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GE THRIVES, WALL ST. YAWNS, IMMELT CHARGES ON

Jeff Immelt has had a rocky 10 years at the helm of General Electric but profits are holding up. Now he just has to win over Wall Street.

BY SCOTT MALONE
FAIRFIELD, CONN., MAY 19

EVEN A CASUAL LOOK at the history of General Electric Co during its decade with Jeff Immelt at the helm reads like a chronology of the major crises of the start of the 21st century.

He became chief executive days before

the 9/11 attacks, which took a heavy toll on GE's insurance and aviation businesses. He saw the largest U.S. conglomerate's shares fall to 18-year lows as the financial crisis battered the economy. And just two months ago the company was rocked again as its reactors played a central role in Japan's nuclear crisis.

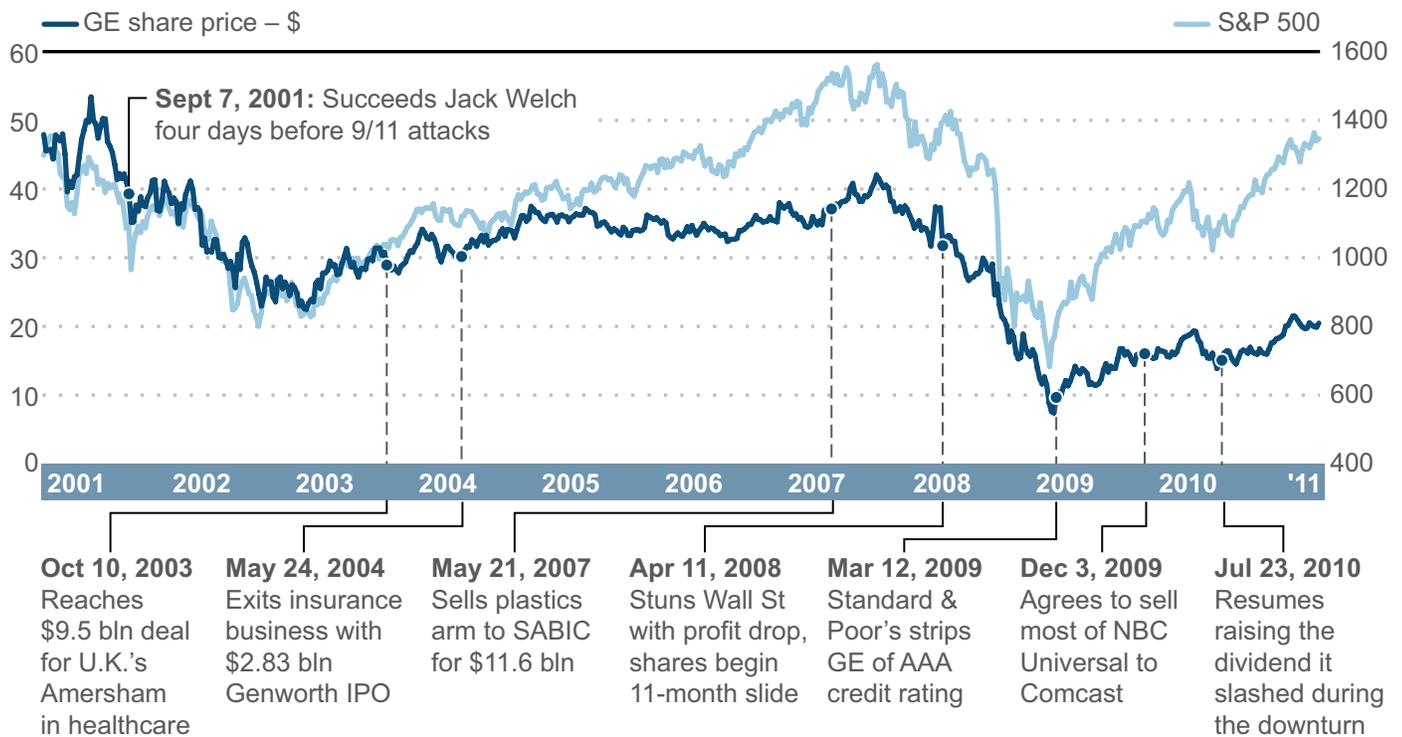
How does a CEO survive the ten most

turbulent years the U.S. economy has seen in almost a century?

