



GE EWC CC

Support for the annual meeting

May 2019

SECAFI

Société d'expertise comptable inscrite
au Tableau de l'Ordre de la région Ile de France
Cabinet agréé par le Ministère du Travail,
habilité IPRP et membre de la FIRPS

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Formations

Conditions
de travail

Enjeux
sociaux

Emplois

Perspectives
économiques

Complement data on overall GE situation



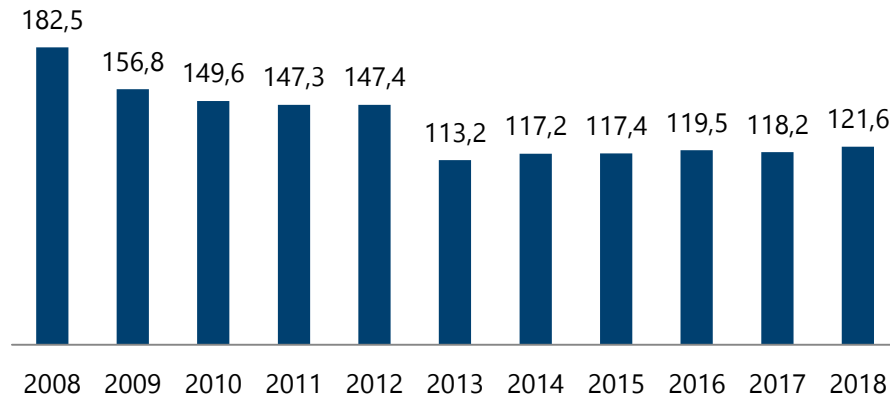
2018 situation



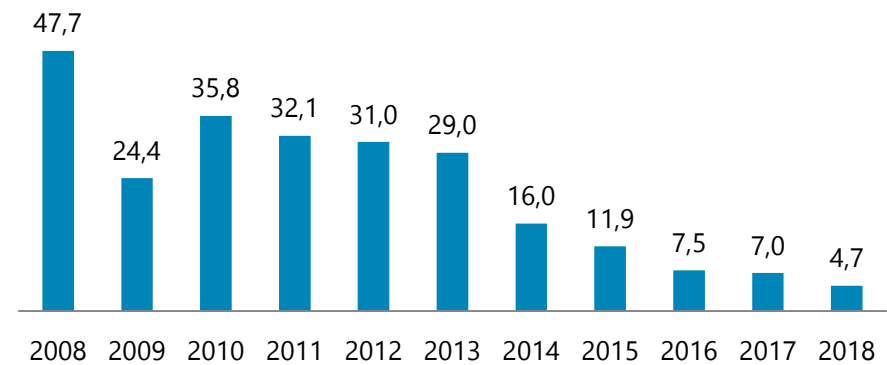
The GE Group has changed radically in recent years – and has to take its responsibility nowadays

Sales

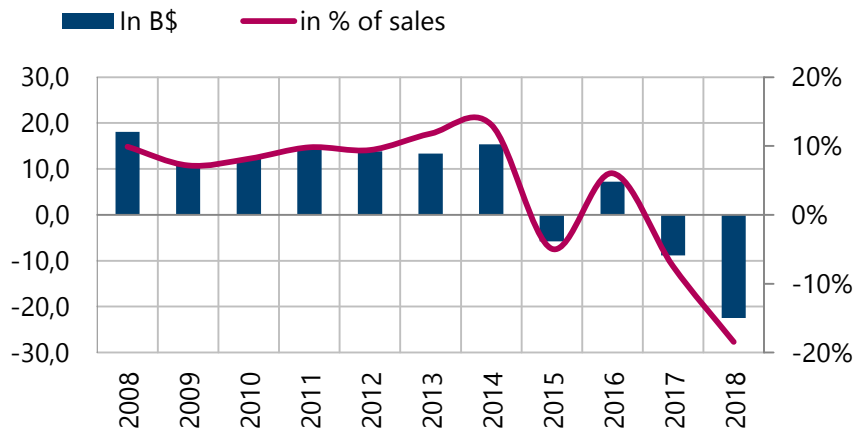
(in B\$)



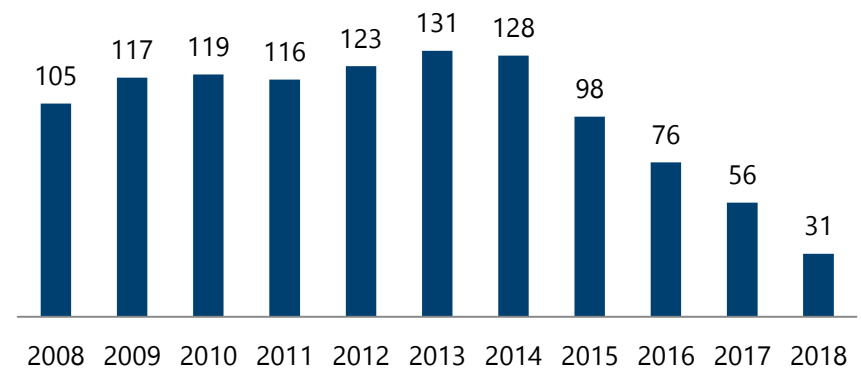
Cash from operating activities (continuing operations) - B\$



Net earnings



GE shareowners' equity - B\$



Two strategic priorities for GE

A clearly defined path, which will be applied in the next months

De-leveraging the balance sheet

Strengthening the business

Objectives

- ▶ In Industrial : Reduce GE net debt (\$55 B by more than \$30 B) and achieve a leverage level of less than 2,5x net debt-to-EBITDA over the next few years
- ▶ In capital : A debt-to-equity ratio of less than 4x by 2020

