Daiwa Securities

General Electric Company

Global Credit Research GCRE011

FICC Research Dept.

Credit Issue 1: Concentration of debt maturities in 2020

- Debt amount of GE and GE Capital totals $115 bn
- $15 bn of short-term debt vs $26 bn of cash and cash equivalents available; $41 bn of net credit facilities
- $100 bn of long-term debt; $19 bn of debt payments due in 2020
- We view as positive the commitment of GE's new management to strengthen the balance sheet

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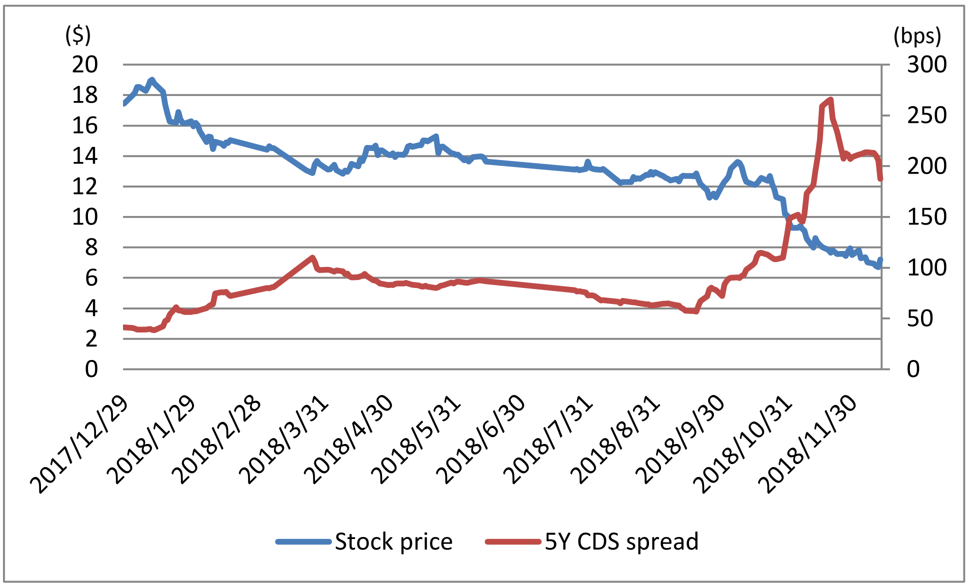
Daiwa Securities Co. Ltd.

GE Electric Company (GE)'s stock price had a bad run this year from $19 to below $7. CDS market was volatile with 5Y spreads widening temporary to over 250bps. This market reaction was the result of a series of negative announcements that came out in 2018: ①GE took $6.2bn after-tax charges related to long-term care insurance in the Q4 FY17 and will have to increase the insurance reserves by approximately $15bn more over the next 7 years, ②SEC is conducting an investigation of GE's accounting practices related to insurance and goodwill evaluation and financial reporting. DOJ(Department of Justice) is also conducting an investigation related to GE Capital discontinued mortgage business. GE set aside $1.5bn of reserves for a potential legal settlement with DOJ, ③In Q3 2018, GE recognized a non-cash pre-tax goodwill impairment charge of $22bn related to Power Segment.
We decided to take a step back from the market fever and try to clarify the issues that GE faces at the moment in a series of reports. In this first report we look at GE's debt profile and GE's policy regarding leverage.

Chart 1: GE stock price and 5Y CDS spread



Source: Company materials, Bloomberg; compiled by Daiwa.

GE and GE Capital Global Holdings (GE Capital) have in total $115bn of debt as September 30, 2018. For our analysis on GE, we consider the aggregate numbers as GE liquidity profile is closely linked to GE Capital's debt. Most of GE Capital's debt is either assumed or guaranteed by GE. Out of $115bn, $15bn represents short-term debt which is mostly made up commercial papers and current portion of long-term debt. As liquidity resources, GE has $26bn of cash & cash equivalents available. GE also has 3 unused revolving credit facilities that expire by 2021 and could provide up to $41bn of cash.