For starters, he keeps his cool. Immelt stands out as having a more even-keeled approach than his predecessor, the lionized but sometimes volatile Jack Welch. Just ask Michael Neal, who as head of the company's GE Capital finance arm spent a lot of time in the hot seat through the financial crisis.

General Electric: the Immelt decade

Key moments in Jeff Immelt's tenure as chief executive of General Electric.



Source: Thomson Reuters



Reuters graphic/Stephen Culp

09/05/11

"You might be at risk of (Welch) throwing a piece of candy at you or something like that ... Jack could get a little more animated than Jeff. Jeff doesn't raise his voice, but you can tell when you're going down the wrong path with him," Neal said. "The last two years, maybe the meetings with Jack would have been a little louder, but I don't know that they would have been any different."

The 55-year old Immelt varies from his predecessor in another way - he's not exactly a hit on Wall Street.

Even as GE has nearly doubled its sales outside the United States, unloaded slower-growing and riskier businesses and remained profitable through the worst recession the world has seen since the 1930s, its shares have lost half their value over the past decade.

That stands in sharp contrast to the roughly 18 percent rise in the broad Standard & Poor's 500 index.

"How do you value someone who is a capitalist? Market capitalization of the

company. End of story," said Noel Tichy, a professor of management at the University of Michigan, who ran GE's training center in Crotonville, New York in the mid-1980s and follows the company closely. "He chose to play in the big leagues, but instead of going to the World Series we have ten years where he underperformed the S&P 500."

The Cincinnati, Ohio-born son of a former middle-manager at GE's aircraft unit, Immelt admits he is not happy with the stock's performance. But he contends that with the shares now trading for about 15 times forecast earnings - versus a P/E ratio of 40 when he took the top job - GE may be poised for a rebound.

"I don't like where the stock is today," he said in a recent interview at his office at the company's leafy headquarters in Fairfield, Connecticut. "Maybe at one point in the history of GE we were overvalued. That's not true today."

GE's diversified lineup of businesses looks a lot different than it did a decade ago. Gone

are the most volatile segments - including insurance and a majority stake of the NBC Universal business - as well as slow-growing businesses such as plastics.

Immelt's GE is refocused on its industrial roots: selling and fixing jet engines, electric turbines and medical imaging devices generates 60 to 70 percent of earnings, backed up by a streamlined GE Capital finance unit that funds purchases of its heavy equipment, lends money to mid-sized companies and invests in commercial real estate.

It is a business model that some shareholders said is easier to understand. That change alone, they argue, could help lift the shares back to levels they have not seen since before the financial crisis.

"I think the story is starting to make sense and he's starting to tell it in a clearer way," said Peter Klein, senior portfolio manager at Fifth Third Asset Management in Cleveland Ohio, which holds GE shares.

Given that analysts look for GE's annual



RUNNING A GLOBAL COMPANY: General Electric Chairman and Chief Executive Officer Jeffrey Immelt is seen during an interview with Reuters in his office at GE Corporate Headquarters in Fairfield, Connecticut May 9, 2011. **REUTERS/MIKE SEGAR**

profit to approach \$2 per share by 2013 or 2014 - almost double reported 2010 levels, according to Thomson Reuters I/B/E/S - and that the stock currently trades at about 15 times forecast earnings, it could be set for a climb to near \$30 over the next few years, Klein reasoned. That is up from its current level near \$20, about half its price when Immelt took the helm.

"Is that back to where it was in the past? No, but the company isn't the same," Klein said.

SMALL BITES ON M&A

ONE MEASURE OF IMMELT'S mark on GE comes in the numbers. The world's largest maker of jet engines and electric turbines has acquired \$307 billion worth of businesses on his watch and sold others worth a total of \$110 billion - a major change for a company with a \$211 billion market value.

Immelt said in an interview he never liked some of the businesses he disposed of, including the insurance arm that was the biggest contributor to the \$1 billion charge the company took weeks after the destruction of the World Trade Center and was spun off a few years later as Genworth Financial Inc.

But others may have held more sentimental attachment. When GE sold its plastics arm to Saudi Basic Industries Corp for \$11.6 billion in 2007, Immelt bid farewell to the business where he held his first GE staff jobs and where he met his wife of 25 years, Andrea.

