How General Electric (GE) Makes its Money

When we last analyzed General Electric Co. (GE), a year and a half ago (time really flies when you're analyzing balance sheets), the company was making noise about consolidating and maybe selling off some of its less profitable assets. Or as chief executive officer Jeff Immelt describes it, "reshap[ing] the portfolio from a broad conglomerate to a more focused infrastructure leader." Did the company succeed, and if so, what have its fortunes been since then? (For more, see: *Why GE Will Never Break Up*.)

Only So Far to Grow

At first glance, General Electric appears to have hit or at least come close to approaching a ceiling. GE's revenue fluctuates as little from year to year as AC/DC's sound does from album to album: $149 billion to $146 billion to $147 billion to $146 billion to $149 billion over the last five years. Then again, no 123-year-old corporation that's been a blue chip mainstay for generations is going to enjoy stupendous growth. But would modest growth be too much for investors to ask? (For more, see: *General Electric Returns vs the Dow Industrials*.)

In the last few decades, General Electric acquired ancillary businesses that have included television networks (NBC), a stock brokerage (Kidder Peabody & Co.), and several others that have little or nothing to do with the promulgation and production of artificial light. Being a conglomerate has always been hard and unforgiving work, but General Electric's late strategy has involved getting out of the unrelated businesses and instead widening its power holdings. In 2015 the company should close on the mammoth purchase of the power and grid divisions of French power company Alstom. GE had attempted to buy the entire operation in 2014, but nationalistic sentiment prevailed and the deal was weakened to preserve French interests. As if an American takeover would somehow have a perceptible negative effect on the transmission and delivery of power in La République. (For more, see: *Why You Should Invest in Green Energy Right Now*.)

In the same year GE also sold its appliance operations to Swedish manufacturer Electrolux (ELUXY) for more than $3 billion. One advantage to being an enormous company with a long legacy is that there are plenty of valuable assets to sell, thus offering the potential for a comely income statement. Also in 2014, GE successfully spun off a major piece of its huge financial services subsidiary, GE Capital. That new company now trades publicly as Synchrony Financial (SYF), and enjoys profit margins that approach 20%. Engineered as a stock swap, the deal proved mutually beneficial as both companies' stocks have increased in value since the spinoff. Even the diminished GE Capital remains among the largest commercial banks in the United States, though few people think of it as such. (For more, see: *Should GE Be Part of Your Portfolio?*)

7 Parts Power, 3 Parts Finance

Immelt was on record as wanting 70% of GE's profits to come from its core business, and 30% from finance. By 2016, management wants the split to be even more lopsided, 75%-25%. A curious shareholder might ask why GE's brass isn't more interested in profit totals for both sides, rather than concentrating on the ratio between them. (For more, see: *Conglomerates with a Dividend Angle*.)

Heavy on the Heavy Industry

To generations of Americans, General Electric meant light bulbs and the occasional stovetop. But its industrial imprint has always gone well beyond consumer goods. For instance, GE makes rail cars. And locomotives and diesel train engines, too. Lots of them. The company shipped 796 locomotives last year, the sector earning profits of $1.1 billion on revenues of barely five times that. Transportation has been a quiet but dependable income stream for GE for many years, in a largely recession-proof business with few emerging competitors. (For more, see: *Who Said Conglomerates Aren't Sexy?*)

The company enjoys similar margins on larger volume in the healthcare realm. The next time you get a mammogram or an MRI, hopefully not on the same clinic visit, check the logo. GE is one of the world leaders in the burgeoning industry of diagnostic imaging systems. Revenues topped $18.3 billion last year, $5.7 billion of that in what the company terms "growth regions": Asia, the Middle East and Africa.

Better Living through Petrochemistry

General Electric is an oil and gas company, too; surprising to some, primarily because it doesn't brand any retail service stations with its name. Instead, GE helps bring petroleum to market. High-pressure reactors, sub-sea drilling, equipment for floating platforms – GE competes with the likes of Halliburton Co. (HAL) and Schlumberger Ltd. (SLB), too. Profits grew to $2.6 billion last year on oil and gas revenues of $18.7 billion, growth far outpacing that of GE at large. (For more, see: *Why Schlumberger Is a Name You Should Know*.)

As large as GE's oil and gas division is, it doesn't compare to yet another division that often escapes everyday public perusal. The company also builds jet and turboprop engines. It's both a military and a commercial air contractor, and develops components for private aircraft, too. At $24 billion last year, the GE aviation group brings in more dollars than any except power and water, which earned GE $5.4 billion on revenues of $27.6 billion in 2014. GE makes gas turbines (108 of them in the most recent year), wind turbines (2,879), and even nuclear reactors (not nearly enough). (For more, see: *ExxonMobil's Massive and Reliable Money Machine.)*

The Bottom Line

General Electric's annual revenue numbers might be constant, but their configuration is changing rapidly. With a commitment to exit particular businesses while expending more effort on its industrial strengths, GE's seemingly endless period of flat revenue should finally be coming to a (positive) end. (For more, see: *General Electric: Good News/Bad News*.)

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