- ▶ Focus on execution
- ▶ Drive speed, quality, delivery and cost
- ▶ Focus on customers
- ▶ Increase GE's market share

Means cited

- ▶ \$40B sales of industrial assets :
 - ▶ BioPharma : ~20 Mds\$
 - ▶ Monetization of the remaining stakes in BHGE : ~12 Mds\$
 - ▶ Merger of the transportation business with Wabtech : ~6 Mds\$
- ▶ Sale of capital assets : \$10B to execute of the \$25B asset reduction plan
- ▶ Reduction of the quarterly dividend : + 4,2 Mds

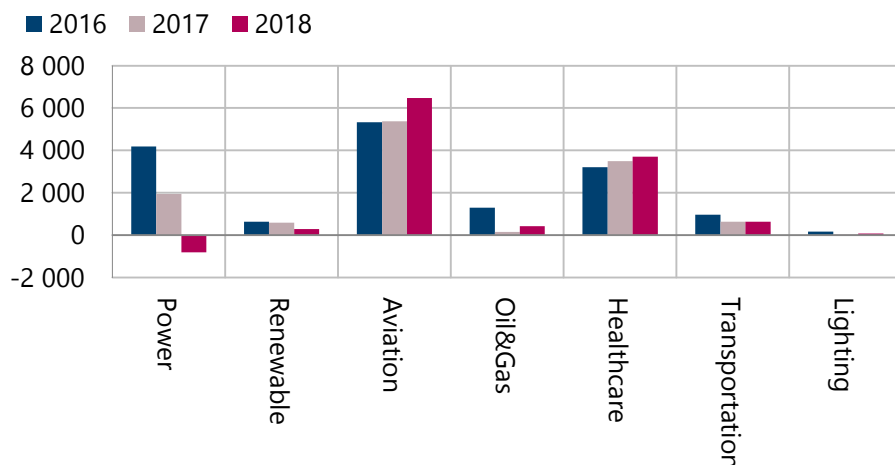
- ▶ Fixing Power :
 - ▶ Reorganization of the business into Gas Power and Power Portfolio
 - ▶ A major restructuring in the months to come, with a ~20 % cost reduction on Corporate and \$800M of cost out on Gas Power
- ▶ Playing offense in Aviation and Healthcare
- ▶ Managing Renewables cycle
 - ▶ Reorganization of Grid Solutions into the Renewable Energy segment
- ▶ Shrinking Corporate and shifting decision-making : ~\$0,5B cost out by 2021
- ▶ Managing risk at Capital : asset reduction

The Group's results for 2018

An operational Profit significantly brought down by Power

Operational profit by segment

(in B\$)



From operational profit to net earnings in 2018 (en B\$)

2018 Operational Profit										10,8
Interest & other financial charges										-5,1
Investment contracts, insurance losses and insurance annuity benefits										-2,8
Goodwill impairments										-22,1
Other										-3,3
2018 Net earnings										-22,4

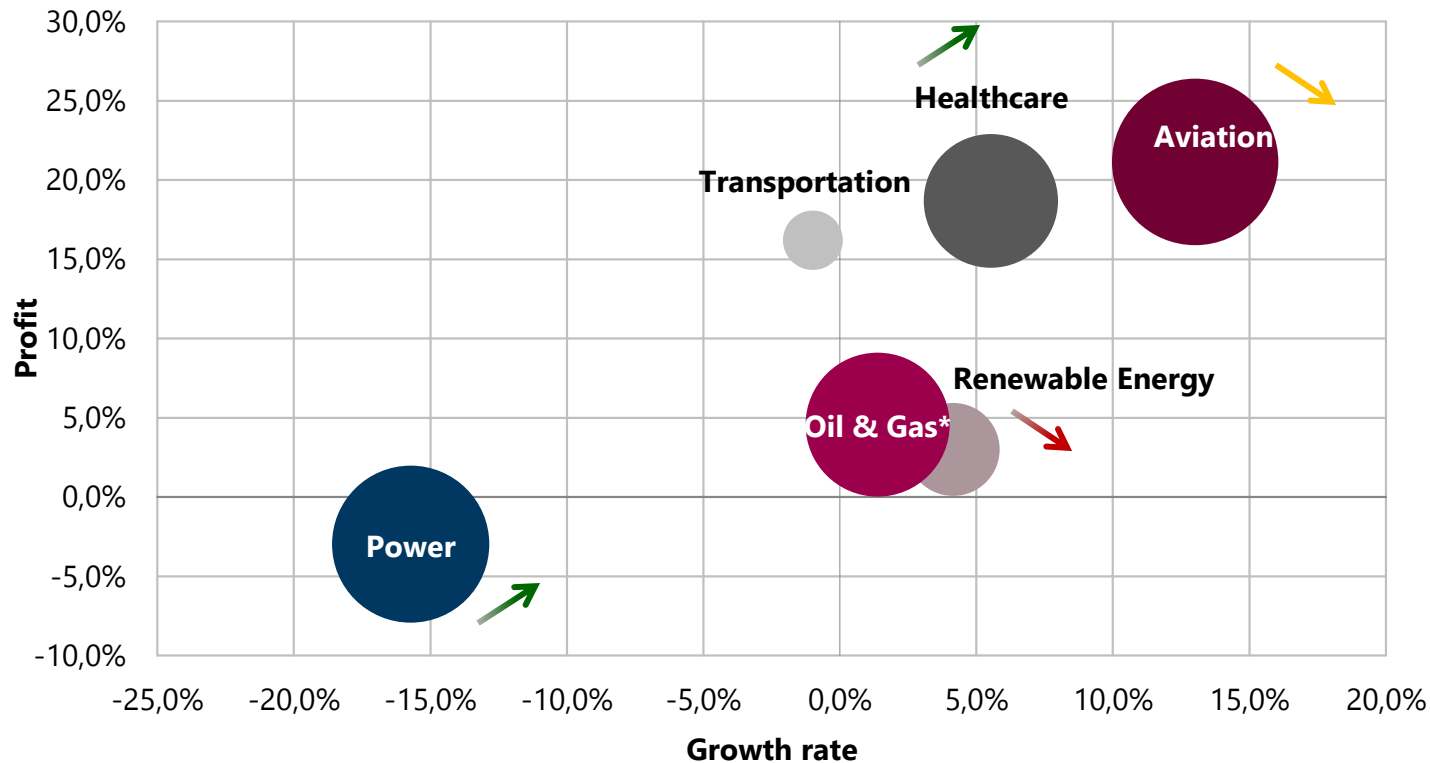
- ▶ 2018 revenues were up 3%. The increase in revenues was largely a result of BHGE acquisition.
- ▶ On the contrary, net earnings decreased significantly, driven down by Power with :
 - ▶ A negative operational profit (GPS market with overcapacity, challenges in project execution, charges related to CSA contracts)
 - ▶ A non-cash goodwill impairment charges of \$22,1B, in particular on Power Generation, and Grid Solutions (cf management answer)
- ▶ As regards other industrial segments it must be noted that :
 - ▶ Renewables is on a down cycle. The main challenge is to keep on following the rapidly declining market prices. The level of profit remains low compared to GE standards.
 - ▶ Healthcare & Aviation are still « star » business, with growing revenues and top-level profits.
 - ▶ Oil&Gas had a strong fourth quarter. 2018 marked BHGE's first full year as a combined company (synergies and lower restructuring and other charges).