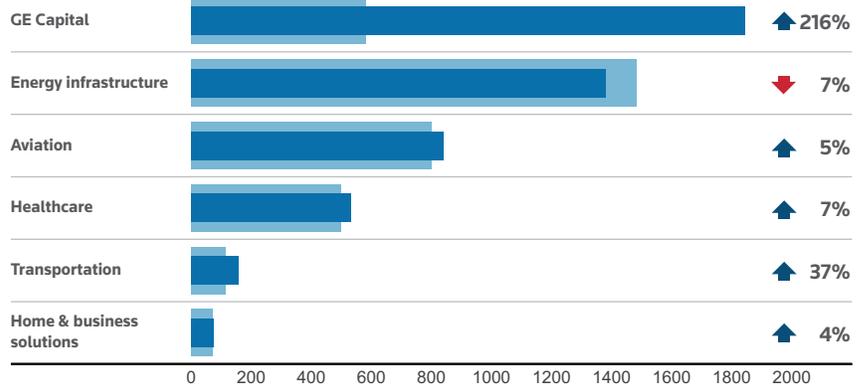
GE's cumulative takeover numbers are huge. But Immelt - who inked a \$9.5 billion takeover deal in the healthcare sector in his

GE's surprise profit surge

Earnings climb at all divisions but energy.

Profit by segment - \$ millions

Year-on-year percent change



Source: Company reports

Reuters graphic/Stephen Culp

REUTERS

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second full year on the job - said he no longer believes it is a good idea to take such big bites in M&A.

He now sees companies worth \$1 billion to \$3 billion as the ideal-sized target for GE. That range belies the buzz on Wall Street, where GE is routinely touted as a potential buyer of almost any large company that comes up for sale.

"My view is that basically we shouldn't think about acquisitions as what's going to move the needle for GE," said Immelt. "In most industries, for most companies, particularly of size, big acquisitions really haven't created shareholder value."

After spending much of 2008 through

2010 guarding its cash pile, GE returned to the takeover trail in a big way starting in September. Since then it has made \$11 billion in acquisitions in the energy sector.

Immelt cited Wellstream, a British maker of oil drilling equipment with a large presence in Brazil, as an example of a \$1.3 billion deal that fits GE's sweet spot: It offers a new technology -- flexible pipes used in subsea oil wells -- but is relatively small in revenue and geographic reach.

"You basically can take something that's not fully formed that we can add technology, globalization, all the things we do, and that's how you really create shareholder value," Immelt said. "It is hard to take a fully-formed



EXPANDING: GE Healthcare employees work in their research and development (R&D) facility in Bangalore June 21, 2010. **REUTERS/DANISH SIDDIQUI**

company and add enough value that it gets a good return for investors."

The company also snapped up Dresser Inc, a maker of gas-powered engines used in oil production and mining, and Converteam, a French company that makes equipment used to hook up wind turbines and solar panels to the electric grid. Both of those deals, worth around \$3 billion each, represented new technologies that boost GE's presence in the energy business, an area Immelt has marked for major expansion.

Immelt isn't alone in focusing his company's takeover sights on smaller targets. Louis Chenevert, CEO of United Technologies Corp, a diversified U.S. manufacturer that competes with GE in aviation, has taken a similar approach. Chenevert, whose company is worth about \$81 billion, typically aims at companies up to about \$2 billion in size.

Investors welcomed the focus on small deals.

"It's been demonstrated that large acquisitions by big companies are very difficult to make work and to add value," said Kent Croft, co-manager of the Croft Value Fund, a Baltimore-based money manager that holds GE shares.

GE is largely done with deal-making for 2011, Immelt said, and now aims to focus its capital on buying back the \$3 billion in preferred shares it sold to Warren Buffett's Berkshire Hathaway Inc during the financial crisis - as well as common shares - and continuing to raise the dividend, which was also slashed in the downturn to preserve

capital.

When GE returns to the takeover trail, Immelt said, it will focus on small deals in the energy and healthcare sectors.

The focus on buying smaller companies that GE thinks it can transform into big businesses shows Immelt's patient approach to growing the company, noted Keith Goddard, co-manager of the Tulsa, Oklahoma-based Capital Advisors Fund, which counts GE among its top 10 holdings.

