

GENERAL ELECTRIC CO
Form 10-Q
November 02, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission file number 001-00035
GENERAL ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)

New York 14-0689340
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

41 Farnsworth Street, Boston, MA 02210
(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code) (617) 443-3000

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

There were 8,846,390,000 shares of common stock with a par value of \$0.06 per share outstanding at September 30, 2016.

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FORWARD LOOKING STATEMENTS

This document contains "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," or "target."

Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as statements about our announced plan to combine our Oil & Gas business with Baker Hughes, including projected revenue and cost synergies, impact on our earnings per share, and the timing and structure of the proposed transaction; our announced plan to reduce the size of our financial services businesses, including expected cash and non-cash charges associated with this plan and earnings per share of GE Capital's retained businesses (Verticals); expected income; earnings per share; revenues; organic growth; growth and productivity associated with our Digital business; margins; cost structure; restructuring charges; transaction-related synergies; cash flows; returns on capital and investment; capital expenditures, capital allocation or capital structure; and dividends.

For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include:

- our ability to complete incremental asset sales as part of our announced plan to reduce the size of our financial services businesses in a timely manner (or at all) and at the prices we have assumed;
- our ability to reduce costs as we execute that plan;
- changes in law, economic and financial conditions, including interest and exchange rate volatility, commodity and equity prices and the value of financial assets, including the impact of these conditions on our ability to execute that plan;
 - the impact of conditions in the financial and credit markets on the availability and cost of GE Capital Global Holdings, LLC's (GE Capital) funding, and GE Capital's exposure to counterparties;
- the impact of conditions in the housing market and unemployment rates on the level of commercial credit defaults; pending and future mortgage loan repurchase claims and other litigation claims and investigations in connection with WMC, which may affect our estimates of liability, including possible loss estimates;
- our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so;
- the amount and timing of our cash flows and earnings and other conditions, which may affect our ability to pay our quarterly dividend at the planned level or to repurchase shares at planned levels;
- GE Capital's ability to pay dividends to GE at the planned level, which may be affected by GE Capital's cash flows and earnings, financial services regulation and oversight, and other factors;
- our ability to convert pre-order commitments/wins into orders/bookings;
- the price we realize on orders/bookings since commitments/wins are stated at list prices;
- customer actions or developments such as early aircraft retirements or reduced energy demand, changes in economic conditions, including oil prices, and other factors that may affect the level of demand and financial performance of the major industries and customers we serve;
- the effectiveness of our risk management framework;
- the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of financial services regulation and litigation;
- our capital allocation plans, as such plans may change including with respect to the timing and size of share repurchases, acquisitions, joint ventures, dispositions and other strategic actions;
- our success in completing, including obtaining regulatory approvals and satisfying other closing conditions for, announced transactions, such as our announced plans and transactions to combine our Oil & Gas business with Baker Hughes and reduce the size of our financial services businesses;
- our success in integrating acquired businesses and operating joint ventures, including Alstom and Baker Hughes;
- our ability to realize anticipated earnings and savings from announced transactions, acquired businesses and joint ventures, including Alstom and Baker Hughes;

the impact of potential information technology or data security breaches; and the other factors that are described in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

These or other uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements. This document includes certain forward-looking projected financial information that is based on current estimates and forecasts. Actual results could differ materially.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

PRESENTATION

The consolidated financial statements of General Electric Company (the Company) combine the industrial manufacturing and services businesses of General Electric Company (GE) with the financial services businesses of GE Capital Global Holdings, LLC, and its predecessor, General Electric Capital Corporation (GE Capital or Financial Services).

We believe that investors will gain a better understanding of our company if they understand how we measure and talk about our results. Because of the diversity in our businesses, we present our financial statements in a three-column format, which allows investors to see our industrial operations separately from our Financial Services operations. We believe that this, along with further disaggregation of our results into segments and GE Capital Verticals, provides useful information to investors. When used in this report, unless otherwise indicated by the context, we use the terms to mean the following:

General Electric or the Company – the parent company, General Electric Company.