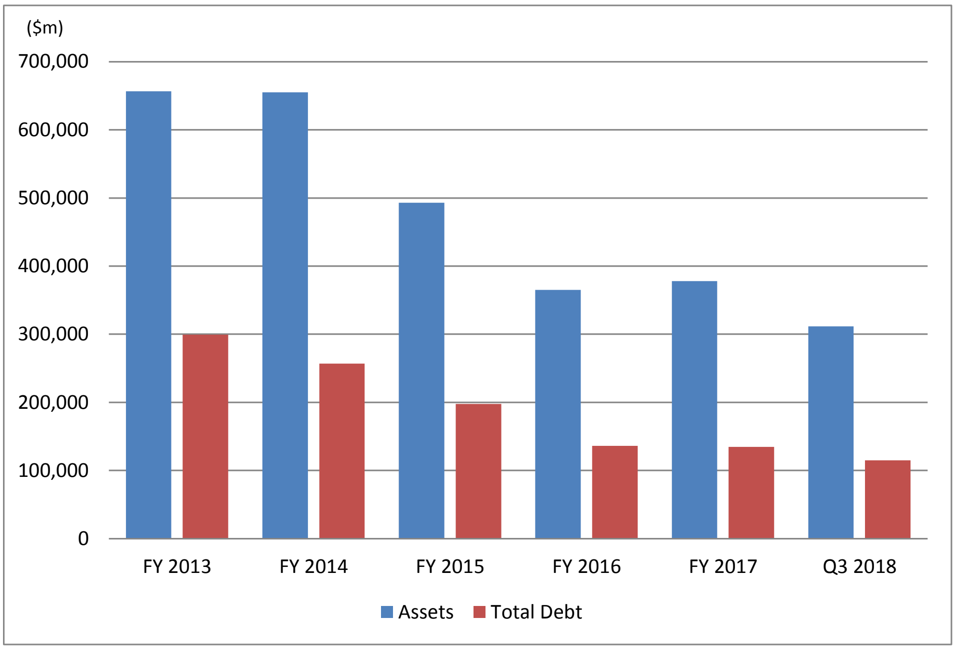
Chart 2: Total debt amount

September 30, 2018 (in billions)	GE	GE Capital	Consolidated(a)
Total short- and long-term borrowings	$ 69.6	$ 47.0	$ 115.0
Debt assumed by GE from GE Capital	(37.0)	37.0	—
Intercompany loans with right of offset	13.7	(13.7)	—
Total intercompany payable (receivable) between GE and GE Capital	(23.3)	23.3	—
Total borrowings issued and outstanding	$ 46.3	$ 70.3	$ 115.0

(a) Includes $1.6 billion elimination of other intercompany borrowings between GE and GE Capital.

Source: Company materials

Chart 3: GE has been reducing debt over time



Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 4: Rich cash sources from credit facilities expiring by 2021

COMMITTED AND AVAILABLE CREDIT FACILITIES

September 30 (In billions)	2018
Unused back-up revolving credit facility(a)	$ 20.0
Revolving credit facilities (exceeding one year)(b)	24.0
Bilateral revolving credit facilities (364-day)(c)	3.6
Total committed credit facilities	$ 47.5
Less offset provisions(d)	(6.7)
Total net available credit facilities	$ 40.8

(a) Consisted of a $20 billion syndicated credit facility extended by 36 banks, expiring in 2021.

(b) Included a $19.8 billion syndicated credit facility extended by six banks, expiring in 2020.