Overview of industrial segments 2018 and outlook for 2019

*Strength in Aviation & Healthcare,
a restored profitability for Power in 2019 ?*

Position of GE Industrial businesses in regards of profit and growth (rolling four-quarter totals)

Size in proportion of Sales (B\$)






























Legend	
	Profitability outlook favourable for 2019
	Profitability outlook unfavourable for 2019

*O&G : sales were up 1% organic, and up 33 % reported (Backer Hughes)

Outlook by main business

A declining performance in 2019, but an expected rebound in 2020 et 2021

	 Power			 Renewable			 Aviation			 Healthcare		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Revenues	27,3 Mds			9,5 Mds			30,6 Mds			19,8 Mds		
Segment margin	- 3 %	> 0		3 %			21,2 %	 20 %		18,7 %		
Free Cash Flow	-2,6 Mds <0		<0 	0,5 Mds <0		<0 	4,2 Mds			3 Mds		

▶ In 2019, Free Cash Flows are expecting to be down in all industrial segments except Aviation, with :

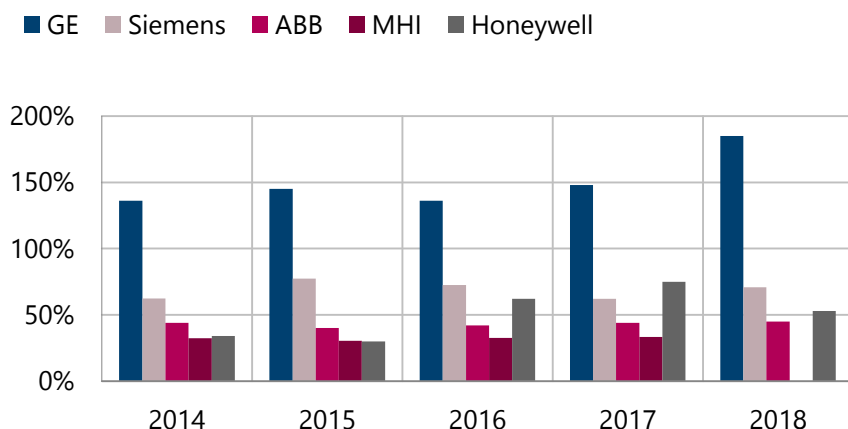
- ▶ Power : Restructuring cost
- ▶ Renewable : Management of progress cycles
- ▶ Healthcare : Costs linked to the disposal of BioPharma
- ▶ Corporate : Restructuring cost

▶ A better free cash performance is anticipated in 2020. Nevertheless Power and Renewables will not yet generate positive cash flows.

▶ The year 2021 should mark a turning point, with positive free cash flows in all business.

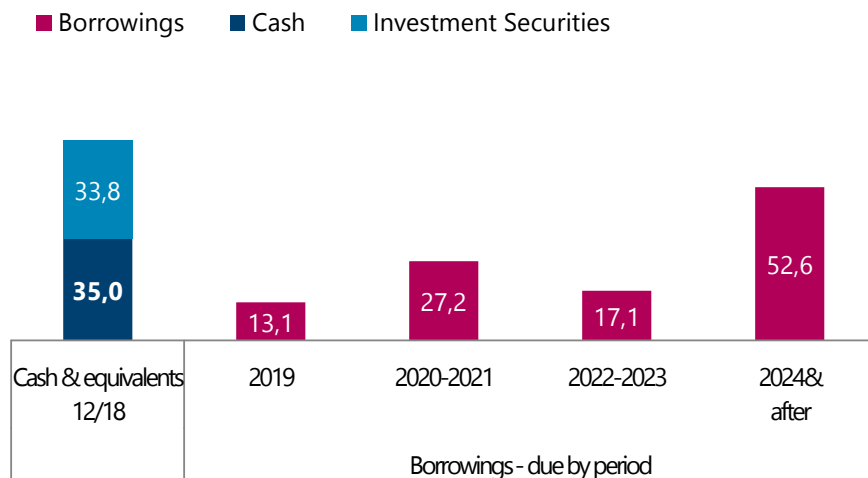
An issue on the level of debt more than on a liquidity