GE – the adding together of all affiliates except GE Capital, whose continuing operations are presented on a one-line basis, giving effect to the elimination of transactions among such affiliates. Transactions between GE and GE Capital have not been eliminated at the GE level. We present the results of GE in the center column of our consolidated statements of earnings, financial position and cash flows. An example of a GE metric is GE cash from operating activities (GE CFOA).

General Electric Capital Corporation or GECC – the predecessor to GE Capital Global Holdings, LLC.

GE Capital Global Holdings, LLC or GECGH – the adding together of all affiliates of GECGH, giving effect to the elimination of transactions among such affiliates.

GE Capital or Financial Services – refers to GECGH, or its predecessor GECC, and is the adding together of all affiliates of GE Capital giving effect to the elimination of transactions among such affiliates. We present the results of GE Capital in the right-side column of our consolidated statements of earnings, financial position and cash flows.

GE consolidated – the adding together of GE and GE Capital, giving effect to the elimination of transactions between the two. We present the results of GE consolidated in the left-side column of our consolidated statements of earnings, financial position and cash flows.

Industrial – GE excluding the continuing operations of GE Capital. We believe that this provides investors with a view as to the results of our industrial businesses and corporate items. An example of an Industrial metric is Industrial CFOA (Non-GAAP), which is GE CFOA excluding the effects of dividends from GE Capital.

Industrial segment – the sum of our seven industrial reporting segments, without giving effect to the elimination of transactions among such segments and between these segments and our Financial Services segment. This provides investors with a view as to the results of our industrial segments, without inter-segment eliminations and corporate items. An example of an industrial segment metric is industrial segment revenue growth.

Total segment – the sum of our seven industrial segments and one financial services segment, without giving effect to the elimination of transactions among such segments. This provides investors with a view as to the results of all of our segments, without inter-segment eliminations and corporate items.

Verticals or GE Capital Verticals – the adding together of GE Capital businesses that we expect to retain, principally its vertical financing businesses—GE Capital Aviation Services (GECAS), Energy Financial Services (EFS) and Industrial Finance (which includes Healthcare Equipment Finance, Working Capital Solutions and Industrial Financing Solutions)—that relate to the Company's core industrial domain and other operations, including our run-off insurance activities, and allocated corporate costs.

We integrate acquisitions as quickly as possible. Revenues and earnings from the date we complete the acquisition through the end of the fourth quarter following the acquisition are considered the acquisition effect of such businesses.

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Discussion of GE Capital's total assets includes deferred income tax liabilities, which are presented within assets for purposes of our consolidated statement of financial position presentations for this filing.

Amounts reported in billions in graphs within this report are computed based on the amounts in millions. As a result, the sum of the components reported in billions may not equal the total amount reported in billions due to rounding. Certain columns and rows within the tables may not add due to the use of rounded numbers. Percentages presented are calculated from the underlying numbers in millions.

Discussions throughout this MD&A are based on continuing operations unless otherwise noted.

The MD&A should be read in conjunction with the Financial Statements and Notes to the consolidated financial statements.

OTHER TERMS USED BY GE

Backlog – unfilled customer orders for products and product services (expected life of contract sales for product services).

Continuing earnings – unless otherwise indicated, we refer to captions such as "earnings from continuing operations attributable to GE common shareowners" as continuing earnings or simply as earnings.

Continuing earnings per share (EPS) – unless otherwise indicated, when we refer to continuing earnings per share, it is the diluted per-share amount of "earnings from continuing operations attributable to GE common shareowners".

Digital revenues – revenues related to software-enabled product upgrades, internally developed software (including Predix) and associated hardware, and software-enabled productivity solutions. These revenues are largely generated from our operating businesses and are included in their segment results.

Ending Net Investment (ENI) (Non-GAAP) – the total capital we have invested in the Financial Services business. It is the sum of short-term borrowings, long-term borrowings and equity (excluding noncontrolling interests) adjusted for unrealized gains and losses on investment securities and hedging instruments. Alternatively, it is the amount of assets of continuing operations less the amount of non-interest-bearing liabilities.

Equipment leased to others (ELTO) – rental equipment we own that is available to rent and is stated at cost less accumulated depreciation.

GE Capital Exit Plan – our plan, announced on April 10, 2015, to reduce the size of our financial services businesses through the sale of most of the assets of GE Capital, and to focus on continued investment and growth in our industrial businesses.