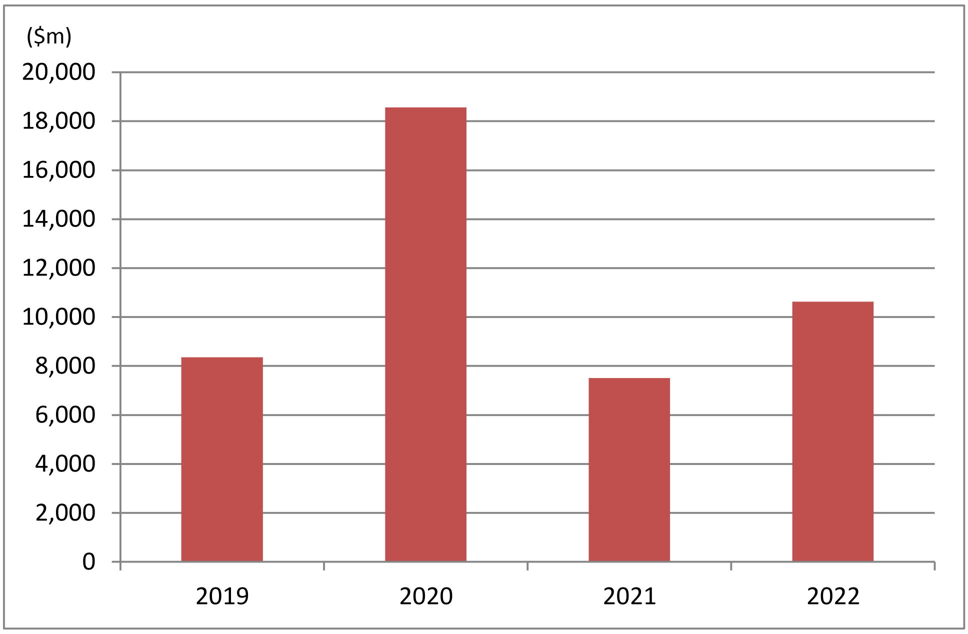
(c) Consisted of credit facilities extended by seven banks, with expiration dates ranging from February 2019 to May 2019.

(d) Commitments under certain credit facilities in (a) and (b) may be reduced by up to $6.7 billion due to offset provisions for any bank that holds a commitment to lend under both syndicated credit facilities.

Source: Company materials

GE and GE Capital' long-term debt totals $100bn as September 30, 2018, most of the debt being senior notes. We notice a concentration of debt maturities in 2020 with $19bn of debt payments. As current level of cash holdings is smaller than maturing debt by end of 2020, we expect GE to raise cash in the following years by selling assets and/or to access capital markets for refinancing.

Chart 5: Long-term debt maturities as of December 2017



Source: Company materials, Bloomberg; compiled by Daiwa.

In June 2018, GE announced that strengthening the balance sheet is their top priority and set the following fiscal strategy: ①approximately $25bn reduction of industrial net debt (debt including borrowings, after-tax pension deficit, operating leases) that would bring industrial net debt to EBITDA ratio below 2.5 times by 2020. As potential sources for reducing industrial leverage, GE mentioned debt/pension transfer to healthcare, monetization of 20% of Healthcare, orderly separation of 62.5% Baker Hughes, a GE company (BHGE) shares, industrial free cash flows, ②targeting more than $15bn of cash on the balance sheet and less use of commercial papers, ③materially shrinking the balance sheet of GE Capital. GE targets reducing assets by $25bn and bringing debt to equity ratio to less than 4 times by 2020. GE is also looking into ways to reduce or eliminate exposure to long-term care insurance.

In October 2018, Lawrence Culp replaced John Flannery as Chairman and CEO of GE. In Q3 2018 conference call, Lawrence Culp confirmed strengthening balance sheet as GE's top priority. We view as positive the continuation of GE's fiscal policy towards a robust balance sheet. The quarterly dividend cut announced in Q3 2018 from $0.12 to $0.01 confirms the new management commitment. We will monitor closely GE's implementation of the announced fiscal policy going forward.

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Registered Credit Rating Agencies are subject to the following regulations:
1) Duty of good faith.
2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

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■ Credit Rating Agencies

[Standard & Poor's]

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The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")
The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating Information" (http://www.standardandpoors.co.jp/unregistered) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (http://www.standardandpoors.co.jp)

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Credit ratings assigned by Standard & Poor's are statements of opinion on the future credit quality of specific issuers or issues as of the date they are expressed and they are not indexes which show the probability of the occurrence of the failure to pay by the issuer or a specific debt and do not guarantee creditworthiness. Credit ratings are not a recommendation to purchase, sell or hold any securities, or a statement of market liquidity or prices in the secondary market of any issues.

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")
The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moodys.com/pages/default_ja.aspx)

Assumptions, Significance and Limitations of Credit Ratings

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[Fitch]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")
The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

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The information is posted under "Outline of Rating Policies" in the section of "Regulatory Affairs" on the website of Fitch Ratings Japan Limited (https://www.fitchratings.co.jp/web/)

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May 2018

IMPORTANT

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

• In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
• For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
• There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
• There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
• Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.
Registered: Financial Instruments Business Operator
Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association
The Financial Futures Association of Japan
Japan Investment Advisers Association
Type II Financial Instruments Firms Association