Debt-to-equity ratio



- ▶ Since 2014 GE net debt has decreased by \$110B.
- ▶ Its debt-to-equity-ratio is up slightly, due primarily to lower equity.
- ▶ GE level of debt is very high – both in absolute terms and as compared to the peers.
- ▶ It is the only one to have a larger long-term debt than equity.
- ▶ However it seems to have the liquidities to face short term borrowing reimbursement. Three important precautions though :
 - ▶ This capacity to face short term requirements can be hindered by yet unknown « exceptional » events...
 - ▶ The low level of cash generation means that the Group deals with its liquidity through financial management, asset sales & investment reduction
 - ▶ Given its level of exposure, the Group can be put in danger in case of financial market crisis.

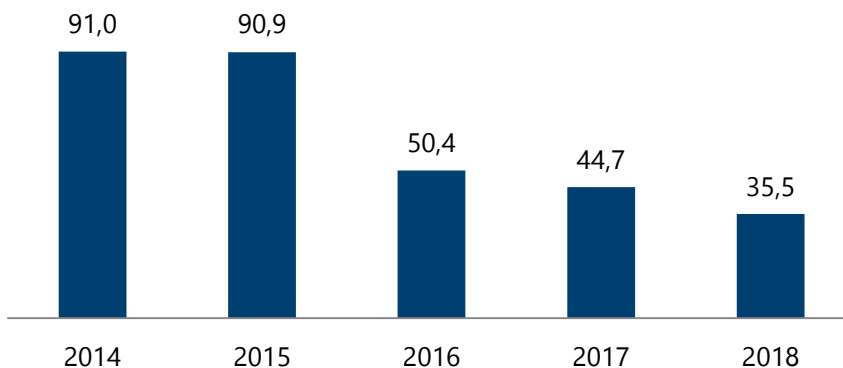
GE debt profile - B\$



The cash consumption in 2018

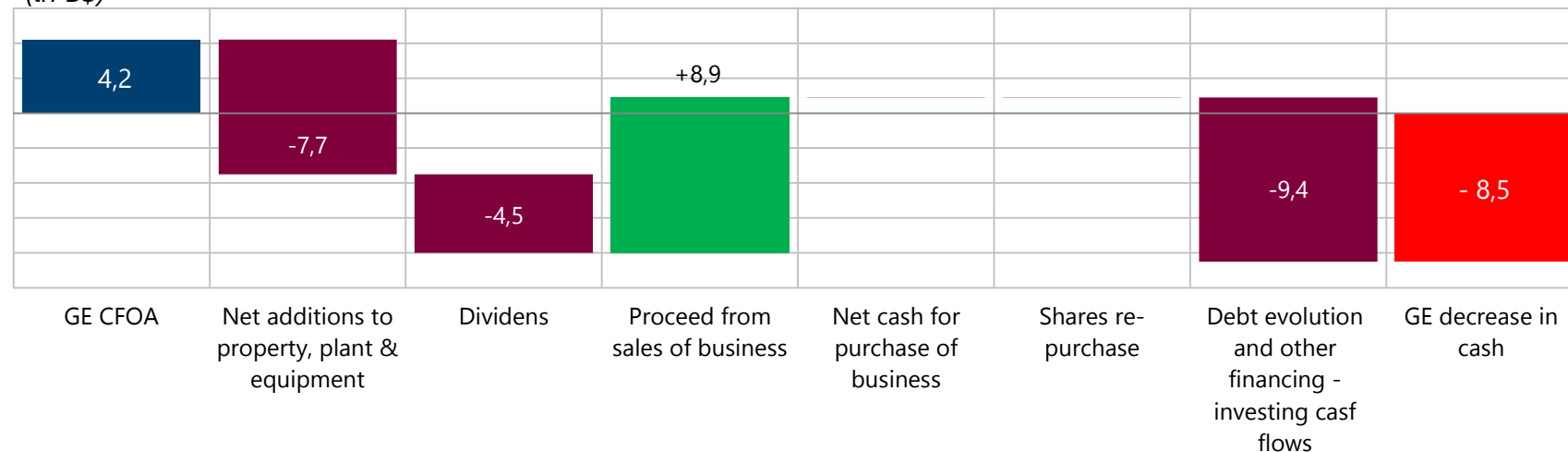
A cash consumption of \$8,5B in 2018

Cash at the end of the year
(in B\$)



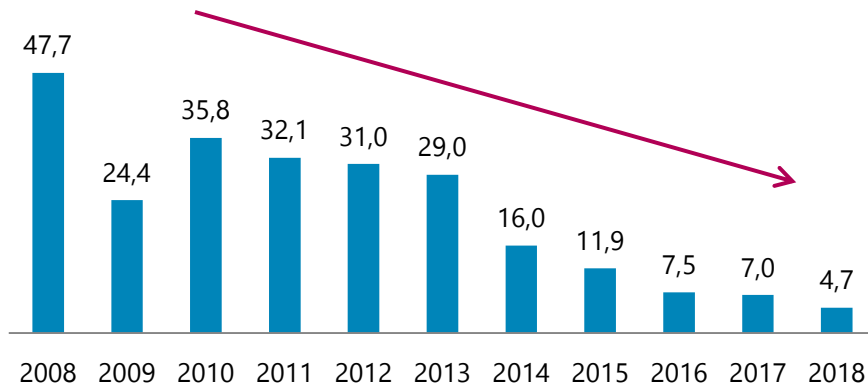
- ▶ At the end of 2018 GE has \$36B in cash (vs \$44,7B at the end of 2017)
- ▶ GE cash consumption in 2018 was ~\$9B.
- ▶ Cash proceeds are mainly related to Distributed Power (\$2,8B), Industrial Solutions (\$2,2B), Value Based care (\$1B), EFS (\$2,1B).
- ▶ The debt evolution and other financing results mainly in :
 - ▶ Net repayments of debt
 - ▶ The acquisition of Alstom's interest in JV for ~\$3,1B (\$2,2B for the grid technology JV, \$0,8B for the renewable energy JV and \$0,2B for the nuclear and french steam power JV)
 - ▶ Proceeds from BHGE's public share offering of \$2,3B in 2018