"They're a company that has the ability to make 20-year investments. And there aren't a lot of companies out there that can do that," Goddard said. "If I were to put my finger on a shift in company philosophy or Immelt's philosophy, they've gotten back to this idea of, let's make some 20-year investments and not be as worried about the pattern of quarterly earnings. Jack Welch got into this mindset that they'd always deliver consistency no matter what."

Immelt, on the other hand, in 2002 bought the wind turbine business of the bankrupt Enron Corp. It was a small deal in a sector that Immelt was initially reluctant to invest in, agreeing to the purchase only because it seemed like a chance to get in at a bargain price. Today that operation is a \$6 billion slice of GE's portfolio.

In another big break with his predecessor, Immelt at the end of 2008 stopped giving investors per-share profit forecasts. Instead the company each December provides Wall Street with a "framework" of how it expects its various divisions to perform in the coming

BLOG

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year, leaving it to stock analysts to make specific predictions.

DOUBLING DOWN ON R&D

ONE PLACE IMMELT DOES look to "move the needle" is the company's Global Research Center, expanding its existing labs in Niskayuna, New York and Bangalore, and opening new ones in Shanghai, Munich and Rio de Janeiro.

The company now employs some 3,000 dedicated researchers across those five locations, which Immelt has expanded to put them on par with GE's storied executive training campus in Crotonville, New York.

"One of the things that is not really appreciated is that at the end of Jack Welch's tenure the backlog of new technology was very thin," said Howard Anderson, a senior lecturer at the Massachusetts Institute of Technology's Sloan School of Management. "One of the things that Immelt had to do was to get these started again developing products."

GE expects to spend \$5.8 billion on research and development this year, a figure that includes both projects it pays for itself and those to which customers contribute cash. Spending has nearly tripled from \$2.2 billion in 2001.

The fact that the company held the budget steady in 2009 -- a year that it slashed its dividend 68 percent -- stands as proof to its commitment to research, said Mark Little, a senior vice president who runs the research centers.

"Even in the darkest time of the financial crisis we sustained our focus on technology and as we came out of that we have been growing it very aggressively," Little said.

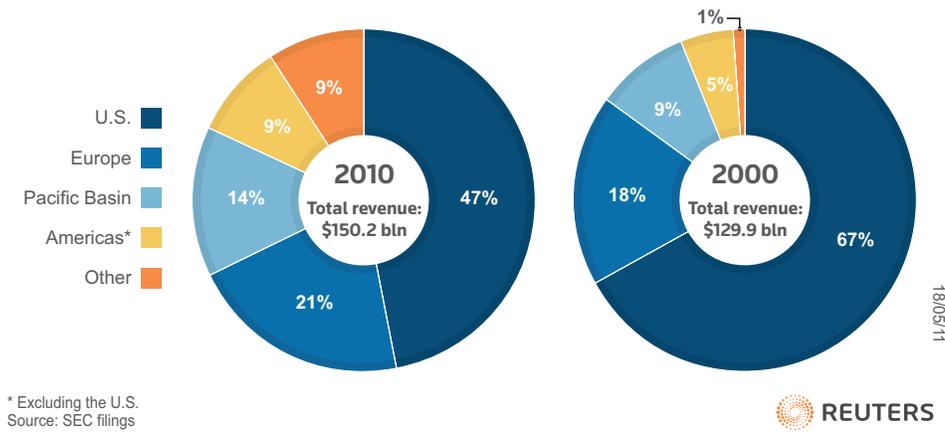
Immelt's interest extends to pushing GE researchers to develop products that business-unit executives are not sure the market is ready for.

One example is the hybrid railroad locomotive GE unveiled in 2007. The head of GE Transportation thought the product would not work, largely because no one made the scale of battery they would need to store enough engine power to move a 50,000-ton freight train.

So the former Dartmouth College football

GE's growing global footprint

General Electric's revenue, broken down by region, 2010 v. 2000.



Reuters graphic/Stephen Culp

player set Little's team on the problem.

"This started out sort of as a joke, him pushing us," Little recalled. "And I came back and said, 'Hey, we can really do it. Do you want to do this?' And he said, 'Yeah, let's go.' So he gave us the money for the battery program. We got the locomotive out there and we then developed our own battery chemistry for hybrid locomotives."

The company has sold more than 4,000 of that model locomotive in the past four years, which Immelt said proves the value of taking risks.

