

General Electric is one of the largest publicly traded companies in the world and is classified as a diversified industrials business. It has eight primary segments: GE Capital (20% of sales), Power & Water (19%), Aviation (19%), Oil and Gas (13%), Healthcare (14%), Appliances and Lighting (7%), Energy Management (6%), and Transportation (4%).

## Analyst's Notes

Analysis by John Eade and Nicolay Nielsen, April 20, 2015

**ARGUS RATING: BUY**

- Reiterating target of \$31
- GE shares have outperformed the market over the past quarter, rising 12% while the S&P 500 has advanced 2%.
- On April 17, GE reported 1Q15 EPS of \$0.31, down 6% year-over-year but a penny above consensus.
- We are reiterating our 2015 EPS forecast of \$1.73 and our 2016 forecast of \$1.82.
- GE continues to invest in industrial growth. It expects to spend \$10-\$15 billion annually on R&D, development investments, and bolt-on M&A deals.

### INVESTMENT THESIS

#### INVESTMENT THESIS

While BUY-rated General Electric Co. (NYSE: GE) has shifted from a revenue-growth to a cost-containment strategy over the last few years, the company is benefiting from strong new order trends, as shown by its growing backlog of booked business. Improving power generation activity has fueled demand for turbines and other oil/gas equipment, and an upswing in the commercial aviation market is flowing through to GE Aviation's order book. The plan to divest most of GE Capital will now place additional focus on these businesses, and management expects to invest \$10-\$15 billion annually in industrial growth initiatives. We see the higher-margin backlog, solid execution in the industrial businesses, and a smaller GE Capital that acts as a financier for the company's industrial customers, as strong positives for General Electric, and believe that GE stock remains attractively priced based on a range of valuation metrics. Our target price is \$31.

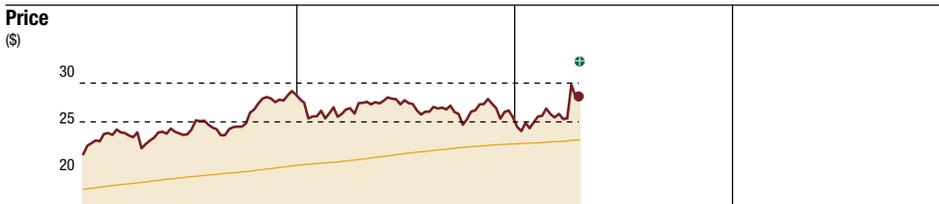
### RECENT DEVELOPMENTS

GE shares have outperformed the market over the past quarter, rising 12% while the S&P 500 has advanced 2%. The shares soared on April 10, on news that the company planned to dispose of most of its GE Capital assets. However, over the past year the shares have underperformed, with an increase of 2% versus a 12% increase for the index. The beta on GE is 1.34.

### Market Data

Pricing reflects previous trading week's closing price.

— 200-Day Moving Average    ● Target Price: \$31.00    ● 52 Week High: \$28.68    ● 52 Week Low: \$24.57    ● Closed at \$27.25 on 4/17



	2013				2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EPS (\$)</b>	0.39	0.36	0.36	0.53	0.33	0.39	0.38	0.56	0.31	0.39	0.41	0.62	0.33	0.41	0.44	0.65
<b>Annual</b>	1.64				1.66				1.73 (Estimate)				1.83 (Estimate)			
<b>Revenue (\$ in Bil.)</b>	35.0	35.1	35.7	40.4	34.2	36.2	36.0	42.0	33.1	37.3	37.1	43.3	32.4	36.5	36.3	42.4
<b>Annual</b>	146.2				148.4				150.8 (Estimate)				147.6 (Estimate)			
<b>FY ends Dec 31</b>																

## Argus Recommendations

<b>Twelve Month Rating</b>	SELL	HOLD	BUY
<b>Five Year Rating</b>	SELL	HOLD	BUY
<b>Sector Rating</b>	Under Weight	Market Weight	Over Weight

- Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.
- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
  - HOLD-rated stocks are expected to perform in line with the market.
  - SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.
- The distribution of ratings across Argus' entire company universe is: 47% Buy, 47% Hold, 6% Sell.**

## Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

### Market Overview

Price	\$27.02
Target Price	\$31.00
52 Week Price Range	\$23.41 to \$28.68
Shares Outstanding	10.07 Billion
Dividend	\$0.92

### Sector Overview

Sector	Industrials
Sector Rating	MARKET WEIGHT
Total % of S&P 500 Market Cap.	10.00%

### Financial Strength

Financial Strength Rating	MEDIUM
Debt/Capital Ratio	66.6%
Return on Equity	16.0%
Net Margin	-0.9%
Payout Ratio	0.53
Current Ratio	1.55
Revenue	\$143.04 Billion
After-Tax Income	-\$1.34 Billion

### Valuation

Current FY P/E	14.77
Prior FY P/E	15.62
Price/Sales	1.90
Price/Book	2.50
Book Value/Share	\$10.79
Market Capitalization	\$272.02 Billion

### Forecasted Growth

1 Year EPS Growth Forecast	4.22%
5 Year EPS Growth Forecast	6.00%
1 Year Dividend Growth Forecast	4.55%

### Risk

Beta	1.07
Institutional Ownership	54.61%

**Analyst's Notes...Continued**

On April 17, GE reported 1Q15 EPS of \$0.31, down 6% year-over-year but a penny above consensus. Revenue declined 3% to \$33.1 billion. Revenue and EPS numbers excluded a one-time charge related to the disposition of GE Capital. On the call, CEO Jeffrey Immelt noted that GE had a good quarter in what he described as a 'slow growth' and 'volatile' environment.

GE continues to invest in industrial growth. It expects to spend \$10-\$15 billion annually on R&D, development investments, and bolt-on M&A deals.

Management expects industrial EPS for the full year to come in at the high end of its previous guidance range of \$1.10-\$1.20.

**EARNINGS & GROWTH ANALYSIS**

GE breaks its operations into seven industrial businesses (Industrial) and GE Capital. In 1Q, Industrial segment earnings rose 9% year-over-year, including a \$120 million currency headwind. Excluding the impact of currency, operating profit was up 12%. At GE Capital, earnings of \$1.5 billion fell 21%, reflecting lower Synchrony earnings.

Drilling deeper, the fastest-growing businesses in 1Q15 were Transportation, up 7%; Appliances & Lighting, up 5%; and Power & Water, up 4%. The slowest-growing segments were Oil & Gas, down 8%; Healthcare, down 3%; and Aviation, down 2%.

The businesses with the greatest profit gains were the low-margin Appliances & Lighting, and the higher-margin Aviation and Transportation.

Given current energy market volatility, we will be closely watching GE's energy businesses this year. In 1Q, Oil & Gas revenues fell 8% to \$4 billion, reflecting a 700-basis-point currency headwind and a negative 100-basis-point disposition impact. Management notes that 2015 will be challenging for the Oil & Gas business, and is planning to lower costs in response. This business accounts for about 15% of GE's industrial earnings.

GE's backlog continues to grow. At the end of 1Q, the backlog was a record \$263 billion, up \$19 billion from the prior-year period. Equipment orders for new technology rose 9%, while services orders grew 7%.

On a geographic basis, the company has a favorable view of markets in the U.S., Europe and China. Management expects revenue growth from resource-rich markets such as the Middle East, Latin America, and Africa, while Russia and Australia are expected to remain challenging.

Geographic growth during the quarter was balanced. Organic sales rose 2% in the U.S. and 6% in growth markets. The company saw growth of 6% in China, 19% in the Middle East, and 11% in both Africa and Latin America.

We are reiterating our 2015 EPS forecast of \$1.73 and our 2016 forecast of \$1.82. Our five-year earnings growth rate forecast is 6%.