Cash consumption in 2018
(in B\$)



The sale of business represents a major part of GE cash resources

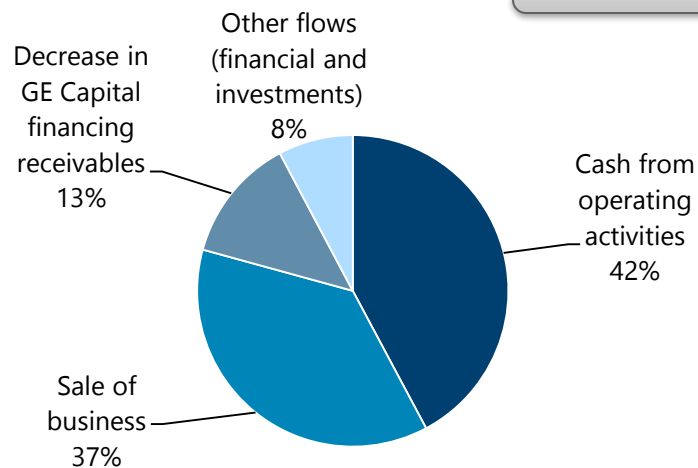
Cash from operating activities (continuing operations) - B\$



- ▶ GE cash from operating activities decreased significantly over the last 10 years, while sales of business sped up.
- ▶ This strategy of selling activities generated 80 % of GE cash the last 3 years.
- ▶ Nevertheless this strategy has its limit, reducing cash generation from operating activities abilities.

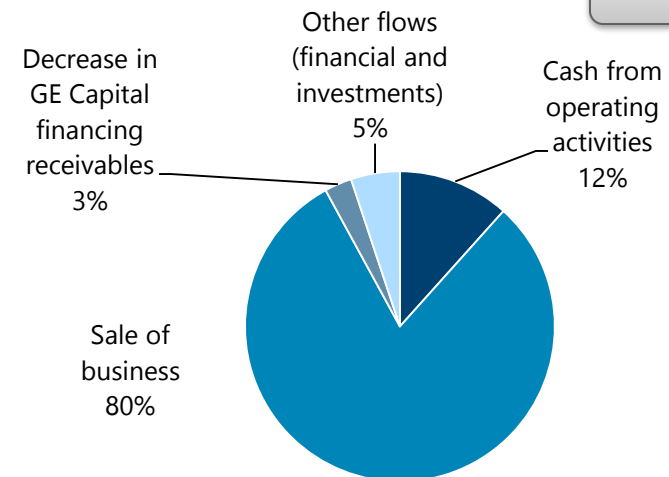
Cash resources (2008-2018)

\$620B generated



Cash resources (2016-2018)

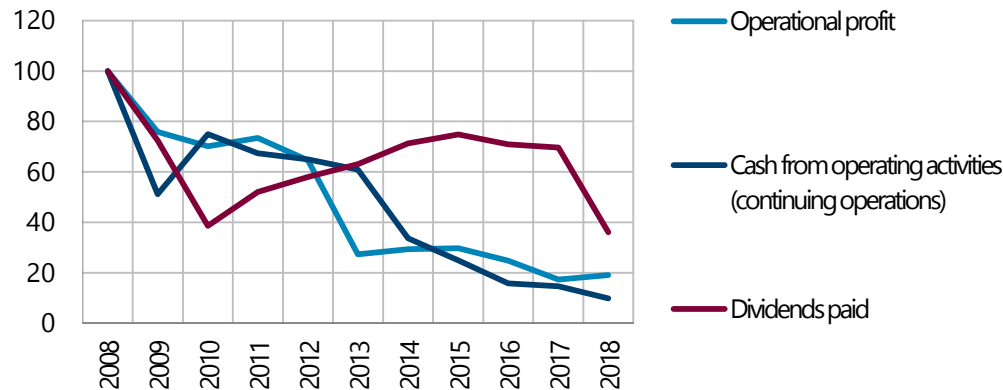
\$98B generated



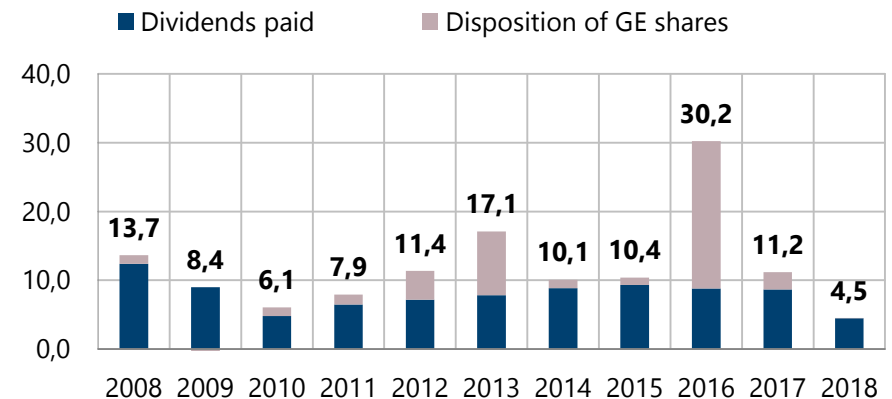
The redistribution to shareholders

A costly policy that GE continue to pay

Change in the dividend and its determinant
Base 100



Dividends and disposition of shares
(in B\$)



