

ST. JOHN'S UNIVERSITY

FIN 284

DR. LIAW



PRESENTED BY:

Russell DiBenedetto

Michael J. Demuth

Vilson Dushi

Ryan Lee

Sharmin Samad

Parul Vyas

ExecutiveSummary	3
Recent Acquisitions:	6
Main Divisions of Work:.....	6
Management:.....	9
Jeffrey R. Immelt.....	9
Ferdinando Beccalli-Falco	10
Dennis D. Dammerman	11
Robert Wright.....	12
Competition:.....	14
3M	14
Siemens AG.....	15
SWOT Analysis.....	17
Strengths.....	17
Weaknesses	17
Opportunities.....	18
Threats.....	18
Risk Analysis.....	18
Fraud and Natural Disasters	18
Foreign Currency Fluctuations.....	18
Off-Balance Sheet Financing	19
Estimates of Insurance Income.....	19
Financial Ratio Analysis	19
SHORT TERM LIQUIDITY ANALYSIS.....	19
CAPITAL STRUCTURE AND SOLVENCY ANALYSIS	21
ANALYSIS of General Electrics OPERATING PERFORMANCE.....	23
ANALYSIS of General Electric RETURN on INVESTMENTS	25
Common Size Income Statement	27
Segment Analysis.....	29
ANALYSIS of General Electric Key Market Measures	33
CAPM-The Capital Asset Pricing Model.....	33
Regression Analysis for GE	36
Correlation Analysis.....	42
Conclusion and Recommendation.....	44
Works Cited.....	46

Executive Summary

In its 125-year existence, General Electric (GE) Company has proven that it can adapt to the changing world and take advantage of the changing economies. To truly understand GE, one must realize that GE is a multi-business company; however, at the same time it is bound together by common operating systems and initiatives. Through the use of shared systems GE has been able to combine the talents of the individual business thus creating an entity that is greater than the sum of its parts.

In January 2004, GE reorganized itself around its markets and customers by creating 11 operating segments:

Advanced Materials	Healthcare
Commercial Finance	Infrastructure
Consumer Finance	Insurance
Consumer & Industrial	NBC
Energy	Transportation
Equipment & Other Services	

Recent acquisitions of Amersham and Vivendi Universal Entertainment (VUE) were made to help GE better position itself for the future. The combination of GE's high-tech services and Amersham's drug discovery business opens up new ways to support pharmaceutical customers. With this combination GE has increased its opportunities for advancement in molecular medicine that will bring decades of profitable growth. The merger of NBC with VUE has created a media company positioned for a digital future that the industry is scrambling to find the best way to incorporate into their business plans. This combination will help NBC's chances of continued success.

GE has a steady record of growth, even through the slow global economy, U.S. recession, lower interest rates and escalating raw material prices that directly effected GE. GE has awarded its shareholders with 28 consecutive years of dividend growth, including a 2003 increase of 5%. GE's dividend growth for the past five years has exceeded those of other companies in the S&P 500 stock index.

This report has examined the current situation of GE, has introduced new technology and services it provides, and has analyzed our recent economy situation. We analyzed GE's strengths, weaknesses, opportunities and threats and the risks associated within the industry. We then went on to analyze the five

building blocks: short-term liquidity, capital structure and long-term solvency, asset utilization, profit margin ratios, and return on invested capital. A regression analysis was used to predict GE's future revenue and the dividend discount model was used to value GE's stock. After thorough research and the correlation analysis we have concluded that GE is a healthy company to invest.

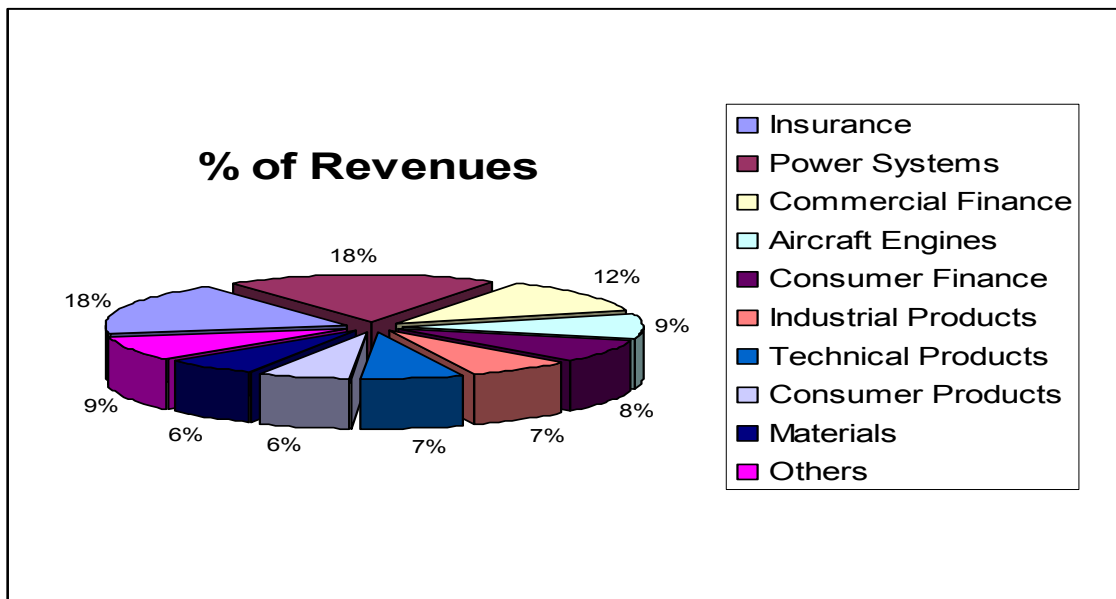
With two-thirds of GE's segments positioned for long-term growth and a management team that is second to none GE's future looks bright. Based on above information as well as our financial and technical analysis we believe that GE should be rated a "buy". We are, therefore, recommending that we help better diversify the Graduate portfolio by buying 500 shares of GE at the current market price.

Company Background

General Electric Company traces its roots back to Thomas A. Edison, who established the Edison Electric Light Company in 1878. In 1892, a merger of Edison General Electric Company and Thomson-Houston Electric Company created General Electric Company (“GE”). GE is the only company listed in the Dow Jones Industrial Index today that was also included in the original index in 1896. Today GE is the world’s largest company with highly diversified operations in more than 100 countries, employing over 315,000 people worldwide. GE’s global head office is located in Fairfield, Connecticut.

GE’s principal activities include the development and marketing of a wide variety of products for the generation, transmission, distribution, control and utilization of electricity. The products include major appliances, lighting products, industrial automation products, electrical distribution and control equipment, locomotives, power generation and delivery products. It also provides financial services through insurance, investment and retirement schemes.¹

The following pie chart illustrates the contents of revenue by sector and the associated apportionment by percentage for 2003:



¹ <http://finance.yahoo.com/q/pr?s=GE>

Recent Acquisitions:

In the fall of 2002, GE looked to broaden its diversity by acquiring Interlogix, Inc., Druck Holdings Plc, Unison Industries Inc., Security Capital Group Inc., Deutsche Financial Services and Telemundo Communications Group Inc., as well as two of the largest acquisitions in GE history with the addition of Vivendi Universal for \$14 billion and the British medical-imager Amersham for \$10 billion. In 2003, GE also acquired the Millbrook Corporation, Osmonics Inc & International Fiber Systems Inc.

Main Divisions of Work:

(1) GE Aircraft Engines:

Once a much smaller operation next to Pratt & Whitney and Rolls-Royce, GE Aircraft Engines (GEAE) now rules the runway as the world's largest producer of engines for commercial and military planes. This division of General Electric (the unit accounts for almost 9% of GE's sales and about 11% of operating profits) makes jet, turboprop, and turboshaft engines that power aircraft from cargo, executive, and passenger jets to bombers and helicopters. GEAE also makes aircraft engine derivatives for marine propulsion and industrial power sources. For service after the sale, GEAE's GE Engine Services unit offers maintenance, service, and spare parts.

(2) GE Appliances:

GE Consumer Products (GECP) is the #2 US maker of major household appliances (behind Whirlpool), including refrigerators, air conditioners, washers, and dryers. GECP sells its appliances (with brand names including GE, Monogram, and Profile) to retailers and building contractors. Its lighting unit makes 6,000 types of lights and lighting systems, ranging from residential lights to systems that illuminate entire sporting complexes. The firm creates a wide variety of light bulbs and operates globally. GECP was formed in 2002 when parent company GE combined its appliances and lighting divisions.

(3) GE Industrial Products and Systems:

GE Industrial Systems' businesses include industrial systems (electric motors, drives and programmable controls); GE Supply (electrical product distribution); and transportation (freight and passenger trains and motorized drive systems). GE combined its lighting (formerly a component of Industrial Systems) and appliances divisions to form GE Consumer Products in 2002. The division has

acquired Interlogix (electronic security systems) and the once privately held Kilsen (fire detection and control systems, Spain). GE Industrial generates about 7% of GE's sales.

(4) GE Medical Systems Lunar:

GE Lunar develops bone densitometers – X-ray or ultrasound scanning machines that measure bone density as a way of diagnosing osteoporosis and other metabolic bone diseases. The densitometers also aid doctors in fracture risk assessment and in monitoring patients' response to therapy. GE Lunar's Prodigy Vision (part of its Axial DEXA product line) detects subtle bone changes in a variety of applications, and its Achilles Express ultrasound device measures bone density through the heel. GE Lunar markets its products worldwide.

(5) GE Plastics:

A division of industrial giant General Electric, GE Plastics is one of the world's largest producers of high-performance polymers used by electronics, office equipment, computer, automotive, and other industrial manufacturers. The division includes the operations of GE Polymerland, an online resin distributor; GE Electromaterials, a producer of circuit board laminates and plastics; GE Structured Products, a polycarbonate sheet and film manufacturer (Lexan); GE Polymershapes, a plastic film, sheet, and tube distributor; and GE Petrochemicals, a styrene monomer producer. It also owns LNP Engineering Plastics, a plastics compounding firm.