Industrial margin – GE revenues and other income excluding GE Capital earnings (loss) from continuing operations (Industrial revenues) minus GE total costs and expenses less GE interest and other financial charges divided by Industrial revenues.

Industrial operating profit margin (Non-GAAP) – Industrial segment profit plus corporate items and eliminations (excluding gains, restructuring, and pre-tax non-operating pension costs) divided by industrial segment revenues plus corporate items and eliminations (excluding gains and GE-GE Capital eliminations).

Net earnings – unless otherwise indicated, we refer to captions such as "net earnings attributable to GE common shareowners" as net earnings.

Net earnings per share (EPS) – unless otherwise indicated, when we refer to net earnings per share, it is the diluted per-share amount of "net earnings attributable to GE common shareowners".

Non-operating pension costs (Non-GAAP) – comprise the expected return on plan assets, interest cost on benefit obligations and net actuarial gain (loss) amortization for our principal pension plans.

Operating earnings (Non-GAAP) – GE earnings from continuing operations attributable to GE common shareowners excluding the impact of non-operating pension costs.

Operating earnings per share (Non-GAAP) – unless otherwise indicated, when we refer to operating earnings per share, it is the diluted per-share amount of "operating earnings".

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Operating pension costs (Non-GAAP) – comprise the service cost of benefits earned, prior service cost amortization and curtailment gain or loss for our principal pension plans.

Organic revenues (Non-GAAP) – revenues excluding the effects of acquisitions, dispositions and foreign currency exchange.

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Product services – for purposes of the financial statement display of sales and costs of sales in our Statement of Earnings, "goods" is required by SEC regulations to include all sales of tangible products, and "services" must include all other sales, including other services activities. In our MD&A section of this report, we refer to sales under product services agreements and sales of both goods (such as spare parts and equipment upgrades) and related services (such as monitoring, maintenance and repairs) as sales of "product services," which is an important part of our operations. We refer to "product services" simply as "services" within the MD&A.

Product services agreements – contractual commitments, with multiple-year terms, to provide specified services for products in our Power, Renewable Energy, Oil & Gas, Aviation and Transportation installed base – for example, monitoring, maintenance, service and spare parts for a gas turbine/generator set installed in a customer's power plant.

Revenues – unless otherwise indicated, we refer to captions such as "revenues and other income" simply as revenues.

Segment profit – refers to the operating profit of the industrial segments and the net earnings of the Financial Services segment. See the Segment Operations section within the MD&A for a description of the basis for segment profits.

NON-GAAP FINANCIAL MEASURES

In the accompanying analysis of financial information, we sometimes use information derived from consolidated financial data but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under the SEC rules. Specifically, we have referred, in various sections of this report, to:

Industrial segment organic revenues

Operating and non-operating pension costs

Adjusted corporate costs (operating)

Industrial operating and GE Capital earnings (loss) from continuing operations and EPS

Industrial operating + Verticals earnings and EPS

Industrial operating profit and operating profit margin (excluding certain items)

Industrial segment operating profit and operating profit margin (excluding Alstom)

Industrial cash flows from operating activities (Industrial CFOA) and Industrial CFOA excluding taxes related to the Appliances business sale

Capital ending net investment (ENI), excluding liquidity

The reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures are included in the Supplemental Information section within this MD&A. Non-GAAP financial measures referred to in this report are either labeled as "non-GAAP" or designated as such with an asterisk (*).

OUR OPERATING SEGMENTS

We are a global digital industrial company, transforming industry with software-defined machines and solutions that are connected, responsive and predictive, with products and services ranging from aircraft engines, locomotives, power generation and oil and gas production equipment to medical imaging, financing and industrial products. Operational and financial overviews for our operating segments are provided in the "Segment Operations" section within this MD&A.

OUR INDUSTRIAL OPERATING SEGMENTS

Power	Transportation	Energy Connections & Lighting ^(a)
Renewable Energy	Aviation	
Oil & Gas	Healthcare	

OUR FINANCIAL SERVICES OPERATING SEGMENT

Capital

Beginning in the third quarter of 2016, the former Energy Connections and Appliances & Lighting segments are (a) presented as one reporting segment called Energy Connections & Lighting. This segment includes the historical results of the Appliances business prior to its sale.

