

# *The* INVESTMENT LETTER

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## Studies in Growth – General Electric: Imagination at Work



Throughout the 85+ year history of our publication, *The Investment Letter*, we have periodically brought our clients a deeper-dive into their holdings through a series called *Studies in Growth*. *Studies in Growth* has always been designed to give our readers a better understanding of the companies we recommend. Particularly, those that we feel have out-sized growth potential due to automation, innovation or other advancements. Today we highlight what some may consider an atypical name for the *Studies in Growth* series, General Electric (Ticker: NYSE: GE).

General Electric is considered by many casual observers to be a stodgy, old company. Depending on the observers point of view, General Electric may elicit thoughts of Jack Welch's strict and innovative management style; or perhaps innovations like television, radar or the jet engine comes to mind; for others the initial formation of the company in the late 1800's and Thomas Edison and his invention, the light bulb, are their first impression.

Regardless of which iconic General Electric images come to mind, they are all one and the same company. A company that, for well over 100 years, has researched and developed new products and services that continue to improve the lives of people the world over.

Investment Counsel has long been a holder

of General Electric stock for the accounts of our clients. Periodically, we've come under fire for holding General Electric, particularly when other market sectors are 'hot.' Times like the late 1990's where technology was all the rage, or 2007 when REIT's and housing stocks were a 'can't miss' investment. In those instances, and many others on a smaller scale, our buy-and-hold approach has proven the winner.

Over the years General Electric has been credited with the first radio broadcast, the electric locomotive, the sealed kitchen refrigerator, advancements in plastics and vacuum tubes, x-rays, household appliances, like garbage disposals and washing machines, and countless other products (see addendum for a more complete history of General Electric's innovation). All this while the company continued to focus on its shareholders.

In 2013 General Electric posted another excellent year, growing operating earnings per share (EPS) over 9% from the prior year and ending 2013 with a \$244 billion order backlog. Despite strong operational results, GE's management is not resting on its laurels. They continue to invest and make improvements to their products and processes, as well as explore new markets to ensure success in the ever-changing landscape going forward.

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In a year where the total return for General Electric stock (38%) outpaced the total return of both the Dow Jones Industrial Average (30%) and the S&P500 Index (32%), management continues to focus on shareholders.

In December 2013, GE increased its dividend to \$0.22/share from \$0.19/share a year earlier – nearly a 16% increase. This marked the sixth dividend increase for General Electric in 4 years, illustrating their conviction to return capital to shareholders. In fact between dividends (\$7.8 billion) and stock repurchases (\$10.4 billion), General Electric returned \$18.2 billion to investors in 2013. As of this writing, GE has a dividend yield of 3.3%, particularly impressive considering how much the company still invests in new technologies.

### **The Case for General Electric**

We continue to be bullish on GE in both the near and long-term. A number of positive factors make General Electric an attractive opportunity.

First, risk is being managed downward as GE Capital refocuses on lending to commercial clients while decreasing their retail lending business and real estate portfolio.

Second, the year-end backlog of \$244 billion is relatively high margin as the company refocuses on its industrial business. This is also a sign that the shift to industrial business is working (Q2 revenue from industrial grew 7%). Management has stated they see 70% of revenue being driven by the industrial business as a goal.

Third, General Electric is shedding lower-margin, lower-growth, non-core product lines like it's 100 year-old appliance business. Early estimates on the sale are expected to net the company as much as \$2.5 billion. Moves like this further focus the company

and eliminate drag on growth from underperforming segments and allow GE to grow through acquisition in core segments, where appropriate.

Fourth, GE continues to innovate. New technological advancements are making General Electric an even more valuable partner, helping airlines, railroads, hospitals and utilities better store and analyze massive amounts of data faster than previously possible. These improvements in predictive maintenance and data analysis allow users to put critical data into action almost immediately rather than spend time mining for valuable insight.

Lastly, relative to other names in the market, General Electric is very attractively priced across a wide array of valuation metrics. While some firms have become overpriced with the rise in the market (particularly given their growth outlooks), General Electric still looks like a relative bargain and if efforts to refocus on core businesses are effective, and early signs suggest that they are, General Electric is very well positioned to return value to investors.

If there is one lesson to be learned from General Electric and Investment Counsel's combined 200+ years of business is that growth can come from many sources - one is simply buying and holding companies that grow! Growth need not be a constant search for new, cutting edge, often unproven and volatile names, but can be sourced from existing, well established companies that are focused on research and development, innovation and returning value to shareholders.

General Electric is just such a company; it changes with the times and is often a visionary leader in new technologies. It's the reason GE has so often been, and continues to be, recommended as a core equity holding by Investment Counsel.holding by Investment Counsel.

## General Electric Logo Evolution Through the Years



Source: <http://www.thedailytop.com/logo-history-of-37-famous-brands/>

## General Electric: A History of Research and Development

- 1879 - Carbon Filament Incandescent Lamp - Edison invents the first commercially practical incandescent lamp.
- 1896 - X-Ray Machine - A rich tradition of GE breakthroughs in medical imaging begins with the demonstration of stereoscopic Roentgen pictures.
- 1906 - The First Voice Radio Broadcast - The world's first voice radio broadcast is made possible by the high-frequency alternator.
- 1912 - The Vacuum Tube - Improvements in vacuum tube design help make possible modern electronics and radio broadcasting.
- 1927 - GE Brings Television Into The Home - The first home television reception takes place in Schenectady, N.Y., with a signal from GE's WGY.
- 1930 - Creating New Materials - GE develops moldable plastic, a critical element of mass production, and forms a new Plastics Division.
- 1941 - Entering The Jet Age - GE builds the first U.S. jet engine, the I-A, which is used the next year to power America's first successful jet aircraft for military use.
- 1957 - Nuclear Power - Continuing to pioneer in the field of energy generation, GE opens the world's first licensed nuclear power plant.
- 1962 - Laser Light - The laser light is invented, making possible many of today's most popular technologies such as DVD players.
- 1965 - Gemini V Spacecraft - GE fuel cells power Gemini V spacecraft, providing water and electricity to astronauts.
- 1969 - A Step On The Moon - GE supplies a variety of technologies for the first landing on the moon, including engineering support, test facilities & silicone for Neil Armstrong's boots.
- 1983 - MRI - GE scientists develop the Signa Magnetic Resonance Imaging System, which produces images of "soft" tissues difficult to image by x-ray methods.
- 1992 - The Mars Observer - GE builds the Mars Observer for NASA, which will study Martian geology and climate while mapping the planet's surface.
- 2002 - Wind Power - GE continues its focus on sustainable energy, entering the wind power business.
- 2003 - Evolution Locomotive - GE introduces the new fuel-efficient Evolution Series locomotives.
- 2010 - Energy Smart® LED - The Energy Smart® LED bulb, engineered to replace incandescent bulbs, requires 77% less energy and can last for more than 22 years.

Source: GEGlobalResearch.com