(6) GE Power Systems:

GE Power Systems is a worthy descendant of Edison's light bulb and a global leader in the design, manufacture, installation, and maintenance of gas, nuclear, wind, and steam-driven power generation plants. General Electric's second-largest division serves utility, industrial, and governmental customers worldwide, supplying products such as compressors, turbines, generators, and nuclear reactors. It also provides fuel and support services and equipment that supports oil and gas distribution. Mirroring its parent, GE Power Systems has pursued a strategy of acquisitions in order to grow. GE Power Systems accounts for about 17% of General Electric's total sales.

(7) GE Technical Products and Services:

GE Medical Systems is a major global maker of such diagnostic imaging equipment as magnetic resonance, ultrasound, and computed tomography (CT) scanners. Its products are used in the fields of radiology and cardiology and are sold to hospitals and other health care facilities. The company also

makes patient monitoring systems used in emergency and sub acute care. Through its Information Technologies unit, GE Medical markets clinical information systems to help health care providers better manage their data. The company also owns the Patient Channel, a television network aimed at hospital patients. GE Medical Systems operates worldwide.

(8) General Electric Capital Corporation (GE Capital);

The financing arm of General Electric, it was originally an in-house means to finance GE products. GE Capital, through numerous acquisitions and strong internal growth, has evolved into what is essentially a large bank and now accounts for over half of General Electric's profits. Based on revenues in 2000, GE Capital on its own would rank as the 9th largest company in the U.S. and 30th largest in the world. GE Capital is actually a collection of separate businesses, united only by the fact that in every case the raw material they use in the business is money. Examples of areas that GE Capital is involved in include store credit cards, short and long term health insurance, home mortgages, airplane leasing, railroad car leasing, industrial container leasing, consumer lending, commercial lending, large project financing, financial guaranty insurance (for governments on their bonds), electronic commerce, etc.

With regards to privatization of public services, GE capital is involved in many projects, including the financing of many energy privatization projects. This is mainly done through its subsidiary, the GE Capital Structured Finance Group whose own subsidiaries include the GE Global Energy Group and telecom, industrial, and transportation financing divisions. Besides gaining from the WTO and General Agreement on Trade in Services (GATS) in their own right, GE Capital can properly be seen as a major source of investment capital flowing to other companies that are pushing for an expanded, more powerful WTO, and especially a more powerful GATS. This includes companies involved in energy, water, financial services, transportation services, and health care.

(9) National Broadcasting Company, Inc. (NBC);

The company, owned by industrial behemoth General Electric, operates the NBC Television Network, which serves 29 company-owned-or-operated stations and more than 220 US affiliates. NBC operates several cable channels including news channel MSNBC (with Microsoft) and business news channel CNBC (with Dow Jones). The company also owns stakes in other cable channels. Second place NBC lost the ratings race to CBS in the 2002-03 season. The company is courting Hispanic viewers through its purchase of Telemundo (owner of about 25 stations) in 2002.

(10) OEC Medical Systems, Inc.

GE OEC Medical Systems, bought by General Electric and now part of the GE Medical Systems division, develops computer-based X-ray and fluoroscopic imaging systems for hospitals, outpatient clinics, and surgical centers. Their X-ray imaging systems combine radiographic and fluoroscopic imaging with digital image-processing capabilities to improve image quality, lower X-ray dosage, and reduce costs. Doctors use GE OEC's products during minimally invasive procedures to help them see what they are doing. The company sells its products worldwide.

(11) Power System:

Power Systems serves utility, industrial and governmental customers worldwide with electricity generating products, services and energy management systems. Gas turbines are used principally in power plants for generation of electricity and for industrial cogeneration and mechanical drive applications. Power Systems also packages aircraft engine derivatives for use as industrial power sources. Centrifugal compressors are sold for application in gas re-injection, pipeline services and such process applications as refineries and ammonia plants. Steam turbine-generators are sold to the electric utility industry and to private industrial customers for cogeneration applications. Nuclear reactors, fuel and support services for both new and installed boiling water reactors are also a part of this segment.²

Management:

The following are backgrounds of a few of the top-level executives in GE. Their contributions have led to most of the current achievements and future successes of the company. Management is definitely one of GE's strongest core competencies and so it is our opinion that they each are extremely knowledgeable, of the highest integrity and worthy of investors' trust.

Jeffrey R. Immelt

Jeffrey R. Immelt, 48, is the Chairman of the Board and the Chief Executive Officer of GE. Mr. Immelt, only the 9th Chairman in GE's 126-year history, was appointed to this post on September 7, 2001. Previously, Mr.



² http://www.ge.com/ar2003/index_fl.jsp

Immelt served as President and Chairman-elect of GE from November 2000, when GE's Board of Directors selected him to succeed John F. Welch. In fact Mr. Welch was one of his biggest supporters. From 1997 to 2000, Mr. Immelt had been President and CEO of GE Medical Systems, which is today a \$12 billion leader in the healthcare industry.

He began his GE career in 1982. Over the last 22 years, Mr. Immelt has held a series of global leadership roles in GE's Plastics, Appliance, and Medical businesses. He became an Officer of GE in 1989, and joined the GE Capital Board in 1997. He serves on the board of two non-profit organizations: Catalyst, devoted to advancing women in business; and Robin Hood, focused on addressing poverty in New York City. Mr. Immelt was named the Financial Times "Man of the Year" for 2003. GE has been very satisfied with the performance of Mr. Immelt and compensated him in 2003 with \$7.66 million of which \$4.625 million was bonus.³

He holds a B.A. degree in applied mathematics from Dartmouth College (1978) and an M.B.A. from Harvard University (1982). He and his wife, Andrea, have one daughter and currently living in Westport, Connecticut.

Ferdinando Beccalli-Falco

Ferdinando "Nani" Beccalli-Falco, 54, has been President and Chief Executive Officer, Europe, the Middle East and Africa for GE since January 2002. He added Latin America to his already expansive responsibilities in May 2004. He is responsible for working on behalf of all GE businesses to expand customer and government relationships and to develop new business markets across both regions. He currently is based in Brussels, Belgium but frequently works abroad for months at a time.



Prior to his current position, Nani Beccalli-Falco served as Executive Vice President, GE Capital Services, where he had oversight responsibilities for GE Capital's Equipment Management Businesses, including Americom, Fleet Services, Rail Services, TIP/Modular Space and Penske Truck Leasing. He also oversaw GE Capital India, GE Capital Global Sourcing, GE Capital Container Finance and the GE SeaCo JV.

³ <http://www.forbes.com/finance/mktguideapps/personinfo/FromPersonIdPersonTearsheet.jhtml?passedPersonId=277977>

Mr. Beccalli-Falco has enjoyed a long career at GE, starting in 1975 in the United States. He first worked in Europe in 1977 when he joined GE Plastics, in the Strategic Planning group at the company's European headquarters, in Bergen op Zoom, The Netherlands. In 1981, Nani moved to GE Plastics global headquarters in Pittsfield, MA, where he held management positions in the Specialty Plastics, NORYL resin, LEXAN resin and Marketing divisions. In 1987, he returned to Bergen op Zoom as the Director of Marketing, and in 1990, he became the Managing Director of SPE. From 1993 to 1996 he served as the President of GE Plastics Japan Ltd. Nani Beccalli-Falco was Vice President and General Manager, GE Plastics Americas from January 1997 until May 2001, when he joined GE Capital Services.⁴

A native of Italy, Nani Beccalli-Falco earned a master's degree in chemical engineering from the Polytechnic of Torino in Italy, and he has completed graduate work in business administration at Xavier University in Cincinnati, Ohio.

Dennis D. Dammerman

Dennis D. Dammerman, 58, is the Vice Chairman of the Board and Executive Officer of GE, and a member of the Corporate Executive Office. He is also the Chairman of GE Capital Services. He was named to this position in December 1998. Mr. Dammerman's 2003 salary was \$11.49 million.



Mr. Dammerman had been Senior Vice President-Finance and Chief Financial Officer of General Electric Company since March 1984. He was elected to the board of directors of GE in December 1994, and has been a director of GE Capital Services for 16 years.⁵

In 1998, "CFO" magazine awarded Mr. Dammerman the first-ever "Lifetime Achievement Award for CFO Excellence," noting that the award recognizes "someone who, over the course of his tenure has effectively changed the perception of what finance is and what it can be, and who is universally respected and admired by his peers."

Mr. Dammerman joined General Electric on the Financial Management Program at GE Appliances in 1967 after graduating from the University of Dubuque. He subsequently held positions with the

⁴ <http://www.forbes.com/finance/mktguideapps/personinfo/FromMktGuideIdPersonTearsheet.jhtml?passedMktGuideId=462363>

⁵ <http://www.forbes.com/finance/mktguideapps/personinfo/FromMktGuideIdPersonTearsheet.jhtml?passedMktGuideId=28183>

Corporate Audit Staff and GE Lighting. In 1976, he joined GE Capital Services as Manager-Corporate Financial Analysis; in 1978, he was named Manager-Operations Analysis for GE Consumer Products businesses.

He returned to GE Capital Services in 1979 as Vice President and Comptroller and was named Vice President and General Manager of the Commercial Financial Services Department in March 1981. Later that year, he was named Vice President and General Manager of the Real Estate Financial Services Division.

In June 1994, Mr. Dammerman was named Chairman and Chief Executive Officer of Kidder, Peabody Group, Inc. while retaining his position as CFO of GE. In 1995, with the sale of Kidder, Peabody to PaineWebber, he returned full-time to his CFO position.

Robert Wright

Bob Wright, 60, became chairman and chief executive officer of NBC Universal in May 2004, in conjunction with the merger of NBC and Vivendi Universal Entertainment. He joined the National Broadcasting Company as president and chief executive officer on September 1, 1986 and became chairman and chief executive officer on June 4, 2001. Wright has had one of the longest and most successful tenures of any media company chief executive. Under his leadership, NBC was transformed from a broadcast network into a global media powerhouse with leadership in broadcast network television, cable programming, station ownership, and television production. With the formation of NBC Universal, Wright takes the reins of one of the world's fastest-growing and most-profitable media and entertainment companies, and a leader in the development, production, and marketing of entertainment, news, and information to a global audience. Wright is also vice chairman of the board, executive officer and a member of the Corporate Executive Office of the General Electric Company. Mr. Wright's 2003 salary was \$11.05 million.



