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GE Picks Up the Pieces

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For Rothbort's preview heading into the General Electric conference call, please click [here](#).

If today was not such a miserable day for the markets, **General Electric** (GE) would have led us to higher ground. The company met its lowered guidance issued last quarter and did not issue any negative surprises looking forward to the third quarter. Selling off the Japanese finance unit is a major step forward to cleaning up its financial services division. Energy and aviation remain strong, and I was pleasantly surprised by the turnaround in health care.

General Electric reported EPS of 24 cents on revenue of \$46.9 billion. EPS was in line with the lowered guidance and consensus estimates, while revenue was surprisingly better than expectations by 3.5%. Revenue grew 11% year over year, spurred by a 15% increase in industrial sales.

Included in the quarter was \$300 million of gains on dispositions (3 cents per share) and \$400 million (4 cents per share) from restructuring.

The company also announced that it will sell its Japanese consumer financial services unit, including the Lake business, to Shinsei Bank for approximately \$5.4 billion.

Major equipment orders were \$13.7 billion, up 4% year over year. By product, aviation was up 11%, health care was up 8%, and energy was up 47%. Oil and gas was down 8%, and transportation was down 78% as a \$1.5 billion order in the year-ago quarter did not repeat. Services orders of \$9.5 billion were up 19% year over year. By product, aviation was up 14%, energy was up 19%, oil and gas was up 36%, transportation was up 41%, and health care was up 13%. Flow orders were \$4.1 billion, down 3% year over year on an organic basis.

Infrastructure had revenue of \$17.6 billion, up 26% year over year. Segment profits rose 24% year over year, to \$3.2 billion. Aviation and energy remain quite strong, and the book-to-bill is growing.

Health care had a "great" quarter, according to management as the segment seems to have turned around from a lousy first quarter. Revenue rose 11%, to \$5.4 billion, and segment profits rose 8%. Orders rose 10% and are improving. Diagnostic imaging orders rose 8%. Strength came from overseas as international sales rose 15% while the Americas rose just 1%.

Industrial products had a tough quarter as revenues rose 2% and segment profit declined 32%. The U.S. appliance industry unit sales declined 7% as housing starts remained weak. On the bright side, enterprise solution sales and segment profit each rose 20%.

NBC Universal delivered a seventh consecutive quarter of positive earnings growth. Revenue rose 7%, to \$3.9 billion, and segment profit rose 1%. The strength in this segment is coming from cable where profits rose 13%. *USA*, *Bravo*, *Sci-Fi* and *Oxygen* networks had excellent ratings. Up-fronts of \$4.3 billion for the upcoming season rose from \$4 billion in the prior year. The Olympics is four weeks away, with \$1 billion in advertising revenue expected to be earned.

Commercial finance revenue rose 14%, and segment profit rose 7%. Originations were strong. Real estate profits rose 2%, while Capital Solutions profits rose 9%. The asset quality was deemed to be stable.

GE Money (the consumer finance division) saw revenue rise 6% and segment profit decline 9%. The delinquency rate rose 70 basis points, to 5.92%, globally, with the U.S. rate rising 105 basis points, to 5.55%

Third-quarter 2008 guidance called for revenue of around \$49 billion and EPS of 50 cents to 54 cents. Analysts currently expect GE to earn 54 cents on \$47.5 billion of revenue.

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At the time of publication, Rothbort had no positions in the stocks mentioned, although positions can change at any time.

Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele. He also is the founder and manager of the social networking educational Web site TheFinanceProfessor.com.

Immediately prior to that, Rothbort worked at Merrill Lynch for 10 years, where he was instrumental in building the global equity derivative business and managed the global equity swap business from its inception. Rothbort previously held international assignments in Tokyo, Hong Kong and London while working for Morgan Stanley and County NatWest Securities.

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