- ▶ Since 2008, GE generated \$264,6B cash from operating activities. 65 % have been redistributed. Shareholders received \$105,2B in dividends, and \$67,1B in shares re-purchase.
- ▶ In 2016 and 2017, the amounts redistributed were well above the cash from operating activities. As a consequence, GE accumulated a lot of debt over the years, in order to invest , while redistributing to shareholders.
- ▶ Yet GE is confronted with a crisis of confidence : the Group failed to keep its promises to the market, and net earnings are declining. GE's stock has been put under pressure by the shareholders. In 10 years, GE's share has been reduced by 50 %.
- ▶ Nowadays shareholders await large profits, and larger cash from operating activities to pay down the debt. That is why GE is conducted a lot of disposals of assets, which reduce potential net operating cash flows.

List of key cash items

Management's answers on financial question

- ▶ Reduced the quarterly dividend saving = ~\$4B/year
- ▶ Accelerated a sale of a portion of our stake in BHGE in 4Q'18, raising \$3.7B
- ▶ Signed or completed substantially all of our \$20B industrial disposition program resulting in ~\$10B of proceeds
- ▶ Changed the structure of our transaction with Wabtec, resulting in an incremental \$2B
- ▶ We completed \$15 billion of Capital asset sales and other actions in 2018, which were executed at book value or better. We are more than halfway through the total \$25 billion Capital asset sale program, which we expect to complete this year.

- ▶ Announced that we've reached an agreement in principle with the United States Department of Justice to settle the FIRREA investigation of WMC. GE will pay the United States a civil penalty of \$1.5 billion, consistent with our reserve recorded for this matter in the first quarter 2018.
- ▶ Announced intent to sale of our BioPharma business at 7x revenue raising ~\$20B in cash, giving us flexibility and optionality on the remaining 85% of the HC business (to be closed in Q4)

A cycle of continuous restructuring, which is expected to continue

Restructuring & other charges

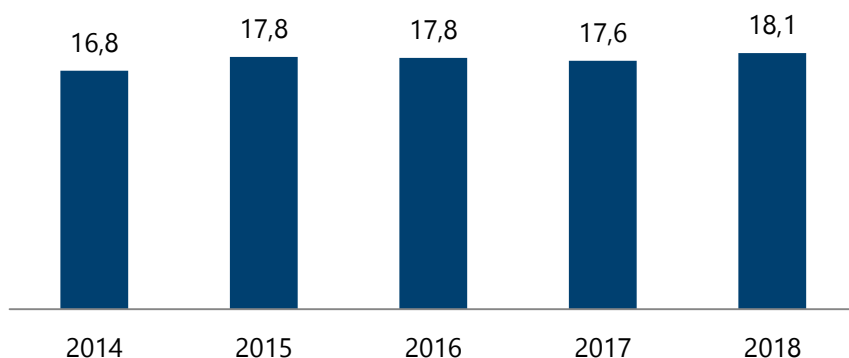
B\$	2016	2017	2018	Cumul
Workforce reduction	1,3	1,2	0,9	3,4
Plant closures	1,3	1,9	1,8	5,0
Acquisition / disposition net charges	0,6	0,8	0,8	2,2
Other	0,3	0,2	0,1	0,6
Total	3,5	4,1	3,6	11,2

- ▶ Operational activities do not generate enough cash in order to increase quickly the liquidity.
- ▶ Thus, in addition to the disposal of business, GE is in a permanent state of restructuring. Since 2016 restructuring plans within GE follow hot on the heels of another.
- ▶ Restructuring charges reach \$11,2B. Workforce reduction and plant closures alone represent \$8,4B charges.
- ▶ The restructuring plan announced by GE in its investor call of 14 March 2019 should cost between \$2,4B and \$2,7 B for 2019.
- ▶ Costs are expecting to drop in 2020.
- ▶ Nevertheless it is only in 2021 that it is expected to generate cash flows.

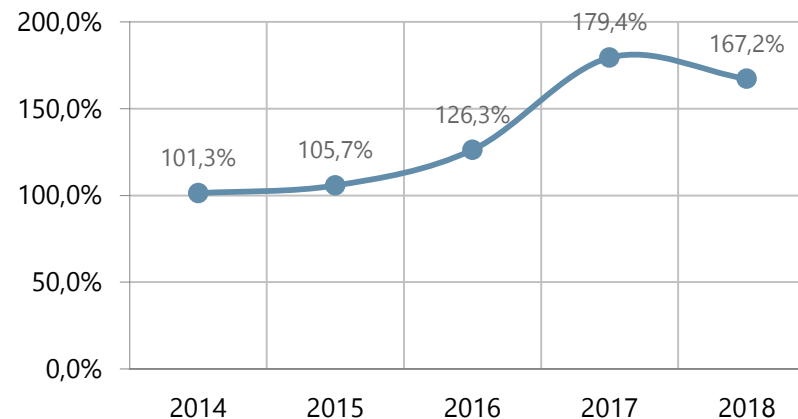
Selling, general and administrative costs

