When a business looks like it can make you easy money, there is always a catch. Financial service firms through history have always had periods of plenty interspersed with bouts of gut-wrenching and intense pain, when borrowers start defaulting and capital markets freeze up.
- The Savior CEO is a myth: Jack Welch was an inspirational top manager, a man with vision and drive, but he was also an imperial CEO, who made his board of directors a rubber stamp for his actions. He did good things for the company, but his ego unchecked, he also made some bad choices. It is worth remembering that power left unchecked in any person (no matter how smart and visionary) is dangerous.

The Bottom Line: Good (Bad) companies ≠ Good (Bad) Investments

- With some companies, like Amazon and Google, the story is uplifting and optimistic, and the valuations follow, but they still might not be good investments, since their prices may be even higher.
- My story for GE is not an upbeat one, but if it (and its management) acts its age, accepts that slower or no growth is what lies in the future and does not over reach, it is a good investment.
- I believe that the market has over corrected for GE's many faults, and at the current stock price, that it is significantly under valued.
- I will buy GE, but I will do so with open eyes, not expecting (or wanting) dividends to be paid until the debt gets paid down and the company exits the capital business with as much grace (and as few costs) as it can muster.