General Electric Company: Transition From Diversified Business Model

aranca

December 2021

GE is dismantling!

After 130 years of operating as a conglomerate, General Electric Company (GE) plans **to split** its existing business into **three separate companies** to simplify its operations and cut down the high debt load. After the split, the **new standalone entities would be listed** and run by independent management teams, with current CEO, Larry Culp, becoming CEO of the aviation company.

Current Structure

Aviation
*(35% of FY19 Rev, 72% of FY19 EBIT)**

Healthcare
(21%, 39%)

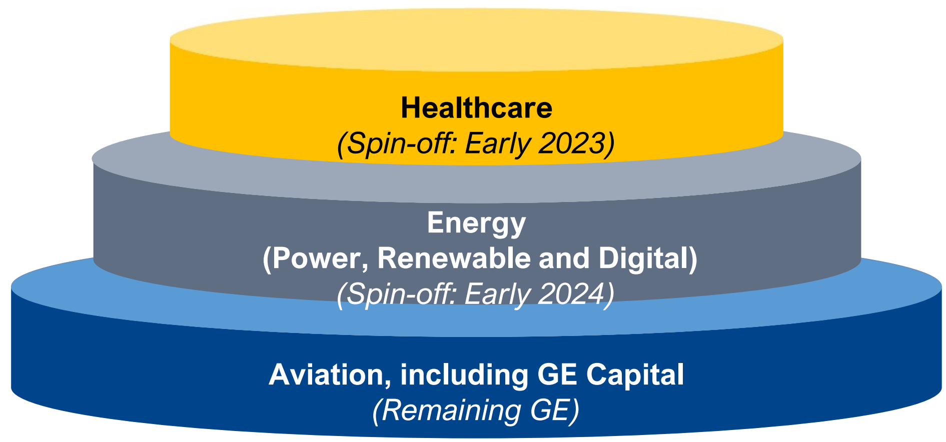
Power
(20%, 3%)

Renewables
(16%, EBIT loss)

GE Capital
(9%, EBIT loss)

**Contribution to consolidated revenues/EBIT considered at 2019 levels (pre-pandemic)*

Proposed Structure after Separation



Rating action after announcement on business split	**S&P** BBB+ rating put on CreditWatch Neg	**Moody's** No rating action, maintained at Baa1/Neg	**Fitch** No rating action, maintained at BBB/St

GE dismantling despite multiple initiatives to turnaround business

CEO Larry Culp, since his appointment in October 2018, has taken strategic steps to strengthen the business of the company and reduce its high debt load of more than USD 130 billion on consolidated basis (including pension liabilities) as of December 31, 2018. Since then, debt reduction has been supported by sale of assets (BioPharma and GE Capital Aviation Services sold for cumulative cash amount of USD 44 billion, stake reduction in Baker Hughes), streamlining of operations through restructuring, cut in dividends, and suspension of share buybacks.

Metrics	Management targets by end of 2023	Status as of nine months ended 30 September 2021
Leverage Target	<2.5x	5.9x*
Net Debt	<USD 35.0 billion	<USD 61.0 billion#
Industrial FCF	>USD 7.0 billion	USD 1.3 billion
Industrial FCF margin	High – single digit	~3.0%

**as of December 31, 2020, # includes pension obligations*

	Recovery expectations vs. 2019 level	Key Competitors
Aviation	2023 for narrow-body aircraft 2024 for wide-body aircraft	Rolls-Royce, Raytheon Technologies
Healthcare	2023	Philips, Siemens
Energy	2023	ABB, Siemens Energy

Split expected to reduce business diversity but debt reduction to help management focus on core businesses

Our Take:

Timing

The timing of the split aligns with the recovery in GE's most profitable and cash cow business, aviation; this bodes well for the company.

Growth Prospects

Aviation and healthcare are expected to achieve solid high-double-digit margins. Energy is expected to remain a low-growth, low-margin business owing to restructuring over multiple years.

Stakes

GE would retain 19.9% stake in the new healthcare company, which we estimate to be monetized over time and utilized for further debt reduction.

Capitalization needs

After the split, the energy business is expected to bear the least debt. In contrast, **aviation would have the highest debt and liability**, as it will carry the burden of GE Capital's legacy liabilities, including the run-off Insurance business. GE needs to contribute nearly USD 5.5 billion by 2024 to the insurance business due to undercapitalization in the past few years.

Key things to watch out for:

- **Proposed debt and liability allocation** between the entities and expected cash proceeds to GE from the spin-off
- Rating downgrade risk, although **we do not see GE moving to the high-yield category**, given solid liquidity and strong order backlog for the company (USD 239 billion as on September 30, 2021; o/w 51% belongs to aviation business)

500+
Strong, professional team across multi-disciplinary domains

2500+
Global Clients

120+
Sectors and sub-sectors researched by our analysts

80+
Countries where we have delivered projects

ABOUT ARANCA

Business Research & Advisory
CXOs in Strategy, SBUs, Sales, Marketing, CI/MI, Innovation

Valuation & Financial Advisory
CFOs in Start-ups, PE/VC Firms, Corporate M&A Teams, Mid-market Companies

Technology | IP Research & Advisory
R&D, Tech Scouting, Open Innovation, IP Teams, Product Development

Investment Research & Analytics
Brokerage, Hedge Funds, IRPs, I-Banks, AMCs, Investor Relations

Connect with our Team

Pragita Gupta

Manager – Investment Research

+91 22 3937 9999

pragita.gupta@aranca.com

For more details: *www.aranca.com* | *https://www.linkedin.com/company/aranca* | *https://www.aranca.com/knowledge-library*

Decide Fearlessly

From startups to the Fortune 500, private equity and global financial firms, Aranca is the trusted research and advisory partner for over 2500 companies

www.aranca.com