SG&A charges remain stable, similar to the peer average

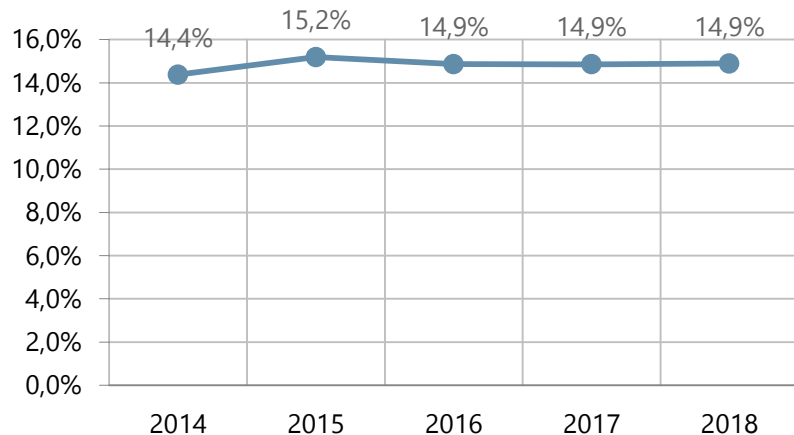
SG&A
(in B\$)



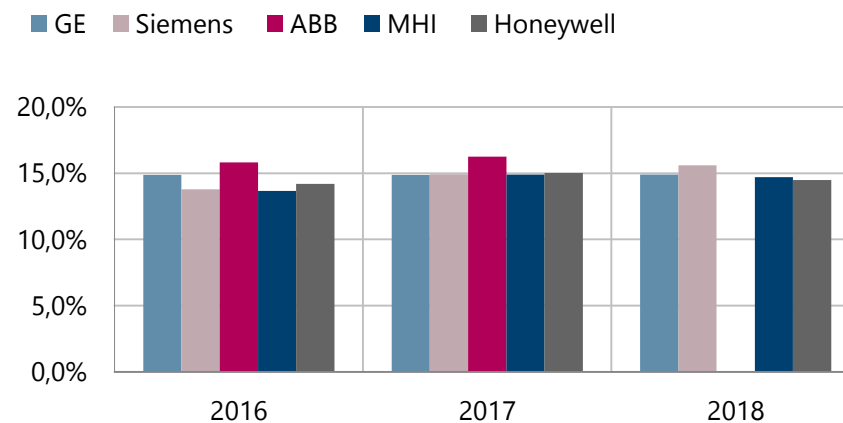
SG&A - % of operational profit



SG&A - % of sales



GE Competitors - SG&A - % of sales



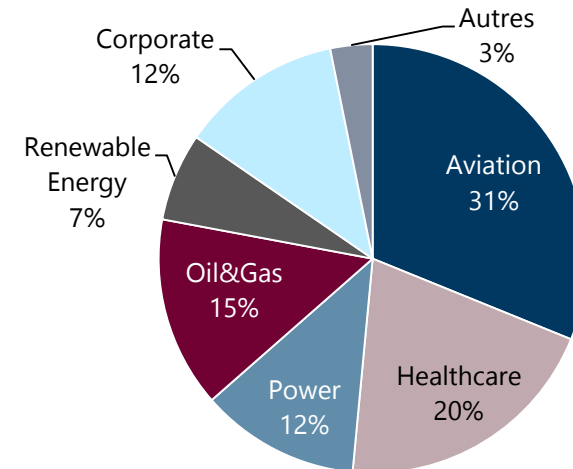
Research and development expenses

R&D costs below the peer average, in reduction

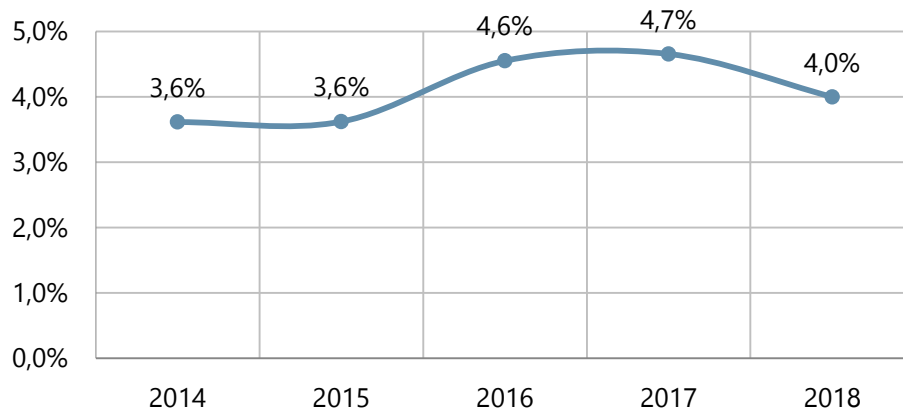
Research and development expenses by businesses

en M\$	2016	2017	2018	Diff.
Aviation	1 591	1 492	1 514	+22
Healthcare	901	934	991	+57
Power	998	920	586	-334
Oil&Gas	315	501	700	+199
Renewable Energy	220	302	323	+21
Corporate	1 175	1 189	595	-594
Autres	235	165	155	-10
Total	5 435	5 503	4 864	-639