CORPORATE INFORMATION

GE's Internet address at www.ge.com, Investor Relations website at www.ge.com/investor-relations and our corporate blog at www.gereports.com, as well as GE's Facebook page and Twitter accounts, including @GE_Reports, contain a significant amount of information about GE, including financial and other information for investors. GE encourages investors to visit these websites from time to time, as information is updated and new information is posted.

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KEY PERFORMANCE INDICATORS

(Dollars in billions; per-share amounts in dollars)

REVENUES PERFORMANCE	INDUSTRIAL ORDERS		INDUSTRIAL BACKLOG
	3Q 2016	YTD 2016	
Industrial Segment	4%	6%	Equipment
Industrial Segment Organic*	1%	-%	Equipment
Capital	(2)%	-%	Services
		(a) Included \$5.2 billion related to Alstom (b) Included \$12.7 billion related to Alstom	(a) Included \$31.9 billion related to Alstom
INDUSTRIAL MARGINS	INDUSTRIAL OPERATING PROFIT MARGINS (NON-GAAP) ^(a)		GE CFOA
		(a) Excluded gains, non-operating pension costs, restructuring and other, noncontrolling interests, GE Capital preferred stock dividends, as well as the results of Alstom	GE Capital Dividend
			Industrial CFOA(b)* (a) Included \$(0.8) billion related to Alstom (b) 2016 included deal taxes of \$(1.1) billion related to the sale of our Appliances business

*Non-GAAP Financial Measure

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KEY PERFORMANCE INDICATORS

(Dollars in billions; per-share amounts in dollars)

NET EARNINGS (LOSS)

NET EARNINGS (LOSS) PER SHARE

OPERATING EARNINGS (NON-GAAP)

OPERATING EARNINGS PER SHARE
(NON-GAAP)

INDUSTRIAL OPERATING + VERTICALS EARNINGS
(NON-GAAP)

INDUSTRIAL OPERATING + VERTICALS
EPS (NON-GAAP)

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SIGNIFICANT DEVELOPMENTS IN 2016

During the first nine months of 2016, we returned \$24.5 billion to shareholders including \$18.1 billion through buyback of our common stock and \$6.4 billion in dividends.

For the nine months ended September 30, 2016, Alstom contributed revenues of \$9.2 billion and operating earnings of \$0.5 billion, which included the effects of purchase accounting and acquisition related charges at Corporate of \$0.7 billion. Including the effects of tax benefits of \$0.6 billion, net earnings were less than \$0.1 billion for the nine months ended September 30, 2016. In addition, Alstom used cash flow from operating activities of \$0.8 billion for the nine months ended September 30, 2016.

On October 31, 2016, we announced an agreement with Baker Hughes Incorporated (Baker Hughes) to combine GE's Oil & Gas business and Baker Hughes to create a new company. The transaction will be executed using a partnership structure, pursuant to which GE Oil & Gas and Baker Hughes will each contribute their operating assets to a newly formed partnership. GE will have a 62.5% interest in this partnership and existing Baker Hughes shareholders will have a 37.5% interest through a newly NYSE listed corporation. Baker Hughes shareholders will also receive a special one-time cash dividend of \$17.50 per share at closing. GE will contribute \$7.4 billion to the new partnership to fund the cash dividend to existing Baker Hughes shareholders. The transaction is subject to the approval of Baker Hughes shareholders, regulatory approvals and other customary closing conditions.

On October 11, 2016, we announced a plan to acquire LM Wind Power, the Danish maker of rotor blades for \$1.7 billion. LM Wind is one of the world's largest wind turbine blade manufacturers^(a).

On September 14, 2016, we acquired the remaining 74% of the software developer Meridium Inc. for cash proceeds of \$0.4 billion. The acquisition is expected to enhance and accelerate our asset performance-management capabilities across our Industrial businesses.