During his successful tenure at the helm of NBC, Wright extended the broadcaster into cable, international, and new-media markets. At the same time, he maintained NBC's commitment to its core broadcasting business by expanding its ownership to 14 NBC-affiliated broadcast stations across the country. In 2002, NBC completed three significant acquisitions: Telemundo, the nation's second-largest Spanish-language media company, with 15 owned-and-operated stations in the continental United States

and Puerto Rico; television station KNTV, which provides NBC programming to the San Francisco/San Jose market; and Bravo, a leading entertainment cable network, reaching more than 76 million viewers across the nation.⁶

Today, NBC is the only network to hold the lead among key demographic groups in every significant segment: morning news, daytime, primetime, evening news, late night and Sunday morning. With a stable of popular comedies and dramas such as *American Dreams*, *ER*, *Las Vegas*, the *Law & Order* franchise, and *Will & Grace*, NBC is the top network for accumulating high-income viewers in the demographic categories most important to advertisers. Among upscale audiences, NBC is No. 1 in both the 18-49 and 25-54 demographic groups.⁷

In cable, NBC Universal owns CNBC, which during Wright's tenure has become the global leader in business news, providing real-time financial-market information to more than 86 million households in the United States and 175 million homes worldwide. In addition, seven years after its launch, MSNBC, NBC's joint venture with Microsoft, reaches 82 million U.S. cable subscribers. Cable assets acquired as part of the Vivendi Universal Entertainment acquisition include the nation's most-watched basic cable network USA Network, SCI FI Channel, and TRIO.

NBC Universal also has equity stakes in the A&E Network, the History Channel, and ValueVision's home shopping network, and a non-voting interest in Paxson Communications Corporation. Internationally, NBC Universal owns and operates a number of television channels offering entertainment programming across Europe and Latin America. In partnership with Dow Jones, the company provides leading local coverage of business and financial news to markets across Europe and Asia.

Prior to his association with NBC and now NBC Universal, Wright served as president of General Electric Financial Services and, before that, as president of Cox Cable Communications. He has had a diversified career in general management, marketing, and broadcasting. Much of it has been with General Electric, NBC Universal's parent company.

Wright has been the recipient of numerous awards, including the Golden Mike Award from the Broadcasters' Foundation, the Steven J. Ross Humanitarian of the Year award from the UJA-Federation of New York, and the Gold Medal Award from the International Radio & Television Society Foundation. He

⁶ <http://www.forbes.com/finance/mktguideapps/personinfo/FromMktGuideIdPersonTearsheet.jhtml?passedMktGuideId=154079>

⁷ http://www.nbcuni.com/About_NBC_Universal/Company_Overview/

has been honored by the Center for Communication for his industry leadership and has received the Ad Council's Public Service Award in recognition of his commitment to public service in both the public and private sectors. He has also been inducted into the Broadcasting & Cable Hall of Fame. Wright is on the board of trustees of the American Film Institute and the Museum of Television and Radio, and serves on the board of directors of the Motion Picture and Television Fund Corporation and the Damon Runyon Cancer Research Foundation. He is an honorary trustee of the Foundation of American Women in Radio and Television. In addition, Wright is on the board of governors of New York-Presbyterian Hospital and is a member of the Society of New York Hospital Inc. He is also a trustee of the College of the Holy Cross.

Wright is a graduate of the College of the Holy Cross and the University of Virginia School of Law, where he received his LL.B. degree. He and his wife, Suzanne, live in Greenwich, Connecticut and have three grown children.

Competition:

Because GE is classified as a conglomerate its competition is a varied group of companies, which may not necessarily be in the same industry. For the purposes of simplicity, we have identified two companies as GE's chief competition: 3M and Siemens AG.

3M

3M Company makes everything from masking tape to asthma inhalers. 3M has seven operating segments: transportation; display and graphics (specialty film, traffic control materials); health care (dental and medical supplies and health IT); safety, security, and protection (commercial care, occupational health and safety products); electro and communications (connecting, splicing, and insulating products); industrial business (tapes and adhesives); and consumer & office. Well-known brands include Scotchgard fabric protectors, Post-it Notes, Scotch-Brite scouring products, and Scotch tapes. Sales outside the US account for more than half of 3M's revenues. 3M regularly spends about 6% of sales on R&D and related expenses.

The company hit record sales and net income levels in 2003, led by the display enhancement films manufactured by its Display and Graphics segment; the films are used in flat panel displays. In addition to modest sales growth, 3M benefited from the restructuring initiatives of 2001-02, which boosted efficiency and cut costs. The company is looking to drive growth through its core operations but is open to growth through acquisitions in 2004.

Along those lines, 3M closed a deal to buy fellow Minnesota resident HighJump Software in February 2004. The new subsidiary develops supply chain software for businesses. The following month 3M closed its deal to purchase Swedish protective equipment manufacturer Hornell International.

Although known for many years as simply 3M, the company changed its legal name from Minnesota Mining and Manufacturing Company to 3M Company in 2002. Also that year the company restructured its business segments around end uses rather than products or raw materials. So the Health Care segment encompasses everything from adhesive closures on diapers to transdermal skin patches to software for hospital coding and classification. Similarly, the Consumer and Office Business unit is responsible for Post-its, O-Cel-O sponges, wood-finishing materials, and air conditioner filters.⁸

Siemens AG

Thinking globally and acting locally is more than semantics for Siemens. The company is Europe's largest electronics and electrical engineering firm and has operations worldwide in the industrial automation and control, information and communications, lighting, medical, power transmission, and transportation sectors. Siemens' Information and Communications Networks division (ICN), a leading global manufacturer of telecom network equipment including mobile phones, is its top revenue maker. Siemens is also active in the semiconductor sector through a minority stake in chipmaker Infineon Technologies.

The company, captained by CEO Heinrich von Pierer, has navigated through a two-year restructuring to focus on six core areas. However, Siemens is still bailing to keep from sinking – it has announced over 35,000 layoffs (with more expected) and about 50 affiliated companies are up for sale. Kohlberg Kravis Roberts has purchased seven noncore subsidiaries – including Mannesman Plastics Machinery, Stabilus, Demag Cranes & Components, and Gottwald Port Technology – and reorganized them into a new company, Demag Holding (in which Siemens retained a 19% stake).

Siemens' Information and Communications division has been hurt by an industry slump and reduced from the sale of Unisphere Networks to Juniper Networks in 2002. Siemens' Power Generation unit is also suffering due to a decrease in demand for gas turbines, especially in the US.⁹

⁸ <http://www.3m.com/about3m/facts/CorpFacts.jhtml>

⁹ http://www.siemens.com/index.jsp?sdc_p=dpGBofcsmntu20

On the whole Siemens has been focusing on the US. Just over half of sales come from business in Europe, but the US is now the company's largest market over Germany. The company has gained a listing on the New York Stock Exchange and reorganized its US operations as Siemens Corporation.

SWOT Analysis

<p style="text-align: center;">STRENGTHS</p> <ul style="list-style-type: none"> • Industry Leader • Brand Recognition • Management Record • Recurring Revenues • AAA Credit Record • Strong Cash Flows • Advanced Technology 	<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> • Long-Term Service Contracts • Acquisitions Amersham Vivendi Universal • Boeing's 7 E 7 Commercial Airliner
<p style="text-align: center;">WEAKNESSES</p> <ul style="list-style-type: none"> • Dependence on Technology • Company Size 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> • Environmental Record • Terrorism • Hackers • Natural Disasters

Strengths

With recurring revenues ensuring a continuous stream of cash as well as the highest credit rating GE does not have to worry about cash flow issues. GE's management is one of its greatest strengths if not the greatest strength. Management selection and training has been long envied by other companies in its industry and throughout the world. In addition, GE is a technology-based company with a variety of products and services. They are able to use these technologies across its segments giving GE a competitive advantage.

Weaknesses

The market is not at risk of market saturation; however, as is the case with any large company, there comes a point in its life cycle where it becomes more difficult to increase revenues and earnings at levels the company is used to in the past. Its dependence on technology could also be considered a weakness; however, GE management has shown that it is willing to commit funds for the maintenance and advancement of technology.

Opportunities

Long-Term Service Contracts are high-margin annuity streams that require little additional capital. With each additional unit sold the opportunity for such contracts increases. Recently GE won a bid for Boeing's 7E7 commercial airliner, which is expected to boost its lead in engines and increase the number of Long-Term service contracts. Over the next 20 years it should bring in several billion dollars in service contracts alone, while at the same time helping it decrease its reliance on manufacturing revenues that are much costlier to obtain. In addition, recent acquisitions of Amersham and Vivendi Universal have been integrated and are expected to compliment its current segments with expectations of increased profitability for both its healthcare and NBC segments.

Threats

GE's environment record is pretty bad and could pose a problem by alienating customers who question GE's ethics, especially since they continue to postpone cleaning up the Hudson. In addition, with the current war on terrorism GE could be a target since it represents the US way of life. Its reputation as a technology company could also make them a target for hackers. Obviously, GE has top of the line security so these risks are mitigated. Natural disasters are something that are not as easy manage but this is a threat that any company would have.

Risk Analysis

GE, like other companies, is exposed to certain risks that management must manage during business operations. We are going to examine some of these risks:

Fraud and Natural Disasters

Approximately 18% GE revenues are from the insurance segment; therefore, they are directly impacted by any fraud committed against any of their policies. Fraud committed against insurance companies is an \$80 billion a year crime that plagues not only the companies by reducing profits but also the customer when companies attempt to increase rates to recoup some of the losses.

Foreign Currency Fluctuations

GE operates internationally; therefore, fluctuations in currencies have a direct impact on GE's revenues and cash flows. Since most of GE's operations overseas are in Europe the risks are somewhat

mitigated due to the strength of the euro; however, just a year and half ago the euro was well below the dollar and it could happen again.

Off-Balance Sheet Financing

GE's lending segments employ off-balance sheet financing that need to be considered in evaluating GE. While these transactions are required to be reported in the notes to the financial statements the risk is that the company may try to misclassify debt so that it does not make the balance sheet during the right period.