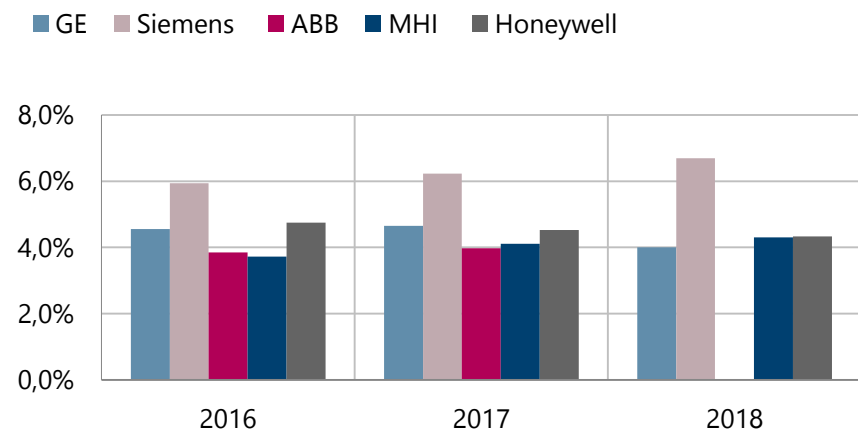
R&D expenses by business in 2018



R&D - % of sales



GE Competitors - R&D - % of sales





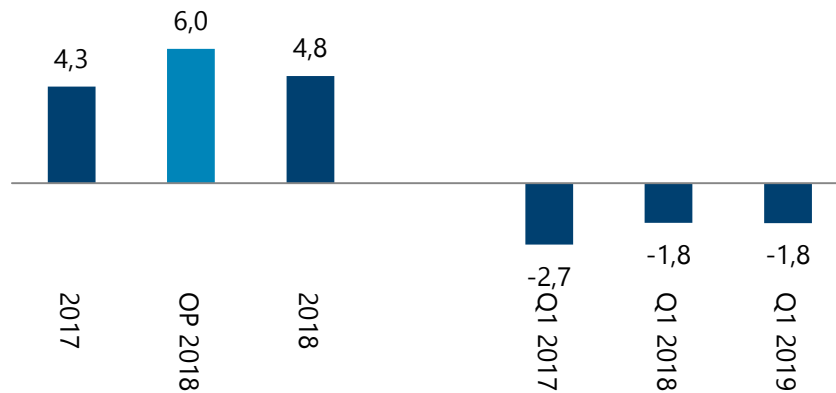
Q1 Cash information



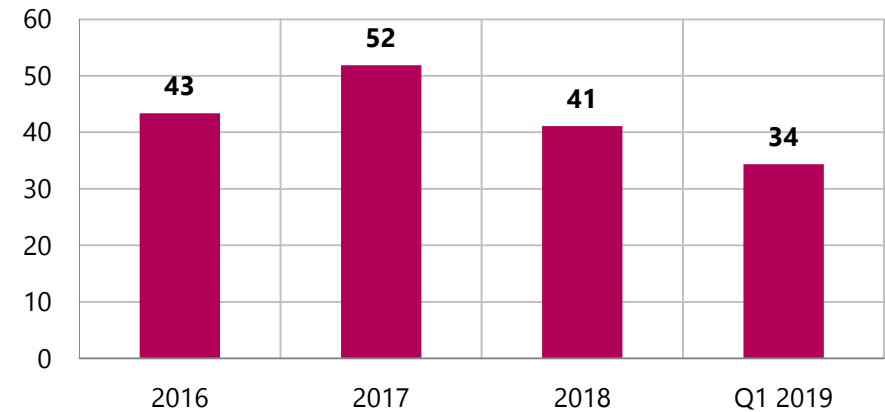
The cash consumption in Q1 2019

A cash consumption of \$1,8B

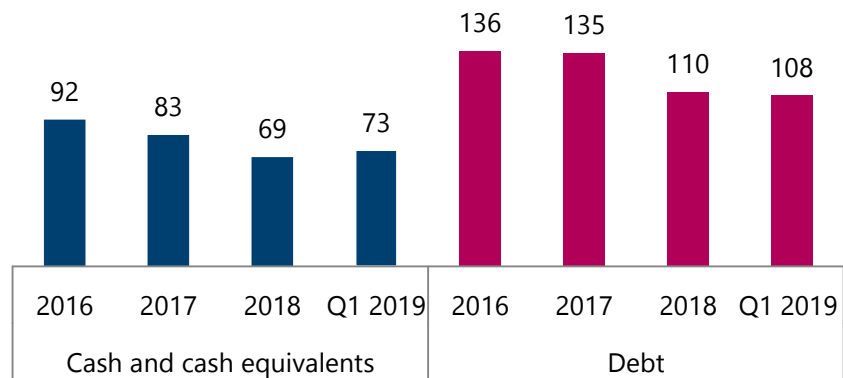
Free Cash Flow - B\$



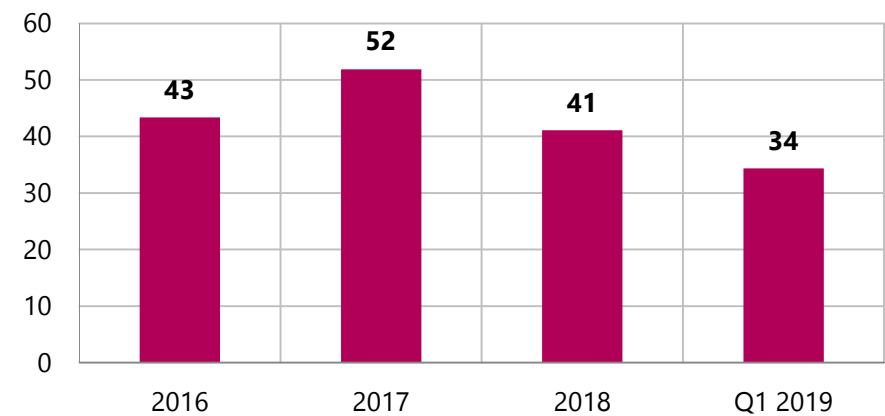
Endettement net - Mds\$



Evolution de la trésorerie et de la dette Groupe GE - Mds\$



Net Debt - B\$



Merci de votre attention !