On September 6, 2016, we announced public tender offers to acquire two European 3-D printing companies, Arcam AB and SLM Solutions Group AG for a total of \$1.4 billion. On October 26, 2016, we announced that the conditions for the acquisition of SLM Solutions were not satisfied at the expiration of the tender period and that the offer to acquire SLM Solutions had lapsed. On October 27, 2016, we announced that the tender period for Arcam would be extended to November 10, 2016. On October 27, 2016, we also announced an agreement to acquire a 75% interest in Concept Laser GmbH, another European 3-D printing company, for \$0.6 billion^(a). Both Arcam and Concept Laser make machines that can print metal parts used in aircraft components, tapping into manufacturers' growing demand for digital technologies.

On June 6, 2016, we completed the sale of our Appliances business to Qingdao Haier Co., Ltd. (Haier) for proceeds of \$5.6 billion (including \$0.8 billion from the sale of receivables originated in our Appliances business and sold from GE Capital to Haier) and recognized an after-tax gain of \$1.9 billion in the nine months ended September 30, 2016.

On March 30, 2016, we announced an agreement to sell GE Asset Management (GEAM), GE's asset management arm with assets under management of approximately \$100 billion, to State Street Corporation. On July 1, 2016, we completed the sale for proceeds of \$0.4 billion and recognized an after-tax gain of \$0.3 billion.

As of September 30, 2016, we have signed agreements with buyers for \$193 billion of GE Capital ending net investment (ENI), excluding liquidity (as originally reported at December 31, 2014), of which \$173 billion have closed.

On June 28, 2016, we received approval of our request to the Financial Stability Oversight Council (FSOC) for rescission of GE Capital's designation as a nonbank Systemically Important Financial Institution (SIFI).

GE Capital paid common dividends of \$5.1 billion and \$16.1 billion for the three and nine months ended September 30, 2016, respectively. In October 2016, we received an additional \$2.0 billion of common dividends from GE Capital bringing our year-to-date total to \$18.1 billion.

(a) Subject to customary closing conditions.

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CONSOLIDATED RESULTS

THREE AND NINE MONTHS ENDED SEPTEMBER 30

(Dollars in billions)

REVENUES	INDUSTRIAL AND FINANCIAL SERVICES REVENUES
	(a) Included \$3.2 billion related to Alstom
(a) Included \$3.2 billion related to Alstom	(b) Included \$9.2 billion related to Alstom
(b) Included \$9.2 billion related to Alstom	

COMMENTARY: 2016 - 2015

THREE MONTHS

Consolidated revenues increased \$1.2 billion, or 4%.

Industrial revenues increased \$1.3 billion, or 5%, mainly from the effects of acquisitions of \$3.3 billion, primarily Alstom, and an increase in Industrial organic revenue* of \$0.1 billion. These increases were partially offset by the effects of dispositions of \$2.0 billion, primarily from the sale of our Appliances business to Haier in the second quarter of 2016.

In 2015, the effects of acquisitions and dispositions on Industrial revenues were an insignificant amount and a decrease of \$0.1 billion, respectively.

Financial Services revenues decreased \$0.1 billion, or 2%, as a result of the effects of dispositions and organic revenue declines, partially offset by higher gains and lower impairments.

NINE

MONTHS

Consolidated revenues increased \$7.1 billion, or 9%.

Industrial revenues increased \$7.2 billion, or 9%, mainly from the effects of acquisitions of \$9.3 billion, primarily Alstom. The increase was partially offset by the effects of

dispositions of \$0.9 billion, primarily from the sale of our Appliances business to Haier in the second quarter of 2016, the effects of a stronger U.S. dollar of \$0.7 billion and a decrease in Industrial organic revenue* of \$0.5 billion.

In 2015, the effects of acquisitions and dispositions on Industrial revenues were an increase of \$0.2 billion and a decrease of \$0.1 billion, respectively.

Financial Services revenues increased less than \$0.1 billion, primarily due to lower impairments, higher gains and the effects of acquisitions, partially offset by the effects of

dispositions,
organic
revenue
declines and
the effects of
currency
exchange.

*Non-GAAP Financial Measure
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THREE AND NINE MONTHS ENDED SEPTEMBER 30

(Dollars in billions)

CONTINUING EARNINGS (LOSS)	CONTINUING EARNINGS (LOSS) PER SHARE	INDUSTRIAL SELLING, GENERAL & ADMINISTRATIVE (SG&A) AS A % OF SALES
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