**FINANCIAL STRENGTH & DIVIDEND**

Our financial strength rating on General Electric is Medium, the

**Growth & Valuation Analysis**
**GROWTH ANALYSIS**

(\$ in Millions, except per share data)

	2010	2011	2012	2013	2014
Revenue	149,593	147,288	146,684	146,045	148,589
COGS	71,713	68,278	74,310	77,141	81,311
Gross Profit	77,880	79,010	72,374	68,904	67,278
SG&A	41,066	40,274	38,754	31,244	30,572
R&D	—	—	—	—	—
Operating Income	29,638	34,785	29,788	26,267	26,711
Interest Expense	15,553	14,528	12,407	10,116	9,482
Pretax Income	14,085	20,257	17,381	16,151	17,229
Income Taxes	1,033	5,738	2,534	676	1,772
Tax Rate (%)	7	28	15	4	10
Net Income	11,644	14,151	13,641	13,057	15,233
Diluted Shares Outstanding	10,678	10,620	10,564	10,289	10,123
EPS	1.06	1.23	1.29	1.27	1.50
Dividend	0.46	0.61	0.70	0.79	0.89

**GROWTH RATES (%)**

Revenue	-3.8	-4.2	1.3	-0.8	3.4
Operating Income	4.7	17.4	-14.4	-11.8	1.7
Net Income	5.6	21.5	-3.6	-4.3	16.7
EPS	14.0	8.8	11.3	6.5	2.7
Dividend	-24.6	32.6	14.8	12.9	12.7
Sustainable Growth Rate	5.8	5.6	5.7	4.8	4.8

**VALUATION ANALYSIS**

Price: High	\$19.70	\$21.65	\$23.18	\$28.09	\$27.94
Price: Low	\$13.75	\$14.02	\$18.02	\$20.68	\$23.69
Price/Sales: High-Low	1.4 - 1.0	1.6 - 1.0	1.7 - 1.3	2.0 - 1.5	1.9 - 1.6
P/E: High-Low	18.6 - 13.0	17.6 - 11.4	18.0 - 14.0	22.1 - 16.3	18.6 - 15.8
Price/Cash Flow: High-Low	5.8 - 4.1	6.9 - 4.5	7.8 - 6.1	10.1 - 7.4	10.2 - 8.7

**Financial & Risk Analysis**
**FINANCIAL STRENGTH**

	2012	2013	2014
Cash (\$ in Millions)	77,268	88,555	90,208
Working Capital (\$ in Millions)	244,742	255,083	249,856
Current Ratio	2.35	2.53	2.53
LT Debt/Equity Ratio (%)	210.1	185.9	173.9
Total Debt/Equity Ratio (%)	298.8	252.5	235.8

**RATIOS (%)**

Gross Profit Margin	49.3	47.2	45.3
Operating Margin	20.3	18.0	18.0
Net Margin	9.3	8.9	10.3
Return On Assets	1.9	1.9	2.3
Return On Equity	11.4	10.3	11.8

**RISK ANALYSIS**

Cash Cycle (days)	43.1	53.0	59.8
Cash Flow/Cap Ex	2.1	2.2	2.0
Oper. Income/Int. Exp. (ratio)	2.4	2.6	2.8
Payout Ratio	—	13.3	53.7

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## Analyst's Notes...Continued

midpoint on our five-point scale.

In January 2015, GE raised its annualized dividend by 5% to \$0.92, for a yield of about 3.4%. Our dividend estimates are \$0.92 for 2015 and \$0.98 for 2016.

### MANAGEMENT & RISKS

Jeffrey Immelt has served as Chairman and CEO of GE since 2001, after holding various executive positions at the company. Jeff Bornstein, formerly of GE Capital, became the new CFO on July 1, 2014.

Although GE's massive size and product diversity have helped it to smooth earnings in the past, the company's results during the 2007-2009 recession also demonstrated that it can be susceptible to a broader economic meltdown. The 2011 earthquake in Japan showed that GE is also vulnerable to declining demand for nuclear plants, while overcapacity in the wind and solar power industries has been a challenge.