"One of the things that professional managers are worst at is investing. Your career gets built on momentum and things like that and sometimes we don't do as good a job of teaching people how to take swings," Immelt said. "It's not infrequent that I'm a catalyst, to say, 'Why don't we do it this way or why don't we take this approach?' And I think batteries were a case in point."

While Immelt likes to motivate people to take risks, the six-foot, four-inch CEO does not necessarily punish them for caution. In 2008, he promoted John Dineen, the head of the transportation unit who worried that the hybrid locomotive would not work. Today, Dineen runs GE Healthcare, a unit that's about four times the size of the transportation business.

Immelt, who was tapped by U.S. President Barack Obama in January to head an advisory panel on job creation, is also expanding the company's presence overseas. With the U.S. economy still in a sluggish recovery from the recession, he sees the fast-growing emerging markets of China and India, as well as oil-rich

countries in the Middle East, as offering GE's best growth prospects for the next few years.

In 2010 GE generated about 53 percent of its revenue outside the United States, up from about 33 percent in 2000. Immelt himself travels so much that he only wears watches with built-in alarm clocks. With an eye toward growing foreign sales, he shifted Vice Chairman John Rice to Hong Kong this year, a move intended to help GE's Asian operations make decisions faster.

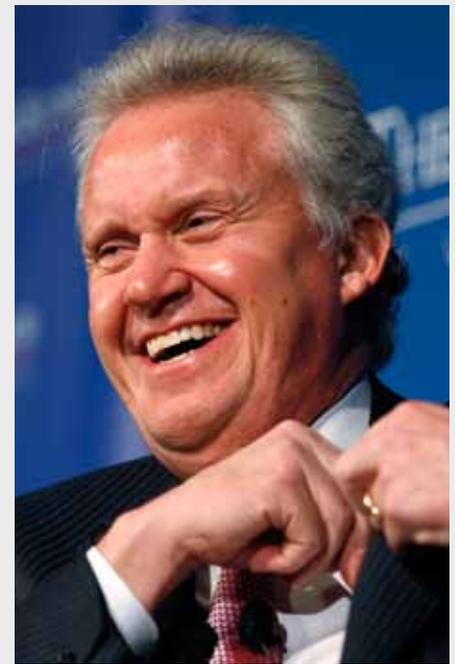
HOW MUCH LONGER?

IMMELT WAS 45 WHEN he was named CEO, and age was a factor in the choice. The board wanted an executive who could have a long run at the helm, like Welch, who had served for 20 years.

Ten years is a long time to hold the corner office - the average U.S. CEO who left his or her job since 2007 had been in the post for eight years, according to Challenger, Gray & Christmas, a Chicago-based consulting company that advises executives on landing new posts.

Even among comparably-sized companies, Immelt's tenure stands out. He has outlasted all but three of his peers at the helms of the 30 blue-chip companies that make up the Dow Jones industrial average. They are Cisco Systems Inc's John Chambers, Verizon Communications Inc's Ivan Seidenberg and Microsoft Corp's Steve Ballmer - with whom Immelt briefly shared a cubicle at Procter & Gamble in the late 1970s, at Immelt's only job outside GE.

Having kept the board's confidence through the financial crisis, even after twice



REUTERS/MOLLY RILEY

FIVE FACTS ABOUT GE AND IMMELT

- Immelt took the reins at GE on Sept. 7, 2001 -- days before the hijacked plane attacks on New York and Washington that triggered a long slump in the key aviation market. GE shares currently trade at about half their \$40.50 close the day before Immelt took the reins -- though even Immelt's critics acknowledge the company's shares had become overvalued when they crossed \$60 towards the end of predecessor Jack Welch's tenure.

- While GE makes a steady stream of small acquisitions and divestitures -- several hundred million to a couple of billion dollars by company reckoning -- Immelt has overseen some sizable unit sales, including the 2004 spin-off of Genworth Financial Inc and the 2010 sale of a majority stake in its NBC Universal media business to No. 1 U.S. cable operator Comcast Corp.

- With the exception of a brief stint at Procter & Gamble Co between his 1978 graduation from Dartmouth College, where he played football, and 1980 enrollment in Harvard Business School,

CONTINUED ON PAGE 6

missing his own quarterly profit forecast, observers reason that Immelt has at least a few more years in the job.

