Rev/Employee: $398.71 k	Number of Employees: 283,000	Avg ROIC: -3.92%	Industrials

GE: New CFO is Risky Choice

GE's Chairman & CEO Larry Culp (55) has moved aggressively to pare debt and "..move the center of gravity from corporate to the businesses". Proclaiming 2019 a "reset year", 2020 will be the year CEO Culp needs to show investors tangible improvements and silence the doubters in GE's turn-around prospects. We worry the CEO has added risk to his investor message by selecting a new and unconventional CFO to take over finances in 2020. Last year, Culp was laser focused on addressing the many balance sheet issues, reducing leverage and improving the divisional business' performance. GE's finances and capital structure remain a lightening rod for critics. We worry that too much of 2019's debt progress was derived from valuable asset sales and that operational improvements were modest and mixed, with the Power and Renewable Energy businesses weighing on GE's profitability. We like that the CEO will have a new finance head to help improve financials but note cautiously that new CFO-elect Carolina Dybeck Happe (47) is an unconventional pick and will be the firm's 3rd CFO in 4 years. The CFO-elect has neither a CPA nor a CA and is relatively unknown outside of Sweden. Former CFO Jamie Miller, GE's first female CFO, made substantial progress on lowering GE's debt but she spent her short CFO tenure addressing her predecessor's problems and there is still much to be done. We think GE's new CFO choice may add to doubts about GE's ability to post substantial progress in 2020.

Management Update: We were cautious on the appointment of Jamie Miller as CFO in 2017 but think she did a good job on balance and the firm will miss her familiarity with the various divisions. New SVP & CFO Dybeck Happe is a seasoned CFO but the size and scale of the challenge before her dwarfs her prior experience and we worry about her ability to continue her predecessor's traction. No exact starting date has been set for her but we expect it will coincide with CFO Miller filing GE's 10k in February. We note that the CEO had said he was looking for a new CFO during the summer of 2019 but also said that he had not met the CFO-elect until the formal search process this year. Given, the ongoing controversies about GE legacy accounting issues, we think investors would have preferred a fellow Danaher alumnus or a more visible finance leader. Dybeck Happe is the second unconventional CFO choice to run GE sprawling finances but her predecessor is leaving her substantially better finances (and post impairment charges) with GE's industrial cash flow returning to positive (though still down $500 million Y/Y). We like that the CFO-elect brings an outsider's perspective on the problems but worry her lack of specific divisional details and experience may cause her to have a slow learning curve at GE. The new CFO spent only 10 months at her last role as the CFO A.P. Moller – Maersk, which she joined in January 2019, and where she was their first female CFO. Maersk is embroiled in its own set of operating problems and serial management churn. Before that, Dybeck Happe was the CFO at Assa Abloy Group for the last 7 years of her 15 year tenure and was named CFO of the Year in Sweden in 2015. Dybeck Happe was also previously the CFO of another Swedish firm, Trelleborg AB, for 1 year (2011) after briefly leaving Assa Abloy only to return the following year as their group CFO. Dybeck Happe has an MSc from the Uppsala University, Sweden and an MBA from IMD Business School. She is a Director of E.ON and Schneider Electric but we think likely to resign from the Schneider role later this year. The new CFO will continue the firm's aggressive focus on debt reduction to meet CEO Culp's goal of bringing leverage down to less than 2.5x EBITDA and a less than 4-to-1 debt-to-equity ratio at GE Capital to secure a single-A credit rating (currently Baa1/BBB+). Power and Aviation are now the challenges for 2020 and CEO Culp told investors in September that "..your first leg of cost reduction gives you visibility for your next leg, it's a continuous process..".

Pay & Incentive Alignment: CFO Dybeck Happe will be paid a $1.5 million salary with a 125% annual bonus target. Her signing package is worth about $15 million in 2020. She was given an initial equity grant of $8 million options that will cliff vest after 4 years of service. We like that the Board granted her performance-based equity options rather than time vesting RSUs. The new CFO will receive not less than a $5 million LTIP equity award in 2020 in the same proportional vesting mix that the other executive officers receive and will relocate to GE's Boston headquarters. Departing CFO Jamie Miller (50) was paid a total of $7.4 million in 2018 and her severance terms