Estimates of Insurance Income

Since Insurance Income is based on estimates GE management could attempt to manipulate numbers during economic downturns. The risk even remains during good economic conditions because management could manipulate data so that revenue is recognized at a later period when it is more needed

Financial Ratio Analysis

SHORT TERM LIQUIDITY ANALYSIS

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>3M</u>	<u>Siemens</u>
Current Ratio	2.05	2.13	1.71	1.89	1.69	1.52	1.36
Acid Test Ratio	0.71	0.75	0.60	0.70	0.61	0.90	0.85
Accounts Receivable Turnover	12.53	13.04	13.24	14.40	13.32	6.96	4.99
Inventory Turnover	5.69	5.93	6.00	6.99	7.04	7.75	5.07
Day Sales in Receivables	28.79	29.08	27.31	26.34	27.51	53.59	70.37
Days Sales in Inventory	61.53	62.98	62.80	54.27	54.89	45.03	69.95
Working Capital	\$ 213,248	\$ 204,950	\$ 141,804	\$ 139,551	\$ 111,971	\$ 2,638	\$ 11,461
Cash Provided by Operations to Average CL	0.16	0.16	0.19	0.14	0.16	0.79	0.17

Current Ratio: The CR is an indicator for current liability coverage (higher the ratio, the greater the assurance that current liabilities will be paid off), buffer against losses (larger ratio implies lower risk, implying the availability to cover shrinkage in non-cash current asset values) and a measure of the margin of safety against uncertainties and random shocks against the company such as strikes and extraordinary losses which can impair cash flows. GE's CR has been decreasing due to an increase in investments. 3M and Siemens have a lower current ratio due to GE's high financing receivables.

Acid Test (Quick) Ratio: The ASR is a more stringent test for liquidity, which includes assets easily converted to cash. Inventories are not included because they are the least liquid and their valuation required managerial discretion. In our analysis, GE's ACR has been decreasing in the past five years due to an increase in investments and is less than 3M and Siemen's.

Accounts Receivable Turnover: The ART indicates how often receivables are received and collected during the year. The more sales fluctuates, the more likely the ratio will be distorted. In our analysis, ART had been decreasing over the past five years as accounts receivable collection period had been increasing from 26 to 28 days. This small fluctuation appears reasonable due to the global downturn during that period. Customers may have found it more useful to wait the full 30 days before paying receivables thus affecting the ART. GE has always maintained a strong collections policy and it shows in the fact that GE's ART is nearly double that of its competitors.

Inventory Turnover: The IT measures the average rate at which inventories moves throughout the company. A relatively low inventory turnover may indicate ineffective inventory management (that is, carrying too large an inventory) or carrying out-of-date inventory to avoid writing off inventory losses against income. In our analysis, we see that over the past five years, GE has been decreasing showing that GE has to improve its ability to use and dispose of inventory. GE managed to maintain its inventory management over the past five years as inventory turnover was kept between approximately 5 and 7, similarly to 3M and Siemens.

Days Sales in Receivables: The DSR is used to measure the number of days on average it takes to collect accounts and notes receivables. The DSR is related to the ART, if the days sales in account receivables are less, ART is faster. Over the past five years, accounts receivable collection period had been increasing from 26 to 28. As noted in ART, this small fluctuation appears reasonable under the current market conditions. In addition, GE's DSR is much lower than its competitors showing that it continues to have a strong credit and collections policy.

Days Sales in Inventory: The DSI is used to tell us the number of days a company takes to sell average inventory for the year. The DSI is related to the IT, if the number of days sales in inventory are less, IT is faster. In our analysis, GE's DSI has been decreasing over the past five years. From this we can tell that GE inventory management has been effective and the demand for their products has been greater.

Working Capital: The WC represents the excess of current assets over current liabilities. It is an important measurement of a company's liquidity. In our analysis of GE, we saw an increase in their WC for 2003, which was due to an increase in their long-term debt.

Cash Provided by Operations to Average Current Liabilities: The Cash Flow Measures is a dynamic analysis of liquidity, meaning that since current liabilities is paid with cash, it is an important determinant of a company's ability to meet its debt obligations. GE is in line with its competitor's 3M and Siemens.

CAPITAL STRUCTURE AND SOLVENCY ANALYSIS

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>3M</u>	<u>Siemens</u>
Total Debt to Equity	6.62	7.32	7.25	6.88	7.48	1.23	2.25
Total Debt Ratio	0.87	0.88	0.88	0.87	0.88	0.55	0.69
Financial Leverage Ratio	7.62	8.32	8.25	7.88	8.48	2.23	3.27
Financial Leverage Index	5.46	5.63	5.29	5.11	5.21	2.37	5.07

Total Debt to Equity: The total debt to equity ratio measures the company's financial leverage, calculated by dividing long-term debt by shareholders equity. It indicates the proportion of equity and debt that the company uses to finance its assets. A higher debt/equity ratio generally means that a company has been aggressive in financing its growth with debt, which can result in volatile earnings as a result of the additional interest expense. The debt to equity ratio for GE is 6.62 in 2003 which is significantly higher than 1.23 for 3M or 2.25 for Siemens. This shows that GE can meet its total debt obligation and Ge is more aggressive than others. GE Capital issued \$51.1 billion of long-term debt in the U.S. and 13 international markets in 2003 with maturities ranging from two years to 37 years bearing fixed and floating interest rates. This debt was issued to both institutional investors and retail investors. These funds were used primarily for maturing long-term debt, acquisitions and asset growth, with the remainder used to reduce the amount of commercial paper outstanding.

Total Debt Ratio: The debt to asset ratio is the proportion of the company's debt in relation to the company's total assets. There are some advantages for using debt instead of equity financing. Cost of debt

is fixed and it is tax deductible, making debt cheaper than equity. Therefore, most companies prefer to use debt rather than equity. But as the debt to asset ratio increases, the company has higher financial expenses such as higher interest charges and lease payments. Therefore, companies should be very cautious to use debt financing. GE's debt ratio has been consistent over the past five years and is higher than their competitor, means its capital structure consists of large percentage of debt.

Financial Leverage Ratio: The FLR measures the relation between total assets and the common equity capital that finances assets. The greater the proportion of assets financed by common equity capital, the lower the financial leverage ratio. For a company successfully utilizing leverage, a higher financial leverage ratio enhances return on equity. The financial leverage ratio of GE has been consistent over the past five years and notably greater than its competitors, due to the fact that their assets are 8 times greater than Siemens and 32 times greater than 3M's. The financial leverage ratio of GE in 2003 is 7.62. This financial leverage ratio indicates that every dollar of common equity commands \$7.62 in assets for the company.

Financial leverage index: The FLI measures if the company uses its debt effectively. If and only if financial leverage index is greater than 1.0, then the company's earning on asset return is higher than debt, all extra benefits go to stockholders. GE's financial leverage index in 2003 is 5.46, which is a very good indicator that it uses its debt effectively more so than their competitors.

<u>Asset Utilization Ratios</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>3M</u>	<u>Siemens</u>
Sales to Receivables	12.53	13.04	13.24	14.40	13.32	6.96	4.99
Sales to Inventories	1.13	1.21	1.31	1.50	1.39	9.73	7.06
Sales to Working Capital	2.50	2.09	2.12	2.65	2.69	8.60	7.13
Sales to Fixed Assets	2.62	2.90	3.08	3.20	2.91	2.46	3.87

Sales to Receivable: GE has high sales to receivables of 12.53 in 2003, which more than doubles that of 3M and Siemens. A high receivables turnover can imply a strict credit policy, or a reluctant or inability to extend credit.

Sales to Inventories: The sales to inventories relation varies across industries depending on the variety of types, models, and other inventory classes necessary to lure and retain consumers. Both the length of production cycle and type of item has a bearing on inventory turnover. It can also signal overestimation of sales. A high turnover can imply under-investment in inventory. GE's sales to inventory ratio for 2003 is 1.13. This ratio has been volatile for the past five years lower than its competitors due to higher sales.

Sales to Working Capital: The sales to working capital ratio determine which portion of a company's sales are in relation to its current assets and current liabilities. It is an important measure of liquid assets that provide a safety net to creditors. It is also important in measuring the liquid reserve available to meet uncertainties and contingencies surrounding the cash flows of a company. GE's sales to working capital has decreased from 1999-2002 and then increased in 2003. This implies that GE has more funds available for liquidity. GE's competitors have higher sales to working capital.

Sales to Fixed Assets: The sales to fixed assets ratio measure the relationship between a company's sales and its property, plant, and equipment. This ratio helps us assess the company's efficiency in using fixed assets to generate sales. GE sales to fixed assets have been decreasing over the past five years due to increase in sales and a moderate increase in fixed assets. GE's ratio is fairly consistent with those of its competitors.

Analysis of Profit

Margin

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>3M</u>	<u>Siemens</u>
Gross Profit Margin	61.84%	60.02%	61.16%	60.09%	58.83%	20.37%	28.13%
Operating Profit Margin	14.83%	14.29%	15.58%	14.21%	13.95%	20.06%	4.54%
Net Profit Margin	11.18%	10.68%	10.82%	9.81%	9.60%	13.18%	3.29%

ANALYSIS of General Electrics OPERATING PERFORMANCE

Gross Profit Margin: Gross profit margin is a key performance measure. For General Electric, their gross profit margin has been stable over the past five years. General Electric's gross profit margin is

well above the competitors, because their gross profits are 4 times greater than Siemens and 22 times greater than 3M's, and their sales are double that of Siemens and 7 times greater than 3M's.

Operating Profit Margin: General Electric's operating profit margins have been steady for the past five years, which would imply that their sales have been stagnant, but this has not been the case, actually their sales have risen steadily as well as their income before income taxes. This will be displayed in the 5-year common size income statements. The decrease in 2003 was attributable to lower operating margins at Energy and Advanced Materials. GE's operating profit margin is 3 times greater than Siemens because income before taxes is higher as a proportion to sales. On the other hand 3M's operating profit margin is 1.35 times higher than GE, because GE generates more operating expenses than 3M and this will have an adverse affect on their operating profit margin.