"He made it through the crisis. So I don't think they'll change him out now," said Jack De Gan, chief investment officer at Harbor Advisory in Portsmouth, New Hampshire, which owns GE shares.

Still, De Gan said he would prefer to see some new blood.

"If you're only an OK CEO, then 10 years is plenty of time. If you're a world-class CEO, you do 20. I'd like to see somebody else," he said.

Immelt, who sports a thick shock of wavy gray hair, will not say how long he plans to hold the reins.

"I still have a lot of passion for the job. I think that is the measuring stick," Immelt said during the interview in his office 60 miles (100 km) northeast of New York. "I don't think you can predict a time. I think you've got to be on edge. You've got to be completely paranoid every day and do that for as many days as you can."

He will say that his eventual predecessor's resume will look different from his, which showed postings across GE's plastics,

appliance and healthcare units over two decades.

"My career was broad first and deep second," Immelt said. "The next CEO of GE is going to be deep first, broad second."

Spending a long time in one segment of the business is more likely to train young executives to come up with ways to keep the business growing over longer periods of time, a challenge for a company that last year generated \$150 billion in revenue and is dominant in many of its market segments.

"Nothing is general in today's world. So if your company is good at developing general managers, that's OK in a world where the U.S. GDP is growing 5 percent a year, unemployment is low, the government doesn't matter," Immelt said. "We ended a time of what I would think was fairly great tranquillity and now we're in a time of more volatility. You just need people that know things today."

To encourage its executives to think about the long term, GE reviews not only their performance in their current job but how their successors at their previous posts have fared.

Having sold a majority stake in NBC to

Immelt has spent his entire career at GE, primarily at its plastics, appliances and healthcare units. He sold the plastics unit to Saudi Basic Industries Corp for \$11.66 billion in 2007 and attempted to sell the appliances unit in 2008. Immelt's father, Joseph, was a manager at GE's aircraft unit and he met his wife, Andrea, when they worked together at the plastics business.

■ Immelt, born in Cincinnati, Ohio, takes a less confrontational approach than his predecessor, Welch, who kept a relentless focus on costs and earned the nickname "Neutron Jack" for waves of mass layoffs early in his tenure as CEO. Immelt, by contrast, has focused more of his energies on finding new sources of revenue growth.

■ A lifelong Republican, Immelt has embraced causes backed by Democrats, including expanding GE into renewable energy. In January 2011, U.S. President Barack Obama named Immelt as a top outside economic adviser on jobs and the economy



BUSINESS AND POLITICS: U.S. President Barack Obama and Chinese President Hu Jintao preside over a meeting with business leaders in the Eisenhower Executive Office Building at the White House in Washington, January 19, 2011. From L to R: Lou Jiwei, China Investment Corporation; President Hu; President Obama; Jim McNerney, Boeing; and Jeff Immelt, General Electric. **REUTERS/KEVIN LAMARQUE**

Comcast Corp and trimmed back the finance arm, Immelt has less to feel paranoid about these days.

"Siemens is a really good competitor and a really good company but I'm not going to wake up tomorrow morning and find they're going to do something that's so shocking that I can't match it," he said, referring to the

German conglomerate that competes with GE in energy and healthcare equipment.

He worries more about diplomatic squabbles.

"If we woke up tomorrow and we're in a trade war with China where nothing can happen and no trade can occur, or if you woke up and saw what's going on in Libya was all

of a sudden happening in Saudi Arabia, those are big secular threats that in the end I think have as much to do with GE's success as anything else," he said.

(Reporting by Scott Malone, additional reporting by Nick Zieminski; Editing by Claudia Parsons and Jim Impoco)

INTERVIEW: EXCERPTS FROM A CONVERSATION WITH JEFF IMMELT

■ ON RESTRUCTURING THE COMPANY:

"There was no second when I was CEO when I felt like insurance was a good fit for GE. It took us five years to exit it, but I don't feel that way about any of the businesses we're in today."

"Every day when we owned NBC, I woke up kind of paranoid that something was going to replace that business model. And in many ways the industry has proven to be much more resilient than I thought it would be. But even today, with our 49 percent investment, I look at the audience every night, I still get the ratings and I look at the dissipation of audience over time and it still freaks me out."

"We basically have a company today that best fits what I view as being GE core competencies and in some way all of them have some secular tailwinds that I think can propel them over the next five, ten, 15 years. So that's why I'm so positive about the portfolio."