### COMPANY DESCRIPTION

General Electric is one of the largest publicly traded companies in the world and is classified as a diversified industrials business. It has eight primary segments: GE Capital (20% of sales), Power & Water (19%), Aviation (19%), Oil and Gas (13%), Healthcare (14%), Appliances and Lighting (7%), Energy Management (6%), and Transportation (4%).

### VALUATION

### VALUATION

We think that GE shares are attractively valued at current prices in the upper \$20s. The shares are now trading in the upper half of their 52-week range of \$23-\$29. On a technical basis, the shares have traded in a relatively narrow range of \$23-\$28 since 3Q13.

To value the stock on a fundamental basis, we use a peer multiple comparison model. GE shares are trading at 16.5-times trailing earnings, above the midpoint of the five-year range, but below the peer average. However, on a price/sales basis, the shares are trading close to the five-year average and above the peer group average. The dividend yield of about 3.4% is above the midpoint of the five-year range and well above the average for peers.

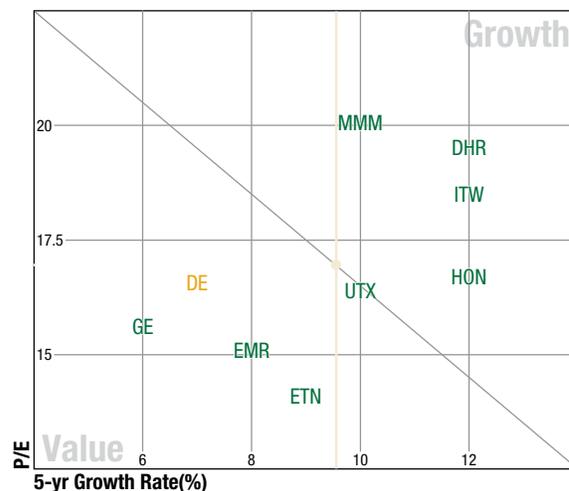
Our comparative multiple analysis points to a fair value of \$31 per share, which remains our target price.

On April 20, BUY-rated GE closed at \$27.02, down \$0.23.

## Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare GE versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how GE stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how GE might fit into or modify a diversified portfolio.

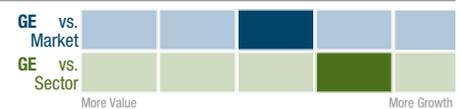


Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
GE	General Electric Co	272,024	6.0	15.6	-9	5.8	BUY
UTX	United Technologies Corp	105,844	10.0	16.4	9.6	9.9	BUY
MMM	3M Co	104,516	10.0	20.1	15.6	10.4	BUY
HON	Honeywell International Inc	80,077	12.0	16.7	10.9	10.7	BUY
DHR	Danaher Corp	60,048	12.0	19.5	13.0	12.0	BUY
EMR	Emerson Electric Co	40,221	8.0	15.1	9.0	6.7	BUY
ITW	Illinois Tool Works Inc	36,220	12.0	18.5	20.3	12.6	BUY
ETN	Eaton Corp Pub Ltd Compan	33,027	9.0	14.1	8.0	9.1	BUY
DE	Deere & Co	30,181	7.0	16.6	8.2	4.5	HOLD
<b>Peer Average</b>		<b>84,684</b>	<b>9.6</b>	<b>17.0</b>	<b>10.4</b>	<b>9.1</b>	

### P/E



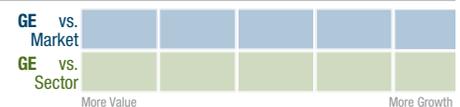
### Price/Sales



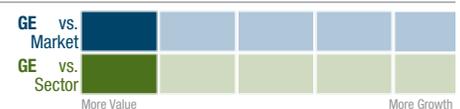
### Price/Book



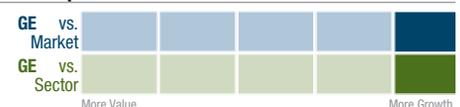
### PEG



### 5 Year Growth



### Debt/Capital



## About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

### THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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