Net Profit Margin: General Electric's net profit margins for the past 5 years have been steadily increasing with the exception between 2001 and 2002, which decreased by .14%, and this was due to the rate of sales increasing at a slightly faster rate than net income. Siemens net profit margin is 3.4 times less than GE's because their net income is much lower in proportion to their sales as compared to GE.

When you look at General Electric's relative profit margins you see a company that manages their resources more efficiently than their competitors, and shows improving trends for each of their margins.

Return on Investment

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>3M</u>	<u>Siemens</u>
Return on Assets	0.02	0.03	0.03	0.03	0.03	0.15	0.03
Return on Common Equity	0.19	0.22	0.24	0.25	0.24	0.35	0.10
Equity Growth Rate	19.47%	21.85%	23.70%	24.68%	23.57%	34.63%	10.35%
Disaggregation of ROCE	0.19	0.22	0.24	0.24	0.24	0.33	0.10
Adjusted Profit Margin	0.1118	0.1068	0.1082	0.0981	0.0960	0.1318	0.0329
	x	x	x	x	x	x	x
Asset Turnover	0.22	0.25	0.27	0.31	0.29	1.11	0.95
	X	x	x	x	x	x	x
Financial Leverage Ratio	7.62	8.32	8.25	7.88	8.48	2.23	3.27

ANALYSIS of General Electric RETURN on INVESTMENTS

Return on Investment evaluates the financial rewards to the suppliers of equity and debt financing.

Return on Assets (ROA): ROA evaluates return when invested capital is viewed independently of its financial sources using debt and equity. General Electric's ROA has been steady for the past five years and is comparable to its major competitor Siemens.

Return on Common Equity and Equity Growth Rate (ROCE): ROCE is valuable to the shareholders of the company. General Electric's ROE has been between the range of 19% and 25%. Although, in the last three years the ROE has decreased and this can be attributed to net income increasing at a slower pace than stockholder's equity. But, General Electric's return on common equity is nearly double its major competitor, Siemens. Overall General Electric's ratios of Return on Invested Capital are comparable or greater than Siemens and 3M, which means General Electric has a good return on invested capital.

Disaggregation of return on common equity consists of three components: adjusted profit margin, asset turnover and the financial leverage ratio. The decrease of General Electric's disaggregation of return on common equity between 2002 and 2003, which went from 22% to 19% was due to the asset turnover ratio being at its lowest point in the five history examined. The liquidity index was also a factor for the fluctuations in return on equity. The liquidity index decreased by nearly 1% between 2002 and 2003. But, General Electric's liquidity index is nearly 2.5 times greater compared to the two competitors analyzed. The nearly 2.5 time greater liquidity index as compared to the competitors played as a favorable component for the 2003 return on equity (19%) compared to Siemens who only had a (10%) return.

Market Measure

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>3M</u>	<u>Siemens</u>
Price to Earning	20.68	17.16	29.08	37.24	31.59	27.68	21.38
Earnings Yield	0.05	0.06	0.03	0.03	0.03	0.04	0.05
Dividend Yield	0.02	0.03	0.02	0.01	0.01	0.02	0.02
Dividend Payout Ratio	0.50	0.48	0.47	0.45	0.45	0.43	0.36

Common Size Income Statement

General Electric
Common Size Statement of Income
(Dollar Amounts in Thousands, Except Share Data)

	FY 2003 31-Dec-03	FY 2002 31-Dec-02	FY 2001 31-Dec-01	FY 2000 31-Dec-00	FY 1999 31-Dec-99
Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold and Occupancy Costs	38.16%	39.98%	38.84%	39.91%	41.17%
Gross profit	61.84%	60.02%	61.16%	60.09%	58.83%
Operating and other expenses:					
Interes and other financial charges	7.77%	7.73%	8.75%	9.03%	8.97%
Insurance losses and policy holder and annuity benefits	12.20%	13.32%	11.91%	11.09%	9.88%
Provision for losses on financing receivables	2.80%	2.33%	1.96%	1.57%	1.50%
Other costs and expenses	23.64%	22.11%	22.68%	23.87%	24.20%
Minority interest in net earnings of consolidated affiliates	0.22%	0.25%	0.28%	0.33%	0.33%
Consolidated, liquidating securization entities	0.38%	0.00%	0.00%	0.00%	0.00%
Total Operating and other expenses	47.01%	45.73%	45.58%	45.89%	44.88%
Income Before Income Taxes	14.83%	14.29%	15.58%	14.21%	13.95%
Provision for income taxes	3.22%	2.84%	4.41%	4.40%	4.35%
Cumulative effect of accounting changes	0.44%	0.77%	0.35%	0.00%	0.00%
Net Income before minority interest	11.62%	11.45%	11.18%	9.81%	9.60%
Net Income	11.62%	11.45%	11.18%	9.81%	9.60%
Net income (loss) attributed to:					
GE Stock	-	-	-	-	-
Less: GE. Stock-Goodwill & Asset Impairment	-	-	-	-	-
GE RD Stock	-	-	-	-	-
Total	-	-	-	-	-

Cost of Goods Sold and Occupancy Costs: Cost of goods sold has fluctuated from 41.17% to 38.16% over the five-year period. This variance has been the result of the normal market valuation of the material used to construct the final product. We did not identify any unusual events.

Interest and other Financial Charges: The variance is the direct result of Fed decreases in interest through those years. GE was able to take advantage of some of the decreases.

Insurance losses and policy-holder and annuity benefits: The increases in 2002 and 2003 are the direct result of 9/11 terrorist activities.

Provision for losses on financial receivables: Post the internet bubble, not to mention accounting scandals resulted in defaults. The increase in provision is the result.

Other Costs and Expenses: Remained fairly consistent.

Minority Interest: Variance is due to a dispositions of certain businesses that were not in line with GE's future. In 2003, GE began a disposition of its insurance business.

Consolidated, liquidating Securization entities: Variance due to the fact that in the prior years these were not required disclosures; however, accounting scandals resulted in companies disclosing such information.

Segment Analysis

General Electric
Summary of Operating Segments

For the years ended December 31	2003	2002	2001	2000	1999
<i>Revenues</i>					
Advanced Material	7,078	6,963	7,069	8,020	7,118
Commercial Finance	20,813	19,592	17,723	17,549	14,506
Consumer Finance	12,845	10,266	9,508	9,320	7,562
Consumer & Industry	12,843	12,887	13,063	13,406	13,051
Energy	19,082	23,633	21,030	15,703	10,998
Equipment & Other Services	4,427	5,545	7,735	15,074	14,768
Healthcare	10,198	8,955	8,409	7,275	6,171
Infrastructure	3,078	1,901	392	486	421
Insurance	26,194	23,296	23,890	24,766	19,433
NBC	6,871	7,149	5,769	6,797	5,790
Transportation	13,515	13,685	13,885	13,285	13,293
Corporate items & eliminations	(2,757)	(1,662)	(2,057)	(1,296)	(961)
Consolidated Revenues	134,187	132,210	126,416	130,385	112,150
<i>Segment Profit</i>					
Advanced Material	616	1,000	1,433	1,864	1,588
Commercial Finance	3,910	3,310	2,879	2,528	1,940
Consumer Finance	2,161	1,799	1,602	1,295	848
Consumer & Industry	577	567	894	1,270	1,330
Energy	4,109	6,294	4,897	2,598	1,583
Equipment & Other Services	(419)	(388)	(222)	(212)	25
Healthcare	1,701	1,546	1,498	1,321	1,107
Infrastructure	462	297	26	45	63
Insurance	2,102	(95)	1,879	2,201	2,142
NBC	1,998	1,658	1,408	1,609	1,427
Transportation	2,661	2,510	2,577	2,511	2,233
Total Segment Profit	19,878	18,498	18,871	17,030	14,286
GECS goodwill amortization	-	-	(552)	(620)	(512)
GE corporate items and eliminations	(491)	1,041	819	935	960
GE interest and other financial charges	(941)	(569)	(817)	(811)	(810)
GE provision for incomes taxes	(2,857)	(3,837)	(4,193)	(3,799)	(3,207)
Earnings before accounting changes	15,589	15,133	14,128	12,735	10,717
Cumulative effect of accounting changes	(587)	(1,015)	(444)	-	-
Consolidated Net Earnings	15,002	14,118	13,684	12,735	10,717

2003		2002		2001		2000		1999	
		Favorable (Unfavorable)							
\$	%	\$	%	\$	%	\$	%	\$	%
115	2%	(106)	-1%	(951)	-12%	902	13%		
1,221	6%	1,869	11%	174	1%	3,043	21%		
2,579	25%	758	8%	188	2%	1,758	23%		
(44)	0%	(176)	-1%	(343)	-3%	355	3%		
(4,551)	-19%	2,603	12%	5,327	34%	4,705	43%		
(1,118)	-20%	(2,190)	-28%	(7,339)	-49%	306	2%		
1,243	14%	546	6%	1,134	16%	1,104	18%		
1,177	62%	1,509	385%	(94)	-19%	65	15%		
2,898	12%	(594)	-2%	(876)	-4%	5,333	27%		
(278)	-4%	1,380	24%	(1,028)	-15%	1,007	17%		
(170)	-1%	(200)	-1%	600	5%	(8)	0%		
(1,095)	66%	395	-19%	(761)	59%	(335)	35%		
1,977	1%	5,794	5%	(3,969)	-3%	18,235	16%		
(384)	-38%	(433)	-30%	(431)	-23%	276	17%		
600	18%	431	15%	351	14%	588	30%		
362	20%	197	12%	307	24%	447	53%		
10	2%	(327)	-37%	(376)	-30%	(60)	-5%		
(2,185)	-35%	1,397	29%	2,299	88%	1,015	64%		
(31)	8%	(166)	75%	(10)	5%	(237)	-948%		
155	10%	48	3%	177	13%	214	19%		
165	56%	271	1042%	(19)	-42%	(18)	-29%		
2,197	-2313%	(1,974)	-105%	(322)	-15%	59	3%		
340	21%	250	18%	(201)	-12%	182	13%		
151	6%	(67)	-3%	66	3%	278	12%		
1,380	7%	(373)	-2%	1,841	11%	2,744	19%		
-	-	-	-	68	-11%	(108)	21%		
(1,532)	-147%	222	27%	(116)	-12%	(25)	-3%		
(372)	65%	248	-30%	(6)	1%	(1)	0%		
980	-26%	356	-8%	(394)	10%	(592)	18%		
456	3%	1,005	7%	1,393	11%	2,018	19%		
428	-42%	(571)	129%	(444)	100%	-	0%		
884	6%	434	3%	949	7%	2,018	19%		

NOTE 1

Advanced Material: Revenues increased 2% from 2002 to 2003 as a result of the weaker dollar.