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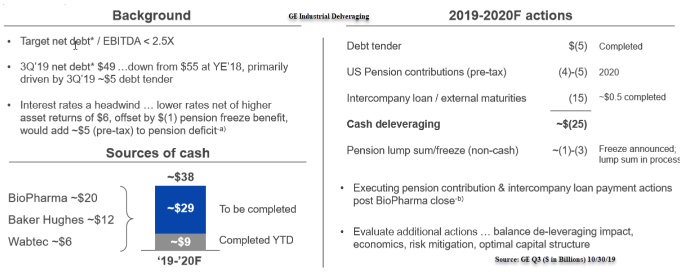
have not yet been disclosed. The firm announced her pending resignation in July. New CEO Culp's initial pay package was worth about $15.4 million, $13.7 million of which was in equity. The CEO is paid a salary of $2.5 million ($1 million more than his predecessor's) and has a 150% target annual bonus (the same as former CEO John Flannery). We like that Culp's initial equity award vests over the period October 2018 to September 2022, and that he will not receive a pay-out if GE's stock rises less than 50%, ie at least $18.60 per share. The Board made a series of good alignment changes to the management bonus structure in 2018. The business unit executives now have metrics, free cash flow (FCF) and earnings, tied to their specific divisions' results. Cash bonuses are based on GE's FCF and EPS. We like that the Board eliminate the cash-settled long-term performance awards last year and now the LTIP is a better performance mix of options, PSUs, and RSUs. PSUs are based on GE's relative total return versus the S&P 500 with target payouts set at the 55th percentile (a minimum 25% are earned at the 35th percentile threshold). CEO Culp receives $15 million in performance based PSUs annually and does not receive time vesting RSUs. Directors and officers own about 17.9 million beneficially vested shares that are worth about $200 million. CEO Culp's current 1.2 million beneficial shares are worth over $13.2 million. Division President Joyce's 4.5 million beneficial shares have a total value of about $50 million. Former CEO Flannery and CFO Miller still own 3.6 million and 2 million vested shares, respectively. Last May, Trian Partners sold 6.7 million of its shares representing $64 million in proceeds, but at a loss, citing "portfolio management purposes." Trian now owns a stake of about 64.2 million shares, or about 0.7% of GE.



Capital Allocation Update: After 2 frenetic years of restructuring, asset disposals, and impairment charges we think the biggest accomplishment of former CFO Miller was her successful tenacity in debt reduction (particularly at the short-end of the curve) including her most recent tender offer for $4.8 billion worth of debt, reducing GE's annual interest tab by $150 million and net debt to $49 billion ($17 billion of cash) at Q3 '19 from about $55 billion in 2018. CFO Miller efficiently sold $10.3 billion worth of assets in the first 9 months of 2019, including $ 3 billion of Baker Hughes (144 million shares), thus relinquishing the firm's controlling stake in BKR at a modest loss. GE's current stake in BKR is about 36.8%. CEO Culp says that he expects to continue paring the Baker Hughes position but its no longer material to the firm's results. He and CFO Miller also completed the $21.4 billion GE BioPharma sale to Danaher in Q1 '20 and in October, announced sensible changes to the U.S. Pension Plan (freeze U.S. plan, pre-fund $4 billion-$5 billion of the mandatory 2021 and '22 pension contributions, and offered a lump-sum payment option to former employees). Restoring GE's cash dividend (currently at 0.33% and costing $100 million a quarter) to a reasonable 1% level in the next year is sure to be high on the CEO's and Board's strategic agenda.

Fiduciary & Other: We like that GE's Board has shrunk in size from 12 Directors in 2018 to the current 10 Directors. A resolution to reduce the number of Directors from 10 to 7 passed overwhelmingly at last year's annual meeting. Lead Director Tom Horton (58), who was elected to the Board in 2018, is a Senior Advisor at Warburg Pincus and the former Chairman & CEO of American Airlines. Two new Directors were elected in 2019. Cathie Lesjak (60), former CFO at HP, and Paula Rosput Reynolds (63), the former Vice Chairman/Chief Restructuring Officer at AIG. Director Reynolds was also the CEO Safeco Insurance and Duke Energy Power Services. We think it's time for Director James Tisch's (67) retirement. He's been on the Board over a decade. Trian's Ed Garden (59) continues to represent their stake which we see as a vote of confidence in Culp. In April, GE and the Department of Justice settled litigation over an alleged violation of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) relating to residential mortgages originated, purchased, or sold between 2005-07 with GE paying a $1.5 billion penalty. We note that the Board agreed to a formal tender process to select an independent auditor after the 2019 audit, although it decided to retain KPMG who's held that role for many decades.