INVESTMENT SUMMARY

We view General Electric as a unique industrial company in large part because of its diversity across business lines and its less cyclical earnings profile relative to other industrial companies due to its business mix, which has a heavy focus on services. Service revenues tend to be more resilient than heavy-equipment sales in the face of industry downturns. GE has seen a downturn in its Power segment but continues to benefit from strength in its Aviation and Healthcare segments. GE Capital has shrunk in size tremendously over many years. Its primary function is now to help customers finance large purchases made from GE’s industrial businesses. However, legacy products still housed at this unit, including long-term care insurance policies, have been a financial burden. It is important to point out that bonds of GE Capital Corporation have been assumed by General Electric, and we view these bonds as now having credit quality consistent with General Electric.

BOND OVERVIEW

GE’s Aviation and Healthcare segments remain strong performers. Despite the mixed headlines on GE overall in recent years, we believe the company’s two most prominent business lines remain in very healthy shape. Aviation benefits from long-term agreements to service engines the company sells. These agreements benefit from strong profit margins and tend to be less cyclical than most business lines in the industrial sector. GE’s Healthcare segment benefits from the relatively stable and growing demand for health care equipment. These two businesses now account for the vast majority of profit GE generates, and we see healthy outlooks for both.

GE’s Power segment has been producing weak results. The Power segment was once among the company’s very highest profit producers, but a downturn in the industry hit the segment soon after GE acquired additional power assets from Alstom. While the Power segment has been producing very weak results in recent quarters, GE has been restructuring the division and cutting costs. This effort seems to be producing preliminary results, as management indicated it is seeing some improvement recently. We expect coming years to benefit from less cash being used to restructure this segment. Any upturn in the market for power equipment and services would likely provide additional benefits.

GE’s legacy exposure to long-term-care policies raises some concerns. GE has been contributing cash to its long-term care business. While GE has not written new long-term-care policies for many years, these policies have been far more expensive to service than initially anticipated. While we expect further capital to be contributed to these policies, we do not believe the impact of these policies on the company will be as dire as a third-party report released in August 2019 (that alleged GE is greatly underestimating the cash needed to satisfy these policies) suggests. GE has made paying down debt a top priority. We believe new management, led by Larry Culp, is doing nearly everything within its control to improve the financial profile of the company. Late in 2018, the board of directors virtually eliminated the company’s dividend in an effort to save billions of dollars annually that could be used for corporate needs and debt repayment. Additionally, the company has sold and entered into agreements to sell assets, with the use of proceeds targeted primarily for paying off debt to improve its financial health. GE has agreed to sell its BioPharma division, which is expected to provide the company over $20 billion of cash. The company has also raised cash by selling its transportation assets, and it plans to sell off its stake in Baker Hughes to raise cash. We expect these efforts to result in tens of billions of dollars of cash that should lead to improved financial strength and flexibility. Some analysts have insinuated that GE is cash poor and that this could lead to a liquidity crunch. However, with all the cash the company is raising via the initiatives listed above, among others, we believe the company will have plenty of cash to satisfy its near-term obligations, providing management time to improve its business operations.

Analyst: Mike Doyle, CFA
Required Research Disclosures

<table>
<thead>
<tr>
<th>January 27, 2020</th>
<th>BUY</th>
<th>HOLD</th>
<th>SELL</th>
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</thead>
<tbody>
<tr>
<td>Corporate Credits</td>
<td>0%</td>
<td>62%</td>
<td>38%</td>
</tr>
<tr>
<td>Investment Banking</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
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The table lists the percent of corporate credits we follow globally in each of the equivalent rating categories. We do not assign a “Buy” rating to any corporate credits. Investment banking services indicate the percentage of those subject companies that have been investment banking clients within the last 12 months.

Services

<table>
<thead>
<tr>
<th>Appropriate for Income</th>
<th>Appropriate for Aggressive Income</th>
<th>Sell</th>
<th>FYI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriate for Income – We consider bonds to be an appropriate holding for investors seeking income within a well-diversified portfolio. Our time horizon is 3-5 years.</td>
<td>Appropriate for Aggressive Income – We consider bonds appropriate only as a small Aggressive Income portion within a well-diversified portfolio. Bonds within this category are riskier, with a higher possibility of loss due to default, than bonds classified as Income. Our time horizon is 3-5 years.</td>
<td>Sell – We recommend investors sell these bonds. We believe these bonds are no longer an appropriate fixed-income holding because, in our opinion, they offer an unattractive risk/reward scenario at current prices. Our time horizon is 3-5 years.</td>
<td>FYI - For informational purposes only; factual, no opinion.</td>
</tr>
</tbody>
</table>

Initiated Coverage (Appropriate for Income) 12/14/09

**Analyst Certification**

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