The fact that GE is an international company makes it susceptible to currency fluctuations. In addition, GE

had an influx of revenues due to acquisitions mentioned in the introduction. From 2001 to 2002, GE's revenues decreased 1% while the decrease from 2000 to 2001 was a scary 12%. In both cases the decrease was due to pricing pressures from both the competition and economy. The higher impact in 2001 was because in 2001 both the prices and volume were affected while in 2002 the prices continued to be effected but volume increased.

Commercial Finance: Revenues increased 6% from 2002 primarily due to acquisitions made in 2002 such as Deutsche Financial Services. The increase of 11% from 2001 to 2002 was the direct result of these acquisitions, which occurred in 2002.

Consumer Finance: Revenues increased 25% from 2002 due to acquisitions (such as First National Bank and Conseco Finance Corp. that were acquired during the 2nd QTR of 2003) as well as the U.S. dollar losing value compared to the euro. Increased revenues from 2001 to 2002 are also attributed to acquisitions made by GE.

Consumer & Industrial: Revenues in this segment have seen small decreases for the past three years due to competition and technology advances forcing prices to decrease.

Energy: Revenues decreases of 19% from 2002 were the result of decline in sale of large gas turbines and industrial aero-derivative products. Revenue increases of 12% from 2001 were the result of increased prices as well as improved volume sales. The impressive increases of 34% from 2000 and 47% from 1999 were at a time when U.S. gas turbine sales were on an upswing that hit the sealing in 2002 and continued to impact the industry in 2003. With increased sales during 2000 and 2001 also meant increased long-term service contracts that are very profitable for GE.

Equipment & Other Services: The past three years have shown consistent decreases in revenues: 20% in 2003, 28% in 2002, and 49% in 2001. These decreases have been the result of the U.S. recession. With many businesses seeing decreased revenues their only option available was reducing expenses, including consulting. This segment services medium and large-sized businesses around the world manage, finance and operate a variety of business equipment. The last increase this segment saw was in 2000 as the effects of recession began.

Healthcare: Revenues increased 14% from 2002 primarily due to acquisitions. Increased revenues of 6% in 2002, 16% in 2001, and 18% in 2000 were more the result of increased volume as improved technology helped boost Medical Systems sales.

Infrastructure: Revenue increases of 62% in 2003 and 385% in 2002 were the direct result of large acquisitions. Two of the larger acquisitions were Betz-Dearborn and Osmonics. The 19% decrease in 2001 was due to GE eliminating under-performing operations in United Kingdom, France, Brazil and Mexico as well as reducing its reseller role in the US.

Insurance: Revenues increases in 2003 of 12% are the direct effects of premium increases that we have been seeing in the recent past (effects of post September 11 events). In 2002 revenues decreased 2% and in 2001 4% as a result of ongoing planned run-off of acquired policies at Toho as well as lower realized investment gains (due to recession). Revenues increase in 2000 was the result of acquisitions, increased volume, as well as investment gains.

NBC: Revenues decreases in 2003 were the direct result of the Iraq war as news “preempted” or replaced advertising space. Revenues increases of 24% in 2002 were due to improved pricing and higher syndication and network sales increased revenues. Plus in 2002 NBC benefited both from the Salt Lake City Olympics and the last year of NBA coverage. 2002 improvement can also be attributed to the September 11th events that negatively affected 2001 numbers but the effects had a lot less impact during 2002 as things began to go back to normal. The significant decrease in 2001 (15%) was the direct result of the events of September 11th. Due to the coverage of the 9/11 advertising in September was “preempted” or overridden in order to report the news thus advertising during that month was almost non-existent. The following three months (4th QTR) advertising was weaker due to advertisers feeling nervous as well as the increased coverage of the events (although less then September). Revenue increases of 17% from 1999 to 2000 are in large part due to the 2000 Sydney Summer Olympic Games.

Transportation: Revenues for 2003 and 2002 decreased slightly due to decreased prices as well as volume. Decreases in volumes, as well as in prices is the direct impact of the airline troubles after the September 11th events. 2001 saw a 5% increase from the sale of commercial engines that were made prior to the events of September 11th.

ANALYSIS of General Electric Key Market Measures

The first three measures reflect the market's valuation of GE's stock, while the fourth measure reflects management discretion. GE's earning and dividend yields were stable from 1999 through 2001, and then in 2002 GE's earning yield doubled from 3% to 6%, due to a 4-cent increase in earnings per share. GE's dividend payout ratio has been steadily increasing over the past five years, and had a 50% payout ratio in 2003. Their P/E ratio for 1999 through 2001 was considerably high for such a mature and diversified company, but at that time period it was the height of the market and was indicative of the over inflated P/E ratios companies were showing. GE's market measures are comparable or exceed their competitors and are in-line with the S&P 500.

CAPM-The Capital Asset Pricing Model

There are different types of model that evaluates the risk, returns, factors effecting the market and returns. The Capital Asset Pricing Model evaluates the risk and rates of returns for a security and compares it to the overall market. This model allows the investors to compare the amount of risk they are taking compare to the reward they are receiving. Investors don't want to take high risk for low returns. Also different people have different tolerance to risk. Using the CAPM model, individuals can identify their level of risk and use it to benefit them. The CAPM model is described below.

$$\text{CAPM: } E(r_i) = r_f + \beta_i[E(r_{\text{mkt}}) - r_f].$$

The variables in above equation are

$$E(r_i) = \text{GE return}$$

$$r_f = \text{Risk free rate} = 4.67\%$$

$$\beta_i = \text{sensitivity of GE compare to market} = 1.11$$

$$E(r_{\text{mkt}}) = \text{Market return (S\&P500)} = 10.43\%$$

The **GE Beta** was obtained from Bloomberg; the **Market Return** was calculated by taking an average of the monthly prices of the S&P 500 over the past 10 years. The **Risk Free Rate of Interest** represents the 10-year STRIP - Note rate from Bloomberg.com. We used a ten-year risk free rate to reflect the expected

holding period of GE. The results yielded a **CAPM** rate of **11.06%** in above formula. The 5-year average P/E ratio (2003-1999) came out to be 31.96 and 10-year ratio comes out to be 28. Since both of the numbers seemed high due to 2002 and 2003 numbers. So we chose P/E ratio of 25 to be on the conservative side for CAPM model.

S&P500

Year	P/E ratio
2003	19.86
2002	35.83
2001	48.03
2000	28.39
1999	27.69

Dividend Discount Model for GE– Forecasted Scenarios

Best Case Scenario

DCF Valuation Spreadsheet		General Electric													
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Terminal Value	
EPS Growth							15.00%	15.00%	10.00%	10.00%	10.00%	10.00%	10.00%		
EPS Growth	1.07	1.29	1.41	1.51	1.55	1.55	1.78	2.05	2.25	2.48	2.73	3.00	3.30		
	actual	actual	actual	actual	estimates										
Actuals															
Payout ratio	45.79%	42.64%	45.39%	48.34%	49.68%										
Dividend	0.49	0.55	0.64	0.73	0.77										
Estimates															
Growth						0.00%	15.00%	15.00%	10.00%	10.00%	10.00%	10.00%	10.00%		
Payout ratio						52.26%	52.26%	52.26%	52.26%	52.26%	52.26%	52.26%	52.26%		
Dividend						0.81	0.9315	1.071225	1.178348	1.296182	1.4258	1.568381	1.725219	82.5336	
PV Factor						0.900414	0.810746	0.730007	0.657309	0.59185	0.53291	0.47984	0.432055	0.389028	
using 11.06% (CAPM)															
Pvalue						0.656704	0.838736	0.782002	0.774538	0.767145	0.759824	0.752571	0.745389	32.10789	
Total Present Value						38.1848									
										Terminal Value Calculation					
										11 eps est	3.30				
										Assumed					
										P/E end '1	25				
										Target					
										Price	82.5336				

For the best-case scenario, the present value of stock should be \$38.18 and the Terminal value of target price should be 82.53 in 2011 using the Dividend Discount Model. This is slightly higher numbers compare to April 16th 2004 Value Line GE data.

Worst Case Scenario

DCF Valuation Spreadsheet		General Electric												
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Terminal Value
EPS Growth							9.00%	9.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
EPS Growth	1.07	1.29	1.41	1.51	1.55	1.55	1.69	1.84	1.92	1.99	2.07	2.15	2.24	
	actual	actual	actual	actual	estimates									
Actuals														
Payout ratio	45.79%	42.64%	45.39%	48.34%	49.68%									
Dividend	0.49	0.55	0.64	0.73	0.77									
Estimates														
Growth						0.00%	9.00%	9.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
Payout ratio						52.26%	52.26%	52.26%	52.26%	52.26%	52.26%	52.26%	52.26%	
Dividend						0.81	0.8829	0.962361	1.000855	1.04089	1.082525	1.125826	1.170859	56.01333
PV Factor						0.900414	0.810746	0.730007	0.657309	0.59185	0.53291	0.47984	0.432055	0.389028
using 11.06% (CAPM)														
Pvalue						0.656704	0.794976	0.70253	0.657871	0.616051	0.576889	0.540216	0.505875	21.79076
Total Present Value														26.84187
														Terminal Value Calculation
														11 eps est 2.24
														Assumed
														P/E end '1 25
														Target
														Price 56.01333

For the worst-case scenario, the present value of stock should be \$26.84 and the Terminal value of target price should be 56.01 in 2011 using the Dividend Discount Model. This is very low number compare to April 16th 2004 Value Line GE data. The Value Line states that there will be at least 12% growth in EPS in 2007 to 2009. It states that GE is repositioning itself for a solid double-digit annual earnings growth in 2005 and beyond. It also expects nine out of eleven GE businesses to deliver strong earnings and cash flow increase.