"I've basically sold half the company that GE was when I became CEO.... The only confusion that investors can have today is does financial services fit with infrastructure? In the end I'm not the judge, they're the judge. But it's a much simpler company than it was ten years ago. Much simpler."

■ ON GE'S UNDERPERFORMING SHARES:

"I don't like where the stock is today, I think being in financial services, particularly with the kind of the GE Capital business model during the financial crisis, clearly that has hurt us the worst and has been a source of frustration, I'm sure, for investors and the leadership team ...

"Maybe at one point in the history of GE we were overvalued. That's not true today.

"I work without a contract, I know I've got to perform. Over the last decade when I've been CEO we've earned the third most

money of any company in the world. From an operating and execution standpoint we've done OK but I think we can do better in the future and we have the type of businesses that can help us do that."

"The burden is on us to be more transparent, which we've tried to do. The burden is on us to be as simple as we can be. But basically today if you take our earnings that are infrastructure we probably get the same P/E (price-to-earnings ratio) on that set of earnings that UTX (United Technologies Corp) does and if you take our earnings from financial services we probably get a slightly better P/E than the financial services industry does. I don't think we've been unfairly harnessed by a complexity

factor. And our job is to grow earnings equal to or greater than the S&P 500 and let the rest take care of itself."

■ ON THE DECISION TO STOP GIVING PROFIT FORECASTS:

"Investors are smart. They don't really need guidance to judge your company. That's what I've learned the most is that the T. Rowe Price, Fidelity, people like that, they really don't need it. They can build their own models, they know when you're winning and losing and smart investors really don't need guidance."

■ ON SCALING BACK GE CAPITAL:

"Basically, we would do almost anything



10 YEARS ON TOP: General Electric Chairman and Chief Executive Officer Jeffrey Immelt poses for a portrait during an interview with Reuters in his office at GE Corporate Headquarters in Fairfield, Connecticut, May 9, 2011. **REUTERS/MIKE SEGAR**

to make a buck in financial services, I'm going back 30 years here. We didn't do trading, we didn't take currency risk, we never did any of that stuff. But we went from being a big mid-market lender to being big in insurance. We built a big private equity book at one point in time. We expended more broadly in consumer finance. Almost all of those things over a decade or more got us too diluted from what we were really best at."

"The size was really what our biggest mistake was."

■ **ON THE ROLE OF M&A IN GROWING GE:**
"My view is that basically we shouldn't think about acquisitions as what's going to move the needle for GE. In the end what moves the needle for GE is technology,

productivity. Big themes - China or Brazil or things like that."

■ **ON GETTING HIS MANAGERS TO TAKE RISKS:**

"One of the things that professional managers are worst at is investing. Your career gets built on momentum and things like that and sometimes we don't do as good a job of teaching people how to take swings. It's not infrequent that I'm a catalyst, to say, 'Why don't we do it this way or why don't we take this approach?'"

■ **ON THE MOVE OF VICE CHAIRMAN JOHN RICE TO HONG KONG:**

"You can say, 'We need to decentralize,' but we're not going to take a big decision

and let it be made by a low-level person. We're just not set up to do that. What we can do is have big decisions made by credible and experienced people and we've now moved all those people to the regions."

■ **ON GE'S RESPONSE TO THE FUKUSHIMA NUCLEAR CRISIS:**

"We're all going to learn a lot once the post-mortem is done but my sense is that the technology worked as it was designed to work. And people a long time ago -- 30 to 40 years ago -- actually did a pretty good job. We'll learn what to do with spent fuel pools or remote power. We'll learn a lot as we go through the industry. But I thought our team did a good job."

(Reporting by Scott Malone;
Editing by Claudia Parsons)



INDUSTRIAL ROOTS: U.S. President Barack Obama (C) passes a turbine as he tours General Electric's birthplace in Schenectady, New York, January 21, 2011. Flanking Obama are GE CEO Jeffrey Immelt (L) and plant manager Kevin Sharkey. **REUTERS/KEVIN LAMARQUE**

COVER PHOTO: General Electric Chairman and Chief Executive Officer Jeffrey Immelt is seen during an interview with Reuters in his office at GE Corporate Headquarters in Fairfield, Connecticut May 9, 2011. **REUTERS/MIKE SEGAR**

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