Most Likely Case Scenario

DCF Valuation Spreadsheet		General Electric												
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Terminal Value
EPS Growth							12.00%	12.00%	7.00%	7.00%	7.00%	7.00%	7.00%	
EPS Growth	1.07	1.29	1.41	1.51	1.55	1.55	1.74	1.94	2.08	2.23	2.38	2.55	2.73	
	actual	actual	actual	actual	estimates									
Actuals														
Payout ratio	45.79%	42.64%	45.39%	48.34%	49.68%									
Dividend	0.49	0.55	0.64	0.73	0.77									
Estimates														
Growth							12.00%	12.00%	7.00%	7.00%	7.00%	7.00%	7.00%	
Payout ratio						52.26%	52.26%	52.26%	52.26%	52.26%	52.26%	52.26%	52.26%	
Dividend						0.81	0.9072	1.016064	1.087188	1.163292	1.244722	1.331853	1.425082	68.25
PV Factor						0.900414	0.810746	0.730007	0.657309	0.59185	0.53291	0.47984	0.432055	0.389028
using 11.06% (CAPM)														
Pvalue						0.656704	0.816856	0.741734	0.714618	0.688494	0.663325	0.639076	0.615713	26.55117
Total Present Value														32.08769
														Terminal Value Calculation
														11 eps est 2.73
														Assumed
														P/E end '1 25
														Target
														Price 68.25

For the most likely case scenario, the present value of stock should be \$32.09 and the Terminal value of target price should be 68.25 in 2011 using the Dividend Discount Model. This number is inline

with the April 16th 2004 Value Line GE data. The Value Line states that there will be at least 12% growth in EPS in 2007 to 2009. It states that GE is repositioning itself for a solid double-digit annual earnings growth in 2005 and beyond. It also expects nine out of eleven GE businesses to deliver strong earnings and cash flow increase.

Regression Analysis for GE

To evaluate any company, revenue is one of the critical parameter and studies are done to predict the revenue by forming the model. To predict revenue for GE, different factors were considered to provide the model predicting the future revenues. This numbers can be used to make decision about GE's future. Multiple regression analysis was utilized to forecast the revenue for GE.

Multiple Regression Analysis

We want to come up with a GE model that can predict revenue. Revenue is a dependent variable and some of the independent variables that we tested include interest rate and GDP.

Multiple Regression Model for GE is

$$\text{Revenue GE} = B_0 + B_1 \text{ GDP} + B_2 \text{ Interest Rate}$$

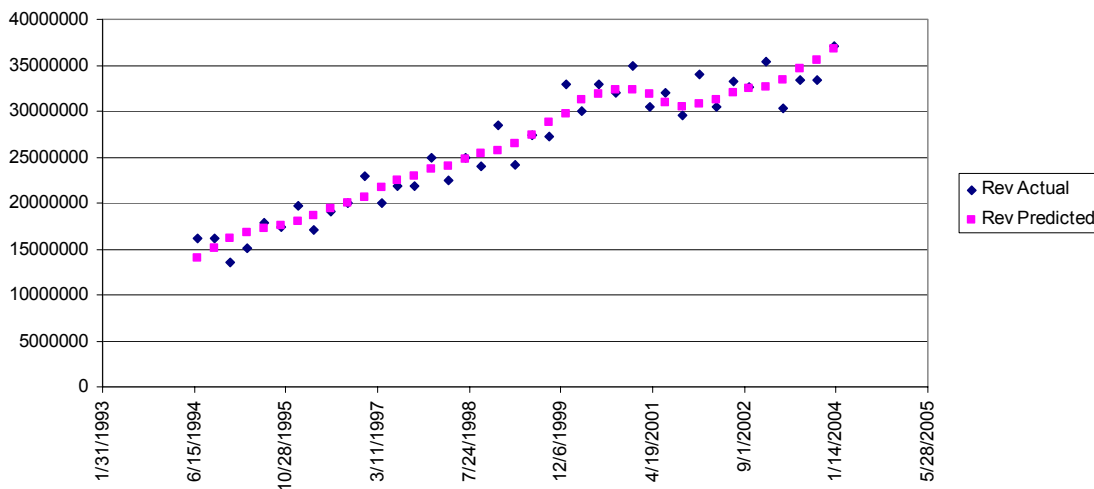
Revenue is dependent variable. GDP and interest rate are independent. The data was collected from the secondary sources such as Bureau of Economics Analysis and Federal Reserve web sites. There

were thirty-nine quarterly GDP and Fed Fund Interest Rate data points used from June 30th 1994 to December 31st 2003 to provide the GE Revenue model.

Gross Domestic Product (GDP) number increases as consumers buy more goods. It measures income and total expenditures of an economy. As economy grows, consumers purchase more of different goods. Since GE is diversified company with at least eleven different businesses, the more the economy grows, the more GE's revenue grows.

Interest rate is also another signal to movements in economy. Fiscal policy is used to stimulate the economy at a period of recession. When the economy is strong, people are spending more increasing the sale numbers. When interest rates are low, it indicates that there is a recessionary period resulting in weaker sales. In the regression analysis, the null hypothesis is that the coefficient terms are zero and analysis is performed. As shown in the Regression Analysis Model, the P-value for the coefficient, GDP and Fed Fund Interest Rate are low indicating that the null hypothesis must go. This means that each of the term in the model is statistically significant and the equation is as shown below. Also, the F ratio is 262.97 indicating that the equation is statistically significant and good revenue prediction tool. The R-square of 93.6% indicates that the variation in revenues can be explained by or attributed to the variations in the GDP and interest rates. So the model is a good fit to predict the future revenues. If the GDP number in 2011 will be 13,060 and the interest rate to 4% will predict GE revenue of \$48,441,630. The revenue predicted for 2004 using the model is \$40,426,848 compare to 2003's revenue of \$37,101,000, which is an increase of 7.39%. This is inline with the EPS growth for Dividend Discount Model.

Actual GE Revenue vs. Predicted Revenue



Regression Analysis: Rev versus GDP, FedFund

The regression equation is

$$\text{Rev} = -30851466 + 5824 \text{ GDP} + 807914 \text{ FedFund}$$

Predictor	Coef	SE Coef	T	P
Constant	-30851466	3642774	-8.47	0.000
GDP	5824.3	313.6	18.57	0.000
FedFund	807914	223349	3.62	0.001

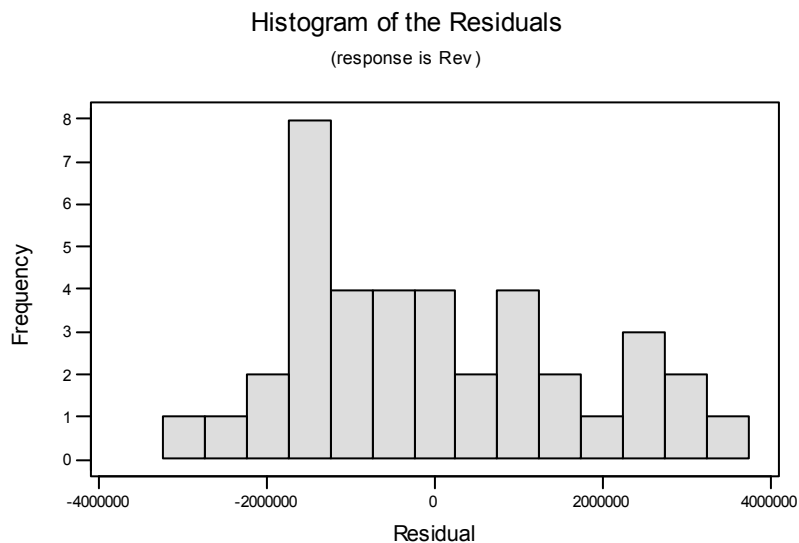
S = 1756827 R-Sq = 93.6% R-Sq(adj) = 93.2%

Analysis of Variance

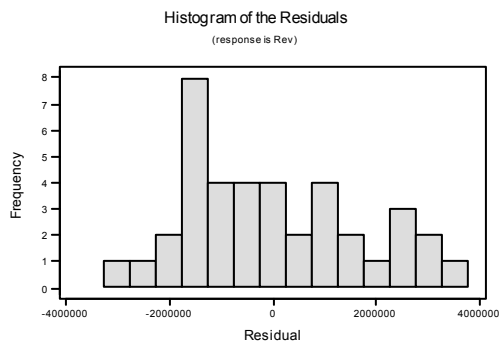
Source	DF	SS	MS	F	P
Regression	2	1.62328E+15	8.11639E+14	262.97	0.000
Residual Error	36	1.11112E+14	3.08644E+12		
Total	38	1.73439E+15			

Source	DF	Seq SS
GDP	1	1.58289E+15
FedFund	1	4.03849E+13

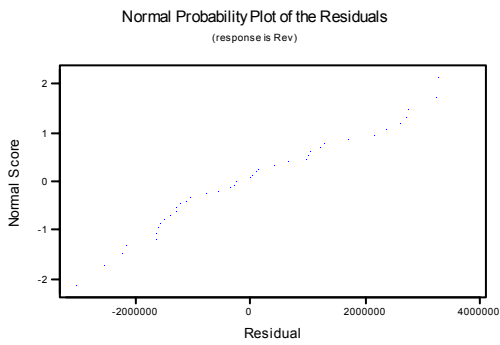
Residual Histogram for Rev



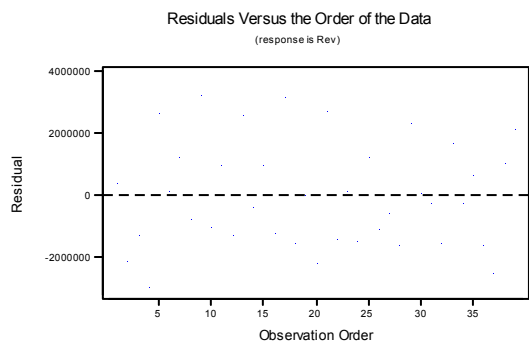
Normplot of Residuals for Rev



Residuals vs Fits for Rev



Residuals vs Order for Rev

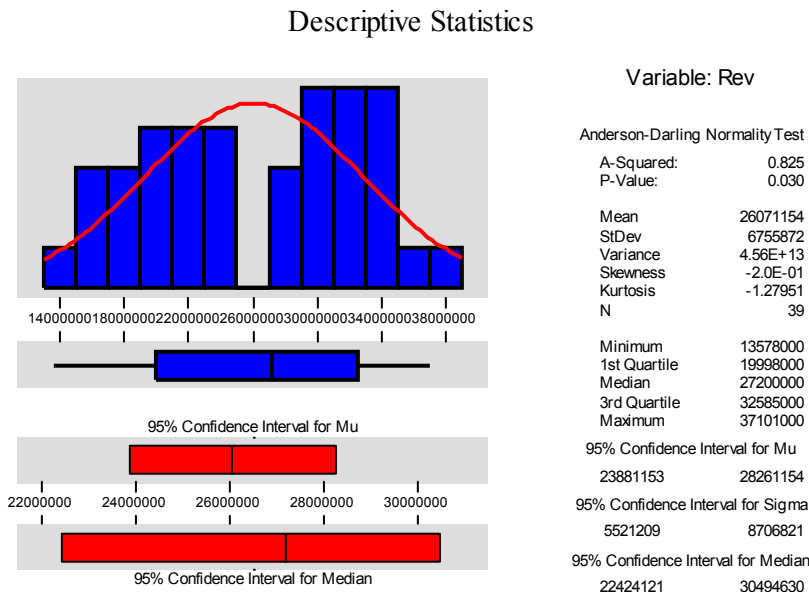


The Residual vs. Revenue chart show that the Revenue for GE has normally distributed. The descriptive analysis for GE gives the Mean GE Revenue values (in thousand), Mean GDP and Mean Fed Fund Interest Rate numbers using 39 data points. Descriptive Statistic charts for GE Revenue, GDP and FedFund are as below.

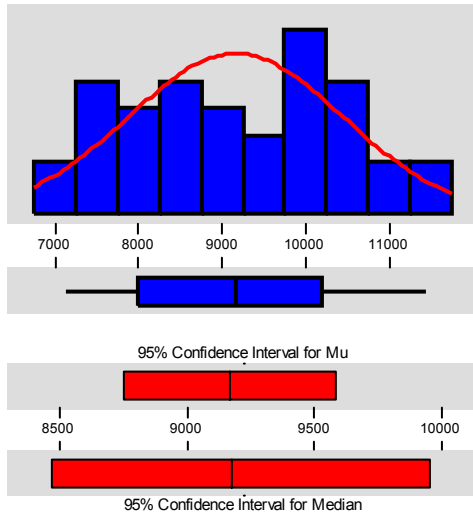
Descriptive Statistics: Rev, GDP, FedFund

Variable	N	Mean	Median	TrMean	StDev	SE Mean
Rev	39	26071154	27200000	26159771	6755872	1081805
GDP	39	9166	9174	9155	1285	206
FedFund	39	4.375	5.220	4.445	1.804	0.289

Variable	Minimum	Maximum	Q1	Q3
Rev	13578000	37101000	19998000	32585000
GDP	7115	11460	8000	10194
FedFund	1.000	6.540	2.490	5.540



Descriptive Statistics



Variable: GDP

Anderson-Darling Normality Test

A-Squared:	0.530
P-Value:	0.165
Mean	9166.40
StDev	1285.10
Variance	1651488
Skewness	-5.5E-03
Kurtosis	-1.21976
N	39
Minimum	7115.1
1st Quartile	8000.4
Median	9174.1
3rd Quartile	10193.9
Maximum	11459.6
95% Confidence Interval for Mu	
	8749.8 9583.0
95% Confidence Interval for Sigma	
	1050.2 1656.2
95% Confidence Interval for Median	
	8466.0 9957.7

Correlation Analysis of Revenue with GDP and Fed Fund

	GDP	FedFund
Rev	0.955	-0.568
	0.000	0.000

Cell Contents: Pearson correlation
P-Value

Pearson's Correlation was performed to evaluate the correlation of Revenue with GDP and Fed Fund. The Pvalue is low indicating that there is a correlation. It shows that a positive correlation coefficient of 0.955 for Revenue and GDP is very strong. The Revenue and FedFund has a weak negative correlation with -0.568 correlation coefficient. The same Regression analysis quarterly data was used for correlation analysis.

Regression Analysis of Revenue with Cost of Good Sold

Below is the regression analysis of revenue with Cost of Good Sold for ten-year quarterly data showing a highly correlated Rsquare. There are thirty seven data points in the analysis.

Regression Analysis: Rev versus COGS

The regression equation is
Rev = 4328194 + 1.42 COGS

38 cases used 1 cases contain missing values

Predictor	Coef	SE Coef	T	P
Constant	4328194	1156879	3.74	0.001
cogs	1.42343	0.07373	19.31	0.000

S = 1984422 R-Sq = 91.2% R-Sq(adj) = 90.9%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	1.46776E+15	1.46776E+15	372.72	0.000
Residual Error	36	1.41765E+14	3.93793E+12		
Total	37	1.60953E+15			

Correlation Analysis

Calculation of the correlation between GE and the existing securities in the portfolio was computed by using historical data from yahoo finance. The data selected for historical prices ranged from 6/1/00 to 6/1/04. We felt that this time frame provided a good representation of the securities in the portfolio and would provide an accurate calculation of the correlation between GE and the entire portfolio.

In order to calculate the correlation coefficient, we calculated the daily return percentage of each security. Each daily return was compared against the daily return of GE to compute the correlation coefficient. As can be seen in the table below, none of the 10 securities in the portfolio are closely correlated to GE. The closest correlation to GE is Dell, with a correlation coefficient of .488. Two securities, Pepsi and Walmart yielded negative correlation coefficients. The correlation analysis concludes that GE is not highly correlated to any existing security in the portfolio, and would provide further diversification to the portfolio.

<u>Company</u>	<u>Industry Segment</u>	<u>Correlation Coefficient</u>
Citigroup	Financial Services/Money Center Banks	0.098
Dell	Personal Computer Systems	0.488
Ebay	Internet Software and Services	0.023
Foerest Labs	Drug Manufacturer	0.07
General Dynamics	Aerospace/Defense - Major Diversified	0.036
General Electric	Conglomerates	1
Coach	Textile - Apparel, Footware & Accessories	0.179
Harley Davidson	Home Improvement Stores	0.044
Kohl's Corporation	Department Stores	0.037
Pepsi	Beverages - Softdrinks	-0.046
Walmart	Discount, Variety Stores	-0.06

Technical Analysis

We decided to use candlestick charting as the method for technical analysis. This method was decided upon due to several past indicators used in candlestick charting that proved to be consistent. From the 2 charts below, we decided on looking at daily prices over 2 periods; 1 year, and 3 months. Key indicators we used for identifying past and current trends are both the 200-day and 50 day Simple Moving Averages, the Relative Strength Index and Volume.

From the 1-year daily price chart, we can see the importance of using both the 200 day and 50 day simple moving averages as key levels of support. It can be seen below that just recently GE has begun trading above both moving averages, indicating a good time to buy. A further indicator of the importance of the 200-day moving average as a level of support is the bounce off the 200 SMA in early May.



GE 1 Year Daily Price

Also illustrated in the 1 year daily price chart is the Relative Strength Index. The RSI is an important indicator of the investment activity of the security. An RSI level of 70 or above indicates the market may be overbought, and could indicate near decline or sell off of stock. With a current RSI index of about 60, we feel comfortable with GE's current position.

The 3-month daily price chart below provides additional support to our criteria of technical analysis. The importance of the 200-day SMA as a support indicator can be seen more clearly in the chart below as the late May bounce is extremely prevalent. Furthermore, it is clear that the 50-day SMA has acted as a resistance level in the past, and now also serves as a support level indicator next to the 200-day SMA.



GE 3 Month Daily Price

In conclusion, we feel that that through technical analysis, GE is currently in a good position. The leading indicators show that the stock has growth potential and may be entering a phase of good upswing. Overall, the technical indicators are concurrent with our recommendation to purchase GE.

Conclusion and Recommendation

Our analysis shows that GE is well positioned financially as well as competitively in the respective industry. In addition, we feel that adding GE to the Graduate Portfolio would be a good way to better diversify the portfolio. Therefore, based on our competitive, technical, financial, and valuation analysis,

we recommend GE a “Buy”. We recommend that the St. John’s University Investment Fund buy 500 shares of GE stock at the current market value.

Works Cited

1. <http://finance.yahoo.com/q/pr?s=GE>
2. <http://www.ge.com/ar2003/index fla.jsp>
3. <http://www.forbes.com/finance/mktguideapps/personinfo/frompersonidpersontearsheet.jhtml?passedpersonid=277977>
4. <http://www.forbes.com/finance/mktguideapps/personinfo/frompersonidpersontearsheet.jhtml?passedpersonid=462363>
5. <http://www.forbes.com/finance/mktguideapps/personinfo/frompersonidpersontearsheet.jhtml?passedpersonid=28183>
6. <http://www.forbes.com/finance/mktguideapps/personinfo/frompersonidpersontearsheet.jhtml?passedpersonid=154079>
7. http://www.nbcuni.com/about_nbc_universal/company_overview/
8. <http://www.3m.com/about3m/facts/corpfacts.jhtml>
9. http://www.siemens.com/index.jsp?sdc_p=dpqbofcsmntu20
10. Value Line Publishing, Inc. "Value Line 1014," April 16, 2004.
11. <http://www.bea.gov/bea/dn/2003benchmark/cr2003.htm>
12. <http://www.ge.com/en/company/investor/secreports.htm>
13. http://www.siemens.com/index.jsp?sdc_p=t4cs4uo1140616d1032968pn1140616flm&sdc_sid=16051803644&
14. http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=MMM&script=700